

US Tech Layoffs: Is bad news actually good news?

DIGITAL ENGAGEMENT TEAM

1 FEBRUARY 2023

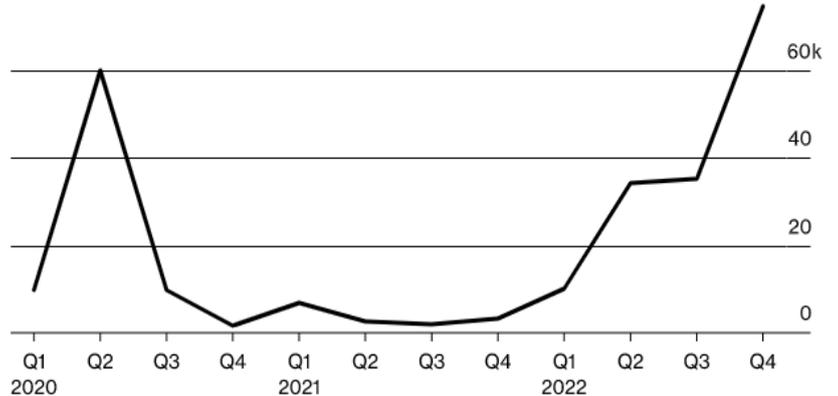
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The summary and impact of a major news event

What happened?

The early part of the Covid-19 pandemic changed consumer behaviour as services and communication moved almost entirely online.¹ Back then, many tech companies hired boldly to capture growth during the pandemic digital boom and capitalize on the low interest rate environment.² Unexpectedly over the recent months, people have returned to pre-pandemic habits³ while interest rates have soared,² leading tech companies to shed significant portions of their workforce.⁴ Compared to 2021, tech layoffs were up 649% in 2022³ with the bleeding continuing into 2023.⁷ Big tech companies such as Amazon,⁵ Alphabet,^{6,7} and Meta⁷ have all reported workforce reductions.

Tech Employees laid off per quarter



Source: Layoffs.fyi & Bloomberg, extracted on 19 Jan 2023

How does news on layoffs affect the stock markets?

Research studies in the US show that investors react positively to efficiency-enhancement-motivated layoffs, and negatively to declining-demand-motivated layoffs.^{8,9} Studies also found that market sentiment plays a role. The market reacted positively to layoff news during rising financial markets and negatively during the 2008 financial crisis.¹⁰ On average, stock markets immediately reacted negatively to initial news regardless of the reason for layoffs, according to data gathered from 2006 to 2010.¹⁰

Could bad news actually be good news?

Despite the negative news, some investors have reacted favourably to this round of layoffs, citing a long-term investment perspective¹² while these tech companies enhance their cost efficiency and competitive position.¹⁰ As tech companies are handling their declining revenue¹¹ and changing workforce needs,³ layoffs may suggest a sign of proactive management⁵ and real concerns for their shareholders' profitability,¹² rather than an admission that things are falling apart.⁵

What lies ahead?

Major layoff news is expected to continue^{7,13} and may possibly push millions of people into unemployment ahead of a potential recession.⁷ The labour market may take a hit later this year if the economy slows as the Federal Reserve works to cool inflation.¹⁴ Not all is doom and gloom however, as most tech employees being laid off are receiving generous severance packages and finding new jobs quickly.^{14,13} Some economists have also cautioned against reading the technology layoffs as flagging a deterioration in labour market conditions, arguing that these companies were right-sizing after over-hiring during the Covid-19 pandemic.¹³

United States

Below are some of the largest **Technology** companies by market cap listed in the US with news of recent layoffs



MICROSOFT CORP (MSFT US)

- Workforce reduction: **10,000** roles [MarketWatch, 23 Jan 2023]
- Microsoft cloud outage hits Teams and Outlook millions of users around the globe [Reuters, 25 Jan 2023]
- Microsoft is investing US\$10B in OpenAI, whose artificial intelligence tool ChatGPT has lit up the internet [Bloomberg, 23 Jan 2023]

Market Cap [USD]	1,847.25 Billion
Current Price	248.16
Analysts' 12M Target Price	281.00
Upside/Downside from Analyst Consensus [%]	13.23%
Indicated Yield	1.10%



ALPHABET INC (GOOG US)

