ROBECO
The Investment Engineers

GLOBAL CONSUMER TRENDS

Consumer trends in 2024: The resilient shopper

- Moderating inflation supports consumers and markets
- Weight loss drugs and influencer brands challenge staples companies
- ‘Magnificent Seven’ earnings outlook outpaces market

Markets are still facing a wall of worry but, in an ever-changing consumer landscape, moderating inflation, strong household finances and the likelihood of interest rate cuts give us reasons for confidence.

Never say never again

During 2023, global stock markets staged an impressive rebound from their worst year since the 2008 great financial crisis. The market climbed the traditional ‘wall of worry’ last year as investors were concerned about inflation, rising interest rates, and increasing geopolitical tensions for most of 2023. We remain constructive on the year ahead, following this banner year in which the Global Consumer Trends strategy rose 29.7% in euro terms versus 18.1% for the MSCI All Country World Index. Taking a cursory glance at headlines, it is not difficult to find areas of concern including geopolitical tensions, armed conflict, a lagging industrial recovery, ongoing struggles in the Chinese property sector, and the prospect of a recession. However, supported by strong household balance sheets, moderating inflation, rising wages and the prospect for interest rate relief, both consumers and the markets have reason to remain optimistic.

The resilient shopper

The US consumer and its economy remained remarkably resilient in 2023, despite increased global tensions, an unexpected banking crisis in March, elevated prices, and higher interest rates, particularly for home mortgages, where rates reached levels not experienced in 20 years. Although cash deposits remain healthy, studies suggest excess savings accumulated during the pandemic have been depleted, especially among lower income consumers. On the other hand annual inflation dropped from a peak of 8.9% in June 2022, to 3.4% in December 2023. At the same time, despite decelerating job openings, unemployment remains at pre-pandemic levels, and at 4%, annual wage growth has outpaced inflation. With these factors in mind, the US Federal Reserve has paused further rate hikes, and the stage is set for a shift to rate reductions. As a result, consumer confidence has rebounded and, excluding autos, retail sales growth has begun to outpace inflation.

OUTLOOK JANUARY 2024

Marketing material for professional investors, not for onward distribution

From left to right: **Jack Neele** Portfolio Manager, **Richard Speetjens** Portfolio Manager, **Daniel Ernst** Senior Analyst, **Sam Brasser** Analyst

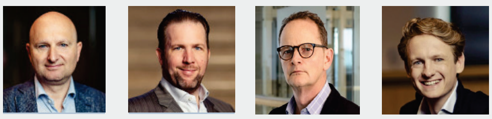

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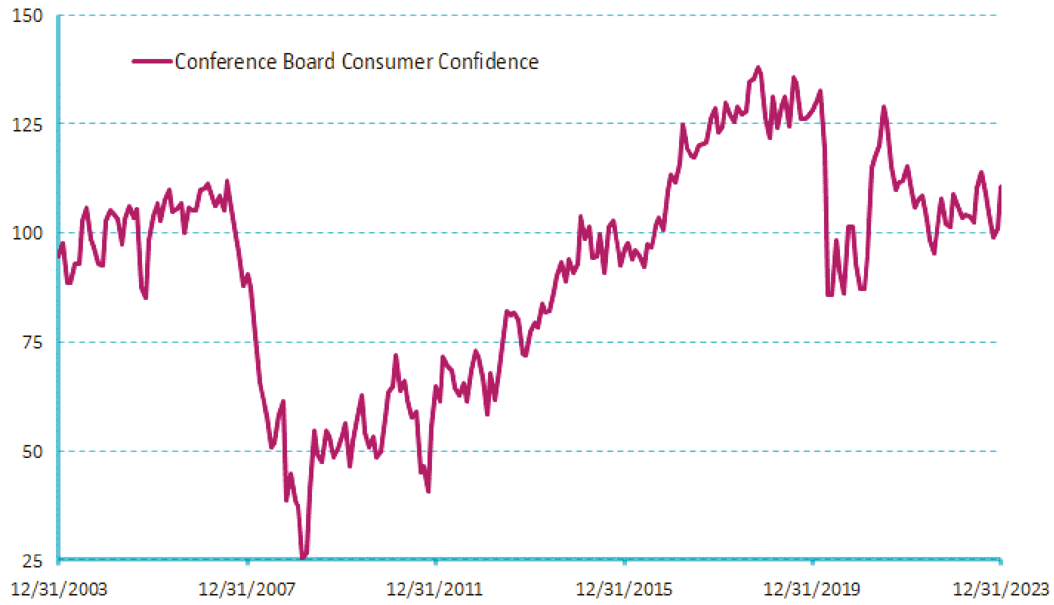
Figure 1: Viewed from a historical context, consumer confidence is currently at relatively healthy levels



Source: Bloomberg, Robeco

As the US does not exist in isolation, with more than 10% of GDP attributed to exports and with many of its leading companies garnering half of their sales from abroad, it is also worth noting the global economic picture is less robust. In Europe, third quarter 2023 GDP rose just a tenth of 1% year-over-year, compared to 0.5% in the second quarter. In Germany, the region's largest market, the economy shrank nominally during the third quarter. In China, lingering concerns in the property market have driven a weaker-than-expected recovery and at 5%, GDP is expanding at half the rate of a decade ago. Further, tensions with both the US and from domestic regulators have pressured sales of everything from luxury handbags to semiconductors.

