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Signal over noise #13: Know your AI exposure: "AI is tech, tech is not AI"

Global equity strategy

Authors: Ulrike Hoffmann-Burchardi, Chief Investment Officer Americas and Global Head of Equities, UBS Financial Services Inc. (UBS FS); Nikolaos Fostieris, Global Equity Strategist, UBS Switzerland AG

- Many investors still rely on traditional sector-based allocation, seeking AI exposure through indices like the Nasdaq-100 or US IT. This approach leaves significant alpha untapped by overlooking the key differentiator—to what extent a company can leverage AI for higher revenue and lower cost.
- AI is tech: AI is an algorithm, software, and technology itself, set to drive unprecedented productivity gains by automating tasks, enhancing software capabilities, and making digital products inherently intelligent and more efficient, fundamentally redefining the value of existing technology solutions.
- Tech is not (all) AI: However, tech-heavy indices fall short of capturing the full spectrum of AI beneficiaries, as meaningful AI value creation also occurs in non-IT sectors.

We believe equity portfolios should be built around the true drivers of returns and sources of alpha. In the current AI cycle this means a firm's capability to adopt, productize, and scale AI in its products and processes. Companies with credible AI capabilities, ranging from model development and orchestration to workflow integration and data advantage are gaining share and enhancing margins irrespective of their GICS sector label. Looking through a capability lens helps distinguish leaders and laggards within the same industry, offering a crisper view of forward earnings power than sectors or styles alone.

Incorporating AI as a differentiating factor in the search for alpha is not always straightforward and requires dynamically evaluating the AI landscape.

While AI is tech, tech is not AI.

AI is tech

AI is, at its core, a technological construct, a sophisticated algorithm designed to process data and transform inputs into outputs through computation. While highly complex and capable, AI is fundamentally software: LLMs are trained on vast datasets to recognize patterns, understand context, and generate meaningful responses. At its foundation, AI consists of mathematical operations executed through layers of computation, ultimately producing actionable insights. This underscores the inherent simplicity of AI as a data manipulation tool, even as its applications become increasingly transformative.

The transformer architecture, central to modern AI, exemplifies this process. Transformers work by breaking down data into smaller tokens and processing them in parallel across multiple layers, using attention mechanisms to identify relationships and context. This approach enables transformers to generate coherent outputs efficiently and at scale, making them well-suited for handling massive datasets and complex tasks.

However, AI is not just software, it is software that depends on specialized hardware, memory, and network infrastructure. Training and running large-scale AI models, especially transformers, require immense computational resources. GPUs and accelerators like TPUs are essential for these workloads, as they are optimized for parallel processing and matrix operations, the backbone of AI computations. High-capacity memory is critical for storing and accessing the vast amounts of data and model parameters during training and inference, while fast network connections enable distributed computing and seamless data flow across systems.

This symbiotic relationship between advanced software, high-performance hardware, robust memory, and efficient networking highlights the need to invest in the entire technology stack to fully realize AI's potential.

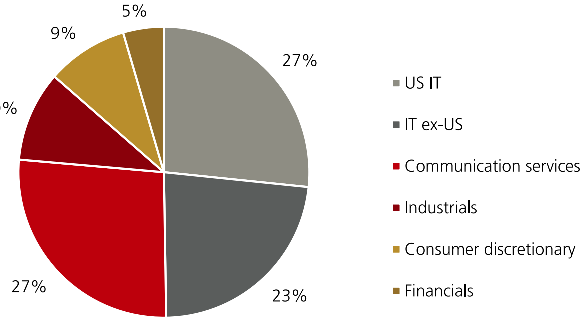
US tech is not AI

On the other hand though, investing in the broad US technology sector is not equivalent to investing in AI. It does not provide full exposure to AI beneficiaries, as AI extends far beyond US technology companies.

Our analysis shows that only a portion of investable AI value creation resides in US information technology, with US tech currently representing only 27% of our AI list (see Figure 1). The remainder is distributed across non-US markets and non-IT sectors that are embedding AI in economically meaningful ways: hyperscale platforms in communication services and e-commerce (such as Google, Meta, and Amazon) or financial and industrial companies deploying AI for decision support and workflow automation. A US tech-only approach risks missing entire pockets of value creation and may introduce unintended concentration and factor tilts.

Figure 1 - US IT makes up a quarter of the UBS AI list

Sector breakdown of the UBS AI list



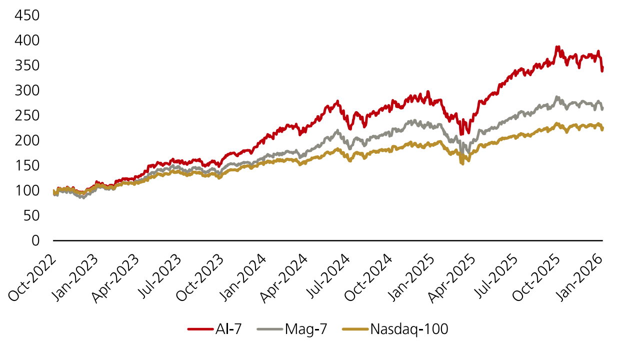
Source: Refinitiv, UBS, as of 9 Feb 2026

Meanwhile, because of this sectoral mismatch that many investors often disregard, performance between core-AI positioning and proxy-AI positioning is diverging and the gap keeps widening.

