SARASIN THEMATIC GLOBAL EQUITY

SARASIN & PARTNERS

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ECONOMIC REVIEW

Global equities posted a mixed performance during the first quarter of the year. The US stock market experienced its worst quarterly performance since the pandemic. Investor sentiment was negatively affected by US tariffs and concerns regarding the economy's growth prospects.

By contrast, European stock markets delivered strong returns. They produced their largest quarterly outperformance relative to the S&P 500 for a decade. This was largely driven by the prospect of increased government spending in the Eurozone.

FUND REVIEW

Lift manufacturer Otis contributed to the fund's performance. Its shares made gains as investors took the view that demand from China is likely to increase after falling over recent months.

CME Group, which is the largest derivatives marketplace in the world, also boosted the fund's return. It reported strong results given significant financial market volatility during the quarter.

Conversely, Google owner Alphabet detracted from the fund's performance. Having rallied in 2024, investors took profit during the quarter as the company offered little clarity on how its continued investment in artificial intelligence (AI) infrastructure could support future returns.

Water management company Tetra Tech's share price underperformed primarily due to its revised outlook amid a pause in federal government work (in particular USAID). However, the company remains well placed to capitalise on the long-term undersupply of water infrastructure.

FUND TRANSACTIONS

We initiated a new position in Fortinet. The firm designs and manufactures firewalls and is well placed to benefit from consolidation in the cyber security market.

We started a position in quick-service restaurant company Chipotle, which sits within our Evolving Consumption theme under the sub-theme of Experience Economy. We believe that the company has an upbeat outlook, with restaurant expenditure as a proportion of total US consumer spending on food having grown consistently over time.

We exited TE Connectivity during the quarter. Although the electrical sensor and connector maker's exposure to the automotive industry has allowed it to benefit from several growth opportunities, we felt its shares had become overvalued following their recent rise.

We reduced the fund's healthcare exposure by exiting our position in medical technology firm Siemens Healthineers. Although it remains the market leader in imaging and diagnostics machines, the consolidation of hospitals and tightening of investment suggest it no longer represents a worthwhile opportunity.

OUTLOOK

Global corporate earnings growth appears to be slowing. In Q1, equity markets in Europe and China benefited from the uncertainty caused by Donald Trump's trade policies, with investors looking to diversify at the expense of US markets.

Core US inflation remains sticky, and with business and consumer confidence weakening, Make America Great Again policies could lead the US into a recession later in 2025. Global trade relations and regulations are likely to come under greater scrutiny.

We are keeping a close eye on a White House that is acting more aggressively and decisively than during Trump's first term. We will continue to focus on high-quality companies with sensible balance sheets that are regular dividend payers, which should give some downside protection in volatile markets.

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