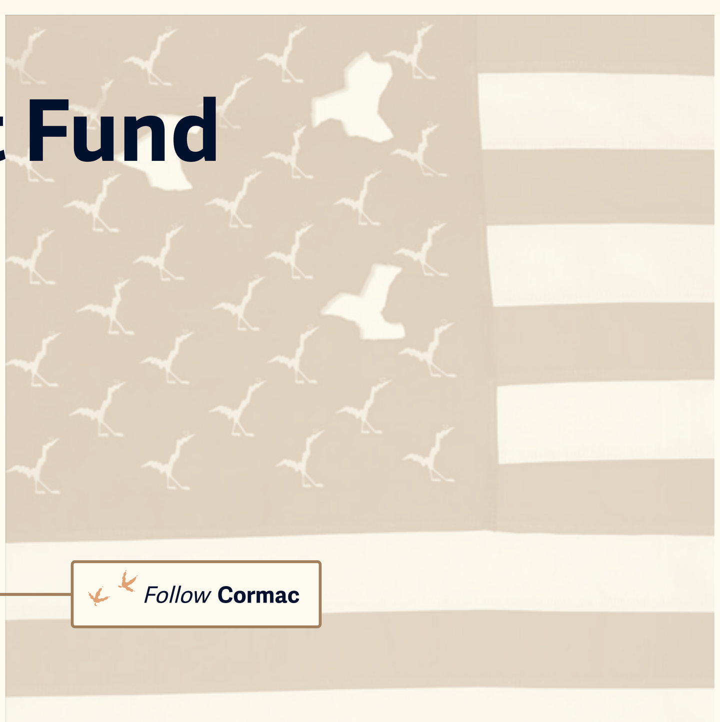

Artemis US Select Fund update

Cormac Weldon, manager of the Artemis US Select Fund, reports on the fund over the quarter to 31 December 2023.

Cormac Weldon
8 January 2024

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Source for all information: Artemis as at 31 December 2023, unless otherwise stated.

The fund returned 8.3% over the quarter, outperforming the S&P 500 index, which returned 6.9% and the North America fund average, which returned 7.2%.

Inflation in check?

As had been the case for most of the year, markets were fixated on inflation and the likely path the Federal Reserve would take in response to its trajectory. At the start of the quarter, it was widely accepted by the market that rates would remain higher for longer to combat stubborn inflation.

As the quarter progressed, it became clear that CPI inflation was trending lower towards the Federal Reserve's target of 2%, supported by softening demand and a more balanced employment dynamic. The Federal Reserve confirmed the market's expectations in December when they signalled a pause in rate hikes, and went further, forecasting three rate cuts of 0.25% in 2024.

Stock selection drives outperformance

In an environment where inflation and rates very much dominated markets, it was encouraging to see that stock selection across a variety of sectors was the main driver of performance over the period, underpinned by not only macro tailwinds but robust fundamental performance.

Amazon's AWS recovers

Our overweight position in Amazon was our top contributor during the period. As the third quarter reporting season commenced, we were looking for expanded profitability in Amazon's retail business as well as a recovery from trough revenue growth within its cloud business, AWS. It was therefore encouraging to see overall profits significantly beating expectations with the margins of North American retail, international retail, and AWS showing significant improvement. Our conviction in the company remains strong with the expectation that AWS growth should accelerate into 2024.

Housing market enjoys structural support

If you have read or listened to us talk about exposures in the fund you will have heard us discuss our belief in the US housing sector.

There are multiple aspects to this thesis. Broadly, there is a structural shortage in housing inventory in the US. Most mortgages are not portable and home owners are reluctant to move from a low mortgage rate to a high mortgage rate, meaning that recently they have tended to remain in their current houses and so secondary supply does not come on the market. This means that demand must be met with new build, favouring housebuilders and suppliers of building materials. In addition, household formation (couples choosing to live together and possibly have children) is also picking up because of shifts in demographics.

Our holding in Builders FirstSource (a distributor of homebuilding products) forms part of this exposure and was a top contributor over the quarter. Eagle Materials (a manufacturer of cement and wallboard) also benefited from this theme.

Healthcare and energy lag

Energy was the only negative sector over the period, and so holdings in Baker Hughes (oil field services) and Hess (oil & gas) detracted from performance. We would add that we are underweight the sector, which was positive overall from a relative perspective.

Our holdings in healthcare stocks Thermo Fisher, Dexcom, and McKesson detracted over the period. We continue to see healthcare as a significant opportunity moving into 2024.

Activity

We have made several adjustments to the portfolio over the period, either because of strong share price performance or to better position the portfolio for an easing interest rate outlook.

While remaining overweight we have taken profits in both Nvidia and Meta, two of our strongest performers this year. Within financials we increased our position in Wells Fargo which we had bought in the last month or two. We also added to our position in Blackstone.

Outlook

First, we see the continuation of recovery in sectors we are already exposed to such as housing and infrastructure investment. In addition, we still think there are a couple of sectors which have not yet normalised following the pandemic. One of them is healthcare, where we expect the demand for life science products and services to recover to a more normal level. We expect our holding in Avantor to benefit from this.

Another potential recovery area is the memory-chip sector. After a boom in demand followed by a period of oversupply, pricing collapsed. We believe pricing is now stabilised, and is on the path to strong recovery given supply demand is much more in balance. We have a holding in Western Digital to capture this dynamic.

Past performance is not a guide to the future.
Source: Lipper Limited/Artemis from 30 June 2023 to 31 December 2023 for class I accumulation GBP.
All figures show total returns with dividends and/or income reinvested, net of all charges.
Performance does not take account of any costs incurred when investors buy or sell the fund.
Returns may vary as a result of currency fluctuations if the investor's currency is different to that of the class.
Classes may have charges or a hedging approach different from those in the IA sector benchmark.
Benchmarks: S&P 500 TR; A widely-used indicator of the performance of 500 large publicly-traded US companies, some of which the fund invests in. IA North America NR; A group of other asset managers' funds that invest in similar asset types as this fund, collated by the Investment Association. These act as 'comparator benchmarks' against which the fund's performance can be compared. Management of the fund is not restricted by these benchmarks.

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Manages:
US equity strategy

Cormac has managed Artemis' US equity strategies since launch.

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