Themes to watch

Among numerous themes driving the consumer market, we are paying increased attention to the prospects for consumer staples as they face pressure from not only macroeconomic concerns but also from social media influencers and weight loss drugs. Addressing markets as broad as artificial intelligence, automotive, and ecommerce, after tremendous outperformance, we also take a closer look at drivers behind the success of the 'Magnificent Seven'.

Our positioning in the consumer staples sector

The last two years have been one of the toughest periods on record for consumer staples stocks. For the first time since the Nasdaq bubble and the ensuing recession, consumer staples stocks have declined for two years in a row. Of course, throughout history the consumer staples sector has gone through periods of underperformance. Most of the time this has been the result of investors lowering their exposure to defensive stocks during times of increased risk appetite.

This time seems different though. As in 2022, the underperformance was mainly the result of the overall macro environment, as high levels of inflation led to an increase in long-term interest rates. As interest rates rose, valuations were reset to levels more in line with historical averages. Last year, the sector lagged due to concerns about the longer term growth potential of (parts of) the sector. First, the emergence of so-called GLP-1 drugs pressured share prices in the packaged food space. Drugs like Novo Nordisk's Ozempic and Wegovy are not only helping people manage diabetes symptoms, but have also been hailed as miracle drugs for people struggling with obesity. Second, content creators like social media influencers and celebrities have been chipping away at established brands by using their follower count to launch cheaper versions of existing (blockbuster) consumer products. We'll take a look at how these trends have impacted the staples sector and how we are positioned within the space.

The rise of GLP-1 drugs

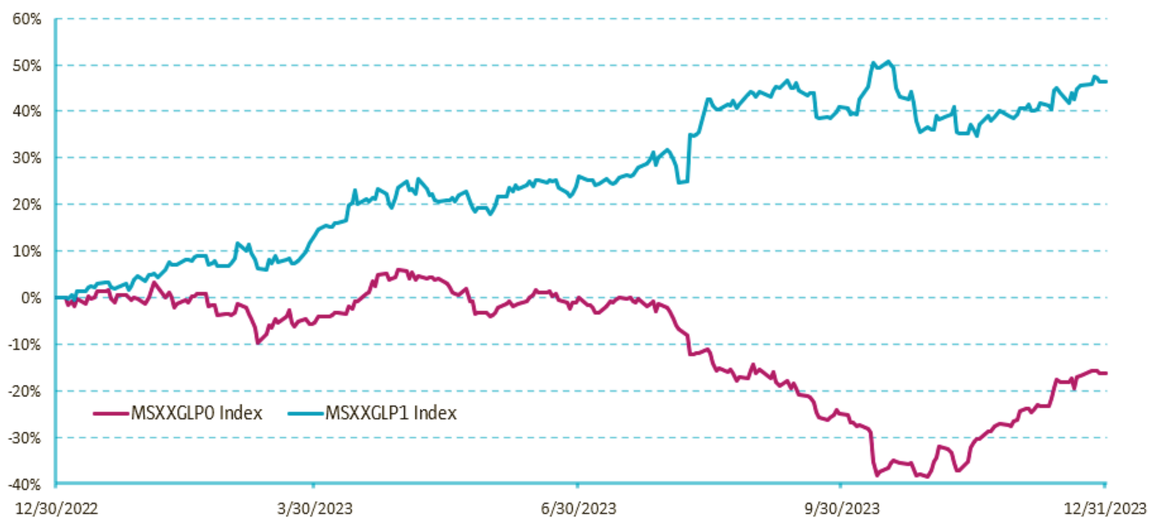
The first glucagon-like peptide-1 (GLP-1) drugs were approved by the US Food and Drug Administration (FDA) in 2005. Initially designed to help lower blood sugar levels for Type 2 diabetes patients, they are today most renowned for promoting weight loss to treat obesity. Drugs like Ozempic & Wegovy (both produced by Novo Nordisk) and Mounjaro (Eli Lilly) have been found to suppress the appetite and lead users to lower their caloric intake. In clinical trials, weekly doses of the medication have led to a roughly 15-20% decrease in body weight.

