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## The cable industry: a hidden gem?

### EDITORIAL VIEW

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- Ongoing transformative global trends are shining the light on a long-disregarded industry
- Electrification, renewable energy, connectivity: all require robust and advanced cabling solutions
- Cable industry leaders thus look set for a promising future, albeit not without challenges

### GLOBAL STRATEGY

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- Did “Sahm-one” say recession?
- Supportive Goldilocks backdrop despite topsy-turvy markets
- Healthier technical backdrop with sentiment and positioning now less optimistic/stretched

### ASSET ALLOCATION

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- 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

## EDITORIAL VIEW

### The cable industry: a hidden gem?

- Ongoing transformative global trends are shining the light on a long-disregarded industry
- Electrification, renewable energy, connectivity: all require robust and advanced cabling solutions
- Cable industry leaders thus look set for a promising future, albeit not without challenges

Have you ever overlooked the true value of something that lies right in front of your eyes? Cables are such an example - critical yet underappreciated components of our interconnected world. For years, the cable industry was viewed as slow growing, and cyclical. Recent projects and investments point, however, to a significant transformation, warranting a reassessment of the industry's perspectives.

Cables are becoming key players in enabling the transition to a more electrified, sustainable and connected economy. The adoption of electric vehicles and energy-efficient systems such as heat pumps is, notably, driving demand for advanced cables capable of handling significant energy loads. Similarly, the rollout of 5G networks and data centres increases the need for robust data cables that support higher transmission rates and greater bandwidth. As for renewable energy production, it tends to be located in remote areas, requiring advanced cabling solutions for long-distance energy transport. Connecting regions with an energy surplus to those with high demand through power cables can also help mitigate the price volatility inherent to the intermittent nature of renewable sources.

Cables can be categorised into three primary types based on voltage: high-voltage (HV), medium-voltage (MV), and low-voltage (LV). HV cables are essential for long-distance power transmission, including complex projects like submarine cables for offshore wind farms or infra-governments interconnections. They require advanced technology and significant capital investment, making for high barriers to entry and thus a relatively consolidated market. MV and LV cables are crucial for distributing electricity from substations to end-users such as homes, businesses, and industrial sites. They play a pivotal role in modernising power grids and enhancing system reliability. While less complex than HV cables, the MV and LV segments are highly competitive, especially in regions like Europe with an established infrastructure.

The global cable industry is dominated by three

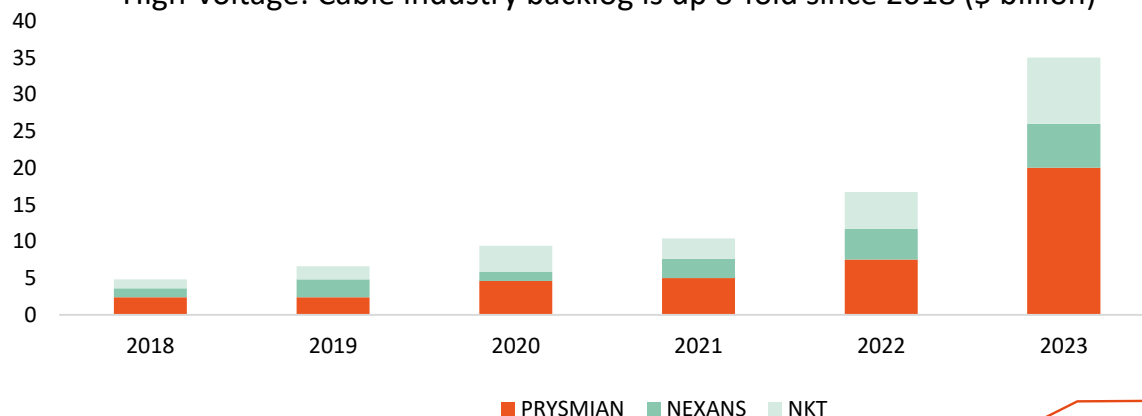
European giants: Prysmian (Italy), Nexans (France), and NKT (Denmark). Among them, Prysmian stands out as a high-quality player. Renowned for its ability to deliver solutions across the full voltage spectrum, Prysmian executes complex projects with a high success rate. This track record of reliability and expertise makes it a preferred partner for customers, even when faced with cheaper alternatives. The company's strategic M&A approach has also proven instrumental in driving growth. The acquisition of Encore Wire is a prime example, propelling the company to a dominant 45% market share in the highly consolidated US LV segment.

While the cable industry presents significant opportunities, it also faces challenges that could impact growth and profitability. Intense price competition from low-cost Chinese or Indian producers is a persistent headwind. Another significant risk is related to potential project delays and cancellations, due to regulatory hurdles, funding challenges, or technical difficulties. Such delays can result in significant financial losses, particularly in the HV segment, where projects are often large-scale and capital-intensive. Dealing with the price volatility of raw materials, particularly copper, is also an issue, since they represent 80% of LV cable production costs. While aluminium does offer a lower-cost alternative, its inferior conductivity limits its applicability in certain areas.

In conclusion, cables are crucial to enabling the technological and energy transformations that are shaping our future. As the world embraces mega trends, the demand for advanced and reliable cabling solutions will continue to grow. Industry leaders like Prysmian, Nexans, and NKT appear well-positioned to meet this demand. And while challenges stemming from competition, fluctuating raw material costs and execution delays could impact company performances, in the end it is simply a matter of connecting dots.

