Digging deeper into the future of AI

How is AI automating the world?

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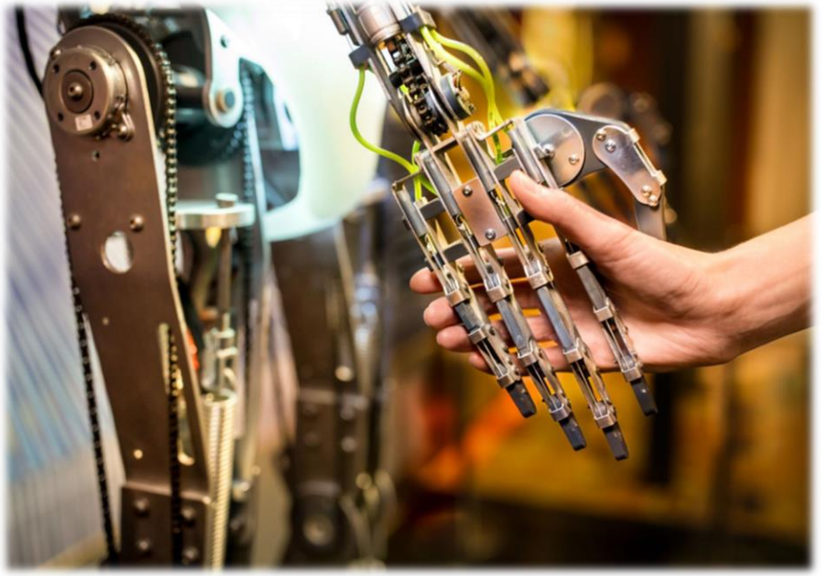
Section 1:

At the cusp of AI era

"Artificial intelligence is one of the most profound things we're working on as humanity. It is more profound than fire or electricity."

– Sundar Pichai



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Transformational innovations have driven the market for decades

	Sector	Structural transformation	Years	Max % US market cap	Notable event
	Transportation	ICE automotives	1920s	12.3%	Benz motorcar patent (1886)
	Utilities	Electrification	1930s	15.5%	Tesla AC polyphase system (1893)
	Telecommunications	Radio broadcasting	1930s	13.9%	First US commercial broadcasting station (1920)
	Chemicals	Plastics	1940s & 1960s	12.1%	DuPont nylon patent (1935), Propylene polymerization
	Pharmaceuticals	Drug innovation	1990s – 2000s	12.1%	Recombinant DNA (1974) Orphan drug act (1983) PFUFA (1992)
	Internet/cloud/mobile	Software/Smartphone era	1990s	19.5%	Cloud computing (2006), Apple iPhone (2007)

Source: Eugene F. Fama and Kenneth R. French Data Library, UBS as of April 2025
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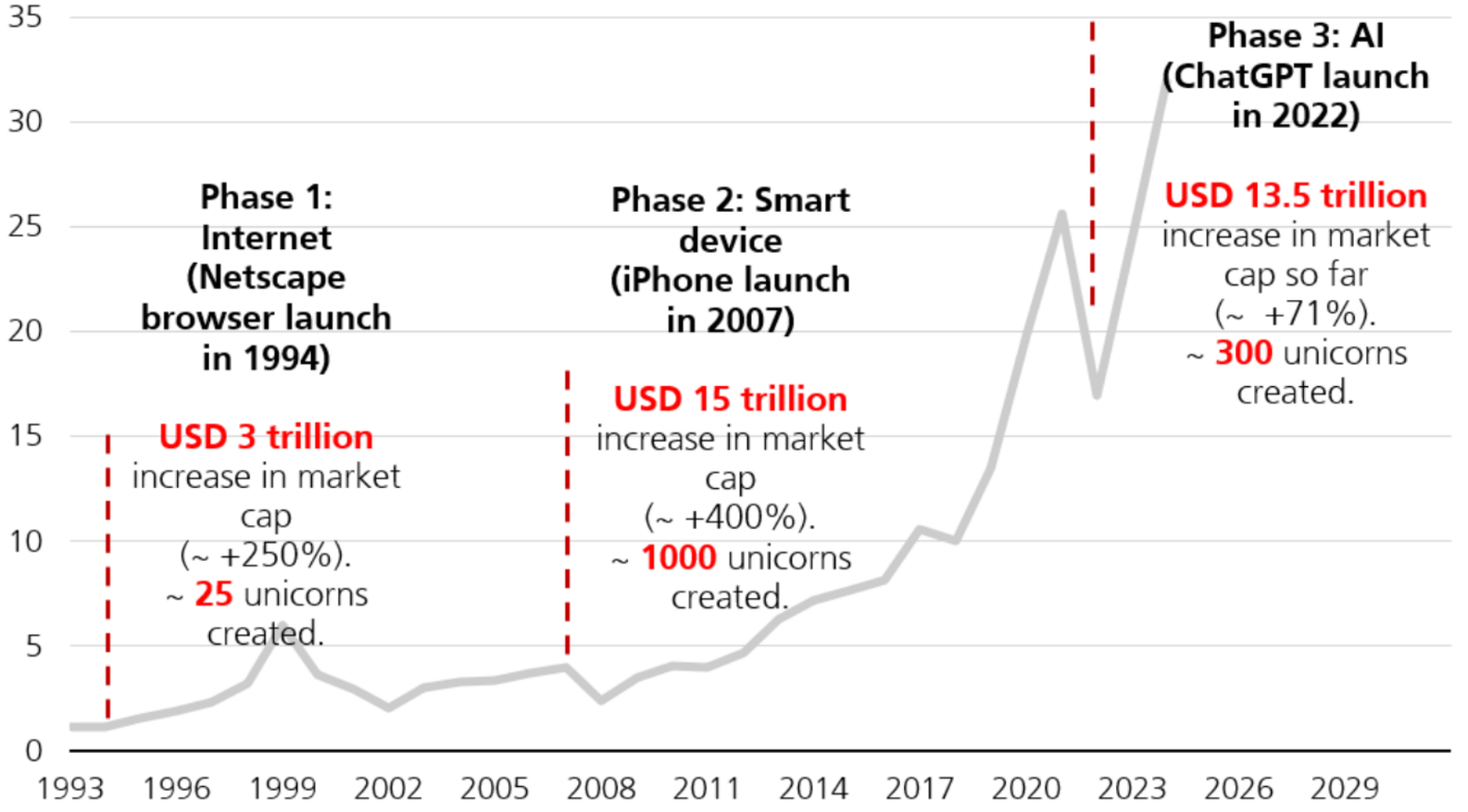
AI is the tech theme of the decade

Market cap of the Nasdaq composite in USD trillions

Expect strong tech earnings to drive long-term outperformance for global tech



Source: Factset, Bloomberg, UBS, as of 2024

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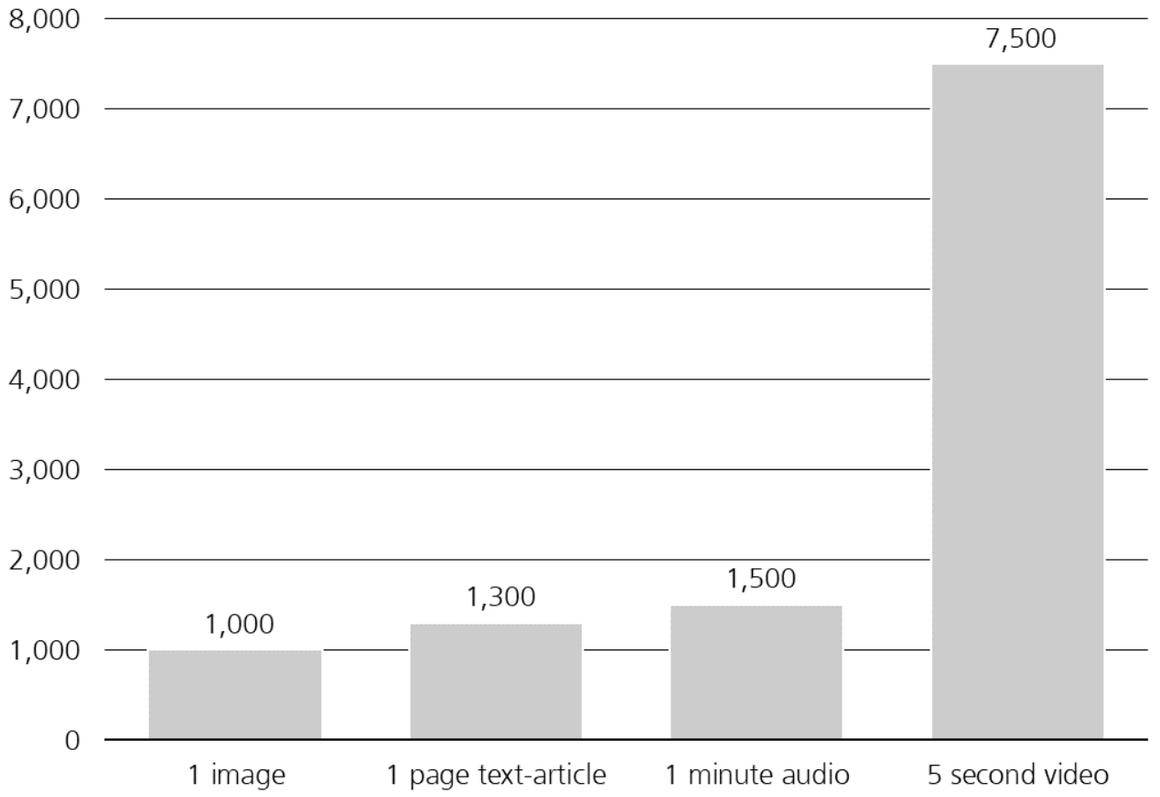
Tokenomics: Number of tokens required to generate various media

Tokens required by generative AI applications

Video is relatively more intensive from an AI computation point of view



Source: Company reports, UBS estimates, as of 2024

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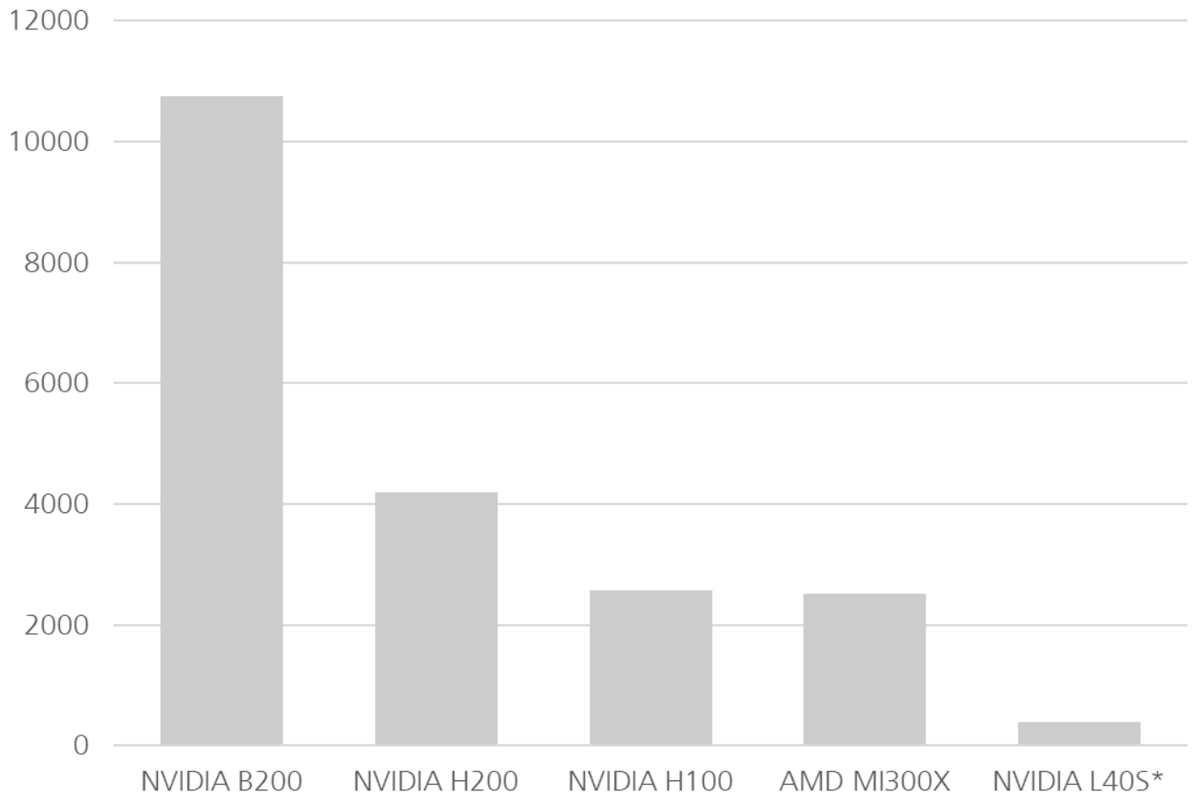
Tokenomics: How many tokens can AI chips generate per second?