Investors in consumer staples stocks started to panic when the president and CEO of Walmart US said that the success of these drugs could be driving US Americans to spend less money on food. "We definitely do see a slight change compared to the total population, [and] we do see a slight pullback in the overall basket," the Walmart executive said after the company had analyzed the spending habits of shoppers taking these appetite suppressants.

Given obesity drugs have been launched in the US first – due to the high pricing for medication and the higher prevalence of obesity among the population – US companies with a high domestic exposure are mostly at risk. Studies among consumers using the medicine have found that companies producing sugary beverages, unhealthy snacks and pre-packaged foods have the most to fear.

To compare winners and losers from this emerging trend, Morgan Stanley constructed two portfolios consisting of companies benefiting from the launch of these drugs (mostly the drugmakers) and companies deemed to be at risk from the growing uptake and adoption of anti-obesity medication.

Figure 2: The gap between stocks deemed to be beneficiaries/victims of GLP-1 drugs has risen throughout 2023



Source: Morgan Stanley, Bloomberg, Robeco. December 2023

The main take-away here for us is that the consumer packaged and processed food industry will be under long-term pressure, as the penetration of obesity medication will continue to rise until 2030 at least. Our preference is to invest in companies that are at low risk from GLP-1 disruption, possess powerful brands, and that are able to show underlying volume growth as the high levels of pricing come down.

Brands under threat from content creators

Platforms like Instagram, Tiktok and X (formerly known as Twitter) make it possible for everyone to become a content creator. Well-known content creators such as influencers and celebrities are disrupting the consumer packaged goods sector by launching a wide array of products. Old line consumer companies have a very hard time engaging with this new form of competition.

The virtuous cycle of content creators works something like this: First, they make a compelling piece of content and thereby acquire an audience. Once acquired, the trick is to retain said audience and to build trust. Once trust is gained, it's possible to sell them a new version of an existing product (often at a lower price). Content creators then use the proceeds to reinvest in the creation of more exciting content. Over time, new products are launched in nearly all consumer categories that collectively chip away at the revenues and profits of established companies.

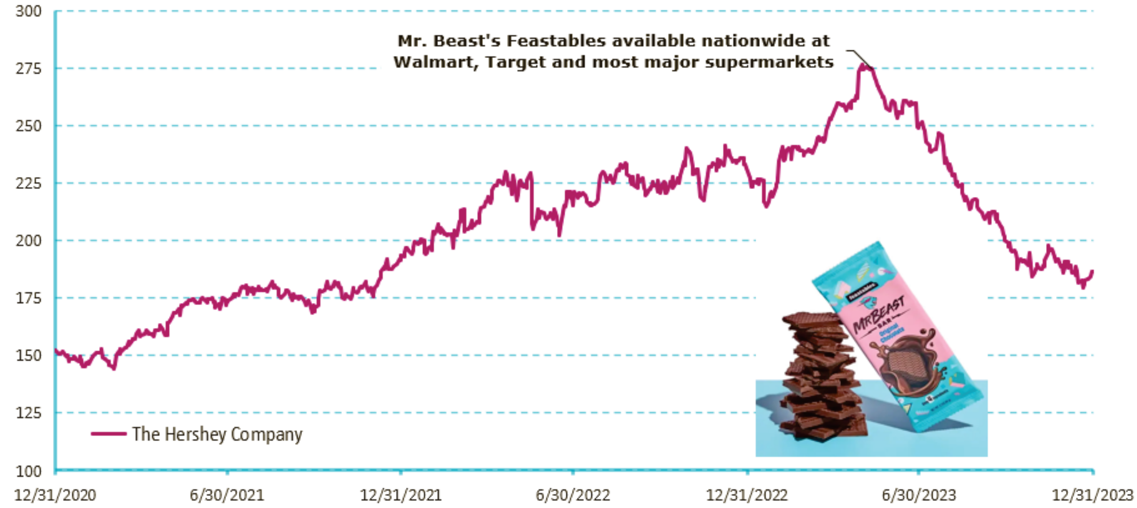
This trend isn't exactly new as already in 2013 a group of celebrities, including the actor George Clooney, created the tequila brand Casamigos. Using experts, taste makers and influencers, the brand became such an incredible success that it forced spirits maker Diageo to purchase it in a transaction valued up to USD 1 billion in 2017. Diageo has been on a 'celebrity buying spree' as they also bought out actor Ryan Reynolds' stake in Aviation Gin.

Kylie Cosmetics is another example. Founded in 2015 by Kylie Jenner, of Kardashian fame, the brand quickly gained a large following on social media. In November 2019 she signed a deal to sell a majority stake to US cosmetics firm Coty, valuing the business at USD 1.2 billion.

