Active is: Investment Insights

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Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.

Investment Insights from Silicon Valley

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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.

*Source: Allianz Global Investors GmbH.

Coronavirus – technology sector impact

Coronavirus has unleashed a whirlwind through the global economy and financial markets; in some sectors it is difficult to say what will be left standing when the dust has settled. To manage this crisis, we are in active and ongoing discussions with all companies in our portfolio, assessing the extent to which they will be impacted by the spread of the virus and efforts to curtail it. This continues to change moment to moment.

So far, we find that the impact is individual to each technology company. Tesla, for example, said that it had experienced minimal interruptions in its supply chain to date even though it has manufacturing in China. However, it has proved more difficult for companies such as Apple and Microsoft, who have both adjusted market expectations on earnings because of supply chain disruption. We see some impact on production for most hardware companies in the portfolio.

The demand side is far harder to quantify. We still have little idea on the extent of the virus impact and its ultimate economic impact. Where people are being forced to stay off the streets, stay out of restaurants and stay out of stores, it will have a significant impact. That said, some of those sales are deferred rather than cancelled. If someone plans to buy an iPhone, they will probably buy it later down the line when their job is a little more secure. However, if they miss a meal at a restaurant, they won't return and have two meals. Those revenues will never return.

This is informing our view of who is at risk. As it spreads across the world, we know people are going to travel less, eat out less, conventions will be cancelled and it will be more difficult to close sales. This is different to those at risk in a 'normal' recession. We are also looking at those who may benefit in the longer term and buying selectively where valuations allow. At each point, we are discussing it extensively within the team. We have optimists and pessimists among us and debate is robust.

A V-shaped recovery?

The big question for investors is whether the economy will snap back quickly after the immediate threat of the virus has passed – a 'V-shaped' recovery. This will influence the likely trajectory of financial markets. There has been a lot of fear in the market. It may be that as people come to terms with the virus, see people have it and recover from it, people may become more comfortable with the idea that this is something that will – eventually – pass and that business will be able to get back to normal.

Governments have been very proactive, cutting interest rates and announcing stimulus packages for their economies. Certainly, it will prompt a slowdown in the economy, but we will recover and stock markets will anticipate that recovery ahead of time. As the risks progressively become more quantifiable, they can be assessed. Often, they are not as bad as the fear of the unknown.

The US Federal Reserve (Fed) cut early, reacting to the fear in the stock market. After weeks of debate, the White House and Congress passed a massive $2trillion stimulus package, which is expected to provide a major boost to the economy. This combination of monetary and fiscal stimulus will help support the economy.

Might there be opportunities? It is noteworthy that people sold down their Chinese holdings in initial response to the crisis because it was the epicentre of the virus. Today, however, China and other Asian countries seem to be getting the virus under control, while the rest of the world is fighting it. It is possible that it will impact businesses outside China more than businesses in China. As such, this may be a time for us to consider reinvesting more in China, particularly given the recent share price falls. This is something we are reviewing.

Coronavirus: other considerations – technology valuations

Prior to the virus outbreak, the market had been anticipating an economic recovery. This prompted a significant run-up in share prices, particularly among some of the largest technology names. In some cases, these had become noticeably out of kilter with earnings. The Nasdaq had moved up to 20% higher.

These over-valuations have been partially addressed by the recent rout in markets. Share prices have fallen around 30% from their highs and the Nasdaq now sits approximately where it was in early 2019. Is that enough to create value? If there's a global recession, it's probably not enough. Otherwise markets may trade at around these levels for some time until there is some clarity on the trajectory of the virus.

Looking beyond – the US election

Prior to the outbreak of coronavirus, the biggest debate had been on the likely outcome of the US election. Until relatively recently, the outcome of the democratic nomination – and therefore of the election itself - had seemed fluid.

In particular, one of the reasons that the market had softened ahead of the Coronavirus outbreak is that Bernie Sanders was riding high in the polls and appeared likely to be the Democratic nominee. He did well in some early polling and won the Nevada caucuses convincingly. He also polled very well among younger voters. As such, it was possible to envisage him as a potential president for the first time.

This spooked financial markets. Sanders is calling for a wealth tax, plus a multi-trillion dollar increase in income tax, which investors found unsettling. For the technology sector, there were particular risks. Sanders has plans to force the break-up of some of the largest technology companies.

Today, it appears that Joe Biden is by far the likelier candidate. Biden is a more conventional politician, with more conventional policies. Importantly for financial markets, he has no plans to try and disrupt the system. Financial markets are unlikely to see significant risk from either Biden or a continuation of the Trump administration.

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Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.

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