For professional clients only
November 2024
Monthly Perspectives
AXA IM Equity

Digital Economy strategy

Indicators such as consumer confidence are encouraging

- Markets reacted positively to Donald Trump's US election win
- Quarterly results have been positively received for most investments in the strategy
- Strength in software and media / entertainment companies

Pauline Llandric, Tom Riley
co-Portfolio Manager, Digital Economy Strategy

What's happening?

Global equity markets rose during November, with the MSCI ACWI gaining 3.7%[1]. This increase was driven by strong returns in the US market, which reacted positively to Donald Trump's US election win. Investors gradually became more comfortable with his tariff rhetoric, viewing it as a negotiating strategy rather than a definitive policy stance. The economic fundamentals remained encouraging over the month, with indicators such as consumer confidence exceeding expectations. The inflation picture continued to improve, leading markets to anticipate the Federal Reserve will likely cut interest rates in December. European markets faced more challenging conditions, with some disappointing economic data and inflation showing signs of persistence rather than moderation. The overall landscape was also mixed in Asia, with Japan performing well as investors focused on potential policy changes at the Bank of Japan, but China posting negative returns as ongoing concerns about the property sector overshadowed government support measures.

Companies have mostly concluded reporting their third quarter results and these have been positively received for most investments in the strategy. Greater than 81%[2] of the holdings in the strategy have beaten earnings expectations compared to 54% for the broader market as measured by the MSCI ACWI Index. Corporate earnings prospects look promising, with forecast suggesting the S&P 500 companies should see approximately 12% year-over-year growth in the fourth quarter, 6% for the STOXX 600 and 21% for the MSCI Asia Pacific (source: Bloomberg as of 30/11/24).

Portfolio positioning and performance

The strategy fund posted positive performance and outperformed the broader equity market during the month, driven by strength in software and media / entertainment companies. All four of the strategy's subthemes delivered positive returns.

[1] Source: Bloomberg in USD as of 30/11/2024
[2] Source: Bloomberg as of 01/11/2024

Our exposure to the 'Data & Enablers' theme contributed most to performance. We saw strong performance from software companies, in particular ServiceNow, Salesforce and Snowflake. Leading digital workflow platform company ServiceNow performed well over November due to the positive reception of its recent innovations showcased at the World Forum in New York City, which highlighted advancements in technology and best practices across industries; particularly noteworthy was the value of Now Assist, an AI-driven tool designed to enhance operational efficiencies by automating repetitive tasks and improving service delivery, with customers reporting significant Return on Investment such as a 50% faster time to resolution and over 35% reduction in resolution time. Salesforce, a leading customer relationship management (CRM) platform, performed well over the month due to gradually improving demand signals reflected in several partner surveys, which indicated a modest uptick in interest for AI products following the Dreamforce event which was held in September. Snowflake, a leading cloud-based data platform that helps organisations store, manage, and analyse large amounts of data, performed well over November due to strong results and positive guidance that reassured investors after a challenging period. The company showed healthy consumption trends and growing adoption of AI and machine learning features. This strong performance was partially offset by weakness from Capgemini, a global leader in consulting and technology services, who faced weakness in November due to an uncertain growth outlook for 2025 following a decline in key indicators.

Within the 'Decision' theme, we saw strong performance from Spotify, a leading music streaming platform, due to strong third-quarter results, with gross margins exceeding expectations along with better growth in premium subscribers. This strong performance was somewhat tempered by slight weakness from Meituan, a Chinese online food delivery, local services, and travel platform, which experienced no company-specific news during the month but was affected by the broader downturn in the Chinese market.

Within the 'Delivery' theme, we saw healthy returns from Visa, a leading global payments technology company after reporting solid quarterly results, as volume growth remained stable across domestic and cross-border transactions, while guidance for FY25 indicated continued revenue growth and strong fundamentals, supported by momentum in value-added services and new partnerships. This good performance was partially offset by weakness from DHL, logistics and express shipping services provider, as third-quarter results reflected a decline in volumes, driven by a weak economic backdrop, in particular in Germany.

Finally within 'Discovery', we saw strong performance from HubSpot, a leading customer relationship management platform, as it reported strong third-quarter results with growth across all metrics, driven by increased demand for larger deals and positive momentum in AI features. This strong performance was partially offset by slight weakness from Alphabet, the parent company of Google, due to ongoing antitrust scrutiny, as the Department of Justice (DOJ) submitted proposed remedies following a court ruling, which created some uncertainty for Google's Search business.

There was relatively little activity during the month, however, we have taken advantage of some stock specific news to reallocate our investments where appropriate.

Outlook

The Digital Economy continues to evolve and expand, powered by fast technological advancements, shifts in consumer behaviour and the persistent digital transformation efforts undertaken by businesses across sectors. Despite the rapid growth and adoption of digital technologies in recent years, we firmly believe that there remain substantial opportunities for companies to innovate, create value and drive further progress.

In our view, we see significant potential in companies that leverage digital technologies and innovative business models to deliver compelling value propositions to their customers, disrupt traditional industries and capture market share. This encompasses businesses that are at the forefront of innovation in areas such as e-commerce, cloud computing, cybersecurity and other crucial aspects of the Digital Economy.

