TECH: ATTRACTIVE PLAYS IN CHINA AND EUROPE

Technology has corrected sharply since the beginning of the year and the sell-off may not be over. ***Jacques-Aurélien Marcireau,*** *Co-Head of Equities, and* ***Xiadong Bao****, International Equity Manager, take a closer look at this brutal plunge. The portfolio managers also discuss whether a good entry point is now within reach and consider the prospects for the sector.*

Since its peaks of November 2021, the US stock market has erased 4,000 billion dollars in shareholder value[1], largely due to the sharp falls recorded within the technology sector. The most heavily impacted stocks saw their market price tumble by 70 to 80%, on a similar scale to the 2000-2003 crisis, when the dot-com bubble burst.

It is worth noting that despite these extreme moves, the market has remained rather rational. Companies most impacted by the sell-off are either exposed to controversies or unable to generate a large enough cash flow over a three-to-five-year investment horizon.

The correction wave grew before crashing down onto the tech giants, namely PayPal, Facebook, and Amazon. Possible entry points may be appearing for several stocks; however, we recommend a disciplined approach to valuations as the sell-off occurred for genuine reasons.

REGIONAL AND SECTOR DISCREPANCIES

The tech sector is not a monolithic block but is full of contrasts, both across regions and business segments. A closer look at the tech index shows that only around 10 stocks weigh 50% of the MSCI World Information Technology[1] index. We believe that in today's rather sensitive cycle, these stocks fail to represent the overall sector. We are also expecting to see stronger momentum in a number of sub-segments, such as semi-conductors. Several equipment suppliers remain very attractive.

In terms of regional disparities, valuations within the US and the Chinese tech markets are poles apart. While valuations are more attractive in China, these companies are operating in an environment that is less favourable due to the country's geopolitical and political context (regulation, Covid restrictions). Despite compelling valuations, weaker visibility calls for greater caution as far as this market is concerned.

In Europe, except for a couple of tech giants, such as ASML or Adyen in the payments industry, the tech sector has been largely out of favour, particularly with American investors,

[1] Source: MSCI.com. Data as of 05/05/2022.

due to the conflict in Ukraine. As with China, the European tech market offers an asymmetrical upside potential. Nevertheless, inflows and investor confidence will need time to recover fully, and patience will be required. Our view is that Europe and China display attractive characteristics, but the true catalyst is yet to come.

THE KEY WORD: DATA

A driver for creating added value, Big Data has become a strategic imperative for companies in all sectors, but also for governments and individuals. For the time being, the Ukrainian conflict has not quelled the enthusiasm of industrial players that need to continue to upgrade and invest in the processing and use of data. Recent earnings publications have disproved any misgivings that investors may have had.

Technology will continue to play a key role because it can provide solutions to the major challenges we will face in the months and years to come – including inflation, geopolitical conflicts, and climate change. First, technology is a major deflationary factor. The data generated every day throughout the world improves algorithms and machine learning, leading to productivity gains. Furthermore, technology agreements – notably in the field of data sharing – could help ease several geopolitical conflicts. Finally, on the environmental front, the processing and use of data has the power to reduce costs and improve energy efficiency.

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