



Technology stocks have continued their strong performance from 2020 in 2021. (ddp)

Investing in the ABCs of tech

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You probably had no idea, but you were likely targeted by a cyber-attack over the past 24 hours. Perhaps your router was subject to a spam attack, or maybe you received an email containing malware.

You also may not know that your digital life is constantly being analyzed. That photo your friend uploaded to social media? It's likely you were autotagged. That website you visited yesterday? Your browser collected data to track your viewing history and may sell it to vendors.

The technologies that protect against or power these actions are foundational to the broader technology ecosystem. They are ubiquitous across the internet and have become part of our everyday digital lives. We have already focused on one key technology—5G—but there are three other critical technologies that are at inflection points. These include artificial intelligence, big data, and cybersecurity—or the ABCs of tech. And we see a significant investment opportunity in these three technologies as they continue evolving and integrating into many business operations.

Technology stocks have continued their strong performance from 2020 in 2021 despite pockets of weakness (China tech, rate-driven sell-offs). Our faith in “The next big thing” themes around fintech, greentech, healthtech, and 5G-related stocks have broadly performed well this year. Looking into 2022 and beyond, we expect opportunities to broaden to the other foundational technologies.

Our “ABCs of tech” theme is driven by powerful secular trends around automation, analytics, and security—key strategic focus areas for many businesses. We expect this theme to generate 10% revenue growth over 2020–25 on average—higher than our estimate for the broader tech sector during this period (mid- to high-single-digit growth per year).

We forecast the combined revenues of the three segments to grow from USD 386bn in 2020 to USD 625bn in 2025, with AI revenues expected to grow the fastest by almost 20% p.a. While the remaining two segments are projected to grow by just 8–10% a year, they are relatively more defensive and should benefit from margin expansion due to an improving software mix.

We expect companies exposed to our ABCs of tech theme to deliver EPS growth of 16% per year during this period, supported by strong balance sheets and free cash flow generation. So, in our view, this theme offers steady growth

prospects at a reasonable valuation for growth-based investors over the coming years. It's also another avenue for investors to diversify exposure away from mega-tech companies. In the full report, we will provide more detail on why we believe the ABCs of tech are at inflection points.

For our stock picks, please refer to "Investing in the ABCs of tech" stock list. More details on the individual segments can be found in our "Enabling technologies," "Digital data," and "Security and safety" Longer-term investment reports. Please reach out to your UBS financial Advisor for these reports.

See the full report, [Investing in the ABCs of tech](#), for much more.

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