



CIO expects the tech sector's recovery from its August lows to continue, albeit at a more gradual pace and with more volatility. (UBS)

# Are chips a good way to gain AI exposure?

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**After a sell-off in early August, tech shares have bounced back and volatility has eased. We remain Most Preferred on the US IT sector given its still-promising fundamentals. But there are near-term risks around cyclical tech revenues and US-China tech curbs.**

Next steps for investors will depend on their relative technology and AI exposure within individual portfolios.

## **Semiconductor stocks came under pressure as part of a broader tech correction in early August.**

- From its 10 July high to its 5 August intra-session low, the Philadelphia Semiconductor Index fell as much as 21% in a rapid unwinding of long semi positions.
- Other global tech stocks were sold too, with the MSCI AC World Technology Index falling as much as 16% over this period.
- An unwinding of crowded carry trades, mixed second quarter earnings, and systematic selling weighed on popular semiconductor companies, in particular.

## **Although AI beneficiaries have rebounded, risks remain.**

- The Nasdaq, Philadelphia Semiconductor Index, and NYSE FANG+ indices have seen volatile trading since their 7 August lows, but are up 12%, 17.6%, and 14% respectively, as of 4 October.
- Apple's September product launch has not drawn major revenue upgrades across the smartphone supply chain.
- Incoming US data and anticipated US chip export controls may continue to stir up volatility on key tech names.

**Investors should therefore prepare for tech volatility and craft a portfolio-specific plan.**

- Any undue correction in quality tech stocks should be a good buying opportunity as we still expect mid-teens earnings growth for global tech in 2025.
- Investors with low AI exposure currently may use structured strategies to build up long-term exposure, while investors with high exposure may consider capital preservation strategies.

**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 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 large—we estimate that AI value creation could amount to USD 1.16 trillion by 2027.

**Investment view**

We maintain our Most Preferred view on the US information technology sector. We also remain positive on the broader AI theme, but believe investors should not be complacent as we see volatility rising in the short-term owing to potential risks.

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Original report - [Are chips a good way to gain AI exposure?, 7 October 2024.](#)

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