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Investment Insights from Silicon Valley

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Lead Manager, Allianz Technology Trust. With over 40 years of experience of investing in technology companies, Walter Price has witnessed the evolution of the technology sector from the birth of the personal computer to the arrival of the internet and now the shift to cloud computing. Based in San Francisco, giving him close proximity to many of the world's most innovative companies, he heads up the Global Technology Team which manages US$4 billion* in assets.

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*Source: Allianz Global Investors GmbH.

Labour displacement

Technology is disruptive. It can render old industries obsolete, and bring new industries into existence. Naturally this has frequent - and sometimes controversial - consequences for the labour market, but historically, where one industry has faded, another has often emerged to take its place. The car replaces the horse, which is bad news for those involved in the care of horses, but good news for nascent industries such as motels, road-side restaurants, petrol stations.

However, it is not clear whether this will keep happening. Can the disruption wrought by Amazon on the high street, for example, really be remedied by new jobs in logistics and distribution? Even though ecommerce only makes up around 10% of retail sales, it has already had a profound impact on shopping malls in smaller towns across America. A similar picture is being seen in many other developed economies.

Innovators such as Bill Gates are predicting far greater labour displacement from here, prompted by developments such as the rise of robots and big data. Labour displacement is now impacting white-collar, middle class workers and politicians are fearful that it will also cause some social disruption.

As such, this debate has reached the heart of government: Technology is creating wealth for governments and wealth for companies, but if it also results in fewer jobs should we be taxing robots, for example? It is possible to see a situation where there is a backlash against technology unless there are changes in the leisure and taxation systems.

This may sound speculative and long-term, but to our mind, it is one of the most powerful arguments for investment in technology. It is a way to ensure you are invested with those who are bringing about change rather than those who are victims of it.

Driverless cars

We believe a key example of the potential disruption wrought by technology is being seen in the car market. Many existing car manufacturers still haven't appreciated the long-term strength of this trend. In particular, these do not recognise the extent to which driverless and driver-assisted cars give a better driving experience: They are less stressful to drive, there is better connectivity, they have internet radio and they can navigate to where you want to go with ease.

This would be enough to disrupt the industry in itself, but there is a longer-term vision for the future of cars. Tesla founder Elon Musk believes that cars will become income-producing assets for their owners. People will get their transportation from an Uber-type service. When the car-owner goes to work, and doesn't need their car, the car will go to work, driving people around the city. People may pick up their neighbour's car to drive to work, for example, in exchange for a fee. In this way, cars become an investment. Of course, if too many people own them, the price will go down and it will equal out. However, if this were to become reality, it would turn the car industry on its head.

The industry would no longer sell 100m cars a year. If it works out as Musk predicts, overall sales will be far lower. At the moment every car has one person in it. In the future, each car may have three people in it, or the same car may be used by several people in one day. The car industry needs to understand the extent to which this could change the existing model.

Amazon and the chip makers

Amazon appears to be in the market for a chip maker. It has been rumoured as a potential bidder in a number of deals, and while it may seem like an unusual combination, there is sound rationale behind it.

Previously, Amazon or Microsoft (both holdings in the Allianz Technology Trust portfolio) would buy direct from the chip manufacturers and put their own software on top. But some of the chip makers are not reducing costs or increasing processing speeds as fast as the technology behemoths would like.

A number of the major technology groups are looking at whether they can do it better themselves, usually by buying a chip manufacturer. Google has done this to good effect, cutting the cost of its computing. Amazon is hoping to achieve the same result in less time.

Is this bad news for some semiconductor companies? Certainly semiconductor groups have to provide value and need to recognise that they are not going to get monopoly margins. Customers are much tougher. There has already been consolidation. Nevertheless, it is all part of the steady reduction in cost for the price of technology. It is good news for users.

Augmented reality

There is a theory gaining traction that technology grows fastest when it can be time-shared. People can use it and do something else at the same time. This is what happens with social media, for example. In contrast, virtual reality is immersive and as such, there is a limit to how much time people can devote to it.

Augmented reality, in contrast, can be time-shared. Someone might be walking along the street, see an interesting building and want to find out what it does: What is its history? Who works there? This is possible with augmented reality; it will bring up the information as someone is walking along. This might also be useful at a sports match, to bring up statistics related to the game.

The next incarnation of the iPhone will also make use of augmented reality. At the moment there are two cameras, one for taking a picture of, say, the Eiffel Tower and the other for taking a selfie. Now users can combine the two – taking a picture of the Eiffel Tower and putting the selfie shot in the same picture. In this way, we are starting to see day-to-day uses for augmented reality. We believe this may become an increasing trend.

A final note – those elusive tax cuts

As Donald Trump draws to the end of his first 100 days in office, there is still relatively little detail on the tax break for the repatriation of offshore assets held by US companies. His recent tax plan reiterated that there would be a 'one-time tax on trillions of dollars held overseas', but was light on detail. Technology companies stand to be key beneficiaries of this tax break and we continue to watch this space.

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