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Chief Investment Office GWM
Investment Research

What tech pressure says about the AI trade

UBS House View - Daily US

Ulrike Hoffmann-Burchardi, Chief Investment Officer Americas and Global Head of Equities, UBS Financial Services Inc. (UBS FS)
Mark Haefele, Global Wealth Management Chief Investment Officer, UBS Switzerland AG
Sundeep Gantori, CFA, CAIA, CIO Equity Strategist, UBS AG Singapore Branch
Delwin Kurnia Limas, CFA, Equity Strategist, UBS AG Singapore Branch
Jon Gordon, Strategist, UBS AG Hong Kong Branch
Daisy Tseng, Strategist, UBS AG Singapore Branch

From the studio

Video: **Deep Dive – A pivotal moment for fixed income** (7 min)
Video: **The AI Show: CIO's Sundeep Gantori on GPT-5 and AI chip sales to China** (3 min)

Thought of the day

The Nasdaq fell 1.5% on Tuesday as investors rotated out of high-momentum tech stocks, reflecting renewed jitters over the sustainability of the AI trade. Shares of several high-profile AI-linked companies led the declines, with NVIDIA dropping 3.5%, Palantir down 9.4%, and Arm declining 5%. Defensive sectors such as consumer staples, utilities, and real estate outperformed on the day, with nearly 70% of S&P 500 stocks ending higher despite the notable weakness in tech.

Some of the fall was attributed to a new study from MIT's Nanda Initiative that warned 95% of corporations polled reported no measurable return from their generative AI investments to date. This cautionary note came on the heels of OpenAI CEO Sam Altman's public remarks late last week, warning that some investors are "overexcited" about AI. Adding to the uncertainty, Reuters late on Tuesday reported that the US Commerce Secretary may also seek minority equity stakes in more chipmakers receiving CHIPS Act funding, expanding beyond its initial focus on Intel.

While some near-term tech volatility is not surprising given the run-up in valuations, we advise investors against becoming overly defensive for several reasons:

Tech earnings growth has been robust and broad-based. Second-quarter large-cap tech earnings have been solid, with a weaker US dollar acting as an additional tailwind. A large majority of companies beat both sales and earnings-per-share estimates, suggesting that index-level profit growth could exceed our expectations for the year. Forward guidance has also been resilient, bucking the typical trend of downward revisions during this reporting season. Notably, cloud revenues at the three largest platforms grew by an average of more than 25% year over year in the June quarter. Our 2025 S&P 500 EPS estimate stands at USD 265, implying 6% growth, and we see potential for further upward revisions if current trends persist.

What to watch: 21 August 2025

- Jackson Hole Economic Policy Symposium begins
- August PMIs for the US, UK, Japan, and the Eurozone
- August Philadelphia Fed business outlook

Internet and software companies should continue to benefit from rising AI monetization. Software and internet companies, traditionally the more defensive segments within tech, continue to benefit from rising AI adoption and early monetization. While AI revenue growth has not yet fully matched the pace of industry investment, we are seeing encouraging signs of progress as more companies embed AI into core products and services. We expect Big Tech's capex intensity (capital spending as a share of sales) to moderate after a period of heavy investment, supporting margin stability and further upside as AI applications achieve scale.

Retail, institutional signals on tech don't look all that euphoric. Despite record highs in global equities, retail sentiment has cooled: The latest American Association of Individual Investors (AAII) survey shows bullish sentiment down to just under 30%, while bearish sentiment has risen to 46.2%, the highest since early May. Institutional positioning also appears cautious, with Morgan Stanley data showing that mega-cap tech stocks are more under-owned relative to their S&P 500 weights than at any point in the past 16 years. This comes just ahead of a widely anticipated Federal Reserve rate cut in September. Our historical analysis shows that soft-landing rate cuts are typically bullish for equities, offering hope for more support for risk assets in the months ahead.

