

# Evenlode Global Investment View

April 2022 – Global demand

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The subjects of last month's investment view were market volatility and corporate results, and we have had more of both in the intervening five weeks. On the results front we're getting updates in respect of the first quarter of 2022 which are continuing the strong tone set at the end of last year. Revenue is growing apace, up in the double digits in many cases across a broad range of sectors. For the Evenlode Global Income portfolio this includes the core sectors of consumer goods, healthcare and information technology.

Equity markets have tracked sideways overall but there have been ups and downs in the meantime, and there have been movements under the surface. In the headlines have been media and technology companies, with lockdown darling Netflix seeing declining subscribers and stock price, whilst Twitter is being bought by one Mr. E Musk. Away from the glitz of high-tech media, energy companies have come off the boil a little, in part due to concerns about slower growth in China following lockdowns there. This is following very strong performance for oil and gas businesses as a result of Russia's invasion of Ukraine, and energy prices remain elevated. The fund has no exposure to the energy sector, but there are knock-on consequences for the users of energy and other commodities. Here we will summarise how results have been for the consumer goods and healthcare sectors in the portfolio.

## Consumer goods

The market fortunes of the consumer goods sector have turned positive, although this comes from a low base as we have recently discussed. Overall, the sector has turned in mid-to-high single digit price increases to consumers to offset input cost inflation. There has been some impact on the amount of goods that people are willing to buy ('volumes' in the lingo), but it is relatively modest so far. The 'price' increases to date have been managed by a range of measures including much reduced discounting of products. We can expect more outright price raising and other tools like ingredient reformulations and alterations to pack sizes to feature in the future. The overall price/volume/inflation dynamic has meant that profit margins have fallen for the sector. The direction of travel has been upward at the start of the year, but it will probably take the remainder of this year and some of the next to fully get back to the levels seen prior to the current inflationary episode.

Consumer companies at the more discretionary end of spending have been weaker in share price terms. There is more exposure to Chinese consumers in this part of the portfolio, who are experiencing ongoing 'zero covid' lockdowns which stand in contrast to our 'opening up' experience in the West. So, whilst luxury giant LVMH's quarterly results were very strong with revenues up 23%, the share price has been drifting downwards. Recent addition to the portfolio adidas may be being affected by similarly soft sentiment, and we'll find out more about how it's been getting on when the company publishes results in early May.

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## Healthcare

Healthcare companies have been in demand in the market, particularly on the pharmaceutical side. Sanofi held an investor day which was positively received, with the company aiming to be a market leader in immunology for the next quarter of a century. It's off to a good start in that ambition with its anti-inflammatory therapy Dupixent, which is currently used to treat eczema and asthma, amongst other conditions, and with the potential for much broader application. At its recent quarterly results, sales of the therapy increased by 46% compared to a year earlier. The company's immunology pipeline is strong, building on the success of Dupixent. Sanofi has also seen good demand in its vaccines business as the world has refocused on preventing diseases that aren't Covid-19, and this has been a feature of GlaxoSmithKline's results as well. GSK's efficacious shingles vaccine Shingrix was put on the back burner by healthcare systems whilst Covid vaccinations were prioritised, but demand has now recovered strongly. The company's HIV therapies are also seeing robust demand. In keeping with the trend, demand for therapies from Swiss pharma and diagnostics company Roche was good. Roche has seen falling sales from off-patent drugs but is making up for that with a range of treatments such as Ocrevus in multiple sclerosis, Hemlibra in haemophilia, and Kadcyra in breast cancer. It is also big in the world of medical diagnostics, benefitting from a coronavirus-related boost in demand for automated laboratory testing solutions.

## Solid demand, a nice problem?

The overall picture from the companies that have updated so far on the first quarter of the year is almost universally positive from a sales point of view. This is despite some obvious challenges with stretched supply chains and the ongoing conflict in Ukraine. US transportation brokerage company CH Robinson noted that its global forwarding business was seeing 'higher pricing, strong demand and strained capacity', and prices per mile in its US freight business are up by over 20% year on year. Security of supply of material inputs has not been an issue for portfolio companies, but the surge of demand is in part causing price pressures that are having to be dealt with. To date, the benefits of demand for products and services are more than offsetting negatives in costs for the businesses that we follow.

Some companies are having to manage things more tightly and be more concerned about their margins than perhaps has been the case historically. These are real world business matters that can affect company prospects and so we concern ourselves with them. As the conflict in Ukraine continues, we continue to monitor the situation from a business angle, but with an undiminished desire for peace driven by very human considerations. We continue to hope for an end to hostilities and the obvious cost to life that it brings.

Ben, Chris, Bethan, Rob and the Evenlode team  
28 April 2022

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