



**ODDO BHF**  
ASSET MANAGEMENT

## (ARTIFICIAL) INTELLIGENCE *in bear markets*

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With heavy losses especially for US technology stocks, but also for equities in general over the last months, the markets are in a bear market due to three factors:

- the rise in long-term interest rates: according to our calculations, a 100-basis point rise in long-term interest rates affects the valuation of a stock by about 17%;
- a decline in capital spending after the Corona boom;
- fear of an economic recession, especially in European markets.

However, two factors can moderate this gloomy picture: first, looking at the sharp decline in the Nasdaq since the beginning of the year, we may be past much of the losing streak. Secondly, according to our analysis it is also worth noting that the earnings performance for the first quarter remained strong.

### LOOK FOR OPPORTUNITIES IN THIS ENVIRONMENT?

In this risk-off environment, we are avoiding one segment of the market: unprofitable technology stocks and companies with overly complex business models that cannot generate free cash flow in the short term. We also stay away from the streaming business, as this business model relies on high investments for content such as movies and TV series to gain market share.

Another reason for our caution is the post-Covid normalisation phenomenon. We saw higher demand for several stocks in the Covid years (2020 and 2021), which is now returning to normal. Stocks affected by this phenomenon continue to correct more than others, according to our analysis.

At the other end of the spectrum, we focus on companies that are well established in their respective markets, i.e. companies that are structurally gaining market share and have strong pricing power, e.g. Fortinet\* in cybersecurity or AMD\* in semiconductors. We also try to take advantage of potential opportunities arising from the bear market excesses in the financial markets.

### HOW IS ODDO BHF ARTIFICIAL INTELLIGENCE\*\* POSITIONED IN THIS ENVIRONMENT?

The robustness of the investment process has allowed us to build a diversified equity portfolio, beyond the sole technology sector, with selected stocks that are not included in most competitor strategies. Several of our portfolio priorities offer attractive opportunities for risk-tolerant investors, according to our analysis:

- Chinese internet stocks are currently trading at valuations that have reached a 5-year low. We believe that this segment has been overly punished by the market as there are now early signs of an exit from Covid.
- Software stocks, whose decline from the November 2021 highs has been greater than any previous losing streak in the sector over the past 15 years. In our view, this sector offers the best fundamentals in the market.
- Biotech stocks: We are currently experiencing the longest and steepest decline in the history of the biotech sector. According to us, opportunities will arise here, with our focus on 5 to 10 promising names.



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According to our analysis, some valuations are already factoring in a recession scenario, and we believe it may be appropriate to buy potential profitable companies whose long-term fundamentals have not changed.

We also expect a wave of mergers and acquisitions in sectors favoured by the fund such as software, semiconductors, innovative healthcare systems and video games.

**\* This doesn't constitute an investment recommendation.**

**\*\* The Fund presents a risk of capital loss.**

Sources : ODDO BHF AM

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