

## The Tech Driving Disruption (and Opportunity) in 2022

The tech landscape may continue to be impacted by competing macro headwinds, but enduring secular trends may continue to drive growth.

The future remains on sale, in our view, as we look to technology and innovation investing in 2022. In 2021, global markets were dominated by macro factors such as rising rates, supply-chain issues, disparate reopenings, and inflation concerns—causing fundamentals to take a back seat.

But critically, amid these macro factors, tech opportunities continue to be fueled by many structural tailwinds, including well-known progress in mobile-payment penetration, automation, and essential-hardware innovation. In this outlook, four of Wellington's technology-focused global industry analysts and investors share their high-conviction ideas for 2022 within enduring tech themes.

### Scale-Payment Processors

**Bruce Glazer, Global Industry Analyst**

In 2022, we believe continued reopenings, renewed travel, and the resulting uptick in cross-border payments may benefit the secular trend of digital payments. Notably, the leading scale-payment processors all sold off significantly in 2021 on the back of pandemic-related restrictions, fears of disruption, and factor rotations. In our view, this could be one of the best-performing sub-industries within fintech in 2022.

We think the gap between fundamentals and valuations in the group is as wide as it's ever been. These companies are now growing faster than they were pre-COVID, despite meaningful underperformance during that period, and we think future expectations remain high. This has been a unique market environment that's creating some unprecedented opportunities among these names. If the market continues to misprice, we think companies may begin to make bold moves to unlock shareholder value. These steps could include aggressive share repurchases, potential consolidation, and dividend initiations/increases. Overall, we believe the traditional core-payment processors offer significant potential for growth in 2022.

### COVID-19 Winners Post 2021 Sell-Off

**Brian Barbetta, Global Industry Analyst and Michael Masdea, Head of Investment Science**

Looking to the year ahead, tough year-over-year comparisons, decelerating growth, and a holiday season with many unknowns make it difficult to have a lot of short-term conviction. But we believe that uncertainty is actually presenting investment opportunities in the innovative and adaptive companies that we expect to drive durable growth through cycles.

In particular for 2022, the opportunity in COVID-19 winners that suffered from sell-offs in 2021 looks increasingly compelling. In our view, key areas such as the digital economy, healthcare innovation, and the growth of automation are all

### Insight from sub-adviser Wellington Management



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### Key Points

- Tech opportunities continue to be fueled by many structural tailwinds, including well-known progress in mobile-payment penetration, automation, and essential-hardware innovation.
- We believe that uncertainty is actually presenting investment opportunities in the innovative and adaptive companies that we expect to drive durable growth through cycles.
- Digital-payment trends, COVID-19 winners, and Asian tech companies, in our view, are crucial areas within the enduring secular trends that will drive growth in 2022 and over the long term.

starting to look attractive again from a valuation perspective. As companies use innovations such as the cloud, AI, and big data to drive growth, opportunities are presented in digital economies such as e-commerce, digital advertising, and digital finance. In healthcare, new tools and modalities are enabling scientists to develop innovative treatments for diseases with major unmet needs, powering large growth potential. Finally, the companies enabling automation could be beneficiaries of the continued global automation-cycle upgrade in 2022.

## Asia Tech Supply Chains

*Yash Patodia, Global Industry Analyst*

We believe the year ahead looks promising for Asian technology companies as many are in the midst of disrupting long-established supply chains. In fact, Asian tech companies—for example, those in advanced semiconductor manufacturing—are the global supply chain for many massively growing end markets. In addition, localization is creating new opportunities for domestic champions, driving a shift toward an ecosystem of domestic suppliers. Asian software and internet companies are also increasingly displacing global competitors in their home markets—especially in fintech, gaming, and social networking.

We believe these trends could persist throughout 2022. We're particularly excited about their combination with several structural Asian technology themes, such as the digitization of consumers and enterprises, the electrification of cars, automation, and augmented and virtual reality. This opportunity includes the pivotal role that Asia tech hardware infrastructure's plays in enabling the metaverse. The tech landscape has evolved dramatically over the past few years as digitization has accelerated, revolutionizing traditional industries and economies. Importantly, in the near term, we expect volatility to persist due to geopolitical issues as well as local regulatory tightening, such as China's oversight of platform and internet-based businesses. However, we believe this revolution could continue driving a multiyear opportunity, fueled by secular tailwinds such as favorable demographics and the strong research and development capabilities of Asian tech companies.

## Bottom Line

The tech landscape for 2022 may continue to be impacted by competing macro headwinds, geopolitical issues, and structural tailwinds. Though rising inflation and rates present risks to tech sectors, we believe the above examples are among the crucial areas within the enduring secular trends that could drive growth in 2022 and over the long term. Importantly, we think these factors, combined with diverging COVID-19 recovery and reopening paths, could make active management particularly critical to help differentiate between the potential winners and losers in this volatile environment.

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## ESG Considerations in Tech and Innovation

Many of the key themes in tech and innovation investing are closely linked to environmental, social, and governance (ESG) factors. On the positive side, progress in mobile payments, sustainable innovations, and medical technologies are among the advancements having significant impacts—enabling financial inclusion, battling climate change, and increasing access to healthcare, respectively.

In 2022, we believe these trends will continue. We expect further penetration of mobile banking across leaders such as China and Southeast Asia and major markets such as India and Brazil. In our view, we'll also see progress on electric vehicles, eco-friendly packaging, and renewable energy. Finally, we think healthcare access could continue to expand through various innovative technologies.

In contrast, there are also key areas where tech innovations are raising ESG issues that may need to be addressed more directly in the coming years. For instance, the environmental impact of technology—from energy-intensive blockchain technology and crypto assets to the waste generated by constant hardware upgrades—created significant news flow in 2021 that could continue in 2022. Furthermore, consumers, businesses, and economies alike are increasingly reliant on technology. This could lead to further regulatory action to continue to address issues such as data privacy concerns. Tech and innovation often lead us into uncharted territory, and ESG considerations may be tied to tech progress in 2022 and beyond.

## Talk to your financial professional to learn more about opportunities in tech and innovation in 2022.

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