Could driverless cars benefit your portfolio down the road?

Science fiction is real. In October of last year, a self-driving semi in Colorado carried over 2,000 cases of beer from Fort Collins to a distribution center in Colorado Springs — a journey of over 130 miles. While there was a professional driver on board, he monitored the trip from the sleeping berth for most of the journey and never took the controls. Even in an age where doctors can print human body parts and drones can replace boots on the ground, this robo-beer run represented quite an achievement.

Self-driving vehicles have the potential to impact the everyday lives of Americans as fundamentally as cell phones and personal computers have over recent decades. But do the technologies making this possible represent a compelling investment opportunity?

We at Invesco believe that the advent of autonomous driving presents opportunities for investors — but it’s critical to understand the full implications of this development because the list of winners and losers in related industries will evolve rapidly. Game-changing innovation almost always turns the status quo
on its head, and the disruption potential for autonomous driving vehicles is off the charts. To fully understand just how revolutionary this could be, let’s first review how self-driving vehicles work.

**How autonomous vehicles work**

In order to view the world and make decisions, these vehicles require a complex network of sensors and cameras. When a passenger provides a destination, that’s just the beginning. Fully autonomous vehicles supplement destination information provided by passengers with information collected by radar sensors, LIDAR1 and cameras — distance from surrounding objects and curbs, lane markings, visual information of traffic signals and pedestrians. This information is processed to tell the car when to accelerate, brake or turn. One can imagine the vast amount of information that needs to be collected and analyzed as a vehicle travels at 60 miles per hour down a highway. The ability to capture, analyze and act on these inputs requires advanced networking, processing and artificial intelligence capabilities.

**Are we there yet?**

Global management consulting firm McKinsey & Company estimates that by 2030, fully autonomous cars could represent up to 15% of passenger vehicles sold worldwide, with that number rising to 80% by 2040. Volvo already has Level 4 vehicles on the roads in Sweden, and Tesla is including its Level 5 “Enhanced Autopilot” autonomous technology in all models shipped in 2017.2 General Motors will debut autonomous-enabled models in 2018 and over the next few years other major manufacturers such as BMW, Ford, Mercedes and Nissan also plan to roll out driverless vehicles.

**Disruption breeds opportunity**

Given that it often takes up to three years to design and produce a new vehicle platform, industry suppliers are now jockeying for position. Also, with the average vehicle remaining on the road a decade or more, we expect that some automakers will pack more electronics than may be necessary into their vehicles at first in order to make future upgrades easier. As investors, we must identify potential winners and losers well before automakers roll out their final products. Companies understand this too, and several multi-billion dollar acquisitions have been announced for technology suppliers with strong competitive positions in the autonomous driving market. These large-scale acquisitions, and others that presumably lie ahead, are likely to accelerate the pace of autonomous vehicle development. While we may not see fully autonomous vehicles in widespread use on the roads for some time, value is already being recognized by the market.

**Areas of interest**

There are a number of possible areas that we believe could be worthy of investment going forward. In our view:

- Technology providers that help reduce accidents could be successful.
- Companies with a history of success in producing powerful chips are likely to prosper.
- Microphone demand could soar as vehicles increasingly utilize voice commands.
Some companies will take a different route and build full autonomous kits (using both hardware and software) to sell to car manufacturers.

On the other side of the coin, there are players who might be negatively impacted:

- Insurance companies might see reduced premiums as crashes decrease.
- Oil and gas companies may see reduced fuel demand as efficiency increases.
- Municipalities would likely see reduced traffic fines.
- Attorneys may have fewer vehicle crash-related suits.

The road ahead

When assessing the investment implications of autonomous vehicles, new opportunities within the automotive, transportation and technology industries spring immediately to mind. However, it is important also to consider those ramifications that may not be as readily apparent: Real estate portfolios could be affected by shifts in residential and commercial demand as driving patterns change. Financial services providers could be impacted by new types of insurance policies or a move away from widespread vehicle ownership.

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Dave Dowsett is Global Head of Invesco’s Innovation, Disruptive Technology and Strategy team, where he focuses on augmenting Invesco Technology’s core roadmap by implementing cutting-edge financial technology. He specifically oversees the identification of business needs through capabilities assessments, modeling strategic intelligence scenarios and facilitating the adoption of new innovations across the organization.

Mr. Dowsett has more than twenty years of technology experience across applications, infrastructure and digital transformation. Born in South Africa, he has lived and worked on three continents as a technology executive at Fidelity Investments, Unilever and Level 3 Communications before joining Invesco in 2016.

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