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January 2021
Monthly Perspectives
Framlington Equities

Global Thematics strategy
Our 'CleanTech' theme should benefit from a global positive sentiment in 2021

- Equity markets reflected concerns of further disruption due to new COVID variants
- We observed a pause amongst a number of 'Connected Consumer' outperformers
- We made a number of adjustments, adding particularly into the 'CleanTech' theme

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What's happening?

Global equity markets rose at the start of the year but ended January down as the market reflected concerns that the emergence of new COVID variants would lead to a further extension of lockdowns and disruption. Nevertheless, progress with the vaccine rollout continues, albeit at varying speeds. This does provide some optimism for the prospect of normalisation later in the year.

Despite the continued spread of COVID-19 in the US, macroeconomic data has remained positive, with manufacturing and employment data both indicating continued growth. COVID-19 restrictions have weighed more heavily on economic activity in Europe. In Asia ex-Japan, where the virus has largely been contained, growth remains evident – notably in China where manufacturing has recovered well.

We remain convinced that the disruption caused by COVID 19 has accelerated existing secular trends, improving the long-term outlook for a number of themes within the Global Thematics, with the drivers of all five themes remaining intact.

Portfolio positioning and performance

The strategy marginally underperformed the broader equity market (MSCI All Country World) in January as 'Connected Consumer' lagged the other four themes.

'Ageing & Lifestyle' benefitted from strength in Teledoc and Quidel, both of which have benefitted from tailwinds associated with COVID but which also have longer term support from the shift toward decentralised healthcare provision – Teledoc through digitalisation and Quidel through diagnostics at the point of care or at home.

In 'Automation', holdings in TSMC and Teradyne outperformed. TSMC is a global leader in semi-conductor manufacture, an industry which currently enjoys strong fundamentals. Teradyne is a leading provider of testing equipment for the electronics and communications industries. The company is exposed to areas with attractive fundamentals – including semi-conductors and Industrial Automation – and is currently benefitting from strength resulting from 5G and automation.

In 'Connected Consumer', Tencent, Alphabet and Apple all performed well but this was offset by a pause amongst a number of outperformers within the theme.

In 'Clean Tech', outperformance was led by Nextera and Darling ingredients. Nextera is a US utility and one of the largest producer of wind and solar energy globally. It has benefited from positive sentiment towards the Energy Transition in the US, and from strong execution on its new project pipeline. Darling Ingredients collects and recycles animal processing waste and used cooking oil to produce a range of products including biodiesel and fertiliser. It has responded well to optimism around clean fuel standards.

During January, we made a number of adjustments to the strategy. In 'Automation', we initiated a position in Siemens. Siemens contributes to both the Energy Transition and ongoing Industrial Automation. Having reduced exposure to non-core activities, and with a focus on improving operations, it benefits increasingly from structural tailwinds as well as self-help measures. In 'Clean Tech', we acquired Ceres Power Holdings and Befesa. Ceres Power is a fuel cell manufacturer with a scalable steel oxide technology which is highly efficient and responsive, compatible with hydrogen and used for numerous static solutions as well as in mobility. We initiated the position in order to gain exposure to his part of the Energy Transition. Befesa collects and recycles hazardous residues from the Steel and Aluminium industry into marketable products which replace the consumption of natural resources. As such it benefits from the drive to improve sustainability within the industry. We funded these additions by trimming a number of outperforming holdings and by exiting Honeywell International following a period of outperformance.

Outlook

Macroeconomic conditions are mixed as a result of the varying degrees of success in managing COVID-19 and differing levels of policy support during disruption. In Asia, normalisation continues and domestic conditions appear healthy, despite the ongoing risk to many export markets. In Europe, COVID-19 restrictions are weighing on macro conditions. The rollout of the vaccine offers some visibility of a path to re-opening the economy and thus provides reason for optimism. Policy support remains strong and fiscal stimulus is expected to be associated with areas of the Global Thematics, including Digitalisation and the Energy Transition. Macro conditions in the US remain stronger, and policy support will fall increasingly to the Fed, resulting in low rates for an extended period. This should be positive for equities with a secular growth opportunity.

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 well placed to navigate the current disruption. The strategy is therefore well positioned to benefit from the secular shifts we are witnessing globally.

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.