
CYBERSECURITY HAS NEVER BEEN THIS IMPORTANT...BUT 2022 RETURNS MAY BE CHALLENGED

Christopher Gannatti – Global Head of Research
01/25/2022

As we begin 2022, the initial case has been clear: cutting-edge tech companies that have exhibited strong revenue growth but that might have low or even negative net income have been challenged. Many cybersecurity companies that are focused on the future—things like cloud security rather than on-premise security, for instance—have been no exception.

However, many of us may also recall that 2021 was a year of some major hacks, like the Colonial pipeline. It would be difficult to imagine any business today of any size with zero spending on, or investment in, cybersecurity.

There are few megatrends like cybersecurity in this sense: with [artificial intelligence](#), for example, there may be many reasons to use it or many benefits to be derived, but it's still a choice. Not doing anything in cybersecurity really isn't a choice anymore, so it's more a question of the specific services to use and specific companies to work with.

Massive Growth Potential

It is estimated that in 2020, spending on cloud computing, specifically [infrastructure-as-a-service \(IaaS\)](#) and [platform-as-a-service \(PaaS\)](#) was \$106.4 billion, expected to grow to \$217.7 billion by 2023¹.

Now, cloud workloads need to be protected—but how much spending is estimated on the cybersecurity element? In 2020, it was roughly \$1.2 billion, and in 2023, it is estimated to be \$2 billion. That means that in 2023, it's possible that spending on cloud security will be less than 1% of spending on cloud services².

It is estimated that 'security spend' should be closer to a figure between 5% and 10% of a given information technology budget. This means it would be more reasonable to see a figure of \$12.4 billion of spending on cloud security in 2023. That would be a magnitude of growth of about 10 times relative to the aforementioned estimate for the 2020 spending². There is no guarantee that spending will ever reach this level, but the concept that firms need to take the topic more seriously is clearly being discussed.

What's More Expensive—Dealing with a Cybersecurity Issue or Spending on Preventative Efforts?

This is one of the critical questions in cybersecurity, because if it is less expensive to just deal with issues after they occur, there would be no market for preventative measures. Toward the end of December 2021, we saw one example of a company needing to settle a particular case³:

- A hacker stole the personal data of more than 100 million people in 2019 from Capital One and its cloud services provider, Amazon Web Services, in 2019.
- Capital One agreed, in 2021, to pay \$190 million to settle a class action lawsuit filed by these customers.

- In 2020, Capital One agreed to pay \$80 million to settle regulators' claims that it lacked proper cybersecurity procedures as it began to use cloud storage technology.

The settlements make the headlines, but think of the costs of time, the costs of legal fees, the turnover in certain employees that may happen...while it may never be possible to have 100% protection from all hackers, the case is clear for a focus on preventative measures.

Governments Are Taking Action

The government angle on cybersecurity seems to have, at least presently, two major avenues:

1. **Data protection:** Citizens have become much more aware of their data being used and stored in different ways and governments want to take action to 'protect' peoples' personal data when and where possible.
2. **Infrastructure protection:** The Colonial pipeline, which led to many difficulties for consumers getting gasoline in May 2021 up and down the eastern seaboard of the U.S.

In July 2021, the U.S. Senate confirmed Chris Inglis as the first national cyber director. In May 2021, President Biden issued an executive order that dramatically shifted the general regulatory stance, which had formerly been much more voluntary and hands-off⁴.

Conclusion: The Demand for Cybersecurity Solutions Should Be Relatively Constant

We must remember that certain trends are already in place that may not be very sensitive to changes in [interest rate](#) policy. One is a shift from 'on-premise' hardware to cloud computing, where many companies can realize efficiencies and cost benefits. These shifts require different, updated security packages, and they are expected to continue through 2022. The key risk, as we see it, is that many cloud-focused cybersecurity companies delivered unbelievable share price returns in recent years and these firms may see their [valuations](#) adjust as interest rates rise—even if their revenue growth continues. Thinking beyond simply the returns of 2022 could be important when thinking about the cybersecurity megatrend.

¹ Source: CrowdStrike Corporate Overview, December 2021 version, using International Data Corporation Estimates.

² Source: CrowdStrike, December 2021.

³ Source for bullets: Nguyen, Lananh. "Capital One Settles a Class-Action Lawsuit for \$190 Million in a 2019 Hacking." *The New York Times*. 12/23/21.

⁴ Source: Rundle, James. "Companies Face Stricter Cyber Rules in 2022." *Wall Street Journal*. 1/3/22.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Funds

- + [WisdomTree Cybersecurity Fund](#)
- + [WisdomTree Artificial Intelligence and Innovation Fund](#)
- + [WisdomTree Cloud Computing Fund](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Artificial intelligence: machine analysis and decision-making.

Infrastructure-as-a-service (IaaS): A type of cloud computing service that offers essential compute, storage, and networking resources on demand, on a pay-as-you-go basis. IaaS is one of the four types of cloud services, along with software as a service (SaaS), platform as a service (PaaS), and serverless.

Platform-as-a-Service (PaaS): A complete development and deployment environment in the cloud, with resources that enable you to deliver everything from simple cloud-based apps to sophisticated, cloud-enabled enterprise applications.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.