Appian
Asset Management

Monthly Monitor

October 2020

Monthly Monitor – Can technology revitalise real economy stocks?

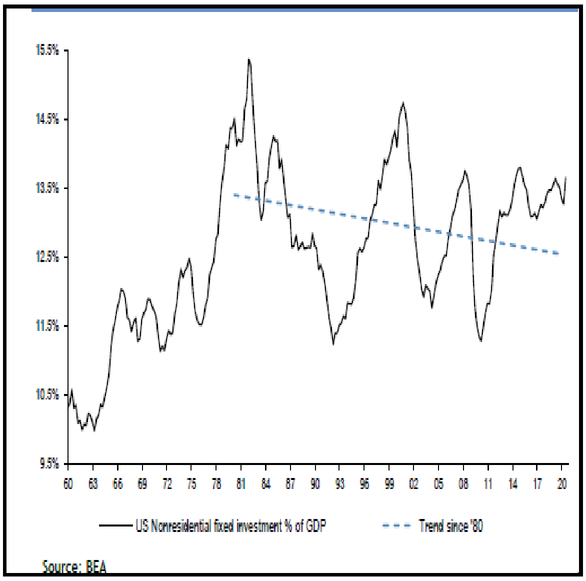
The late 1990's was a period in financial markets known as the TMT bubble (Technology, Media, Telecommunications). Technological advancement was on-going at a rapid pace. Internet adoption was becoming widespread and the possibilities for so called dotcom companies seemed endless. The valuations of the dotcom stocks reached bubble levels. The surge in spending on technology reached unsustainable levels. The combination of excess capacity with excessive valuations led to an inevitable bursting of the bubble, with the Nasdaq Index subsequently falling by 83%.

However, there was a very real economic benefit from the innovations and investment that took place. Increased internet speeds saw the advent of smart phones and mobile data. With growing internet penetration, companies had a new route to market that was significantly more efficient. For example, Ryanair was able to bypass traditional travel agents, significantly bringing down their costs and the costs to their customers. Similarly, music publishers, such as Sony, were able to circumvent the high street and sell direct and latterly stream directly to customers.

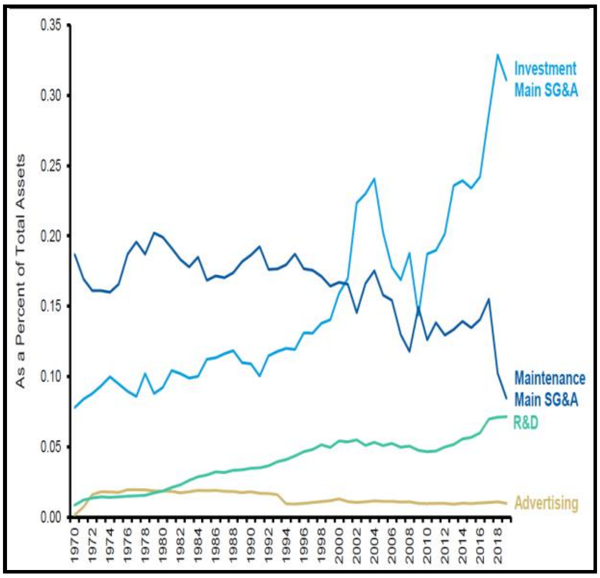
So while the TMT sectors ran the rollercoaster of boom and bust, the real economy (consumers and businesses) reaped the benefits of higher productivity, lower costs and easier access to customers, products or services. While some traditional business models struggled it wasn't just disrupters like Ryanair that prospered as legacy businesses which adapted also benefited – the embracement of technology by some traditional airlines not only enabled their survival but contributed to an unprecedented period of profitability in the industry's history.

The last few years has seen another surge in technology related investment. This does not show up in capital expenditures as many of the investments are now expensed. It can be seen by breaking down Selling General and Administrative Expenses.

Capex as a % of GDP



SG&A Breakdown



In this cycle, as during the TMT boom, the users of technology and the real economy will be beneficiaries of the investment. For investors grappling with figuring out which technology provider has the product that will be the winner in its field, or who are struggling to make sense of lofty valuations in the tech sector, there are other options.

Many long-established, attractively valued, real-economy stocks are deploying technology in ways that strengthen their investment cases.

For example, BMW is taking advantage of the ramp up in R&D related to autonomous driving, digitisation, and fuel efficiency to offer the next generation of vehicles ahead of their peers. Their forthcoming iNext, all-electric SUV, will be the first premium vehicle to carry standard 5G wireless when it launches in 2021.

Digitisation also continues to help Whitbread (the owner of the Premier Inn hotel brand) keep costs low. Its investment in technology has allowed it to avoid the need to use Online Travel Agencies. 98% of bookings are now direct to its website which reduces costs and increases the ability to sell ancillaries.

Next Fifteen Communications has successfully evolved from being a traditional marketing agency which provided advice on product launches, marketing strategies and advertising campaigns. Through innovation and use of technology it now adds value to clients through data-driven marketing and research analytics which assist those clients on how to optimally allocate their marketing spend, particularly on social media and new media platforms.

It is not just technology stocks which benefit from investment in tech – real economy stocks which use technology get a return on this investment. Therefore, our view is that it is anomalous that the divergence in the valuation of tech stocks (US technology forward P/E of 26.3X) compared to real economy equities (Developed markets ex-US forward P/E of 16.9) is nearing the extremes last seen at the height of the TMT bubble in the late nineties.

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Appian AM NAV's Fund Prices 30-09-2020

NAV		MTD	QTD	YTD	SI
		%	%	%	%
AMAF	145.1197	-1.64%	0.35%	-8.82%	45.12%
AGDGF	165.0116	-4.46%	-0.93%	-23.03%	65.01%
AGSCOF	152.8352	-0.52%	7.93%	-18.38%	52.84%
AIF	107.9432	0.62%	5.34%	-2.54%	7.94%
AELF	103.1321	-	-	-0.56%	3.13%

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Warnings

- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**