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Supply chain security continues to ripple through chip sector

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Taiwanese chipmaker TSMC on Tuesday announced it will more than triple its planned investment at its new Arizona plant to USD 40bn, marking one of the largest foreign investments in US history.

US President Joe Biden heralded the news as a big win after supply chain issues disrupted the US economy during the COVID-19 pandemic. TSMC's expanded investment in Arizona is the latest in a string of major investments by chipmakers since the CHIPS and Science Act passed this summer, including IBM and Micron.

Separately, Dutch officials are reportedly planning to enforce new controls on exports of chipmaking equipment to China, according to Bloomberg News on Wednesday. Since 2018, the Netherlands has prohibited its largest company, semiconductor-equipment maker ASML Holdings, from exporting its most advanced machines to China due to their potential military application, Bloomberg reported.

The global tech sector has come under considerable pressure this year from rising interest rates, elevated inflation, and a slowing global economy. We expect global IT to remain under pressure in the near term, and we maintain a least preferred stance on the sector.

But we continue to believe the structural theme surrounding the era of security, including securing supply chains, remains compelling. We believe that energy, food, and technological security will be increasingly prioritized by governments and businesses, even at the cost of efficiency. This will likely create winners and losers across the investment landscape in the decade ahead.

Cybersecurity. We believe that the rise in remote working, alongside perceived threats from both state and non-state actors, will drive an increased focus on cybersecurity solutions. Although we are cautious on the global IT sector in the near term, we think that cybersecurity companies are relatively defensive within the technology sector because security is seen as essential, and companies and governments tend to maintain spending even in the face of economic downturns.

Indeed, underlying spending on cybersecurity remained resilient in recent results, and cybersecurity stocks held up better than other tech peers during the rout this year.

Energy security. Plans to transition energy production away from fossil fuels have been underway for years. But Russia's invasion of Ukraine and subsequent disruptions to European energy supplies are likely to accelerate those plans—as much on security grounds as on environmental ones. We expect the era of security to drive energy-related commodity prices higher over the long term.

A focus on sourcing supplies from allied nations, structural underinvestment, efforts to achieve net-zero emissions, and a need to meet growing emerging market demand should all help support prices. We also continue to expect companies linked to renewable energy solutions to see increased demand in the years ahead.

Food security. More broadly, the security and safety theme also includes threats to the global food chain and to air, water, and soil quality. The food price shocks stemming from supply disruptions related to COVID-19, climate change, and the Russia-Ukraine war are driving governments and international organizations to rethink all aspects of food security, in our view. The need for food security will favor stocks linked to improving agricultural yields, reducing environmental damage, saving water, and adapting to climate change. Efforts to improve efficiencies across the supply chain will drive opportunities in areas including smart agriculture, alternative protein, and logistics.

So, we believe that energy, food, and technological security will be increasingly prioritized by governments and businesses, creating investment opportunities in the decade ahead.

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