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The tech trade may change in 2025

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Sung Cho: We think that the tech trade will change in 2025.

Over the last two years the tech trade has been led by the “Magnificent 7,” who have seen their share prices explode to the upside – making smaller-cap tech stocks’ 42% returns look modest by comparison.

The “Magnificent 7” tech companies have been the primary beneficiaries of the buildout of AI infrastructure. But we think an increasingly broad set of companies will benefit. As corporations deploy AI, data and security companies that help transition data into large language models stand to become much more important. Additionally, software companies that embed AI features into their product sets could significantly benefit.

We would also observe that the macro backdrop is changing. The fastest-growing software companies, whose valuations are highly sensitive to the cost of capital, have seen their multiples contract by nearly 80% since the Fed started hiking interest rates. But now that the Fed is cutting, those multiples can start to regain some ground.

Overall, we think that 2025 is setting up to be another strong year for tech – but smaller cap-tech, is likely to lead the way.

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