MONTHLY REVIEW – MAY 2024

OUR PERSPECTIVE

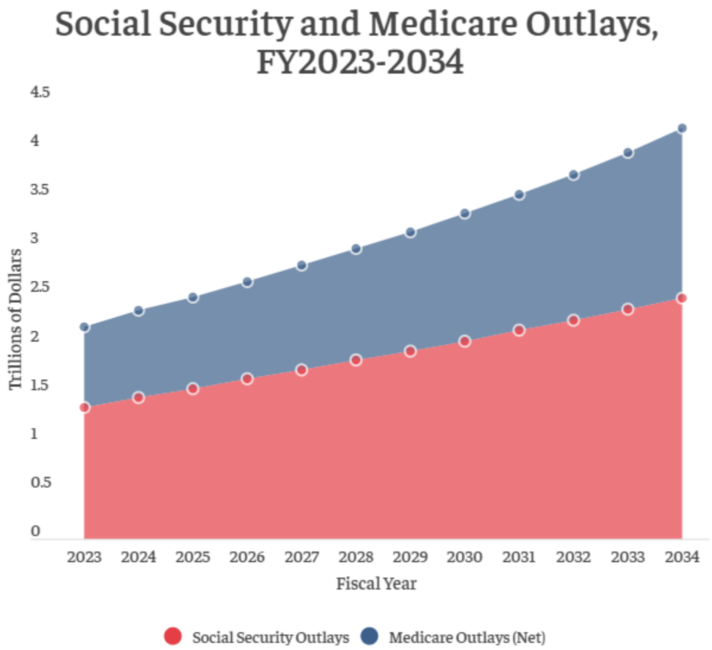
"HEALTHCARE INVESTING IS ABOUT BEING ABLE TO SEE THE FUTURE AND WHAT IT HOLDS FOR HUMANITY." ~ Bill Gates

Our quality of life today is significantly better than that of our grandparents. Indeed, our quality of life is not only better, but we live longer and experience significantly more than our ancestors. However, societies are also experiencing greater levels of illness, labour forces are shrinking, and inequality continues to rise. These demographic trends mean greater strain on governments and healthcare systems, with healthcare costs set to explode over the next decade. In the US alone, Medicare coverage is set to grow from $900bn in 2024 to $1.75tr in 2034. Whilst this represents only a 7% CAGR, it will significantly outpace GDP growth.

But this is also exactly the reason why investors should look for opportunities in healthcare. The need for change is the mother of innovation. And innovation is accelerating.

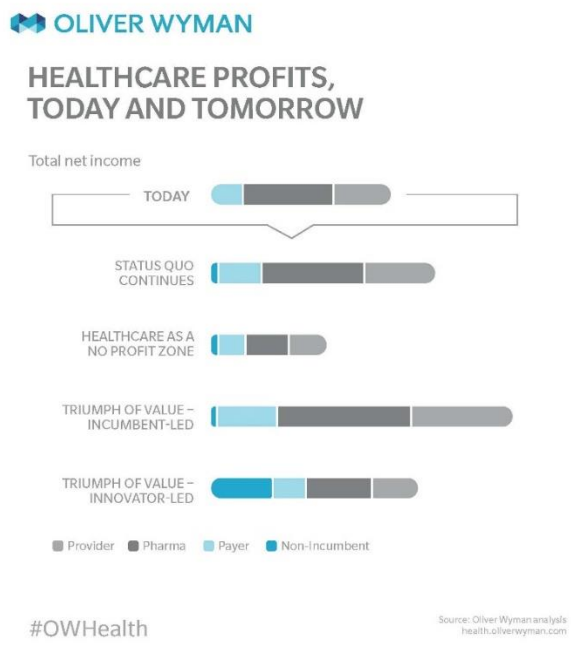
The life sciences industry is on the brink of extraordinary transformation, underpinned by the powerful convergence of genomics, robotics, and AI. We believe we are at the dawn of a new era in medical breakthroughs. A mix of integrating AI into R&D processes, supply chain shifts and innovation in therapeutic areas such as neurology, obesity, and oncology, are fuelling a resurgence of M&A activity and the IPO market following the depression of 2022 and 2023.

Exhibit 1: The extraordinary growth of social security and Medicare costs in the USA over the next decade, as projected by the CBO, will likely be funded by increasing debt and deficits:



Source: CBO, https://bipartisanpolicy.org/blog/visualizing-cbos-budget-and-economic-outlook/, 23/02/2024

Exhibit 2: Four economic scenarios according to Oliver Wyman analysis, with the most likely outcome somewhere between scenario 3 and scenario 4, in our opinion:

