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

The value in actively investing in AI

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Tech sector volatility has picked up in 2025 so far on both disruption and tariff risks. But we also expect 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 sell-off.

- Global tech shares sold down on 27 January after new AI model DeepSeek challenged AI capex assumptions.
- Leading AI chipmaker NVIDIA fell nearly 17% in one session, while AI power names like Vistra and GE Vernova fell some 20-30%.
- Tech volatility has continued since, with the Nasdaq index entering a formal correction on 10 March, having fallen more than 10% from its mid-February peak.

But we are confident the AI growth story will continue.

- 4Q24 earnings and forward guidance actually suggest only a limited near-term threat to AI capex.

- We now expect 35% y/y growth in Big 4 capex 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.
- Tariff- and export-control-related uncertainty may spur more volatility ahead. Investors can take advantage via structured strategies and by buying the dip.

Did you know?

- The 'Magnificent 7' were responsible for more than half the S&P 500's gains in 2024.
- Though valuations have come off, tech has still helped pull the S&P 500's forward price-to-earnings to 19.9x, a step above both its 10-and 20-year averages of around 18x and 16x, respectively.
- 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, CIO remains bullish on the AI theme and maintains its positive view on AI semiconductors and leading cloud platforms. CIO recommends taking advantage of any near-term volatility to build up exposure to quality AI stocks via buy-the-dip and structured strategies.

Original report: **Will the AI rally heat up again?, 17 March 2025.**

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