CIO Perspectives

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Key points

- The widespread selloff among global technology stocks was not justified, and we think it is overdone
- Technology leaders have been demonstrating their ability to produce more superior earnings as compared to the broader industry and smaller peers
- This is solid verification to support our stance to stay invested in large cap technology firms
- Global big tech firms are among our focus and top convictions within the CIO Barbell Strategy

GLOBAL CROSS ASSETS

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	35,089.74	-0.1%	14.6%
S&P 500	4,500.53	0.5%	19.8%
NASDAQ	14,098.01	1.6%	9.4%
Stoxx Europe 600	462.15	-1.4%	15.8%
DAX	15,099.56	-1.7%	10.1%
CAC 40	6,951.38	-0.8%	25.2%
FTSE 100	7,516.40	-0.2%	16.3%
MSCI AxJ	777.18	1.4%	-7.8%
Nikkei 225	27,439.99	0.7%	0.0%
SHCOMP	3,361.44	0.0%	-3.2%
Hang Seng	24,573.29	3.2%	-9.8%
MSCI EM	1,221.10	0.9%	-5.4%
UST 10-yr yield*	1.91	7.8	99.5
JGB 10-yr yield*	0.19	2.1	17.7
Bund 10-yr yield*	0.20	6.4	77.5
US HY spread*	3.42	9.0	-18.0
EM spread*	338.17	-0.5	15.2
WTI (USD)	92.31	2.3%	90.3%
LMEX	4,691.40	0.3%	37.4%
Gold (USD)	1,808.28	0.2%	-4.7%

Source: Bloomberg
* Changes in basis points

Equity Strategy

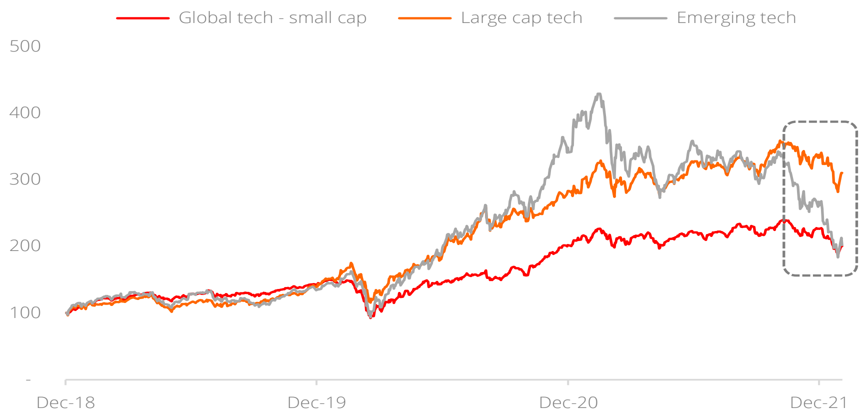
Stay invested in global technology leaders

During the recent market correction, the Technology sector was also not spared despite their superior earnings growth trajectory and balance sheet quality. In the past few weeks, the market has seen widespread turbulence across the Technology sector, where even sector leaders with solid business models, strong earnings momentum, and balance sheet quality were indiscriminately sold down in sympathy. We advocate investors continue to engage in this sector and for those who are in cash, to progressively add exposure to leading stocks in this sector.

Nonetheless, there has been a clear bifurcation in the performance of technology sector leaders and the emerging players. Zooming into the past three months, the big tech index has declined some 18% whereas their emerging peers corrected more than 40%. Investors have been reducing exposure to high growth companies which have yet to show convincing profitability (Figure 1).

We herewith reiterate our investment convictions on the big tech space in the CIO Barbell Strategy.

Figure 1: Big Tech firms have performed better than Emerging Tech (rebased to 100)

