



There are opportunities for investors to build exposure to the US IT sector. (Getty)

# Buy the dips in tech amid market volatility

14 May 2024, 4:07 pm EDT, written by US Editorial Team

**Equity valuations are elevated for the US IT sector, but the Chief Investment Office (CIO) believes improving end markets should help drive earnings upside.**

CIO believes investors who are under-invested in the technology sector and the AI revolution can find potential opportunities amid sell-offs.

CIO rates the US information technology sector most preferred given its above-average tilt to quality and since it should benefit from the bottoming of demand within the smartphones, servers, and PC end markets as well as potential AI opportunities. Additionally, CIO advocates diverse strategic exposure to the sector and recommends investors pay close attention to concentration risk and the potential for pullbacks.

## **Sector highlights:**

1. We expect improving end-market demand to drive earnings upside for semiconductor companies.
2. IT demand appears to be improving.
3. Surveys of chief information officers point to IT budget growth in 2024.
4. We prefer companies focused on sales to large enterprise rather than consumers.
5. Generative AI represents a significant secular trend, yet we believe investment in AI infrastructure will be cyclical, similar to the adoptions of the internet and cloud computing, with a potential digestion period for existing capacity over the next 12 to 24 months that may not be accounted for in current consensus estimates. We think software-as-a-service (SaaS) companies are particularly well-positioned to leverage AI without additional investments.

**Industry group preferences:**

- **Most preferred: Semiconductors and semiconductor capital equipment**
  - We expect semiconductors to experience a cyclical recovery off depressed levels since we believe PCs, servers, and smartphones are emerging from a cyclical trough. We forecast improving demand and potential upside benefits from inventory channel restocking.
- **Least preferred: Software and services**
  - We prefer broad-based enterprise software companies at reasonable valuations
- **Neutral: Technology hardware and equipment**
  - We focus on enterprise hardware companies which benefit from improving supply chains and reasonable valuations rather than PC or smartphone exposed names.

**Recent industry intelligence:****Customers are replenishing inventory and memory chip pricing is improving.**

From the Semiconductor Industry Association's (SIA) World Semiconductor Trade Statistics (WTSC):

- WTSC reported March global semiconductor industry sales rose 15.2% year-over-year (3-month rolling average), on track for double-digit growth in 2024.
- During the month, memory chip pricing improved while analog pricing declined and both analog and microcontroller chips posted strong unit growth in March (up 50% from February), as customers replenished inventory. DRAM sales grew 18.3% in a month helped by stronger pricing.
  - We believe semiconductors are well positioned to benefit from improving end-market demand in AI, PCs, servers, and smartphones.

**PC shipment recovery may benefit semiconductors.**

From the global intelligence provider for the IT market, International Data Corporation (IDC):

- IDC indicated the first quarter of 2024 showed global shipments of traditional PCs grew for the first time in two years. The 59.8 million PCs shipped represented a 1.5% growth rate from the prior year.
  - We remain constructive on the semiconductor companies whose fortunes are most closely tied to PCs, servers, and smartphone end-markets.

**Forecasts for semiconductor manufacturing equipment spending seem aggressive.**

From the industry trade association, SEMI:

- SEMI believes semiconductor manufacturing equipment spending will post +5% growth in 2024, followed by +18% growth in 2025.
  - We maintain a fairly neutral view on the Semiconductor manufacturing equipment group as we believe estimates reflect overly aggressive forecasts for wafer fab equipment (WFE) spending and valuation looks extended.

For additional information, please review our [US Equities Information Technology: Equity Preferences](#) and [US Equities Communication Services: Equity Preferences](#) reports.

*Contributors: Kevin Dennean and Jennifer Stahmer*

**Important information**

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at [www.ubs.com/workingwithus](http://www.ubs.com/workingwithus).

© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.