The major success of these transactions has inspired many celebrities and influencers to launch various consumer products. In 2022 Logan Paul, a US Youtuber and professional wrestler, introduced Prime, a hydration/energy drink that's taking on Pepsico-owned Gatorade. Perceived as a healthier nutritional drink, Prime is pitched as a low-sugar beverage created for active individuals engaged in sports or workouts. The brand generated an astonishing USD 250 million in sales in its first year in the market. In November 2023, Bloomberg reported that the brand was set to surpass USD 1.2 billion in annual sales with sponsors like the LA Dodgers (baseball) and English Premier League football club Arsenal FC.

Influencer brands can have a big impact on listed companies, and this year's launch of MrBeast Feastables is a prime (no pun intended) example. MrBeast is a very well-known Youtuber with more than 200 million subscribers. In September 2023 his main Youtube channel reached 2 billion views in a single month for the first time. MrBeast launched his own line of chocolate bars last year, saying he was taking on Hershey with Feastables and expected them to be stocked in 50,000 locations over the course of the next 12 months. Since the launch of Feastables at Walmart and supermarkets nationwide, Hershey shares have declined as much as 33%.

Figure 3: Hershey shares have melted since the nationwide launch of Feastables



Source: Robeco, Bloomberg

The main takeaway here is that it's extremely important for brands to continue to innovate and delight customers in order to stay competitive. Big and powerful brands with large marketing budgets seem better equipped to fend off these threats.

Current positioning

Taking the two trends mentioned above into account, we have lowered our exposure to companies with businesses in the packaged food space, such as Unilever and Nestlé. We retained our exposure to Costco because it could potentially offset the impact of obesity medication through other product categories. Costco also operates the US's largest private label brand, making it less prone to disruption from influencer brands. Finally, its membership program continues to provide great value, resulting in a growing number of loyal customers.

Although we focus on consumer staples stocks here, we would like to spend a few words on other food-related companies we own in the context of obesity medication. We continue to like the prospects of restaurant chain Chipotle Mexican Grill as Mexican culture proliferates in the US. Its dishes have a relatively healthy image and the company has ample opportunities to open new restaurants. Other impacted holdings are ingredients companies Symrise and Givaudan who get about 40% of sales from flavors and textures for food and beverages. They are unlikely to be immune to GLP-1 risks but they could also be instrumental in making food products healthier, and have other growth drivers unrelated to food.

We think our exposure to health and well-being puts us in a relative strong position. Our largest buckets are in the still fragmented beauty and personal care space with positions in L'Oréal, Beiersdorf, Procter & Gamble, and others. One thing we like about the space is the large potential for premiumization. Where most consumers would tap out at a EUR 10 chocolate bar, they are happy to splurge on a EUR 25 vial of their favorite skincare. Another thing we like is the ability of beauty brands to travel across markets with relative ease. We have wildly different tastes in food but we all like to be beautiful. The large global beauty companies are uniquely positioned to acquire brands locally and subsequently market them globally, allowing them to achieve high returns on investment.

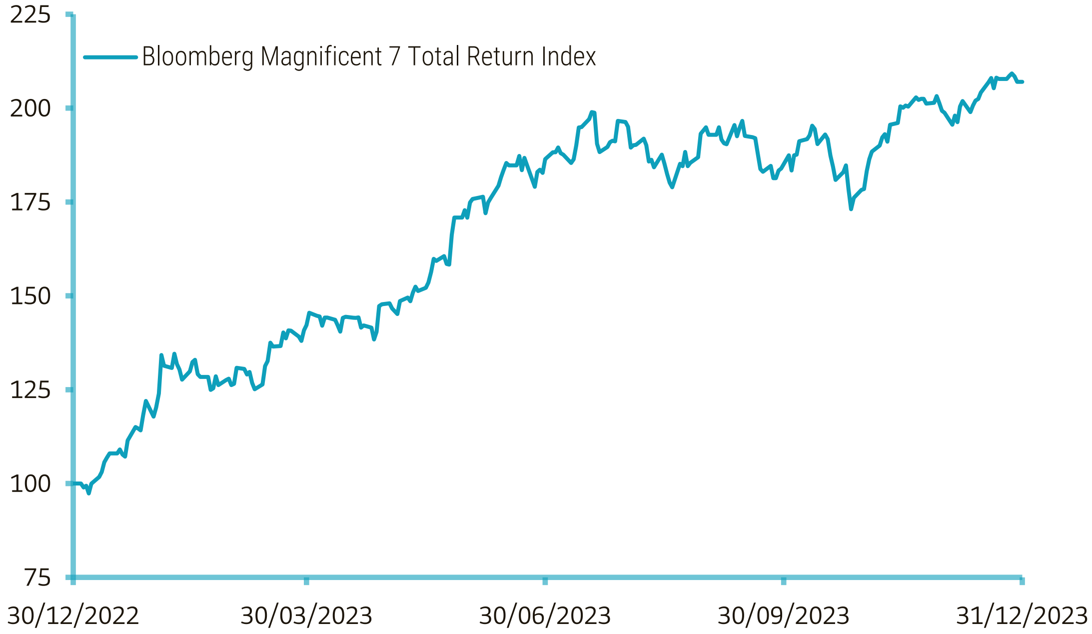
We've also upped our investments in the consumer health category. Our consumer health investments include EssilorLuxottica, Alcon and Haleon for example. This category is still developing and consumers are more careful with respect to their health. Therefore areas like eyecare, toothpaste and painkiller medication are less likely to be disrupted, while continuing to grow at above-GDP rates. Obviously, an aging global population is also a tailwind for these companies. Lastly, we like how companies can create competitive advantages in consumer health through science requiring deep pockets, patience and domain expertise – probably not the road influencers want to take.

