



Without taking any single-company views, CIO stays positive on the AI trend and maintain their preference for big tech companies given their advantageous market positions. (UBS)

After NVIDIA's beat, what's next for the AI rally?

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AI chipmaker NVIDIA delivered another “beat and raise” earnings report on Wednesday, sending its shares higher in after-hours trading.

NVIDIA outpaced first quarter consensus estimates, with revenue near USD 26bn, driven primarily by strong data center, and automotive and robotics results. It also raised its second quarter guidance to near USD 28bn, above consensus, and announced a retail-friendly 10-for-one stock split.

Despite the strong beat, trade in Asia’s broader AI supply chain was more muted on Thursday, suggesting some lingering demand and valuation concerns. But without taking any single-name company views, we believe that the AI growth story remains solid and that the rally has more room to run.

AI capex is not slowing down. The results offered further confirmation of sustained industry-wide data-center capital expenditure already signaled in large-cap tech results. In separate comments, Microsoft CTO Kevin Scott this week suggested no capex slowdown ahead, saying “we are nowhere near the point of diminishing marginal returns on how powerful we can make AI models as we increase the scale of compute.” We continue to anticipate AI computing will account for the bulk of this capital expenditure demand. NVIDIA’s progress update on the transition to its next-gen Blackwell chip, which will begin shipping in the second quarter, should ease concerns of a slower ramp-up that would have knock-on effects for the broader AI supply chain. We believe global semiconductor stocks can deliver earnings growth of 50% this year and 25% in 2025, with the potential for positive surprises to both these forecasts.

The next phase of the rally won’t just be a cloud story. Following the results, NVIDIA CEO Jensen Huang made the case that AI will extend well beyond cloud platforms, suggesting rising demand from sovereign buyers, enterprises,

automotive customers, and healthcare. We are already seeing new AI technology at work in consumer tech. Various companies are launching devices with AI capabilities and AI-enabled chips this year, which should draw back consumers, supporting PC and smartphone sales in the months ahead.

Tech equities have more scope for potential gains. US tech earnings have been among the strongest in the first quarter reporting season, with revisions in the sector outpacing the rest of the market. This earnings growth makes global tech valuations of 24x price-to-2025 earnings appear reasonable, in our view (based on MSCI AC World Information Technology Index data). We expect sustained earnings growth for AI-related companies in the years ahead, underpinned by solid AI capital expenditure and monetization progress.

So without taking any single-company views, we remain positive on the AI trend and maintain our preference for big tech companies given their advantageous market positions. We forecast global tech earnings growth of 20% and 16% this year and next, respectively, led by the semiconductor sector, where we see investment opportunities. The next big AI catalyst may come this summer, with Computex, Apple's WWDC, and an Amazon AI event all scheduled for early June. For investors looking for diversification within their US tech exposure, we also like Asian AI beneficiaries and the memory part of the market in light of still lengthy AI-chip backorders.

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