We maintain our conviction that, in our view, the strategy is well positioned to benefit from the secular trend of Artificial Intelligence (AI). As businesses increasingly recognise the transformative potential of AI and the critical importance of data across the Digital Economy value chain, we anticipate the fund to capitalise on the development of AI-powered applications in the coming years. Data lies at the core of digital transformation and businesses that effectively leverage their data are poised to gain a significant competitive edge. The emergence of Generative AI has only heightened the urgency for companies to embrace change or risk being left behind.

The market has been experiencing a narrowing concentration since early 2023, with mega-companies driving a significant portion of the gains. This trend reached its peak in July 2024, marking the narrowest market in over 15 years. However, since then, we have observed a modest broadening of market participation, suggesting that the anticipated shift towards a new interest rate cycle is starting to gain traction. This emerging trend could indicate the potential for a more favourable environment for equities across the market capitalisation spectrum. By focusing on key trends and maintaining a disciplined investment approach that targets well-positioned companies within our themes, we aim to capitalise on the ongoing evolution of the Digital Economy across a wide range of market segments and under various market conditions.

Looking ahead, we remain optimistic about the long-term growth prospects of the Digital Economy and the opportunities it presents for investors. As we navigate the ever-changing landscape, we will continue to identify and invest in companies that we believe are best positioned to thrive in this dynamic environment. Our commitment to our investment philosophy and process, combined with our understanding of the Digital Economy, positions us well to navigate the challenges and opportunities that lie ahead.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Please note that the management company reserves the right, at any time, to no longer market the product(s) mentioned in this communication in a European Union country by notification to its authority of supervision in accordance with European passport rules. In the event of dissatisfaction with the products or services, you have the right to make a complaint either with the marketer or directly with the management company (more information on our complaints policy available in English here). You also have the right to take legal or extra-judicial action at any time if you reside in one of the countries of the European Union. The European online dispute resolution platform allows you to enter a complaint form (by clicking here) and informs you, depending on your jurisdiction, about your means of redress (by clicking here).

Issued in the U.K. by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales, No: 01431068. Registered Office: 22 Bishopsgate, London, EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly.

This document has been issued by AXA Investment Managers Asia (Singapore) Ltd (ARBN 115203622) ("AXA IM Asia"). AXA IM Asia is exempt from the requirement to hold an Australian Financial Services License and is regulated by the Monetary Authority of Singapore under Singaporean laws, which differ from Australian laws. AXA IM Asia offers financial services in Australia only to residents who are "wholesale clients" within the meaning of Corporations Act 2001 (Cth).

For Japanese clients: AXA Investment Managers Japan Ltd., whose registered office and principal place of business is at NBF Platinum Tower 14F 1-17-3 Shirokane, Minato-ku, Tokyo 108-0072, Japan, which is registered with the Financial Services Agency of Japan under the number KANTOZAIMUKYOKUCHO (KINSHO) 16, and is a member of Japan Securities Dealers Association, Type II Financial Instrument Firms Association, Investment Trust Association of Japan and Japan Investment Advisors Association to carry out the regulated activity of Financial Instrument Business under the Financial Instrument Exchange Law of Japan. In Japan, none of the funds mentioned in this document are registered under the Financial Instrument Exchange Law of Japan or Act on Investment Trusts and Investment Corporations. This document is purely for the information purpose for use by Qualified Institutional Investors defined by the Financial Instrument Exchange Law of Japan.

In Korea, AXA Investment Managers Asia (Singapore) Ltd is a registered Cross Border Investment Advisor/Discretionary Investment Management Company under the Financial Investment Services and Capital Markets Act (the "Act"). The activities referenced under the Act are 5-2-2 Investment Advisory Business and 6-2-2 Discretionary Investment Management Business, respectively. Its financial services are available in Korea only to Professional Investors within the meaning of Article 10 of Enforcement Decree of the Financial Investment Services and Capital Markets Act.

To the extent that any fund is mentioned in this document, neither the fund nor AXA IM Asia is making any representation with respect to the eligibility of any recipients of this document to acquire the units/shares in the fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The units/shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: as the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People's Republic of China (PRC): this document does not constitute a public offer of the product, whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC's governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

For Brunei investors: This document has not been delivered to, licensed or permitted by Autoriti Monetari Brunei Darussalam. Nor has it been registered with the Registrar of Companies. This document is for informational purposes only and does not constitute an invitation or offer to the public. As such, it must not be distributed or redistributed to and may not be relied upon or used by any person in Brunei other than the person to whom it is directly communicated and who belongs to a class of persons as defined under Section 20 of the Brunei Securities Market Order, 2013.

For Filipino investors: The shares or units referred to in this document (if any) have not been registered with the Securities and Exchange Commission under the Securities Regulation Code. Any future offer or sale thereof is subject to registration requirements under the Code unless such offer or sale qualifies as an exempt transaction.

For Vietnam investors: This document does not contemplate an offer to sell the interests in any funds in Vietnam. The document has not been approved by the State Securities Commission of Vietnam or any other competent authorities in Vietnam which takes no responsibility for its contents. No offer to purchase the interests in any funds will be made in Vietnam and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally. The value of the interests in any funds, the possibility of gaining profit and the level of risk stipulated in this document is purely for reference purposes only and may change at any time depending on market status. Investment in fund(s) does not carry any assurance that investors will make a profit. Investors should themselves carefully balance the risks and the level of those risks before they make any decision to invest in any funds. It is investors' responsibilities to ensure that they are eligible to make investment in any funds. Investors are responsible for obtaining all applicable approvals and complying with requirements under Vietnamese laws.

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.