CIO thinks investors should focus on industry fundamentals as they navigate tech sector volatility in the near term, building up sufficient exposure to quality AI stocks via buy-the-dip and structured strategies. (UBS)

Focus on fundamentals to navigate tech tensions

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China has opened an antitrust investigation into NVIDIA to determine whether the chipmaker has violated the conditions Beijing set out in its acquisition of Mellanox Technologies in 2020.

Separately, Bloomberg reported that Chinese manufacturers recently began limiting sales of key components used to build unmanned aerial vehicles (or drones) to the US and Europe. NVIDIA shares fell 2.6% on Monday, while the Nasdaq slid 0.6%.

The moves follow announcements of further US export controls put in place to restrict China's access to advanced chip technologies. Under the US rules, NVIDIA is among the companies that are barred from selling their most advanced semiconductors and tech equipment to Chinese firms. Four years ago, however, Beijing approved NVIDIA's deal on condition that the chipmaker does not discriminate against Chinese companies. The investigation effectively escalates US-China tensions further. Last week, Beijing banned exports of certain minerals with semiconductor and military applications to the US, after Washington announced its latest round of tech restrictions.

However, the outcomes of the investigation remain to be seen. Previous Chinese probes into foreign tech companies have often taken several quarters to reach conclusions, typically resulting in relatively manageable impacts on individual companies.

As US President-elect Donald Trump returns to the White House in January, we expect more tit-for-tat actions when additional tariffs come into view, and news like this looks set to trigger volatility in tech company stocks and the broader market. We offer several perspectives for investors to consider as they examine their tech portfolios.

Geopolitical risks are likely the new normal for the tech industry. The US has made clear its intention to slow China's development of advanced technologies such as quantum computing and advanced semiconductor manufacturing, with Washington pushing allies to make moves similar to its export controls. It remains to be seen how the Trump administration will utilize these tech restrictions to achieve some of his policy objectives, but investors should prepare for more headlines that could impact market sentiment, including potential universal tariffs on tech imports and further responses from China.

China has broadened its approach in countering US restrictions. Instead of just limiting exports of raw materials that are predominantly produced in China, Beijing has utilized its mass market in recent years to put pressure on foreign companies and boost tech self-sufficiency. Last year, the country's cyberspace regulator said products made by Micron Technology pose "serious network security risks" and are therefore banned from key infrastructure projects in China. Beijing later said employees of state-backed companies are prohibited from bringing Apple smartphones and other foreign devices to work, as the government sought to reduce reliance on foreign technologies. The latest move targeting NVIDIA appears aligned with such a strategic shift.

AI demand remains robust as the structural trend is set to fundamentally affect all economic sectors. We continue to believe that we're still in the early stages of technological advances in AI, and recent developments in the field underline the robust demand for the technology and its supply chain. Last week, Meta said it will build its largest AI data center in Louisiana that could host billions of dollars' worth of AI chips. Separately, ChatGPT maker OpenAI released a more advanced large language model for advanced research, coding, and writing tasks, while Elon Musk's xAI startup said it has closed a new USD 6bn equity fundraising round. With earnings results from tech companies showing strong capex commitments and improving AI monetization, we continue to hold a positive outlook on the AI growth story.

So, we think investors should focus on industry fundamentals as they navigate tech sector volatility in the near term, building up sufficient exposure to quality AI stocks via buy-the-dip and structured strategies. Without taking any single-name views, we continue to like the semiconductors and software segments, and are cautious on companies in "traditional" tech areas such as smartphones, PCs, and consumer electronics.

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