Global Thematics strategy

The sequential macroeconomic improvement suggest that conditions are improving – a message underlined by many corporates

- Global equity markets continued to rebound during June
- Contribution to positive performance led by the 'Connected Consumer' theme
- We initiated positions in Teledoc and Envestnest

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What's happening?

Global equity markets continued to rebound during June and, whilst volatility remains elevated, it has continued to retreat from its peak in March. Whilst growth continued to outperform value in most markets, cyclical stocks tended to outperform during June as investors increasingly factor in a macroeconomic recovery and following relative underperformance of cyclicals in recent months. Investors continue to reward those businesses with strong balance sheets and liquidity positions. Questions over the security of dividends continue to impact performance at a stock level.

Western economies continue to re-open gradually, with virus transmission data so far under control in Europe and only localised spikes in large parts of Asia which have re-opened. The market has viewed this positively but is now watching the implications of deteriorating transmission data in the US. As consumers and corporates navigate this gradual relaxation of restrictions, ongoing policy support remains critical to a sustained recovery.

Whilst progress towards potential treatments and vaccines has been made at an extraordinary pace, we are still far from a solution. Thus, the rate of relaxation remains dependant on the management of virus transmission in order to ensure adequate treatment capacity. Early signs are promising.

Macroeconomic data has been broadly positive, particularly from the US where May job creation was ahead of expectations in positive territory and May retail sales rose 18% compared to April[1]. In China, data points point to a continued normalisation as the property market, e-commerce and auto sales all continued to improve compared to the previous month. In Europe, May consumer confidence recovered from April's eleven year low. Whilst macroeconomic conditions remain weak, the sequential improvement is positive and suggest that conditions are improving – a message underlined by many corporates.

[1] Bloomberg as of 16/06/2020

Central Banks around the world have been keen to reaffirm their commitments to supportive monetary policy which will be critical to a sustained recovery.

Whilst expect some areas of the economy to operate below pre-crisis levels for the long term, there are products and services for whom the addressable market appears to have expanded. Notable examples are areas of the Connected Consumer and Automation. Recent proposals for a Green Recovery from Europe represent part of a broader drive for stimulus to be invested toward a more sustainable economy, adding support to the shift towards Clean Tech. The long term secular drivers behind Ageing and Lifestyle and Transitioning Societies also remain intact.

Portfolio positioning and performance

The strategy outperformed the broader equity market (MSCI All Country World) in June. Outperformance was led by the 'Connected Consumer' theme, with 'Automation' and 'Transitioning Societies' also contributing positively to outperformance. Holdings in Paypal, Tencent and Amazon all outperformed. Paypal and Amazon have been clear beneficiaries of the COVID related shift to e-commerce. Tencent outperformed due to the disclosure of strong advertising revenue at its quarterly earnings, the success of its latest game 'Brawl Stars' in China, and the announcement of a new mobile game[2]. In 'Automation', semi-conductor stocks TSMC and Qualcomm performed well due to the stronger outlook for some end markets, notably 5G investment. Industrial software provider Autodesk also performed well as a result of its resilient recurring revenue based business model. In 'Transitioning Societies', AIA Group contributed positively as it recovered earlier weakness – this had been related to broad emerging market concerns which did not reflect the quality and resilience of AIA's business model.

During June, we initiated positions in Teledoc and Envestnet in 'Ageing and Lifestyle' and added to our existing holding in TE Connectivity in 'Clean Tech'. Teladoc is a global market leader in virtual healthcare, offering on demand or scheduled visits with doctors and specialist healthcare practitioners, a service which is enjoying rapid adoption due to both near term COVID disruption and longer term secular trends. Envestnet offers wealth management and data analytics software as a service to financial services professionals in the US. Its subscription services support smaller investment managers benefitting from the growing importance of financial planning given longer life expectancy. TE Connectivity provides power connectivity technologies to a number of end markets including automotive where its products enable the efficient electrification of passenger vehicles. The stock has underperformed due to broader auto market concerns. We remain confident in the transition to electric vehicles, and have therefore added to the stock on temporary weakness. We exited our 'Transitioning Societies' holding in New Oriental, due to an increasingly competitive environment in the online provision of K-12[3] education in China. concerns for the deteriorating operating environment and likely earnings pressure. We also took profits in a number of outperforming holdings, by trimming positions.

Outlook

Macroeconomic conditions in major markets appear to be improving and monetary and fiscal support remain in place. In the absence of a second wave, this allows investors to focus on a recovery through next year. In the US, the Presidential election is becoming an area of increased focus and will continue to influence sentiment in the coming months.

It is likely that a number of the themes of the Global Thematics will be the long term beneficiaries of a shift in behaviour which was already apparent but which has accelerated as a result of the current crisis. It is clear that a healthy balance sheet and strong cashflow generation are now more critical than ever. We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are best placed to weather the current storm. The portfolio is therefore well positioned to withstand the ongoing disruption and we view the current market volatility as an opportunity to add to some of those businesses at attractive valuations.

[2] Tencent Annual Conference - 27/06/20
[3] K-12 (spoken as "k to 12") from kindergarten to 12th grade

No assurance can be given that the Global Thematics Strategy will be successful. Investors can lose some or all of their capital invested. The Global Thematics strategy is subject to risks including Equity; Emerging markets; Currency; Global investments; Investments in small and/or micro capitalisation universe; ESG.