Rothschild & Co
Wealth Management

AI momentum continues

THEMATIC INVESTMENTS

Q2 2024

Looking back on our thematic investments

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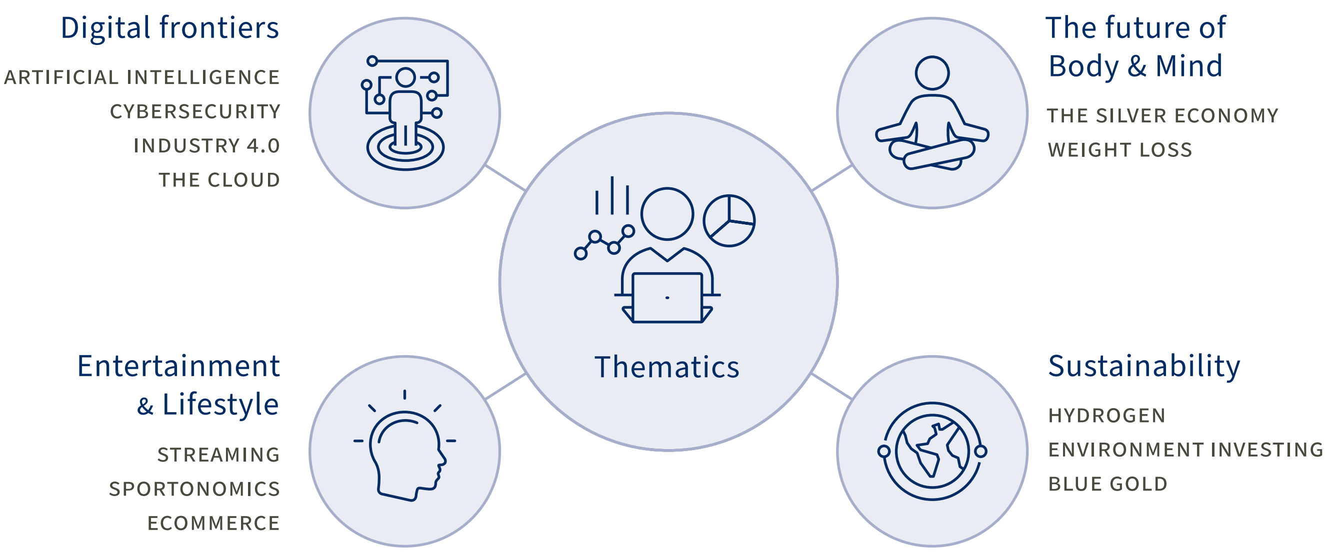
We are pleased to present our **thematic investments update for the second quarter of 2024.** It covers the most relevant market information for each theme and showcases a performance update of our implementation ideas. In general, our recommended implementation yielded solid returns. This result correlates well with the continued optimism in equity markets during the first half of the year (MSCI World Net Total Return USD Index up around 12% in H1).

We also include thematic insights for investors to gain a deeper understanding of the main drivers behind **Cybersecurity** and **Streaming**. Given the heightened interest around this year's sporting events we have introduced **Sportonomics** as a new thematic and a dedicated article.

Overall, our **Digital Frontiers** category including the **Artificial Intelligence** sub-category has once again outperformed. It was followed by **The Future of Body & Mind** category having benefited with the opportunities in the **Weight-loss** sub-theme. From a stock selection perspective, **Nvidia** (AI) was the absolute best performer gaining 36% in the quarter.

Entering the new quarter, corporate earnings look constructive for equities and we recommend the continued implementation of our selection. For the long-term, we see different phases of continued transformation, with the integration of artificial intelligence in all sectors of society. Our selection of themes and implementation ideas will therefore continue to change and adapt as new opportunities arise.



01

Digital Frontiers

The ***Artificial Intelligence*** trade continued gaining traction during the quarter. Our selection performed well, mainly driven by the performance of **Nvidia** and **Alphabet**.

Single digit returns were delivered by **ASML** and **Microsoft**. On the other hand, Advanced Micro Devices underperformed on concerns about its ability to compete with Nvidia after disappointing AI chip forecasts.

Nvidia continued attracting interest from investors and by mid-June, it briefly became the "world's most valuable company", topping Microsoft. By end June, however, despite Nvidia's erasing around USD550Bn market cap, the stock still managed to close the quarter with a 36% total return.