Despite some market concerns about recession and slower consumer spending, we are leaning toward feeling more positive about consumer spending in 2024. While consumer sentiment is still restrained by sticker shock after the high levels of inflation during 2023, we do see signs of improvement. Lower gasoline prices, a labor market that continues to defy expectations, and easing borrowing costs all should provide relief to consumers and enable them to keep spending in 2024.

Can the 'Magnificent Seven' continue to perform in 2024?

During 2023, the Bloomberg Magnificent Seven index, consisting of Apple, Amazon, Alphabet, Nvidia, Meta Platforms, Microsoft and Tesla returned 107% versus the MSCI All Country World Index at 22%. The dramatic outperformance of the group did not happen by chance, or through a fit of irrational exuberance; rather, sales and earnings growth of those firms outpaced the rest of the market by a significant margin.

Figure 4: An index representing the Magnificent Seven returned more than 100% in 2023



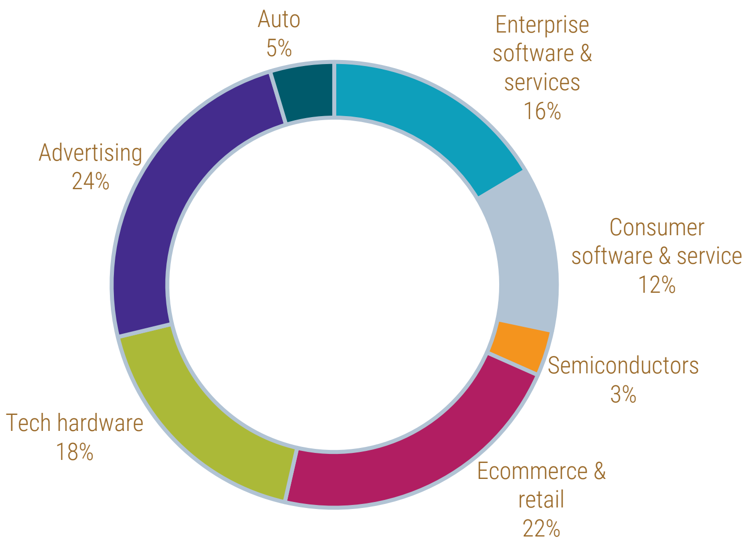
Source: Bloomberg, Robeco.

As we start the year, we remain overweight the group, and continue to like their long-term prospects to innovate and generate above market earnings growth. These seven companies collectively operate well-diversified, global, durable businesses models and they boast best in class balance sheets. Notably, a few in the group have a track record spanning several business cycles and multiple technology paradigms. While history suggests that the magnitude of last year's outperformance exhibited by the group in 2023 is unlikely to repeat in the coming year, it is worth noting that revenue growth for the group is expected to accelerate in 2024 as the mobile phone cycle bottoms, tailwinds emerge for digital advertising, ecommerce trends remain above market, and AI continues to drive demand for high performance computing.

Diversified markets

Although typically grouped together as just technology stocks, by industry classification the Magnificent Seven's revenues are technically 37% consumer, 25% communication services, and 38% technology. As leaders across the internet, advertising accounts for 25% of the group's revenues and ecommerce a further 22%. From mobile phones to cloud computing, technology hardware accounts for 18% of revenues, while software and services comprise 28%.

