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# 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



**Walter Price**  
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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.

### A recent trip to China

The economic data emerging from China has been getting notably weaker. Manufacturing purchasing managers indices have shown contraction for five consecutive months; Gross Domestic Product (GDP) has been weaker and the government has been forced to step up stimulus measures. It is clear that trade tensions are beginning to bite.

On our recent trip, we saw real evidence that Chinese manufacturing is hurting. Companies are laying people off and, at the margins, starting to move production out of China or at least rethink their decisions to outsource manufacturing to China.

Equally, while the advertising market is seeing good growth, it's not growing as fast as the supply. New formats such as short videos are proving popular for areas such as dating or social applications, while traditional advertisers such as Birch are advertising on Alibaba.

In contrast, the ecommerce market and the consumer are in pretty good shape. It's not dissimilar to the US, where the consumer is doing well, while manufacturing struggles. This is the area where we continue to focus our attention for the trust.

### Reshoring manufacturing?

Apple recently announced that its new Mac Pro is being made in Texas, abandoning plans to move it to China. Apple has been keen to emphasise its domestic investment, pointing out that it spent over \$60 billion with more than 9,000 domestic suppliers across the US last year<sup>1</sup>. For China, however, it suggests their manufacturing sector may be coming under even more pressure.

Certainly, we have seen companies moving out of China as the situation over tariffs has become more precarious. Companies are keen to diversify their supply chain. In general, they're not moving back to the US, but instead looking to set up production in Vietnam, Malaysia, Taiwan, or even Mexico.

However, there are certain brakes on this trend. In each one of those places there are problems with the supply chains, which are less mature. CEOs making decisions on manufacturing locations report that these new countries don't have the same infrastructure and they may end up having to import the other products from China that can't be manufactured in these new areas.

As such, while there are some moves away from China and companies such as Apple are reconsidering how they approach manufacturing, it's not a straightforward decision.

### The growth of the payments sector

A lot has been happening in the payments arena: PayPal has become the first foreign company to win a Chinese payments licence, while Ant Financial contemplates its IPO. Square has launched a round of high profile advertising in the UK to win over business customers. These are symptoms of an increasingly lucrative, but competitive area.

Emerging markets look particularly lucrative for payments providers, though the approach is a little different. Rather than going from cards to electronic payments, they are bypassing cards altogether and moving straight to electronic wallets such as those provided by Alipay or Tenpay. Hardly anyone uses credit cards and, increasingly, a lot of merchants don't like cash, preferring the convenience of electronic payments. That same phenomenon is starting to happen across Southeast Asia and India.

In the US, people are still wedded to their reward points. As such, many will keep their existing credit cards to keep accumulating the points. It can be very hard for new providers to break through, even where they offer a lower cost alternative to a merchant.

Payment and credit card businesses are generally good business,

supported by strong consumer spending in China and the US. Even though valuations have come up, they look reasonably priced compared to their competitors. Growth rates should continue to rise as they gain share from cash.

### Amazon's ambition

Forget smartphones, the new wave of hardware devices will be operating all around us all the time. At least, that is Amazon's vision of the future as it launches a range of gadgets designed to corner the 'internet of things'. That includes a voice-assisted microwave and Artificial Intelligence (AI)-embedded glasses.

Amazon is not alone – Google and Facebook are also trying their hand at hardware – but to date Amazon appears to have the edge in terms of consumer penetration and usability.

Voice-activated devices are particularly useful in areas such as China, where the characters make it difficult to type. Equally, they're useful at times when people can't use their hands – the car, for example. We can see that it would be useful with non-intuitive products such as microwaves, where it would be easier to tell it what to do than to try and navigate their non-user-friendly programming systems.

Amazon is in a good position to corner the market on voice-activated technology because it already has a relationship with people that sell microwaves and washing machines. It may try to make Alexa a low-cost

service that can be used to input voice commands into a product, as a means to support its retailing business. There is power in this: these companies recognise that the more data they hold, the better they can understand their customers and improve the system. They can understand how people are using devices and how they might change that behaviour.



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<sup>1</sup>Source <https://www.apple.com/newsroom/2019/09/apples-new-mac-pro-to-be-made-in-texas/>

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