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IN FOCUS

CALIBRATING THE TECHNOLOGY CYCLE: FUNDAMENTALS OVER FLUCTUATIONS

KEY POINTS

- Technology remains a strong long-term theme, but the market is becoming more selective. Recent volatility does not necessarily mean the AI story is weakening; rather, investors are demanding clearer proof that AI-related spending can translate into revenues, earnings, and sustainable growth.

- The AI opportunity is expanding beyond the most visible winners. While GPUs remain important, the next phase of growth may also benefit companies involved in memory, cloud infrastructure, data centers, power supply, cooling systems, cybersecurity, and enterprise software.

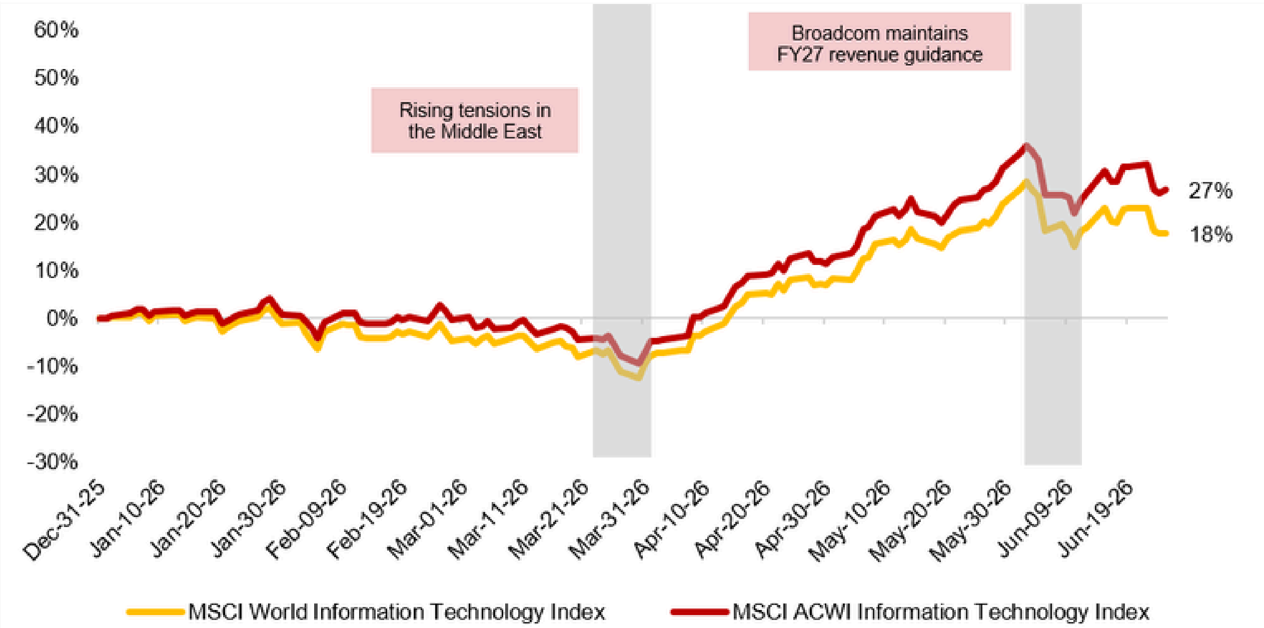
- Investors should stay disciplined and avoid reacting emotionally to short-term swings. A Core and Satellite approach can help portfolios remain resilient, with the core focused on stability and the satellite portion used selectively to participate in long-term growth themes such as AI and technology.

AND STILL...

Technology remains the top-performing equity sector this year. As of June 26, the MSCI All Country World IT Index is up ~27% and the MSCI World IT Index is up ~18%. This rally has been structurally supported by robust AI infrastructure spending, global fabrication expansion, and stellar earnings from mega-cap leaders like NVIDIA, Taiwan Semiconductor Manufacturing Company (TSMC), ASML, and Micron.

However, this upward trajectory has faced notable volatility [Figure 1]. With valuations elevated, investors are no longer satisfied with simple earnings beats; the market now demands meaningful upward guidance revisions. This asymmetric risk was highlighted on June 4: when Broadcom merely reiterated its AI revenue outlook rather than raising it, the unfulfilled whisper expectations triggered a >5% single-day decline across both MSCI IT indexes

Figure 1. Performance Stats of Select Technology Indices



Source: Bloomberg

ANATOMY OF THE RECENT VOLATILITY: WHAT TRIGGERED THE CORRECTION

The recent pullback was not simply a random market panic. It reflected three pressure points: software repricing, rising scrutiny over AI capital expenditure (capex) payback, and tightening hardware supply chains.

The Re-Pricing of Legacy Software

A key source of friction has been the sell-off in traditional enterprise software as a service (SaaS) providers, often linked to the so-called “SaaSpocalypse” narrative. As AI generates code more efficiently and automates enterprise workflows, investors have begun questioning the durability of some renewal models, pricing structures, and switching costs. This has compressed valuations among companies viewed as exposed to AI-driven disruption.