Online tokens/second using Llama2 70b models, * downgraded version

Blackwell chips should further widen the gap



Source: ML Commons, UBS, as of 2024

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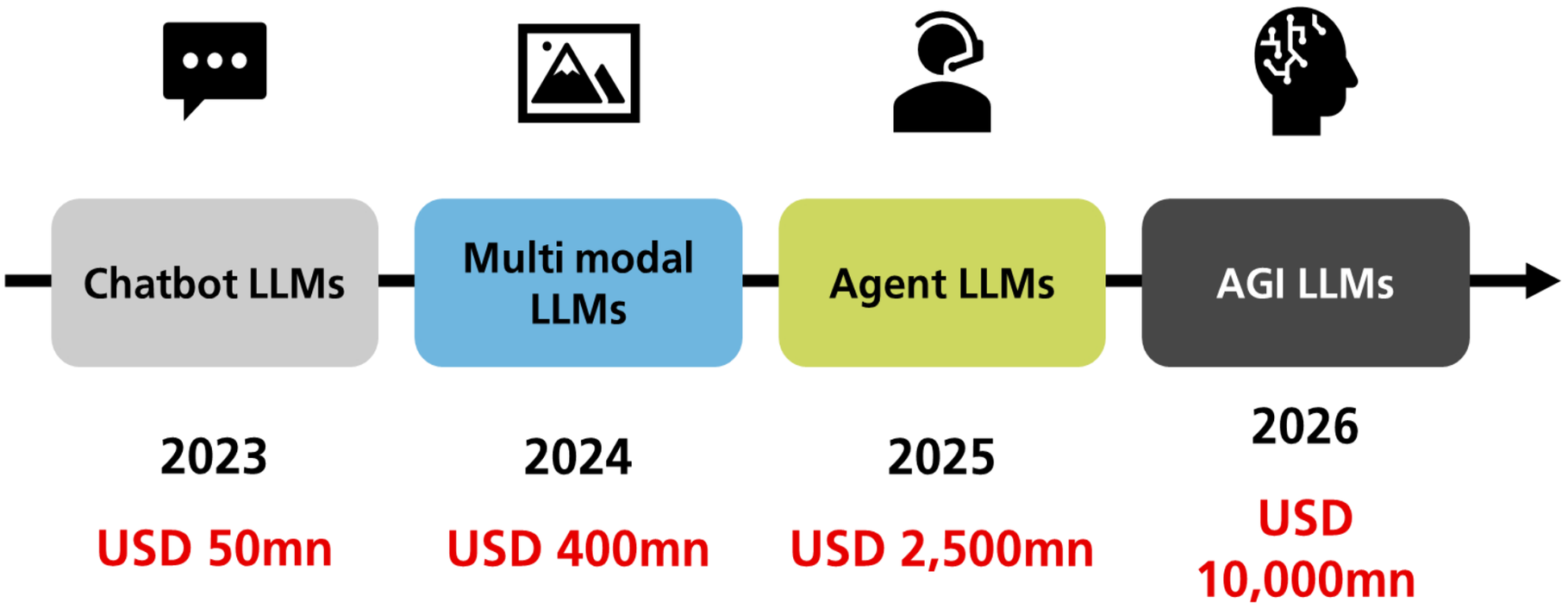
With AI's scaling laws intact, AI compute spend should stay elevated

AI compute cost per each LLM in USD mn

Model scaling should support strong spending from big tech



Note: AGI stands for artificial general intelligence
Source: UBS, as of 2024
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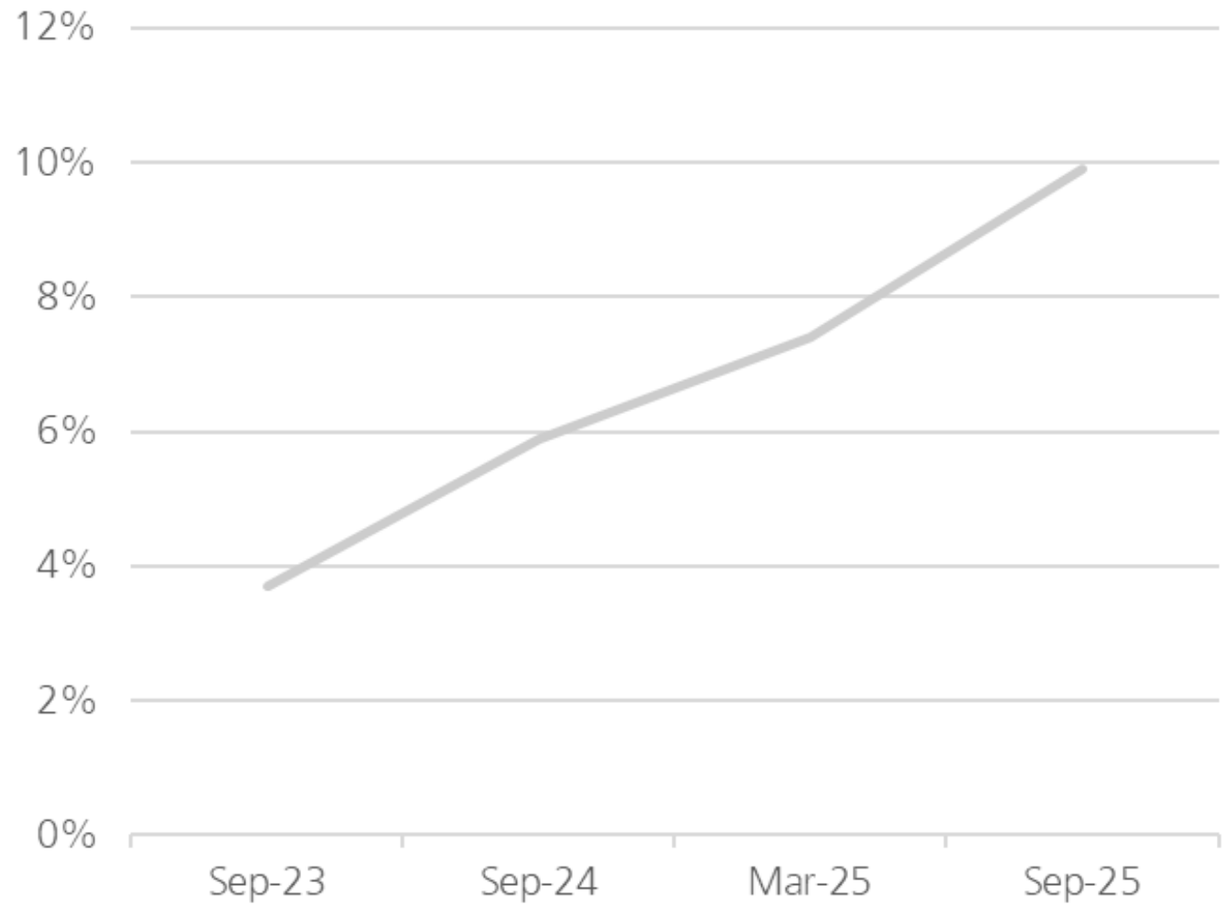
Steady growth in US AI adoption rates

Sep-25 is expected rate based on survey



Source: Business Trends and Outlook Survey (BTOS), US Census Bureau, UBS as of April 2025
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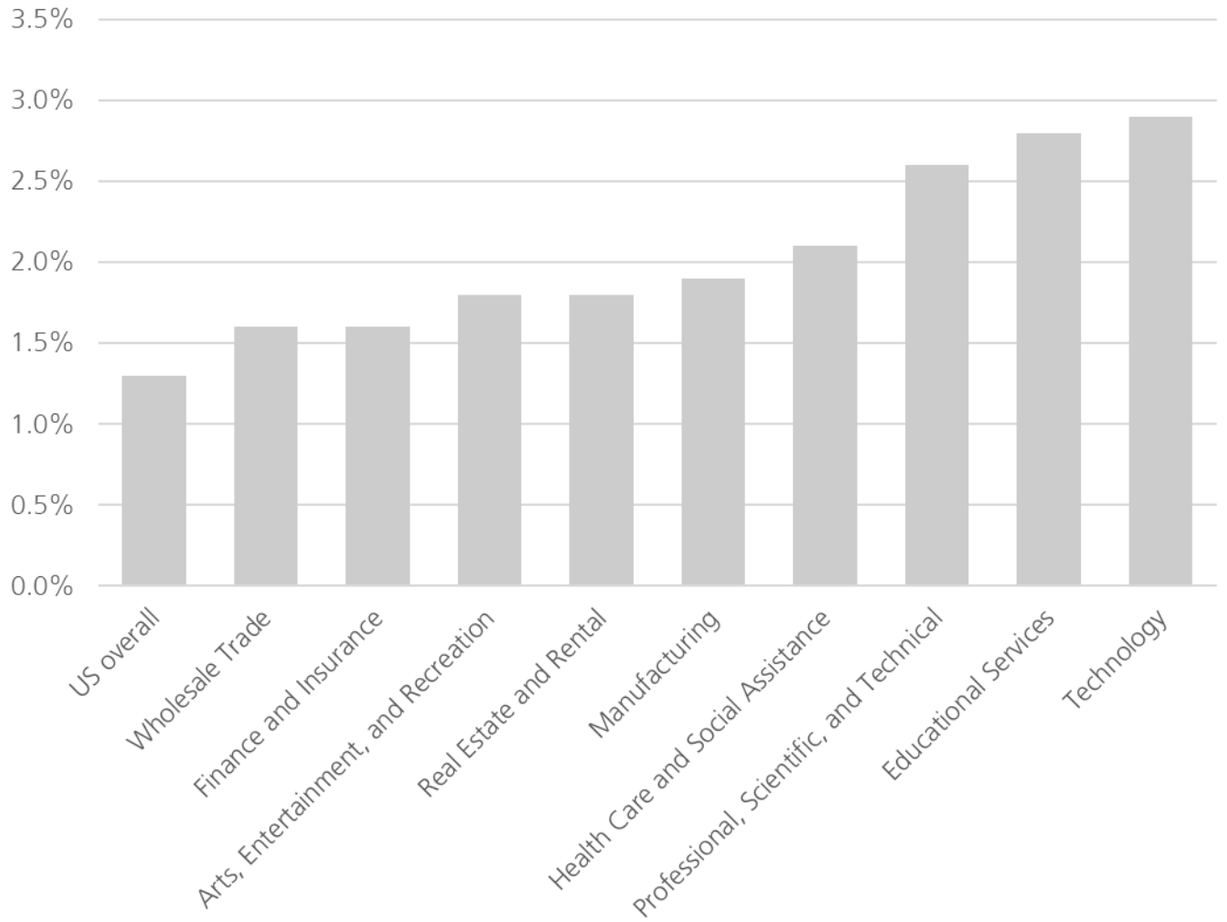
Nine industries are leading with above-average improvement in AI adoption rates

