Trust busting big tech

Are antitrust investigations just another drop in the ocean for big tech, or will there be wider ramifications for the so-called FAANGs as they increasingly find themselves under the microscope for morally ambiguous activity?

Over the past few years, regulators have taken a deeper look into how some “big tech” companies treat data privacy, particularly those known as the FAANGs (Facebook, Amazon, Apple, Netflix & Google). More recently, the conversation has shifted towards unfair competitive practices as full blown investigations into the operations of four of those names are becoming more and more likely to materialize.

At the beginning of June, the House Judiciary Committee kicked off its inaugural hearing to examine the business practices of some of the most prominent tech companies, their influence on digital markets and their impact on e-commerce, content and communications. Antitrust legislation prohibits companies from restraining competition through questionable practices.

If the House Judiciary Committee decides the hearing process, which can take up to 18 months¹, has unearthed alarming findings, then the matter could escalate to formal investigations by two government entities. Multiple news outlets have reported that the Federal Trade Commission (FTC) would likely look into Facebook and Amazon while the US Justice Department would likely investigate Google and Apple², the “big four”.

Although Newton global equity portfolio manager, Paul Markham, thinks antitrust may not be the biggest concern for markets from a regulatory point of view, he does think recent government interests support the larger theme of increased regulation in the tech sector.

“Antitrust is just one aspect of this,” Markham says. “My expectation would be that regulators would prefer to use the opportunity to apply more regulation to the internet as a whole instead of going down the antitrust route.”

Will history repeat itself?

Even so, Markham does not dismiss antitrust entirely and believes it is a valid conversation point due to big tech’s sheer influence over its end-markets.

Regulators are currently looking into Google and Facebook’s domination of digital advertising, which between the two is expected to reach 75% of global digital ad revenue by 2020³. There is also scrutiny surrounding the competitive tactics of the tech behemoths, with Facebook reportedly having acquired 92 companies since 2007⁴, including competitors like Whatsapp and Instagram.

“Because these types of companies have not been seen as major systemic risks, governments have generally allowed this M&A to go unchecked,” Markham says. “But it may well be that the scrutiny does start to improve because these companies are equivalent in importance to General Electric, Walmart and Exxon in decades gone by in terms of market dominance.”

¹ The Washington Post: Facebook, Google and other tech giants to face antitrust investigation by house committee, 3 June 2019
² CNN: Google, Facebook and Apple could face US antitrust probes as regulators divide up each tech territory, 3 June 2019
³ MarketWatch: The antitrust suspects: Facebook and Apple appear to be most at risk, 24 June 2019
⁴ MarketWatch: The antitrust suspects: Facebook and Apple appear to be most at risk, 24 June 2019
Forget about the General Electrics or Walmarts of the world and look no further than tech giant Microsoft for a real life example, which manifested at a time its market influence mirrored that of today’s tech giants: the 1990s.

In 1992, the FTC inquired into whether or not Microsoft could be monopolizing the PC operating system industry. Keep in mind, the Justice Department tried the same thing with IBM after regulators filed a suit against it in 1969. While the IBM case resulted in a 13-year battle that ultimately led nowhere, and has since been coined the antitrust division’s “Vietnam,” Microsoft’s legal troubles concluded in a settlement that temporarily impacted its stock price.

In Markham’s opinion, if antitrust investigations come to the same conclusion and adversely impact stock prices of any of today’s big four it could possibly lower their valuations from current levels and present possible buying opportunities for companies that some believe have strong underlying fundamentals.

“If the investigations play out like Microsoft’s, I believe in the short term it could impact stock valuations,” Markham says. “I think that the pro-growth tilt we’ve had in the market for the past seven years could make the FAANG stocks vulnerable to that kind of cross-wind.”

Fish in the stream

While many people think traditional media outlets could take back some of the advertising market if there is a crackdown on big tech monopolization, Markham doesn’t agree. He has a different view of where one may find a boost in digital ad spend.

“You may find that advertising dollars shift towards music streaming companies. A lot of people don’t want to pay the subscription for these streaming services and use them like radio station, where they are used to hearing advertisements,” Markham says. “If you think the penetration of music streaming services could continue to grow—they could well be a beneficiary.”

Formal investigations have yet to begin and only time will tell where they will lead. If history is any indicator of the future, it will take some time before an outcome and its ramifications becomes clear.

---

5 The New York Times: 5 Lessons From Microsoft’s Antitrust Woes, by People Who Lived It, 23 June 2019
6 Business Insider: Microsoft’s stock just hit the highest point since a judge ruled it broke antitrust law back in 2000, 22 October 2015
Investors should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about the fund, investors should contact their financial professional of visit bnymellonim.com/us.com. Investors should be advised to read the prospectus carefully before investing.

All investments involve risk, including the possible loss of principal. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. References to specific securities are for illustrative purposes only, and are not intended as recommendations to purchase or sell securities. Portfolio composition and allocation are subject to change at any time.

The technology sector involves special risks, such as the faster rate of change and obsolescence of technological advances, and has been among the most volatile sectors of the stock market.

As of 5/30/2019, the companies mentioned are not held by the registered investment vehicle managed by Paul Markham.

This information contains projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information in this presentation is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

Newton and/or the Newton Investment Management brand refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Investment Management (North America) Limited (NIMNA Ltd) and Newton Investment Management (North America) LLC (NIMNA LLC). NIMNA LLC personnel are supervised persons of NIMNA Ltd and NIMNA LLC does not provide investment advice, all of which is conducted by NIMNA Ltd. NIMNA LLC and NIMNA Ltd are the only Newton companies authorized to offer services in the U.S. In the UK, NIMNA Ltd is authorized and regulated by the Financial Conduct Authority in the conduct of investment business and is a wholly owned subsidiary of The Bank of New York Mellon Corporation. Assets under management include assets managed by all of these companies listed above except NIMNA LLC, which provides marketing services in the U.S. for NIMNA Ltd.

BNY Mellon Investment Management is one of the world’s leading investment management organizations and one of the top U.S. wealth managers, encompassing BNY Mellon’s affiliated investment management firms, wealth management organization and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

Views expressed are those of the author(s)/manager(s)/advisor(s) stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. This information should not be construed as investment advice or recommendations for any particular investment. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation.

No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission.


MARK-67338-2019-07-01