Google Update: Allspring Equity PMs Weigh In

Two Allspring equity portfolio managers, Bryant VanCronkhite and Michael Smith, share their perspectives on the U.S. DOJ's court filing stating it may recommend dismantling Google's core businesses.

Authors	Date	Topic
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Key takeaways

- Regulatory pressure on tech companies is likely to continue—both major U.S. political parties seem more aligned than not on wanting to reduce large tech platforms' power.
- If Google's parent, Alphabet, were forced to break up, it could be a clear positive for its valuation—the sum of the parts isn't recognized in Alphabet's overall valuation.
- While litigation will take time and possible outcomes could benefit Google shares, in the interim there are other opportunities more clearly on the right side of change.

In a court filing late Tuesday, October 8, the U.S. Department of Justice said it's considering recommending the breakup of Google LLC—which is owned by parent company Alphabet Inc., one of the world's largest businesses. Dismantling Google's core businesses, the government said in its court filing, "would prevent Google from using products such as Chrome, Play, and Android to advantage Google search and Google search-related products and features—including emerging search access points and features, such as artificial intelligence—over rivals or new entrants."

Below, two of our equity portfolio managers, Bryant VanCronkhite and Mike Smith, share their perspectives on the news.

Bryant VanCronkhite, CFA, CPA—senior portfolio manager, co-head of Special Global Equity: "Regulatory pressure and rhetoric aren't new to the large technology companies, and we expect them to continue for the foreseeable future. Although the two political parties running for the White House today have different views on the regulation of certain industries (e.g., banks), they seem to be more aligned than not when it comes to the desire to reduce large technology platforms' power.

The DOJ's most recent comments to remedy their concern around Google's monopolistic position are unlikely to have a material negative impact on the company's value—and, in fact, could have a positive impact. In the near term, any DOJ initiative will be battled in court over the course of several years, thus muting the immediate impact to Google's stock price. If we assume that a change in corporate behavior or structure will ultimately be forced, we need to look at the ramifications of the various possibilities.

For example, forcing Google to share data and give advertisers more control over where ads appear could lead to tiered pricing differentials that drive more advertisers to spend more money at Google (not less) to optimize ad placement, increasing the overall revenue potential of Google's search business. If the remedy is to disallow forced placement of Google search products on the Android system but instead allow customer choice, there's ample evidence to suggest Google's loss of market share would be limited since consumers have, by a wide margin, shown a preference for Google's search engine. Finally, if Alphabet were forced to break up, we think it would be a clear positive for its overall valuation—as the sum of the parts of its businesses is not currently recognized in the conglomerate's overall valuation.

Although we'd prefer there were no 'noise' around the company as it relates to regulatory oversight, we don't fear it—and perhaps we should actually welcome it."

Michael Smith, CFA—senior portfolio manager, head of Growth Equity:
"The DOJ's plan could shake up AI in search functions, possibly breaking down Google's data advantage and forcing big changes across the industry. By making Google share its data, these rules might level the playing field—turning Google from a data hoarder into a reluctant helper for its rivals. If this happens, it could create a messy mix of search AI tools, with Google forced to open its data 'treasure chest.'

New rules might also slow down AI progress in the name of safety. But this plan isn't set in stone yet—there's a final proposal coming later this year. Then a judge must approve it, and Google will likely fight back. This remedy road map likely kicks off a big fight about the future of AI in search, leaving tech companies unsure about what's coming next.

Given the above, our Growth Equity team would tap the brakes on the notion that the moat is unquestionably stable and the castle is completely secure for Google. We agree that the path of litigation is long and uncertain and there are potential outcomes that would be positive for Google shares. In the intermediate term, however, we believe the market hates uncertainty more than bad news, and we're more excited about investing in other companies that are more clearly on the right side of change."