

Disruptive Innovation Arrives in Switzerland During a Compelling Time

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Why now is an exciting time for disruptive innovation

Five major innovation platforms – Artificial Intelligence (AI), Robotics, Multiomic Sequencing, Public Blockchains and Energy Storage – are evolving simultaneously, marking a unique era of convergence that mirrors significant historical technological shifts from 120 years ago.

This convergence is expected to significantly boost economic growth and value creation, with AI acting as a catalyst across sectors, potentially exceeding the historical economic impact of the steam engine. AI recently reduced the cost of authoring the written word from \$300 to \$400, where it remained for nearly a century, to mere cents, and we have observed AI training costs falling by 75% per year.

The integration and advancements in these technologies are projected to transform industries, enhance macroeconomic growth, and reshape investment strategies, with disruptive technologies poised to dominate market capitalisation by 2030. These technologies can be classified as “disruptive innovation” - the introduction of a technologically enabled new product or service that potentially changes the way the world works.

The current market landscape is challenging but yet enticing

Strategies focused on disruptive innovation may be coming to Switzerland at an interesting, perhaps opportune time. The first half of 2024 was marked by megacap performance and heavy concentration within market cap-weighted benchmarks. The Fed Funds rate remained unchanged for longer than the market previously anticipated as inflation remained persistent during the first six months of the year. Accordingly, many investors steered capital into benchmark-driven strategies that are carried by megacap companies with extensive cash balances. As this phenomenon has played out, we have emphasized the importance of analysing risk across client portfolios and gearing exposures towards a broadening out.

We are now starting to see signs that this rotation may be beginning, though volatility will persist between now and the actual act of the US Federal Reserve (the Fed) cutting rates. We saw a glimpse of how the market can rotate in July 2024 when the market broadened with the Russell 2000 Index and S&P 500 Equal Weighted Index both outperforming the S&P 500 Index and Nasdaq 100 Index. Furthermore, broad benchmarks have shown genuine vulnerability in recent weeks. As US economic statistics underperformed expectations and, at the same time, the Bank of Japan raised interest rates, investors and speculators appear to have faced margin calls forcing them to unwind the yen carry trade. Significant capital from the yen carry trade likely had been used to pile into megacap stocks, which appears to have triggered a correction.

While these types of selloffs are sparked by market fear and risks to consensus positions, they often create pockets of opportunity. Historically, these condensed bouts of volatility lead to a market rotation that can favour a broadening out away from the contributors of this volatility. While the Fed may have been looking in the wrong direction at lagging indicators, it may be forced to reassess economic weakness. This market shock gave the Fed permission to be more lenient, to loosen more aggressively, and to be more sensitive to systemic risk of keeping rates higher for longer. In our view, it is now clear that it will ease, and the question has become whether the Fed takes emergency measures to do so ahead of September's meeting. This may allow investors to lengthen their investment time horizon and to increase their duration.

We believe that as inflation and interest rates continue to unwind, especially as catalysed by recent events, the broader market, including off-benchmark names and stocks outside of megacap names, should have compelling upside potential. We encourage investors to assess the concentration within their portfolios and asset allocation strategies, whether in passive investments or in active benchmark-sensitive strategies and evaluate the opportunity ARK's three active strategies, now listed directly in Switzerland, offer to diversify away from this concentration.

Disruptive innovation strategies are now directly available to Swiss investors

Following ARK Invest's acquisition of Rize ETF in 2023 and the launch of our active UCITS ETFs across select countries, we are thrilled to bring these strategies directly to Switzerland through the SIX Swiss Exchange, namely: the ARK Innovation UCITS ETF, the ARK Artificial Intelligence & Robotics UCITS ETF, and the ARK Genomic Revolution UCITS ETF.

We have engaged with institutional investors and clients across Switzerland this year to provide insights on advancements within disruptive innovation and how these assets can diversify portfolios by providing off-benchmark, explosive growth opportunities. These conversations have made it clear that there is strong interest and demand for ARK's strategies within Switzerland.

This launch signifies the beginning of a deeper, enduring partnership with our Swiss clients, supported by our best-in-class team at ARK Invest Europe.


About the Author



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Thomas Hartmann-Boyce joined ARK in June 2021. As Client Portfolio Manager, Thomas works directly with ARK's investment team to communicate in-depth knowledge of investment-level detail to internal and external clients.

Prior to ARK, Thomas was Vice President, Lead Portfolio Manager within the multi-asset solutions business at Goldman Sachs Asset Management for over five years where he managed customized portfolios for institutional clients. Prior to joining Goldman Sachs in 2015, Thomas held various client-facing positions at MSCI Inc. over the span of four years, with a key emphasis on business development within the exchangetraded funds team. Thomas is a CFA charterholder, and earned his Bachelor of Arts in International Affairs and Management & Business from Skidmore College.

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