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Global Technology strategy

First quarter earnings season has begun with encouraging results for enterprise focused technology companies

- The technology sector underperformed the broader equity index in April
- Market continues to be nervous around the potential pace of rate rises
- Weakness in semiconductor companies despite strong results

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What's happening?

During April, the MSCI World index fell 3.8%¹. The technology sector underperformed the broader equity index with the MSCI World Information Technology index declining 7.9%¹. [All index returns provided in GBP].

Markets had another volatile month driven by concerns over Central Banks rate rises, inflation impacting consumer sentiment and the Ukraine war showing no signs of resolution. From a market perspective, earnings season for the first quarter has now commenced and so far, the reports have been encouraging with regards to business trends that our investments are seeing.

Portfolio positioning and performance

During what was a challenging month for technology investors there was relatively little positive stock moves, however an encouraging set of results from Sprinklr, the company that provides software for social media management for enterprises reported good results and guidance above expectations and helped their shares to perform well during the month.

We saw better performance from Chinese internet and gaming company Tencent after the regulator approved the first series of video games in 9 months. Social network Meta Platforms presented results that reassured the market however broad social media and online advertising remain challenging amid privacy related headwinds and macro concerns. There is clear evidence that the invasion of Ukraine results in a pause in aspect of online spending during the quarter.

We have seen weakness in the share prices of many semiconductor companies following a very strong 2021 for the sector. The semiconductor companies, such as ON Semi (Largely focussed on Automotive and Industrial chips), Qualcomm (Smartphone chips) and Silicon Labs (Internet of Things chips) have all reported healthy results and outlooks, with only Texas Instruments offering a weaker outlook citing uncertainties caused by the lockdowns in China. The combination of robust

¹ Source: Bloomberg as of 29/04/22, performance in GBP

earnings and falling share prices for the group has resulted in significant multiple contraction for the sector, where we now see attractive valuations.

There were no major changes in the portfolio during the month. We reduced positions in some holdings ahead of first quarter earnings reports. We also sold the position in JD.com that we received as a dividend payment from TenCent.

Outlook

The market sentiment continued to be dictated by the war in the Ukraine and the expectations that the US Federal Reserve will raise interest rates at an aggressive pace to curb inflation. The resulting strength in the US dollar is adding to the list of concerns that the market is currently facing.

First quarter earnings season has begun with results so far being encouraging for enterprise focused technology companies. Semiconductor companies have for the most part reported good results and provided positive guidance for the current quarter. An area of disappointment has been around social media and online advertising where a combination of privacy related headwinds combined with a pause in spending by advertisers because of the invasion of Ukraine leading to weaker first quarter demand.

Whilst we believe that markets are likely to remain volatile for as long as the geo-political uncertainty remains, the valuations within the technology sector have become increasingly attractive given the long-term growth potential of many of the companies in the group.

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