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Within the AI opportunity set, CIO likes the enabling layer for its mix of attractive and visible earnings growth profiles, strong competitive positioning, reinvestment runway, and reasonable valuations. (UBS)

How should I invest in tech?

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The race to build and harness new AI capabilities and tools has boosted related capital expenditure across industries. We think the adoption of AI will unlock value across a number of sectors.

CIO thinks the adoption of AI will unlock value across a number of sectors. Large-cap tech names appear to have more room to run, and for us, the US information technology sector is most preferred. This aligns with our bias for quality as the sector offers robust balance sheets and high earnings growth, in our view.

We think AI will keep driving tech outperformance.

- Tech stocks delivered strong returns in the first quarter, driven by AI. Within global tech, semiconductors posted the strongest returns.
- We forecast global tech sector earnings to grow by 20% in 2024, and that AI memory sector revenues will rise 55% in 2024 and 35% in 2025.
- 1Q24 saw promising new AI products, from higher-powered GPUs to generative video and coding models.

But the story doesn't end with AI, as large tech names also offer quality exposure.

- US tech company balance sheets look strong, a positive driver in a period of high interest rates and slowing economic activity.
- Earnings revisions are improving, adding to confidence that key end-markets have reached a trough.
- We expect the AI market to be dominated by an oligopoly of vertically integrated “foundries” and monolithic players along the value chain.

We see opportunities in both large and small tech companies.

- The sheer pace of growth in the AI industry tells us that many investors are still under-allocated overall.
- We favor semiconductor companies powering AI data center infrastructure and edge chips. We also like mega-cap tech with chips, cloud, and generative AI models exposure.
- Investors may consider exposure via capital preservation strategies that balance upside participation alongside a way of managing potential downside risks.

Did you Know ?

- We segment the investable AI universe into a value chain: The enabling layer that provides the backbone for AI development, the intelligence layer that that turns computing and energy resources into intelligence, and the application layer that embeds the tools from the intelligence layer.
- The artificial intelligence market potential is vast—we estimate that AI value creation could amount to USD 1.16 trillion by 2027.
- 40% of S&P 500 companies mentioned “AI” in their 1Q earnings calls, according to FactSet data.

Investment view

We have a most preferred view on the US information technology sector. Within the AI opportunity set, we like the enabling layer for its mix of attractive and visible earnings growth profiles, strong competitive positioning, reinvestment runway, and reasonable valuations. We favor the semiconductor companies that are driving the investment in AI infrastructure at the data center and at the edge.

Main contributors - Jon Gordon and Julian Wee

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