Since the launch of ChatGPT in late 2022, market performance has increasingly discriminated between companies with clear AI revenue capture and those that merely sit near the narrative. Baskets focused on core AI, such as the AI-7, have in aggregate outperformed broader technology proxies, including the Mag-7 and Nasdaq-100 (see Figure 2).

Figure 2 - AI-7 stocks have significantly outperformed both the Mag-7 and the Nasdaq-100

Performance for the AI-7, Mag-7, Nasdaq-100. Indexed at 100 at the launch of ChatGPT



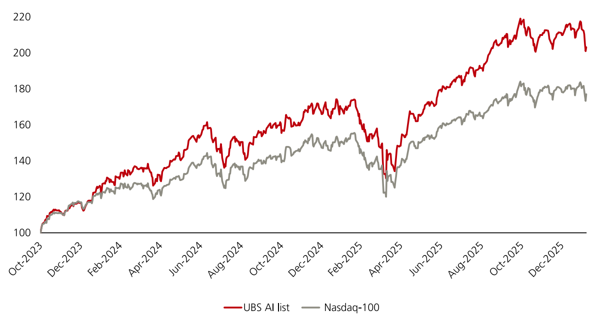
Source: Refinitiv, UBS, as of 9 Feb 2026

Note: AI-7 includes chip makers NVIDIA, Broadcom, AMD, Micron and hyperscalers Google, Microsoft, Amazon

The pattern is similar when comparing the returns of the Nasdaq-100 index to those of the UBS AI list.

Figure 3 - US tech is not AI

Total returns of the UBS AI list vs. the Nasdaq-100 index. Indexed to 100 at the launch of the list



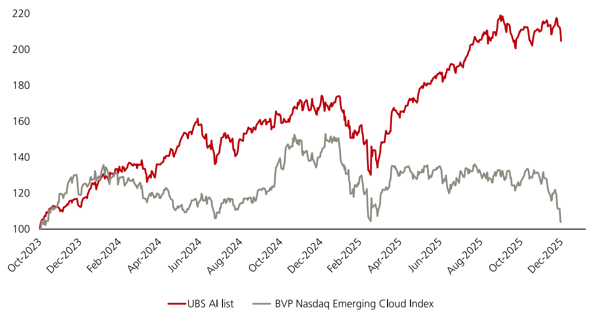
Source: Refinitiv, UBS, as of Feb 2026

The recent sell-off in software stocks once again highlighted the dispersion within tech, with AI acting at the same time as both a driver and a detractor of performance. Generative AI is transforming software development, not only by assisting with code writing and identifying vulnerabilities, but also through new application-specific plugins for coding, legal, sales, and finance tasks. This raises concerns about whether application-layer companies risk being reduced to features within next-generation frontier models.

The divergence in returns is clear in Figure 4, with the SaaS index remaining nearly flat over the past two years, reflecting the pressure on traditional software firms. While the long-term impact on software companies is still uncertain, AI is fundamentally reshaping the software value chain and challenging existing business models.

Figure 4 - Existing software companies will be challenged by AI

Total returns of the UBS AI list vs. BVP Nasdaq Emerging Cloud Index. Indexed to 100 at the launch of the list



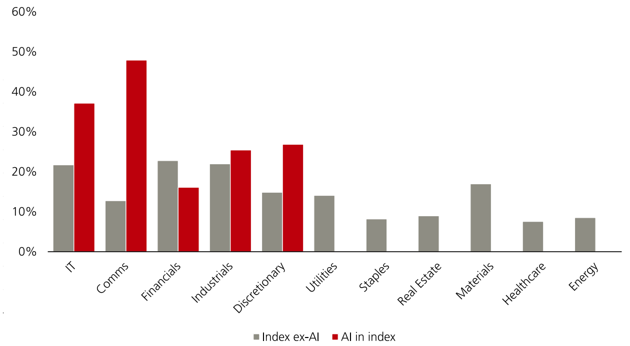
Source: Refinitiv, UBS, as of 4 Feb 2026

Leaders and laggards within sectors

AI's cross-sector impact is evident in the dispersion of returns among companies within the same sector. As noted in our "[Signal over Noise #11: Beyond regions, styles, and sectors—AI redraws the lines](#)," published on 7 October 2025. AI is redefining market segmentation, with leaders and laggards increasingly distinguished by their AI capabilities. Firms with significant AI exposure (defined as stocks that have, at some point, been constituents of our CIO AI list) have delivered superior returns across sectors, not just in tech but throughout the broader market.

Figure 5 - AI is shaping performance beyond traditional allocation categories

Annualized returns since the launch of ChatGPT, %



Source: Refinitiv, UBS, as of 9 Feb 2026

Conclusion

AI is a horizontal capability that reshapes competitive dynamics across sectors and geographies. AI not only determines which sectors win, but more importantly who the beneficiaries and laggards are within each sector. As a result, broad static technology exposure provides a noisy signal for AI. In practice, overcoming this requires moving from broad proxies to precision: shifting from general tech investments to targeting the key beneficiaries of AI.

Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known stock indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

Attractive – We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral – We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive – We consider this asset class to be unattractive. Consider alternative opportunities.

Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

Note: For equities, we have collapsed "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive" from the five-tier rating system that is found in the Equity Compass into three tiers.

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Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

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