

Profits from the Cloud – By Bryan Dooley, CFA

Despite a lukewarm U.S. payrolls report and mixed global economic data, world bourses edged up again last week taking the S&P 500 stock index to within less than 1.5% of its all time high reached last January. Year-to-date, the technology sector continues to be one of the best performing groups within the index, and for good reason.

One of the most promising trends in today's market is the shift towards sharing. Much has been written about this growing phenomenon as market winners and losers are being decided based upon their ability to capitalize on changing consumer and IT spending patterns.

Wikipedia states that the "sharing economy" generally refers to activity involving online transactions and has evolved out of an open-sourced community. The ubiquity of the internet has clearly been a game changer, enabling more timely and efficient access to goods and services. Increasingly, consumers prefer purchasing just what they need on demand and companies are outsourcing routine tasks such as data management in order to focus on their core competencies.

In the sharing of goods, Uber and Lyft have made it convenient to catch a ride without the cost and hassle of automobile ownership. Airbnb provides vacationers with affordable accommodations while giving property owners a new source of income, connecting them through a user-friendly web interface.

Broadly speaking, almost any sales transaction through a democratized on-line marketplace constitutes a sharing event. However, some industries are leading the way while others show great promise in the years to come.

The rules of marketing and ownership are rapidly changing and investors should be aware. Customers have become increasingly fickle about purchasing some larger ticket items. Indeed, the millennial generation has been documented as valuing experiences over ownership. Many in this age demographic would rather have the flexibility of renting an apartment over the responsibility of home ownership, for example. And why pay for a depreciating car when Uber and Lyft are just a few smartphone key strokes away? Meanwhile, self-driving cars are on the horizon offering perhaps even greater flexibility.

In the corporate world, cloud computing as a vehicle for information sharing has been a huge success. The cloud is a platform which enables ubiquitous access to shared pools of system resources while higher-level services can typically be provisioned with minimal effort. These services are usually offered on demand, making 'software as a service,' or SaaS an important delivery model. Like a public utility, cloud computing relies on the sharing of resources to achieve economies of scale and efficient, centralized distribution.

An integral part of the cloud story is allowing organizations to focus on their core businesses rather than expending resources on computer infrastructure and maintenance. By utilizing the cloud, companies can avoid or minimize up-front IT infrastructure costs. A category of cloud utilization which hosts services traditionally present in on-premises data centers is sometimes referred to as 'infrastructure as a service', or IaaS.

Proponents claim that cloud computing allows enterprises to run their applications faster, with improved manageability and less maintenance. This enables IT teams to more rapidly adjust resources to meet fluctuating and unpredictable demand. Since the launch of Amazon Web Services (AWS), the availability of high-capacity networks, low-cost computers and storage devices as well as the widespread adoption of hardware virtualization, service-oriented architecture, and autonomic and utility computing has led to rapid growth in cloud computing.

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Microsoft, through their Azure offering, and Amazon's AWS are the two largest cloud companies. Unsurprisingly, the stock performance of these two companies has been impressive. Over the past five years Microsoft Corp. and Amazon.com Inc. have generated annualized shareholder returns of 30.7% and 43%, respectively - far outpacing the S&P 500 stock index return of 12.9%.

In addition to providing their well-known search engine, Alphabet Inc., parent company of Google, is also rapidly growing their cloud services. In Alphabet's latest quarterly earnings announcement, the company reported a massive \$5.5 billion capital expenditure on cloud investment. Semiconductor manufacturers, which ultimately power the cloud platform, have been responding positively to this news.

Companies which embrace the growing use of shared information services to create more efficient access for their customers are gaining on legacy companies slow to make the change. Investing directly in cloud companies and those benefitting from this growing ecosystem has been a good trade which will likely continue.

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Stock Market Performance

	8/6/18	W-o-W	M-o-M	Y-o-Y
DJIA	25,463	0.6%	4.1%	15.3%
S&P 500	2,840	1.3%	2.9%	14.7%
MSCI World	2,155	0.3%	2.0%	9.5%
S&P/TSX	16,420	0.5%	0.3%	7.6%
BSX	2,819	0.1%	5.5%	37.3%
FTSE100	7,651	-0.6%	0.4%	1.9%
DAX	12,584	-1.7%	0.7%	2.3%
CAC	5,468	-0.4%	1.7%	5.1%
Nikkei	22,507	-0.2%	3.3%	12.8%
Hang Seng	27,820	-3.2%	-1.8%	0.9%
Shanghai	2,705	-5.7%	-1.5%	-17.1%

Key Rates and Prices

Currencies	8/6/18	Month ago	Year ago
EUR	\$1.15	\$1.17	\$1.18
GBP	\$1.29	\$1.33	\$1.30
JPY	¥111.43	¥110.47	¥110.69
CAD	\$0.77	\$0.76	\$0.79
CHF	\$1.00	\$1.01	\$1.03
AUD	\$0.74	\$0.74	\$0.79

Fixed Income

3M LIBOR	2.34	2.33	1.31
3M Treasury Bill	2.01	1.95	1.08
2Yr Treasury Note	2.65	2.54	1.35
10Yr Treasury Note	2.94	2.82	2.26
Fed Funds Rate	2.00	2.00	1.25

Commodities

Gold/oz.	1,209.88	1,255.20	1,258.77
Silver/oz.	15.34	16.04	16.27
Copper/lb.	2.81	2.85	2.89
Oil	69.49	73.80	49.58

Global Economic Calendar (August 6th — August 10th)

Mon: Manufacturers' Orders (DE); Household Spending (JP)

Tues: Industrial Productions (DE); JOLTS (US)

Wed: EIA Petroleum Status Report (US); Consumer Price Index (CN)

Thurs: Jobless Claims (US); Producer Price Index (JP)

Fri: Baker-Hughes Rig Count (US); Treasury Budget (US)

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