- Workforce reduction: **12,000** roles [MarketWatch, 23 Jan 2023]
- Google prepares Android tweaks for Pixel Tablet [Forbes, 19 Jan 2023]
- The US Justice Department is poised to sue Alphabet Inc's Google regarding the search giant's dominance over the digital advertising market [Bloomberg, 24 Jan 2023]

Market Cap [USD]	1,294.89 Billion
Current Price	100.71
Analysts' 12M Target Price	119.75
Upside/Downside from Analyst Consensus [%]	18.91%
Indicated Yield	N/A



AMAZON.COM INC (AMZN US)

- Workforce reduction: **18,000 roles** [MarketWatch, 23 Jan 2023]
- Amazon announced to bring its air cargo operations to India, marking fresh growth for the company's logistics arm even as it looks to cut costs in other divisions [CNBC, 23 Jan 2023]
- The District of Columbia attorney general urged a Washington D.C. appeals court to revive the city's claim that Amazon.com Inc is violating antitrust law through agreements prohibiting merchants from offering better price deals elsewhere [Reuters, 25 Jan 2023]

Market Cap [USD]	1,043.02 Billion
Current Price	102.24
Analysts' 12M Target Price	134.36
Upside/Downside from Analyst Consensus [%]	31.41%
Indicated Yield	N/A



META PLATFORMS INC (META US)

- Workforce reduction: **13%** of its workforce [MarketWatch, 23 Jan 2023]
- Meta Platforms Inc's spending on lobbying decreased by about US\$1 million during the last quarter of 2022 compared to the previous quarter [Bloomberg, 21 Jan 2023]
- Rights groups are calling on Meta Platforms to seize the opportunity to improve its content moderation in Africa after its main third-party contractor in the region said it would no longer screen harmful posts for the social media giant [Reuters, 24 Jan 2023]

Market Cap [USD]	397.89 Billion
Current Price	151.74
Analysts' 12M Target Price	153.90
Upside/Downside from Analyst Consensus [%]	1.42%
Indicated Yield	N/A

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CISCO SYSTEMS INC (CSCO US)

- Workforce reduction: **700** roles [MarketWatch, 23 Jan 2023]
- Cisco CEO continued to strike a confident note on the economy, while indicating that the company's enterprise customers haven't notably pulled back on spending for its network routers and cloud offerings [CNBC, 18 Jan 2023]
- Cisco doesn't have any further job cuts planned, according to CEO Chuck Robbins [Bloomberg, 19 Jan 2023]

Market Cap [USD]	199.28 Billion
Current Price	48.51
Analysts' 12M Target Price	53.83
Upside/Downside from Analyst Consensus [%]	10.96%
Indicated Yield	3.13%

SALESFORCE INC (CRM US)

- Workforce reduction: **10%** of its workforce [MarketWatch, 23 Jan 2023]
- Salesforce and Walmart have created a partnership to help small and large retailers offer a buy online and pickup service for their customers through an app known as AppExchange [Forbes, 20 Jan 2023]
- Salesforce gains after activist Elliott Management takes large stake [Reuters, 23 Jan 2023]

Market Cap [USD]	164.52 Billion
Current Price	164.52
Analysts' 12M Target Price	188.28
Upside/Downside from Analyst Consensus [%]	14.44%
Indicated Yield	N/A

INTEL CORP (INTC US)

- Workforce reduction: **201** workers [Nasdaq, 20 Jan 2023]
- Intel Corp said Chairman Omar Ishrak had stepped down and the chipmaker appointed board director Frank Yeary as his replacement [Reuters, 06 Jan 2023]
- Intel CEO Pat Gelsinger committed to long-term investment despite chip glut [Bloomberg, 20 Jan 2023]

Market Cap [USD]	116.50 Billion
Current Price	28.16
Analysts' 12M Target Price	29.75
Upside/Downside from Analyst Consensus [%]	5.65%
Indicated Yield	5.18%

SPOTIFY TECHNOLOGY (SPOT US)

- Workforce reduction: **6%** of its workforce [MarketWatch, 23 Jan 2023]
- Spotify joins media firms to urge EU action against Apple's unfair practices [Reuters, 19 Jan 2023]
- Spotify's Opex Growth outpaces its revenue growth by two times [Reuters, 23 Jan 2023]

Market Cap [USD]	19.75 Billion
Current Price	102.24
Analysts' 12M Target Price	116.59
Upside/Downside from Analyst Consensus [%]	14.04%
Indicated Yield	N/A

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