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Fintech stocks took a beating in 2022 as economic headwinds picked up

Article

The news: Fintech stocks and indices underperformed against both broader financial services and technology in 2022, per the Wall Street Journal.

- The Global X Fintech exchange-traded fund (ETF)—which tracks companies like **Adyen**, **Affirm**, and **Block**—dropped 52% year over year (YoY) last year.
- But the Financial Select Sector SPDR Fund—which includes major banks and investment firms—fell only 12% YoY in 2022.
- And the Nasdaq Composite Index's 33% drop still managed to outperform fintech-focused indices.

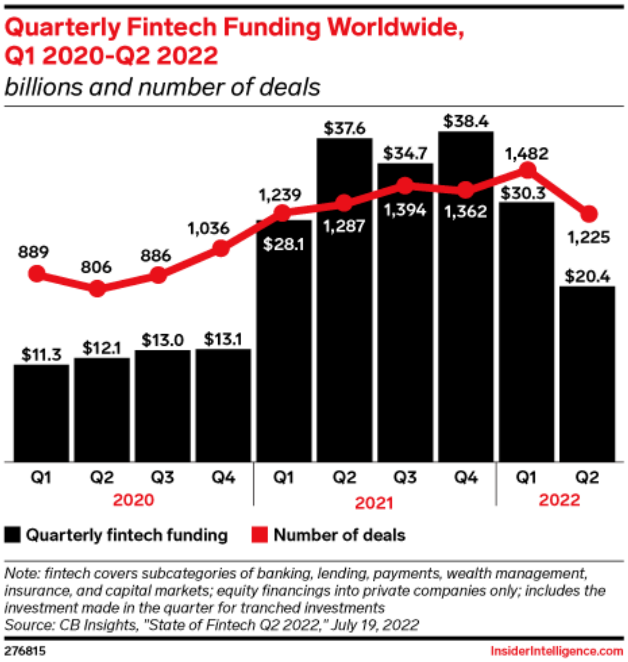
How we got here:

- **High interest rates.** The Fed raised interest rates seven times last year to contain inflation that reached levels unseen since the 1980s. Higher borrowing costs posed a major issue for fintech lenders like **Affirm** and **Upstart**, which work with banks to fund customer loans. This put a major strain on their balance sheets and made them less attractive to investors.
- **Overall shift in investor sentiment.** The rising interest rate environment made investors less interested in the high-growth but unprofitable fintechs that had dominated investment and funding rounds. Worldwide fintech funding in H1 2022 dropped 23% YoY, per CB Insights data. Instead, many investors prioritized firms with profitable and less risky business models.
- **Overstated confidence in early pandemic shifts.** Many fintechs grew rapidly at the start of the pandemic as consumers shifted to online shopping and digital payments. But many predicted that the growth tear would be permanent, which wasn't the case—while the pandemic did help accelerate ecommerce, growth eventually normalized as consumers returned to brick-and-mortar stores. As a result, many fintechs had to cut back on earlier ecommerce-related investments and lay off staff from the hiring sprees of 2020 and 2021.

Why it's worth watching: As a result of macroeconomic factors, several fintechs plan to take a more cautious approach to spending and investments.

Block, for example, has remained notably quiet on cryptocurrencies—which Bitcoin maximalist CEO Jack Dorsey had said would be a big part of the firm's future. But the crypto winter and broader economic headwinds may have altered Block's course. In its latest earnings, Block highlighted banking—a more stable segment—as a core growth opportunity.

Looking ahead, other fintechs may follow suit and curb investments in riskier segments to preserve their balance sheets.



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