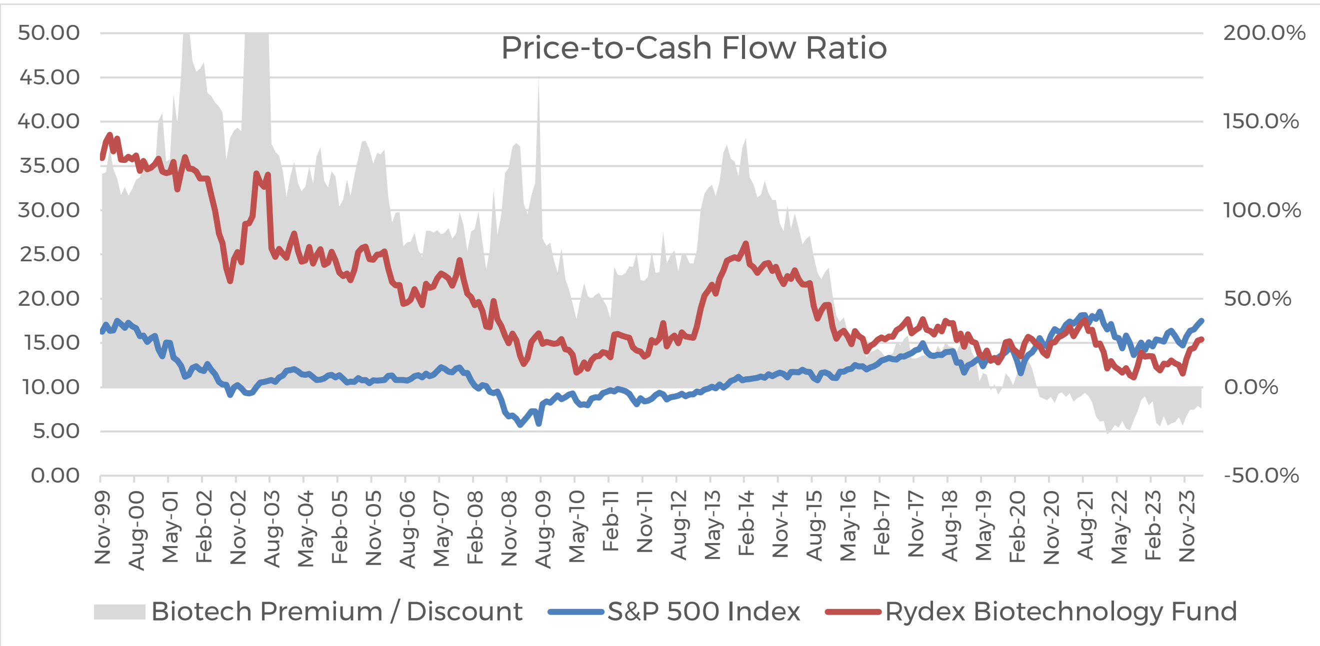


Source: Oliver Wyman analysis, health.oliverwyman.com

New business models will emerge whilst the biggest winners are likely to be those companies who are able to win consumers through brand loyalty and engagement. Undoubtedly many of these companies are still in the early stages of their life cycle or private companies in venture capital markets. But there might equally be opportunities in large, listed blue chips, and everything in between. A good example is the opportunity for GLP-1's, which we discussed in a recent podcast, which you can listen to here. The extraordinary successes of early incumbents Novo Nordisk and Eli Lilly are severely underexploited due to supply shortages.

What is clear is that the opportunity cannot be taken advantage of through a passive or index-tracking fund, but rather investors will have to embrace active management. Investment teams will need a strong understanding of the science, the manufacturing and distribution risks, and the increasingly difficult regulatory environments these companies operate in. Sure, pricing pressures will likely remain, supply chains remain fragile which means volatility should be expected. But the opportunity for long term, patient investors into the Life Sciences space has never been more exciting!

Exhibit 3: It is perhaps ironic that prior to the Covid-pandemic, the Biotechnology sector has never traded below valuations of the overall market. Irrational in our opinion.



