

US tech spending on the rise

When computer reacted with the development of information, it induced a few decades of boom for the information technology sector (IT) of the US. As software, hardware and applications upgraded themselves to accommodate the consumers over the years, ownership of smarthphone, which can also function as personal computer, becomes more popular. This sends computer technology to an era of mobility and in turn favours the enterprises that design and manufacture hardware, as well as those that design software and applications.

In the present global IT market, the US still rules. From search engine (eg. Yahoo) to smartphone hardware (eg. iPhone) to personal computer operation system (eg. Windows), it is everywhere to be seen. As a result, even if the US is tied up by economic slowdown, the overall spending in the information market still manages a forecast growth of 9.9% for 2010, higher than the global forecast growth of merely 7.8%¹.

Companies spend, spend and spend, in software

After a major slash in enterprises' operation expenses in 2009, IT spending contracted as well. But then when the Spring returns this year, enterprises begin to expand their IT expenditure to welcome the bundle of new opportunities. Of the splurged paper notes, 80% should be on software, as the new theme in software and applications has been surrounding Cloud Computing. Prior to its official triumph into the consumer market, Cloud Computing has already tiptoed into and eventually earned its status in large tech companies such as Google, Amazon and IBM. Simply because Cloud Computing has a close association with daily scenarios. At best guess, it will be grossing a profit in 2010.

On the valuation front, the price-to-earnings of the software manufacturing sector is expected to be 11.8 times the forecast earnings, with the earnings loading a 25% growth by estimation - multipliable growth yet cheaply valued (Figure 1). A few company names should be able to benefit from the spending increase. However, to a certain degree, the demand for software is affected by the low spirit in the European market. Because Europe has always been one significant importer of the US tech sector. Therefore in order to sort out companies with great potential, careful selection is highly recommended. Leading companies are often not without a strong balance sheet that contains software indispensable to consumers as assets. They should be able to delight investors when they appreciate in value.

Figure 1: Valuations of S&P 500 Information Technology

S&P 500 (Categorised index)	2011	
	P/E(x)	EPS(%)
Software	11.8	25.2
Computer Hardware	12.7	12.3
Communication Equipment	13.7	31.8
Semi-conductor and Equipment	9.5	28.4
Internet Retailing	28.8	39.6

Source: Bloomberg, as at 26 Aug 2010.

Smartphones making the rules of mobile communication

Alongside software manufacturers, product makers for mobile communication are as well having their moments in the era of mobility. According to Topology Research estimates, the sales of iPhone and smartphone running on Android are likely to climb 35.4% up to 67 million units, with the phenomenal marketing by telecommunication operators at a worldwide scale. Thanks also to Amazon's larger-than-life effort in promoting e-books, the smartphone sales volume is expected to grow 103%, soaring to 5.6 million units in 2010, including phone models that enable free wireless internet and touchscreen. That said, mobile communication equipment has become very important hardware to support e-books and smartphones, besides the already benefiting applications suppliers. Certain communication services providers and electronics equipment makers are also expected to benefit when more consumers switch to smartphones and fibre-optic network is upgrading. As a result, those service providers' valuations appear more attractive. On the contrary, the semi-conductor manufacturing sector would look less attractive since the companies had already picked up at the very beginning of the business cycle, during which stock replenishment cycle is about to peak.

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¹ Source: Forrester Research Incorporation, "US and Global IT Market Outlook: Q2 2010".