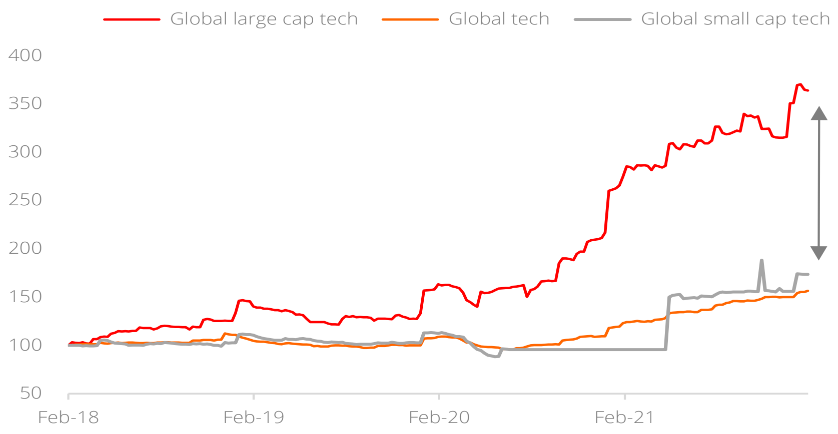


Source: Bloomberg, DBS

Time and again, technology leaders have clearly demonstrated their ability to produce more superior earnings as compared with the broader industry and smaller peers (Figure 2). Further analysis showed that a considerable portion of emerging tech firms have yet to deliver actual profits. In the rising rates environment, the absence of profits will definitely give rise to large share price corrections.

This again is solid verification to support our stance to stay invested in the large cap technology firms which have global revenue streams. By having diversified revenue compositions, these firms are in stronger positions to maximise their revenue reach and benefit from the vast supply chain on a more cost-effective basis.

Figure 2: More superior earnings propensity (rebased to 100)



Source: Bloomberg, DBS

Recent earnings announcements among technology firms demonstrated that industry leaders reported better than expected revenue and profits (Table 1). Notably, a more important factor to look at is the forward guidance which has a much more profound impact on the share price performance. As such, judging from the prevalent optimistic guidance, the fraternity of big tech firms is poised for a bumper outlook which is supportive of further share price rerating.

Table 1: Quarterly results – more beat than miss

Company	Revenue	Earnings	Guidance
Alphabet	4Q21: Beat	4Q21: Beat	Optimistic
AMD	4Q21: Beat	4Q21: Beat	Optimistic
Apple	4Q21: Beat	4Q21: Beat	Optimistic
Broadcom	4Q21: Beat	4Q21: Beat	Optimistic
IBM	4Q21: Beat	4Q21: Beat	Optimistic
Intel	4Q21: Beat	4Q21: Beat	Optimistic
Meta Platforms	4Q21: Miss	4Q21: Beat	Cautious
Microsoft	4Q21: Beat	4Q21: Beat	Optimistic
Netflix	4Q21: In-line	4Q21: Beat	Cautious
Qualcomm	4Q21: Beat	4Q21: Beat	Optimistic
Samsung	4Q21: Beat	4Q21: Miss	Optimistic
TSMC	4Q21: Beat	4Q21: Beat	Optimistic

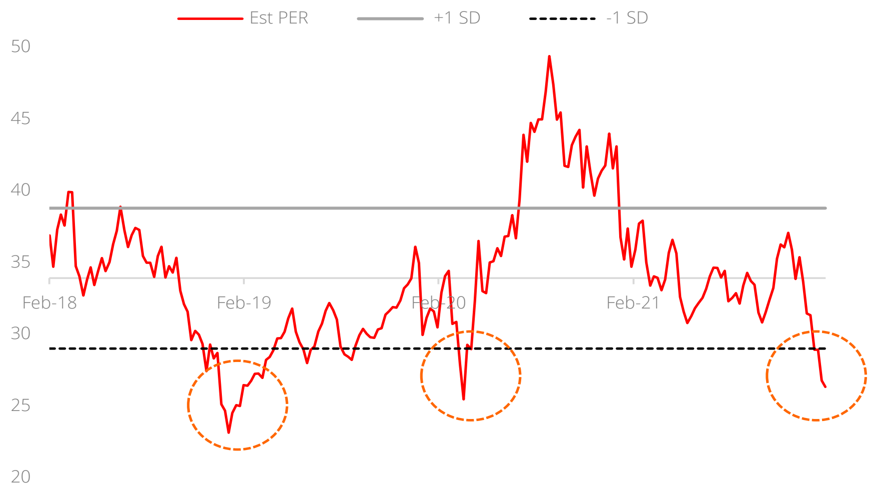
Source: Corporate announcements, DBS

Based on our analysis, the 20 largest technology and related stocks collectively have more than USD300b of net cash in their balance sheet – a huge sum by any measure. The names that stand tall in this area are the likes of Alphabet, Samsung Electronics, Microsoft, Apple, Meta Platforms, TSMC, CISCO, and Nvidia. As a matter of fact, each of these names is already a giant in the segments they operate in. This finding further enhances our view that technology firms with such solid balance sheet quality should not be adversely affected by the rising rates situation.