Figure 5: Magnificent Seven combined revenue distribution by product category, 2023



Source: Bloomberg, Company filings

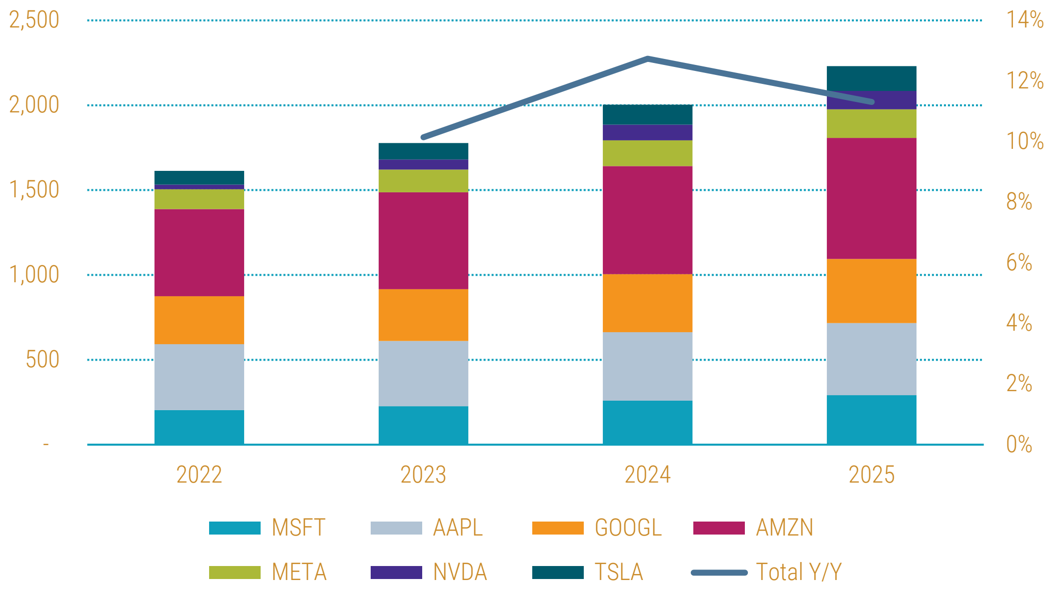
Accelerating growth

Several key trends served by the group are expected to accelerate in 2024:

- While the health of the consumer remains an open question, rising 7% year on year, ecommerce sales in the US expanded at more than twice the rate of total retail sales in 2023. Notably, in November ecommerce growth accelerated to 10%.
- Although the automotive market overall has shown signs of strain under higher interest rates and margins have come under pressure, Bloomberg New Energy Finance forecasts that full battery electric vehicle sales growth will grow 21% year-on-year in 2024, versus a 2% expected decline for petrol-powered vehicles.
- Magna Global expects that key events from the Olympics in Paris to the US elections will help drive global advertising revenues to expand from 5.5% year-on-year to 7.2% in 2024.
- Gartner forecasts worldwide spending on information technology will accelerate from 3.5% in 2023 to 8% in 2024. Notably, Gartner expects that generative AI will have little impact on the sector this year, as services leveraging the technology are not expected to scale until 2025 – setting the stage for continued growth in the years ahead. That said, we do believe the manic pace of AI infrastructure spending will inevitably take a breather at some point in the not too distant future as enterprises take stock of the returns on their investments.

As a result of these trends, topline growth for the 'Magnificent Seven' is expected to accelerate from 9% in 2023 to 12% in 2024. On the other hand, earnings growth of 29% in 2023 was aided by cost optimization programs that appear to be complete, but earnings growth in 2024 is expected to moderate to a still robust 19%. For comparison, excluding the magnificent seven, the MSCI All Country World index earnings are expected to contract by 41 basis points in 2023, and expand 7.8% in 2024.

