

Investment Themes September 2022 update

Highlights



Summary

- The summer months have seen stock markets recover nearly half of the ground lost since the start of 2022.
- However, economic recession worries continue to loom large as high inflation rates hold back corporate and consumer spending, particularly in Europe where sky-high energy costs weigh heavily.
- Financial conditions have improved, and investors are already very pessimistic, usually a good contrarian buying signal. The peak in US inflation is likely already past, with many forward indicators pointing to lower inflation over the months ahead.
- The direction and speed of the path of US inflation remains a key. The situation in the eurozone could deteriorate in the short-term.

THEME 1: Responding to today's energy crisis

Europe is today engulfed by an energy crisis: natural gas and electricity prices have reached new all-time highs, largely driven by the sharp decline in Russian natural gas exports. This situation should spur a renewed focus on renewable energy generation and storage, as well as investment in improved energy efficiency and conservation. The energy crisis places an even greater emphasis on making goods and services more efficient and durable.

OUR INVESTMENT RECOMMENDATIONS

A cross-asset theme : equities, bonds, infrastructure, real estate and commodities.

1. Energy efficiency: it is far easier to save energy rather than generate it, via energy conservation solutions including insulation, smart glass, geothermal heat pumps, automatic light sensors and power monitoring systems.
2. Renewable/clean energy: given the need to generate more electricity via non-fossil fuel sources to ensure greater energy security and self-sufficiency.
3. Smart grid infrastructure and renewable energy storage: including battery metals, which are necessary raw materials for these storage systems.
4. Circular economy leaders: including a focus on better and more modular design, making products more easily repairable, longer-lasting and requiring fewer raw materials to produce, with a smaller carbon footprint.

THEME 2: Securing the bare necessities of life

The COVID-19 pandemic and conflict in Ukraine have reinforced and accelerated the megatrends in security. Widespread concerns over shortages and rationing are forcing governments (especially in Europe) to implement massive investments to support the energy transition over a multi-year horizon. The Russia/Ukraine conflict has also highlighted the issues surrounding food security, while the increasing use of digital technologies stresses the importance of technology security.

OUR INVESTMENT RECOMMENDATIONS

Investable sub-themes of this new strategic assets mega theme include:

1. Energy security: energy efficiency, renewable/biomass energy generation, battery metals & energy storage, hydrogen power, oil & gas infrastructure, oil & gas exploration & production, uranium/nuclear power.
2. Water and commodities: companies that provide technologies for water efficiency, recycling and desalination.
3. Food security and alternative food sources: solutions to combat malnutrition, via more effective water irrigation, fertilisers and technologies to boost crop yields, as well as companies which combat food waste. Alternatives to meat and vegan food.
4. Technology security: semiconductors, cybersecurity, satellite technology and networks.

THEME 3: Hunting for quality income

Both short-and long-term interest rates have risen sharply in the majority of countries since the beginning of the year. Consequently, long-term investors can choose from a much more varied range of attractive income-bearing assets than in 2021. We see long-term value at moderate risk for income-seeking investors in three specific areas despite global economic growth slowing: i) US investment-grade corporate bonds, ii) global high dividend yielding stocks and iii) public and private infrastructure funds.

OUR INVESTMENT RECOMMENDATIONS

This investment theme includes potential exposure to corporate bonds, dividend-yielding stocks as well as public and private infrastructure funds. We favour :

1. US investment-grade corporate bonds, funds and ETFs.
2. Global quality dividend stocks, funds and ETFs.
3. Share buyback ETFs.
4. Private and publicly-listed infrastructure funds and ETFs.

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