After the recent selloff, the forward earnings multiples have entered -1 standard deviation to mean (Figure 3). Looking back at previous cycles, the sector would stage a resounding recovery each time it entered this level. We believe it will be the same this time, as driven by the attractive valuations and forceful earnings tailwinds.

Taking a more practical look using PE/G, the big tech firms trade at more attractive valuations relative to their small-cap and broader global technology cousins. The 1.0x average 2022-2023 PE/G among big tech is absolutely on more attractive ground against the 1.2x and 1.9x for small-cap and the broader global technology universe (Table 2).

Figure 3: Valuations entered attractive levels, poised for rerating



Source: Bloomberg, DBS

Table 2: Compelling valuations among Big Tech firms (2022-2023 average)

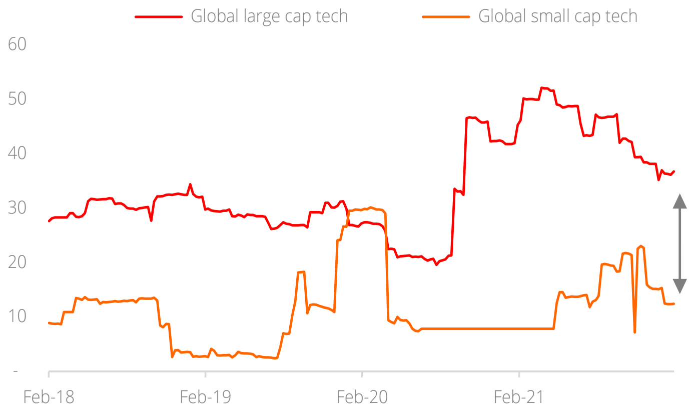
	Global Big Tech	Global Small Cap Tech	Global Tech
PER (x)	20	18	15
EPS Growth (%)	21%	15%	8%
PE/G	1.0	1.2	1.9

Source: Corporate announcements, DBS

To further support our investment thesis, we compare the return on equity (ROE) and cashflows of large and small cap technology firms. The shareholder returns among industry leaders will continue to sustain on higher ground on both an absolute and relative basis compared with their smaller and emerging peers (Figure 4). More importantly, investors will appreciate the former's more stable ROE trends backed by better earnings quality.

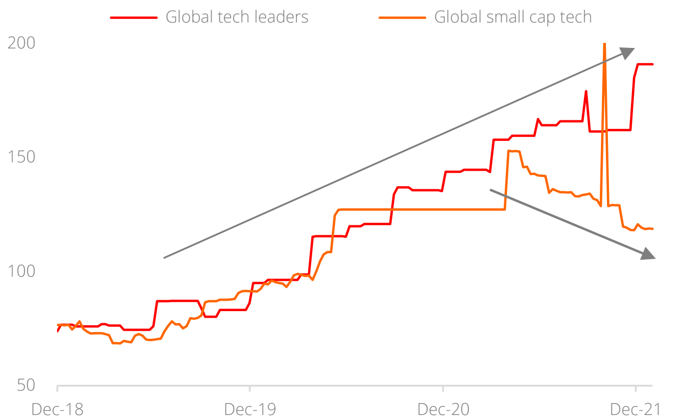
A similar pattern is evidenced from the cashflow point of view (Figure 5). Technology sector leaders possess stronger cash generating ability and this is an important factor in proving their more superior operating framework.

Figure 4: Big Tech companies have higher shareholder returns



Source: Bloomberg, DBS

Figure 5: Bifurcation in cashflow



Source: Bloomberg, DBS

Within the CIO Barbell Strategy, global big technology firms are among our focus and top convictions. At present, holdings in technology-related names account for one third on a total Barbell portfolio basis and 50% within the equity-only universe.

We advocate staying invested with our Barbell Strategy against the backdrop of heightened market volatility. This strategy demonstrates the characteristics of growth and quality equities, income-generating assets, and gold as a risk diversifier.

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