

## The Move to Cloud Still in Early Innings; A Golden Age of Spending Ahead

Dan Ives | ETFMG Cloud Technology Expert | November 25, 2020

With the short-lived rotation from tech and high growth names to value now in the rear view mirror, we strongly believe this tech rally is still in the middle innings of playing out over the next year. ***Our view is that tech stocks could be up another 30% between now and the end of 2021 led by FAANG, cloud, and cybersecurity names as we enter a golden age of spending for the tech sector with a bullish gridlock Beltway in the background.*** We also believe with a COVID vaccine now on the horizon that an economic rebound during the course of 2021 will be a further catalyst for more big ticket digital transformations projects to be green lighted with some of our favorite names (among others) as clear beneficiaries of this trend: Microsoft, Docusign, Zscaler, Salesforce, and Nuance.

- First off, the political backdrop is clearly bullish for the tech sector heading into 2021 as a Biden Presidency and very likely Red Senate is a goldilocks scenario for investors. We believe a Biden Administration will ratchet down tensions with China and call an "unofficial" truce to the cold tech war brewing between DC and Beijing. While the 5G battle will continue to play out over the coming years, we believe the decoupling path on the technology front between the US and China will slow down significantly with Biden in 1600 Pennsylvania Avenue although the IP theft/piracy issues remain a troublesome issue that needs to be dealt with from the eyes of consumers as well as US technology players. That said, we believe this dynamic removes much of the geopolitical risk that has been hanging over the heads of Apple, Cisco, and semiconductor vendors highly exposed to China from a supply chain perspective. Additionally a very likely Red Senate (assuming at least a split in Georgia Senate run-off in early January) reduces the risk of legislative changes around antitrust towards FAANG names although the DOJ suits remain a concern for investors around Alphabet and likely tech stalwarts such as Facebook over the near-term.
- A second key dynamic playing out in the tech world over the next 12 to 18 months is the secular growth areas around cloud and cyber security are seeing eye popping demand trends we have not witnessed in our 20+ years of covering tech stocks on the Street. The accelerated path to the cloud and WFH environment is unprecedented as enterprises and governments of all shapes and sizes adjust to a more virtual workforce for the foreseeable future. With a vaccine now on the horizon, while some WFH names such as Zoom and Slack will naturally see a deceleration of growth as more employees return to the office we believe core names such as Docusign and Zscaler (both reporting earnings next week) are only just getting started around the architectural shifts taking place among enterprises moving to the cloud. With 35% of workloads on the cloud today heading to 55% by 2022 based on our estimates, the overall cloud ecosystem is poised to see an influx of spending over the next few years. While stalwarts such as Microsoft and Salesforce are front and center on this cloud path, the underlying infrastructure and platforms enabling this shift stand to be major benefits of this spending surge. This is a global trend as we are seeing an acceleration of cloud spending across the US, Europe, and APAC with China a key region as Alibaba, Tencent, and Baidu are leading the charge on this front.

## Meet the Expert



### **Dan Ives**

**Managing Director & Equity Analyst,  
Wedbush Securities**

World renowned software and technology analyst with 20+ years experience educating on cloud computing, cyber security, big data and the mobile landscape. His vision behind the ETF stems from an investor demand for global exposure to the “cloud enabler” companies he has been covering for decades.

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