Figure 6: Magnificent Seven revenue & growth forecasts, USD billions

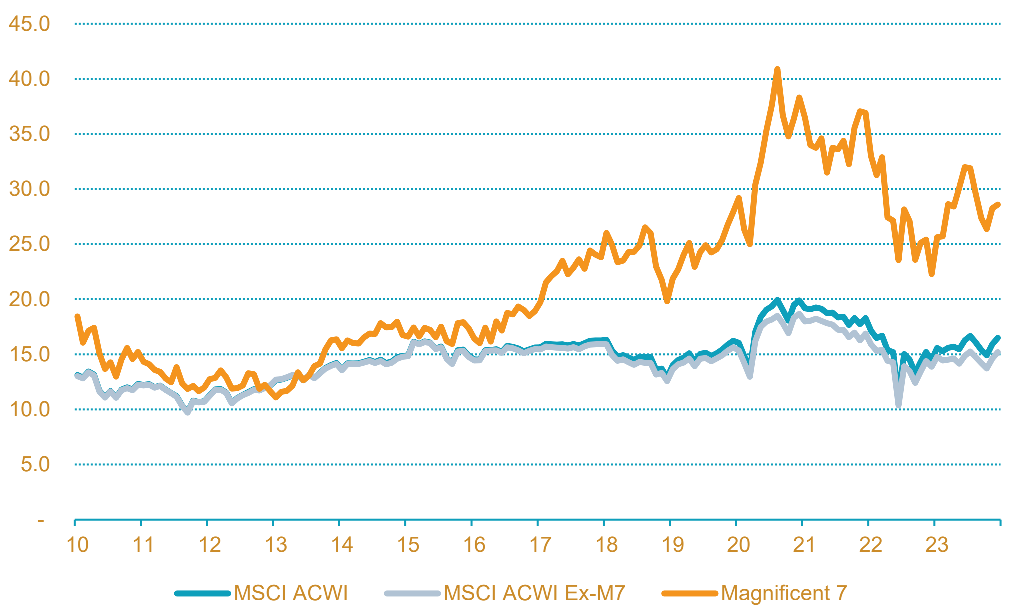


Source: Bloomberg, Company filings

Elevated valuations supported by growth

In fairness, the 'Magnificent Seven' are considerably more expensive than the market. At the start of 2024, the Bloomberg Magnificent Seven index traded at 28.6 times 2024 estimated earnings, versus the All Country World Index, excluding the Seven, at 15.2 times. For comparison, at the 1972 peak, the Nifty 50 traded 42 times earnings and in March 2000, the Nasdaq 100 Index traded at 75 times. Factoring in growth, we note the Magnificent Seven currently trade with a price to earnings to growth ratio of 1.5 versus the All Country World Index, excluding the Seven at 1.9.

Figure 7: Price to forward earnings, MSCI All Country World Index versus the Magnificent Seven



Source: FactSet, MSCI, Morgan Stanley Research

Risks abound

Beyond macroeconomic risks that could dent demand for advertising, automobiles, retail sales, and technology investment, the 'Magnificent Seven' face mounting risks, in part driven by their own success. From Brussels to Beijing and Washington in between, in recent years anti-trust regulators have increasingly sought to rein in the practices of these dominant platforms. Moreover, geopolitical tensions, particularly between the US and China, have resulted in increased tariffs and restrictions on the export of advanced semiconductors and related technologies that could aid further AI development. In addition, the success of the group has spawned renewed competition, from incumbents, from startups, and from each other. It is, as they say, never easy at the top.

Investing for the future

While competitors and regulators might allege foul play, these seven companies invest heavily to remain innovative. For instance, over the last five years, the group has expanded research and development spending at a 20.5% compound annual growth rate while still growing net income at a 19.6% annualized rate. With a track record of profitably developing, serving, and leading a broad array of favorable secular trends, the 'Magnificent Seven' collectively remain well positioned to expand further.

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This document is exclusively distributed to Liechtenstein-based, duly licensed financial intermediaries (such as banks, discretionary portfolio managers, insurance companies, fund of funds) which do not intend to invest on their own account into Fund(s) displayed in the document. This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich, Switzerland. LGT Bank Ltd., Herrengasse 12, FL-9490 Vaduz, Liechtenstein acts as the representative and paying agent in Liechtenstein. The prospectus, the Key Information Documents (PRIIP)the articles of association, the annual and semi-annual reports of the Fund(s) may be obtained from the representative or via the website.

Additional information for investors with residence or seat in Malaysia

Generally, no offer or sale of the Shares is permitted in Malaysia unless where a Recognition Exemption or the Prospectus Exemption applies: NO ACTION HAS BEEN, OR WILL BE, TAKEN TO COMPLY WITH MALAYSIAN LAWS FOR MAKING AVAILABLE, OFFERING FOR SUBSCRIPTION OR PURCHASE, OR ISSUING ANY INVITATION TO SUBSCRIBE FOR OR PURCHASE OR SALE OF THE SHARES IN MALAYSIA OR TO PERSONS IN MALAYSIA AS THE SHARES ARE NOT INTENDED BY THE ISSUER TO BE MADE AVAILABLE, OR MADE THE SUBJECT OF ANY OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE, IN MALAYSIA. NEITHER THIS DOCUMENT NOR ANY DOCUMENT OR OTHER MATERIAL IN CONNECTION WITH THE SHARES SHOULD BE DISTRIBUTED, CAUSED TO BE DISTRIBUTED OR CIRCULATED IN MALAYSIA. NO PERSON SHOULD MAKE AVAILABLE OR MAKE ANY INVITATION OR OFFER OR INVITATION TO SELL OR PURCHASE THE SHARES IN MALAYSIA UNLESS SUCH PERSON TAKES THE NECESSARY ACTION TO COMPLY WITH MALAYSIAN LAWS.

Additional information for investors with residence or seat in Mexico

The funds have not been and will not be registered with the National Registry of Securities or maintained by the Mexican National Banking and Securities Commission and, as a result, may not be offered or sold publicly in Mexico. Robeco and any underwriter or purchaser may offer and sell the funds in Mexico on a private placement basis to Institutional and Accredited Investors, pursuant to Article 8 of the Mexican Securities Market Law.