Industries witnessing the biggest q/q improvement in US AI adoption rate



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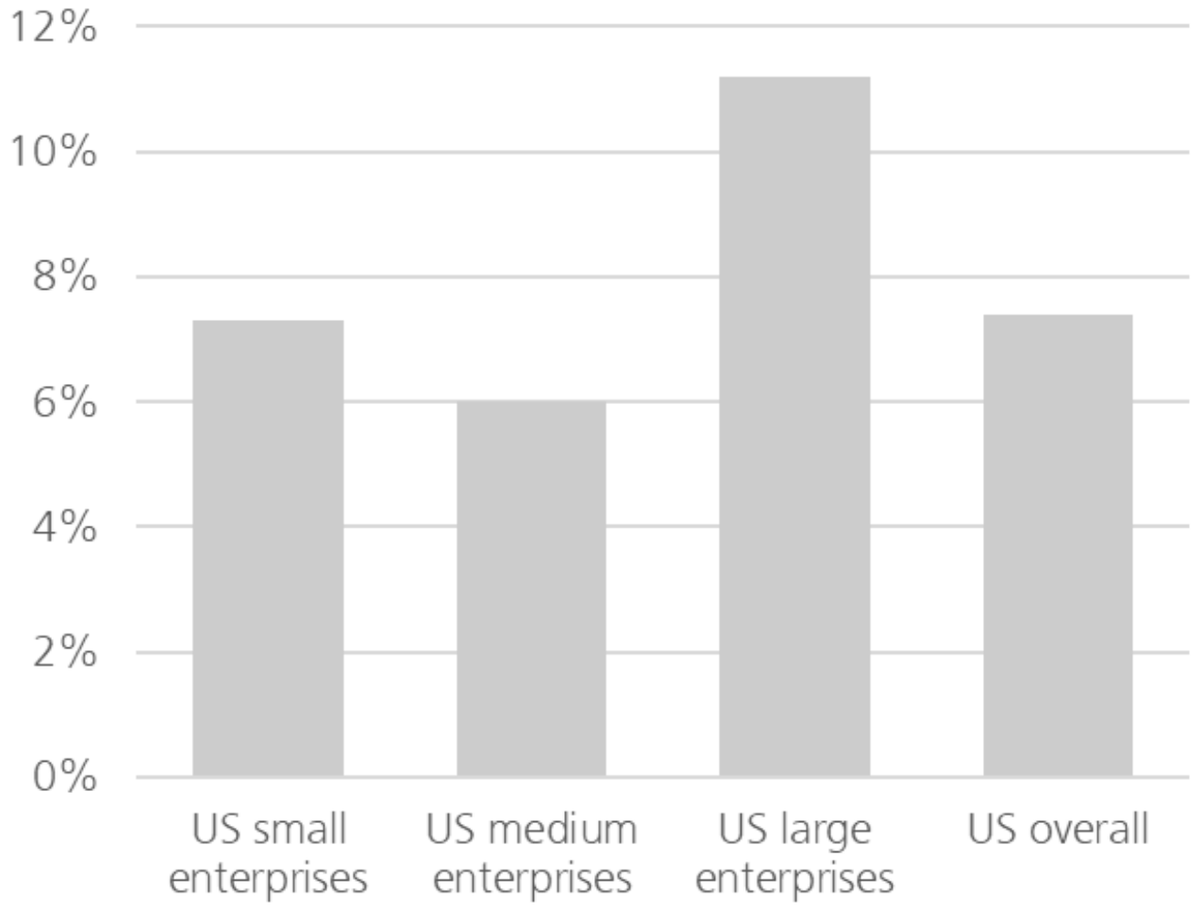
Large enterprises are leading AI adoption in the US followed by small and then medium enterprises

1Q 2025 AI adoption rates by size



Source: Business Trends and Outlook Survey (BTOS), US Census Bureau, UBS as of April 2025
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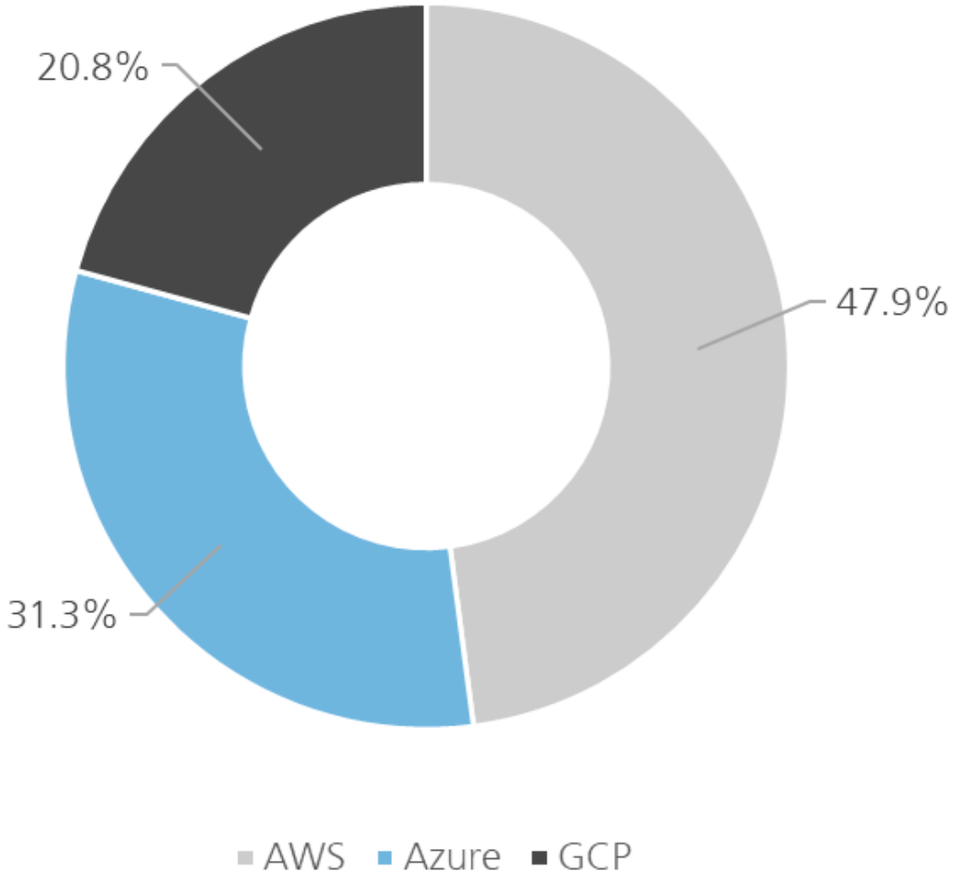
Driven by strong AI demand, combined revenues for the top three cloud platforms should reach USD 265bn in 2025

2025 revenue split by platform



Source: Company reports, UBS estimates as of April 2025

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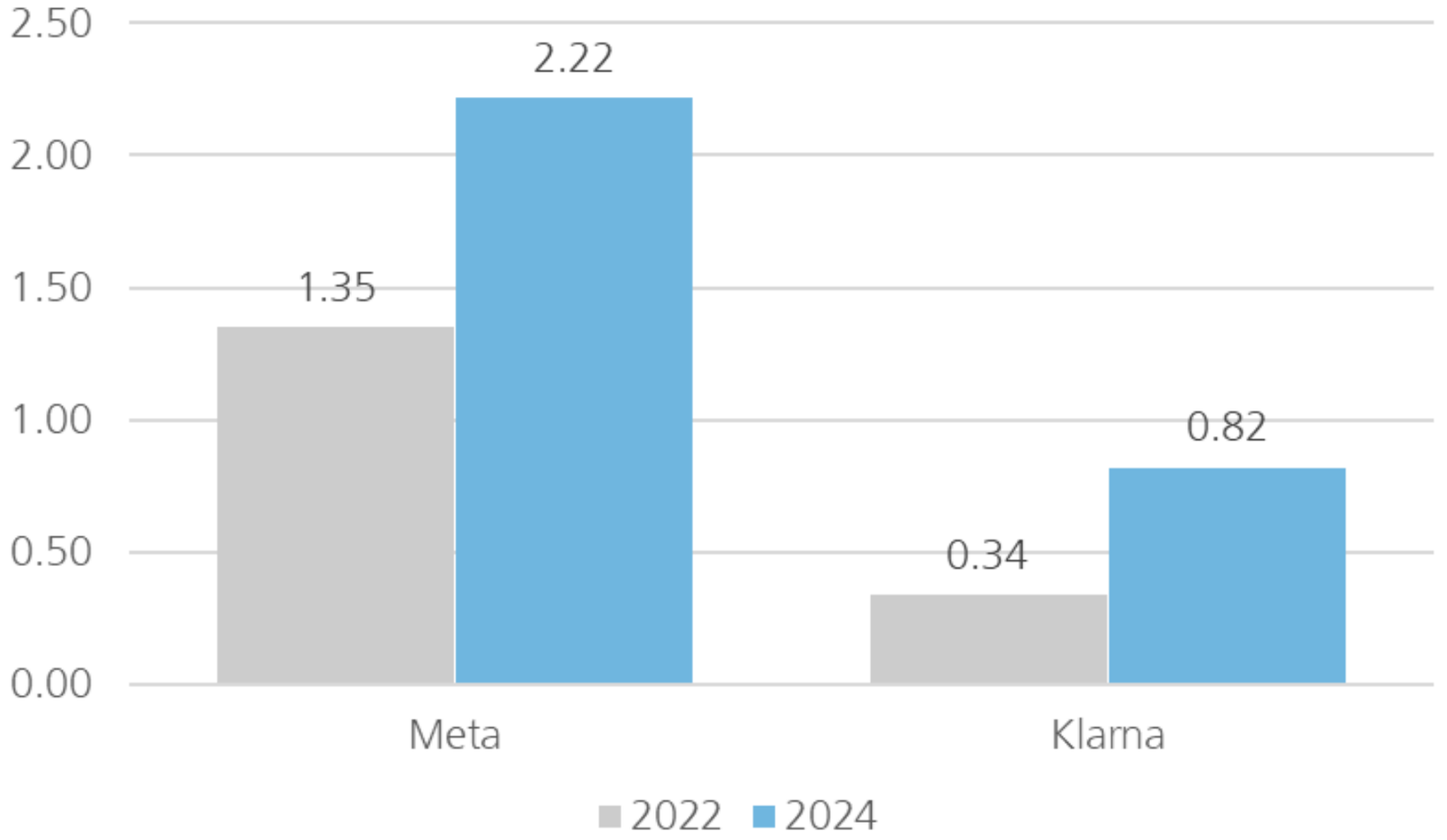
Strong 2-year jump in employee productivity among early adopters of AI

Revenues per employee in USD mn



Source: Company reports, UBS estimates as of March 2025
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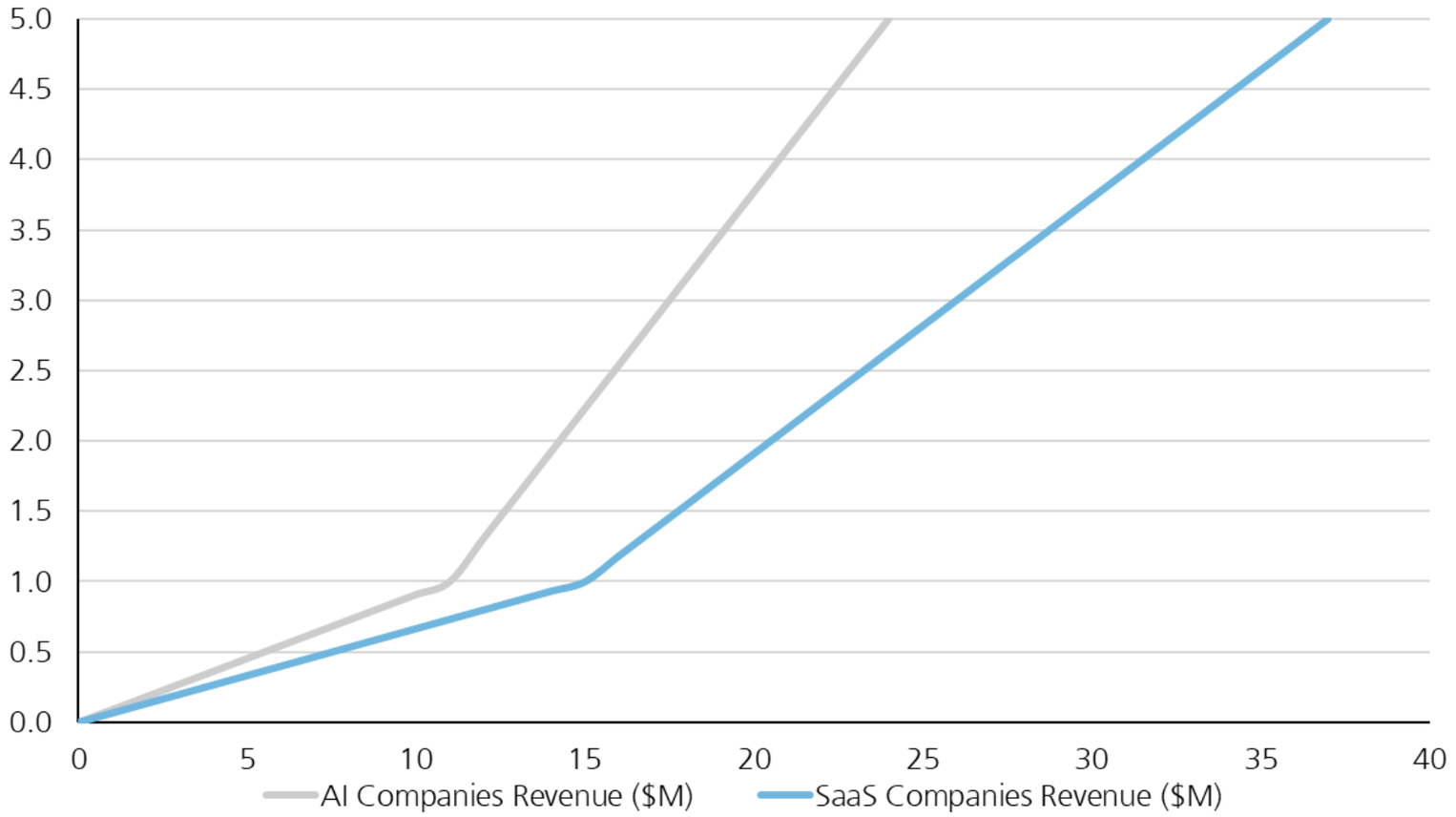
AI vs. SaaS companies time to scale

