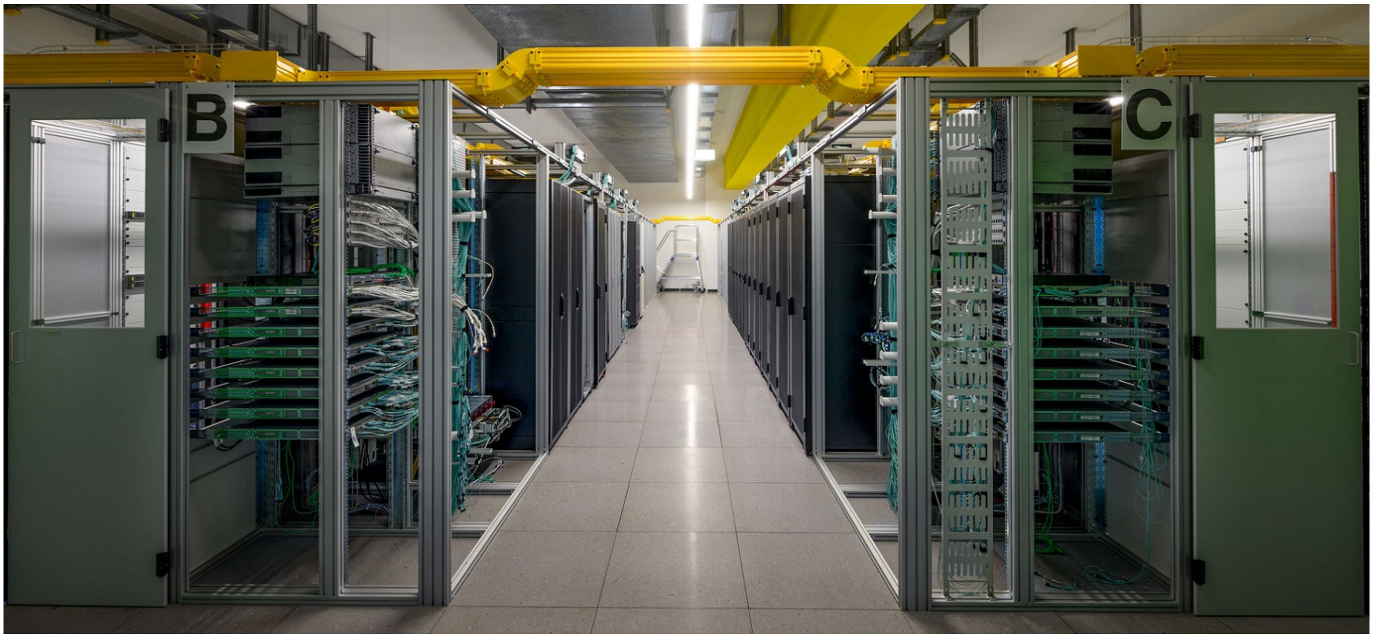

With strong near-term visibility for tech earnings, CIO remains bullish on the AI theme and maintains their positive view on AI semiconductors and leading cloud platforms. (UBS)

# CIO confident that the AI growth story will continue

03 March 2025, 3:08 pm EST, written by US Editorial Team UBS Editorial Team

**Tech sector volatility has picked up in 2025 on both disruption and tariff risks. But CIO also expects robust capital spending and further progress on AI monetization, with strong earnings supporting our preferred stocks.**

CIO views the US IT sector as Attractive due to its promising fundamentals, and recommends investors use any near-term volatility to build up sufficient exposure to quality AI stocks.

**China's "DeepSeek moment" triggered an AI selloff.**

- Global tech shares sold down on 27 January after a surge in downloads for DeepSeek's low-cost AI model challenged investor assumptions on AI capex, US tech controls, and AI training.
- Leading AI chipmaker NVIDIA fell nearly 17% in one session, while AI power names like Vistra and GE Vernova fell some 20-30%.
- In a public paper, DeepSeek's designers claimed its R1 model was built at a fraction of the training and inference costs of leading US models while delivering near comparable performance.

**But we are confident the AI growth story will continue.**

- Contrary to the general perception on low-cost models, 4Q24 earnings and forward guidance suggest the near-term threat to AI capex from low-cost models is limited.

- We have instead revised up our capex estimates and now expect 35% y/y growth in Big 4 spending to USD 302bn, driven by strong demand for frontier models.
- 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 buy the dip, and see value in actively investing in AI.**

- Like in many industries, we think a mix of low-cost and high-cost AI solutions can coexist, serving different demands and use cases.
- Given strong near-term visibility for tech, we remain bullish on the AI theme, including large-cap names, leading cloud platforms, and semis. In Chinese equities, we like select internet names.

**Did you know?**

- The Magnificent 7 were responsible for more than half the S&P 500's gains in 2024.
- The tech rally has helped push the S&P 500's forward price-to-earnings to 21.2x, a step above both its 10- and 20-year averages of around 18x and 16x, respectively.
- The AI supply chain has the lowest dependency on China at around just 5%. Most of the chip manufacturing and final assembly are done globally, including some domestically in the US.
- The artificial intelligence market potential is large—we estimate that AI value creation could amount to USD 1.16 trillion by 2027.

**Investment view**

With strong near-term visibility for tech earnings, we remain bullish on the AI theme and maintain our positive view on AI semiconductors and leading cloud platforms. We recommend taking advantage of any near-term volatility to build up exposure to quality AI stocks via buy-the-dip and structured strategies.

Original report: **Has the AI trade peaked?, 3 February 2025.**

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