Alphabet meanwhile delivered 20%, fuelled by optimism generated from its earnings beat in April and their announcement of further capital spending to expand its data centre capacity in response to growing AI demand.

In April, ASML corrected as orders appeared to be below expectations, but the stock resumed its positive trend based on a better outlook for the rest of the year.

On the ***Cybersecurity*** front, the performance of our selection was mixed during the quarter. Despite this topic being a top priority for companies, the sector is consolidating in favour of large vendors.

By the end of the period, some flows out of Nvidia were opportunistically dedicated into names such as **Palo Alto Networks** and **Zscaler**, which are seen by analysts as beneficiaries of this trend towards consolidation. Overall, ***Cybersecurity*** underperformed in comparison to ***Artificial Intelligence***.

DEEP DIVE

Cybersecurity

The essence of cybercrimes has evolved alongside technological progress. Cybercriminals continuously develop and refine their tactics, leveraging the increasing connectivity and dependence on digitalization in society and across sectors like communications, healthcare, energy, transportation, finance, and public services. This exposes critical infrastructure to vulnerabilities that cybercriminals exploit, making cybersecurity a pressing concern for both businesses and governments.

Cloud computing surprised the market with strong moves from software companies such as **Salesforce** and **Adobe**. Salesforce sold off after earnings end of May, as the company warned sales growth would be the slowest in its history. Some analysts attributed this reduced pace to a losing ability against AI tools. At the same time, this correction created an attractive entry opportunity for new investors. Adobe, on the other side, finished its downward trend by the end of May and surprised investors mid-June with the strength of its Q2 earnings results and guidance, closing with a 10% total return.

We also saw solid overall performance of the ***Industry 4.0*** thematic. **ABB, Analog Devices, Comet,** and **VAT Group** delivered double digit total returns, driven by solid earnings announcements and positive comments from analysts regarding further margin expansions. Only **Siemens** returned a negative performance to investors, partly due to lower economic recovery in Germany and China.

THE LARGEST S&P 500 COMPANIES AT THE END OF EACH DECADE...

1960s	1980s	2000s	Today
IBM	Exxon	Exxon	Microsoft
AT&T	IBM	Microsoft	Apple
GM	GE	Walmart	NVIDIA
Exxon	AT&T	Alphabet	Alphabet
Kodak	Altria	Apple	amazon

Source: Rothschild & Co, Bloomberg, public domain

The five companies for the “1960s” are estimates sourced from the public domain. The five companies for the “1980s”, “2000s” and “Today” are those with the largest market capitalisation in the S&P 500 index on 31st January 1990, 31st December 2009 and 30th June 2024, respectively. Correct to 1st July 2024.

Thematic opportunity: Salesforce

Salesforce is the world's leader in customer relationship management and is an integral part of our cloud category in the **Digital Frontiers** thematic. As mentioned earlier, Salesforce corrected strongly in Q2 on concerns that AI monetization could take longer than expected. Our analysts, however, remain confident in the company's potential given the expectation of meaningful margin expansion, cost reduction and cash flow generation. Salesforce is moreover an underappreciated Gen-AI winner, as AI applied to analytics could improve sales activities of users. We therefore see Salesforce as an opportunity. We have also included the company in our investment advisory tactical equity ideas.

02

Entertainment & lifestyle

Within the ***Streaming*** thematic we continue to consider **Disney, Netflix and Amazon Prime** as the most important and dominant industry players. Together the three companies provide service to around 610 million subscribers worldwide. However, their performance within the quarter was, mixed.

The period was not favourable for Disney. The streaming business proved to finally be profitable, but fewer streaming subscribers dragged down the sentiment towards the company. The stock corrected after Q1 earnings and despite a short recovery, it closed the quarter on a downturn and a negative performance close to -20%.

For Netflix, the quarter was positive, and the stock delivered 11% total return. The streamer managed to recover from a correction in April, after communicating a less optimistic outlook in terms of revenues and subscribers.

Amazon also performed well with a 7% total return. Amazon-Prime boosted the company's e-commerce business with successfully generated cross-sales from personalized ads to streaming consumers.

Amazon also contributed positively within our ***e-Commerce*** thematic. Its contribution was, however, topped by the performance of **Booking Holdings** and **Mercado Libre**, which performed close to 10% respectively.

Booking Holdings generated most of its performance of the year in the second quarter after the company announced solid margins driven by strong demand for rooms and controlled expense growth.

