



3 Top Artificial Intelligence Stocks to Watch in October

Description

The evolution of artificial intelligence (AI) is one of the most important trends to watch for tech investors. More companies are jumping into the space every day, and while stock pickers still have to exercise caution and shouldn't embrace a business just because it touts an AI connection, the players that cement leading roles in this computing shift could enjoy forefront positions in the overall technology space for decades to come.

Pure sales and earnings contributions aren't always front and center in earnings reports, but AI is already a big part of the growth story at many top technology companies. Investors looking to get a jump on big news in the artificial intelligence space this month might want to pay attention to **Microsoft** ([NASDAQ: MSFT](#)), **Xilinx** (NASDAQ: XLNX), and **Amazon** ([NASDAQ: AMZN](#)) — three AI leaders that are expected to report earnings before October draws to a close.

1. Microsoft

Microsoft has been one of the market's biggest large-cap winners in recent years, climbing roughly 200% over the last half-decade and quadrupling the **S&P 500** index's rise over the stretch. With a market capitalization of roughly \$1 trillion, it's the biggest company in the U.S. — and the software giant's tremendous size and industry-shaping initiatives in AI and cloud computing make it a stock for market watchers to keep an eye on.

Microsoft is scheduled to report first-quarter earnings on Oct. 23 and is fresh off a deal with **Novartis** that will see AI resources used to create new drug treatments. Investors may get a closer look at the deal as well as other AI-related projects with the earnings release and conference call.

In a video announcing the Novartis partnership, Nadella said, "AI is perhaps the most transformational technology of our time, and healthcare is perhaps AI's most pressing application." The partnership will create an AI innovation lab at Novartis, and it will also see Microsoft lend AI and cloud-computing resources to Novartis employees to make the company's data more accessible and aid in the formulation of new medicines.

Many of Microsoft's AI initiatives might not seem immediately connected to its core product offerings, but it's using AI to improve core products like its Windows operating system and expand the feature set and functionality of its Microsoft 365 cloud suite. It's also helping with task automation, analytics-based predictions, and translation — and bolstering the Azure cloud platform by improving security, device management capabilities, and overall infrastructure.

Last quarter, the company's operating expenses increased 24% on a constant currency basis as spending ramped up on cloud and AI engineering and GitHub — the open-source data and software platform it acquired in a \$7.5 billion deal last year. Heavy spending in these areas will likely continue and could drag on near-term earnings performance, but the company has already had considerable success in its pivot to being a cloud- and subscription-focused company, and its AI projects are going to be at the center of the business's push to lead in the next stages of AI and cloud services.

2. Xilinx

Xilinx is another artificial-intelligence leader that's scheduled to report earnings on Oct. 23. The semiconductor company has emerged as an important player to watch in AI and machine learning because of its expertise in processors that can be tailored to new and evolving applications.

Most chips are designed with fixed circuits that can carry out a wide range of functions thanks to relatively strong processing power, but Xilinx has specialized in field programmable gate array (FPGA) chips that have typically been weaker but capable of accomplishing more when properly adapted to specific tasks. This added degree of flexibility, combined with improved cost-to-power dynamics for programmable chips, is propelling increased demand for Xilinx's solutions in product categories including AI, 5G networks, and [data centers](#).

Amazon and Microsoft already use Xilinx's chips as part of their cloud platforms, and the company is launching new products that are further strengthening its position in AI. Investors might want to keep an eye on the company's Versal ACAP chips in particular.

ACAP stands for "adaptive compute acceleration platform," and this new platform of chips has been designed with a heavy focus on AI and applications in data center, automotive, 5G, and the aerospace and defense industries. The company views ACAPs as a major leap forward for data center computing and has stated that the new hardware is up to 20 times faster than current optimum FPGA performance and more than 100 times faster than the best traditional processors. Xilinx began rolling out this new chip platform over the summer, and its upcoming earnings update could provide some color on how demand is shaping up for these intriguing new products.

The company's upcoming earnings report could also provide some insight into how the company is dealing with trade sanctions and restrictions on doing business with Chinese tech giant Huawei. Xilinx's last earnings call came with the update that the company believed it could resume selling some of its products to Huawei after reviewing the Export Administration Regulations and Entity List, but also that selling opportunities remained blocked in the 5G category.

After opting not to reiterate or update its fiscal-year guidance in its first-quarter call, Xilinx expects to provide an update on the full-year outlook in the upcoming earnings call, and management's comments

could provide fresh information on the strength of momentum for the AI and 5G spaces amid the trade-related uncertainty.

3. Amazon

Amazon's leadership in e-commerce, cloud platform services, and smart speakers gives it access to a massive amount of data that can be fed into artificial-intelligence systems. With strong resources and a proven willingness to bet big on innovation, it stands out as one of the most important businesses to watch in the AI space.

The tech giant is launching its Echo smart-speaker hardware and Alexa voice assistant in Brazil this month — and rolling out Portuguese language support in the country. Amazon has also recently launched a variety of multilingual support options in markets including America, Canada, and India, and it continues to introduce new features and devices that are expanding the company's voice-assistant ecosystem — including an Alexa-integrated ring, smart glasses, and connected earbuds.

AI and machine-learning algorithms play big roles in voice-based operating system functions and online retail recommendations, and they're also at the heart of the company's push into advertising. **Alphabet** and **Facebook** have dominated the digital advertising business, but Amazon has been rapidly building a position in the space. Its wealth of data and leadership position in e-commerce and conversational AI should help it continue to gain ground.

The company's advertising business helped propel Amazon's "other" segment up 117% year over year to come in at \$10.1 billion in 2018. Growth has slowed down in recent quarters, coming in at 36% and 37% year over year in the first and second quarters, but the unit is worth monitoring. Digital advertising still has big room for growth, and Amazon's combination of e-commerce, cloud, and AI assets have it poised to be a bigger player in the space.

The company projects that its third quarter sales will come in between \$66 billion and \$70 billion, representing 20.5% year-over-year growth at the midpoint of the target. Operating income is expected to arrive between \$2.1 billion and \$3.1 billion, down from \$3.7 billion in the third quarter of 2018. Increased hiring in advertising and marketing and initiatives in AI are at the heart of Amazon's spending increases, and fourth-quarter guidance could indicate whether the company is easing up on the gas a bit or moving forward with big investments in order to drive long-term growth. Amazon is expected to release third-quarter earnings results between Oct. 24 and Oct. 26.

Like Microsoft, Amazon is one of the biggest companies on the market, and its earnings release will be a highly anticipated (and scrutinized) event that could have implications for overall tech sector performance. In addition to providing new insights on the company's AI initiatives and overall business, results for the quarter and forward guidance could play a role in shaping investor sentiment in the [tech sector](#) at a time when people are looking for indicators as to what's next for the market.

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