The world is still open for business

Andy Budden, Investment Director at Capital Group, presented a Workshop on the globalisation of technology companies, their importance to HNW portfolios and how advisers and investors can improve the downside resilience of those portfolios.

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ANDY BUDDEN
Capital Group

BUDDEN'S WORKSHOP TOOK PLACE AT the Hubbis Asian Wealth Management Forum in Hong Kong on February 27. "Global companies are scouring the world for customers," Budden explained, "so where a company does business can be more important than where it is located. Technology has been a game changer and idea-driven companies are taking the lead. This is all about the changing face of globalisation."

In particular, Budden noted that the world is evolving from the multinational or cross-border trade of goods and services to instead being the cross-border transfer of ideas and data in research. "That," he said, "is obviously, changing the world that we live in, but in addition, also changing the way that companies do business."

Budden characterised the 1980s as the age of the consumer products, dominated by Japanese names such as Sony, Hitachi and Toyota. Then came the 1990s, the era of the telecommunication giants such as Vodafone and AT&T. Then the 2000s when the global commodity supercycle rolled into focus, dominated by names such as Royal Dutch Shell, BHP Billiton and Anglo American. And today the names that dominate are such as Amazon, Apple, Alibaba and others that provide instantaneous access to information and data.

Globalisation through cyberspace

"The current trend in globalisation is the emergence of internet accessibility through multiple devices," Budden elucidated. "Think of the internet as essentially the most effective distribution system the world has ever seen, truly transforming what globalisation means, but also transforming what it means to be a global company."

He then added further insights to how the community of multinational companies has exploded as we look back over the last two decades, a period that has seen roughly a doubling of that community. And referring to the FTSE multinationals index – up almost eight-fold since 1994 - Budden noted that multinationals have outperformed the index excluding multinationals by almost a factor of two to one.

"Looking at the number of multinational companies and their performance according to indices, we can see clearly that investing in multinationals over this period has been an absolutely tremendous decision, a great place to be," he concluded.

Budden then looked more closely at Amazon, which he said had changed the concept of trade, transforming itself from a first-party online bookseller to an 'everything store'.

Although some two thirds of Amazon's business are still US centric, a third now comes from global sources, and the current split clearly indicates that Amazon has much further to go in becoming totally global. "Amazon is leveraging its brand, scale and distribution capabilities across multiple channels from e-commerce to cloud technology," Budden explained.

Transforming the top tier

Budden then highlighted how eight of the world's top ten companies by market valuation today are idea-driven innovators, whereas in 1997 the only tech companies represented were Microsoft and NTT. And six of today's top 10 were not even in the top 10 in 2007.

"The top 10 has been completely transformed," Budden added. "Many have come from virtually nowhere, such as Facebook. Innovation has driven them forward and the idea of innovation is today a critical ingredient for business success. And we can see that, to a large extent, we have moved away from companies that are producing 'stuff', to companies that are trading or producing ideas or data in various ways."

Budden then turned his attention to what can be termed 'digital disruption'. "Digital continues to disrupt traditional business models as technology is such a remarkably effective distribution mechanism. Companies have the opportunity to become very big very quickly in a way that we have never seen before, with global retail ecommerce sales projected to rise to $4.5 trillion by 2021 from $2.3 trillion last year."

Yet, remarkably Budden noted that currently only about 10% of retail sales around the world are done online, so 90% remain potential for reconfiguring to online sales. He also added that two-thirds of advertising spending is not yet online, and 50% of travel bookings are not yet online. "There is clearly some huge potential for some really very significant growth ahead of us."

The reconfiguration of tech sector valuations

Budden cross referred to his presentation earlier in the same day, when he had highlighted how valuations and market volatility in the tech sector had changed dramatically from the dotcom era.

The lack of volatility in general during the past 10 years, and of the tech stocks in particular, has been predicated by strong macro factors, including the widespread central bank sponsored QE.

"The result," he had explained, "is that tech sector volatility has more closely mirrored low volatility sectors such as consumer staples and utilities. What we have seen over the last decade is the emergence of a very different pattern where tech is taking a growing share of profits with the overall market, but that is completely in line with the proportion of market capitalisation."

He also highlighted the large volumes of cash on tech companies' balance sheets as the tech sector generally has strong balance sheets with plenty of cash. "Stronger balance sheets of the tech companies are testament to the underlying strength of their business models," he explained.

He then referred to leading tech giants such as Apple, Amazon, Alphabet and Facebook, noting that in the past five years net income is up around 64% and sales have more than doubled. "Balance sheets are strong," he noted, "and sales growth is strong, meaning these business models are real."

Capital Group New Perspective Fund (LUX)

Budden highlighted the appeals of looking beyond traditional boundaries to capture opportunities in the evolving world. The Capital Group New Perspective Fund (LUX) offers investors a means of playing these new trends while also protecting their portfolios from downside risks. A core element of the Fund is that it focuses on where a company does business, not on where it is from, or where it is listed. And it selects global companies of today, established multinationals such as Shell, JP Morgan Chase, Nestle and the global companies of tomorrow such as Amazon, CME and ASML.

To close his workshop, Budden summarised that in an environment characterised by healthy underlying growth but relatively high valuations, it is ever more important to stay proactive and prudent. Investors much capture opportunities via a flexible, bottom-up approach, invest in strong global companies using a 'new geography' approach and focus on idea-based companies and look globally for investment opportunities, while not forgetting downside protection. ■