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Top Trends and High Conviction themes for 04 2023

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I'm here with Kevin Lyne-Smith to talk about our high conviction themes and top trends for the fourth quarter and Kevin, when I think about our top trends, it strikes me that they're not only topical but also very interrelated.

So for example, you need technological innovation to address climate change, but also the net zero transition is actually one of those areas that we're really positive on in Asia. But I wanted to start by tackling the trend that is kind of looking more at the cyclical outlook here. Clearly, peak rates are positive for the bond markets.

So we continue to invest in quality credits and also in the top end of the capital structure of financials. But when I think about growth, it strikes me that we're in a multi-speed world with the US leading. So how can investors invest in this US exceptionalism?

Well, we have three really interesting North American investment themes. We've just recently introduced a new theme, the re-industrialisation of North America, and this theme basically targets the wave of new investments coming into North America to boost manufacturing capacity.

This re-industrialisation has been boosted by the inflation reduction and CHIPS acts, and by companies' drive to re-shore production and intellectual property. It's a way of de-risking their supply chains. The semiconductor, alternative energy, infrastructure and auto industries have all been visible beneficiaries of this, but other businesses now stand to thrive also.

Our second new US theme 'Innovation and opportunities in the healthcare sector' is really, as everyone knows, the US is the biggest by far into the healthcare markets in terms of both revenue and in terms of profitability.

It is also an important source of innovative new science, new products and also, bearing in mind as well, the scientists file a huge number of patents each year on new products. The healthcare sector has been trading flat year to date but is set for a more supportive pricing environment, new product launches and also the new products such as gene therapy and also weight loss therapies are proving very popular.

There has also been several companies have suffered a lot of patent loss in terms of sales impact. They have now been restructured and returning to growth mode now. Our third theme, American resilience continues to capture the opportunities resulting from the resilient labour market and the strength of US consumer demand. Despite the high interest payments, energy prices and high food prices we have found the US consumer, while they may be trading down at some lower price points, overall spending continues to be robust, but there's been a subtle shift from goods to services.

So we've seen the travel and hospitality sectors particularly benefit, but now we start to see that demand broaden out to other sectors. The other aspect of the multi-speed world, of course, is that China's recovery has disappointed.

So we need to cast a wider net in Asia and we see better opportunities in India and Indonesia or ASEAN more in general, which we group under Asia's Rising Tigers. But there are other areas of resilience, including in China, in consumer services.

That's right Willem, this year, Asia GDP growth is expected to be double the global growth rate. And this brings affluence and spending. Asia is now a larger market than the US and Europe for many consumer goods and autos, and also luxury goods.

Our Asia consumer spending boom theme, identifies those companies that are well positioned to directly benefit from the growing wealth, demographics and consumption patterns in areas such as airlines, hotels, gaming, and also in the Internet and other service sectors. We expect the region's companies to be the biggest beneficiaries, as more consumers prefer simpler, inter-regional or local flights, and also in terms of spending more on local brands, products and services.

China's Internet leaders are another sector we like, but when we look at the digital transformation Kevin more globally, it must be AI and automation that captures the attention?

Yes Willem, robots are already well embedded in many of our manufacturing processes. In fact, IFR estimates that nearly 4 million industrial robots will be installed by the end of this year. If we look past the headlines, there are many practical examples of how AI and automation are already having an impact.

For example, if we look at logistic companies, they're using things like blockchain to track shipping container movements and they've been able to digitalise all their paperwork or bill of lading, as it's called. So ports like LA's Long Beach have fully automated their shipping container handling process at one of their terminals.

There's also more complex applications that can be found in places like healthcare. What we've seen there is we've used AI together with scanning technologies to detect conditions as diverse as cancer and Parkinson's disease. I think this is going to be really important going forward as we see doctor shortages starting to bite, populations are expanding and people need access to healthcare. So these productive technologies are going to be very important going forward for improving patient outcomes.

Thanks Kevin, and to complete the overview of our themes, I would like to highlight those themes investing in a more sustainable future. It remains the case that the companies that have strong governance and think deeply about how they need to adapt to social and environmental changes tend to be quality style companies, which is a style that we currently like in portfolios. The US, Europe and Asia see the net zero transition as necessary for climate and energy security purposes, but also as a major growth sector.

So there is a huge amount of infrastructure investment in this area and the policy focus will again increase as we approach the COP 28 meeting. Now, given how established those trends that we've talked about are and how interconnected well diversified portfolios should benefit from exposure to those trends and the broad range of the themes highlights that we are clearly including some less usual suspects.