



CIO continues to believe that the recent correction in tech shares has been mainly driven by economic uncertainty rather than an erosion in AI fundamentals. (UBS)

Apple's foray into AI suggests intact secular trend

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Apple launched multiple new products at its "Glowtime" event on Monday, including the latest series of iPhones with artificial intelligence (AI) features. At the event, Apple introduced the iPhone 16, its first device specifically designed to integrate generative AI into the smartphone's operating system.

All four iPhone 16 models will feature the new A18 chip designed to power a range of AI tools, with Apple emphasizing privacy as a core component of its Apple Intelligence initiative. The AI-driven features are set to launch as a beta in the US this fall, with broader language support, including Chinese, French, Japanese, and Spanish, expected to roll out by 2025.

Without taking a view on individual companies, Apple's foray into the AI race through its consumer AI services illustrates both ongoing structural support for the AI trend and the sector's increasingly competitive landscape. We see several key takeaways for investors:

Strong AI-related capital spending should continue. The recent second quarter earnings season showed no signs of big tech's AI spending slowing down, with executives highlighting the risks of underspending rather than overspending. As big tech's AI rivalry intensifies further, we expect their overall capex to grow 47% this year to USD 218bn, and by another 16.5% in 2025 to USD 254bn. Still, big tech's combined capex intensity (capex divided by sales) remains below historical peaks, leaving room for growth.

Demand for AI compute should grow strongly. With increased enterprise and consumer adoption as well as the proliferation of new and more complex AI models, we expect the strong growth in AI compute (the computational resources required for AI systems to perform tasks) to continue, underpinning significant investments in graphics processing units (GPUs) and other chips. Both NVIDIA and Meta recently highlighted that new AI models could require some 10-20

times more compute than current ones. We believe higher-than-expected AI computing expenditure for next-generation models means there is further room for growth in big tech's capex.

Underlying profit growth of big tech should remain solid in 2025, supporting strong free cash flow generation.

Our calculations show that increased capex should not dent big tech's ability to generate strong free cash flows, as they appear on track to deliver earnings growth near 15-20% over the coming quarters amid an increase in AI monetization. We now expect big tech's combined free cash flows to grow from USD 413bn this year to USD 522bn in 2025.

We continue to believe that the recent correction in tech shares has been mainly driven by economic uncertainty rather than an erosion in AI fundamentals. With more short-term volatility likely ahead, investors with low existing AI holdings should create a plan to build up long-term exposure to the theme, such as utilizing structured strategies including put writing or reverse convertibles. Investors with high allocations may consider capital preservation strategies as a hedge.

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