While we think some caution may be warranted in the more cyclical parts of tech, we remain confident in the broader AI sector's long-term growth and resilience. We recommend investors seek balanced exposure across the AI value chain (infrastructure, semis, and applications), with a preference for laggards offering a more attractive risk-reward balance. Investors seeking tech exposure may also consider structured investments, such as capital preservation and put-writing strategies, to take advantage of near-term volatility.

For those underallocated to stocks more broadly, we would consider phasing strategies or using market dips to add exposure to preferred areas, especially those aligned with our Transformational Innovation Opportunity (TRIO) themes: Artificial intelligence, Power and resources, and Longevity. Alongside our US sector preferences for information technology and communication services, we also favor US financials, health care, and utilities. In Europe, we recommend Swiss high-quality dividends, European quality stocks, and our "Six ways to invest in Europe" theme. In Asia, we like China's tech sector, Singapore, and India. We also see opportunities in Brazil.

Caught our attention

Security guarantees for Ukraine take shape. US President Donald Trump said on Tuesday that the US would not deploy ground troops to Ukraine, underscoring European forces would form the "first line of defense," though he left open the possibility of US air support as part of a deal to end Russia's war in the country. The comments came a day after he pledged security guarantees for Ukraine at the White House summit on Monday. The White House also announced that "accommodations" for a trilateral meeting with Ukrainian and Russian leaders are now under way. Separately, Bloomberg reported that a gathering of European officials on Tuesday focused on a plan to send forces to Ukraine as part of a peace agreement. The British government said European military officials will meet with US counterparts in the coming days to flesh out "robust security guarantees and prepare for the deployment of a reassurance force if the hostilities ended." Still, some officials said they remain skeptical about the prospect of a peace deal, and whether guarantees will be enough to deter Russian President Putin.

Our view: We anticipate negotiations will take time, but progress toward meaningful security guarantees is encouraging. We expect sentiment to improve for consumers, businesses, and financial markets across Europe if a credible peace deal emerges, and think the long-term trend of rising NATO defense spending should continue to benefit defense stocks. We continue to recommend our "Six ways to invest in Europe" theme, which includes some of the beneficiaries of a potential truce. We also see ways investors can position for Ukraine's reconstruction with bonds. A World Bank assessment released earlier this year put the total cost of Ukraine's reconstruction at USD 524bn—or 2.8x Ukraine's nominal GDP in 2024—over the next 10 years.

Market update

20.08.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	16.0	+0	+1	-0	-1
S&P 500	6411	-0.6%	-0.5%	+1.8%	+9.0%
S&P 500 trailing P/E (**)	25x		+0.4x	+0.3x	+0.4x
S&P 500 forward P/E (**)	22.4x		+0.4x	+0.2x	+0.9x
S&P 500 forward P/E ex-Mag 7 (**)	19.9x		+0.3x	-0.2x	+1.0x
Russell 2000	2277	-0.8%	-0.3%	+1.6%	+2.1%
Euro Stoxx 600	558	+0.0%	+1.3%	+2.0%	+9.9%
Shanghai Composite	3766	+1.0%	+2.2%	+6.6%	+12.4%
US 10-year Treasury	4.30	-0	+7	-11	-26
US 2-year Treasury	3.76	+1	+8	-11	-49
Germany's 10-year Bund	2.73	-2	+5	+3	+36
Germany's 2-year Bund	1.94	-1	+1	+8	-14
EURUSD	1.164	-0.1%	-0.6%	-0.5%	+12.4%
EURCHF	0.94	+0.06%	-0.28%	+0.77%	+0.01%
USDCHF	0.81	+0.0%	+0.3%	+1.2%	-11.0%
USDJPY	147	-0.1%	+0.1%	+0.1%	-6.2%
Brent crude, USD/bbl	67	+1.2%	+1.4%	-3.9%	-10.8%
Gold, USD/oz	3323	+0.3%	-1.1%	-1.1%	+25.8%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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Appendix

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