Deutsche Bank
Research

Global

Cross-Discipline
Thematic Research

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DB CoTD: Tech civil war

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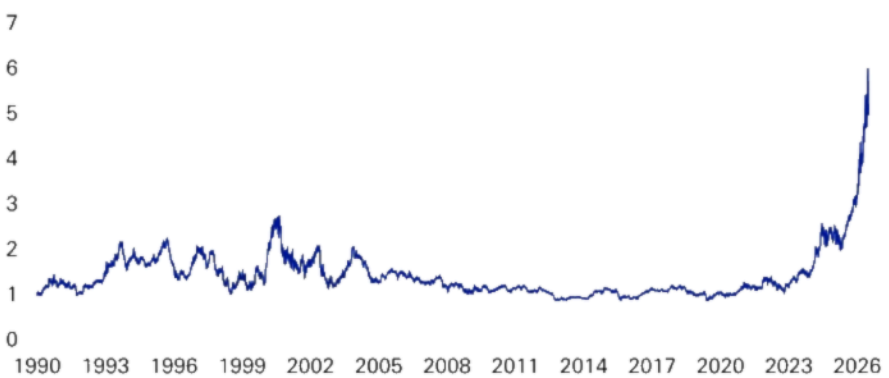
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The Extel Global Fixed-Income analyst survey (formerly II) launched on Monday. If you've voted before you should now have a ballot. Details of how to try to register for a ballot if you haven't had one before, or instructions on how to vote for me and in what categories, can be found here. The main categories I would love a 5-star vote are 1) Global Macro Strategy, 2) Global Economics, 3) Developed Europe: Cross Asset Strategy, 4) Developed Europe: Fixed-Income Strategy and 5) Developed Europe: Economics. Many thanks.

This year's "Charts to make you go WOW!" pack also returned this week. You can see it here at the Deutsche Bank Research Institute. On Tuesday 14th July, I'll also be hosting a webinar for clients to run through the pack at 14:00 London time. The link to register is here.

One chart from the WOW! pack highlights that tech is currently in the midst of a pronounced internal "civil war" — most clearly between software and semiconductors.

Figure 1: S&P 500 semiconductors & equipment relative to software & services, total returns ratio, since 1990 (=1)



Source: Bloomberg Finance LP, Deutsche Bank

A key theme we flagged last autumn was the shift from a world where "everything tech wins" to one of clear winners and losers. At the end of October, the balance between the two was relatively even: Semiconductors/Semiconductor Equipment

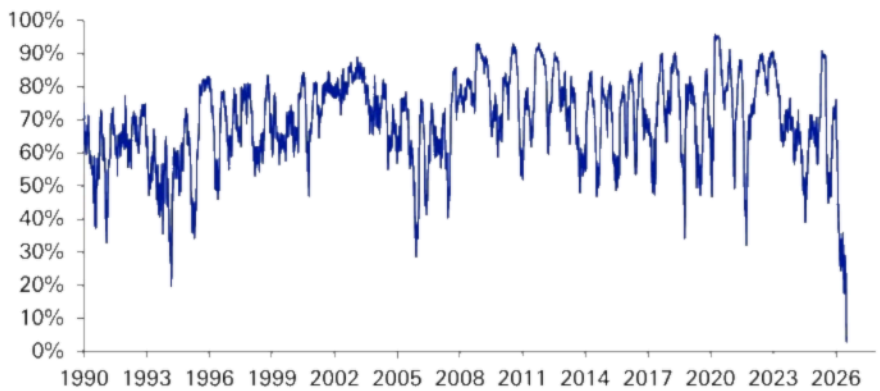
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IMPORTANT RESEARCH DISCLOSURES AND ANALYST CERTIFICATIONS LOCATED IN APPENDIX 1. UNTIL 19th MARCH 2021 INCOMPLETE DISCLOSURE INFORMATION MAY HAVE BEEN DISPLAYED, PLEASE SEE APPENDIX 1 FOR FURTHER DETAILS.

made up 15% of the S&P 500 (42% of tech), while Software & Services accounted for 12% of the S&P 500 (34% of tech).

Fast forward to today and the divergence is stark. Software & Services is down around -23% in total return terms since then, while Semiconductors/ Semiconductor Equipment is up roughly +30%. The composition has shifted accordingly: Software now represents "only" 23% of tech (8% of the S&P 500), while semis have surged to 48% of tech (18% of the S&P 500).

As the WOW! CoTD shows, this is an unprecedented break from what has historically been a tightly correlated relationship between the two sub-sectors which you can see especially clearly in the second bonus chart.

Figure 2: Rolling 3m correlation: S&P 500 semiconductors & equipment vs software & services price returns



Source : Bloomberg Finance LP, Deutsche Bank

The market is effectively treating large parts of software as legacy exposures, while aggressively allocating capital to the hardware layer — notwithstanding some weakness over the past couple of weeks.

So while we noted yesterday (link here) that buying an EM ETF now contains a very large and concentrated tech exposure— and is less about EM fundamentals than before—buying a US tech index today involves exposure to an aggressive civil war within the sector. Neither are necessarily bad but weightings are dramatically changing behind the scenes.

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