



(UBS)

September blues for tech unlikely to last

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September got off to a shaky start for equity investors, with a 4.2% fall in the S&P 500, the worst week in 18 months. The tech sector was at the forefront of the decline. The FANG+, which tracks the top 10 most traded tech stocks, lost 6.2% over the week.

Aside from worries over the outlook for the US economy, this tech weakness partly reflected concern that the US will continue to tighten restrictions on the export of AI chips and semiconductor-making equipment to China.

While trade and geopolitical tensions are a risk, the recent tech pullback also provides an opportunity to draw up and execute on tech “shopping” and “disposal” lists, in our view. We expect the broad semiconductor sector to draw support in the coming quarter from increasing AI capital spending by the megacap tech companies. Within semis, we would tilt exposure to AI logic chips first, where valuations have become less demanding.

We also see evidence that top tech companies are making progress toward monetizing AI investments. One company has pointed to accelerating cloud revenues in the first half of 2025, while another has said it is anticipating “significant monetization opportunities.” Megacap tech valuations have come down, currently trading near 27 times next year price to earnings—around 15% below their recent peak.

Takeaway: While near-term tech volatility may persist, we believe the broader AI narrative and investment case for tech 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 should consider building exposure through structured strategies to navigate potential volatility ahead. For those with higher allocations, capital preservation strategies could serve as a hedge.

For more, see the [Weekly Global: Stocks pull back amid mixed US jobs data](#), published 9 September, 2024.

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