
CIO believes the next steps will depend on the relative technology and AI exposure within individual portfolios. (UBS)

Positioning after the tech selloff and rebound

27 August 2024, 7:01 pm CEST, written by UBS Editorial Team

Following a sharp tech selloff in early August and a rapid recovery in share prices, CIO believes investors need to consider their relative portfolio exposure to the sector before taking action. They continue to like quality tech names, and rate the IT sector within US equities most preferred over our six- to 12-month investment horizon.

After a turbulent sell-off in early August stoked by an anemic July jobs report, tech shares have been quick to bounce back. From their 5 August lows, the Nasdaq, Philadelphia semiconductor, and NYSE FANG indexes are up close to 14%, 20%, and 11%, respectively. Global tech shares have also recovered, with the tech-heavy Taiwan and South Korea benchmark indexes up around 11% over this same period.

Fears that the Fed could be behind the curve on unwinding restrictive policy have since dissipated, with investors encouraged by benign US inflation readings, solid retail sales, and less worrying unemployment claims. The second quarter US earnings season, while not quite as strong as in recent quarters, has in aggregate largely met our expectations.

Management teams in aggregate remain very enthusiastic about AI's potential, even if it may take some time for the payoff to become clear. All indications are that demand continues to exceed supply for AI infrastructure, suggesting continued growth in AI-related capex—a trend confirmed by all the major cloud service providers.

Without any single-name views, a few more AI-linked results remain in this earnings season which could act as an additional catalyst. NVIDIA reports its results on 28 August, and its guidance on both its next-gen Blackwell chip rollout and its ability to "beat and raise" may serve as a wider barometer on mega-cap demand for AI. Broadcom and Salesforce earnings could also offer further insight on the AI value chain.

UBS

What to do next?

While tech sector volatility has subsided since its 5 August peak, we would not rule out renewed volatility in the months ahead. Alongside structural growth, many technology companies do also have exposure to cyclical revenue streams, which could be pressured if economic activity slows. Increased restrictions on technology trade between the US and China could also weigh on the outlook. Additionally, we note that some leveraged and carry-fund positioning has already returned, though it is not at the extreme levels seen earlier this month.

For investors, we believe the next steps will depend on the relative technology and AI exposure within individual portfolios.

Investors with low existing AI exposure should create a plan to build up long-term exposure to the theme at more favorable prices. Structured strategies—for example, put writing or reverse convertibles on key names—can offer a way of phasing into markets at lower entry levels, subject to investors' ability and willingness to bear the particular risks of options.

By contrast, investors with high existing technology exposure may consider capital preservation strategies as a means of hedging against volatility.

Within US equities, we rate information technology as Most Preferred over our six- to twelve-month investment horizon, thanks to robust AI infrastructure spending, semiconductor and advanced memory supply constraints, and the encouraging uptake in early AI applications. An expected recovery in PC and smartphone end markets should add further support. We do think investors should retain a bias to high-quality companies with good secular growth and resilient earnings.

We also recently raised the US utilities sector to Most Preferred from Neutral, in part reflecting an anticipated rise in both power demand growth and prices driven by significant AI datacenter capacity additions. We are Neutral on communication services, which while offering compelling AI exposure and growth, also faces AI-related margin pressure, competitive threats, and concentration risks.

For more, see **Tech rally could have further to go, 19 August 2024.**