This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – Q1 2024

CT (Lux) American Select

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Fund Manager
Since: 14/07/2021

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID for the Fund objective.

Fund Benchmark: S&P 500 Index

Inception Date: 28/07/2000

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- The S&P 500 index returned 10.6% in dollar terms.
- Gross of fees, the fund returned 11.0%, outperforming its benchmark by 37 basis points (bps).
- Relative performance was boosted by the underweight in Apple, the lack of exposure to Tesla and the overweight in Lam Research.
- The underweight in Nvidia detracted.
- New holdings during the quarter included Meta, Republic Services, ExxonMobil, Natera and Zoetis.

Market Background

After posting stellar returns in the final quarter of 2023, US equities delivered further robust gains in the first quarter (Q1) of 2024. The S&P 500 index ended the period up 10.6%, registering a series of new highs along the way.

The asset class got off to a muted start in early January as market participants moderated their expectations for both the timing and extent of the Federal Reserve's (Fed's) 2024 interest-rate cuts. But the rally gathered momentum over the quarter as economic data remained resilient and concerns about inflation eased. This raised hopes for a "soft landing" for the US economy. Sentiment was additionally bolstered by a positive quarterly earnings season. Notably, stellar results from AI-chip producer Nvidia boosted the market and helped sustain enthusiasm for AI-related stocks, with the company passing the $2 trillion valuation milestone in early March. Worries about narrow market leadership by large-cap tech stocks also eased over the period as, given optimism about the economic outlook, the rally broadened to include cyclical sectors.

Markets ended 2023 expecting that the Fed's long-awaited pivot from raising rates to cutting them was imminent, perhaps as early as March. However, these hopes were dashed early in the quarter as the minutes of the Fed's December 2023 meeting (released in early January) revealed uncertainty among policymakers as to when, or even if, the three rate cuts previously set out in the "dot plot" for 2024 might occur. Fed Chairman Jerome Powell also stated that it was unlikely policymakers would have sufficient confidence that inflation was trending towards the 2% target by March. Nevertheless, while policymakers held interest rates at a 22-year high of 5.25%–5.5% when they met in January and March, as expected, they also retained the guidance for three 25-bp rate cuts in 2024. Moreover, while Powell did not set a timeline on the expected rate cuts, he did indicate that the "policy rate is likely at its peak for this type of cycle". Despite signalling three rate cuts as likely in 2024, Fed officials also raised the outlook for US growth and inflation, while lowering unemployment expectations.

US economic data remained resilient for the most part. According to the Bureau of Economic Analysis, annualised GDP growth for Q4 2023 was 3.4%, while retail sales for February and March both came in above consensus expectations. In addition, a widely watched gauge of business activity showed that manufacturing activity accelerated sharpy in March, although, on the other side, growth in services activity softened to the weakest pace in three months. Signs of cooling continued to appear in the labour market: while non-farm payrolls were generally robust, the unemployment rate ticked up and average hourly earnings growth softened. Consumer price inflation came in above expectations in February, as did producer price inflation, causing some commentators to question whether the Fed might delay rate cuts longer than expected.

Amid the broad-based rally, 10 of the 11 sectors in the S&P 500 index registered positive returns on the quarter. Communication services posted the biggest gains, followed by the energy sector, which was boosted by rising oil prices and strong earnings. Technology and financials also outperformed the broad index. At the other end, the interest-rate sensitive real estate sector was the only area to end the quarter in the red, hurt by uncertainty about the outlook for rate cuts. Utilities and consumer discretionary also lagged materially, albeit while posting robust positive returns.

*The Fund promotes environmental or social characteristics and is categorised as Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.

Performance

12M Rolling Period Return in (USD) - as at 31 March 2024

Past performance does not predict future returns and future returns are not guaranteed.

