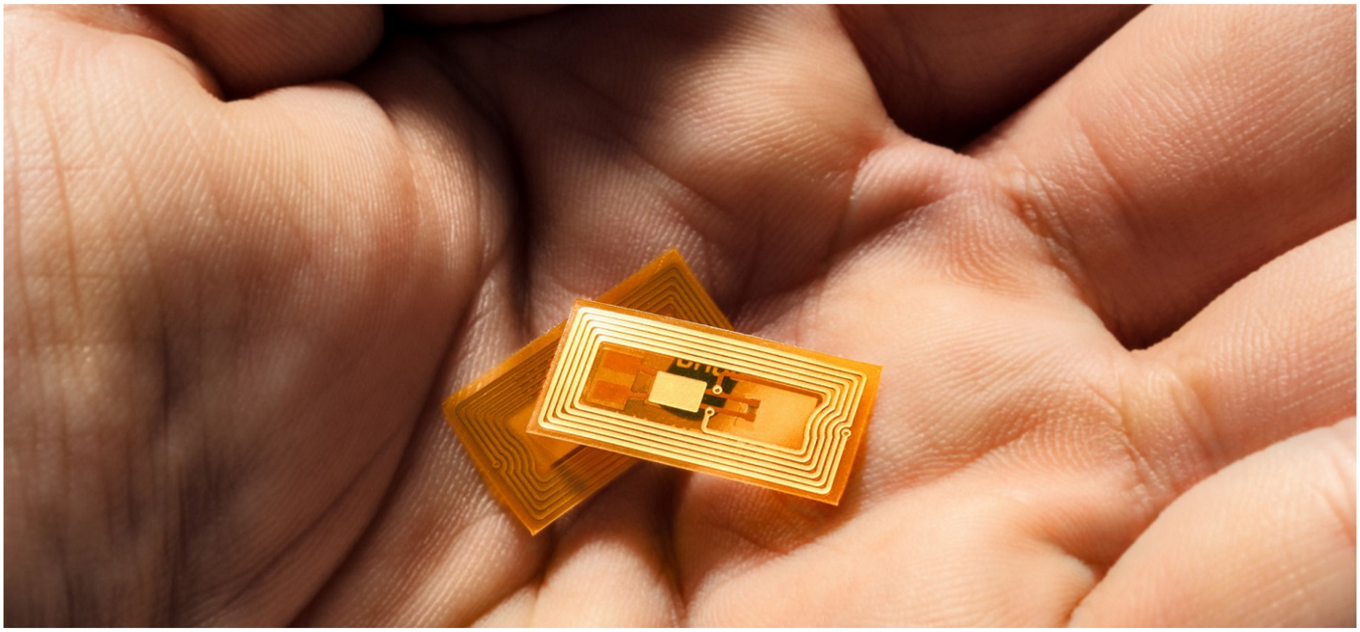

Semiconductor capital spending still looks promising, with some parts of the industry more attractive than others. (UBS)

The broader AI narrative and investment case remain intact

05 September 2024, 3:04 pm CEST, written by UBS Editorial Team

September got off to a shaky start for tech investors, with a 3.3% decline in the Nasdaq 100 over the first two trading days of the month.

The top AI chipmaker, NVIDIA, has been a driver of the sell-off, falling 11% during the same period, resulting in a USD 327bn decline in market capitalization. And the FANG+ index, which tracks the performance of the top 10 most-traded US tech stocks, has fallen 3.2%.

A modest miss on the US ISM manufacturing business survey appeared to be the immediate cause of the move, alongside reports of more stringent US-led controls on AI and chipmaking gear exports to China. Retaliation risk may also be growing, with the state-linked Global Times warning Dutch equipment maker ASML could "permanently" lose market access in China. NVIDIA yesterday denied a Bloomberg report that the US Department of Justice had subpoenaed NVIDIA and other companies as part of an antitrust investigation into the chipmaker's dominance of AI. According to media reports, NVIDIA said "we have inquired with the US Department of Justice and have not been subpoenaed."

Seasonality may also be adding to weak sentiment. The S&P 500 has declined in September in each of the past four years and in seven of the past 10. Over the past 15 years, the Nasdaq's average September monthly return has been -1.4%, against an overall average monthly return close to +1.4%. Our analysis shows global tech's risk-adjusted returns also tend to decline in both the second and third quarter.

While we believe more short-term tech volatility may be ahead, it could also be an opportune moment for investors to draw up and execute on tech "shopping" and "disposal" lists.

So, while near-term tech volatility may persist, we believe the broader AI narrative and investment case remain intact. For investors, we believe the next steps will depend on the relative technology and AI exposure within individual portfolios. Those with low AI holdings could consider building exposure through structured strategies to navigate potential volatility ahead. For those with higher allocations, capital preservation strategies could serve as a hedge.

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