

Artificial intelligence boom generates optimism in tech sector as stocks soar

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US tech companies started the year in the doldrums, beset by a cost overhang from excessively zealous pandemic hiring sprees and fears about the impact of rising interest rates. Things were looking grim – then along came artificial intelligence (AI). Tech stocks and the blue-chip S&P 500 index have since been buoyed by breakthroughs in generative AI – led by the ChatGPT chatbot – and the promise of a new era of growth for the sector. The S&P 500 is up 18.6% so far in 2023 while the tech-heavy Nasdaq composite is up 35.7%. Six months is a long time in a fast-moving industry. Five of the biggest beneficiaries of the US tech resurgence report quarterly results over the next two weeks: Facebook owner Meta, Google parent Alphabet, Apple, Amazon and Microsoft. Each has individual factors at play in their recent stock performances, but the AI frenzy has provided a general lift to the sector. Chipmaker Nvidia, which reported its three-monthly results in May, is the emblem of the revival – becoming a \$1tn company off demand for its products to provide processing power for the new technology. Big tech is a “torchbearer” for the stock boom around AI, says Dan Ives, managing director at US financial company Wedbush Securities, who predicts that spending on such ventures could reach as much as \$800bn (£625bn) over the next decade. “Heading into the second half of 2023, we see a much broader tech rally ahead as investors further digest the ramifications of this \$800bn AI spending wave on the horizon and what this means for the software, chip, hardware and tech ecosystem over the next year,” he says. Ives adds that Microsoft, Amazon and Alphabet are benefiting through their cloud computing services – which rent out server capacity to companies – because cloud services are being used to train and operate generative AI models, the data-hungry networks that power chatbots and image generators. “We view this as a ‘1995 internet moment’ ... not a ‘1999 dot bubble moment’. We estimate for 2024 that AI could comprise up to 8% to 10% of overall IT budgets v [approximately] 1% in 2023,” he says. But some investment professionals urge caution. Hyun Ho Sohn, portfolio manager of Fidelity’s global technology fund, said last week that the tech sector had become a “very narrow, thematically driven market” fuelled by generative AI. Indeed, US tech stocks had a wobble on Thursday after investors reacted poorly to the latest results from Tesla and Netflix. “It is important to remain cautious – or perhaps realistic,” he says. “Every technology company seems to be pitching an AI angle.” James Knightley, chief international economist at ING in New York, says the macroeconomic picture for US stocks is tough, thanks to retail sales slowing and industrial production contracting. “My personal view is that there is little on the macro side that is driving the rally in stocks. It is more a market belief that recession risks are not quite as high as they were previously and that while AI and tech advances have the potential to

boost economic activity, it is the companies that are driving this that will gain most of the rewards," he says. The AI frenzy aside, tech companies are not immune to the wider US (and global) economy, with Apple forecast to post a drop in revenue. Meta, for instance, is exposed to macroeconomic conditions, owing to its reliance on advertising revenue. Tony Sycamore, analyst at online trading platform IG, says the good news from Meta's AI initiatives, its launch of "Twitter killer" Threads and tough action on costs is already reflected in its share price. "The danger of elevated expectations against a 136% rise in the share price is that a lot of good news is already in the price," he says. AI, however, is generating a convincing answer to any concerns.