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

Benedikt Blomberg
Fund Manager
Since: 01/02/2024

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: 31/05/1993

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 11.3%, outperforming its benchmark by 66 basis points (bps).
- Walt Disney contributed, as did the underweight stance in Apple and zero weight in Tesla. The underweight in Meta detracted.
- New positions included Meta, ExxonMobil and TJX, among others.

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 manufacturing activity accelerated sharply 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) %	26.82	-8.05	12.12	62.34	-4.15	8.43	18.22	17.62	-0.16	12.66
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 11.3% in dollar terms, outperforming the S&P 500 by 66 bps.

The relative outperformance was driven by favourable security selection, especially in technology and consumer discretionary; however, choices in financials, communication services and energy were unhelpful. Sector allocation detracted in aggregate: while the zero weight in utilities and underweight in consumer discretionary added value, this was outweighed by unfavourable positioning elsewhere, including the overweight in real estate. The fund's cash holding was also a hindrance in a strong period for equities.

At the level of individual stocks, Walt Disney was among the top contributors. The stock outperformed on the back of well-received quarterly results, released in February, which included estimate-beating earnings. While revenue was flat quarter on quarter, losses in the firm's streaming business fell considerably due to price rises – even as subscriber numbers dropped. Management raised its full-year guidance for 2024 and said the firm was on track to deliver on its cost-cutting goals by the end of the year. Investors also welcomed the announcement of a dividend – the firm's first in over four years – and a $3 billion share buyback scheme. In addition, prior to the earnings release, Disney-owned ESPN teamed up with Fox and Warner Bros. Discovery to announce plans to launch a combined, consolidated sports streaming service in the autumn, which will include games currently offered by 15 different television networks. Shares continued to rise over March on analyst upgrades, helping the stock towards its strongest Q1 in over 20 years.

The underweight stance in Apple and zero weight in Tesla were also beneficial.

Tesla's shares initially fell in January after the company 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 the firm's guidance: management warned of slowing sales growth amid softening demand for electric vehicles, increased competition and ongoing high interest rates.

Apple's shares slipped on concerns about falling iPhone sales in China. In March, the firm was 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.

On the other side, the initial lack of exposure to Meta weighed on relative returns. The Facebook and Instagram owner's shares soared to a record high after reporting strong Q4 results amid continuing AI momentum. Revenue came in ahead of analysts' estimates, and management announced the company's first dividend. We initiated a position during February and ended the month with an overweight.

Activity

As well as Meta, we opened new positions in ExxonMobil, TJX, Albemarle, BILL and TechnipFMC.

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 be 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 also established a strong mobile capability, and we expect further monetisation opportunities in 2024, including advertising on Facebook and Instagram "Reels". In addition, Meta's growth profile and recent cost discipline should be supportive for earnings.

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, the firm is in a strong position to repurchase shares and further pay down its debt.

TJX is the largest global off-price apparel and home fashion retailer. The discount retail sector remains well positioned to continue to gain market share as consumers prioritise value over traditional channels. TJX is viewed as the leader in the sector and benefits from its scale. The company also has a track record of good execution, resulting in recent transaction-driven revenue growth and share gains across multiple regions, categories and channels. TJX has multiple opportunities for growth, including expanding its physical presence, enhancing its loyalty programme and growing its e-commerce business. These opportunities, together with improving freight and supply-chain efficiencies, should support margins and earnings.

Albemarle is the world's largest producer of lithium, which is used to make lithium-ion batteries for electric vehicles, personal electronics and industrial applications, among other uses. Lithium demand remains robust, and, despite a recent pullback in pricing, we believe there is a material supply-demand imbalance. Recent signs of undersupply – such as reductions in lepidolite production in China, normalised inventory levels at downstream cell producers and fewer greenfield supply projects – support this view. Demand may also rise in the second half of 2024 as new electric vehicle models are due to be launched in the US and China.

BILL provides web-based business automation services for small and medium-sized businesses (SMBs), including bill workflow, payment processing and business document filing, as well as electronic invoicing and management tool mobile apps. The company has a sizable addressable market and has built an efficient SMB distribution and business-to-business network that is difficult for competitors to replicate. The company has several opportunities to grow over the mid-to-long term by working with bank partners, cross-selling products and monetising beyond subscription fees, which currently make up the majority of the firm's revenue. Given our view on the company's growth opportunities, we initiated a position amid share-price weakness on near-term concerns around the firm's ability to raise fees and increase its customer base.

TechnipFMC is the market leader in subsea equipment for oil and gas exploration. The stock is currently trading at a discount to its long-term average and where it traded before the Technip merger. We believe there is potential for a valuation re-rating as free-cashflow conversion and cash returns improve. Results from the integrated subsea offering (which can reduce the time it takes for its customers to begin oil production by 9 to 15 months) and increased efforts to engage early with customers helped the company to achieve meaningful subsea market-share gains between 2021 and 2023. While Subsea 2.0, the company's new product offering, accounts for less than 25% of its deliveries today, it represents around 50% of the firm's orders, which bodes well for margins in coming years. Moreover, TechnipFMC continues to innovate to strengthen its competitive moat, including with its all-electric subsea systems. Since the spin-off of engineering and construction business Technip Energies in 2021, the firm has improved its cashflow position.

We also topped up our positions in Microsoft, Nvidia and Alphabet over the quarter.

In terms of sales, we closed positions in Marvell Technology, GlobalFoundries, Accenture, Burlington Stores, SLB (also known as Schlumberger), Zebra Technologies, Electronic Arts, Nike, Trimble and International Flavors & Fragrances. We trimmed the positions in TE Connectivity and NOV.

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 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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