

CIO Viewpoint

IT'll be back

Investment Solutions

21 November 2022

Technology stocks used to grow pretty dependably. But in a difficult 2022 for equities, tech has underperformed even the wider market's fall. We look at why investors might expect a turnaround in 2023.

Between 2009 and 2021, the Nasdaq Composite index only posted one annual decline, in 2018, of 1%. 2022 has been brutal in most asset classes, but especially in tech stocks. Year to date, the broad Dow Jones Industrial Average benchmark has declined 8% and the S&P 500 index by 17%. Over the same period, the Nasdaq dropped 29%, continuing a fall from a record November 2021 high. Several factors explain the disparity. Half of the Nasdaq's market capitalisation consists of technology firms, with no energy stocks and few healthcare names to cushion the index's fall. The Nasdaq has a bias to growth stocks that are more affected by the rising cost of capital. At the stock level, many large tech stocks such as Meta Platforms Inc., Amazon.com, Netflix Inc. and Google's parent, Alphabet Inc., posted disappointing performance and lowered earnings expectations. Finally, the US dollar's strength has also affected large tech companies, who on aggregate depend more on international sales than the American market.

The pandemic boost behind sectors linked to working from home and domestic entertainment that supported stock values from Alphabet to Amazon and made Zoom a household name, has faded. The outlook for the industry's earnings has clouded. In response, business models are adapting. Meta is looking to diversify away from social media, Netflix is offering a cheaper, advert-funded subscription and Amazon has cut its third-quarter sales outlook and staff. The tech industry story dominating news in recent weeks is Elon Musk's management of Twitter Inc. While uncertainties over Twitter's future attract much attention, there are probably few lessons to be learned from the forced acquisition, and it should not detract from the broader tech industry's fundamentals.

Valuations in the sector were high at the start of 2022, and they have adjusted to reflect rising borrowing costs and investor preferences for value stocks. As tech companies adjust to weakening revenues, especially in those segments most dependent on consumer sales, investors are recalibrating their growth expectations for 2023. Many stocks are now trading at prices below pre-Covid levels and their longer-term averages. Still, since mid-October, the tech sector has started to recover, and once confidence in the earnings outlook improves, valuations should start to expand.



Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

Key takeaways

- Tech stocks have underperformed the broader stock market for the last 12 months as consumer demand shifts and rates rise
- Valuations in the sector are still adjusting as markets factor in 2023's growth expectations
- The specific stories behind Twitter in tech and FTX in cryptocurrencies should not detract from broader opportunities
- We retain a selective approach, favouring tech firms with stable revenues passing-on higher costs to corporate clients, especially semiconductors and software.

Important information: Please read the important information at the end of the document.

Weekly publication of Lombard Odier – Contacts: Investment Solutions, investment-solutions@lombardodier.com

Data as of 21 November 2022 unless otherwise stated.

Lombard Odier · CIO Viewpoint · 21 November 2022

Chip Buffett

One way to see this coming is to look at semiconductors. Computer chips drive everything from kitchen toasters to car navigation systems, and offer a bellwether for the industry, because chips are critical to every technological appliance. As a result, the sector reflects wider economic demand, and so can signal turning points in the market as much as nine months in advance (see chart). The segment's shortages and disrupted supply chains of the past two years are improving, and inventories are building as demand for personal computers, gaming, and handsets slows sales. Demand from data centres and carmakers remains relatively resilient thanks to rising demand for cloud-based data storage and analysis, as well as consumers' interest in electric cars.

Earlier this month Berkshire Hathaway Inc. took a USD 4.1 billion stake in TSMC (Taiwan Semiconductor Manufacturing Co.), as part of its USD 350 billion equity portfolio. The investment by Warren Buffett is interpreted as a vote of confidence in a more stable US/China relationship, and recognition that [the global economy depends on Taiwan's semiconductor supplies](#). Linked to that news, Apple Inc., TSMC's largest customer, said last week that is preparing to begin sourcing chips from a plant being built in Arizona, and likely owned by TSMC. There are currently multiple projects to relocate some semiconductor manufacturing capacity in the US, supported by the USD 52.7 billion infrastructure package approved by the US administration

in August. The beneficiaries of this package must agree not to expand their capacity in China for ten years. That stipulation follows the US department of Commerce's 7 October [restrictions on chip exports](#) to China.