Median time to reach USD 5mn in ARR (USD mn revenues on y-axis and months on x-axis)



Source: Stripe 2024 annual letter, UBS estimates as of 2025

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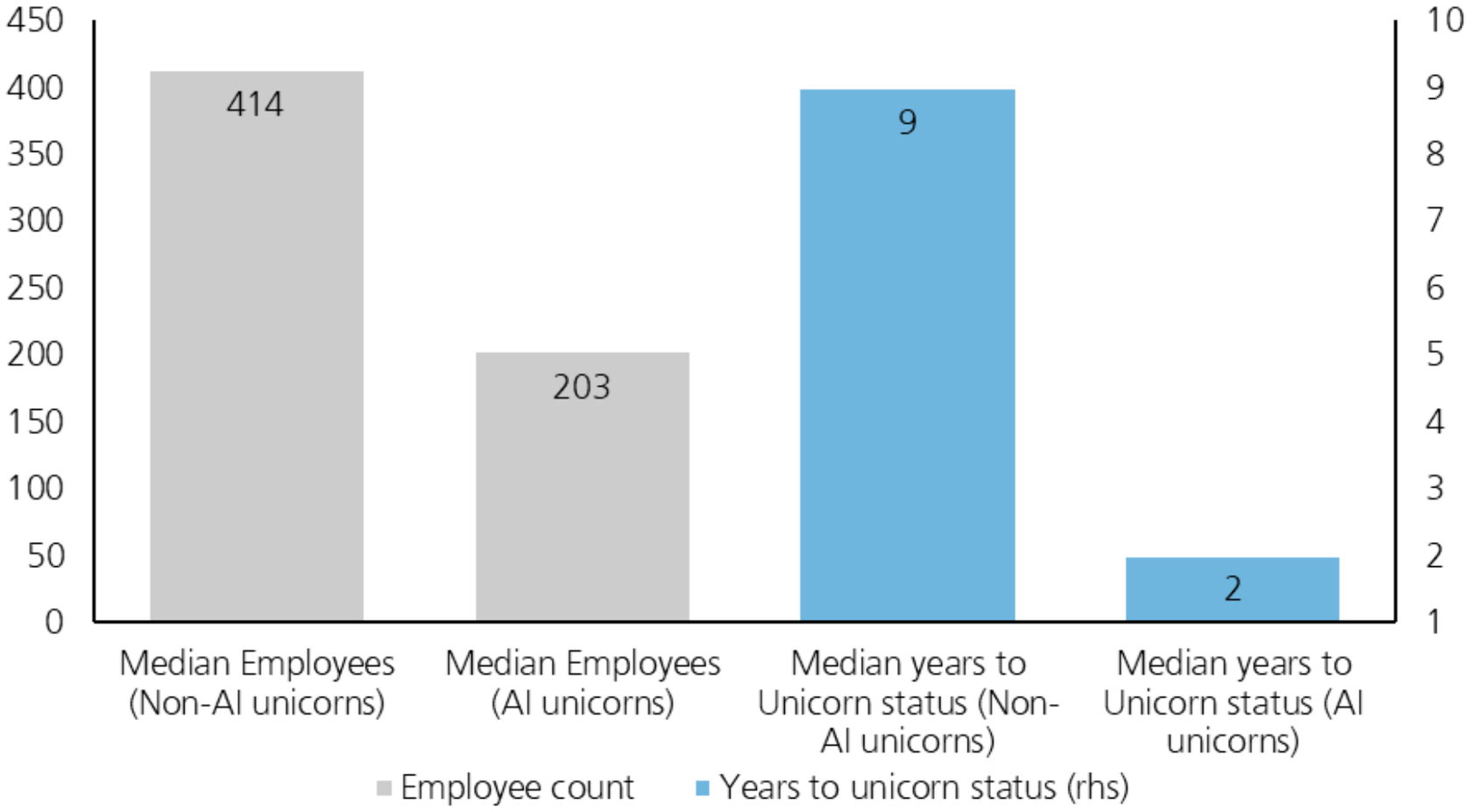
AI vs. non-AI unicorns



Source: CB Insights, UBS estimates as of December 2024

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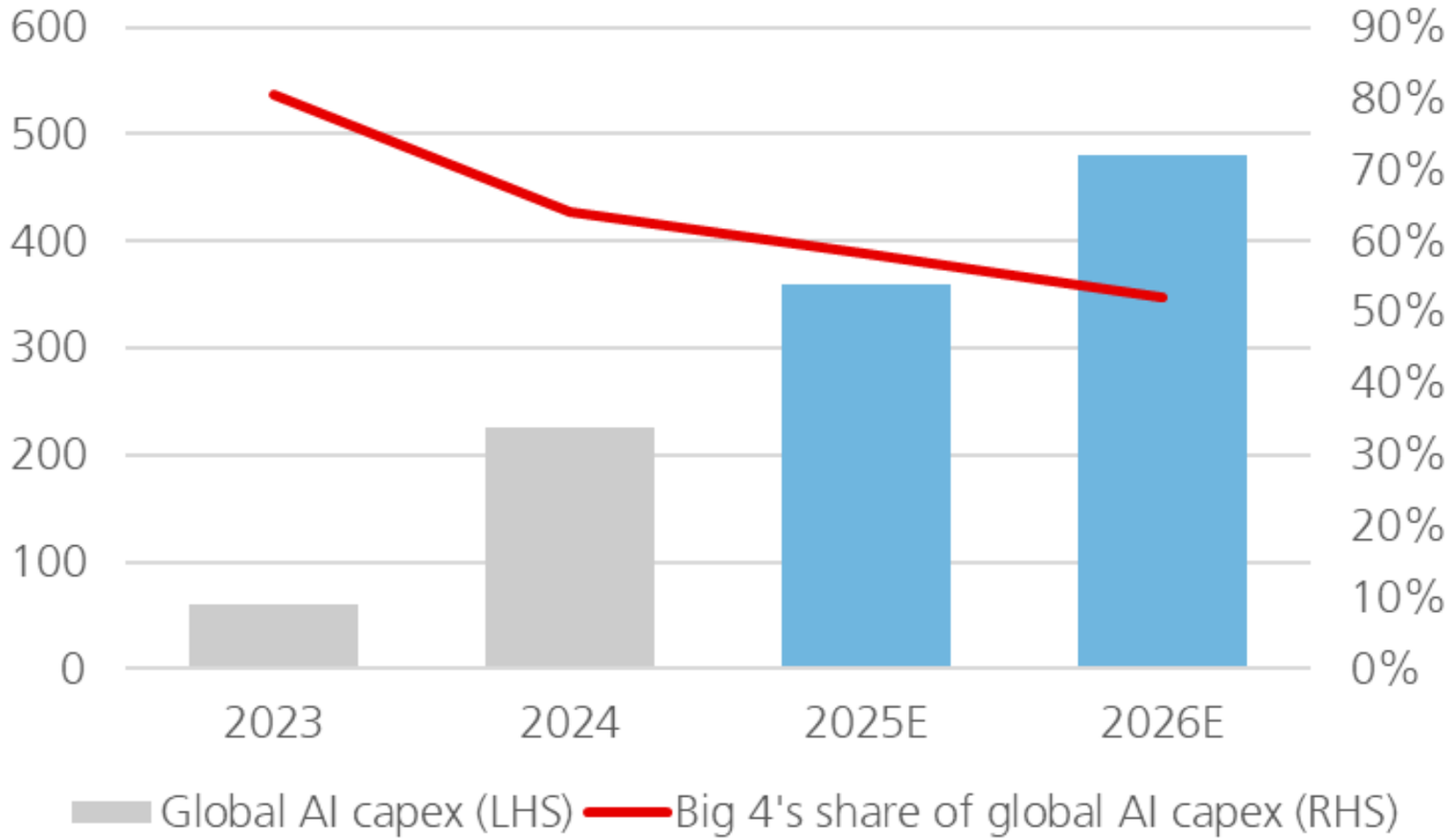
With broadening spend, strong AI capex growth should continue in 2025 and 2026

We expect global AI capex to grow by 60% in 2025 and 33% in 2026 (USD bn)



Source: Company reports, UBS estimates as of April 2025

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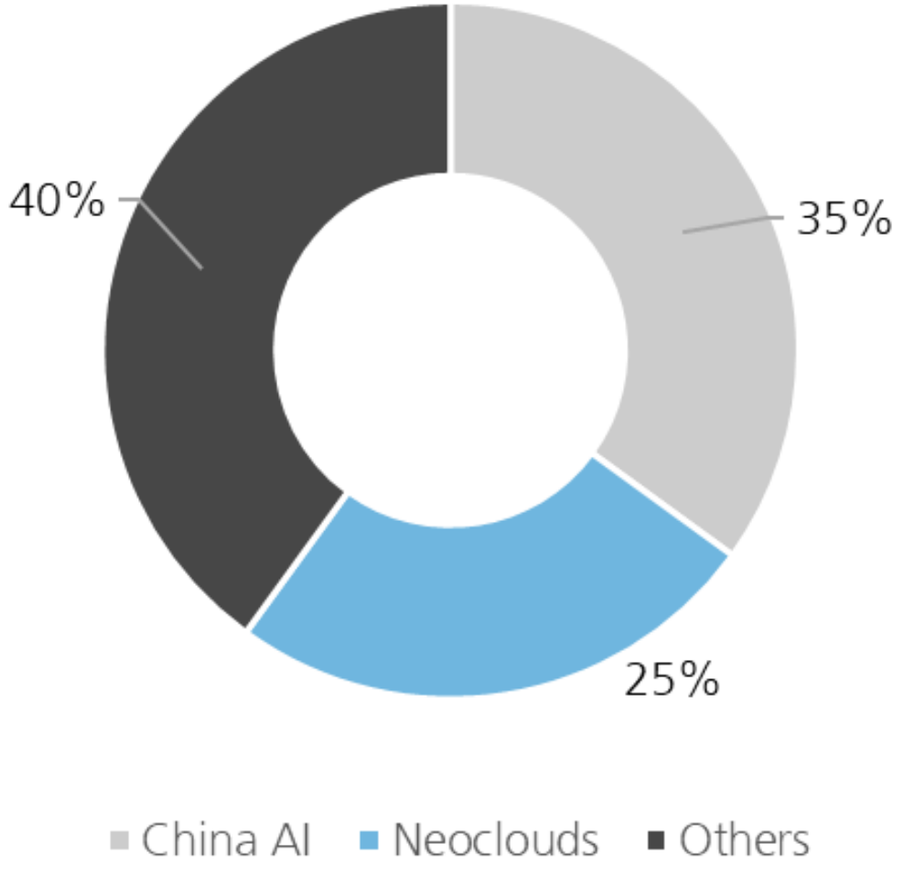
With 85% y/y growth, AI capex spend beyond Big 4 should reach solid USD 150bn in 2025

How is the USD 150bn AI capex beyond Big 4 spent in 2025?



