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Subject: Slowing economy could increase pressure on Big Tech - Axios

Importance: High

What do we think of this?

<https://www.axios.com/recession-threat-2019-regulatory-risk-google-facebook-amazon-b8966b22-57dc-426c-9f4f-5526982383c7.html>

Slowing economy could increase pressure on Big Tech

[Sara Fischer, David McCabe, Courtenay Brown](#) 5 hours ago

A potential recession, combined with increasing regulatory threats for some of the biggest tech companies, foreshadows a difficult 2019 for Silicon Valley.

Why it matters: The biggest tech companies have already raked in billions of dollars in profits and benefited from major tax cuts that aren't going to be repeated, so next year isn't likely to be better for them financially. They've also been dogged by scandals that have left many questioning their positive role in society, and if on top of that the economy starts to slip, 2019 could be worse.

"People look for scapegoats in a bad economy. And with big tech already on its heels, a downturn probably would feed arguments that the largest internet companies are too big and need to be reined in."

— **Paul Gallant, an analyst with Cowen Washington Research Group**

Big Tech is closing out a contentious year in Washington, and potential regulation will continue to haunt it well into 2019.

- Google CEO Sundar Pichai has [agreed to testify](#) before Congress, and will likely be asked about whether the company is being transparent about its data privacy practices and any potential bias. By the year's end, the CEOs of Twitter, Google and Facebook will have been called to testified in front of Congress for the first time ever during 2018.
- Lawmakers in the United States are pushing for a federal privacy law with an urgency likely to be exacerbated by more breaches like [the one Marriott disclosed](#) last Friday.
- The Federal Trade Commission [still has an open investigation](#) into whether Facebook's conduct violated a previous settlement with the agency. Margrethe Vestager,

Europe's aggressive commissioner overseeing competition, is still investigating aspects of Google's business and whether Amazon plays fair in the market for generic products.

- President Trump has said his administration is [seriously looking](#) into monopolistic behavior of Facebook, Google and Amazon.

Some analysts predict an economic slowdown — even if it doesn't lead to a recession like the one in 2008 — will be enough to change the global attitude around big American companies.

"So the really shocking thing this year is that the only major economy in the world where growth has actually accelerated this year is America. And this is because of the tax cuts, the deregulation, the other stimulus which has been put into work. And that has also helped the earnings of companies. My point is, from next year onwards, those effects begin to fade."

— **Ruchir Sharma, chief global strategist at Morgan Stanley on [Fareed Zakaria GPS](#) on Sunday**

The "FAANG" stocks (Facebook, Amazon, Apple, Netflix and Google) that pushed the stock market to record highs have [not been immune](#) from this year's market rout.

- "The mood has changed. Investors are asking a lot more questions right now," says Larry Glazer, a Managing Partner at Mayflower Advisors, which manages \$3 billion. "Momentum has faded on these names."
- Adding to potential concern: possible regulatory action could translate into higher costs, particularly for Google or Facebook.
- "Facebook has been under such a dark cloud for so long that now everybody is expecting the worst," Paul Meeks, a technology portfolio manager at Wireless Fund, told Axios.

The other side: "I don't see a looming recession. And even if there was, people aren't going to target these companies if there is a recession," says Nicholas Economides, Professor of Economics at NYU Stern School of Business.

- Economides argues that, even if there was a mild reduction in GDP growth, it wouldn't significantly impact the high tech sector.
- For companies like Google, Facebook and Twitter, "their main revenue streams are from ads. They gain market share from brands converting traditional ad spend to digital ads. This conversion is not so dependent on the growth of GDP, because they are still in the process of converting ads of different formats to digital ads, and that's something that will continue, regardless of GDP growth."

The bottom line: Tech companies that have long been the darlings of investor portfolios will likely find themselves in much weaker positions.