Evolving trends strategy

Central bank actions overshadow continued strength in Evolving Economy

- Markets rose in December and capped a particularly strong year for US and Europe
- The prospect of higher interest rates lifted value-oriented names relative to growth
- All themes except 'Transitioning Societies' added to portfolio returns

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What's happening?

Global equity markets rose in December and capped a particularly strong year for US and European equities. Concerns over the ongoing Omicron outbreak were partly alleviated by data which suggests severe disease is less likely and the prospect of further earnings growth in 2022 helped to drive markets higher.

In the US, the consumer price index increased to 6.8%[1] year-on-year in November and unemployment continued to fall. In response, the Federal Open Market Committee announced plans to accelerate the tapering of asset purchases which opens up the possibility of additional rate hikes in 2022. Elsewhere, President Biden was not able to achieve a majority in the senate for the Build Back Better spending bill after having signed the $1.2 trillion Infrastructure Investment and Jobs Act in November.

European equities posted strong returns during the month despite incremental tightening of monetary policy. Higher inflation and increasing labour market tightness led the Bank of England to raise interest rates for the first time since 2018 and the European Central Bank confirmed the pandemic emergency purchase programme would end in March.

In contrast, Chinese equities retreated further in December and the Chinese Central Bank lowered interest rates which reflects growing concern about downside risks to the economy.

Portfolio positioning and performance

The strategy delivered positive return in December but marginally underperformed the broader equity index (MSCI All Country World) as easing Omicron concerns and expectations of higher interest rates lifted value-oriented names relative to growth. All themes except 'Transitioning Societies' posted positive returns but fell short of the broader market.

[1] Source: Bloomberg as of December 2021.

'Ageing & Lifestyle' contributed most to performance led by our position in Edwards Life Sciences which offers products and services for the treatment of late-stage cardiovascular disease. The stock rose after management provided a positive outlook for 2022 and an encouraging pipeline update at its recent investor day. Conversely, shares in electro-optics company Hoya declined as semiconductor shortages and covid disruption continues to impact its life care business.

In 'Connected Consumer', our positions in payments companies Visa and Global Payments retraced some of their recent decline but the theme was weighed down by weaker performance from software names like Adobe and Salesforce which have done particularly well over recent months. Adobe offered cautious guidance for 2022, as some demand was pulled forward into 2021, but the company remains well positioned to benefit from the ongoing digital transformation across industries.

'Transitioning Societies' declined led by Chinese ecommerce company Alibaba which remained under pressure in December. Regulatory issues and concerns over increasing competition, along with a slowing macro backdrop, weighed on the company in 2021. The stock has derated significantly over the last 12 months while the growth outlook remains attractive with opportunities to increase penetration in lower-tier cities, continue its international expansion and further grow its cloud services business.

We exited our position in virtual healthcare services company Teladoc during the month. Rising adoption of virtual health care remains a tailwind for the company but competition is intensifying and it may struggle to reach its growth targets for 2022.

Outlook

Recent moves by the US and European central banks to reduce asset purchases, coupled with the prospect of higher interest rates, has unsurprisingly led to market volatility. However, monetary policy remains extremely accommodative and macroeconomic conditions are supportive with economic indicators in expansive territory and good progress in vaccination campaigns. While we expect growth to moderate in 2022, the trends underpinning the Evolving Economy continue to strengthen.

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 'Cleantech' 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. The regulatory clampdown has weighed on sentiment in China but trends which include increasing wealth and financial inclusion, urbanisation and access to healthcare provide a positive backdrop for 'Transitioning Societies' more broadly.

We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are well placed to navigate the evolving economy. The strategy is therefore well positioned to benefit from the secular shifts we are witnessing globally.

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