

Candriam Equities L Robotics

Innovative Technology

Market Overview

In July, the global stock market reached another all-time high, driven by more benign inflation numbers and slightly weaker labour data. As such, investors felt more comfortable that the Fed would start cutting interest rates from September on. In the second half of the month, earnings results started to come out, and though they were very solid, they were clearly less impressive than in earlier quarters. Moreover, some investors started to question the AI trade, and as many of these stocks were priced to perfection, investors started to take profits in the broader technology space, with a focus on semiconductors and semiconductor equipment. In the meantime, the 10Y yield declined significantly in the US and in Europe.

Value stocks outperformed growth stocks, as most of the growth stocks are linked to AI. Utilities and Financials outperformed, while IT and Consumer Discretionary underperformed. From a regional point of view, no big differences in performance, at least when expressed in local currency. The investment universe underperformed the global stock market as the most important sector in the strategy (IT) underperformed the global equity market.

The top contributors in the fund were On Semiconductor, Emerson Electric, Servicenow (excellent results) and Tecan. Crowdstrike (a software update caused a general systems outage), Micron Technology, Lam Research and BESI 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 started to feel less comfortable with the current valuation levels, that need to be supported by significant positive earnings surprises, which is currently less the case (solid earnings, but only marginally better than expected). To that end we started to raise the cash levels in the portfolio, by taking profit in Nvidia, Micron Technology, Applied Materials, AMD and On Semiconductor. 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 Emerson Electric 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 of our 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 megatrend.

As core inflation continues to slow down, we do anticipate a more accommodative monetary policy in 2024. 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.

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