

Cloud and Digital Transformation Still in Early Innings of Playing Out

Dan Ives | ETFMG Cloud Technology Expert | June 22, 2021

With worries around peak tech earnings, it's as "good as it gets philosophy", macro inflation/rate jitters, and WFH tailing off as vaccine deployment looks to be hitting the masses, we continue to see multiples compress/stagnate across the tech sector with the bulls looking at their screens and asking what's next heading into 2H. Taking a step back, our bullish view of tech stocks over the years is predicated on our multi-year thesis that the digital transformation story across the consumer and enterprise ecosystem is still in the early innings of playing out in what we characterize as a \$2 trillion market opportunity for the next decade. Of course there was a clear massive pull forward in demand for cloud, e-commerce, cyber security, and facets of the technology ecosystem over the last 16 months during the pandemic, HOWEVER we believe massive growth (and further multiple expansion) is still on the horizon with tech stocks underestimating this surge of demand for the next 2-3 years. We also note the tech spending surge in some areas will moderate (Zoom, front office collaboration), however the cloud infrastructure boom is still in the early innings of playing out in our opinion as tech is once again a "prove me" sector in the eyes of the Street heading into the rest of 2021.

Cloud and cyber security spending poised to soar. We importantly note that only 40% of workloads are currently on the cloud today and poised to hit 70% by 2025, with cyber security threats growing by the day as evidenced again with the recent ransomware attack that forced shutdown of the largest fuel pipeline in the US. We believe there is a \$200 billion-dollar growth opportunity in cloud security alone "up for grabs" over the next few years for those vendors that have the solution sets to protect critical cloud deployments from growing threats/attacks. In a nutshell, we believe the fundamental drivers and sweet spot of cloud demand continue to give us high conviction in owning the secular winners in the burgeoning cyber security sector and also expect a surge of M&A to take place within this sector from both strategic/financial players. ***Our favorite cyber security names in our coverage remain VRNS, ZS, TLS, SAIL, TENB, PANW, and FTNT¹.***

4th Industrial Revolution playing out in the tech world. At the core of the tech bear thesis, high flying tech stocks are crowded names with broken technical and no traditional valuation support. We view this trading dynamic over the last few months as just a painful, brutal valuation digestion period for tech stocks in their early stages of growth and a short-term sell-off in the midst of a multi-year bull rally we expect to go well into 2022. The tech bull cycle will continue in our opinion its upward move in 2H2021/2022 given the scarcity of growth names/winners in this market looking ahead on the heels of the 4th Industrial Revolution playing out among enterprises/consumers. We believe this sell-off in tech has created the opportunity for investors to own the secular tech winners for the next 3-5 years. While it's not garage sale prices yet for tech stocks, we believe relative to the outsized growth prospects ahead, this is not the time that we are throwing in the white towel on our tech bull thesis but rather doubling down on this opportunity heading into 2H to own the secular winners in FAANG (Apple remains our favorite), cloud (MSFT, DOCU, NICE, PEGA² favorites), cyber security, and 5G looking ahead.

¹ The securities mentioned may or may not be current holdings in the Wedbush ETFMG Global Cloud Technology ETF (IVES). Holdings are subject to change without notice.

² See footnote #1.

Meet the Expert



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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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