

# Active is: Investment Insights



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## The crisis in Ukraine

The tragic situation in Ukraine is being felt across financial markets, both because of the uncertainty it creates and the impact of sanctions on Russia. However, its specific effect on the technology sector is relatively small. The Russian technology sector is not influential globally and most of our companies have negligible business interests in the region. The one exception is the advertising sector, where there is greater exposure.

The greater risk for the technology sector is spiking commodities prices and the impact on inflation. Higher oil prices tend to hit both consumer and business spending. High energy costs leave consumers with less disposable income and deter investment spending by the corporate sector. For the time being, higher inflation doesn't appear to be denting spending plans in the US, but it is clearly having an effect on consumer confidence across Europe. This creates difficulties for economically-sensitive areas such as advertising.

The crisis prolongs the inflationary pressures and may dampen growth, but it is possible to see a resolution in the longer-term. For example, oil price rises should ease over time. There is a lot of capacity in the US that can be brought on stream, particularly if prices remain high. Organization of the Petroleum Exporting Countries (OPEC) has also pushed capacity higher. It is a timing issue, rather than an availability issue.

The other area where problems may be felt is in the semiconductor supply chain. This was already disrupted in the wake of the pandemic as companies had struggled to get components from place to place. The Ukraine crisis makes a difficult situation more complex.

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\$11 billion\* in assets.

\*Source:  
Allianz Global Investors GmbH

### 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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## The trajectory for interest rates

In mid-March, the Federal Reserve raised rates for the first time since 2018. There had been some speculation as to whether the US central bank might ease its position in response to the significant cost of living pressures faced by households over the next 12 months. However, if anything, the Fed showed greater commitment to rate rises than previously and continues to guide investors towards seven increases in 2022.

The Fed has made it clear that it plans to fight inflation and normalise interest rate policy, and it will take a significant set back to change its trajectory. This is easier in the US, where the recovery is still intact, the impact of the energy crisis is smaller and the outlook clearer. It is a tougher call for European policymakers, where the economies are more fragile and have greater exposure to Russian energy. Markets currently expect four rate rises within the year<sup>1</sup> from the European Central Bank, but there is considerable uncertainty around that trajectory.

## Meeting demand for electric vehicles (EVs)

The war in Ukraine has forced governments across the world to think harder about how they source their energy and the security of that supply. For forward-thinking policymakers and consumers, the solution is likely to be an acceleration of the energy transition and moves away from fossil fuels. There may even be further incentives put in place to encourage adoption.

However, for adoption to accelerate, production needs to increase. Tesla's solution to the problem has been to switch to Lithium Iron Phosphate (LFP) batteries. The group's Model 3 and Model Y cars<sup>2</sup> are already using the new type of battery and Elon Musk has hinted more of its models may move across in the year ahead.

Elsewhere, in the higher performance cars, Tesla is moving to a cell called a 4680, which is more efficient and costs less to manufacture. The group has already started increasing production in Texas. Panasonic and LG have also said they're going to use these batteries in their cars. It's a big push by the industry to keep the price of EVs going down and meet demand.

The EV manufacturers are pushing on an open door. Around 15% of cars shipped in China last year were EVs. Even in US, it has hit around 5%. The price of oil in California is over \$7 per gallon, double its level of a year ago. It is galvanising those who were thinking about EVs into taking the plunge.

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## Cyber attacks

The Russian attacks on Ukraine have not just come in the form of bombs and tanks. Cyberattacks have been a potent weapon in Russia's armoury. They have targeted key Ukrainian infrastructure, introducing new malware to destroy government systems, military systems, logistics systems and even banking systems with the aim of weakening Ukrainian resistance. Ukraine has had to fend these off, with varying degrees of success.

There is concern from policymakers and companies across the globe that retaliation for Western sanctions may take the form of similar cyber attacks on key infrastructure in the US, UK and Europe. We are seeing greater spending commitments from global governments – Australia, for example, recently announced that its electronic spy agency will double in size – and from the corporate sector – a recent survey by the UK's Department for Culture, Media and Sport found that almost 70% of financial sector companies had sought outside assistance or information to deal with cyber threats<sup>3</sup>.

To our mind, these threats are real and those companies and governments that haven't already increased cyber-spending will need to do so. This is improving an already strong environment for cyber security companies. There is also pressure from governments, who need to make sure that key infrastructure – such as banking or utilities - meets certain minimum standards of cyber security.

1. <https://finance.yahoo.com/news/traders-bet-ecb-hike-interest-082038763.html>
2. <https://insideevs.com/news/563506/tesla-transition-ess-lfp-batteries/>
3. <https://www.ft.com/content/6f9fd669-e201-4d51-8a73-1d7af92ec934>



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