



Apple's WWDC: a step forward in AI, but investment hurdles remain

Image source: apple

Apple's ongoing Worldwide Developers Conference (WWDC) 2025 offered a glimpse into the company's future, marked by a significant user interface overhaul and a carefully orchestrated push into AI. However, for investors already holding a cautious stance on the tech giant, the event appears to have furthered existing concerns rather than alleviating them.

Jakub Dubaniewicz
Senior Equity Analyst

The keynote showcased a visually striking “Liquid Glass” design and enhanced cohesiveness across all of Apple’s operating systems. On the AI front, Apple introduced its “Foundation Models Framework” which opens its on-device LLMs to third-party developers, promising faster, more private AI integration within apps. New features like call screening with live transcripts, hold assist, and real-time voice translation leverage Apple Intelligence. This approach also reaffirms Apple’s long-standing emphasis on user privacy, a move that could prove astute as the AI landscape matures.

These announcements collectively **suggest a more meaningful change to both hardware and user interface.**

A more cohesive and significantly redesigned user experience, coupled with integrated AI features, could signal a more compelling upgrade cycle for future hardware, particularly the much-anticipated iPhone 17. Historically, iPhone model launches have been more successful when they offered substantial improvements, rather than just incremental ones. A strong iPhone 17 launch, delivering on the promise of a truly enhanced user experience, could provide something for Apple investors to cheer about, potentially driving a new demand cycle.

However, the dominant sentiment post-WWDC was one of mild disappointment.

Many industry observers pointed to the absence of a groundbreaking “AI agent” and, for some, no mention of deeper integration with external AI models like Google’s Gemini. Investor reactions echoed this sentiment: “Nothing truly innovative,” and “Nobody is buying a new iPhone for this.” While the new iPad windowing system was met with enthusiasm, the updates largely appear to be churn-reducers for the existing ecosystem rather than catalysts for significant new demand. This conservative AI rollout, while understandable from a privacy and execution perspective, does little to address a core concern for many investors: Apple’s “AI laggard” status. The WWDC announcements, while laying a foundation, didn’t immediately shift that perception.

Furthermore, broader geopolitical and economic headwinds remain pertinent.

Over decades, Apple meticulously built its relationships in China for manufacturing and supply chain. While immensely profitable due to China’s unique industrial clusters and vast migrant labour force, this has become a major vulnerability with President Trump advocating for US-made iPhones and threatening substantial tariffs. Moving iPhone production out of China is not simply about building a new factory, but about replicating a complex ecosystem of 1,600 suppliers honed over years. Attempts to diversify to places like India—while already in the works—are on a much smaller scale and do not negate the fundamental profitability challenges of manufacturing elsewhere. Trump’s past actions and recent rhetoric reinforce the persistent tariff risk. While Apple has demonstrated an ability to “absorb” some tariff costs or pass them on through price increases, a full-scale shift in manufacturing to the US would decimate Apple’s bottom line.

Beyond tariffs, Apple faces a complex web of other fundamental challenges.

iPhone volumes peaked years ago, and the company now relies on price increases and growing services revenue to drive earnings growth. Sales in its second-biggest market, China, have been weak due to domestic competition. Lingering questions persist about the value accretion of its massive \$0.5 trillion US investment commitment. Finally, Apple’s growing and high-margin services revenue is facing high-profile legal challenges as App Store revenues are being tested in court in an antitrust dispute with Epic Games, while Apple’s multi-billion-dollar revenue in exchange for making Google a default search engine is being challenged by the DOJ in their lawsuit against Google.

Apple’s valuation suggests that much of this bearishness is already priced in.

Apple is trading at 26x forward P/E, while offering mid-single-digit EPS growth based on FactSet consensus estimates. This means that Apple shares are valued at a 23% premium to the market. Bears will argue this is still high given slower than the market earnings growth, and all the risks ahead. But on the other hand, this valuation premium is low compared to Apple’s historical average, which was above 50% only 6 months ago, leading some to potentially argue that the stock is already oversold. We acknowledge that at this level, a positive resolution of any of the risks above might result in a sharp share price bounce-back. On the other hand, we also think that a share price rally from a single positive resolution would likely be short-lived. A more compelling investment case for Apple would require a positive resolution to more than just one of these significant fundamental uncertainties. **The WWDC 2025 event, while providing some evolutionary improvements and hinting at a stronger hardware future, did not deliver the transformative news needed to fundamentally shift investors’ cautious stance outright.**

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Banque Syz SA

Quai des Bergues 1
CH-1201 Geneva
T. +41 58 799 10 00
[syzgroup.com](https://www.syzgroup.com)

Jakub Dubaniewicz

Senior Equity Analyst
jakub.dubaniewicz@syzgroup.com

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