Source: Company reports, UBS estimates as of April 2025

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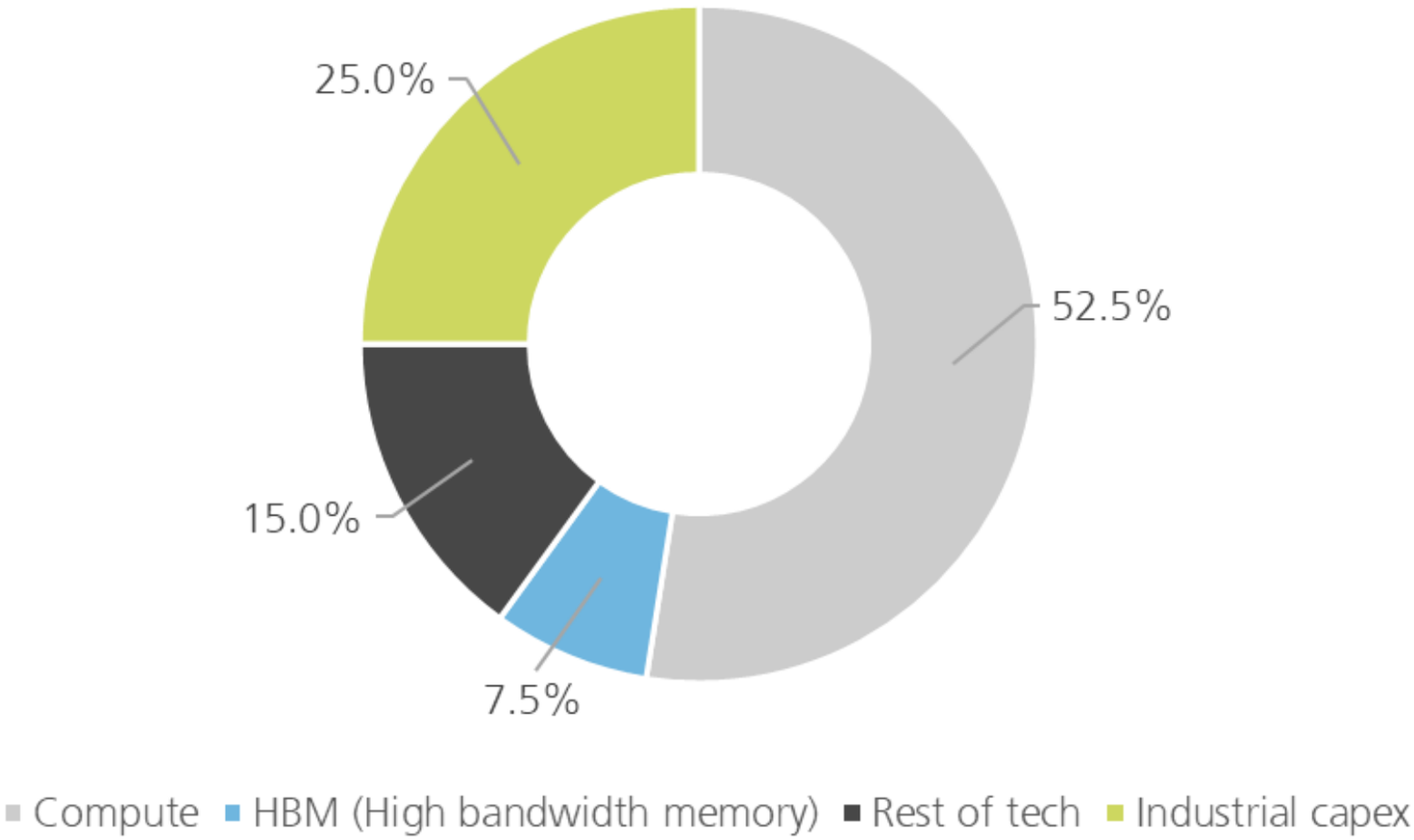
How is global AI capex spent by key segments?

2026E spending breakdown



Source: Company reports, UBS estimates as of April 2025

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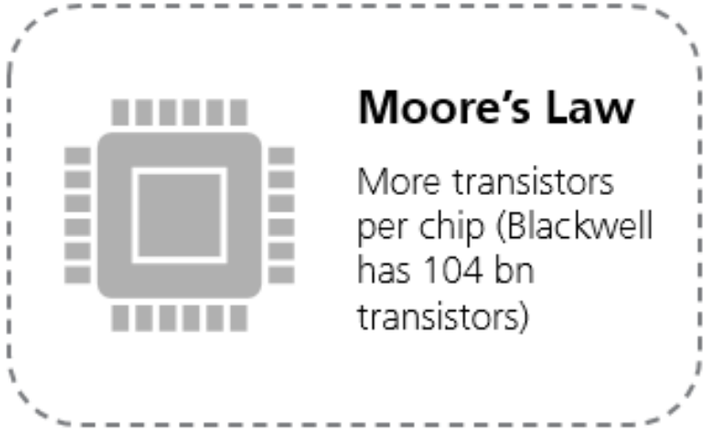
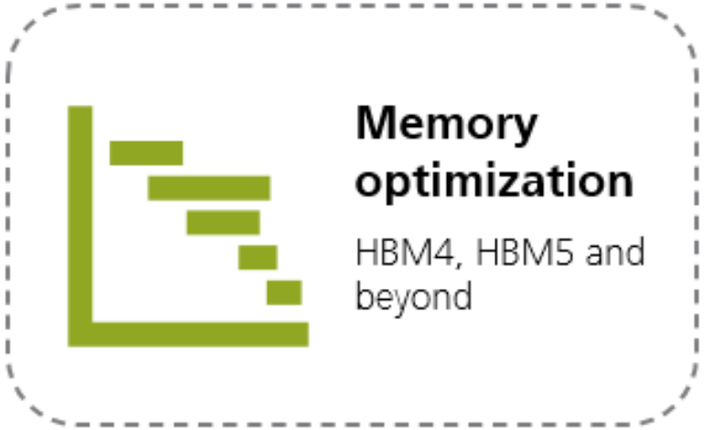
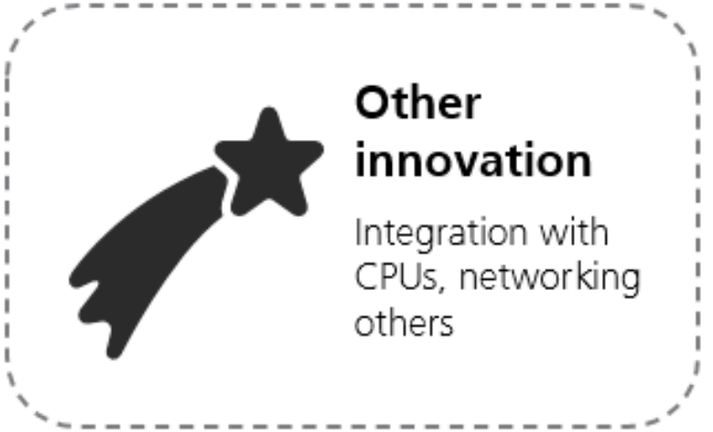
AI compute is in a sweet spot and should benefit from strong spending from both the US AI and China AI peers

Multiple ways how AI compute performance can be improved significantly over the next decade







Source: Company reports, UBS as of March 2025

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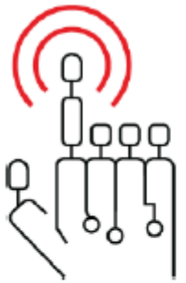
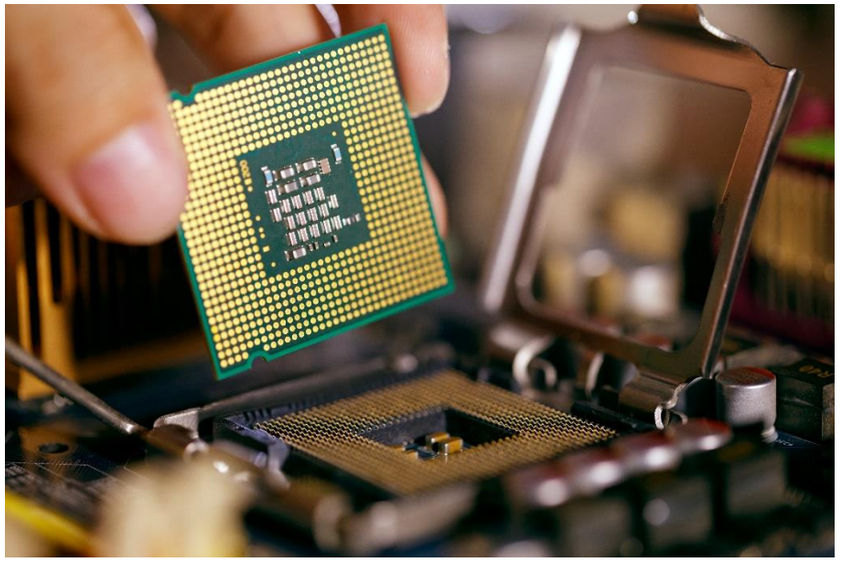
Section 2:

Near-term risks and opportunities



"Innovation distinguishes between a leader and a follower."

– Steve Jobs



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The good, the bad and the ugly from 1Q25 tech reporting season

The good: Manageable 3-5% EPS impact from tariff uncertainty. AI's long-term fundamentals intact with more signs of broadening AI spend and adoption trends

The bad: Mixed margin trends amid rising depreciation and supply chain relocations. We cut global tech's 2025 EPS from 16% to 12%

The ugly: Tariffs and geopolitics remain major near-term overhangs as volatility expected to stay elevated. Early cracks in cyclical and consumer segments.

Source: Company reports, UBS estimates as of 2025

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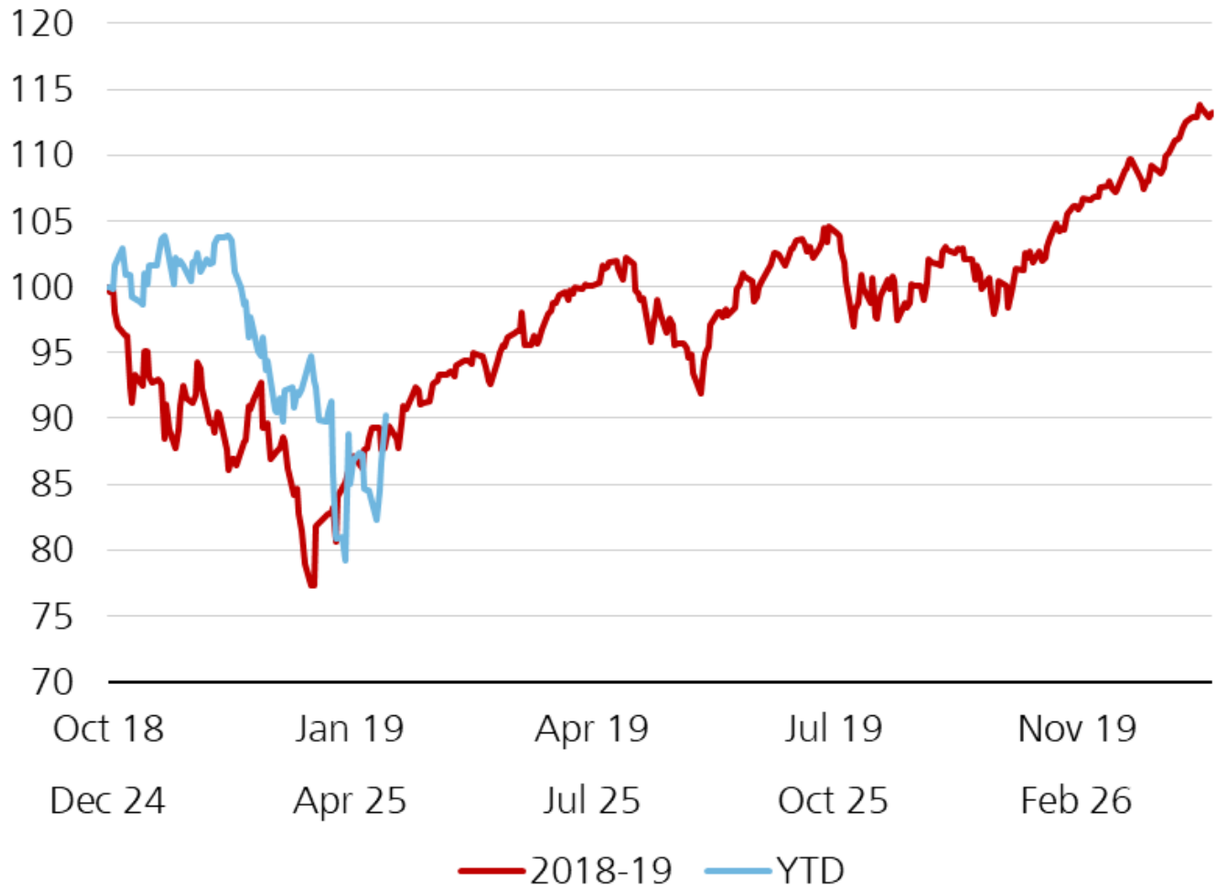
Striking similarities between today and 2018-19 tariff related correction

NASDAQ composite indexed to 100 at Oct 1, 2018 and Jan 1, 2025 respectively



Source: Company reports, UBS estimates as of 2025

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Manageable EPS impact based on recent tariff and geopolitical uncertainties

Sizing global tech earnings impact from latest tariffs

	Mainland China's share of US tech imports
PCs	80%
Smart devices	75%
Other hardware	20%
Servers	5%
Total	**50%**

Tech tariff scenarios	EPS Impact	Short-term market response	Comments
Manageable impact	3 - 5%	Sharp relief rally of >15%	PE multiples to re-rate due to manageable EPS impact
Tangible impact	10 - 15%	Trade in a -10% to +10% range	Uncertainty to stay but some support from valuations and buybacks
Significant impact	20 - 25%	Further downside of -10% to -20%	Negative EPS revisions and likely retaliation to drive another leg down

Source: Company reports, UBS estimates, as of April 2025

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How the initial reciprocal tariffs would have affected key tech products?

