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# **Evolving Trends strategy**

## **Exposure to AI continues to be a positive force for companies, as global equities reach new highs in June**

- Equity markets rose in June with many US tech companies reporting strong earnings
- The 'Connected Consumer' and 'Automation' themes contributed most to performance
- We purchased AMD and increased our position in Zebra Technologies and Dexcom

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### **What's happening?**

Global equity markets rose in June with many developed market indices reaching new highs during the month. Companies exposed to Artificial Intelligence (AI) continued to outperform other areas of the market, and a strong earnings season for US technology companies underpinned the positive momentum for growth stocks. The Federal Reserve maintained a hawkish tone at its June conference with expectations for only one interest rate cut during 2024. Softer consumer data has supported market views that the Fed will ultimately be more accommodative in the path of future interest rates.

European equity markets underperformed broader global equity markets with the French equity market declining during the month. Heightened volatility was caused by France's President Macron calling a snap legislative election following disappointing European Parliament outcome. The European central Bank cut its base rate in June despite ongoing elevated services inflation. The ECB reaffirmed that outlook for interest rates will remain data dependent. Despite monetary easing by the ECB, European sovereign bond yields rose in June as the market absorbed the impact of the announcement of parliamentary elections in France.

Emerging market equities were supported by the strength of the Taiwanese equity market. Chinese equities were boosted by the authorities support of the domestic real estate sector.

## Portfolio positioning and performance

The strategy outperformed the broader global equity market (as judged by the MSCI ACWI) in June. The Connected Consumer and Automation themes were the most significant contributors to performance. The strategy's positioning in the Ageing & Lifestyle theme was the main detractor to performance.

Strong performance from Nvidia, Broadcom and TSMC were positive contributors to the Automation theme. Broadcom reported stronger than expected results for the quarter ending in April and raised revenue growth expectations for the full year by USD 1 billion. The strength in the business is driven by the strong demand for AI semiconductors with success as supplier to Google for its TPUv7 ASIC program. Broadcom is also benefitting from strong ethernet networking demand to connect large AI clusters. TSMC is one of the key beneficiaries of the ongoing proliferation of AI with end-applications further extending into edge devices including AI smartphones and personal computers.

The Connected consumer theme was driven by strong performance from Amazon, ServiceNow and Alphabet. ServiceNow has recently stepped up its Generative AI product innovation with monthly releases of enhancements rather than waiting to include them in the two major annual releases.

Amundi and Deckers Outdoors were the main detractors within Ageing & Lifestyle theme. The share price of Amundi was adversely impacted by the elevated political risk caused by the snap legislative election in France. Our view is that Amundi remains well positioned to benefit from growth in real assets and planned geographical expansion into Asia.

AMD was a new addition to the portfolio during the month of June. We believe AMD is well-positioned to benefit from the AI-infrastructure investment. AMD's MI300 accelerator is performing well and expected to ramp with over 100 customers, including Microsoft, Meta, and Oracle. Production in the first half of the year has been constrained by HBM memory supply and packaging availability. The company has communicated that constraints are improving as we enter the second half of the year. Elsewhere within the portfolio, we divested the position in Albemarle. The outlook for lithium pricing is expected to deteriorate over the coming quarters with elevated supply into a weaker demand environment.

We continued to build the position in Zebra Technologies, the enterprise productivity solutions provider. Zebra Technologies is set to capitalise on the increasing demand for the automation of workflows and workers. In addition, we increased the holding in Dexcom, the continuous glucose monitoring device manufacturer, following a period of short-term share price weakness.

## 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.

We continue to remain constructive on the outlook for global equities into 2024. Despite the resurgent concerns of higher for longer interest rates and suborn inflation, solid earnings growth and the prospect of 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.

Source: All data sourced from Bloomberg, local currencies, as at 30/06/2024

\*BIODIVERSITY and ENERGY TRANSITION are combination of previous CLEANTECH theme. SOCIAL PROSPERITY has been renamed from previous TRANSITIONING SOCIETIES theme

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.

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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