



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

AI value creation could amount to USD 1.16 trillion by 2027

03 February 2025, 1:09 pm CET, written by UBS Editorial Team US Editorial Team

Tech sector volatility could pick up in 2025. But we also expect robust capital spending and further progress on AI monetization, with strong earnings supporting our preferred stocks.

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

A strong AI tech rally has some asking if the easy gains are behind us.

- AI helped power two straight years of strong returns for the Nasdaq, including a 28% rally last year.
- The Magnificent 7 were responsible for more than half the S&P 500's gains in 2024.
- Last year, continued upward revisions in AI capital expenditures (capex) from the Big 4 US tech companies helped keep the AI rally on track.

But we think the tech rally has more room to run.

- This month, we raised our estimates for the Big 4's combined capex growth to USD 224bn in 2024 (+51% y/y), and USD 280bn in 2025 (+25% y/y).

- We also see the gap between AI capex and monetization narrowing in 2025, with more companies using AI to increase revenue and reduce costs.
- We anticipate tech's revenue-led rally will continue in the year ahead, given our forecast for robust earnings growth of around 25% in 2025.

Investors should examine their AI exposure and take advantage of near-term volatility.

- With strong near-term visibility for tech, we remain bullish on the AI theme and maintain our positive view on AI semiconductors and leading cloud platforms.
- We remain constructive on quality large-cap AI names in particular, with strong seasonality in the first quarter another near-term driver.
- Investors with low AI exposure at a portfolio level may consider structured strategies to build up long-term exposure.

Did you know?

- The tech rally has helped push the S&P 500's forward price-to-earnings to 21.6x, a step above both its 10- and 20-year averages of around 18x and 16x, respectively.
- But large-cap tech for the most part has not seen a significant expansion in P/E ratios in the past year, with robust earnings growth driving share gains.
- 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.

Main contributors: Sundeep Gantori, Kevin Dennean, Jon Gordon

Original report: [Can the AI rally continue this year?, 20 January 2025.](#)

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