



CIO maintains their preference for semiconductors, software, and big tech to ride the AI wave, but also see opportunities in Asian beneficiaries for those with excessive exposure. (UBS)

# The risk-reward for global tech remains attractive with current valuations

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**The tech-heavy Nasdaq is now 3.7% higher than its recent low in April, when a mix of geopolitical, economic, and earnings uncertainties prompted a 7% decline in six trading days.**

Any shift in investor expectations around the Fed's path to rate cuts and the fluid situation in the Middle East may inject further volatility. But ahead of next catalysts including Nvidia's results and major industry conferences, we are encouraged by many positives in tech fundamentals during the first-quarter reporting season, which in our view continue to support the investment case for generative artificial intelligence (AI):

**A strong upward revision to capex supports the AI computing segment.** Microsoft, Alphabet, Meta and Amazon all reported increases in capital expenditure, with most of the incremental spending on AI-related infrastructure. The combined capex by these four companies now looks likely to reach USD 205bn this year, up by USD 20bn from our previous estimate, and marking a 40% jump from their spending in 2023. Given we believe most of the upward capex revisions should be spent on AI computing, we see a combined USD 30-40bn upside for AI computing industry revenues spread across this year and 2025. This means the segment's revenues could see a jump of over 50% to USD 164bn next year, supportive of our positive view on the semiconductor industry.

**Accelerating cloud growth suggests increased AI monetization.** The cloud platforms of Microsoft, Alphabet, and Amazon have all reported an acceleration in revenue growth in the first quarter, with the combined growth now

approaching 24% year over year. This compares to below 20% in the September 2023 quarter and earlier, and clearly shows that AI-related monetization is a tailwind for software earnings growth.

**Improving cash-flow generation among big tech companies shows their defensive traits.** In addition to the surprise announcement of the share buyback program, Apple also reported a slight increase in quarterly dividends. This increased cash distribution supports our positive view on big tech overall, which is driven by their solid free cash flow generation. We now expect big tech's combined free cash flows to grow 22% to USD 560bn in 2025, from USD 460bn in 2024. This makes big tech companies relatively defensive within global tech, in our view.

So, with an estimated 20% growth in earnings this year, and a 16% increase in 2025, we continue to believe the risk-reward for global tech is attractive with current valuations. We maintain our preference for semiconductors, software, and big tech to ride the AI wave, but also see opportunities in Asian beneficiaries for those with excessive exposure. Investors can also utilize structured strategies to position for further upside while protecting against drawdowns.

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Original report - [Strong tech results underpin AI investment case, 3 May 2024.](#)

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