CIO thinks current volatility may offer opportunities for investors, with the top tech companies overall still set to enjoy an advantageous market position given the high development costs of AI. (UBS)

Recent pullback in tech stocks has left valuations looking less demanding

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Even after a pullback in April, the FANG+ index, which tracks the top 10 most traded US tech firms, is still up 10.6% so far this year after a 96% advance in 2023.

As a result, some consolidation was to be expected, in our view. Yet without taking any single-stock views, we remain positive on the outlook for tech for several key reasons:

Capital spending on tech, including AI, is continuing to accelerate. Meta's planned increase in capital spending may have unnerved investors this week, with chief executive Mark Zuckerberg saying the company would "accelerate our infrastructure investment to support our artificial intelligence roadmap." However, such announcements bode well for demand in the tech sector overall. This is part of a broader pick-up in AI infrastructure spending, in our view.

Last week, for example, Taiwan Semiconductor Manufacturing Co (TSMC) revealed that AI-driven high-performance computing has become the largest contributor to its revenue, and on Wednesday it revealed its new "A16" manufacturing technology that aims to optimize performance for next gen AI chipsets, with a rollout expected in the second half of 2026.

AI has increasingly been adding tech to earnings around the world. German software company SAP recently reported a 25% growth in cloud revenue fueled by AI demand, pointing to a strong AI monetization trend, something we expect to see more evidence of this week. Elsewhere, South Korea's SK Hynix beat expectations with its highest quarterly profit in nearly two years, on the back of sustained demand for its HBM memory chips used in AI chipsets. With AI adoption picking up, we expect this momentum to persist. A recent survey across 1.2 million firms by the US Census Bureau showed that AI adoption rose sharply in the first quarter compared to the previous results from the September 2023 quarter, with surveyed companies predicting further growth.

The recent pullback in tech stocks has left valuations looking less demanding. Last week's sell-off left global tech trading at just 22.5 times 2025 forecast earnings, down from close to 25 times earlier this year. With potential for a better outturn than the sector's estimated 18% year-over-year earnings growth this year, we think the 10% correction in valuations offers an attractive entry point for investors looking for long-term opportunities.

In our view, we think current volatility may offer opportunities for investors, with the top tech companies overall still set to enjoy an advantageous market position given the high development costs of AI. Investors should also consider diversifying their tech and AI exposure beyond the Magnificent Seven, and we see opportunities in Asian technology leaders.

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