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Technology sector continues to be driven by AI

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The recent plans of major US technology companies indicate an unbroken investment boom in basic infrastructure and artificial intelligence applications. This is expected to benefit the entire value chain.

The first quarter earnings season is in full swing, and once again the technology sector, and especially those companies involved in artificial intelligence (AI), are in the spotlight.

Meta, Alphabet, and Microsoft all delivered a positive outlook for AI and, as a result, have increased their forecasts for investments in this area. Both Alphabet's and Microsoft's cloud business have accelerated compared to the previous quarter, and both emphasized the increasing importance of AI. Microsoft, Google, and Meta plan to invest more than USD 140 billion, mainly in AI server infrastructure in the fiscal year 2024. Including the planned investments by Amazon and Apple, these amount to more than USD 200 billion.

AI investments and the expansion of data centers also contributed to stronger results outside of the technology sector, such as in the utilities and industrial and materials areas. We are also seeing the impact of subsidies under the Chips Act, where chip producers like Intel, TSMC, or Micron are receiving USD double-digit billions for their investments in the US. TSMC recently announced a third chip factory in Arizona, which is supposed to produce chips in the 2-nanometer range.

Ultimately, the acceleration of investments in semiconductor infrastructure should have a positive effect on those companies that supply machines for semiconductor factories (so-called wafer fab equipment companies). This includes equipment suppliers like ASML, Applied Materials, or Lam Research. Even though fluctuations in ASML's order intake have recently been somewhat surprising (the company sees 2024 as a transition year and still has enough time to receive substantial orders from its largest clients), market participants expect a strong increase in orders in the equipment companies in 2025.

While the AI theme is certainly positive for the technology sector overall, some undesirable side effects have become apparent. For example, there are indications that AI investments may displace spending in other technology areas. For instance, many market participants saw the results from Intel as a sign that demand for traditional servers might decrease somewhat. After all, it is generally expected that the PC end market has now reached its low point and that growth should improve in the future.

For the US stock market overall, after the release of about half of the first quarter's numbers, the results of the S&P 500 companies were largely solid and intact. Similar to previous weeks, almost 60 percent of the companies beat expectations for revenue development and 75 percent for profits. Overall, corporate profits increased 7.5–8%, exceeding our initial expectations for a 4–6% rise.

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