Source: Morningstar, Shard Capital, 28/05/2024

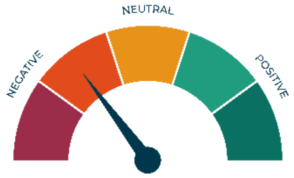
MARKET SNAPSHOT

	Index Series	Currency	Last Price	April	YTD	1 Year TR
			As at:	31/05/2024		
EQUITIES	Bloomberg World Equity Index	USD		4.03%	8.97%	23.70%
	Bloomberg World Equity - Growth	USD		4.30%	9.92%	24.51%
	Bloomberg World Equity - Value	USD		3.26%	6.69%	20.72%
	Bloomberg UK Equity Index	USD		3.61%	8.91%	18.32%
	Bloomberg US Equity Index	USD		4.75%	10.78%	28.21%
	Bloomberg Europe ex-UK Equity Index	USD		5.47%	8.89%	21.08%
	Bloomberg Japan Equity Index	USD		1.52%	7.94%	19.95%
	Bloomberg Asia ex-Japan Equity Index	USD		1.18%	4.58%	10.62%
	Bloomberg China Equity Index	USD		1.46%	5.69%	1.66%
	Bloomberg Emerging Market Equity Index	USD		0.35%	3.11%	11.23%
FIXED INCOME	Bloomberg Global Aggregate Index	USD		1.31%	-3.30%	0.77%
	Bloomberg US Treasury Index	USD		1.46%	-1.85%	-0.22%
	Bloomberg US Treasury Inflation Protected Securities	USD		1.72%	-0.08%	1.56%
	Bloomberg US Corporate Bond Index	USD		1.87%	-1.12%	4.40%
	Bloomberg UK Gilt Index	GBP		0.84%	-4.15%	2.80%
	Bloomberg UK Govt Inflation-Linked Bond Index	GBP		1.51%	-4.37%	2.30%
	Bloomberg Sterling Corporate Bond Index	GBP		1.04%	-1.03%	8.43%
	Bloomberg Euro Agg Government Bond Index	EUR		-0.08%	-2.07%	2.08%
	Bloomberg Euro Govt Inflation-Linked Bond Index	EUR		-0.27%	-1.35%	0.37%
	Bloomberg Euro Aggregate Corporate Bond Index	EUR		0.27%	-0.12%	5.28%
	Bloomberg EM Hard Currency Aggregate Index	USD		1.72%	1.58%	8.87%
	Bloomberg EM Local Currency Govt Index	USD		0.93%	-1.06%	3.27%
CURRENCIES	GBP Trade Weighted Index		£ 75.08	0.85%	1.94%	1.71%
	USD Trade Weighted Index		$ 90.86	0.00%	3.98%	2.00%
	EUR Trade Weighted Index		€ 124.24	0.33%	0.89%	1.89%
	JPY Trade Weighted Index		¥ 81.71	-2.75%	-9.19%	-11.25%
COMMODITIES	Gold Spot $/Oz	USD	$ 2,327.96	1.14%	12.84%	18.66%
	LME Copper Spot ($)	USD	$ 9,913.38	0.21%	17.13%	22.84%
	Oil - Brent ($)	USD	$ 80.95	-2.42%	5.08%	6.33%
	Bitcoin ($)	USD	$ 69,086.96	9.79%	62.53%	155.20%

Source: Bloomberg L.P. 31/05/2024

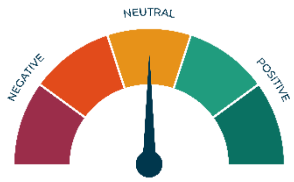
EQUITIES

Big Tech reported positive earnings, and with Nvidia, Microsoft and Apple making up over 30% of the Nasdaq Composite, the index finished up over 8% in May, following the decline in April. The AI-led boom remains in-tact, in particular as fundamentals are delivering and broadening out. The US remains expensive, and from a risk-reward perspective, we retain preference elsewhere, although we retain high conviction in our technology and healthcare related themes. China was the second best performing major market, and following a strong April is by far the best performing market QTD. With double digit returns in the last two months, China remains significantly undervalued and underinvested, and we remain overweight.



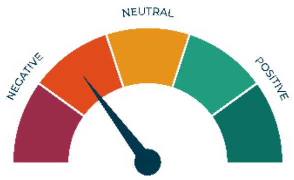
FIXED INCOME

Breakeven rates turned down as fears of reacceleration in rising inflation subsided following inflation reports in May. As a result, bond volatility fell, and there was little excitement to speak about. The markets optimism in the soft-landing narrative is very much dependant on rate cuts, which we believe is unlikely in the absence of a significant deterioration in labour data or a credit crisis. We like the absolute yield on offer on shorter-dated Government bonds, including Inflation-linked Government bonds. Credit spreads remain very tight and given the significant rise in interest rates and material refinancing risks, credit markets are not being priced accordingly and we remain underweight.



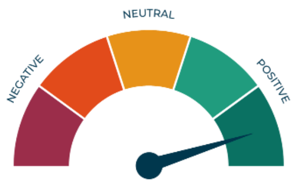
REAL ASSETS

Copper remains topic du-jour in commodity markets, making new highs helped by expectations of recovering Chinese demand. Gold posted another positive month, and we retain significant exposure. As previously mentioned, we see $2000 as the new floor, with the price in a strong medium-term up trend, the upside could be very significant.



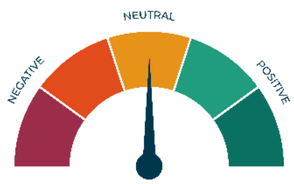
SPECIALIST STRATEGIES

CTA's and Trend Following strategies generally gave back some of their significant gains in April and YTD. Managed Futures continue to play a significant stabilising role within our portfolios, and we retain significant conviction in the sustainability of the competitive advantage of the strategies we own, and the alignment of interest between the managers, us and our clients. As for private markets exposure, we retain limited exposure to these, both credit and equity, given our concerns regarding debt and the refinancing cycle.



CURRENCIES

We remain broadly neutral on currencies. On the margin we note that growth and inflation expectations could support a weaker USD, whilst interest rate differentials are pulling it upwards. The US Dollar remains the global reserve currency of choice, and in a severe market dislocation, we expect it to strengthen. We retain our positive view on the Japanese Yen, which we believe is undervalued and offers significant optionality alongside the potential catalysts for a revaluation.



CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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