

Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

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 Investnest

Amanda O’Toole

Portfolio Manager, Global Thematics Strategy

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 April¹. 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 game². 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-12³ 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.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 7 Newgate Street, London EC1A 7NX. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.