Digital Economy strategy

Risk appetite returns as recent inflation data paves the way for the long-anticipated rate cut

- Strong rally in equities, led by the technology sector
- Q1 reports have been strong – 84% of the fund's investments exceeded earnings forecasts.
- Outlook from software companies have been a cause for concern

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What's happening?

Equity markets were strong in May, with the MSCI ACWI gaining 4.1%[1] with the Technology sector leading the rally. Several factors contributed to this positive return, including a resilient earnings season and encouraging economic figures which eased concerns over inflation and interest rates.

From a market perspective, first quarter earnings season has almost concluded. For those companies in the MSCI ACWI Index that have reported their results, 52%[2] have reported better-than-expected revenues and 61% reported better-than-expected earnings. For the strategy's investments, these figures are 64% and 84% respectively.

Portfolio positioning and performance

The structure of the strategy has no exposure in Technology to semiconductor stocks and limited exposure to the hardware sector which impacted its relative performance. Additionally, it was a challenging period for software stocks who delivered disappointing results especially the within forward looking guidance provided. For instance, we have seen weakness from enterprise software holdings Salesforce.com and Workday. On the positive side, we saw strong returns from over-the-top provider of video content Netflix and as well as our real estate logistics providers Goodman Group and Prologis.

Over the month, we sold the remainder of our holding in Tenable, the provider of cloud based security vulnerability management software.

[1] Source: Bloomberg in USD as of 31/05/2024
[2] Source : Bloomberg as of 31/05/2024.

Outlook

Whilst there has been a return to risk appetite in equity markets, there has been a clear preference for hardware and semiconductors stocks within the technology sector as the initial build out of infrastructure for artificial intelligence (AI) is put into place. One of the by-products of this is that budgets are repurposed from elsewhere and given recent commentary, it seems that it is the software sector that is providing the funding. As a result, the immediate outlook for software stocks looks less appealing than at the beginning of the year.

However, looking to the longer-term opportunity, we believe that it will be software companies that provide many of the applications from which the benefits of AI are derived, although the timing of this appears to be somewhat uncertain right now.

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