Longevity Economy strategy
Omicron variant and expectations on interest rates rises impacted Longevity Economy businesses

- Global equity markets fell amidst new Covid-19 variant discovery and higher expectations for interest rates increase
- Heightened uncertainties are creating new opportunities for the strategy
- Focus remains on long-term changes brought about by ageing populations

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What's happening?

Global equity markets fell in November as the discovery of a new coronavirus variant in South Africa spurred multiple countries to re-introduce some social distancing measures and travel restrictions causing markets to react negatively. Furthermore, the lower trading volumes experienced around the Thanksgiving Holiday in the US exacerbated the impact of the market uncertainty.

Additionally, comments from the US Federal Reserve Chairman, Jerome Powell, suggest that US interest rate rises could occur more sharply than the market expected. This led to increases in US government bond yields and a sell-off in riskier assets, such as growth equities.

The combination of increased COVID-19 uncertainty and higher expectations for interest rate increases created a very challenging environment for stocks exposed to the longevity economy. Higher COVID-19 uncertainty caused broad volatility, but it was particularly apparent in stocks of travel and leisure companies. Expectations of higher interest rate increases caused volatility in many growth equities, particularly for medtech and biotech stocks. Moreover, this challenging environment contributed to volatility in some financials exposed to market levels and trading volumes, such as asset and private wealth managers.

Portfolio positioning and performance

All four themes of the longevity economy (wellness, silver spending, senior care and treatment) experienced declines in November as no theme was immune to the market volatility discussed above. The longevity economy strategy underperformed the broader equity market (MSCI All Country World) during the month.

There are several reasons for the strategy's underperformance. Firstly, the strategy's high exposure to growth stocks, many of which experienced larger declines than the market average as investors priced in larger discount weights for future growth due to higher expected interest rates. Secondly, the strategy has significant exposures to stocks perceived to be more negatively impacted by a resurgence in COVID-19, such as the travel and leisure sector and surgical equipment providers.

Over the long-term we believe the global economy will continue to normalise and the themes that were driving the longevity economy prior to the emergence of COVID-19 are likely to reassert themselves on stock performance. So, we continue to position the strategy to benefit from this long-term trend. Given the recent volatility we are also finding significant opportunities to invest at very attractive stock prices, including highly cash generative businesses that we believe can mitigate some of the exposure to the risk of higher interest rates experienced by growth companies that are net investors of cash.

Outlook

As we have previously highlighted, it has become more difficult for investors to forecast near-term financial results. The emergence of the Omicron COVID-19 variant has unsettled investors because, at time of writing, there are many unknowns about the impact of the mutations in Omicron's genetic code will have on transmissibility and the ability of existing vaccines and treatments to mitigate the severity of infection. It will take several weeks to answer these questions and in the meantime a lot of the debate around the Omicron variant will be highly speculative.

The consensus is that COVID-19 highly likely to become endemic and, if so, healthcare systems will need to adapt to the virus's continued presence while allowing economies to normalise. Therefore, taking a long-term perspective, we see the current volatility as an opportunity to increase exposure to stocks we believe have the best long-term prospects. Although we believe significant volatility could persist for some time.

The longevity economy strategy continues to be positioned to benefit from the long-term demographic change in the global population and the impact we believe this will have on consumption trends. With the rate of growth in persons over 65 years' old accelerating in Western economies over the next few years we believe this positions the strategy for long-term secular growth. However, it also exposes the strategy to some sectors that rely on healthcare systems to be capable of managing spikes in COVID-19 while economic activity largely continues unrestricted. As such, volatility in the strategy's performance could continue if investor's doubt this balance can be achieved.

No assurance can be given that the Longevity Economy Strategy will be successful. Investors can lose some or all of their capital invested. The Longevity Economy Strategy is subject to risks including: Equity; Currency; Global Investments; Emerging markets; Investments in small capitalisation universe and Investment in specific asset classes.