	03/23-03/24	03/22-03/23	03/21-03/22	03/20-03/21	03/19-03/20	03/18-03/19	03/17-03/18	03/16-03/17	03/15-03/16	03/14-03/15
Fund (Gross) %	27.51	-10.82	10.60	60.69	-3.18	8.49	17.12	21.16	-0.46	8.41
Index (Gross) %	29.88	-7.73	15.65	56.35	-6.98	9.50	13.99	17.17	1.78	12.73

Source: Columbia Threadneedle Investments as at 31/03/2024. Gross of fee fund returns are time-weighted rates of return net of commissions transactions costs and non-reclaimable taxes on dividends interest and capital gains using pricing of investments which is either the last traded price or a bid basis. Cash flows are factored as of the end of the day and exclude entry and exit charges. Index returns include capital gains and assume reinvestment of any income. The index does not include fees or charges and you cannot invest directly in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

In gross terms, the fund returned 11.0% over the quarter, outperforming its benchmark by 37 bps. Favourable stock selection drove the relative outperformance, most notably in technology. Our choices in consumer discretionary and industrials also added value, while selections in financials, energy, healthcare and consumer staples detracted. In aggregate, sector allocation was negative for relative returns, with the overweight in consumer staples and the underweight in technology among the unhelpful positions. More positively, the underweight in consumer discretionary and zero weight in utilities added value. The cash allocation was a drag on returns in a strong quarter for US equities.

At the stock level, the underweight stance in Apple was among the key contributors. Apple's shares slipped on concerns about falling iPhone sales in China. In March, the firm was also subject to an EU fine related to antitrust violations, with Apple accused of stopping music streamers from informing customers about cheaper subscriptions available outside the Apple App Store.

The zero weight in Tesla was beneficial as well. Tesla's shares initially fell in January after the firm cut prices on its Model Y cars in Europe. In addition, while the company's Q4 financial results were largely in line with lowered investor expectations, markets were disappointed by Tesla's forward guidance: management warned of slowing sales growth amid softening demand for electric vehicles, increased competition and ongoing high interest rates.

The overweight position in chipmaker Lam Research was also a top contributor. Lam's shares rose sharply ahead of the company's quarterly earnings release in late January and continued to rally after the results were announced. Lam reported estimate-topping earnings and revenue amid robust demand for the firm's chipmaking equipment and issued stronger-than-expected guidance for the full year. Lam's stock continued to be buoyed by enthusiasm for AI-related stocks during the quarter, receiving a further boost as Nvidia reported stellar financial results in February.

Less positively, the underweight in chipmaker Nvidia detracted. The company is benefitting from optimism around the proliferation of AI, and Nvidia posted above-expectation Q4 2023 revenues and earnings during the period, giving further impetus to the broad-based rally. Management also issued bullish commentary regarding recently announced improved offerings that are expected to drive ongoing growth.

Activity

In a busy period for activity, new positions included Meta, Republic Services, ExxonMobil, Natera and Zoetis.

Meta is a social media technology company and the premier social advertising platform; a presence on Meta is becoming a strategic component of many firms' advertising campaigns. Across its family of apps, Meta has a userbase of around two billion daily active users and around three billion monthly active users, and this is still growing quickly, especially on mobile devices. The company's massive reach and engagement continue to drive network effects, while its targeting abilities provide significant value to advertisers, with popular apps such as Instagram continuing to provide a major source of growth. In addition, Meta boasts high functional capabilities across analytics and advertising formats and consistently demonstrates a high return on investment. The company has established a strong mobile capability, and we expect further monetisation opportunities in 2024, including advertising on Facebook and Instagram "Reels". The company's growth profile and recent cost discipline should also be supportive for earnings.

Republic Services is the second-largest waste service provider in the US, generating revenue from collection, landfills, environmental solutions, waste transfer and recycling. Given its size, the company has a broad asset network that is hard for its competitors to replicate. The firm is also differentiated from its peers by its higher-than-average capital return, stable earnings stream and the long lifespan of its landfill base. In addition, Republic Services benefits from steady volume and improved pricing as open market and index-based rates are stable across collection and disposal. Moreover, consistent cost reductions and multi-year gains from the successful integration of US Ecology has the potential to support margin improvement over the coming years. The company also trades at an undemanding valuation.

ExxonMobil is one the world's largest integrated oil and gas companies and has a better underlying portfolio of investment opportunities than its peers. The company is also in the process of implementing a range of cost efficiencies. As well as these cost-saving measures, potential growth drivers include the sale of costly carbon-intensive assets and a focus on areas with room for increased profits, such as the Permian Basin oilfield and liquified natural gas. We also believe ExxonMobil's recent acquisition of Pioneer makes strategic sense. In addition, ExxonMobil is in a strong position to repurchase shares and further pay down its debt.

