AI & Metaverse strategy

Tech Giants to Invest over $300 Billion in Capital Expenditures in 2025

- A month marked by volatility and uncertainty despite encouraging earnings season
- Gains from Spotify and Alibaba were offset by gaming and semiconductor companies
- Exited positions in luxury and telecom tower companies and added four key AI players

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What's happening?

Global equity markets declined during February, with the MSCI ACWI returning -0.6% [1]. The month was marked by a volatile environment for global markets amid escalating geopolitical tensions and uncertainty surrounding trade policies. The potential introduction of tariffs by the US government on key trading partners, along with rising inflation concerns, weighed on investors' sentiment.

Technology stocks faced particular weakness as investors rotated toward defensive sectors, as well as a rotation out of growth stocks into value. Regional performance varied significantly, with European indices showing resilience while US and Asian markets experiencing sharper declines. Commodity markets also reflected the uncertain outlook, with gold reaching new record highs.

Portfolio positioning and performance

The AI & Metaverse strategy underperformed the MSCI All Country World Index during the month. However it is worth noting that fundamentals remain strong, as evidenced by an encouraging earnings season. At the time of writing (04/03/2025), the majority of the portfolio have reported their Q4 earnings and it has been a strong period for the strategy with 85%[2] of the holdings beating earnings expectations compared to 60% for the broader market as measured by the MSCI ACWI Index.

The 'Applications' subtheme contributed to performance. Spotify, a leading music and podcast streaming platform, performed well over the months after reporting strong results. The company is actively leveraging artificial intelligence to enhance its recommendation engine, create personalised AI-generated playlists, and improve user engagement through features like podcast comments, thereby establishing a tangible competitive advantage in the industry. German industrial company Siemens also performed well after reporting solid results, highlighting in particular that demand from their datacentre customers was strong. This strong performance was offset by weakness from online gaming and social platform Roblox, mainly

[1] Source: Bloomberg as of 28/02/2025, in USD
[2] Source : Bloomberg as of 04/03/2025
[3] Microsoft Fiscal Year 2025 Second Quarter Earnings Conference Call – 29/01/2025
[4] Source: Bloomberg as of 24/02/2025

due to lower-than-expected daily active users, primarily impacted by tough year-on-year comparisons despite solid monetisation and engagement trends.

The 'Enablers' subtheme detracted most to performance. Chinese ecommerce platform and cloud service provider Alibaba performed strongly as investor sentiment was boosted by the announcement of a substantial three-year capital expenditure commitment of at least Rmb380 billion (US$53 billion) to enhance its cloud computing and AI infrastructure, reinforcing management's optimistic outlook on the growth potential of these sectors. However, this was more than offset by weakness from Marvell Technology, a semiconductor company that provides data infrastructure and connectivity solutions, due to concerns about potential design losses and shifts in market share. Alphabet, the parent company of Google, reported higher than expected capital expenditure outlook which raised concerns about near term free cash flow compression and margin dilution. Finally US software company focused on semiconductor design Cadence Design Systems gave guidance for 2025 which was below expectations.

During the month, we exited our positions in luxury company LVMH and American Tower, for both companies trends continue to be weak and we are seeing better opportunities to deploy elsewhere.

We initiated positions in Applovin, Cloudflare, Jfrog and Palantir, all key players in the AI ecosystem. Applovin operates a sophisticated mobile advertising platform that reaches over 1 billion daily active users through mobile games and is expanding beyond gaming into e-commerce. The company is leveraging AI to develop personalised advertising at scale. Cloudflare provides a global platform that enables running AI applications in a fast and cost efficient way, with users only paying for actual AI processing time. Jfrog provides an enterprise platform for managing and securing software packages throughout the development lifecycle. Palantir is an enterprise software company that has developed a specialised system allowing organisations to effectively deploy AI within their existing enterprise infrastructure.

Within the semiconductor space, we added German semiconductor company Infineon to the portfolio, as well as Arm Holdings. Infineon reported solid results and raised its outlook for 2025 driven by strong demand for its power solutions for AI servers. Arm Holdings designs the architectures for chips that power 99% of the world's smartphones and are increasingly key for running AI applications. The company collects royalties when customers use their designs and royalties are higher for advanced AI chips, creating a powerful model as AI adoption grows.

Outlook

The AI and Metaverse landscape continues to evolve rapidly, with recent developments highlighting the breakneck pace of innovation, intense competition and global strategic significance of AI. Structurally, we believe the stock market gains from AI will broaden out over time from the companies involved in the infrastructure build-out as the deployment of downstream AI applications picks up. We view AI as a general purpose technology with applications and value creation that will be realised across most of the economy. DeepSeek will help to accelerate this process by contributing to the rapidly falling costs and commensurate rising returns on investment (ROI) for AI. As Satya Nadella, Microsoft CEO, noted in the company's earnings call post-the DeepSeek shock "We have typically seen more than 2x price performance gain for every hardware generation and more than 10x for every model generation due to software optimizations" [3].

Recent studies indicate that adoption of generative AI continues to accelerate, with implementation timelines shortening and return on investment metrics exceeding initial expectations. This trend supports our view that we are still in the early stages of AI deployment across industries with, in our view, significant growth potential ahead. Moreover, the large technology companies building AI capabilities and investing in infrastructure are currently increasing capex plans, with expectations to exceed $300 billion, as guided by mega cap technology firms [4]. The strategy maintains a balanced exposure to both enabling technologies and innovative applications, with a continued focus on companies demonstrating clear competitive advantages and tangible AI-driven growth opportunities.

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No assurance can be given that the AI & Metaverse strategy will be successful. Investors can lose some or all of their capital invested. The Metaverse is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG; Investment through the Stock Connect program.

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