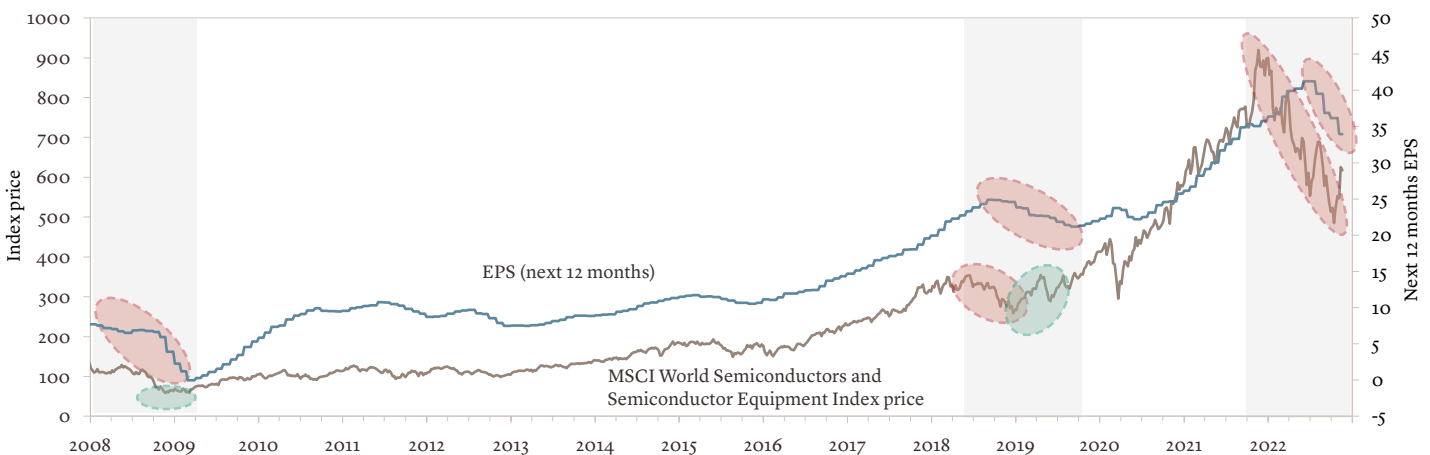
Cryptocalamity

Not every asset class linked to tech looks sound. Cryptocurrencies have mirrored tech companies' decline in 2022. While rising interest rates have curbed investor appetite for growth-focused tech firms, cryptocurrencies have suffered more from rising risk aversion. The total market capitalisation of all cryptocurrencies reached more than USD 3 trillion a year ago, and now amounts to [less than one third of that peak](#). Rather than offer diversification, crypto assets have tended to decline in line with falling markets, and proven very volatile, with two high-profile disasters; the collapse of 'stablecoin' TerraUSD in May, and crypto-exchange FTX's bankruptcy, valued at USD 32 billion before its default. These have damaged the valuations of both crypto coins and crypto-companies, undermining traditional financial firms' appetite to work with crypto. It will probably translate to less venture capital funding for the sector, and eventually greater regulation.

Yet FTX's story illustrates failures in corporate governance and counterparty risk, not flaws in the underlying blockchain architecture. Cryptocurrencies are not the only application for this decentralised, dependable technology. The shared, transparent data recording system can create tamper-

Semiconductor stock prices fall in anticipation of declining earnings-per-share, then often rebound before EPS troughs

MSCI World Semiconductors and Semiconductor Equipment Index price and next twelve month EPS



Source: MSCI World

proof procurement or insurance contracts, trade finance reconciliation, and non-fungible tokens (NFTs) that guarantee digital ownership. In the furore over FTX, the potential for such useful applications should not be lost.