Additional information for investors with residence or seat in Peru

The Superintendencia del Mercado de Valores (SMV) does not exercise any supervision over this Fund and therefore the management of it. The information the Fund provides to its investors and the other services it provides to them are the sole responsibility of the Administrator. This Prospectus is not for public distribution.

Additional information for investors with residence or seat in Singapore

This document has not been registered with the Monetary Authority of Singapore ("MAS"). Accordingly, this document may not be circulated or distributed directly or indirectly to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. The contents of this document have not been reviewed by the MAS. Any decision to participate in the Fund should be made only after reviewing the sections regarding investment considerations, conflicts of interest, risk factors and the relevant Singapore selling restrictions (as described in the section entitled "Important information for Singapore Investors") contained in the prospectus. Investors should consult their professional adviser if you are in doubt about the stringent restrictions applicable to the use of this document, regulatory status of the Fund, applicable regulatory protection, associated risks and suitability of the Fund to your objectives. Investors should note that only the Sub-Funds listed in the appendix to the section entitled "Important information for Singapore Investors" of the prospectus ("Sub-Funds") are available to Singapore investors. The Sub-Funds are notified as restricted foreign schemes under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") and invoke the exemptions from compliance with prospectus registration requirements pursuant to the exemptions under Section 304 and Section 305 of the SFA. The Sub-Funds are not authorized or recognized by the MAS and shares in the Sub-Funds are not allowed to be offered to the retail public in Singapore. The prospectus of the Fund is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply. The Sub-Funds may only be promoted exclusively to persons who are sufficiently experienced and sophisticated to understand the risks involved in investing in such schemes, and who satisfy certain other criteria provided under Section 304, Section 305 or any other applicable provision of the SFA and the subsidiary legislation enacted thereunder. You should consider carefully whether the investment is suitable for you. Robeco Singapore Private Limited holds a capital markets services license for fund management issued by the MAS and is subject to certain clientele restrictions under such license.

Additional information for investors with residence or seat in Spain

Robeco Institutional Asset Management B.V., Sucursal en España with identification number W0032687F and having its registered office in Madrid at Calle Serrano 47-14º, is registered with the Spanish Commercial Registry in Madrid, in volume 19.957, page 190, section 8, sheet M-351927 and with the National Securities Market Commission (CNMV) in the Official Register of branches of European investment services companies, under number 24. The investment funds or SICAV mentioned in this document are regulated by the corresponding authorities of their country of origin and are registered in the Special Registry of the CNMV of Foreign Collective Investment Institutions marketed in Spain.

Additional information for investors with residence or seat in South Africa

Robeco Institutional Asset Management B.V. is registered and regulated by the Financial Sector Conduct Authority in South Africa.

Additional information for investors with residence or seat in Switzerland

The Fund(s) are domiciled in Luxembourg. This document is exclusively distributed in Switzerland to qualified investors as defined in the Swiss Collective Investment Schemes Act (CISA). This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich. ACOLIN Fund Services AG, postal address: Leutschenbachstrasse 50, 8050 Zürich, acts as the Swiss representative of the Fund(s). UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich, postal address: Europastrasse 2, P.O. Box, CH-8152 Opfikon, acts as the Swiss paying agent. The prospectus, the Key Information Documents (PRIIP), the articles of association, the annual and semi-annual reports of the Fund(s), as well as the list of the purchases and sales which the Fund(s) has undertaken during the financial year, may be obtained, on simple request and free of charge, at the office of the Swiss representative ACOLIN Fund Services AG. The prospectuses are also available via the website.

Additional information relating to RobecoSAM-branded funds/services

Robeco Switzerland Ltd, postal address Josefstrasse 218, 8005 Zurich, Switzerland has a license as asset manager of collective assets from the Swiss Financial Market Supervisory Authority FINMA. The RobecoSAM brand is a registered trademark of Robeco Holding B.V. The brand RobecoSAM is used to market services and products which entail Robeco's expertise on Sustainable Investing (SI). The brand RobecoSAM is not to be considered as a separate legal entity.

Additional information for investors with residence or seat in Taiwan

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Additional information for investors with residence or seat in Thailand

The Prospectus has not been approved by the Securities and Exchange Commission which takes no responsibility for its contents. No offer to the public to purchase the Shares will be made in Thailand and the Prospectus is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Additional information for investors with residence or seat in the United Arab Emirates

Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority ("the Authority"). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

Additional information for investors with residence or seat in the United Kingdom

Robeco is deemed authorized and regulated by the Financial Conduct Authority.

Additional information for investors with residence or seat in Uruguay

The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except under circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated 27 September 1996, as amended.