Tariff impact on US imports (Figures in USD)

Product	Assembly location	Retail price	Likely increase in cost	Increase in cost as a % of retail price
iPhone 16 Pro Max 256 GB	Mainland China	1199	350	29%
iPhone 16 Pro 128 GB	India	999	120	12%
Apple Watch Ultra 2	Vietnam	799	150	19%
Server	Taiwan	50000	13500	27%
AI server	Mexico, USMCA compliant	350000	Limited	Limited

Source: Company reports, UBS estimates as of April 2025

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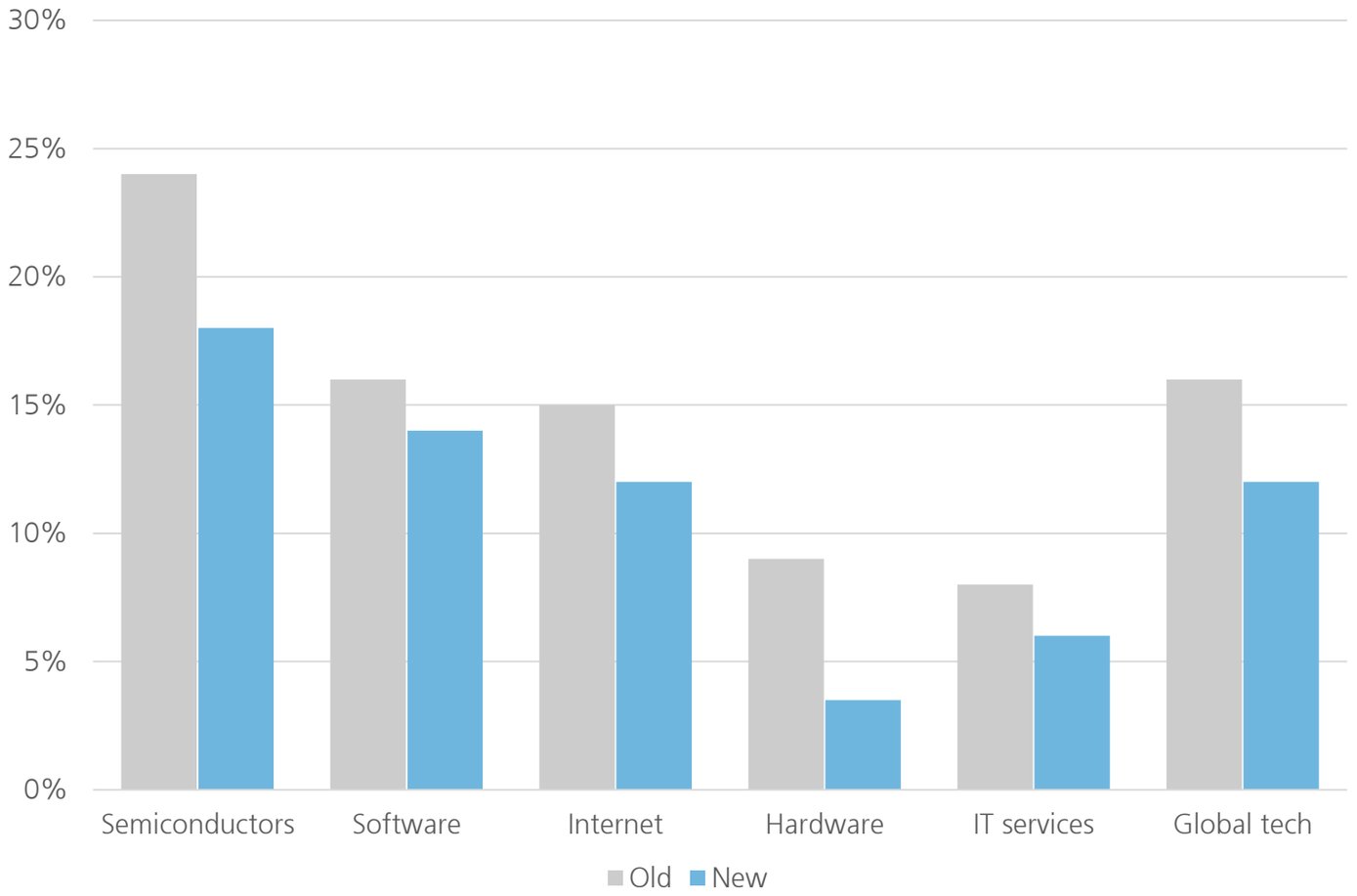
Global tech’s revised EPS growth is now at 12% for 2025



Source: Company reports, UBS estimates as of 2025
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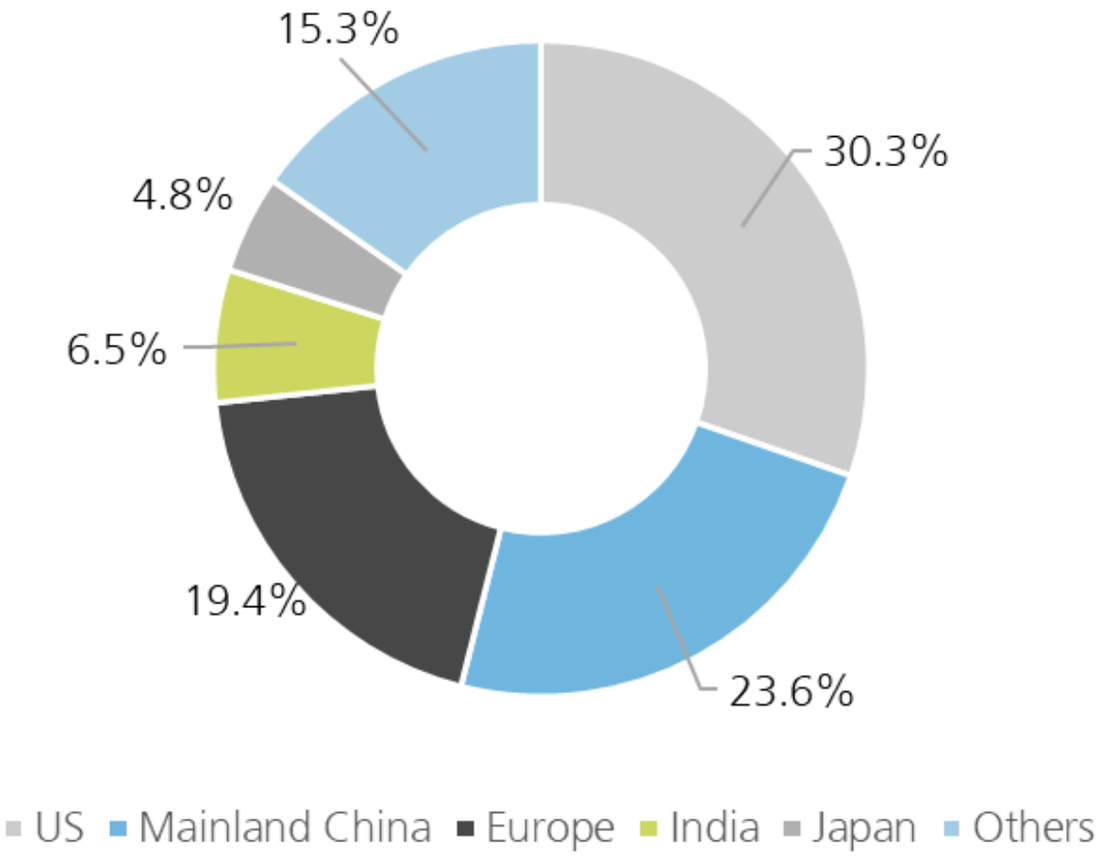
Supply chain relocations: Semiconductor end-demand by key regions in 2025

At 6.5% share, India is the fourth biggest market by end-demand



Source: Company reports, UBS estimates as of April 2025

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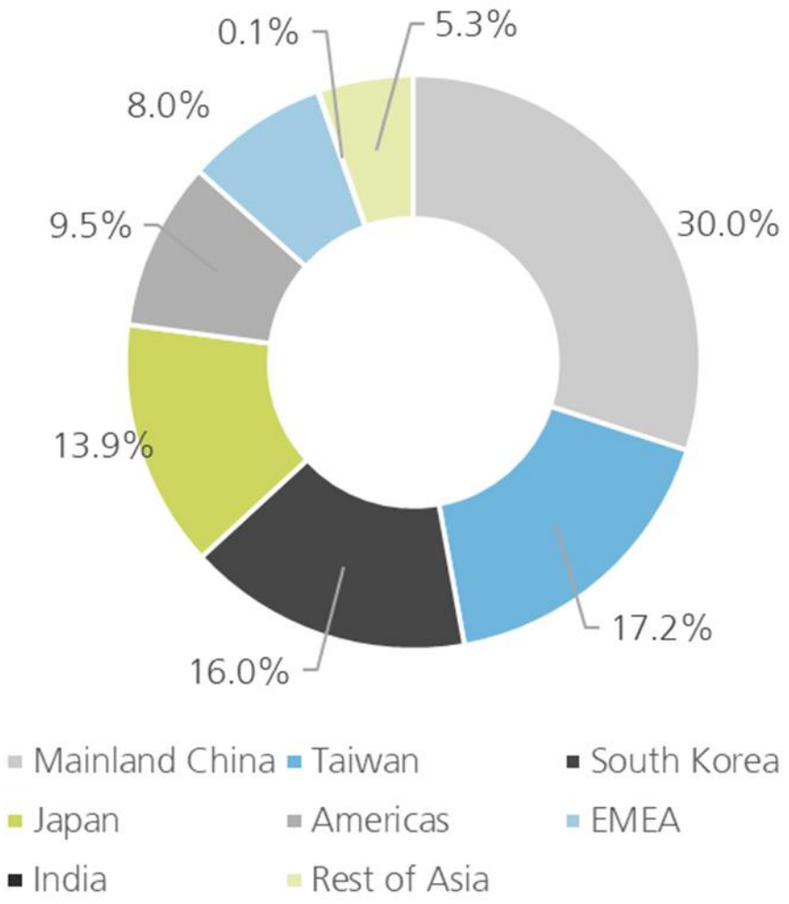
Supply chain relocations: Global chip manufacturing capacity by region

2025 share by region



Source: SEMI, UBS estimates as of April 2025

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AI regulations set to rise but expect more support in the US

More advanced regulations

China

- **What has been done so far?** Rules framed around security assessments, training data, transparency and alignment with national values
- **What can we expect in 2025?** More comprehensive regulations expected around applications, intellectual property protection and data usage

Europe

- **What has been done so far?** EU AI act passed addressing comprehensive issues around risk management and ethical usage
- **What can we expect in 2025?** Further refinement and global influence of AI regulations and strict implementation

US

- **What has been done so far?** Balancing act between regulations and innovation through executive orders, export controls and stage regulations
- **What can we expect in 2025?** More regulation under new administration but still promoting innovation. Expect federal level regulations & partnerships

Source: Morgan Stanley, Bloomberg Intelligence and UBS.
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AI diffusion regulations are key risks to monitor in the near-term

Proposed regulation effective from May 15, 2025

		Tier 1	Tier 2	Tier 3
	Regions	**Close allies and partners** United States, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Republic of Korea, Spain, Sweden,	**All regionss not in Tier 1 or Tier 3** Includes Singapore, India, Saudi Arabia, Malaysia, Switzerland, Philippines, Indonesia etc.	**Restricted regions** China (Including Hong Kong & Macau), Russia, North Korea, Iran, Belarus, Afghanistan, Cuba, Democratic Republic of Congo, Eritrea, Haiti, Iraq Lebanon, Lybia, Nicaragua, Somalia, South Sudan, Syria, Venezuela, Zimbabwe.
	Computing power authorizations (H100 equiv.)	Unrestricted Access	**Region authorizations** C2025-20027: 50,000* **Individual entities authorizations** C2025: 100,000 C2026: 270,000	No Access
	Other conditions	**US Entities** Minimum of 50% cumulative TPP in the United States **Other Tier 1 Entities** Minimum of 75% cumulative TPP in respective Tier 1 country	**US Entities** Minimum of 7% cumulative TPP per Tier 2 country **Other Tier 1 Entities** Minimum of 7% cumulative TPP per Tier 2 country	No Access

Source: BIS, UBS estimates as of 2025

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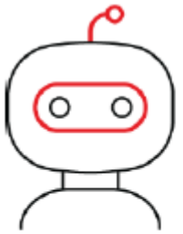
Section 3:

US AI vs China AI



"Be stubborn on vision, but flexible on details."