Sector spotlight

Clearly, the cryptocurrency universe will continue to face specific challenges as it develops. At this stage of the economic cycle, we remain cautious on equities in general, and continue to favour quality and value names. In particular, we like the healthcare and energy sectors. Within technology, we see opportunities in equipment suppliers with large order backlogs, semiconductor makers, and firms exposed to electrification and connectivity trends. In segment terms, software is seeing corporate investment rise, and may account for around one quarter of companies' technology budget by 2025.

A selective approach to technology stocks, which often have little in common, remains key to any investment in the sector. As economic activity slows, we focus on firms supplying businesses with cybersecurity, cloud data and productivity tools, who benefit from more stable revenues and an ability to pass on higher costs. Technology that depends on consumer or advertising spending will become more attractive once economies begin to recover later in 2023.

Important information

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter "Lombard Odier"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication. This marketing communication is provided for information purposes only. The contents of this marketing communication have not been reviewed by any regulatory authority in any jurisdiction. It does not constitute an offer or a recommendation to subscribe, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. **These opinions and the information contained herein do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised investment advice to any investor.** Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody, may be subject to legal restrictions or may not be available worldwide on an unrestricted basis. The information and analysis contained herein are based on sources considered reliable. Lombard Odier uses its best effort to ensure the timeliness, accuracy, and comprehensiveness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice.

Investments are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The investments mentioned in this marketing communication may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested.** The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. Exchange rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. **This marketing communication is not issued by the organisational unit of the Bank Lombard Odier & Co Ltd responsible for the production of financial research**, as defined under the Swiss Bankers Association Directives on the Independence of Financial Research. Consequently, it is not prepared in accordance with the provisions of the referred Directives or any other legal requirements designed to promote the independence of the production of financial research. Opinions expressed in this marketing communication may differ from the opinions expressed by other divisions of Lombard Odier, including Bank Lombard Odier & Co Ltd's Research Department. Nevertheless, if opinions from financial analysts belonging to the Research Department are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Lombard Odier may hold positions in securities as referred to in this marketing communication for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Lombard Odier or affiliated Group companies. Lombard Odier recognises that conflicts of interest may exist as a consequence of the distribution of financial instruments or products issued and/or managed by entities belonging to the Lombard Odier Group. Lombard Odier has a Conflict of Interests policy to identify and manage such conflicts of interest.

European Union Members: This marketing communication has been approved for use by Lombard Odier (Europe) S.A. in Luxembourg and by each of its branches operating in the following territories: **Belgium:** Lombard Odier (Europe) S.A. Luxembourg · Belgium branch; **France:** Lombard Odier (Europe) S.A. · Succursale en France; **Italy:** Lombard Odier (Europe) S.A. · Italian Branch; **Spain:** Lombard Odier (Europe) S.A. · Sucursal en España. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. In addition, this marketing communication has also been approved for use by the following entity domiciled within the European Union: **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

Hong Kong: This marketing communication is distributed in Hong Kong by Lombard Odier (Hong Kong) Limited, a licensed corporation registered by the Securities and Futures Commission of Hong Kong (“SFC”) to carry on Type 1, Type 4 and Type 9 regulated activities under the Securities and Futures Ordinance (“SFO”) in Hong Kong.

Singapore: This marketing communication is distributed in Singapore by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). **This advertisement has not been reviewed by the Monetary Authority of Singapore.**

Panama: This marketing communication has been approved for use in Panama by Lombard Odier (Panama) Inc., an entity authorised and regulated by the Superintendencia del Mercado de Valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

Israel: This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Bank of Israel, but by the Swiss Financial Market Supervisory Authority, which supervises the activities of Bank Lombard Odier & Co Ltd.

South Africa: This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider Registration number 48505.

Switzerland: This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd Geneva, a bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

United Kingdom: This marketing communication has been approved for use in the United Kingdom by Lombard Odier (Europe) S.A. – UK Branch, a bank authorised and regulated by the Commission de Surveillance du Secteur Financier (“CSSF”) in Luxembourg and authorised in the UK by the Prudential Regulation Authority (“PRA”). Subject to regulation by the Financial Conduct Authority (“FCA”) and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. **Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.**

United States: Neither this document nor any copy thereof may be sent to, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term “United States Person” shall mean any citizen, national or resident of the United States of America, partnership organised or existing in any state, territory or possession of the United States of America, a corporation organised under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

Data protection: You may be receiving this communication because you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group’s Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com. For more information on Lombard Odier’s data protection policy, please refer to www.lombardodier.com/privacy-policy.

