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) Global Equity Income

Jonathan Crown
Fund Manager
Since: 23/10/2018

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: MSCI ACWI Index

Inception Date: 23/10/2018

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global equities continued to rally over the first quarter (Q1) of 2024.
- Gross of fees, the fund underperformed its benchmark, the MSCI All-Country World Index (ACWI).
- New positions included Ashtead and Capgemini.

Market Background

The MSCI ACWI returned 9.6% in local currencies in Q1 of 2024. Sentiment was boosted by increasing optimism about major economies achieving a “soft landing” and strong corporate results, especially among large-cap technology companies. This helped risk assets overcome headwinds from geopolitical tensions in the Middle East and bond yields rising as expectations about the pace of monetary easing in 2024 were dialled back. In March, markets were lent additional impetus as central banks in the US, the UK and the eurozone appeared to turn more dovish, which rekindled hopes that interest-rate cuts would materialise midway through the year.

US stocks enjoyed a strong three months amid the ongoing resilience of the country’s economy. Treasury yields rose in January and February when the Federal Reserve (Fed) pushed back market expectations for interest-rate cuts in 2024 due to uneven progress on inflation. However, strong corporate results boosted equities, with large technology companies leading the way amid ongoing AI enthusiasm. The tech rally paused briefly in early March, but sentiment strengthened again following the Fed’s March meeting, amid relief that policymakers’ projections pointed to three quarter-point interest cuts over the year.

European stocks rose as the eurozone’s economic downturn appeared to have passed its nadir, with the composite purchasing managers’ index moving higher over the period and finally escaping contractionary territory in March. Meanwhile, inflation edged closer to the European Central Bank’s (ECB’s) 2% target, leading markets to anticipate rate cuts by mid-2024. The ECB’s own messaging then turned more dovish in March, helping European equities to a strong finish for the quarter. UK equities underperformed, hurt by their relatively limited exposure to technology stocks. Sentiment was also dampened as stubborn UK inflation and strong wage growth early in the year triggered concerns that the Bank of England (BoE) might delay rate cuts longer than other central banks. On the economic front, the UK slipped into a technical recession in Q4 2023, but more recent indicators have pointed to a rebound in Q1 2024. UK equities bounced back in March due to a larger-than-expected decline in inflation and signals from the BoE that it was getting closer to cutting rates. The pound weakened in this environment, providing a boost to the many overseas earners in the UK market.

Japanese stocks performed well throughout the quarter, aided by strong company earnings and corporate governance reforms. The export-heavy market was also boosted by weakness in the yen. The Bank of Japan maintained a loose monetary policy relative to other key central banks, even as it raised rates for the first time in 17 years and ended its yield curve control in March. Emerging markets (EMs) were impacted by China’s ongoing economic concerns. However, increased stimulus measures from Beijing later in the quarter spurred a modest recovery.

In local-currency terms, Japanese stocks fared best, helped by a weak yen. US equites also outperformed the index on the back of sizeable gains in the country’s large tech sector. Europe ex UK was also ahead of the MSCI ACWI, but EMs underperformed due to continued China woes and headwinds from higher Treasury yields. The UK fared worst due to the market’s limited exposure to technology stocks, although it still posted a positive return.

Technology stocks rode the ongoing wave of AI enthusiasm to emerge as the top-performing sector in the ACWI over the quarter. Communication services followed, while energy stocks also posted strong gains, especially late in the period when oil prices rose. Healthcare, the consumer sectors and materials underperformed. Utilities and real estate brought up the rear as both sectors were particularly sensitive to moderating expectations for interest-rate cuts.

*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) %	16.28	-2.39	6.95	48.84	-15.47	1.79	9.97	11.43	0.58	0.88
Index (Gross) %	23.81	-6.96	7.73	55.31	-10.76	3.16	15.44	15.69	-3.81	5.97

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.

The past performance information for the period prior to 23 October 2018 is from the Global Equity Income Fund (a UK authorised UCITS fund launched on 27 June 2007), which merged into this Fund on 24 November 2018.

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

Gross of fees, the fund was behind its benchmark over the quarter. The relative underperformance was primarily due to unfavourable security selection, particularly in communication services, financials and industrials; however, choices in consumer discretionary, materials and healthcare added value. Sector allocation also detracted in aggregate, largely due the underweight in technology and overweight in materials, although the underweights in consumer discretionary and real estate added value.

At the stock level, the zero weight in Nvidia weighed most on relative performance in a strong period for the stock. The chipmaker posted above-expectation Q4 2023 revenues and earnings. It also announced a variety of improved offerings during the period. In addition, Nvidia passed a $2 trillion valuation in early March, making it only the fourth US-listed company to do so after Apple, Microsoft and Alphabet.

The holding in Reckitt Benckiser was also a hindrance. After falling in February when the firm’s Q4 results failed to meet expectations, shares declined again in March after a $60 million ruling against the company in a US court, which has been identified as setting a potential precedent for similar cases. However, as part of the Q4 results release, management expressed optimism about the firm’s outlook for 2024 and hiked dividends. We retain conviction in Reckitt, which has increased investment to drive market-share gains by accelerating product penetration and expanding the reach of its core brands. We are also attracted by the value of its non-tangible assets. Reckitt is making rapid progress on improving the traceability of inputs linked to deforestation, such as palm oil, and should be well positioned for increasing regulation related to deforestation in the EU and the UK. It has the potential to develop compelling brand “stories” due to its deep knowledge of its supply chain and efforts to reduce negative environmental and social impacts among its direct suppliers.

On the other side, the zero weights in Apple and Tesla added value. Apple’s shares fell amid concerns about declining iPhone sales in China. Tesla’s shares fell following the company’s Q4 results on reports of weakening demand for its products and increased competition from China.

Activity

New positions included Ashtead and Capgemini.

Ashtead has a leading market share in the US equipment rental sector, an area that is becoming increasingly oligopolistic and where the bigger players will take a disproportionate share of growth related to the Inflation Reduction Act. The firm enjoys significant scale and robust demand thanks to strong end markets, which are being boosted by major US infrastructure projects. Ashtead also benefits from a sound management team and a good capital-allocation policy. We are positive about the company’s plans to expand through bolt-on acquisitions.

Capgemini is Europe’s leading listed IT services provider. The company is a “one-stop shop” for all technology services and products as it provides end-to-end solutions. The firm helps to design, build and maintain digital core technology. We also believe that its varied offerings and scale position it well for the digital transformation trend. Capgemini has increased its focus on this area as a source of growth and cost savings.

We exited Telstra due to concerns about some of its business segments and sold United Parcel Service (also known as UPS) amid increasing competition. We also profitably sold ITT following its strong performance in 2023.

Outlook

We are now in a period where inflation and interest rates are likely to be higher than they have been since the global financial crisis, which will support high-dividend yielding stocks and quality income names. In this environment, we think many businesses will have to shift their capital return expectations and strengthen their capital allocation.

We believe resilient free cashflow margins will be vital in identifying sustainable dividend growers. Consequently, we will focus on ensuring our portfolio companies have pricing power and an ability to manage cost structures and capital investments while operating with reasonable debt loads. This discipline remains of the utmost importance, with dividend sustainability more greatly prized with ongoing inflation in the system.

We continue to prioritise companies that can offer a blend of sustainable income and growth; we believe this is the best approach for total returns through the cycle. To manage risk, the fund has balanced exposure to different sources of yield to support a stable income profile across market cycles.

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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