# UBS predicts continued gains in tech stocks from AI investments



Analysts at UBS have projected that substantial investments in artificial intelligence (AI) will continue to drive significant gains in technology stocks, despite the assertion that the most straightforward gains may have already been realised. In a note released on Friday, UBS informed that while it may seem the “easy gains in AI may well be behind us”, the expected rally in the sector appears to be far from concluding.

Significantly, the note highlighted that major technology firms are on the cusp of translating their capital expenditures into greater profitability. The AI boom has been pivotal for tech companies, allowing them to surpass broader market performance amid a 2024 environment fraught with macroeconomic instability and geopolitical unrest. The Nasdaq index, heavily laden with tech stocks, saw an impressive increase of around 33 per cent in 2024, with leading companies such as Apple, Amazon and Tesla reporting gains between 30 per cent and an exceptional 70 per cent. Notably, chipmaker Nvidia experienced a staggering 190 per cent increase in its stock value during the same period.

The so-called “Magnificent Seven” tech giants accounted for over half of the gains within the S&P 500, while the less tech-reliant FTSE 100 managed a modest increase of only 5.7 per cent, and the Eurostoxx 600 index fared slightly better at 6.4 per cent.

UBS has also forecasted that AI-related capital expenditure from the leading four tech companies—Amazon, Apple, Alphabet and Meta—will continue to sustain gains in the immediate future. The bank reported that AI spending surged by 51 per cent year-on-year, reaching $224 billion in the previous year, with expectations for further growth of 25 per cent in 2025, potentially elevating expenditure to $280 billion.

In their analysis, UBS suggested that many large tech firms will gain traction in monetising their AI investments this year, positing, “we anticipate the gap between AI capex and revenues will narrow in 2025.” Executives adopting AI solutions are expected to leverage these technologies to bolster revenue generation while simultaneously curtailing operational costs. UBS underscored the importance of assessing the economic value added by AI as a critical measure for its monetisation.

Moreover, UBS conveyed that despite the remarkable upward trajectory over the last two years, AI valuations are not as inflated as they might appear, primarily due to consistent earnings growth. The investment bank expressed an optimistic stance on AI, particularly regarding semiconductors and prominent cloud platforms, citing strong seasonal performance in the first quarter of the year as an additional impetus.

A separate analysis by Wedbush indicated that the market is poised for the next stage of the AI revolution, particularly as key players in the broader software sector join the movement, prompted by an explosion of applicable use cases. Gibson and Jensen of Nvidia have previously set the stage as their chips emerged as foundational elements in the developing AI landscape. Following this initial phase, cloud service giants such as Microsoft, Google Cloud Platform, and Amazon Web Services are anticipated to harness substantial momentum in AI and cloud integration.

Wedbush has identified major data analysis company Palantir Technologies and the customer relationship management (CRM) platform Salesforce as leading figures in this software-driven AI transition, predicting significant advancements and profitability for both in the coming years. Palantir, in particular, stood out as the top performer in the S&P 500 for 2024, surging nearly 370 per cent as its AI offerings garnered heightened customer interest and expansive use cases.

The firm remarked that Palantir has evolved as a central player during the AI revolution, enhancing its product utility and establishing a broad partner ecosystem to meet substantial enterprise demand for generative AI solutions. Looking ahead, Wedbush anticipates that Palantir’s growth within the U.S. commercial sector will strengthen over the next 12 to 18 months as a growing number of enterprises embrace AI technologies.

Salesforce’s performance, whilst more subdued at a 30 per cent increase, is expected to improve significantly in the emerging AI monetisation context, with Wedbush asserting that the firm is ideally positioned to capitalise on the anticipated market expansion. It posited that Salesforce stands to benefit as approximately $7 trillion worth of opportunities linked to a digital labour market are anticipated to develop in the near future, with further potential gains projected to add about $80 per share as the monetisation of AI advances over the upcoming months.

Source: [Noah Wire Services](https://www.noahwire.com)

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