© 2022 Bank Lombard Odier & Co Ltd – all rights reserved. Ref. *LOCH/LOESA/LOASIA-MWNPR-en-032022*.

SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd¹

Rue de la Corraiterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com

Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg¹

Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd¹

Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey¹

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd¹

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch²

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com

Credit institution supervised in Belgium by the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA).

LONDON

Lombard Odier (Europe) S.A. · UK Branch²

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
london@lombardodier.com

The Bank is authorised in the UK by the Prudential Regulation Authority (PRA). Subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.

Lombard Odier Asset Management (Europe) Limited

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
london@lombardodier.com

Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).

LUXEMBOURG

Lombard Odier (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

Credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Lombard Odier Funds (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

MADRID

Lombard Odier (Europe) S.A. · Sucursal en España²

Paseo de la Castellana 66 · 4ª Pl. · 28046 Madrid · España · madrid@lombardodier.com
Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).

Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.

Paseo de la Castellana 66 · 4ª Pl. · 28046 Madrid · España · madrid@lombardodier.com
Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).

MILAN

Lombard Odier (Europe) S.A. · Succursale in Italia²

Via Santa Margherita 6 · 20121 Milano · Italia
milano-cp@lombardodier.com
Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.

PARIS

Lombard Odier (Europe) S.A. · Succursale en France²

8, rue Royale · 75008 Paris · France. RCS PARIS
B 803 905 157 · paris@lombardodier.com
Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg · No.B169 907. Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CM002. The registration with the CAA can be verified at www.orias.fr.

AFRICA | AMERICAS | MIDDLE EAST

ABU-DHABI

Bank Lombard Odier & Co Ltd · Abu Dhabi Global Market Branch

Al Maryah Island · Abu Dhabi Global Market Square · Al Khatem Tower · 8th floor · P.O. Box 764646 · Abu Dhabi · UAE · abudhabi@lombardodier.com
Arranging Deals in Investments · Advising on Investment or Credit · Arranging Credit. Regulated by the ADGM Financial Services Regulatory Authority.

BERMUDA

Lombard Odier Trust (Bermuda) Limited

3rd Floor, Victoria Place · 31 Victoria Street · Hamilton
HM 10 · Bermuda · bermuda@lombardodier.com
Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.

BRASIL

Lombard Odier (Brasil) Consultoria de Valores Mobiliários Ltda.

Avenida 9 de Julho No. 3624, Torre DGN 360, 6º andar · Jardim Paulista · CEP 01406-000 · São Paulo · Brasil
sao.paulo.office@lombardodier.com
Supervised by the Comissão de Valores Mobiliários of Brazil.

DUBAI

Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE
dubai@lombardodier.com
Under the supervisory authority of the Central Bank of the UAE.

ISRAEL

Israel Representative Office ·

Bank Lombard Odier & Co Ltd
Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv
6688312 · Israel · telaviv@lombardodier.com
Not supervised by the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

JOHANNESBURG

South Africa Representative Office ·

Bank Lombard Odier & Co Ltd
4 Sandown Valley Crescent · Sandton · Johannesburg
2196 · South Africa · johannesburg@lombardodier.com
Authorised financial services provider Registration number 48505.

NASSAU

Lombard Odier & Cie (Bahamas) Limited

Lyford Cay House · Western Road · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.

PANAMA

Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.

Lombard Odier (Panama) Inc.

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Superintendencia del Mercado de valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

ASIA - PACIFIC

HONG KONG

Lombard Odier (Hong Kong) Limited

1601 Three Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com
A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.

SINGAPORE

Lombard Odier (Singapore) Ltd.

9 Raffles Place · Republic Plaza #46-02 · Singapore
048619 · singapore@lombardodier.com
A merchant bank regulated and supervised by the Monetary Authority of Singapore.

TOKYO

Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com
Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).

¹ Private bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

² Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.