# Changes in the Technology Landscape

Timely, excellent thoughts, from our friend Robert Lloyd George. Notable that he remains in Hong Kong, where he has been for his professional life. As well, he consistently chooses India as the forward growth market.

Enjoy the read. Comments or questions always welcome.

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**INVESTMENT OUTLOOK**

**March 1, 2023**

## Changes in the Technology Landscape

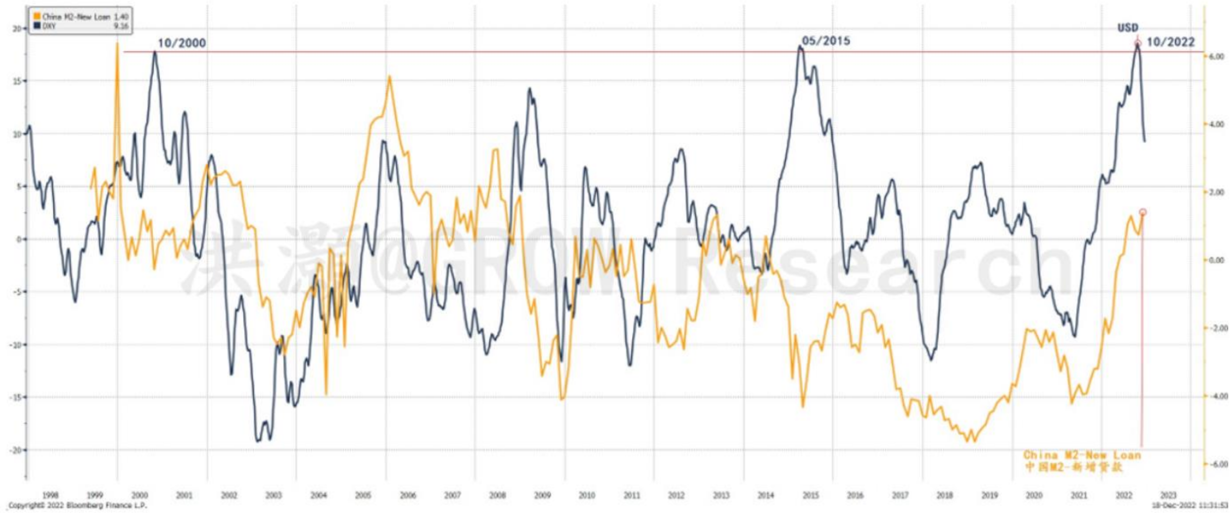
The dominant role played by the FAANGs (Facebook, Apple, Amazon, Netflix, Google) in the US bull market of the past decade, and of the BATs (Baidu, Alibaba, Tencent) in the Chinese market, may soon be changing. It is already apparent that revenue and earnings growth for these internet giants are slowing down, and they are laying off thousands of employees. Congress is now looking at fundamental changes to Section 230 of the Communications Decency Act, which has shielded social media companies from liability for content for nearly 30 years. Since the advent of the internet, it has been a free-for-all. This could be the year that free speech and liability get a dramatic makeover -- rewriting the rules for Facebook, Twitter, Snap, YouTube, and the ubiquitous TikTok (a Chinese website). Meanwhile, in China, the Communist Party has taken a stake in Alibaba and Tencent in order to prevent any challenge to the state in data collection or financial intermediation. (China has also banned cryptocurrencies.)

Moreover, the dramatic arrival on the landscape of Chat GPT, an AI subsidiary of Microsoft, will make a severe dent in Google's 90% dominance of the "search engine" market. Artificial Intelligence, or Machine Learning, is still the source of intense debate, especially among the younger generation. Nobody really knows where it will end -- winning chess games, writing school essays, composing novels, poetry, or even paintings -- what human role will be left untouched by this powerful artificial brain? Surely creativity, individuality, emotion, memory, and human experience. But will wars be fought by AI in the form of robots, drones, and dangerous artificial brains making strategic decisions? Human beings will retain ultimate control. What about politics and government? Perhaps partisan fury and wasted energy can be replaced by calm decisions made by super intelligent machines -- a frightening prospect for democracies, and even for the C.C.P. Perhaps the key tasks for AI, in collecting trillions of data points in seconds, are in marketing, supply chains, and business intelligence. The cost of sales should fall by up to 50%, helping corporate profitability.

