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November 2024
Monthly Perspectives
AXA IM Equity

Evolving Trends Strategy

Political certainty post the US election should support capital expenditure planning

- Election uncertainty and mixed earnings drove global equities lower in October.
- Strength from the ‘Connected Consumer’ theme; Weakness from ‘Automation’ theme
- We exited Estee Lauder and Amundi, to open positions in L'Oréal and Schneider.

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What’s happening?

Global equities fell in October, despite a strong first half of the month. The decline in the latter stages of October were driven by a risk off environment ahead of what appears to be a very close US election and a more mixed earnings season currently seen in some segments of the market.

Major US indices closed lower in October, with the growing political uncertainty and a technology sell-off in the final week pushing the Nasdaq Index to its first monthly loss since July and snapping the five-month winning streaks enjoyed by the S&P 500 Index and Dow Jones Index. The pull-back came after the S&P 500 Index hit an all-time high in the month as markets had been sustained by expectations that the US Federal Reserve (Fed) will keep lowering interest rates and the US economy is poised to avoid a recession. The US presidential election loomed large with a Trump administration meaning a higher chance of tariffs on imports, which is expected to push up inflation once again.

European markets ended October with their steepest loss for a year as investors weighed up earnings, inflation, a US election, a UK Budget, and concerns about the macroeconomic climate as hopes for a Chinese stimulus package started to wane. A surprise eurozone GDP increase trimmed hopes for a large European Central Bank (ECB) interest rate cut, but overall, the area is performing worse than expected and central bankers did continue with their rate cutting strategy.

The boldest stimulus package in years from the Chinese government drove stock markets in the world’s second largest economy higher at the end of September. However, the optimism around the ability of Beijing to kickstart the ailing economy waned over October, pushing stock markets in both mainland China and Hong Kong lower over the month. Stocks suffered their worst fall in 27 years after China’s economic planning authority failed to report specific policies to support the stimulus measures announced in September.

Source: All data sourced from Bloomberg, local currencies, as at 31/10/2024

Portfolio positioning and performance

The strategy was in line with the broader equity market in October against a backdrop of an earnings season that saw more extreme responses to earnings reports versus recent history.

The biggest detractors came from the Automation theme, with ASML shares falling in excess of 15% in local currency terms over the month as sales for the third quarter were materially below the market's expectations and the company reported weaker 2025 sales guidance. Reassuringly, the company commented on their earnings call that they are still seeing strength in AI related demand with core customers. Teradyne also fell, despite decent Q3 2024 results, thanks to outperformance in their Semiconductor Test segment, which was boosted by AI demand. Despite this, non-Semiconductor test segments were weak and the management team were sanguine about the outlook for the near future for Robotics related revenue, particularly in the Auto and Industrial markets.

Within the Connected Consumer theme, Fiserv delivered strong results as their third quarter earnings showed strong merchant organic revenue growth that is well above market trends. Clover, their point-of-sale system for small businesses, grew at 28% versus the same period last year, boosted by adjacent software sales. Growth is likely to be supported in the coming quarters by the international roll out of this service in Brazil and Mexico.

The Ageing and Lifestyle theme saw mixed performance. Shares in Service Corp International were lifted as they outperformed public health data trends and delivered better than expected results in their funeral business. In contrast, luxury goods company LVMH had a trading update that was well behind the market's expectation, with weakness in their Fashion and Leather goods, primarily as a result of weak Chinese consumer spending.

The ongoing weakness in the Chinese consumer also impacted companies in the Social Prosperity Theme, such as insurer, AIA, and e-commerce giant Alibaba. Despite an initial strong reaction to announcements of a Chinese stimulus plan to help boost the property market and consumer spending, a lack of specific details about the plan led to most of these share price gains reversing towards the end of the month. Despite the macro-economic headwinds, we are reassured by AIA's strong operational performance, delivering over 16% growth in new business in the third quarter.

Over the month we switched our holdings in Estee Lauder into L'Oréal, where we feel the management team have a better track record in category management and lower exposure to more challenging markets such as China. We also exited our position in Amundi, switching into industrial technology leader, Schneider, where we feel the thematic drivers of returns are stronger, specifically the growth in Automation and Energy Management.

Outlook

We remain positive on global equity markets for the remainder of the year. Corporate earnings are still robust, with inflation moderating and global economy overall in reasonably good health.

The main event towards the end of 2024 is the US election and the potential policy implications of who controls the White House and Congress. The impact of rising protectionism on companies with global supply chains remains to be seen. Political certainty post the US election should support capital expenditure planning, The US manufacturing environment has been weak for almost 2 years now, and we anticipate that over the coming quarters we should see some of the impacts of the various Infrastructure stimulus packages signed into law in 2021 and 2022, as relatively little of the allocated budget has been distributed so far. We are also watching developments in China with interest as the recent stimulus announcements appear to have been well received by the market. China continues to an important market for many industrial equipment makers and an improvement in demand, after a prolonged period of weakness, would be supportive for many of our companies in the Automation theme.

From a monetary policy perspective, expectations are still that central banks in the US & Europe continue to cut interest rates, which should be a tailwind for equity markets and consumer spending more generally. At the corporate level, returns on spending on artificial intelligence remains a key question for investors, as they begin to look for tangible

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benefits to growth or cost savings into 2025. Companies that pushed through large price increases during the period of high inflation from 2021 to 2024 are unlikely to be able to replicate this going forward, so we are focussed on finding businesses with competitive moats and structural growth tailwinds that help them maintain pricing power.

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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