Evolving Trends strategy

US and European equities both reached new highs in May, as anticipation for interest rate cuts increase

- US equities recovered impressively, driven by Nvidia and strengthening macro conditions
- The 'Ageing and Lifestyle' theme contributed most to performance
- We initiated new positions in LVMH and Estee Lauder, and divested Kerry Group

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What's happening?

US equities staged an impressive recovery in May, with the S&P 500 Index hitting fresh highs along with the Nasdaq Index, fuelled by chipmaker Nvidia, which advanced following strong quarterly results. The strength in US stocks was supported by a strong economy, moderating inflation, robust corporate profits, and trust in the US Federal Reserve that an interest rate cut is coming. Flash Purchasing Managers' Index (PMI) data was remained in expansionary territory, with the manufacturing component rising to 50.9 while services rose to 54.8[1].

European equities, as measured by the Stoxx 600 Index, reached a new record high, as risk appetite was bolstered by growing bets on interest rate cuts in the region and a strong earnings season. In Europe, PMI data released during the month confirmed that economic activity is improving. Services sectors continue to show robust signs, with early signs of a recovery in manufacturing.

In Asia, Japanese equities declined in May. The region was hit by problems with the yen as Japanese policymakers turned their attention to more structural economic factors behind the persistent currency decline.
Following a sharp two-month rally in Chinese equities was partly driven by profit-taking, renewed concerns over US-China trade relations, and investors waiting to see how Beijing will fund and execute its latest line of stimulus measures, particularly those aimed at supporting the real estate market.

[1] Source: Bloomberg, as at 31/05/2024

Portfolio positioning and performance

The strategy performed in-line with the broader equity market (as judged by the MSCI All Country World) in May. The Ageing & Lifestyle theme was the most significant contributors to performance. The strategy's positioning in the Connected Consumer theme was the main detractor to performance.

The Ageing & Lifestyle theme was driven by strong performance from On Holding, Deckers Outdoor and Globus Medical. Swiss sporting footwear & clothing company On Holding reported better than expected quarterly financial results with sales and gross margin ahead of market expectations. We met with management in our London office after the results. During our meeting, we discussed the current strong brand momentum, innovation pipeline, and marketing investments. We believe On remains well positioned to deliver continued growth. Deckers, another leading specialty run company also reported better-than-expected financial results with both Hoka and UGG brands performing well during the quarter. Globus Medical delivered quarterly results ahead of market forecasts with realised synergies from last year's Nuvasive deal coming in ahead of expectations.

Strong performance from Nvidia, Applied Materials and Teradyne were positive contributors to the Automation theme. While Nvidia's strong results underlined strong demand from cloud customers, Enterprise and Consumer Internet companies drove most of the growth in the quarter, highlighting the broadening adoption of Artificial Intelligence. Applied Materials posted higher revenues and better margins and noted strong advanced packaging business trends with revenues growing 70% year-on-year.

Salesforce and Global Payments were the main detractors within Connected Consumer. Salesforce's quarterly results indicated industry growth rates are poised to moderate for the remainder of 2024. Bookings in the quarter were negatively impacted by elongated sales cycles and smaller deal sizes.

During the month there were two new purchase and one divestment. The new additions were LVMH and Estee Lauder and Kerry Group was divested. We believe Estee Lauder is well poisoned to benefit from a rebound in prestige skin care and an end to a protracted period of destocking in the Chinese market. A recent pull back in the share price of LVMH, the world's leading luxury conglomerate presented an opportunity to initiate a position.

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.

Despite the strong equity market rally in the fourth quarter of 2023, we remain constructive on the outlook for global equities into 2024. While not without risks, the present backdrop of falling inflation, solid earnings growth and 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. 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

Source: All data sourced from Bloomberg, local currencies, as at 31/05/2024
*BIODIVERSITY and ENERGY TRANSITION are combination of previous CLEANTECH theme. SOCIAL PROSPERITY has been renamed from previous TRANSITIONING SOCIETIES theme

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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