

Artificial Intelligence (AI)

Asset Impact

Positive

Buildout phase of the most promising space: Realizing AI potential, one chip at a time

Expectations surrounding AI have fueled the markets with optimism and enthusiasm, sending numerous renowned tech names to unprecedented heights. Beyond stock returns, AI is projected to catalyze a 14% surge in global GDP by 2030, equivalent to a staggering increase of USD15.7 trillion. This projected economic impact is underpinned by productivity improvements due to automation, workforce augmentation, and increased consumption from more personalized or AI-enhanced products and services. However, this envisioned future could come to fruition once AI adoption enters its final phase, characterized by widespread proliferation across economies and industries.

Stepping back from the pictured end state to the current landscape, the markets appear to be gravitated towards the beneficiaries of the early stage cycle or buildout phase, prominent among them being semiconductor manufacturers (Figure 1). Perhaps this is due to the perceived status of the AI space, where the enablers or companies that produce essential components for infrastructures and data centers, like NVIDIA, are anticipated to reap substantial profits. Subsequently, the surge of interest in and use of generative AI, exemplified by ChatGPT which took the world by storm upon its release in late 2022, led to a higher demand for computational power and, consequently, a robust demand for semiconductors. Accordingly, this tailwind has led to an upbeat sentiment for the semiconductor industry (Figure 2).

Zooming in on the adopters, a poll completed in mid-April 2023 found that while AI is still in its early days, the usage of generative AI is already widespread. One in three respondents noted that their organization has regularly leveraged the capability in at least one function. Concurrently, mentions of AI during earnings briefings have soared in the U.S. and Europe. But broadly speaking, AI adoption gains are yet to be seen (Figure 3). As such, traction seems to remain in favor of enablers. This, however, presents opportunities for discerning investors to position in companies with high likelihood of finding success in integrating AI in their processes, and ultimately generate meaningful gains.

Figure 1: Semiconductors outperforming the S&P 500



Figure 2: Semiconductor Market Value Projection, in USD billion (approx. based on 48 listed companies)

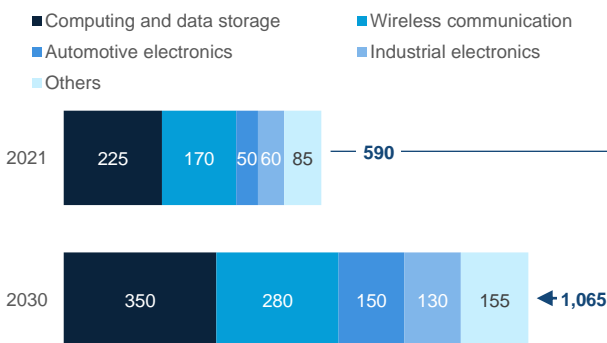
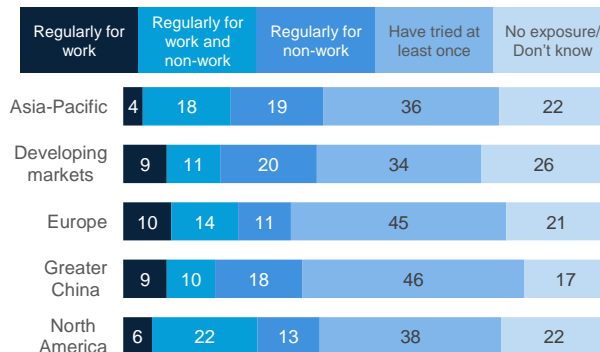


Figure 3: Exposure to generative AI, % of respondents



Sources: PwC, Bloomberg, Goldman Sachs, McKinsey & Company, iShares, BlackRock, New York Stock Exchange, Semiconductor Industry Association

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