CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Candriam Equities L Robotics & Innovative Technology

Market Overview

Eventually, monetary easing is a fact. The Fed cut rates by 50bp in September and indicated there was room for further cuts going forward. The same message resonated at several other central banks. Driven by this benign interest environment, and also by the massive stimulus package in China, the global stock market reached once again new historic highs. This said, there are certainly a number of factors that are hampering investor's enthusiasm. Weaker macro data in the US and certainly in Europe, are slightly raising the (still low) probability of recession. Military conflicts in the Middle East and in Russia are far from over and could have weigh on investor's confidence. At the same time, one should not underestimate the uncertainty due to presidential elections in the US and difficult government formation in several European countries.

From a regional point of view, there were clear differences in performance, when expressed in local currency. Emerging markets, driven by a weaker USD and by massive Chinese stimulus measures, outperformed significantly, after a long period of underperformance. Japan had the worst performance, and gave back some of its outperformance since the beginning of the year, mainly because of the more hawkish Japanese central bank esp. compared to most other central banks in the world.

Value stocks slightly underperformed growth stocks. Energy and Healthcare were among the weakest sectors, while Utilities (driven by AI datacenter demand), Consumer Discretionary and Materials were outperforming the rest of the market. The Robotic and Innovative Technology universe performed in line with the global stock market as the most important sectors in the strategy (IT and Industrials) performed in line with the global equity market.

The top contributors in the fund were Advanced Micro Devices, Salesforce, Vertiv and Microsoft. Renesas, ASML, Palo Alto and MongoDB were among the worst contributors.

Portfolio Highlights

Though we remain constructive on the technology space (current rate environment is more benign, AI continues to drive the sector, cloud consumption is recovering and hyperscalers continue their massive capex spending), we are currently a tad more cautious, as we do not see immediate triggers that could revive the interest in the sector. We continued to take profit in positions such as Nvidia, Micron Technology and Applied Materials. We reinvested most of it in software companies such as Palo Alto, Autodesk and Zscaler, as we are starting to warm up on the sector, which is considered more defensive and more attractively valued. We continue to keep significant exposure to Big Data and AI, to sensors and semiconductors, to cybersecurity, to cloud deployment and to industrial automation and robotics stocks. Alphabet, Microsoft, Nvidia, TSMC and Salesforce are among the most important positions in the fund.

Fund Outlook

Technological innovation is happening at a speed that has never been observed before. The use of Machine Learning and Artificial Intelligence, Generative Artificial Intelligence, Big Data technology, transition to the cloud, increased use of OLED, Virtual Reality, 5G technology, Internet of Things, advanced robotics, metaverse, next gen automation are just a few examples of exciting trends the fund is investing in. We remain convinced of the superior longer-term potential for the Robotics and Innovative Technology strategy (we remain very comfortable with the demographic, technological and environmental drivers). Automation and robotization are accelerating given labour shortages, decreasing active population, wage increases and re-shoring in the US and in Europe. This strategy will benefit in the best possible way from this undeniable mega-trend.

As core inflation continues to slow down, we do anticipate further monetary easing, both in 2024 and in 2025. Presidential elections in the US, trade war with China, the Ukrainian conflict, the Middle East conflict and oil prices are nevertheless factors to monitor closely. Given the excellent long-term perspectives, we continue to recommend using every significant correction to increase or initiate positions in this strategy