



With AI demand broadening, CIO continues to believe mid-cycle segments like software and internet offer the best risk-reward within global tech. (UBS)

AI monetization potential points to further equity upside

16 April 2024, 7:45 pm CEST, written by UBS Editorial Team

Tech stocks have remained under pressure in September, with rising yields and mixed results weighing on performance.

The Nasdaq 100 index is trading around 8% below its July peak.

But, CIO believes the recent weakness provides a good opportunity to add exposure to artificial intelligence (AI) leaders:

- **Recent product announcements provide additional visibility on AI monetization...** Among recent product announcements, software and applications providers are rolling out new co-pilots rapidly. Co-pilots are AI companion tools that are integrated within office workflow software to boost employee productivity, performing tasks that range from finding information to creating content. The ability to charge additional monthly fees for co-pilot add-ons gives scope for rapid and scalable monetization.
- **...supporting rapid sector growth.** Based on our previous estimate, we had expected the AI applications and models market to reach USD 170bn in 2027, growing from USD 2.2bn in 2022—a 139% compound annual growth rate. But given significant recent progress in the co-pilots space, our estimates could prove to be conservative. We expect AI conservatively to contribute around one-fifth of the mid-teens earnings growth we estimate in global tech next year.
- **AI should provide a strong catalyst for the global memory industry.** While the graphics processing unit and the logic semiconductor supply chains have disproportionately benefited from strong AI infrastructure spending trends so far, we think laggard segments of the semiconductor industry like memory will now also finally participate in the AI boom. First, we believe the memory industry should benefit from strong supply discipline, which we think should

drive a rebound in DRAM prices of more than 50% during the next 12 months from the lows in the second quarter of 2023. Second, the industry should benefit from increased adoption of high bandwidth memory in generative AI, where we expect industry revenues to grow from USD 2.4bn in 2022 to USD 10.2bn in 2025. As a result, the global memory industry should benefit from a cyclical recovery due to a favorable supply/demand balance.

With AI demand broadening, we continue to believe mid-cycle segments like software and internet offer the best risk-reward within global tech. We also see long-term opportunities emerging in select semiconductor leaders.

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Original report - [AI monetization potential points to further equity upside, 28 September 2023.](#)

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