CIO favors a diversified exposure across leading internet and software companies and AI semiconductors, and recommends investors consider structured strategies to navigate volatility ahead. (UBS)

CIO trims 2025 earnings growth forecast for global tech companies

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Global tech companies have reported overall solid first-quarter results this week, beating consensus revenue and earnings estimates. Still, US tariffs are expected to have an impact, with Apple warning the levies could add about USD 900mn in costs this quarter. Most companies have also revisited their supply chain strategy, and we expect some margin headwinds from accelerating supply chain relocations as well as higher depreciation expenses from ongoing AI capex.

CIO has therefore trimmed its 2025 earnings growth forecast for global tech companies from 16% to 12% amid elevated macro uncertainty, in line with the previous estimate for a manageable earnings impact.

However, we view this set of tech earnings as better than expected, as it highlights the resilient growth profile of global tech thanks to the secular AI trend that remains fundamentally solid.

AI spending outlook remains strong amid solid underlying demand for AI compute. Megacap tech names have largely maintained their spending outlook, with Meta increasing its capex guidance for 2025. Meta said the upward revision in capex reflects additional data center investments to support its AI efforts, and that the company is having a hard time meeting its demand for compute resources even with the capacity it is bringing online this year. Overall, we expect global AI capex spending to grow by 60% this year to USD 360bn, and by another 33% in 2026 to USD 480bn. The strong AI spending momentum should continue to benefit the semiconductor industry.

Cloud growth across major platforms points to narrowing gap between AI revenues and capex. While Amazon's first-quarter cloud revenue growth missed expectations, Microsoft's cloud unit Azure exceeded estimates. We view the growth trends across leading cloud platforms as steady, and expect revenues at the top three cloud services providers to reach USD 265bn this year. This should underpin the narrowing gap between AI spending and monetization, which is also supported by rising AI adoption rates across industries and company sizes. Additionally, companies have reported significant productivity improvements based on revenue per employee following the use of AI.

Valuations remain reasonable while the AI industry broadens. Global tech is now trading at a 12-month forward price-to-earnings (P/E) ratio of around 24x after the recent rebound, above its historical average over the past 10 years. However, this remains below the 27-30x P/E seen during last year's peak. We view the current valuations as reasonable, as the AI technology advances further amid expanding use cases. For instance, the latest benchmark results of AI models showed progress in their ability to understand and reason about real-world physics problems including mechanics, electromagnetism, thermodynamics, optics, modern, and advanced physics.

So, without taking any single-name views, we maintain strong conviction in AI's long-term potential and expect the rebound in tech shares to continue. Still, we also expect near-term volatility amid the ongoing US national security probe on semiconductors, while the AI diffusion regulations are set to come into effect later this month. We favor a diversified exposure across leading internet and software companies and AI semiconductors, and recommend investors consider structured strategies to navigate volatility ahead.

Original report - **Tech rebound has more room to run amid solid earnings, 2 May 2025.**

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