DEEP DIVE

The streaming market

With the projected revenue in the Video Streaming (SVoD) market expected to reach US$ 109 billion by 2024 (1), the streaming industry stands as a testament to modern innovation and consumer demand. It has shaped modern society to become inescapable. We review its current challenges, and its promising potential in the next years to come.

Mercado Libre also gained after publishing solid earnings, mainly driven by the strength of its business in Mexico and Brazil.

On the other side, **Visa**, after a solid first quarter performance, lost all the momentum gained in Q1, bringing its yearly overall performance close to zero. Despite announcing better than expected results and a reiterated FY24 guidance, the company suffered from the softening of US consumption (and its possible impact on credit card delinquencies) and the perception of less favourable regulation, adding to the negative sentiment.

03

The Future of Body & Mind

Within our ***Weight-loss*** thematic, increasing demand for GLP1 drugs continued to positively impact the sales of **Eli Lilly** and **Novo Nordisk**, whose stock prices reached new highs in the quarter.

By the end of April, Eli Lilly surprised the market and jumped 8% intraday after announcing higher than expected results and an increased revenue outlook. The stock closed the quarter with a 20% total return, topping the performance of Novo Nordisk, which generated 15% in the same period. In response to soaring sales worldwide, both companies announced further expansion of manufacturing capacity to make their products available to consumers.

In parallel, **Thermo Fisher** delivered a single digit negative return despite reporting results which exceeded expectations.

Our ***Silver Economy*** thematic performed better in the second quarter compared to the previous one, although there were some disparities.

Booking Holdings delivered around 10% performance, as mentioned earlier, while **Straumann Holding** surprised with disappointing North American performance ending the quarter with a negative return over 20%.

DEEP DIVE

Sportonomics

The sports industry is undergoing a profound transformation as younger generations redefine how they engage with athletes and sport, leveraging technology in new ways. Mega-events like the Olympic Games and the European Football Championship offer insights into emerging trends and unveil new opportunities for investors.

Sonova meanwhile generated higher single digit returns. Despite some uncertainty on new production launch, the market positively interpreted Sonova's opportunities for the long term, given the longevity demographic trend, among others.

UnitedHealth delivered a modest 3% total return in the quarter, after sharp swings between April and May. Negative comments on Medicaid and utilization triggered the sell-off in April which was followed by a significant volatility.

04

Sustainability

Overall, investors were not particularly enthusiastic about sustainability themes during the second quarter. Focusing on ***Blue Gold***, **Ecolab** and **Geberit** delivered modest returns below 5% and **Veolia** underperformed.

Nevertheless, the surprise came from **Veralto**, publishing optimistic results in April, particularly in its water quality division. Veralto's stock generated close to 8% in the period, despite the downturn following a peak reached mid-May.

The ***Hydrogen*** thematic continued to face structural challenges. As the viability of hydrogen plants seem difficult to evaluate, approvals for proposed projects are currently delayed. This ambiguity and uncertainty appear as a headwind for the investment case despite possible future increasing demand for clean energy.

This uncertainty had an impact in our stock selection with **Linde** and **Air Liquide** delivering a single digit negative performance in the quarter.

Only ABB delivered double digit returns given its broader business portfolio, focused on different segments and products.

Our ***Energy Transition*** thematic performed better compared to Hydrogen and Blue Gold. Both **Nextera Energy** and **Shell** delivered close to double digit returns.

Indeed, the utilities company Nextera surged in the middle of the quarter and continues to receive analyst support based on the momentum created by data centre demand. Shell on the other hand, surprised the market with a beat in profit and the announcement of a share buyback.

Iberdrola and **RWE** delivered modest gains in the quarter. Finally and despite its leadership position as a construction chemicals company, Sika showed volatility and closed negatively due to weakness in underlying demand.

05

Performance update

YTD data reflects performance in the period December 31st 2023 to June 30th 2024.

