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When your surgeon is a robot

EDITORIAL VIEW

- Robotic systems are transforming surgical procedures, across multiple medical specialties
- They enhance patient outcomes, thanks to greater operative precision, and enable faster recovery
- Technological advances underpin strong future growth – and attractive investment opportunities

GLOBAL STRATEGY

- Disinflation progress opens the door to a Fed rate cut in September...
- ... acting as a primary catalyst for market rotation, with US politics a wild card
- We expect higher volatility and more muted returns for the rest of the year

ASSET ALLOCATION

- Tactical allocation – Brace for rotation out of IT, as well as heightened US political risk
- Equity – Neutral stance, further rebalancing allocation beneath the index surface
- Forex – Still favouring the CHF & USD (alongside gold) for risk diversification purposes

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We are at the dawn of the surgical robot revolution. Procedures in numerous fields, ranging from orthopaedics to urology, and cardiology to gynaecology, are now performed with the assistance of robotic systems – bringing undeniable advantages in terms of precision and control, but also patient outcomes. Assuming cost and other hurdles are overcome, the adoption of RAS (robotic-assisted surgery) looks set to broaden further in the coming years, building also on advances in artificial intelligence, machine learning/vision and connectivity. To the point, at some stage, of robots reaching full autonomy in operating theatres?

Although the initial idea of using machines to help surgery dates back to the mid-20th century, and the pioneering PUMA 560 robot was used already in 1985 to execute neurosurgical biopsies, the turning point came in the early 2000s, when the Da Vinci Surgical System (developed by Intuitive Surgical) was introduced. It transformed the manner in which minimally invasive procedures could be performed, improving surgeon dexterity, precision and visualisation of the operative site.

RAS works as follows: the surgeon is seated at the command centre (console) and uses hand controls and foot pedals to manipulate robotic arms. These arms – effectively an extension of human hands, without any tremors or accidental movements – are fitted with surgical instruments. They make it possible to reach narrow parts of a patient’s body, and to perform intricate procedures. The console also includes high-definition screens, providing a magnified view of the surgical zone and facilitating informed decision-making during the procedure.

From a surgeon perspective, the advantages of RAS reside in enhanced accuracy and dexterity, as well as lesser fatigue (not having to remain standing for long hours, manipulating heavy instruments).

In turn, this makes for improved patient safety and outcomes. From a patient perspective, superior outcomes are just part of the story. Other major benefits include smaller incisions, reduced blood loss, a lower risk of complications, lesser post-operative discomfort and faster recovery. As for the healthcare system more generally, shorter hospital stays, quicker patient return to normal (working) life, and less complications/hospital readmissions make for a cost-effective proposition – despite the considerable price tag of robotic systems, as well as maintenance and training expenses. The possibility of remote surgery, whereby RAS are used to intervene on patients in far-away locations, could also help reduce healthcare disparities across communities.

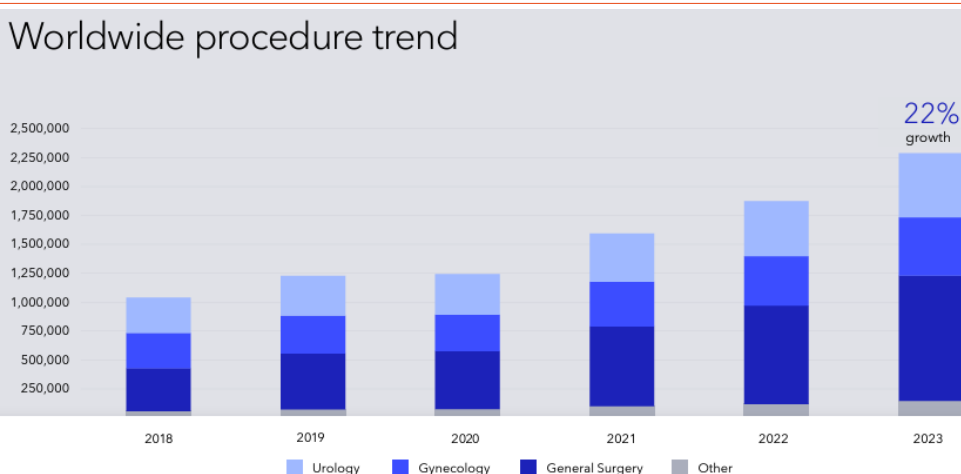
While Intuitive Surgical remains today’s clear market leader, other companies have joined the fray, notably Stryker with its Mako system (strong in orthopaedics) and Medtronic with its (somewhat laggard) Hugo system. The industry’s overall appeal lies in the direct sales model, in high switching costs that act as a barrier to entry, in a differentiating software component, and in relatively low exposure to Chinese competition. But above all, it boasts a very strong growth potential, from still low penetration levels.

For surgical robotic systems to deliver on this potential, indeed probably one day become fully autonomous, a number of cost, technical and ethical hurdles will obviously need to be cleared. But thanks to very rapid ongoing progress on enabling technologies such as machine learning and vision, the longer-term impact of surgical robots on humanity does stand to be truly extraordinary...

