BlueBox Funds - BlueBox Global Technology Fund

Direct Connection

Global Technology Fund

bluebox

***This is a marketing communication**. Please refer to the Prospectus and KID of the Fund for more information on general terms, risks, and fees. Investors should only invest in the Fund once they have reviewed the Prospectus and KID before making any final investment decisions.*

PM Ad hoc Market Commentary Amid Recent Tech Sector Volatility

In the June commentary a month ago, I suggested that signs of possible weakness in the US economy might begin to worry investors, and we have indeed now seen a sharp sell-off for the market, including the Technology sector, with broad global tech indices down around 15% since their mid-July highs.

The summer is often a tricky time for tech. For most companies the second half of the year tends to be bigger than the first, so when announcing June quarter results, managements are often quite cautious with full-year guidance, as the big second half is only just starting, often leading to mild disappointment even as the quarter's results come in ahead. If investors are looking for bullish forecasts to sustain an investment narrative, they may find themselves disappointed, especially if broader macro headwinds appear to be rising, and I think that this is what is happening currently: while there were some weak results (Intel comes to mind, a company that has been in a very difficult position for several years, and which we don't hold), most came in absolutely fine or even better. There certainly doesn't seem to be much evidence that AI-driven tech spend is slowing yet (just the reverse, e.g. Microsoft's huge capex forecast) – but companies aren't going to fully and publicly commit themselves barely halfway through the year.

With US employment data a little weaker, consumer default rates rising and ISM manufacturing surprising on the downside, there is material to create a bear case for the US economy, should one be looking for it. Objectively it still seems more like a soft-landing than a recession, but after such a strong start to the year, investors are nervous and looking for the downside. The combination of these macro doubts and a lack of clear affirmation of tech strength are resulting in volatility and market weakness.

Looking forward, there is generally very little sector-specific data until the next reporting season in October/ November, which often creates summer weakness for the sector, followed by a sharp rebound in the fourth quarter – the familiar late-October bounce. Companies report solid September quarters, and managements (by then only a few weeks from year end) can be more aggressive in their full-year guidance and start to talk bullishly about the year to come. Everything turns out to be okay in Tech after all !

Given this pattern, in the last few days we have been a little more aggressive than in early June in trimming our semiconductor exposure, taking our total semiconductor target weight down from about 38% to 34%, hiding some of the proceeds in software names. This should make the portfolio modestly more defensive, but more importantly it gives us scope to add significantly to the more cyclical semiconductor names in due course, if the normal pattern appears to be asserting itself – most likely in late October or early November. On the other hand, should the macro outlook deteriorate further (and I continue to think that this is significantly less likely), we are a good step towards battening down the hatches for a forthcoming storm.

However, this is very much tinkering around the edges: whatever the short-term outlook, we see no evidence that the overall trend of 15% growth for the Technology sector as a whole is at risk. Paying too much attention to the short-term gyrations of the market is a mistake, as in the real world vast sums are still being spent across a wide spectrum of technology, as companies develop and deploy successive rounds of tech-driven disruption in every walk of life, enabled by the Direct Connection of systems to the real world. Technology enablers continue to be the main beneficiaries, stealing almost all the profit growth from the rest of the market, as they have done since 2007. These very profitable enablers remain the main engine of profit growth globally, giving BlueBox investors exposure to the strongest technology trends, without the absurd valuations and poor business models of many of the high-profile, but profitless, disrupters.

William de Gale
Lead Portfolio Manager - BlueBox Global Technology
6 August 2024