



Within China, CIO believes the internet sector will outperform the broader market amid improving fundamentals, encouraging shareholder returns, and ongoing macro policy support. (UBS)

More to go in the AI rally despite the strong performance

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Global tech shares have rebounded from their late-January lows as markets buy into the view that a mix of low-cost and high-cost artificial intelligence (AI) models can coexist, serving different use cases and accelerating AI adoption. The Nasdaq 100 has since risen 4.9% to hit a fresh all-time high on Tuesday.

The latest record brings the index's cumulative gains to over 84% since ChatGPT was launched in late November 2022. While China's tech sector saw muted performance during this period amid a multi-year regulatory crackdown, the emergence of DeepSeek has triggered a rally of over 25% over the past month.

We view AI as the tech theme of the decade, and one that offers significant investment opportunities in the years to come. To assess the potential upside that still exists in the AI rally, we utilize a framework that considers market capitalization opportunities with several assumptions. In short, we believe there is more to go in the AI rally despite the strong performance so far.

We see mid-teens returns for global AI stocks this year. For global markets excluding China, we forecast total AI spending to be close to USD 500bn in 2026, the fourth year since the "ChatGPT moment," based on current and guided capex commitments from major tech companies. We expect AI-related revenues, both direct and indirect, to also reach USD 500bn by then. As a result, the combined AI end-demand opportunity in 2026 is likely to be close to USD 1tr. Assuming an operating margin of 35%, which is at the lower end of cloud platforms' margins of 35-40% and AI semis' 50%, the operating profit opportunity for global AI should stand at around USD 350bn next year. To arrive at the market capitalization opportunity, we then assign a multiple of 30x next year's operating profits, in line with levels seen in quality growth companies. This would make global AI's market capitalization USD 10.5tr by the end of this year. Looking at

what has been priced in so far—USD 9tr in market capitalization for global AI names—we see returns of around mid-teens for 2025.

We forecast low-teen average returns for China AI names over the next three years. To better compare China's AI rally with its global peers, we look at 2028 as it would mark the fourth year since the "DeepSeek moment" that saw a new low-cost, high-performance AI model released in late January. Considering the basic premise behind the success of China-based models is cost efficiency, we expect AI spending in China to be around USD 30bn in 2028, while AI-related revenues should reach USD 50bn. An operating margin of 20% (higher than most Chinese cloud platforms and semis to account for potentially accelerating demand growth) would take the operating profit opportunity to USD 16bn. Similarly, the potential market capitalization opportunity for China AI, based on 30x next year's operating profits, would be USD 480bn before 2028. With a current market capitalization of around USD 350bn, we see low-teen average returns per annum over the next three years.

Volatility is likely to feature along the way up amid macro uncertainty. We continue to highlight that tariff- and export control-related uncertainty will likely spur periods of tech volatility ahead. But we also see solid fundamentals from quality AI companies that continue to point to strong investment commitments and improving monetization trends. Investors should consider taking advantage of volatility through structured strategies and by buying the dip in quality AI names.

We remain bullish on the AI theme, favoring large-cap names, leading cloud platforms, and semis globally. Within China, we believe the internet sector will outperform the broader market amid improving fundamentals, encouraging shareholder returns, and ongoing macro policy support.

Original report: [Assessing the AI rally, 19 February 2025.](#)

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