

GLOBAL EQUITIES 2023 OUTLOOK

FALLEN LEADERS POSITIONED TO RISE

**ANU NARULA**

Head of Global Equities

**PAUL MIDDLETON**Global Equities Portfolio
Manager

December 2022

**WE BELIEVE
FALLEN LEADERS
REPRESENT A
PROMISING
GROWTH
OPPORTUNITY
FOR 2023**

While unity of thought can prove a rare thing in the investment world, global equity investors are likely to concur that 2022 has been a tough year. The industry is no stranger to challenging times, but unlike other tough periods, such as 2018 (beginning of quantitative tightening), 2020 (onset of Covid-19) and the bear market of 2008/9 (Global Financial Crisis), the US Federal Reserve began raising rates this year despite economic growth slowing – suggesting today's macro backdrop is more reflective of 1970s stagflation than anything we saw through the nineties and noughties.

But all market downturns eventually run their course. In light of this, we have been considering what we want to own on the other side of the cycle. Challenged conditions have led to casualties among global equities. With the sell-off being driven by an array of macro and geopolitical

factors that have impacted good and bad businesses alike, an area we have started to allocate capital to is 'fallen leader' stocks.

Fallen leaders represent quality companies with strong growth potential (from thematic tailwinds) that have suffered significant valuation erosion as the market has indiscriminately sold off this year.

We believe fallen leaders represent a promising growth opportunity for 2023. As thematic investors, we are seeing interesting opportunities for capturing the potential of these stocks across multiple themes and sectors, but during the initial recovery move on the other side of this drawdown, we expect those fallen leaders with some cyclicity to do better.

FOR PROFESSIONAL INVESTORS ONLY



WHY WE INVEST IN THEMES

The cornerstone of our global equity approach is multi-thematic investing. We've identified nine global themes that position companies to take advantage of transformative, long-term trends. We invest across these themes to provide diversification at a portfolio level and to access multiple growth levers at any one time.

We believe themes elongate the lifecycle of a stock. Themes provide us with a way of filtering the universe to see where there is penetration of product and where a company can grow, regardless of where we are in the cycle.

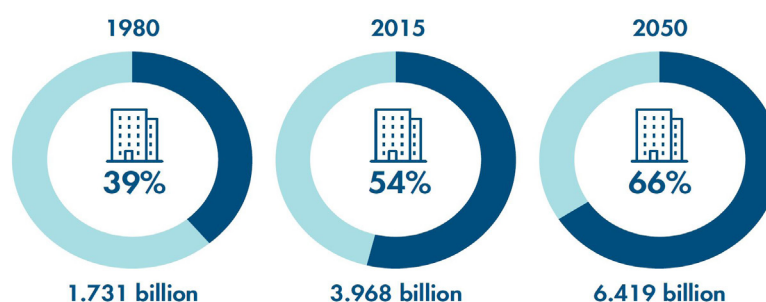
THEMATICALLY TARGETING FALLEN LEADER STOCKS

Real estate & infrastructure

Since 1950, the world's urban population has risen almost six-fold, from 751 million to 4.2 billion in 2018. By 2050, the global population is projected to increase to around 9.8 billion and it is estimated that more than twice as many people in the world will be living in urban (6.7 billion) than in rural settings (3.1 billion)¹.

This investment gap is being partially addressed with fiscal policy. For example, the US is spending USD500 billion on its inflation reduction act, which covers specific areas of clean energy and healthcare, and USD1.2 trillion on the Infrastructure Investment and Jobs Act, which covers areas such as roads, bridges and power infrastructure.

SHARE OF THE URBAN POPULATION WORLDWIDE



Source/ United Nations

Given the scale of urbanisation, the world is facing a USD15 trillion gap between projected investment and the amount needed to provide adequate global infrastructure by 2040², providing important tailwinds for companies operating in this area.

2022's fallen leader names within the theme have largely occurred as a result of cyclical. There's not been a singular headline issue that's damaged performance, rather some areas within infrastructure are innately cyclical, so they have lagged during the tail end of the cycle but present a rebound opportunity on the other side of the downturn.

