



Rising cybersecurity threats and increasing reliance on digital technology underscore the need for indigenous semiconductor capability. (UBS)

Security takes center stage

15 March 2022, 4:54 pm EDT, written by US Editorial Team

The world has changed. The Russian invasion of Ukraine will likely have a meaningful and long-term impact on security considerations that will affect conventional defense spending, cyberspace, as well as energy, food, and semiconductor supplies.

Cybersecurity

As the world becomes more confrontational, a strong cyber defense is becoming even more crucial. Corporate security breaches are costly, with the global average now more than USD 4 million. As more data and information are created, the average cost of security breaches will likely rise over time. This should lead to an increase in overall industry revenues. Gartner, a research and consulting firm, expects 10% compound annual growth in security spending from 2021 to 2025. Beyond the private sector, governments will likely take a more aggressive approach to ensuring robust cyber defenses. As a result, cyber-security spending could easily exceed these estimates.

Silicon nationalism

The Russian invasion of Ukraine also underscores the geopolitical importance of technology. Technology increasingly underpins military and economic security, as well as economic growth. Information technology relies on the global semiconductor industry, which is on track to reach USD 600bn in sales in 2022. But global semiconductor manufacturing has become unbalanced after years of outsourcing. As we have seen over the past year, a shortage of chips can have real economic impact. Rising cybersecurity threats and increasing reliance on digital technology underscore the need for indigenous semiconductor capability. This has led to the rise of “silicon nationalism”, or the recognition by major global powers that semiconductor manufacturing is increasingly a strategic imperative.

Shifting energy supplies

The Russian invasion of Ukraine has prompted a sea change in Western attitudes to purchasing Russian energy and the US has already banned Russian imports. As the largest oil producer in the world and a net energy exporter, the US will have the easiest transition away from Russian energy.

Russia supplies only 3% of US oil consumption. The US imports no Russian natural gas. Pivoting away from Russia will be more challenging for Europe. Russian oil and gas account for about 25% and 40% of European Union consumption, respectively. The union has announced that it plans to “make Europe independent of Russian fossil fuels well before 2030.”

Food security

Most essential foods are produced relatively locally. But international trade still plays an important role to balance local supplies, seasonal patterns and weather-related production swings. Russia and Ukraine play a key role in the food supply chain. The two countries collectively account for over a quarter of the global wheat and barley exports, nearly a fifth of corn and much of sunflower oil. In fact, Russia is the world’s largest wheat exporter. The region is also a major producer of fertilizers, with Russia accounting for about 20% of global potash production and its ally Belarus accounting for another 15%. Disruption to trade routes have pushed prices higher, and in some cases to record levels. This is likely to further incentivize investments to diversify supply chains and requiring more localized production while improving agricultural yield and production.

For more, including 20 companies that CIO has identified as being leveraged to benefit from these trends, reach out to your UBS Financial Advisor for a copy of the report "Security takes center stage" 15 March 2022.

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