Investment spotlight

Investing in tomorrow today

August 2024

Can AI continue to power technology stocks?

The world's biggest global technology stocks (known as the Magnificent Seven) performed very strongly over the past year – they were up almost 44% over the year to 30 June 2024 – generating a good deal of hype and delivering extraordinary returns to investors.

Their performance was so strong that they contributed significantly to the performance of US and global equity markets. The US share market (S&P500) rose almost 23%, for the year to 30 June 2024, but without the Magnificent Seven, the returns would have been a still strong, but less magnificent 14%.

Named for their strong performance and influence in the technology sector, and with a nod to the 1960 film of the same name, the Magnificent Seven are **Microsoft, Amazon, Apple, Meta, Nvidia, Alphabet & Tesla**.

Why your super is invested in tech and AI

At Aware, when we invest in shares, we aim to identify companies we think will grow and outperform the market over the long term. Many of the technology stocks we're invested in and that we've seen perform so well fall into this category.

The technology enablers, or in other words, those bringing AI to everyone, have benefitted most, and it's these we have invested most in. The so-called Magnificent Seven, but also companies like Samsung and TSMC which produce semiconductors, as well as those which design hardware - and the infrastructure companies helping to scale data centre and cloud capacity.

Top 5 international shareholdings at 30 June 2024

1. Microsoft
2. Apple
3. Nvidia
4. Amazon
5. Meta

The rise and rise of technology

How ChatGPT changed the game

Technology companies like Microsoft, Apple, Amazon, and Alphabet have been among our largest international shareholdings for over five years – and as they've grown our members have participated in their success. So, as long-term investors in the sector, why such intense focus on technology over the past 18 months, and what's driven the surge in value and returns? After all, evolution in technology is nothing new.

The simple answer is the release of OpenAI's ChatGPT in 2022. ChatGPT's ability to give intelligent, adaptable responses using conversational language made it different and better than anything that had gone before, as did the fact that it's free made it accessible to everyone.

ChatGPT supercharged the AI revolution – and the big tech companies exposed to and necessary for the development of AI benefited enormously.

That's not to say big tech had not been involved in the development of AI before ChatGPT – they had. Microsoft had invested $1billion in OpenAI before it launched ChatGPT, and since then all the big tech companies have jumped on board the AI train.

To-date through its partnership with OpenAI, Microsoft alone has invested over $13 billion to support AI innovation. And Nvidia, little known outside tech circles until two years ago, briefly leapfrogged Apple and Microsoft as the world's most valuable company this year. Why? Because it sells the graphics processing units (GPUs) and software crucial to training and running the AI algorithms developed by the other big tech companies.

Having said that, since the end of the financial year, Nvidia's valuation has come back a bit from its highs as issues like potential supply constraints and the increasingly competitive landscape prompt investors to look carefully assessing earnings forecasts.

> ChatGPT was trained using 10,000 of Nvidia's GPUs clustered together in a supercomputer belonging to Microsoft. It still dominates the GPU market for machine learning – supplying the majority of the biggest buyers - other tech companies like Amazon, Meta, and Google - which need the chips to build and train their own AI models.

AI is now immersed in our daily lives more than ever and becoming more so – and it's this change which has caused the excitement and seen the big tech stocks which enable AI reap the rewards.

> AI is now embedded in our daily lives in ways we don't even notice. It's not just how ChatGPT helps craft clever content, it's apps like Uber and FaceID and the social media algorithms which personalise content on platforms like Facebook and Instagram.

Members in our diversified options are exposed to the technology sector through our international share portfolio, but also through direct investments made by our infrastructure and private equity teams.

This includes companies like Switch, a US-based leader in the design, construction and operation of the data centres needed to meet demand for data driven by AI, the internet and cloud-based streaming and gaming services.

Switch data centres

And in our private equity sector through Canva we're invested in AI startup **Leonardo.AI**. Founded in December 2022, Leonardo.AI began life leveraging generative AI to produce hyper-realistic images for the gaming industry. It's grown rapidly and expanded into sectors outside of gaming – it was used by companies in fields as diverse as film and entertainment, architecture and interior design to produce over 2 billion images in the last 18 months alone.

AI startup Leonardo.AI

Positioned for the future

If you're old enough to remember the dot.com bubble in the late 1990s, when companies involved in another technological revolution, the internet, went on a similar rise, only to crash spectacularly in the early 2000s, the big question is whether the Magnificent 7 and technology stocks generally could be heading the same way?

The answer is that we think the situation now is different – and remain confident about the long-term strength of many of these companies. For example, many of the companies in the dot.com bubble had unsustainable business models and had never turned a profit.

The large tech stocks we are invested in have healthy cash flows, strong profit margins, and future-focused strategies. But it's not only this. We expect that advances in AI will continue to play a pivotal role in their growth as they leverage the very technology which has driven their success to-date. We believe that AI-driven efficiencies and further breakthroughs in the uses and sophistication of AI mean revenue streams and long-term earnings per share growth are likely to continue to be positive.

Super is a long-term investment, and big market trends, like technology and digitisation, can present both opportunities to invest, but we are also mindful of potential risks we may need to manage. We continue to invest and actively manage a well-diversified portfolio across different sectors and asset types to help grow your savings for the future.

We're here to help

1300 650 873

aware.com.au/contact