POLAR CAPITAL

Global Technology Fund

Q&A with Alastair Unwin, Partner

Q: Vik Heerah, Head of Marketing: Ali, an eventful start to 2025, a lot has changed. We can't not talk about tariffs; what impact will they have on the technology sector, and do you think we're past the worst?

A: Alastair Unwin, Partner, Polar Capital Global Technology Team: It's been a volatile start to the year and some of that turbulence is to do with the new technology cycle. We think AI is the next general purpose technology and when you have new technologies emerging there is inherent volatility to that early cycle as you don't have any data points. Or, when we use the technology, we can see its potential profound implications but we don't really know the end state.

On top of that, we've had a second layer of volatility emanating from the White House, around geopolitics, trade talks, tax bills going through, and numerous other things. These have compounded to give a market backdrop that has been choppy. I think we and the sector have navigated that fairly well so far but we would expect it to be a recurring feature of both the AI story and global markets, certainly for the rest of this year.

Q: VH: In terms of the technological volatility you mentioned there, DeepSeek is the obvious one. A few months past the DeepSeek moment, how do you reflect back on it?

A: AU: DeepSeek was, for us, in some ways a bigger story than tariffs in Q1, for the AI trade. This is because we had the emergence of a model from China which appeared to be, at least at first blush, much cheaper and nearly as good as the models from leading US labs. It also violated a couple of AI narratives: that you had to be American to be leading and that you needed access to the latest and greatest and most expensive NVIDIA chips. Then a lab comes along and does something ostensibly quite similar with much less.

I think the numbers around what the model actually cost to train have been contested and the real news has been that DeepSeek is another point on a cost curve that we've seen with lots of other models, where the performance of models and particularly the cost performance is improving at a very, very fast rate. If you are AI maximalists, which we would describe ourselves as, that is a feature of a new technology cycle, you need to see the technology improving at a very, very fast rate in order to open up new applications to make things that were not economic, economic. We think that's a feature of new models.

We've also seen a decent rebound in some of the AI infrastructure stocks and we've seen all of the hyperscalers, the largest cloud companies who are making the investments with their own capital in AI, continue to increase spending. We think that this is a point on the curve, something to be aware of. It maybe has made the AI story more complex than it was before but we are very encouraged by the fundamental progress that we're seeing in models in AI adoption.

Q: VH: What are the risks of another DeepSeek moment or is that just part of how this is deployed over time? You're going to get more volatility. You're going to have another moment. There's just going to be other things to worry about.

A: AU: We expect that there will be other shocks to the AI story. There will be other data points that are not bullish AI and if you get two of those in a row, it's very easy to extrapolate and declare the trade over or declare we're at peak CapEx. We'll also get good data points. We think that there is a very good chance that AI will surprise to the upside, whether in capabilities on the model side, in adoption, or in the rapid scaling of tools like ChatGPT which is now at, reportedly, 800 million weekly active users which is not a number that people were expecting 12 months ago. So, we think there will be surprises, both positive and negative, which will bring some turbulence. But our job as active managers is to help navigate that turbulence.

Q: VH: You mentioned artificial intelligence a number of times there. I think I know the answer to this but I'm going to ask you how enthused you are about the technology. Does your passion remain? But also, what's the next stage of its development?

A: AU: We think we're at a very exciting moment in tech. We think artificial intelligence is the next general purpose technology and think it's a rare example of discontinuous technology change, where you get a lot of progress in a very compressed period of time. The implications of this, both in the tech sector and outside it, are going to be very far reaching. What is tricky at this stage is to give a comprehensive view of the end state of how AI plays out, which is why we are primarily positioned in the infrastructure side of the trade at the moment, but we're keeping a very close eye on the early applications. This is going to change everything. We think the economy is going to change and that industries are going to be reimagined around AI in the same way they were reimagined following the arrival of the internet.

There's actually some reasonable parallels with that mid1990s period. Volatility was a feature of the mid 90s, I think between 1995 and 1998 the Nasdaq returned c350% before we got into the 98-99 bubble. But during that 350% return, there were seven periods of 15% or more drawdowns. So, these drawdowns are a feature of the market and we would expect that to continue. But equally, the prize here is huge. AI is a general purpose technology that can address a large chunk of knowledge work.

There will be new markets that are created on the back of AI that today we can't imagine and so are very excited by the outlook. We're watching model progress probably more closely than anything else, on top of the adoption and where companies are seeing revenues and all the things you would expect us to be looking at. But we think that the first part, the prime mover of this story, is the progress of models.

Q: VH: Now, coming back to the macro-economic backdrop, there is much uncertainty and it feels as though the chances of a recession in the US are certainly higher than they were 6 or 12 months ago. What effect does that have on the technology companies that you're investing in and what's your base case in terms of the economic outlook?

A: AU: The really encouraging thing from Q1 is that we saw the largest cloud companies who are investing the most, and their own dollars, in AI all increased their CapEx expectations for the year. That is an encouraging sign, despite the fact that uncertainty indices, macro uncertainty and consumer confidence were actually not looking like the kind of environment where that might happen. There was certainly a lot of hand-wringing into results about whether companies would pull back or would temper expectations and to our view they really didn't, there was no evidence of that. Not to say that if things got much worse, it couldn't happen, but for now, companies are pressing ahead with AI investment because they see the scale of the markets to go after, they see the scale of the opportunity.

Could a softer macro derail the AI trade? I mean, a very, very soft macro, a deep global recession could derail anything. But absent that, we think that the story remains just too good and the opportunity too large for people to pull back. We've been thinking about this current environment as a period of recalibration in global trade, in the global macro environment, even in the market environment, rather than a full reset. Our base case remains that it is not within policymakers' interests to provoke a deep global recession, and it is still within their capacity to resolve it. Now, that capacity is not infinite and it doesn't last forever, so we need to see trade deals signed quickly and to be honest, the more and the quicker the better. For now though, we think that the macro environment is not looking bad enough to derail the AI trade.

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Find out more

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Polar Capital Global Technology Fund

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