Natera is a genetic testing company with strong franchises in screening for prenatal, transplant, genetic disease carrier and molecular residual disease (MRD) applications. Natera's testing technology is differentiated from that of its competitors by its accuracy and unique capabilities, which should help the company to capture market share and potentially justify a higher average selling price for its services. The market for MRD screening is huge and has arisen solely due to Natera's unique testing capability, where the firm has over four years' lead on the competition. First mover advantage is important in this market; patients tested by Natera may be retested five or more years later, at which point oncologists are likely to retest with the same provider. In addition, given multiple potentially important catalysts in 2024, Natera's cashflow position may turn positive during the year.

As the leading global producer of medicine for pets and livestock, we believe Zoetis's scale and market position mean it is well placed for above-market growth within the animal healthcare space – an industry with sustainable growth drivers and limited generic risk. Zoetis benefits from a diversified portfolio, a strong new product cycle and lack of exposure to the drug pricing concerns associated with human pharmaceuticals. We therefore view Zoetis as a core long-term holding. Our investment thesis is supported by the company's innovative monoclonal antibodies for both canine and feline chronic osteoarthritic pain. The company also has a strong balance sheet, which should allow for acquisitions, dividend growth and share buybacks.

We also opened positions in Albemarle (lithium production) and BILL (web-based business automation services). Notable top-ups included Microsoft, Apple and Nvidia.

Sales included GlobalFoundries, Electronic Arts, Accenture, Alnylam Pharmaceuticals, Nike, RB Global, Zebra Technologies and Radius Recycling (formerly Schnitzer Steel). In addition, we reduced the holdings in Lam Research, NOV and CrowdStrike.

Outlook

We remain constructive on the outlook for US equities in 2024 as inflation has fallen to a much lower rate, while the labour market and consumer spending continue to hold up relatively well, increasing the likelihood of a soft landing for the economy. Financial conditions have tightened considerably in the last 24 months due to the Fed's aggressive two-pronged monetary regime, characterised by increasing interest rates and unwinding its vast accumulated balance sheet. Although the Fed has not declared victory over inflation, the fall in headline consumer prices and recent signs of a loosening in the labour market have provided some reassurance that monetary tightening is having an effect. This has allowed the Fed to pause its interest-rate hiking cycle and pencil in an easing in monetary policy in 2024 – although the risk remains that the terminal federal funds rate could stay elevated for longer than expected. Furthermore, persistent, entrenched inflation still poses a risk, and there could be further downside should the economy enter a mild recession.

2023 was a strong year for financial markets, with inflation more than halving and growth remaining resilient, all while avoiding a much-feared economic recession. While there is still risk of a recession in 2024, concerns of a severe downturn have tempered. Inflation in 2024 is expected to continue its downtrend on fading energy pressure and softening labour markets as monetary tightening starts weighing on the growth outlook. Earnings and top-line growth estimates for Q1 of 2024 have shown some level of deceleration, with estimates coming down (though remaining positive) in aggregate since the end of 2023. This reflects slowing growth in the US economy and some easing economic tailwinds. Despite lingering concerns of a possible economic slowdown or recession, analysts have not lowered estimates below historic averages. However, negative earnings forecasts issued by companies are running above historic averages for Q1 of 2024.

Looking ahead to earnings over the rest of the year, the picture is becoming incrementally more positive; technology, communication services and healthcare companies are expected to deliver the strongest year-over-year earnings growth. Energy and materials are the only sectors forecast to see earnings growth decline in 2024 as they continue to be pressured by lower energy prices and weakness in the metals and mining, chemicals, and containers and packaging subsectors. Margins have started to recover as companies are seeing labour pressures and material inflation ease. On a year-over-year basis, the market is looking for a strong increase in earnings growth for 2024 as stocks face easier comparisons with 2023 and as the easing inflation picture is supported by a robust labour market and consumer spending.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The Fund has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the Fund's value.

The Fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the Fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the Fund.

The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the Fund are set out in the "Risk Factors" section of the prospectus.

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