Are technology shares the new utilities?

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The breath-taking performance of the technology sector in recent years brings back memories of the year 2000. But how does today differ from then? How can we explain the strong performance, and is there still upward potential?

From potential to reliable return

I need to preamble this by saying that valuations and profitability today are not comparable to 2000. About 20 years ago (in April 2000), share price valuations in the technology sector were at their peak after years of climbing. Then, the environment was one of big expectations of profitable business. The erstwhile valuations – around that time and even in later years – were substantially higher than today. The profitability of many companies could not be compared to today's standards.

Applications with future: from autonomous vehicles to video gaming

It is not without reason that valuations and profitability have improved significantly over the recent ten years. The rapid technological development in the past decade has shown why technology companies are worth the money. The changes in the technology sector over the past 20 years is impressive. Applications from the technology sector are used pretty much everywhere across all sectors:

- Communication (mobile telephony, home office, 5G)
- Entertainment (video streaming, video gaming, social networks)
- Commerce/retail (online shopping, logistics)
- Payment services (digital payment online and offline, digital currencies)
- Safety (autonomous vehicles, production automation)
- Big Data (AI, data analysis, data interpretation)

Given the massive bandwidth of applications, the positioning of the technology sector is more robust than in the past. In addition to the fields of application, the relevance of IT applications and products has increased drastically as well. We have seen in recent months in particular how much of a critical factor IT can be.

Corona made home office socially acceptable

Remote computing (cloud computing) facilitated a (frequently) smooth transition from working in an office to working from home. Video telephony or at least clean solutions for audio calls would also be helpful. Consumers were able to procure consumer articles despite lockdowns and closed shops without problems, thanks to online shopping and online payment. And video streaming filled in for cinemas. Those are just a few examples.

There was no way around using IT services. This supports the profitability of producers. More important, to me, is the fact that these developments that we have seen in recent months are not new; they have been around for years, as corroborated by data. The recent past has reinforced, accelerated, and manifested those trends.

Stable earnings expectations for 2020

Company results and expected sector results suggest a favourable development in 2020 despite the corona crisis – after all, technology companies have posted double-digit profit growth again (as of 30 June 2020: source: Bloomberg). Whereas the consensus expects a decline in earnings of 20% in 2020 for the globally developed equity market, IT companies are expected to maintain stable earnings this year.

CONCLUSION:

The question of whether technology companies are today what utilities used to be is justified. From a strategic perspective, the economic boom years of 2010 to 2019 were as favourable for IT companies as the events of 2020. The demand for IT products rises both in times of crises and of boom. Technology companies provide solutions that have become indispensable. These are features with which we have traditionally credited utility companies.

Invest in technology shares by investing the ERSTE STOCK TECHNO fund

The technology equity fund ERSTE STOCK TECHNO <Achtung: deutscher Link> (please refer to the chart below) reflects the success story of technology shares in the recent decade. The fund management team focuses on high-quality, high-growth companies, the majority of which are based in the USA. The investment process takes into account environmental, social, and governance factors.

Note: Past performance is not indicative of future development.

An investment in technology shares provides the investor with the chance of attractive gains, but at the same time he/she has to bear in mind the often elevated price fluctuations and the resulting risk of loss. We recommend a holding period of at least six years. By signing up for a fund savings plan (s Fondssparen),you can start with regular contributions of as little as EUR 50.

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