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Robotech strategy

Leading indicators for Japanese industrial activity continue to show a robust global recovery

- Growth orientated sectors continued to regather some favour over the month
- We saw strong performance in the healthcare space
- Japanese manufacturers reported strong set of results

Tom Riley

Portfolio Manager, Robotech strategy

What's happening?

Equity markets rose modestly in July (MSCI ACWI Index in USD terms), following a strong first half to the year. Growth orientated sectors continued to regather some favour over the period, driven by strong corporate earnings results and a supportive backdrop from governments and central banks around the world. The Robotech strategy outperformed during the period, with a notable contribution from stocks held in the healthcare sector.

Activity indicators such as PMIs¹ are continuing to show solid economic expansion. Leading indicators for Japanese industrial activity, such as Machine tool orders and Robot orders continue to show a robust global recovery in the manufacturing space, which should be supportive of demand for a range of automation equipment providers.

Portfolio positioning and performance

During July, we saw strong performance in the Healthcare space, with Dexcom, a leading manufacturer of continuous glucose monitoring devices for diabetic patients performing well. The company reported strong results and is broadening the case for its device to be used by more patients, including the ones suffering from Type 2 diabetes. Intuitive Surgical, a leading manufacturer of surgical robots also reported strong results and upgraded their forecasts for surgical procedure volumes done with their robots to rise 27-30%² in 2021 compared to 2020 procedures – highlighting that elective surgical procedures are recovering following a challenging period due to COVID.

¹ PMI: Purchasing Managers' Index

² Intuitive Surgical Q2 Earnings Call, 20/07/2021

Keyence, a Japanese manufacturer of sensors and vision systems used for quality control and inspection in manufacturing reported a strong set of results with record quarterly sales for the June quarter and the highest operating profit in its history. We saw similarly encouraging results from our Robotics companies, with Fanuc, a Japanese robot manufacturer reporting the highest quarterly orders in its history.

Our semiconductor holdings continued to performed strongly after some volatility seen earlier in the year. We saw particular strength from companies who specialise in High Performance Computing and Artificial Intelligence such as AMD.

Activity was more muted on the portfolio during the month. We added to our position in ON Semiconductor – a US semiconductor focused on the automotive and industrial end markets – and we reduced our position in MedTech company Philips.

Outlook

Industrial activity and strong order books for industrial robotics companies bode well for a continued recovery in 2021 post the COVID-19 disruptions. Initially, this had been led by an earlier recovery in China, with the US recovering too – but now we are seeing more signs of that strength broadening in to Europe and Japan.

In addition to the pent up demand for automation equipment post COVID-19, we believe that there are also elements of pent up demand coming thorough post the US China trade war of 2019/2020 – we were starting to see signs of this recovery at the end of 2019 and early 2020 before COVID put companies investment plans on hold. If this does start to materialise, this could signal a more prolonged period of higher industrial activity and CAPEX³ investments, supportive to a range of automation companies.

Ecommerce has seen volumes rise significantly during the lockdowns and companies with a strong online presence have benefitted whereas companies that have been slower to adopt ecommerce have often struggled. Whilst some of this current shift to ecommerce is temporary, we do believe that some spending habits will be permanently altered. To support this shift towards ecommerce going forward, we anticipate major spending for logistics and fulfilment centres as companies need to reinforce their capabilities in this area. This increase in CAPEX³ will likely be beneficial to a wide range of automation suppliers.

It is increasingly recognised that EVs⁴ are starting to get more interest from consumers as the costs of the vehicles come down, battery technology improves, and consumers focus on environmental trends. What is perhaps less focussed on is the significant investment that is needed to manufacture these new Electric Vehicles and their batteries. It is important to note that CAPEX³ decisions are being made currently for vehicles that will be produced in 12-24 months' time, so the prospects for companies supplying equipment such as industrial robots, lasers and vision systems is improving.

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³ CAPEX: Capital Expenditure

⁴ EVs: Electric Vehicles

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