



The Chief Investment Office believes the technology sector is well positioned going forward. (UBS)

Is tech dominance over?

14 May 2024, 8:47 pm EDT, written by US Editorial Team

Within equity markets, one characteristic of the past month has been a broadening of market performance outside of tech.

Over the past 30 days, the top three performing sectors have been utilities, consumer staples, and financials, reflecting a combination of defensives and cyclical stocks. Utilities —the runaway star performer—has been buoyed by the AI momentum trade spilling over, given over 30% of the sector is exposed to a related surge in electricity demand.

Looking ahead, we believe the opportunity set in markets will continue to be broader than last year, mostly due to our projection for earnings growth to broaden beyond the Magnificent 7. Two of our favorite non-tech sectors remain Industrials, which should benefit from a recovery in cyclical segments like transports, an improvement in the manufacturing sentiment and infrastructure spending; and healthcare, which is our preferred defensive due to a favorable earnings outlook and secular growth exposure.

But still, we also believe the technology sector is well positioned going forward. Tech has taken a back seat in the past month due to a combination of investors rotating into cheaper segments of the market, some profit taking in semiconductors after a strong run, and many likely waiting to see how a major upcoming event plays out—with Nvidia set to report earnings next week.

But in the months ahead, we expect AI spending to remain strong, and foresee a bottoming in end markets like PCs and smartphones. Tech earnings have been some of the strongest so far during the 1Q reporting season, with revisions in the sector outpacing the rest of the market. And it's not just the mega cap giants: since March, tech companies excluding Microsoft, Nvidia, and Apple have revised 2024 profit estimates up 7%. In this vein, tech valuations at 27x forward P/E seem reasonable, in our view. Within tech, we continue to favor companies that sell to enterprises vs. consumers, including semiconductor and semiconductor companies.

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For more, see the [Weekly - Regional View US: Five burning questions heading into summer](#), 13 May, 2024.

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