Figure 1: Expanding US current account deficit bodes ill for the dollar in the coming years


*Source: Bloomberg, GROW Research*

<u>Figure 2: China's M2 growing faster than new credit but should soon reverse. So will USD Strength</u>




*Source: Bloomberg, GROW Research*

In terms of our investment strategy, the last year has seen "the revenge of the physical" - that is, the oil, mining, transport, retail, property, and even agricultural sectors - over electronics and social media, which have dominated the S&P 500 for so many years. We believe (unfashionable as is our view) that oil and gas will play a dominant role in the global economy for at least the next 20 years. And, as the dollar steadily depreciates (according to some sources by almost 10% a year in spending power), the value of hard assets, including land and property and precious metals, may be expected to appreciate accordingly.

That is not to say that technology will stand still. On the contrary, as Moore's law tells us, over the past 40 years the power of computers has doubled every two years. Now we have Taiwan Semiconductor (TSMC) producing integrated circuits with 3 nanometers width (or less than the thickness of a human hair) between transistors which allows for improved performance and power consumption. Suddenly, however, the semiconductor industry has become the source of intense political rivalry between the US and China. The export and sale of semiconductor equipment (by TSMC, ASML, Tokyo Electron) and even advanced semiconductors themselves, to China, has been banned by the US (and Japan, the Netherlands, and other allies have been compelled to follow suit). Meanwhile, TSMC and Samsung Electronics and Intel have been induced by generous subsidies to establish semiconductor or chip manufacturing facilities worth tens of billions of dollars in Arizona, Texas and elsewhere in the US. The result may be a glut of chips on the market within three years.

We are still invested in TSMC and Samsung as pre-eminent market leaders in the global semiconductor market. Both have lived with political risk for many decades owing to their geographies and sell on PEs of 13.0 and 7.5, respectively. The suppliers to the industry, such as ASML, Soulbrain, Tokyo Electron, may prove to be among the big winners. In addition, companies with meaningful exposure to data centres and cloud storage such as AMD, Nividia (and GDS Holdings, and Alibaba in China).

The only thing of which we are certain is that the technology winners of tomorrow will not be the technology giants of yesterday, i.e., FAANGs. Possibly Microsoft will be nimble enough to adapt and survive. A famous Silicon Valley saying is that "only the paranoid survive," and intense innovation, flexibility, and constant change will be the rule. Apple, for instance, for all its dominance of the Iphone global market, has recently seen a 5% fall in sales: Samsung may be emerging as a stronger competitor, along with a number of Chinese imitators. We believe Apple's share price peaked in December 2021 and will steadily decline; being the largest FAANG by capitalization, it will have outsized influence.

More than half of the world's internet users are in Asia, and the trends there are worth following. Despite the fact that the Pandemic of 2020-22 accelerated consumer use of online activities - e-commerce, virtual meetings, and social media, for companies such as

Amazon, Whole Foods, Alibaba, Coupang, and Sea Ltd. (Singapore) -- it is true to say that this trend has continued since life has returned to normal after "zero covid" policies were ended in China last month.

The Chinese economy and property sector show clear signs of bottoming out, and we also expect the RMB to recover against the US Dollar, which could fall another 20%. Today, Tokyo rental costs are way below those of major US cities; and the bubble is in US Dollar assets - the opposite of 1990. We believe the Yen, at 136 today, could rise to 100 or even 80 - some other Asian currencies will follow - the strongest have been the Singapore dollar, New Taiwan dollar, and the Thai Baht. We see plenty of growth ahead for e-commerce and for gaming in Asia and maintain our core investment in Coupang and Sea. Regarding India, we have had the much publicized short-seller "attack" on the Adani Group in the past 2 weeks, which has, interestingly, not had a broader impact on the Indian growth story (despite reputed close links between Adani and Modi). None of the bank shares have suffered, for example; and we have had better-than-expected earnings' reports from our core holdings, HDFC, ICICI, and State Bank of India (SBI), as well as the two software leaders, Tata Consulting and Infosys. We remain very confident that India is the pre-eminent growth story of the next decade, and this includes technology.

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