Written by Roberto Magnatantini, Senior Equity Fund Manager

GRAPH OF THE MONTH

Worldwide procedure trend



GLOBAL STRATEGY

Supportive *Goldilocks* backdrop despite heightened US political uncertainty

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A second month of weaker-than-expected US consumer inflation, a resilient but slowing labour market, moderating retail sales and industrial production: this all fits perfectly into a global soft-landing scenario. A supportive monetary easing cycle is thus underway, with the Fed next in line to cut rates, likely in September. On the political front, European turmoil has taken somewhat of a backseat, with the worst-case scenario avoided in France, while the pending US presidential election is now acting as a wild card for markets.

As a result, our macro base case scenario remains unchanged, even though risks of a temporary reacceleration of inflation (especially if Trump were to win with a Republican congressional landslide) and/or an economic soft patch cannot be totally dismissed. Global equity markets, and especially those in the US, have meanwhile taken a break, with a massive sector rotation out of US tech mega-caps (the primary contributors to year-to-date performance) into laggards (the remaining 493 S&P 500 members, US small-caps, value names, or some non-US markets). We view broader participation and the associated market consolidation as a healthy development, also keeping sentiment and positioning indicators at bay from exuberant and overly stretched levels. While the timing and speed of the market rotation obviously surprised many investors, we had been expecting it. For the last few months, we have repeatedly emphasised that elevated equity index multiples concealed a much more complex reality, with several market segments, such as small- & mid-caps or Europe, the UK notably, still offering attractive valuations - far below those of the magnificent US titans.

In fixed income, rates remain fairly valued, investors having repriced rate cut expectations to a more realistic path. That said, we do not (yet) see sufficiently compelling valuation opportunities at the long end of the curve, given sticky inflation, higher for longer (neutral) rates, as well as sovereign debt sustainability concerns that require a higher term premium. These risks are now further heightened by the uncertainty

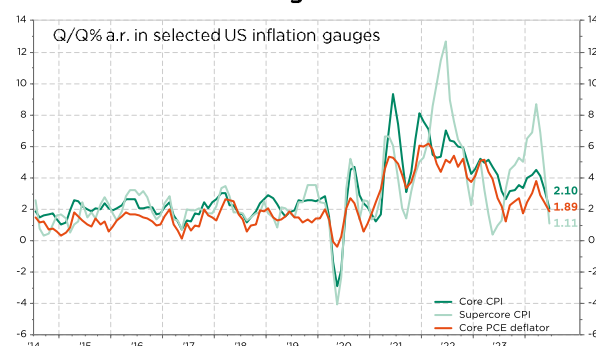
surrounding the outcome of the next US presidential election. Political instability and potential contagion to domestic-related equities are not only a prerogative of the UK (e.g. the "Liz Truss episode") or France nowadays... Moreover, we still struggle to find credit enticing at current tight spread levels.

Overall, we stick to our constructively neutral view on risk, not being overly concerned by the current market rotation. On the contrary, we see this due development as a healthy "cleansing" of recently exaggerated concentration into a (very) few (extremely) happy winner-stocks, paving the way for broader participation - even if that may mean less spectacular (but more equally distributed) index gains. We thus keep a constructive stance on equities, while still seeing higher volatility risks (bumpy disinflation, economic growth uncertainties, geopolitics, extent of monetary easing... and now market rotation) as likely to drive some price consolidation, possibly suggesting more muted near-term returns.

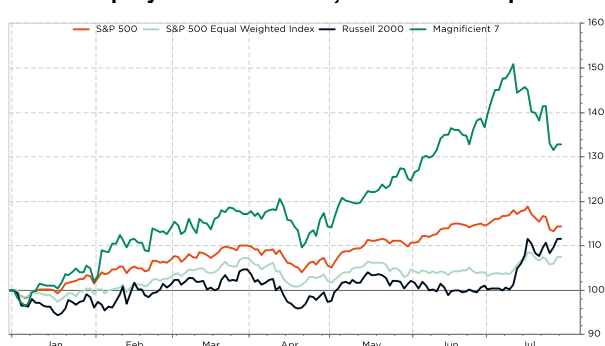
Within the equity allocation, we retain our (structural) preference for US markets and the growth style but are tactically (further) reducing beta by adding to small- & mid-cap and/or S&P 500 equal-weighted exposure, to be consistent with the forthcoming monetary policy transition. From a regional standpoint, we have tactically reduced the eurozone to a slight underweight to avoid potential Trump trade war collateral damage, reinforcing/preferring other European markets such as the UK and Switzerland. Elsewhere, we keep a cautiously neutral stance on bonds, with a preference for credit at the short end of the curve vs. long-term sovereign debt, a diversification in gold, which should benefit both from Fed easing and US political noise, and a preference for the CHF and USD, as they combine risk diversification and better fundamentals.

Written by Fabrizio Quirighetti, CIO, Head of multi-asset and fixed income strategies

Inflation back on track to give the Fed some comfort



Better equity market breadth, with a small-cap revival



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External sources include: LSEG Datastream, Bloomberg, FactSet, Intuitive 2023 earnings.

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