



CIO continues to hold a positive structural view on the broader AI theme, and see ways investors can manage their exposure to the technology that they think is set to drive growth in the years to come. (UBS)

NVIDIA results highlight potential for tech volatility

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NVIDIA, viewed as a bellwether for the growth story of artificial intelligence (AI) and the overall market, delivered an earnings beat, surpassing consensus estimates for both earnings per share and revenue.

The chipmaker's revenue increased by 122% year over year to USD 30bn, exceeding forecasts of USD 28.73bn. Meanwhile, non-GAAP earnings per share climbed 152% year over year to USD 0.68, beating consensus estimates of USD 0.65, and up from USD 0.27 y/y. This growth was driven by a 154% y/y increase in data center revenue, which reached USD 26.3bn, beating estimates of USD 25.27bn.

Despite these numbers, NVIDIA's stock fell almost 7% in after-hours trading, likely reflecting investors' heightened expectations heading into the report. Since the sell-off earlier this month, NVIDIA's shares have rebounded nearly 30% amid the broader equity market recovery.

Without taking any single-name views, we have said that future gains in global tech stocks should be more gradual after the quick rebound over the past three weeks, with potential headwinds from US macroeconomic data and further news on semiconductor export controls likely contributing to rising volatility.

However, we maintain our positive structural view on the broader AI theme, and see ways investors can manage their exposure to the technology, which we believe is poised to drive growth for several years.

Capital spending on AI by megacap tech firms looks set to remain strong. Big tech companies are on track this year to increase their capital spending by 43% year over year, with managements highlighting their commitment during their latest earnings calls. Alphabet Chief Executive Sundar Pichai said "the risk of underinvesting is dramatically greater

than the risk of over investing.” However, the capex intensity—capex divided by sales—for big tech remains below its historical peaks. Our analysis shows that big tech’s capex could grow by as much as 25% in 2025, boding well for AI enablers in the semiconductors space.

The use of AI continues to spread beyond tech into other industries. Recent comments from Walmart’s management offered a prominent example of how the use of generative AI has led to productivity gains as AI adoption continues to rise across industries. CEO Doug McMillon noted that “the use cases for this technology are wide-ranging and affect nearly all parts of our business,” adding that the company would “continue to experiment and deploy AI and generative AI applications globally.”

Tech companies are showing signs of turning AI investments into revenue growth. The level of AI monetization has yet to match the strong investments by big tech companies, but evidence suggests that it has continued to pick up. Microsoft said it expects an acceleration in its cloud business revenue growth in the first half of next year, while Meta said the company is mapping its investments against “significant monetization opportunities.” With near-term core fundamentals still intact and strong free cash flow generation, markets will likely focus on improving monetization trends from next year.

We recommend investors examine their AI exposure as they navigate tech volatility. Investors with low existing AI holdings should create a plan to build up long-term exposure to the theme. This can be done by utilizing structured strategies like put writing or reverse convertibles. Investors with a high allocation may consider capital preservation strategies as a hedge.

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