*Written by Edoardo Giraudi, Equity Analyst Intern & Jonathan Graas, Senior Fund Manager*

#### High-voltage: Cable industry backlog is up 8-fold since 2018 (\$ billion)



# GLOBAL STRATEGY

## Much ado about nothing

- Did “Sahm-one” say recession?
- Supportive Goldilocks backdrop despite topsy-turvy markets
- Healthier technical backdrop with sentiment and positioning now less optimistic/stretched

With the Fed keeping rates on hold for longer than anticipated by many and activity finally slowing down, investors' tipping point soon came to be reached: bad economic news turned into bad news for the markets too, sparking renewed fears of a hard landing. While the latest job report saw the US unemployment rate increase again, triggering the “Sahm Rule” recession bell (i.e. when the 3-month average unemployment rate rises by +0.5% or more from its 12-month low), subsequent data proved it wrong, however, suggesting both resilient growth and a first Fed rate cut in September, keeping our soft landing scenario intact.

As “the time has come for policy to adjust” according to Jerome Powell at Jackson Hole, the main uncertainty remains the path of rate cuts: gradual in the event of a soft landing (our base case) or much faster should a recession unfold. In this context, revived geopolitical tensions or any other unexpected external shock may still add upward pressure to inflation or push the economy into contraction, possibly inducing another bout of market volatility.

Speaking of equity volatility, August will be a month to forget for the faint-hearted. While technical factors (low liquidity, carry trade unwinding) can explain the magnitude of the spike in volatility, it also put an end to July's rotation out of growthier stocks. More importantly, these market swings cleaned up much of investors' prior overly-optimistic positioning: sentiment indicators switched from overbought to oversold within days, before returning to a neutral level, providing a healthier backdrop today. This is especially true since the earnings season proved once again solid, with net upgrades of estimates underpinning consensus expectations of 10% global growth this year and in 2025. As far as valuations are concerned, little has changed: currently elevated index multiples conceal a much more complex reality, with segments such as Europe and small-caps still offering attractive value.

In fixed income, ongoing disinflation and revived recession concerns restored, at least temporarily, the diversification benefits of sovereign duration.

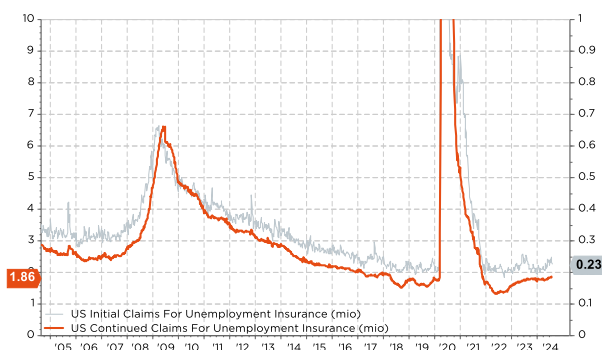
That said, in our view, the long end of the curve still does not offer a compelling enough valuation opportunity. Indeed, sticky services inflation, higher for longer neutral rates, as well as sovereign debt sustainability concerns requiring a higher term premium, cannot be fully dismissed. As far as credit is concerned, spreads have continued to behave well, even during the aforementioned equity volatility spike of early August, remaining close to historically tight levels and providing a supportive environment for risky assets overall.

As a result, we have made no major changes to our overall asset allocation. Fundamentally, we remain cautiously optimistic and continue to favour an all-terrain approach to portfolio construction together with a well-balanced diversified asset and sector allocation tilted towards high-quality plays in equities; preferring credit carry and high-quality duration convexity in bonds, while keeping a tangible allocation to gold combined with USD & CHF as risk diversifiers.

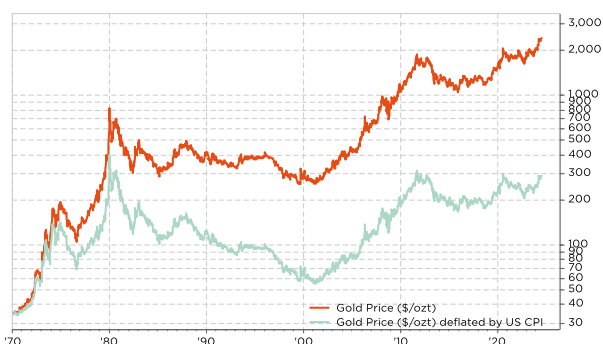
To wrap up, there has been a lot of noise and volatility lately, but only limited investor panic. The global equity rally has once again held up rather impressively. Indeed, notwithstanding a widely anticipated growth slowdown, both macro and micro fundamentals are showing healthy signs of resilience and should provide support in the near term. In particular, we still expect improving breadth to drive a steady catch-up across equity market segments beyond AI-powered sectors and mega-caps. Still, the remainder of 2024 looks set to remain eventful for risky assets, having to navigate continued geopolitical tensions, an economic slowdown, the fate of China, a US presidential election, and the ongoing AI technological revolution.

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

**US initial (RHS) and continuing (LHS) claims for unemployment insurance (both in million)**



**Gold price \$/ozt in nominal & real terms (log scale)**



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External sources include: LSEG Datastream, Bloomberg, FactSet, Prysmian, Nexans and NKT (annual reports)

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