Trends investors should be aware of post-pandemic

Senior portfolio manager likes 'pick-and-shovel' firms … and says COVID-19 has accelerated a number of industries

By James Burton

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Picking up the next Apple at 10 bucks a pop and then sitting back watching it blossom into a multi-billion dollar behemoth might be an investor's ultimate dream right now. Of course, it's never that easy and no one has a crystal ball. However, many portfolio managers are analysing the COVID-19 fallout for signs of where the future may lie.

In the second part of his interview with WP, David Fingold, VP and Senior Portfolio Manager with Dynamic Funds, said many of the trends pre-virus have been accelerated by the impact of the global pandemic. How exactly 5G affects the cloud has been the source of much debate but the fifth generation of cell phones promises almost instantaneous connection – a gamechanger.

Fingold said: "The 5G trend is in place and the demand for those trends just got pushed to the right [by the virus]. One of the reasons why companies in the smartphone ecosystem have done well is, with the average smartphone having never been older, people are going to be looking forward to 5G, OLED screens and seven nanometre or four nanometre chips."

Fingold, therefore, owns ASML Holding (originally ASM Lithography), which he believes "dominates" the production of photolithography of the wafer of leading edge nodes, KLA-Tencor, which deals in the metrology needed for quality control, and INFICON, which deals with the vacuum process metrology .

Fingold also sees Microsoft and Amazon as key facilitators for the movement to cloud computing because they don't just provide programming environments but also hosting environments.

"It's very difficult for businesses to argue that they're going to delay investing in cloud because they've just lived through a circumstance where their employees couldn't access their premises through lockdowns, and they've got more and more employees working from home."

In terms of life sciences, the discovery of genetics has snowballed and biotech is producing new drugs in the areas of monoclonal antibodies, enzymes and peptides. Like with the firms producing the semi-conductors in our cell phones, Fingold said his approach is to focus on the "pick-and-shovel" firms that provide the vital components.

A company like Danaher is a good example of this "biotech revolution", providing the filtration system for making the drugs. This involves single-use consumables; a huge benefit because fermentation is increasingly done in a disposable bag, so you don't have to clean out giant tank fermenters. The company also sells diagnostic tools and own tools used in the discovery of drugs.

Fingold explained: "I want to invest in the companies that have the picks and shovels. While I own Eli Lilly and I'm very proud of the advancements they've made in treating diabetes, Eli Lilly has competitors and they've got to go and buy the equipment from either Danaher or Sartorius to make the drugs to treat the illnesses they're trying to treat. I have a higher probability of making money if I have a pick-and-shovel company.”

An area that unites both sciences is automation – an area which grew strongly this year because of infection control. Fingold put forward a company Dynamic owns in Japan, Keyence, which makes machine vision systems that allows robots to inspect packages of food or drugs as they go down the packing line. This ensures greater accuracy and less risk of contamination.

He said: “We see automation as being even more relevant and, you know, robots don't catch viruses. There’s going to be less hesitation in the future than there was in the past to use automation solutions.”

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