Evolving Trends Strategy

Expectations of Trump's pro-growth agenda drove positive market sentiment

- Global equities rose, led by the U.S., while Europe and China fell on trade concerns
- Solid earnings results season for Evolving Trends strategy supported performance
- Strength in the strategy's Healthcare exposure

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What's happening?

Global equities rose in November, with the MSCI ACWI gaining 3.7% in USD terms. The gains were led by the US, where the market responded positively to the election of President Donald Trump. Expectations are that the new administration will have a pro-growth agenda, with lower taxes and a more supportive regulatory backdrop.

European markets failed to participate in the market rally and European bourses sunk on worries about a trade war with the US, the region's largest trading partner. The main stock index, the Stoxx 600 Index, touched its lowest point in three months due to the combination of Trump's election and escalating geopolitical tensions.

Emerging market equities also fell, led by China, as Republican control of the White House and Congress risked heightened tensions over trade and technology. In response to the threat of additional trade barriers from the US, Beijing promised further stimulus packages to kickstart the economy, but this failed to allay investor concerns.

At the sector level, Consumer Discretionary performed strongly as post-election euphoria saw consumer confidence increase amid optimism around the labour market, expectations for lower inflation and higher stock prices. There was also a notable change was the change in leadership within the Technology sector, as Software companies began to materially outperform Semiconductor companies. The key reasons for the shift are lower perceived tariff risks and positive earnings revisions for software companies, plus continued inventory and cyclical challenges in parts of the semiconductor market.

Portfolio positioning and performance

The strategy performed broadly in line with the MSCI All Countries World Index over the month. Relative to the benchmark, the biggest single detractor came from not owning Tesla, which saw shares rise by almost 40% over the month as the market became optimistic about the influence of Elon Musk in the new Trump administration.

The Q3 earnings season has overall been positive for the Fund, particularly when contrasted with the broader market. At the time of writing (4 December 2024), 88% of companies held in the strategy that have reported earnings have beaten earnings expectations compared to 54% for the broader market as measured by the MSCI ACWI Index (source Bloomberg). Stock selection in Technology was a detractor- where our overweight to Semiconductors dragged as Software outperformed. Technology holdings in the Automation theme, such as Taiwan Semiconductor Manufacturing, Applied

Source: All data sourced from Bloomberg, local currencies, as at 30/11/2024

Materials and Advanced Micro Devices were all down during the month. Alibaba also dragged on performance as the optimism around a fiscal policy supported boost to Chinese consumption began to be replaced by concerns about tariffs.

In contrast, stock selection in Healthcare was positive. Notable contributions came from Globus Medical, who showed good cost control in their Q3 results, and Boston Scientific, which presented good clinical trial results for their left atrial appendage closure product.

Within the Ageing & Lifestyle theme, On Holdings continued to be a strong performer. In Q3 sales grew 32% year over year, ahead of market expectations of 29%. In addition to the impressive growth in their footwear business, ON are also growing their Apparel segment at 33%, suggesting that the brand’s expansion into new product categories justifies the high valuation relative to peers.

Over the month we added to our position in Keyence, a high quality Japanese industrial technology company, on expectations that the market for industrial automation should improve in 2025.

Outlook

The macroeconomic backdrop is likely to remain mixed going into 2025, with the United States being the most advantaged region globally. While there are concerns around the impact of tariffs on the US economy, data suggests that the sensitivity has declined in recent years; around 24% of US imports came from China in 2018 and this has fallen to around 14% in 2024. The impact of tariffs may be challenging for some sectors, but there has already been a significant decoupling of Chinese and US supply chains in the post covid era. Support for US manufacturing and reshoring is likely and therefore we see a better industrial economy ahead in the US. 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 acts start to boost activity levels. Whilst these acts were signed in to law some time ago, (Infrastructure Investment and Jobs Act in November 2021, Chips and Science Act in August 2022, Inflation Reduction Act in August 2022), relatively little of the allocated budget has been distributed and this support isn’t anticipated to peak until 2026. This should be a benefit for many of the companies within our Automation theme going into 2025 and beyond.

While the market broadly recognised the opportunity for the Artificial Intelligence enablers in 2024, the potential productivity benefits that may be harnessed by software providers in various markets are starting to emerge. The fund is well positioned to capture this growth through our holdings in software companies that should be able to help their customers across sectors leverage the power of AI.

We believe that our thematic investment philosophy leads us to find companies that will benefit from evolution and disruption across sectors.

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.

Source: All data sourced from Bloomberg, local currencies, as at 30/11/2024