



(UBS)

Why CIO is confident the AI growth story will continue

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The tech-heavy Nasdaq 100 index has entered bear market territory following Trump's Liberation Day tariff announcement, falling more than 20% from its peak in February. Given high levels of uncertainty, we recommend investors track any updates from policymakers and upcoming tech company quarterly results for more clarity.

With volatility elevated, structured strategies including capital preservation strategies should be considered, in our view. But the secular fundamentals of the AI technology cycle are intact.

Top US AI-related stocks have faced significant headwinds from the mounting global trade conflict.

- Uncertainty introduced by US tariff policy has presented headwinds for the sector and looks likely to continue posing near- to intermediate-term headwinds.
- The Trump administration did not include semiconductors in this initial round, but did leave open the potential for tariffs on chips to be applied under the authority of Section 232.
- As of 7 April, the Nasdaq 100 index is down 21% from its peak on 19 February, surpassing the 20% threshold that is often used to signify a bear market.

But we are confident the AI growth story will continue and the industry remains attractive despite headwinds.

- Tech companies' strong balance sheets mean share buybacks could come to the rescue at some point. With the global tech sector's stock valuations approaching 21-22x 2025 consensus P/E, we agree there is valuation support.
- Potentially lower training and inference costs could also accelerate AI adoption in a growing addressable market, boosting AI monetization in the medium to longer term.

So, we believe investors should not lose hope, focusing on past recoveries once uncertainty had been fully priced.

- Negative earnings revisions due to tariffs and resulting macro uncertainty are not new for tech.
- Global tech stocks witnessed earnings revisions in 2018 owing also to a significant tariff escalation.
- After a peak-to trough decline of about 24%, tech stocks rebounded by more than 30% over the ensuing 12 months with lower interest rates, in addition fueling strong gains.

Did you know?

- The 'Magnificent 7' were responsible for more than half the S&P 500's gains in 2024.
- Based on our preliminary assessment, we expect a very wide 5-25% earnings per share impact from tariff escalations, highlighting significant near-term uncertainty.
- The artificial intelligence market potential is large—we estimate that AI value creation could amount to USD 1.16 trillion by 2027.

Investment view

While there are a lot of uncertainties owing to a wide range of negative EPS outcomes, we believe investors should not lose hope and should instead get inspiration from the past to see how the stocks performed once the uncertainty was fully priced in.

Original report: [Can the AI rally resume?, 7 April 2025](#)

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