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March 2022
Monthly Perspectives
AXA IM Equity

UK Sustainable Equity strategy

Market direction continues to be shaped by inflation, interest rates and commodity prices

- Convatec, London Stock Exchange, Trainline, Accesso and Safestore all performed well
- Genuit increased their use of recycled materials again towards their 62% target by 2025
- Marshalls have committed to 73% of suppliers having science based carbon targets by 2024

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What's happening?

Equity markets started March on the back foot after a tough start to the year caused by inflation, interest rate concerns and the war in Ukraine. Oil prices spiked to over a $125 a barrel and gold prices jumped as investors rushed to safe-haven assets, with the precious metal reaching over $2,000. However, tentative signs that peace could be reached along with oversold conditions, solid trading updates and further M&A interest ensured that although volatile, equity markets did gain a firmer footing as the month proceeded.

Bond yields continued to rise in March driven by the ongoing elevated levels of inflation and sustained hawkish rhetoric from central banks. In the UK, the MPC voted 8-1 to raise the bank rate by 0.25% to 0.75%, its third successive hike for the first time since 2004. However, the Bank of England meeting minutes suggested a more cautious tone in its outlook, stating that "further modest tightening in monetary policy might be appropriate in the coming months" having previously said this was likely to be appropriate as recent as their February meeting.

The commodity price spike has meant continued outperformance in March of sectors such as industrial metals and mining and oil and gas. This can be seen in the UK equity market returns for March which show the resource heavy FTSE 100 outperforming the broader market. The FTSE All Share (+1.30%[1]), FTSE 100 (+1.42%[1]), & FTSE 250 (ex-Investment Companies, -0.10%[1]), while the FTSE Small Cap (ex-Investment companies, +0.58%[1]).

Portfolio positioning and performance

Despite the commodity headwind for the strategy, given its focus on structural growth in companies with responsible business practices, it outperformed the FTSE All-Share Index in March due to positive stock selection. Convatec, London Stock Exchange, Trainline, Accesso and Safestore all performed well following positive trading

[1] Source: Local Currencies, Bloomberg as at 31/03/2022.

updates. Additionally, there was an expression of interest to buy Homeserve by Brookfield Asset Management which helped to boost its share price and there were also solid updates from Genuit, DiscoverIE, Marshalls, Ashtead, Just Group, Prudential and Legal & General.

From an Environmental, Social & Governance (ESG) point of view it was pleasing to see Genuit reported they had increased their use of recycled materials again towards their 62% target by 2025 and delivered a 44% reduction in their CO2 intensity. Just Group are looking to double their portfolio invested in ESG investments such as wind, solar, social housing & green buildings. Marshalls have committed that 73% of their suppliers will have Science Based carbon targets by 2024 and that their new plant in St Ives has been designed with a solar energy supply to charge all their forklift trucks and electric vehicles. In March, Europe's first nuclear power plant for 15 years opened and began production in Finland. During the month an engagement meeting and ESG analysis was undertaken with Experian PLC. The strategy consists of 68% in companies that are deemed as ESG leaders and 32% that are 'in transition' and cash.

We added to our positions in GB Group and RWS Holdings (both aligned to the Progress theme) as technology shares continued to struggle with the recent market rotation. GB Group is trading at multiples not seen for many years despite the fact that none of the structural drivers for this business have changed and recent M&A activity in this area suggests others think the same. RWS announced an investment plan at their recent Capital Markets Day which was not taken well by the market but offered a clear strategic path to higher organic growth which should reward the patient investor.

The market sell-off also presented an interesting opportunity to purchase more Genus (Planet – Resource & Energy Efficiency) which has derated on the back of falling pork prices in China and concerns around their Russian business. Their recent results however highlighted further evidence of their world leading position in animal genetics and strategic progress around their development of flu resistant pigs. With sustainability in mind, they are helping farmers produce more protein from fewer animals and at the same time, using fewer resources of water, energy and land and at a fraction of the greenhouse gas emissions of alternative systems. To finance these purchases some profits were taken in Diageo, SSE, Rentokil and Astrazeneca which have performed well in these volatile markets.

Outlook

Market direction continues to be shaped by inflation, interest rates and commodity prices. Inflation data seems likely to continue increasing in the first half of the year from already high levels, especially given the recent move in the oil price. The Russia-Ukraine conflict has however created tensions around the next interest rate rise. Striking the right balance between controlling inflation and not slowing the economy as it recovers is a tricky balancing act, especially while governments withdraw their fiscal support.

Despite the recent news flow, there are of course reasons to be optimistic about equities for the remainder of the year. Economists are forecasting that global real GDP growth will remain above trend. In addition, global inventory levels remain low and the process of rebuilding them will be a further tailwind through 2022. Earnings forecasts are modestly set and valuations are in many instances trading at multi year lows.

Our approach remains centred on owning good quality businesses that can reinvest and compound their returns over time. We continue to believe that understanding longer term structural trends and identifying responsible, reliable and ultimately sustainable companies, in a targeted, focused and active approach, remains the key to longer-term success.

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