– Jeff Bezos

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Ranking global large language models on advanced benchmarking and costs

Top 10 models based on ARC AGI benchmark results

AI System	Organization	ARC-AGI-1	ARC-AGI-2	Cost/task
Human Panel	Human	98.00%	100.00%	$17.00
o3 (low)	OpenAI	75.70%	4.00%	$200.00
o1 (high)	OpenAI	32.00%	3.00%	$4.45
ARChitects	ARC Prize 2024	56.00%	2.50%	$0.200
o3-mini (medium)	OpenAI	29.10%	1.70%	$0.280
Icecuber	ARC Prize 2024	17.00%	1.60%	$0.130
o3-mini (high)	OpenAI	35.00%	1.50%	$0.410
Gemini 2.0 Flash	Google	N/A	1.30%	$0.004
o1 (medium)	OpenAI	31.00%	1.30%	$2.76
Deepseek R1	Deepseek	15.80%	1.30%	$0.080

Source: ARC-AGI, Company reports, UBS as of March 2025

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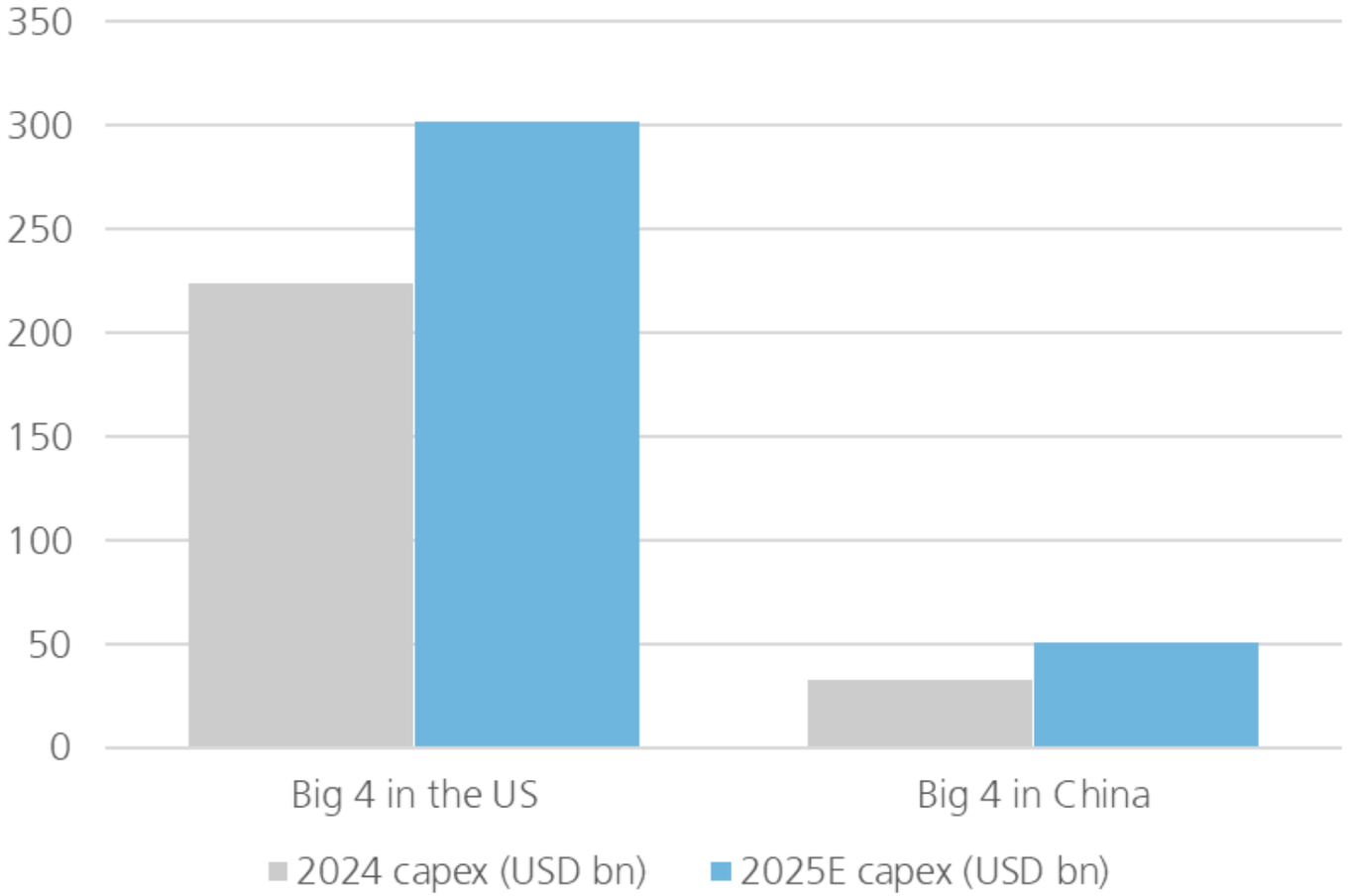
Big 4 in the US has a strong lead in large language models and compute thanks to solid capex spending trends

Big 4 companies in the US are still spending 5-6x more capex compared to their counterparts in China (Figures in USD bn)



Source: Company reports, UBS estimates as of March 2025

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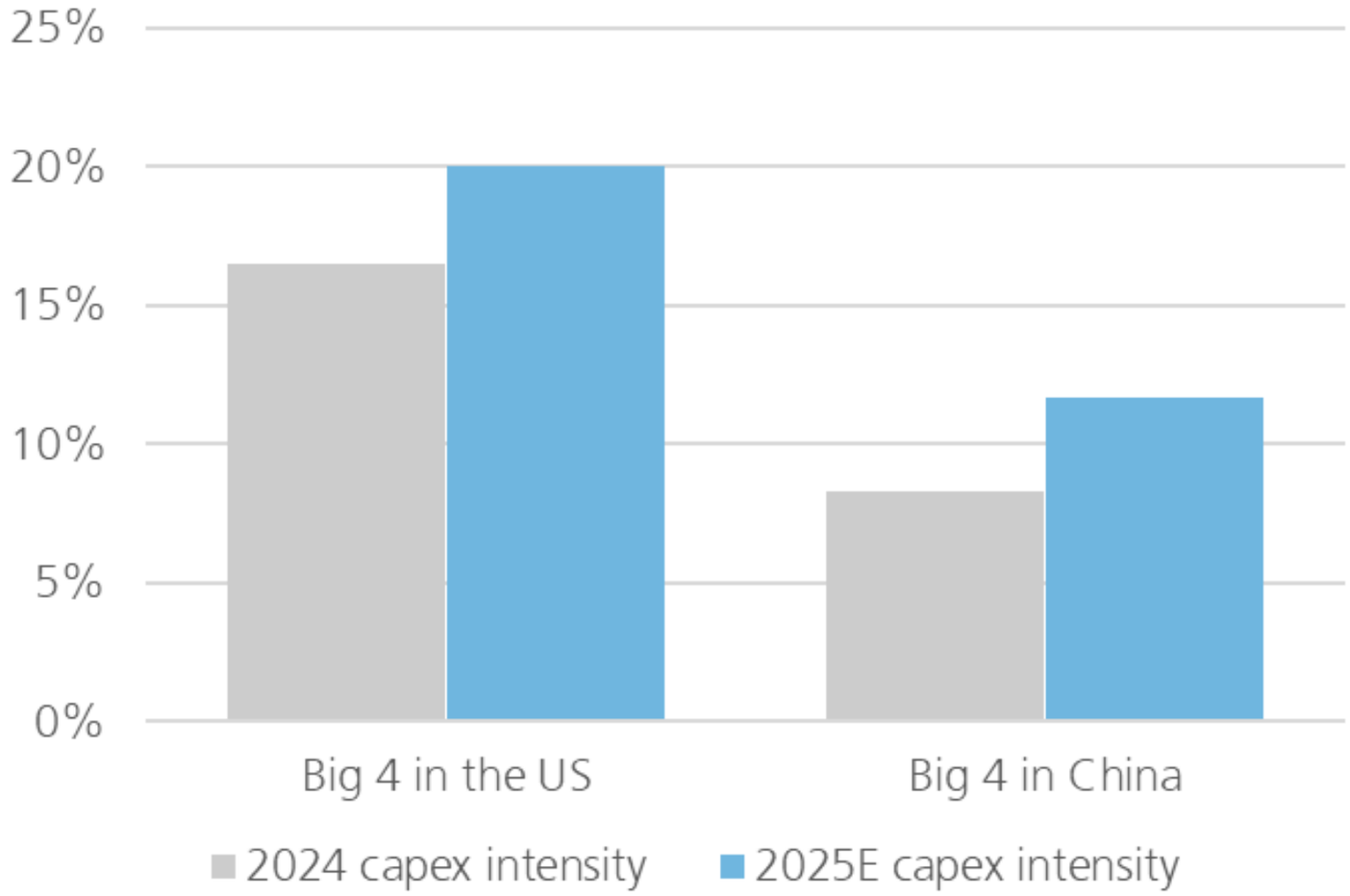
Thanks to strong AI spending, overall capex intensity is rising in both China and the US

Capex intensity defined as capex/revenues



Source: Company reports, UBS estimates as of March 2025

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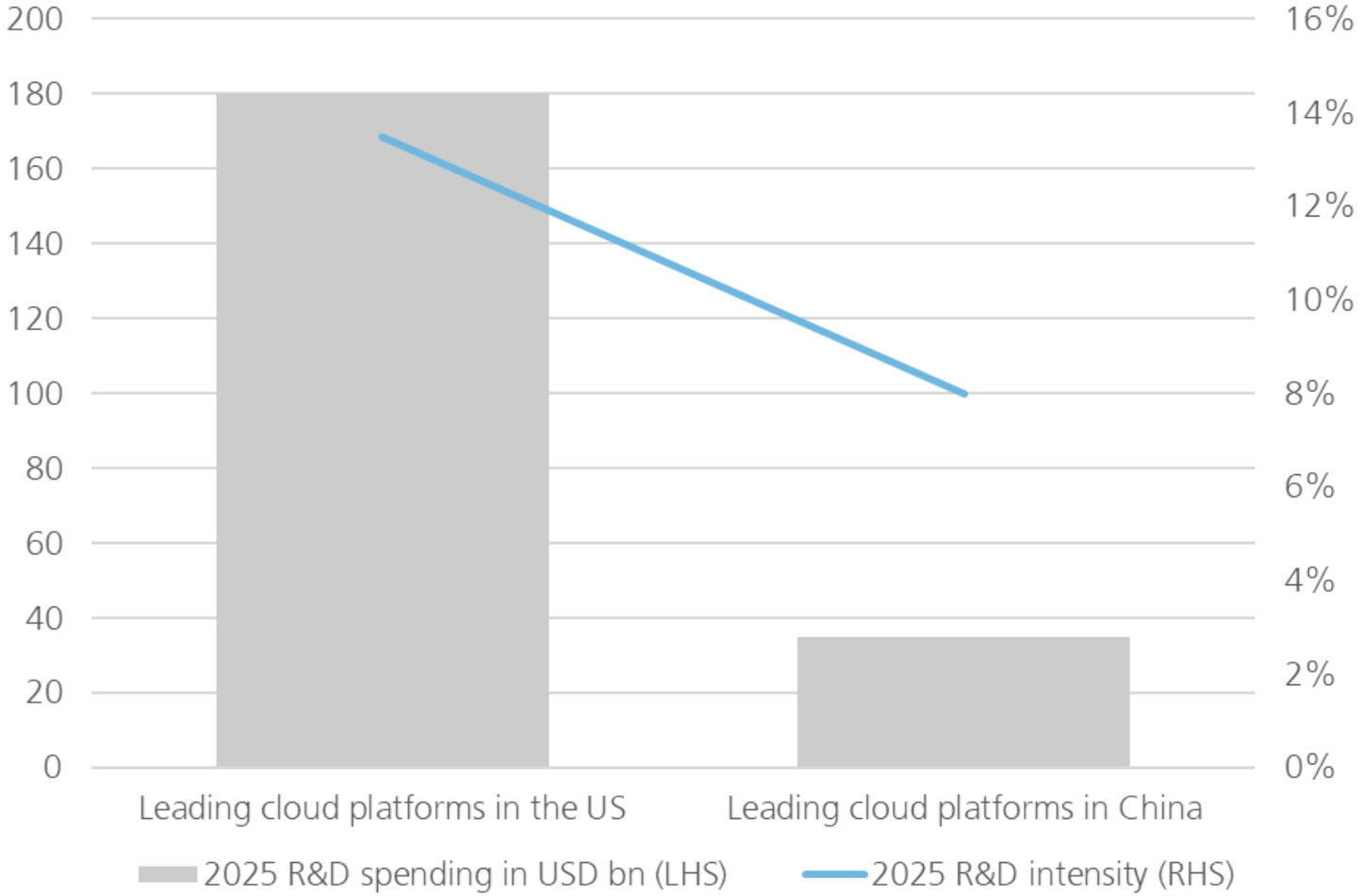
Strong R&D spend by leading cloud platforms in the US should support solid innovation pipeline

