Trump and tech – M&A revival, trade shifts, and the rise of automation

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A new president

Trump is once again President of the United States.

Fed rate cuts have been due irrespective of the election result, and this should lead to cheaper borrowing costs and increased tech company valuations. These cuts also serve as an impetus for M&A activity.

Trump's presidency is expected to result in the removal of many of the anti-trust restrictions and litigation currently blocking tech mergers. This would be a positive tailwind for the sector, given corporate activity (M&A) was blocked and postponed due to Biden's FTC's anti-trust policies and litigation imposed by the FTC (Federal Trade Commission).

Meanwhile, Trump has vowed to impose more trade tariffs, in an effort to reduce China's economic influence and strengthen the U.S. industrial base.

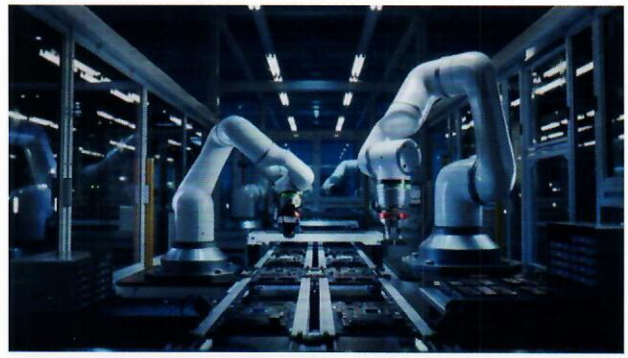
On the one hand, this reshoring of manufacturing should lead to the creation of more jobs -- but on the other hand, it will be a costly endeavour given the need for a larger domestic workforce and subsequent labour costs. This may boost activity in the robotics & automation space, as manufacturers look for cheaper solutions.

It also remains to be seen whether the incoming President will scrap Biden's IRA and CHIPS Act as he has often claimed, but doing so may not be such an attractive option. 51% of the investments tied to the IRA and CHIPS Act incentives are flowing to Republican states, and a further 29% to swing states – the red senators in these regions are unlikely to support a move to repeal the incentives their states have benefited – and are still benefitting – from.

We should also bear in mind that Trump has gained significant support from the tech sector – most notably from Elon Musk.

The multi-billionaire is hoping that the President-elect's promise of "the lowest regulatory burden" will benefit electric vehicle maker Tesla – especially now that Musk has been placed in charge of the U.S. government's efficiency drive. We also expect more government outsourcing to Silicon Valley, particularly with cybersecurity, AI, and cloud technology.

Trump's newfound support from big tech names speaks volumes – large parts of the tech sector clearly believe his impact will be positive.



The broader picture

The S&P 500 could be poised for a strong year. Goldman Sachs predicts it will appreciate 10%, ending 2025 at 6,500. But the fact remains that the S&P 500 presents significant concentration risk for investors. Throughout 2024, the Magnificent 7 (Mag 7) stocks – Nvidia, Apple, Microsoft, Amazon, Google, Meta, and Tesla – have represented around a third of the index's weight. This has almost doubled over the past 10 years.

This is less of an issue when those stocks are outperforming – but we saw in the latter half of 2024 some of these stocks begin to dive. In Q3 2024, for the first time since Q4 2022, the Mag 7 lagged the S&P 500.

For investors seeking true diversification, they may want to consider an equal weighted approach. In this scenario, constituents have an equal impact on the index's returns, regardless of market-cap. This means if one stock – or a group of stocks such as the Mag 7 – falter, it will not necessarily have a disproportionate impact on the entire index's returns.

***HAN-GINS Tech Megatrend Equal Weight UCITS ETF (ITEK)** provides exposure to the disruptive technology companies in "Industry 4.0" that are changing the world through global megatrends. The ETF uses a double diversification approach, allocating equal weight to each subtheme and then equal weighting constituents within, with the aim of avoiding concentration in larger stocks such as the Mag 7. The ETF's constituents are not limited to one region or country, giving global coverage and access to smaller, global companies to better contribute to ITEK's performance.*

ITEK's 120 holdings are largely immune from future Trump tariffs and we expect many to benefit from the freeing up of M&A activity under Trump.