Evolving Trends strategy

The Strategy outperformed the broader Global Equity Market, driven by the Social Prosperity theme

- Global equity markets declined in April
- Many companies held within the portfolio reported strong results
- We invested in three companies and divested from two

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What's happening?

Global equity markets declined in April. US equities suffered their worst month since September over resurging concerns about higher for longer interest rates, mixed consumer confidence, and stubborn inflation. Even an easing in tensions in the Middle East amid ongoing ceasefire negotiations did little to help the US equity market. European equities declined during the month after a flurry of earnings data weighed on investor sentiment and concerns about higher for longer interest rates in the United States, as persistently high inflation and stronger-than-expected labour market data fuelled hawkish bets that the US Federal Reserve will delay its first interest rate cut. The European Central Bank (ECB) moved closer to commencing the easing cycle as inflation continued to fall, with markets becoming more convinced that it will cut before the US Federal Reserve.

Japanese equities retreated in April as widening interest rate differentials put pressure on the Japanese Yen. Chinese equities continued their strong rebound.

Brent crude climbed above $90[1] a barrel at the beginning of the month, extending a rally driven by OPEC-plus production cuts, strong demand and heightened geopolitical risk. Escalating tensions in the Middle East ensured oil prices remained high, with Brent crude futures up nearly $8[1] a barrel from early March. The OPEC committee failed to recommend any changes to ongoing output cuts, keeping 2mn barrels a day of output offline until the end of June.

[1] Source: Bloomberg, as at 30/04/2024

Portfolio positioning and performance

The strategy outperformed the broader equity market (as judged by the MSCI All Country World) in April. Social Prosperity was the most significant contributors to performance. The strategy's positioning in the Connected Consumer and Ageing & Lifestyle theme was a detractor to performance.

The Social Prosperity theme was aided by strong performance from AIA Group and Alibaba. AIA reported strong value of new business growth and margin expansion in the first quarter of 2024. The primary driver of the stronger-than-expected financial results was new business value growth in the mainland Chinese and Hong Kong markets. Moreover, the company announced an enhanced shareholder capital return policy.

Strong performance from Alphabet and American Express in the Connected Consumer theme was offset by share price weakness from Microsoft, Prologis and Uber Technologies. American Express held a well-received Investor Day where the company reiterated its long-term annual financial targets of +10% revenue growth and mid-teens EPS growth. Moreover, American Express continues to win market share with Millennial and Gen Z demographic cohorts.

Within Ageing & Lifestyle, both AstraZeneca and Boston Scientific were positive contributors to performance in April. Boston Scientific posted strong quarterly results as the company benefits from strong growth in both the United States and international markets. Boston Scientific's financial results continue to benefit from the recent launch of FARAPULSE, a novel treatment for atrial fibrillation.

During the month, there were two divestments and three new purchases. The first new purchase was Astra Zeneca, the UK listed biopharma company. We believe that Astra Zeneca is well positioned across several key therapeutic areas including, chemotherapy, immuno-oncology and cardiovascular-kidney-metabolic (CKM) syndrome. Astra Zeneca will hold an Investor Day in May where we expect to hear more about the company's growth roadmap to 2030 and beyond. In addition, we initiated new positions in LVMH and Zebra Technologies. Elsewhere, we reduced our exposure to AIA Group, Qualcomm and Boston Scientific and increased our positions in ASML and Broadcom

Outlook

The Federal Reserve is charged with striking a delicate balance between easing monetary policy while achieving its 2% inflation target objective. Moving too soon on rates could limit the Fed's ability to bring inflation under control, whereas moving too late threatens an economic slowdown and significant deterioration in the employment market.

Despite the strong equity market rally in the fourth quarter of 2023, we remain constructive on the outlook for global equities into 2024. While not without risks, the present backdrop of falling inflation, solid earnings growth and easing monetary policy should prove supportive for equities. We continue to maintain a balance within the portfolio with a focus on high quality companies delivering strong free cash flow generation.

The long-run trends underpinning the Evolving Economy remain firmly intact and companies that can deliver earnings growth in this environment will likely be rewarded. Solid industrial activity and strong order books for industrial robotics companies highlight the positive outlook for 'Automation' while ongoing supply chain disruptions only strengthen the case for automated solutions. 'Connected Consumer' companies have benefitted from an acceleration in the adoption of digital technologies since the pandemic and we expect this to continue as the economy forges ahead with its digital transformation. Further commitments from nations globally to dramatically lower emissions, combined with the recent volatility in energy prices, underlines the need for clean energy, storage and energy efficiency solutions which provides a strong tailwind for 'Energy Transition'* companies.

Source: All data sourced from Bloomberg, local currencies, as at 30/04/2024
*BIODIVERSITY and ENERGY TRANSITION are combination of previous CLEANTECH theme. SOCIAL PROSPERITY has been renamed from previous TRANSITIONING SOCIETIES theme

From a demographic standpoint, the ageing global population continues to create opportunities for 'Ageing & Lifestyle' companies which are positioned to benefit from long term changes in consumption patterns. Regulatory pressure and protracted covid lockdowns have weighed on sentiment in China but trends which include increasing wealth and financial inclusion, urbanisation and access to healthcare provide a positive backdrop for 'Social Prosperity'* more broadly. The urgent need to prevent and mitigate 'Biodiversity'* loss creates responsible investment opportunities driven by increasingly stringent and tangible global regulations, long-term targets and corporate reporting commitments.

We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in markets that benefit from secular tailwinds are best placed to navigate the evolving economy. The prospect of higher interest rates puts pressure on long duration assets but our preference for companies with healthy cash generation and strong focus on valuation should be supportive. The strategy is therefore well positioned to benefit from the secular shifts we are witnessing globally.

No assurance can be given that the Evolving Trends Strategy will be successful. Investors can lose some or all of their capital invested. The Evolving Trends strategy is subject to risks including Equity; Emerging markets; Currency; Global investments; Investments in small and/or micro capitalisation universe; ESG.

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