Tech stocks surge as wave of interest in AI drives $4tn rally

Publication Date: 2023-05-26

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Section: Technology

Tags: Artificial intelligence (AI), OpenAI, Nasdaq, Stock markets, ChatGPT, Google, Meta, news

Article URL: https://www.theguardian.com/technology/2023/may/26/tech-stock-surge-interest-artificial-intelligence-technology-nvidia-double-value

A rush of interest in artificial intelligence (AI) has helped to fuel a $4tn (£3.2tn) rally in technology stocks this year, with the US Nasdaq exchange reaching its highest level since last August in a week that saw the chipmaker Nvidia poised to become the next trillion-dollar company. Some stocks seen as AI winners – such as semiconductor makers and software developers – have more than doubled in value as traders bet on massive growth in the industry, even as fears mount over waves of job losses as everyday tasks become automated. On Friday, the combined value of technology companies listed on the Nasdaq Composite share index reached $22tn , according to the international data firm Refinitiv, up from $18tn at the end of 2022. The AI rally has helped lift the index 23% so far this year. Nvidia, whose high-end chips are used to power the datacentres used by the new wave of generative AI products such as ChatGPT, could soon become the first chipmaker to be valued at more than $1tn. Its share price has risen by 160% during 2023, lifting its value from $361bn at the start of the year to over $940bn when Nasdaq reopened on Friday morning. On Thursday Nvidia's shares jumped by 24% during a wild session after it predicted soaring demand for its chips. Nvidia's rally added almost $300bn to the value of stocks related to AI, Reuters calculated. "The investment world has gone AI crazy in the last 36 hours after Nvidia's stunning result," said Jim Reid, a market strategist at Deutsche Bank, on Friday, as Nvidia's stock gained another 1.8% and the Nasdaq index rallied by 1.7%. Nvidia's market capitalisation overtook that of the Facebook owner Meta earlier this year, as AI replaced the metaverse as a hot topic on trading floors. The shift has disrupted the technology investment pecking order, with AI claiming the favoured spot held by so-called Fang stocks – Facebook, Amazon, Netflix and Google. "Nvidia has officially replaced Fang as the centrepiece of this market," said Jake Dollarhide, the chief executive officer of Longbow Asset Management in Tulsa, Oklahoma. "Investors are obsessed with AI, and Nvidia is the perfect AI story." Shares in C3.ai, which develops artificial intelligence applications for companies, are up more than 156% so far this year. Botz, an exchange-traded fund which invests in companies that should benefit from increased take-up of robotics and AI, has gained 30% since the start of 2023. Microsoft – a major investor in OpenAI, which developed ChatGPT – has also benefited from the boom. Its stock is up 36% this year. Analysis from UBS bank shows that since January nearly 500 companies in 27 sectors have made more than 3,500 references to generative AI and/or ChatGPT on their earnings calls. UBS predicts the barriers to organisations adopting generative AI models may fall over time. "While OpenAI and Google's LaMDA generative AI platforms are not open source, Meta launched an open-source generative AI model (LLaMA) in February that has been seized on by the developer community, leading to an acceleration in the pace of innovation," UBS wrote in a report released on Friday.

Shares in Google’s parent company, Alphabet, have rallied by almost 40% so far this year, but did tumble 9% in February after its Bard chatbot gave an erroneous answer during a promotional video demonstration. The surge in shares in AI-linked companies has created fears of a new bubble. “We are naturally brought to ask whether this year’s tech rally hasn’t stretched too far,” said Ipek Ozkardeskaya, a senior analyst at Swissquote Bank. Ozkardeskaya added that Nvidia’s share price jump had lifted its share price-to-earnings ratio to a multiple of 200, a sign that investors were expecting booming profits in future years. The overall S&P 500 stock index has a price-earnings ratio of about 22. “Consequently, we are probably seeing a bubble in the making in the AI-related stocks. Although no one questions the potential of AI, the valuations seem to have gone ahead of themselves and it could soon be time for correction,” Ozkardeskaya said. But Mark Haefele, the chief investment officer at UBS Global Wealth Management, does not believe the AI-related rally is unsustainable, although some valuations do look stretched. “From a broader perspective, AI, along with big data and cybersecurity, form what we call the ABCs of technology, which we believe are foundational technologies set to accelerate over the next few years,” Haefele said.