



Is tech back on top?

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Tech sector: where do we stand?

With valuations well below their covid peak, increasing focus on profitability, and new excitement around AI, the tech sector should continue to perform well going forward.

Tech sector: recession proof?

In the past, the technology sector has prioritized investing in expansion rather than maximizing profitability. However, this is now changing as technology companies are placing an increasing focus on improving their profitability in the face of a slowing global economy.

For example, Elon Musk has radically cut Twitter's cost structure by reducing headcount by 75% and Mark Zuckerberg has referred to 2023 as the "year of efficiency" as he rationalizes Meta's expense base.

This shift towards profitability across the tech sector is expected to support margin expansion and earnings per share (EPS) growth over the coming year and beyond.

Furthermore, over the past 6 months, tech's forward earnings expectations have been reduced by analysts more than other sectors, which may explain why there have been more positive surprises recently.

Tech sector: which opportunities?

AI seems to have positive near-term economic benefits across the sector versus other recent "hyped" trends

At this point, AI seems more like an "iPhone moment" than a potential disappointment (like the Metaverse, the Internet of Things, Autonomous driving and Blockchain have been to date).

Most major tech players are already deploying significant investments behind AI opportunities.

Compared to previous trends, the game changer is that the revenue opportunity linked to AI could materialize very quickly, as illustrated by Microsoft's launch of several AI-enabled products already.

Cloud and compute power players are set to reap rewards in the AI explosion

Cloud infrastructure (Microsoft Azure, Amazon AWS, Google, Oracle) and compute power providers (Nvidia, AMD) could also see large opportunities in AI.

Mathias Santos, technology, media and telecommunications analyst at Carmignac





Tech earnings: focus point

There have been debates as to the cyclical nature of advertising spending, and online advertisers have suffered from Apple's restrictions on the terms of data sharing for targeted advertising. Yet Google and Meta's reports show ad spending is stronger than feared, with positive developments in the travel and retail segments.

Despite recent concerns, the trends for online advertising appear promising, particularly in the travel and retail sectors, which have shown positive growth in the face of recession fears

Over the quarter, Microsoft's cloud division generated revenues that exceeded expectations, indicating that concerns about a slowdown in cloud growth due to corporate clients optimizing spend were overly negative. The strong performance of the cloud division contributed significantly to the overall growth of the tech giant.

Microsoft's cloud revenue outperformed expectations, calming concerns about a slowdown as corporate clients tighten their belts and seek greater efficiency

In the semiconductor industry, high-end manufacturers have faced challenging growth trends due to comparisons with the rapid expansion of PCs, smartphones, and cloud technology during the pandemic. As a result, the industry is currently in a period of adjustment, with a backlog of inventory to clear before new products can be launched. However, there is hope for improvement in the second half of the year. It's worth keeping an eye on the automotive and industrial applications segments of the semiconductor market, which are still in shortage and likely to face a more challenging environment as supply chains normalize. Meanwhile, semiconductor companies levered to AI compute in the datacenter, like Nvidia, seem poised to capitalize on the future of AI and its potential.

The semiconductor industry is facing a digestion period with full distribution channels, but there are hopes for improvement in H2. The leading-edge semiconductor space will greatly benefit from the proliferation of AI and Nvidia invests heavily in the future of artificial intelligence.



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