

# BankInvest Equity Income Strategy

## **May 2023 – Performance review** (all returns are gross of fees in DKK and are not audited).

May 2023 was a poor month as both the absolute and relative return was negative by -1.49% and -34bp respectively. Year-to-date, the absolute performance is +2.82%, which is +366bp better than the benchmark.

At sector level, the highest positive contributions in the month came from Health Care (+29bp), Utilities (+12bp) and Consumer Staples (+4bp), while IT (-74bp), Financials (-7bp) and Consumer Discretionary (-3bp) showed the largest negative sector contributions.

Absolute Performance, May 2023					
Company	Sector	+ Return	Company	Sector	- Return
Eli Lilly	Health Care	12,4%	Unilever (GB)	Consumer Staples	-6,5%
Microsoft Corp.	Information Technology	10,6%	Royal Bank of Canada	Financials	-6,7%
Cisco Systems	Information Technology	8,8%	Medtronic	Health Care	-7,6%
ABM Industries	Industrials	7,3%	Allianz	Financials	-8,2%
Amdocs	Information Technology	6,8%	Wolters Kluwer	Industrials	-11,2%
<b>Average, Top-5</b>		<b>9,2%</b>	<b>Average, Bottom-5</b>		<b>-8,0%</b>

Relative Performance, May 2023					
Company	Sector	+ Contribution	Company	Sector	- Contribution
Microsoft Corp.	Information Technology	0,29%	Carlsberg B	Consumer Staples	-0,11%
Eli Lilly	Health Care	0,23%	Tokyo Electron (BM)	Information Technology	-0,12%
ABM Industries	Industrials	0,18%	Texas Instrument (BM)	Information Technology	-0,12%
Amdocs	Information Technology	0,13%	Wolters Kluwer	Industrials	-0,17%
Starbucks (BM)	Consumer Discretionary	0,11%	Broadcom (BM)	Information Technology	-0,78%
<b>Sum, Top-5</b>		<b>0,94%</b>	<b>Sum, Bottom-5</b>		<b>-1,30%</b>

BM = Benchmark stock

Microsoft (MSFT US) saw another good month, benefiting from the increased focus on Artificial Intelligence (AI). The stock is up +37% YTD, partly due to Microsoft seemingly winning the AI race, with its investment in OpenAI – the company behind ChatGPT. Microsoft announced that it will bring advertising to its AI-powered search engine (Bing), allowing Microsoft to start monetizing its AI investments. Microsoft emphasizes that it sees a large AI opportunity across its products.

The semiconductor sector increased +16% in May. The strong performance within the semiconductor sector was largely due to Nvidia (NVDA US) posting a very strong sales outlook for Q2, beating consensus expectations by +50%. The beat was driven by strong demand for AI processors, making it clear that the surge in AI spending is happening faster than expected. Thus, chipmakers with some exposure to AI saw strong share price performance. The benchmark semiconductor stocks incl. Broadcom (AVGO US), Texas Instruments (TXN US) and Tokyo Electron (8035 JP) all had a good month, with Broadcom being the largest outperformer (+29% share price increase). Together, semiconductors contributed with -105bps to the relative performance in May.

Broadcom is the market leader within leading edge custom chip design and supply custom AI chips to Google (GOOG US), Meta (META US), Microsoft etc. Broadcom expects USD +3bn in custom chip revenue from the beforementioned companies, however, amid the increased AI spending, the market now expects Broadcom to deliver more than that. Broadcom also announced that it has entered into multi-year agreements with Apple (AAPL US), to supply 5G components to Apple's devices. Apple represents ~20% of Broadcom's revenue and some have speculated that Apple would displace Broadcom components from its devices as Apple aims to move key technology in-house (less reliance on external providers). The combination of increased AI spending and the new contract with Apple removed some overhang from the Broadcom stock.

Eli Lilly (LLY US) announced positive results from a Phase-3 trial of its Alzheimer's drug, Donanemab. The drug slowed cognitive and functional decline in people with early symptomatic Alzheimer's disease with 35% compared to placebo. The Alzheimer market is likely a multi-billion-dollar market.

ABM (ABM US) had a good month, despite no company-specific news. The company will report Q2 earnings 6th of June.

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Amdocs (DOX US) reported in-line earnings and maintained its full-year EPS guidance. Business momentum remains solid (backlog up +6% y/y), driven by cloud and 5G modernization efforts, with seemingly limited macro impact.

The benchmark stock Starbucks (SBX US) had a poor month. Starbucks reiterated its full-year guidance, despite delivering a strong Q2 report, suggesting weak performance for the remainder of 2023.

Carlsberg (CARLB DC) had a poor month, likely due to some profit-taking following strong share price performance YTD.

Wolters Kluwer (WKL NA) reported Q1 with organic growth ahead, while operating profit margins declined -270bps y/y. Comparing that to the full-year guidance of +10-40bps margin improvement y/y, Wolters needs to deliver substantial margin improvements for the remainder of the year, which could seem aggressive. However, the margin drop in Q1 was already flagged by the company, and Wolters has high visibility on costs as most costs are weighted to people i.e. wages and hiring.

Royal Bank of Canada (RY CN) delivered disappointing earnings, missing consensus' estimates. Higher expense growth combined with a lower net interest margin (NIM) weighed on EPS. The NIM was hit by a negative deposit mix-shift with interest costs on interest-bearing liabilities increasing more than the yield on interest earnings assets Q/Q. The high expense growth was due to higher personnel costs with FTEs increasing ~10% y/y and cost inflation. The company emphasized its focus on cutting costs partly via headcount reduction.

## **Buying, selling, and other matters**

We sold our shares in the German residential real estate company, TAG Immobilien (TEG GY). After poor performance in 2022, TAG performed well in the first months of 2023 and the depressed valuation from the beginning of the year is now more reasonable and in line with our target price. Hence, we found the timing opportunistic and sold our shares.

Towards the end of May, we reduced our overweight in Health Care by selling our shares in the US med-tech giant, Medtronic (MDT US). Instead, we bought shares in Lowe's Co. (LOW US), the second largest home improvement chain store in the US. By buying Lowe's, we reduced our underweight in Consumer Discretionary. We are frankly disappointed with the sales and profit performance of Medtronic, and we believe that Lowe's, while also challenged by economic uncertainty, is a higher quality company than Medtronic.

## **Valuation of the asset class**

According to MSCI, dividend stocks are cheaper (P/E Fwd) than the broader world index (MSCI World). Dividend stocks naturally also carries a higher dividend yield. According to MSCI, the beta of the high dividend yield index is 0.87 vs. MSCI World. Data is from April as data from May is yet to be released.

	Div Yld (%)	P/E	P/E Fwd	P/BV	Beta
<b>MSCI World HDY</b>	3.72	13.84	13.23	2.45	0.87
<b>MSCI World</b>	2.08	19.39	16.45	2.85	1.00

Source: MSCI.

Kindly,

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