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# Diversifying technology exposure into the next AI leaders

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**We expect mega-cap tech companies to profit from the rapid commercialization of AI given the high cost of development. Yet we believe investors should be alert to the risk of becoming overexposed to a narrow group of top companies. So, we recommend diversifying tech exposure, including by seeking the next leaders from AI.**

We believe price corrections in major AI beneficiaries could present investors with a buying opportunity since we expect AI companies to continue to benefit from infrastructure development and transparent corporate spending intentions. Generative AI may prove to be the growth theme of the decade. With estimated revenue growth for the AI industry around 70% each year until 2027, we forecast strong earnings growth and higher equity prices in the coming years for the next AI leaders. As a result, we recommend investors re-balance portfolios to include diversification across technology.

While the recent pullback in tech stocks may follow fears that the market has run too far and portfolios are too concentrated, we believe investors can find compelling diversification opportunities through the next AI leaders:

**AI custom chip beneficiaries.** AI custom chips refer to chips designed by individual companies as a complement to the expensive graphic processing units (GPUs) manufactured by companies like Nvidia and AMD. Such (ASIC) chips have lower performance than GPUs, but can be cost-effective for applications like inference and training small large-language models. We expect custom chips to account for 8–10% of AI computing over the next five years, from 2–3% today, and we would expect this growth to benefit foundries, semiconductor equipment companies, and other memory companies.

**AI edge computing beneficiaries in Asia.** AI edge computing involves AI processes being conducted by a local device rather than by a distant server. This technology can provide faster and less resource-intensive AI services, which are easier to integrate inside devices like smartphones to perform tasks like image generation and translation. We believe that leading semiconductor names in Taiwan, South Korea, and Japan are particularly well positioned to benefit from this trend, as are

AI application beneficiaries in India and mainland China. They offer strong earnings growth prospects and better value than global tech peers.

So, since we believe broadening AI demand will continue to support technology stocks, some of which offer value following recent declines, we recommend investors have strategic exposure to the technology sector, but in a diversified way.

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For more, see [Diversified tech exposure offers benefits, 4 March 2024](#).

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