



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.



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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.

Investment Insights from Silicon Valley

Electric vehicles and government stimulus

Electric vehicles feature prominently in the economic stimulus from governments across the world. It is at the heart of Germany's \$50bn future investment package, for example, while France is also providing state subsidies for electric vehicles. China has announced a series of measures to support electric car adoption as part of its post-Covid recovery. Investment in charging infrastructure and batteries is helping to make electric vehicles a viable alternative to combustion engine cars.

At the same time, however, it has been a dismal time for the car industry in general. Electric car vehicle demand has held up better, but the question now is whether government stimulus will do enough to support the strong growth seen in recent years.

This is a major consideration for Tesla: the company has now been profitable for four straight quarters and is therefore now eligible for the S&P 500 with the potential for its inclusion at a future quarterly rebalancing of the index. Its shares have been rising fast – the company is now valued at over \$350bn and it is being closely watched to see whether it can deliver.

In common with other carmakers, Tesla has seen factory closures and interruptions to supply. However, it manufactures globally and has benefited from China's reopening.

Competition is another consideration. Many global carmakers are bringing out electric vehicles. However, to date, these have been too expensive to have mass appeal. As such, Tesla still appears to have the edge. The biggest question may be whether this positive outlook justifies the share price, which has seen a significant bounce since the start of the year.

This is a potential scenario across the technology sector where shares have rebounded sharply since March lows. However the recent earnings season seemed to indicate that the rebound was indeed justified. In time it should become clear whether companies have simply pulled forward demand, or whether there is a self-sustaining growth pattern.

Political advertising and a media storm

Social media groups face a dilemma when it comes to political advertising. It can provide a meaningful boost to revenues, particularly in an election

year. However, it can also come with controversy as platforms are seen tacitly to endorse political messaging.

Facebook has been drawn into just such a controversy. It has been subject to advertising and user boycotts: since June, large companies such as Verizon, Unilever, Danone and Microsoft have paused advertising on the social network in response to protests from civil rights groups across the globe.

Is this likely to dent Facebook's long-term prospects? It is an unwelcome hit for its reputation, but there is little evidence of any real impact on Facebook's user base or advertising revenues. Most people continue to use Facebook: the lockdown has increased people's social media use in general.

Equally, most of the advertisers that have pulled away from Facebook are not its major advertisers. Its core advertising base is small businesses that see it as a cost-effective platform to build their brand. We have seen advertising rates rebound in the last couple of months. On balance, it appears Facebook is weathering this controversy.

Semiconductor consolidation

Recently we saw another chapter in semiconductor consolidation as Analog Devices agreed a deal to buy rival chipmaker Maxim Integrated Products for more than \$20bn. This looks set to create a combined business worth around \$70bn. It should be a major rival to current industry leader Texas Instruments.

For the newly combined Analog/Maxim, it should help it be more competitive: not only will it save significant costs, it should be able to offer more competitive pricing. However, we believe consolidation may be petering out for the semiconductor industry. In the last cycle, there was huge consolidation in the memory industry and there are now only three companies left, plus a number of Chinese companies who are trying to get into the business. We are reaching a similar situation here as the number two and number three players in analogue come together. There are not many medium sized semiconductor companies left - we saw Infineon takeover Cypress last year - as such, there are fewer players to consolidate.

India and big tech

India is moving online at a pace unseen almost anywhere else. More than half a billion Indians came online in the 10 years to September 2019, according to government data. That makes it an exciting market and the US big tech companies have already sniffed an opportunity.

Over the past few years, we have seen WhatsApp achieve significant penetration, while Google has moved to become the leading browser; Facebook has partnered with Reliance in an attempt to try and replicated Tencent's success with Alipay in China. Amazon has said it will spend \$5 billion building a presence in India, trying to grow the share of e-commerce.

It's a major battleground with vast potential, but increasingly the Indian government is changing the rules of engagement for operating in the country. One of the rule changes this year was that foreign companies couldn't be primary sellers of products but could only function as a marketplace. For Amazon, this means it needs to halt its Select programme, which had been gaining significant market share because of its low prices. This may be a perennial problem for big tech players wanting to participate in this market. As with a number of emerging markets, the potential is significant but there are political complexities.



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