MATCO FINANCIAL

Tech Is Losing its FAANGs

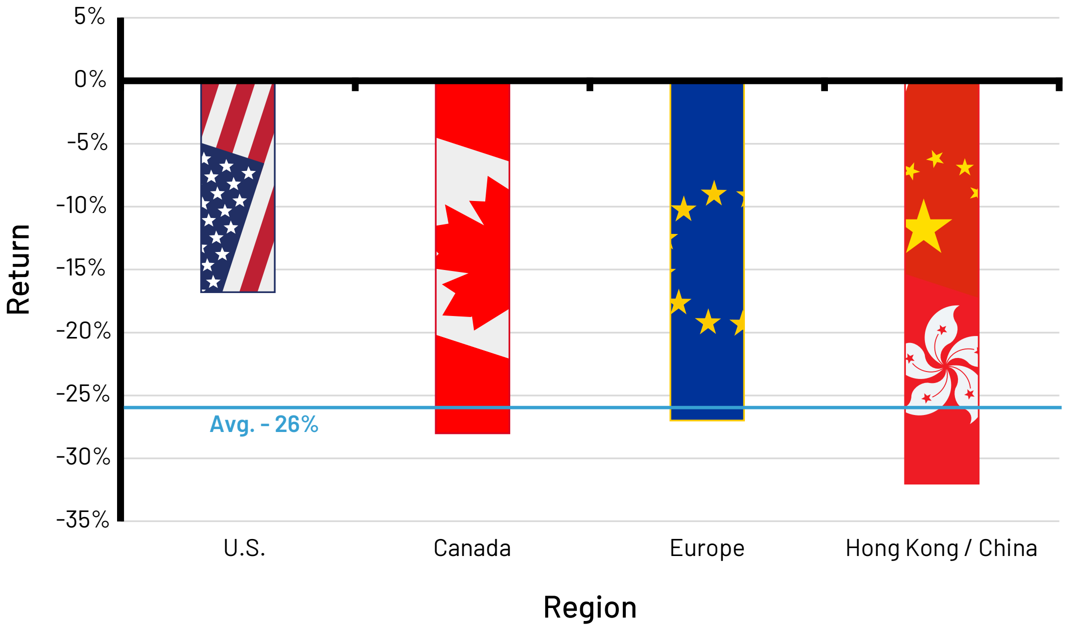
During 2020 and 2021, technology companies benefited greatly from the COVID lockdowns as more people stayed or worked from home. Consumption of anything digital went through the roof, with technology companies reporting blockbuster earnings and surging stock prices. However, 2022 is a new environment.

In January, we released our 2022 Annual Outlook, and one of the key themes was High Tech. We believed that U.S. technology stocks were especially vulnerable to a major correction given their high valuations, slower earnings, and our expectation that interest rates would rise. In December, we reduced our exposure to U.S. and Canadian technology stocks. We re-positioned our funds for this new environment through a higher weight in the financial and industrial sectors that benefit from rising rates.

The sharp selloff in the technology sector has been a global occurrence regardless of region *(see table below)*. The global technology sector is now in a bear market, defined as a peak to trough decline of 20% or more.

Even the FAANG stocks (Facebook, Amazon, Apple, Netflix, Google) have declined by an average of 29% so far. Technology companies focused on growth at all costs have dropped even more than the sector. For example, Netflix recently plunged by 35% in one day on news that it lost subscribers for the first time in 10 years due to increasing competition, consumers watching fewer streaming services due to the lifting of COVID restrictions. In addition, the company guided to weaker than expected subscriber and financial growth. Netflix is now down 65% year to date. Canada's highest-profile technology company, Shopify, has not been immune from the sector's selloff, given its 67% decline.

Technology Sector YTD Price Returns



Sources: U.S. dollars returns as of April 25th Bloomberg, Invesco QQQ ETF, iShares S&P/TSX Capped Information Technology, iShares STOXX Europe 600 Technology UCITS ETF, iShares Hang Seng Tech ETF.

The Bottom Line

Investing in technology companies in this new environment means being disciplined on valuations and realistic earnings expectations. We own a number of technology companies that meet our M-Factor investment process, which is focused on earnings growth, valuation, risk, income and quality. Given how embedded technology is in our daily work and personal lives, we believe technology investing is a secular growth story. Today investors need to be more selective on which companies to own and whether they can manage through an economic slowdown.

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