



US IT offers quality exposure within a portfolio, while technological disruption across industries is creating compelling opportunities for longer-term portfolio growth potential. (UBS)

How should I position in tech?

27 November 2023, 1:17 pm CET, written by UBS Editorial Team

The AI race to build and commercialize new capabilities and tools has fired up tech investment and capital expenditure across industries. We think the adoption of AI will unlock value across a number of sectors.

CIO also thinks the recent rebound in tech shares has further to run, and we have upgraded US IT to most preferred. This partly reflects our bias for quality stocks, with the sector offering a combination of strong returns, robust balance sheets, and swift earnings growth.

The AI application and investment rush has formed a powerful new narrative for tech.

- US tech has outperformed in 2023, thanks to strong investor interest in AI-sensitive stocks and industries.
- We now forecast a 61% compound annual growth rate (CAGR) for AI end-demand from 2022–27.
- Near-term catalysts include “copilots” in office software, big data analytics, and AI integration in images, video, and other enterprise applications.

But the story is broader than AI, with large tech names aligning with our bias to quality.

- US tech company balance sheets are 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 are reaching a trough.
- Historically, quality growth stocks have tended to perform well during the later stages of the business cycle.

So, we upgrade US IT to most preferred and position for technological disruption across industries.

- We recently upgraded the US information technology sector to most preferred, suggesting a higher allocation than benchmarks.

- We focus on companies with exposure to disruptive tech and with high growth potential, including high-margin industries like software, internet, and semis.
- We prefer exposure to large caps, as we believe the big will get bigger in the AI era.

Did you know ?

- The IT segment is the most global of all the S&P 500 sectors. More than 58% of its revenue comes from outside the US, versus 40% for the index as a whole.
- Disruptive innovation, a term coined by Harvard University professor Clayton Christensen, refers to processes in which a product or service takes initial root in simple applications at the bottom end of a market before moving up the value chain and eventually displacing established competitors.
- We expect AI industry revenues to grow from USD 28bn in 2022 to USD 300bn in 2027, with risks tilted to the upside.

Investment view

We've upgraded the US information technology sector to most preferred. Within tech, we think investors should focus on companies with exposure to disruptive technologies and those with the highest growth potential. We like the highest-margin tech industries: Software, internet, and semis.

Main contributors - Jon Gordon, Sundeep Gantori, Matthew Carter

Original report - [How should I position in tech?, 24 November 2023.](#)

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.

© 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.