DIGITAL FRONTIERS

Company	Recommendation	Rating	Currency	Price	FV	Upside	YTD (%)
Artificial intelligence							
Advanced Micro Devices	SELL	★★	USD	179.83	145	-19.4%	10.04
Alphabet	BUY	★★★★	USD	186.53	215	15.3%	30.54
ASML	HOLD	★★★	EUR	980.30	870	-11.3%	41.98
Microsoft	BUY	★★★★	USD	453.96	520	14.5%	19.29
NVIDIA	SELL	★★	USD	128.44	105	-18.2%	149.50
Cybersecurity							
Check Point	HOLD	★★★	USD	172.05	155	-9.9%	7.99
Fortinet	BUY	★★★★	USD	59.90	77	28.5%	2.97
Palo Alto Networks	HOLD	★★★	USD	340.91	366	7.4%	14.97
Zscaler	HOLD	★★★	USD	204.47	213	4.2%	-13.26
The cloud							
Adobe	BUY	★★★★	USD	565.71	640	13.1%	-6.88
Alphabet	BUY	★★★★	USD	186.53	215	15.3%	30.54
Amazon	BUY	★★★★	USD	192.72	180	-6.6%	27.19
Microsoft	BUY	★★★★	USD	453.96	520	14.5%	19.29
Salesforce	BUY	★★★★	USD	252.86	295	16.7%	-2.17
SAP	BUY	★★★★	EUR	187.28	215	14.8%	37.57
Industry 4.0							
ABB	HOLD	★★★	CHF	51.34	48.4	-5.7%	36.62
Analog Devices	HOLD	★★★	USD	237.72	225	-5.4%	15.96
Comet	BUY	★★★★	CHF	387.50	285	-26.5%	36.98
Epiroc	BUY	★★★★	SEK	211.10	222	5.2%	5.51
General Electric	BUY	★★★★	USD	159.56	180	12.8%	56.46
Siemens	HOLD	★★★	EUR	180.38	166	-8.0%	5.16
VAT Group	HOLD	★★★	CHF	518.60	435	-16.1%	22.45

ENTERTAINMENT & LIFESTYLE

Company	Recommendation	Rating	Currency	Price	FV	Upside	YTD (%)
eCommerce							
Amazon	BUY	★★★★	USD	192.72	180	-6.6%	27.19
Booking Holdings	BUY	★★★★	USD	4,088.00	4300	5.2%	12.22
MercadoLibre	HOLD	★★★	USD	1,743.99	1500	-14.0%	4.57
Visa	BUY	★★★★	USD	268.45	332	23.7%	1.19
Streaming							
Alphabet	BUY	★★★★	USD	186.53	215	15.3%	30.54
Comcast	BUY	★★★★★	USD	38.94	48	23.3%	-9.44
The Walt Disney	BUY	★★★★	USD	96.87	125	29.0%	9.97
Netflix	HOLD	★★★	USD	656.45	680	3.6%	38.61

BODY, MIND & THE FUTURE

Company	Recommendation	Rating	Currency	Price	FV	Upside	YTD (%)
Weight loss							
Eli Lilly	SELL	★	USD	950.46	540	-43.2%	55.84
Novo Nordisk	HOLD	★★★	DKK	970.60	975	0.5%	45.09
Thermo Fisher	BUY	★★★★	USD	544.68	660	21.2%	4.32
Silver economy							
Booking Holdings	BUY	★★★★	USD	4,088.00	4300	5.2%	12.22
Sonova Holding	HOLD	★★★	CHF	272.10	270	-0.8%	2.71
Straumann Holding	HOLD	★★★	CHF	115.05	130	13.0%	-17.41
UnitedHealth Group	HOLD	★★★	USD	515.37	530	2.8%	-2.47

SUSTAINABILITY

Company	Recommendation	Rating	Currency	Price	FV	Upside	YTD (%)
Blue gold							
Ecolab	SELL	★★	USD	241.85	215	-11.1%	20.57
Geberit	BUY	★★★★	CHF	548.80	520	-5.2%	1.05
Veolia Environnement	BUY	★★★★	EUR	28.53	38.5	34.9%	1.93
Veralto	BUY	★★★★★	USD	98.01	119	21.4%	16.28
Hydrogen							
ABB	HOLD	★★★	CHF	51.34	48.4	-5.7%	36.62
Air Liquide	HOLD	★★★	EUR	162.68	168.1818	3.4%	2.47
Linde	BUY	★★★★	USD	438.18	445	1.6%	7.50
Silver economy							
Iberdrola	HOLD	★★★	EUR	11.78	12	1.9%	3.88
NextEra	HOLD	★★★	USD	70.97	71	0.0%	18.45
RWE	BUY	★★★★★	EUR	32.73	55	68.0%	-19.96
Sika	BUY	★★★★	CHF	259.50	260	0.2%	-4.87
Shell	HOLD	★★★	EUR	33.54	35	4.4%	15.06

Contributors

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