The Capital Expenditure “Digestion Period”

Another driver has been the rapid escalation in AI-related capex. Global technology giants continue to raise infrastructure spending plans, with AI capex on track to reach hundreds of billions of dollars this year. This has triggered a digestion period as investors assess whether these outlays can translate into enterprise demand, revenue growth, and durable returns.

Hardware Cost Spikes and Memory Shortages

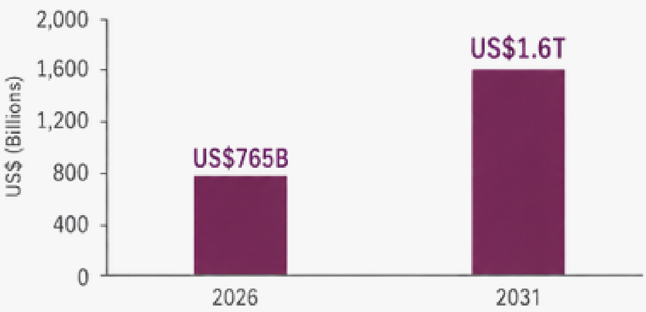
The AI hardware buildout has also created an imbalance across the semiconductor supply chain. Memory manufacturers and foundry partners have prioritized high-margin AI components, tightening supply for conventional memory components used in personal computers, smartphones, enterprise servers, and other hardware. The result has been a sharp increase in memory and component costs, forcing manufacturers, cloud providers, and enterprise buyers to absorb higher input costs or pass them on to customers. What began as AI compute demand has become a margin issue across the technology value chain.

Together, these forces explain why volatility has risen even as the long-term AI theme remains intact. The correction reflected a more selective market demanding clearer monetization, disciplined capital allocation, and resilience against bottlenecks.

TECHNOLOGY AS A MULTI-YEAR THEME

Recent volatility does not necessarily undermine the long-term investment case for technology. Instead, it highlights a more selective phase in the cycle. Technology remains a multi-year theme, supported by two key considerations: more defensible valuations and concrete evidence of demand.

Figure 2. Projected AI Annual Capex (US$)



Source: Goldman Sachs Global Institute

Moderate and Defensible Valuations

While parts of technology still trade at elevated valuations, many core AI infrastructure beneficiaries appear more reasonably valued relative to growth. Several established semiconductor, hardware, cloud, and infrastructure-linked companies trade at forward earnings multiples not meaningfully detached from other high-quality equity franchises, suggesting that current sector-wide pricing reflects balanced and defensible forward-looking expectations.

Concrete Evidence of Demand

The demand for computing power is no longer theoretical. Across major cloud platforms, disclosed backlog, remaining performance obligations, and long-term cloud commitments point to demand for AI infrastructure and enterprise cloud services. Usage indicators also support this view, with AI systems increasingly used for coding, workflow automation, customer service, cybersecurity, data analytics, and industry-specific applications. As usage grows, token consumption becomes a useful proxy for compute demand, while future hardware platforms may lower inference costs over time.

HOW SHOULD INVESTORS READ THROUGH THE VOLATILITY?

As the investment cycle matures, clients should read through volatility with a selective lens. The opportunity set is no longer limited to graphics processing units (GPU). AI adoption depends on a broader ecosystem of chips, memory, networking, cloud infrastructure, data centers, power, cooling systems, and enterprise software. This broadening can create alternative sources of growth, but investors must focus on companies that can convert AI demand into sustainable revenues, earnings, and cash flows.

Opportunities Across the AI Stack

As AI shifts toward reasoning and autonomous agents, the investment landscape is expanding beyond GPUs to include specialized central processing unit (CPU), advanced memory, and networking infrastructure. Most acutely, physical power bottlenecks are creating highly favorable opportunities across energy generation, grid equipment, and alternative hybrid power solutions.

The Next Wave of Liquidity: Frontier AI Listings

Upcoming public listings represent a major catalyst for fresh capital flows, with frontier leaders like OpenAI and Anthropic moving closer to potential debuts. This liquidity wave extends to global hardware supply chains, highlighted by memory giant SK Hynix’s planned Nasdaq American Depositary Receipt listing, creating deeper, direct avenues for investors to access core AI segments.

Key Risk Factors to Watch

As infrastructure spending scales, investor focus is shifting from conceptual AI capability to concrete revenue delivery. Future earnings seasons will likely see volatility as markets scrutinize monetization timelines alongside execution headwinds like memory price spikes and grid constraints. Additionally, the upcoming U.S. midterm elections may introduce headline volatility regarding regulation and resource consumption, which should be closely monitored without losing sight of the broader secular cycle.

The Wealth Preservation Guide

Market corrections are typically healthy recalibrations of market expectations rather than systemic business model failures. To insulate broader wealth, investors should employ a "Core and Satellite" approach—keeping the core anchored in stable, defensive assets while isolating technology exposure within a tactical satellite allocation. Within this satellite allocation, investors should actively utilize these market corrections as strategic opportunities to add on dips. This disciplined framework turns sharp sell-offs into logical entry points to accumulate high-moat innovation leaders at a discount without jeopardizing overall portfolio resilience.

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