WHY CYCLICALITY MATTERS

Coming out of an economic slowdown, it is typical for the market to reward the most cyclical names first – these are the names that are expected to see the most significant improvement as the economy strengthens and will benefit most from measures taken to stimulate economic growth, such as lowering interest rates. These areas of the market tend to anticipate the improvement ahead of data released.

Automation

Up to 50% of work performed today has the potential to be automated using existing technology³, while artificial intelligence (AI) developments are taking automated technology from niche to broad application.

Businesses across the board are looking to automate their processes, which means the potential winners of this theme range from IT service companies to technological enablers to generalist names. We're seeing strong investment potential across the global universe.

Automation names prominently featured among the 'Covid winners' of 2020 and 2021, as the world raced to digitalise everything in a bid to keep the economy moving through the repeat lockdowns. After the rush, there has been a normalisation. At the same time, valuations of some automation names became excessive (trading well above levels seen prior to Covid). Supply chain constraints – another pandemic-related factor – have also contributed to poor performance in the theme this year, with companies unable to meet demand. All of these factors have combined to set the stage for potential investment opportunities in fallen leaders.

Explosion of data

The ongoing shift towards a digital economy and changing preferences in the way individuals access information fuels this theme. The volume of data and information created, captured, copied and consumed worldwide is set to grow at a compounded annual growth rate of 26% between 2021-2024. Mobile data has been growing at 30% per annum, with developing markets a rapidly growing consumer. For example, China is set to add around 170 million smartphone subscriptions between 2019 and 2025, further driving wireless data traffic growth⁴.

Two factors have contributed to fallen leaders in the theme through 2022. One of the main industries within the theme is semiconductors, which like some automation names, has been severely hampered by supply-chain constraints.

This has triggered both inventory clear-out and falling demand, causing valuations to weaken from their pandemic highs. We believe there is a long-term content growth story in semiconductors benefitting from this explosion of data theme, and there are attractive valuations in the space.



CLOSING NOTES

We believe the multiple-compression stage of the cycle is over; we are starting to shift our positioning to prepare for the start of a new cycle.

Timing the cycle is an imprecise art, and the risk remains that the US Federal Reserve goes too far with its rate hikes, but even if we are early with our positioning, the names we are looking to add to our portfolios trade at attractive valuations and are robust investments in their own right, with structural, thematic drivers.

As we move into 2023, we expect to increase our weighting to European and UK names, trimming some US exposure. Names within our health & wellbeing and millennial consumer themes that did well during 2022 will be trimmed to allocate capital to fallen leader opportunities.



IMPORTANT INFORMATION

This marketing material is for your exclusive use only and it is not intended for any person who is a citizen or resident of any jurisdiction where the publication, distribution or use of the information contained herein would be subject to any restrictions. It may not be copied or transferred.

This material is provided for information purposes only and shall not be construed as an offer or a recommendation to subscribe, retain or dispose of fund units or shares, investment products or strategies. Potential investors are recommended to seek prior professional financial, legal and tax advice. The sources of the information contained within are deemed reliable. However, the accuracy or completeness of the information cannot be guaranteed and some figures may only be estimates. In addition, any opinions expressed are subject to change without notice.

All investment involves risks, returns may decrease or increase because of currency fluctuations and investors may lose the amount of their original investment. Past performance is not indicative or a guarantee of future returns.

Issued by: in the UK: Mirabaud Asset Management Limited which is authorised and regulated by the Financial Conduct Authority. D14 In Switzerland: Mirabaud Asset Management (Suisse) SA, 29, boulevard Georges-Favon, 1204 Geneva. In France: Mirabaud Asset Management (France) SAS, 13, avenue Hoche, 75008 Paris. In Luxembourg, Italy and Spain: Mirabaud Asset Management (Europe) SA, 25 avenue de la Liberté, L-1931 Luxembourg.

FOR PROFESSIONAL INVESTORS ONLY