

Global Equity in 2022

Why we're relentless in our pursuit of great companies

Key message:

Bluewater ended 2021 with top quartile performance across their funds. Bluewater's success has come by honing a philosophy and process for over 25 years; resulting in a high conviction mix of companies that are high quality, industry leaders operating in superior areas of the market.

- The economy is not early cycle given the trend in growth and unemployment.
- We expect slower growth in H2 2022 and the possibility of a policy error.
- The funds tend to outperform in a slower growth environment but are also exposed to areas with powerful tailwinds including electrification, biology/genomics and the 4th industrial revolution - digitization.
- The portfolios are well positioned with companies that have pricing power and consistent performance across market conditions.
- Learn about our new North American [Equity](#) and [Balanced](#) funds.

Economic outlook

- Externally, consensus suggests the economy is early cycle. However, the team believes we are potentially continuing the pre-pandemic cycle from 2019 which began in 2010.
- GDP growth is back to pre-pandemic trend levels. Given limited ability to accelerate growth from here, a slow down in growth is expected in the back half of 2022. Quality-growth typically outperforms in slower growth periods.
- Unemployment is almost back to pre-pandemic levels suggesting most of the economic recovery has been reached.
- A cycle typically has two rounds of interest rate hikes:
 - The first one is favourable for equity markets and signals the healing of the economy.
 - A second hike would appear at the end of the cycle, with strong housing prices and concerns about inflation.
 - Our current condition is more aligned with the second hike. This creates the potential for a Federal Reserve policy mistake.
- Inflation has been primarily driven by highly unusual consumer spending behaviour and the resulting impact along the supply chain.
- Wage inflation is likely to be stickier as the multi-decade, deflationary effect of Chinese manufacturing on wages in developed countries slowly erodes.

Secular Trends and Stock Stories

Electrification

- In the renewable space, the team owns **Schneider Electric** which specializes in low-mid voltage electrical grids. It is also ranked #1 globally as the most sustainable firm. The firm re-positioned itself 10 years ago to capitalize on the growing needs for electrical grids. Its steady overall growth should continue for a long period of time given a requirement for 50% more electrical grids across the world over the long-term.
- Electric vehicles remain an extremely competitive and difficult industry and therefore difficult for investors. Instead of buying car or OEM manufacturers, the team owns **Amphenol** which specializes in high-end interconnects. The demand for interconnects is rapidly increasing as we switch from mechanical to electronic products.
- Semiconductors made with silicon face overheating issues when used in electric vehicles. This requires supplemental cooling systems that adds to expense and inefficiency. To address this issue, silicon carbide can be used. The team owns a German company **Infineon Technologies**, a niche business that specializes in silicon carbide semiconductor production and is expected to be an important participant in EV growth over the next decade.

Biology and Genomics

- The current frontier is moving from small molecule drugs, into biologics that grow directly in cells. As the innovation is largely done by small biotech firms, the space is hard to buy into directly. Small firms face the risk that their drug pipelines could completely fail.
- The team owns **Danaher** and **Thermo Fisher Scientific** which are stable businesses focused on research and development tools and measurement devices. This is a 'picks and shovels' approach to gaining exposure to an area with tremendous growth potential over the long term.

4th Industrial Revolution - Digitization

- The team avoids early-stage, unproven IT firms with high valuations and little profit. Instead, they focus on the underlying expansion of IT into the broader economy. Expansion themes include AI, 5G, and supply chain automation.
- **Keysight Technologies** produces testing and measurement tools that are crucial for high-end manufacturing. In the context of 5G, these tools are critical to ensuring all equipment and devices conform to a standard for successful communication. The firm owns ~50% of the 5G market opportunities and is trading at a reasonable valuation.

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