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How should I invest in tech?

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The race to build and harness new AI capabilities and tools has boosted related capital expenditure across industries. CIO thinks the adoption of AI will unlock value across a number of sectors.

CIO thinks large-cap tech names have more room to run, and for us, US information technology is most preferred. This aligns with our bias for quality as the sector offers robust balance sheets and high earnings growth, in our view.

We think AI will keep driving tech outperformance.

- Tech stocks delivered strong returns in the first quarter, led by AI. Within global tech, semiconductors posted the strongest returns.
- We forecast global tech sector earnings will grow by 20% in 2024, and that AI memory sector revenues will rise 55% in 2024 and 35% in 2025.
- 1Q24 saw promising new AI products introduced, from more high-powered GPUs to powerful generative video and coding LLM models.

But the story doesn't end with AI as large tech names also offer quality exposure.

- US tech company balance sheets are strong, a positive driver in a period of high interest rates and slowing economic activity.
- We expect big tech's combined free cash flows to grow 22% to USD 560bn in 2025, from USD 460bn in 2024, showing the sector's defensive traits.
- Historically, quality growth stocks tend to perform well during the later stages of the business cycle as market expectations of policy easing become cemented.

We see opportunities in both large and small tech companies.

- We continue to recommend a diversified approach to AI investing: Exposure to big tech in the listed space (thanks to strong scale, margins, and execution advantages), alongside potential investment in unlisted AI companies with strong long-term potential, subject to awareness of risks like illiquidity.

Did you know?

- The IT segment is the most global of all S&P 500 sectors. More than 58% of its revenue comes from outside the US, versus 40% for the index as a whole.
- Disruptive innovation, a term coined by Harvard University professor Clayton Christensen, refers to processes in which a product or service takes initial root in simple applications at the bottom end of a market before moving up the value chain and eventually displacing established competitors.
- We expect AI industry revenues to grow from USD 28bn in 2022 to USD 420bn in 2027, with risks tilted to the upside.

Investment view

We have a most preferred view on the US information technology sector. Within tech, we think investors should focus on companies with exposure to disruptive technologies and those with high growth potential. We like high-margin tech industries. These include software, internet, and semiconductor companies.

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