Robotech strategy

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- Global Equity markets rose during the month as geopolitical tensions eased, the Fed cut interest rates and companies' commentaries appeared more positive than investors were expecting
- We saw strength in the Industrial space and technology hardware and Semiconductors.
- We took some profits in some of our semiconductor names that had performed well

Tom Riley
Portfolio Manager, AXA WF Framlington Robotech

What's happening?

Global Equity markets rose during the month as geopolitical tensions eased, the Federal Reserve cut interest rates and company commentary at investor conferences we attended appeared more positive than investors were expecting. We saw stronger performance from the cyclical areas of the market such as Industrials and Semiconductors, whilst software underperformed.

The leading indicators are showing mixed signals at present, with the US Institute for Supply Management PMI Index reporting a score of 47.8 for September, suggesting continued weakness in the Industrial space, but likely to ensure that the Fed continue to take action to support the economy. On the positive side, we are seeing machine tool orders begin to bottom in Japan which would suggest a recover in the coming 6 months.

Portfolio positioning and performance

The fund outperformed the broader market during the month. We saw strength in the Industrial space and technology hardware and semis. Performance was led by some of our Japanese component suppliers such as motion control specialist SMC, Industrial Automation company Omron and warehouse automation provider Daifuku. Following a strong earnings report at the end of August, our position in Ambarella, a US semiconductor company specialised in chips used for Image processing technologies continued to perform well. Management of Ambarella highlighted their strong pipeline of design wins at automotive customers as vision systems increasingly get embedded in cars to make driving safer.

We were more active on the portfolio during September. We took some profits in some of our semiconductor names that had performed well, reducing Teradyne, Ambarella & Qualcomm. We continued to build our position in Marel an Icelandic food processing equipment manufacturer.

We increased our position in Intuitive Surgical which had seen modest weakness in its share price ahead of a competitor, Medtronic, unveiling its new robotic surgery platform, "Hugo". We anticipate that a full commercial roll out for this new product will not occur for another 2 years as they continue to develop it and gain approval for the various procedures. At present, we see limited differentiation in the product that would concern us around Intuitive Surgical's ongoing dominance in the space.

We exited our position in automotive supplier Continental as automotive sales data continues to be weak and we see better investment opportunities within the semiconductor supply chain, such as NXPI semi which we added during the summer and Microchip which we topped up during the month.

Outlook

Currently, the US/China trade war issues continue to weight on sentiment and business activity. We are also seeing a slowdown in activity in the UK and Europe more broadly as the impending Brexit deadline (currently the 31st October) continues to cause business's to delay elements of decision making and investment. As mentioned earlier, the leading indicators are showing somewhat mixed signals in terms of economic outlook for the end of 2019, but we do see activity indicators (such as Japanese machine tool orders) pointing towards a recovery for the first half of 2020.

Focussing longer term, it is clear that semiconductors have been proliferating more and more in the world around us over the last decade as the world has become more connected. Historically, this has been most visible in the form of smartphones and other consumer devices. The last few years has seen a broadening application in to other parts of the economy such as industrials and autos. We believe that we are at the early stages of a growth inflection for semiconductors as new areas like Electric Vehicles, Autonomous Vehicles, 5G Communications and Connected Factories really start to see adoption. The importance of semiconductors in enabling these technology shifts is exactly why they are being fought over at present, with both the US and China keen to protect their national interests and proprietary intelligence.

Despite the uncertainty presented by the US/China disputes, US Economic Activity remains strong - We think that the potential for industrial and manufacturing capex investment in the US could provide a supportive backdrop for the next few years. More broadly we expect innovation to continue at a rapid pace, with continued improvements in connectivity and semiconductors that are crucial components of the robotics and automation ecosystem. Further developments in software and areas such as artificial intelligence and big data analysis are also likely to broaden the applications of automated systems.

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