



AI could arguably be the tech theme of the decade, as CIO don't see similar growth profiles elsewhere. (UBS)

AI is set to drive tech's next leg up

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Global executives are increasingly worried about the long-term viability of their businesses, putting advancements in generative artificial intelligence (AI) at the top of their concerns, according to a Pricewaterhouse Coopers survey unveiled this week at the World Economic Forum in Davos.

Almost 75% of the more than 4,700 global CEOs surveyed predicted AI would significantly change their businesses in the next three years, underscoring how the emerging technology is rapidly becoming mainstream.

Indeed, the development of AI was the main driver behind the strong rally of technology stocks over the past year. But despite the strong growth trends seen so far, we believe we are only in the first innings of the AI story, and that a positive backdrop should continue to be a tailwind.

Recent strong product announcements have been a solid catalyst. Microsoft this week said it will charge USD 20 a month for a consumer version of Copilot, giving consumers and smaller companies access to OpenAI's latest ChatGPT technology and image creation features. Earlier this month, Samsung and Hyundai said they will work together on the next-generation smart home to develop "home-to-car" and "car-to-home" services as well as an integrated home energy management service. Volkswagen also said it will integrate ChatGPT into its vehicles equipped with its in-car voice assistant. We think 2024 is the year of AI's democratization, with broader AI edge-computing or on-device AI computing set to take off.

The upcoming tech quarterly results are expected to be positive. Despite a mixed macro picture, management commentary during the tech trade show CES 2024 last week has been positive. With global tech earnings growth already turning positive in 3Q23, we expect the trend to have accelerated in 4Q23 and will continue to rise in the quarters ahead. We see close to 10% earnings growth for 4Q23 and stronger mid- to high-teens growth in the next few quarters. We

think more companies are likely to find ways to monetize their AI exposure, and investors will be looking for evidence on how companies can maintain or improve their margins.

Improved visibility on AI infrastructure spending points to strong demand trends. We recently raised our forecast for the AI industry by 40%, expecting revenues to grow 15x from USD 28bn in 2022 to USD 420bn in 2027. This represents a 72% compound annual growth rate, making AI one of the fastest-growing and largest segments within global tech. In our view, AI could arguably be the tech theme of the decade, as we don't see similar growth profiles elsewhere.

So, we believe AI will remain the key theme driving global tech stocks again this year and the rest of the decade. We prefer exposure to the semiconductor and software industries to ride the AI wave in 2024, and see opportunities in those involved in memory and AI edge-computing.

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