Comparing R&D metrics of the top three listed cloud platforms in the US and China



Source: Company reports, UBS estimates as of March 2025

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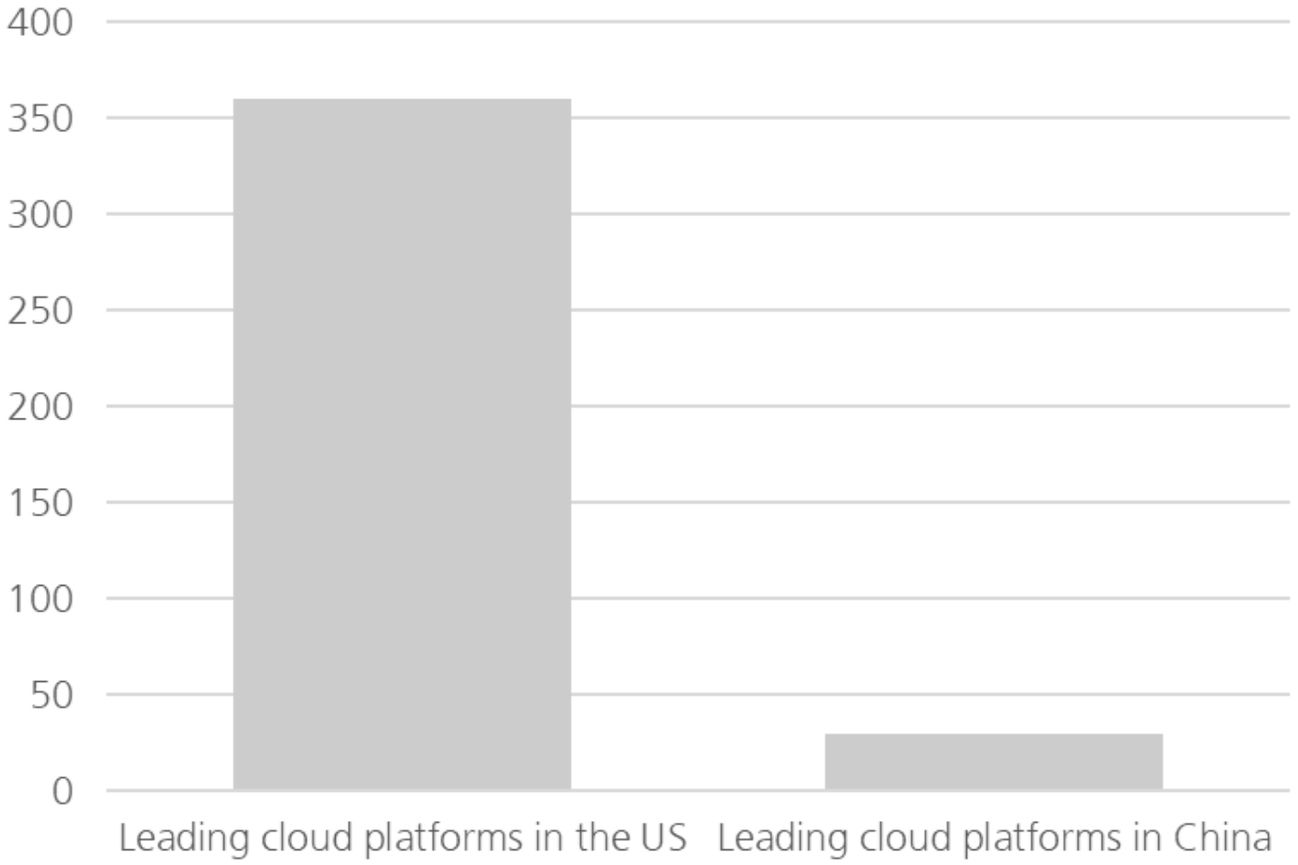
Better monetization and profitability for US tech given the enterprise push

The top three listed cloud platforms in the US should generate 12x cloud revenues despite spending only 6-8x on cloud/AI capex (Revenues in USD bn)



Source: Company reports, UBS estimates as of March 2025
Charts and scenarios are for illustrative purposes only. Historical performance and forecasts are no guarantee for future performance.
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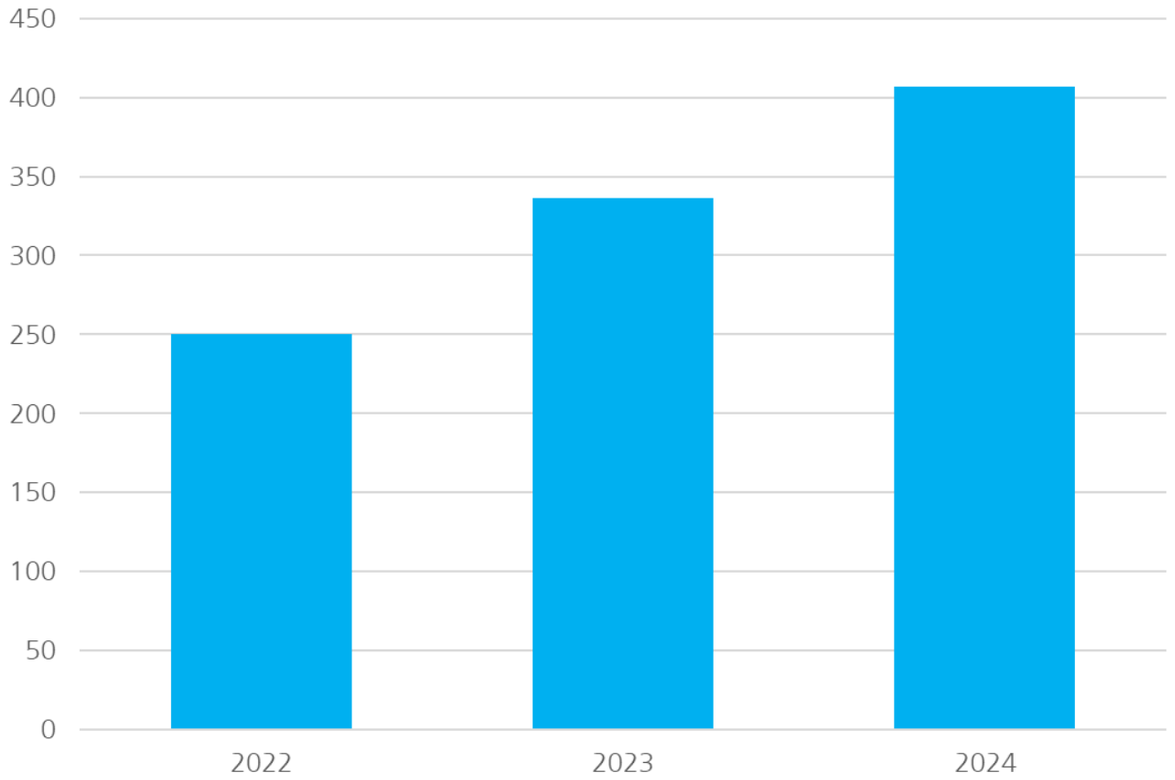
US big tech generated >USD 400bn free cash flows in 2024 after strong capex

Figures in USD bn



Source: Factset, UBS, as of 2025

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Section 4:

How to invest in AI and summary?

"People who are crazy enough to think they can change the world are the ones who do."

– Steve Jobs

UBS

The AI opportunity: Diversified opportunities in both public & private markets

We have higher exposure in the enabling layer during the initial stages

Enabling layer	Intelligence layer	Application layer
AI data centers		
Infrastructure GPUs, memory, interconnects, SSD, other data center capex	**LLMs** Text, image, and video	**Applications** Co-pilot, assistants, marketing, customer service, R&D
Cloud Public and private cloud solutions		
50-60%	15-20%	25-30%
Enabling	Intelligence	Application

Source: UBS estimates, as of 2024

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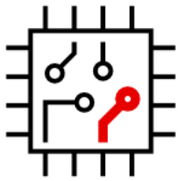
Private markets offer interesting AI opportunities across layers and strategies

How to position in AI through multiple segments in private markets

By layer

Enabling layer

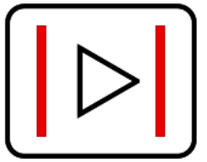


- Data centers
- Utilities and industrials
- Other infrastructure

Intelligence layer

- Large language models (LLM)
- Big data
- Other intelligence & security

Application layer



- Software platforms
- Healthtech and fintech
- Other platforms

By strategy

Real assets

- Focus on digital infrastructure incl. data centers
- Adjacent areas incl. electricity generation
- Core+ returns of 10-15% IRR

Venture capital

- Focus on breakthrough innovation
- Ranges across pre-Seed to pre-IPO
- Venture returns of >20% IRR

Private equity

- Focus on asset-light business models
- Fast-growing companies with product-market fit and/or mature companies
- Growth/buyout returns of 15-20% IRR

Source: UBS

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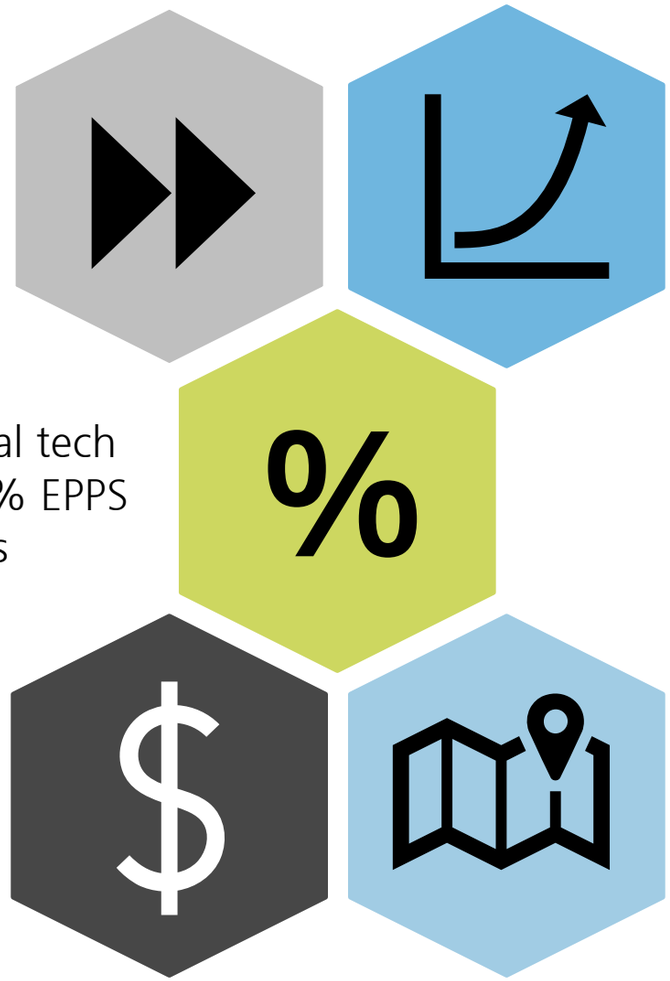
Five key takeaways for AI in 2025

Strong **capex spending** so far has been positive for **AI semiconductors** while potentially improving monetization should favor **software and internet**.

Expect **12% EPS growth** for global tech in 2025 as we see manageable 3-5% EPPS impact from tariffs/geopolitics

Amidst near-term uncertainties, take advantage of potential volatility spikes in 2025 through **structured strategies.** Also consider **private markets**



DeepSeek and low-cost models are manageable risks as the market is **big enough** for everyone to grow. Diversify into China tech to gain exposure to low-cost models

More AI regulations, macro and tariffs are other risks to consider. **Excessive corrections** however **is a buying opportunity** in our view

Source: UBS

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Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, “junk bonds,” derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer’s “home” currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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