Tech stock volatility – a turning point for AI or just noise?

Market update

29 July 2026

Summary

- Concerns over the future pace of AI-related spending have raised volatility in tech stocks, leading technology indices to retreat from their highs.
- We believe that the recent price action mainly reflects a shift in market sentiment and not a weakening in industry fundamentals. From the perspectives of corporate capital expenditure plans, AI infrastructure demand, and supply chain development, AI-related investments continue to advance.
- While short-term volatility is inevitable, the core driving force supporting AI's long-term growth remains robust.

Recent market developments

Technology equities have pulled back meaningfully in recent weeks. Since their June highs, the MSCI World Technology Index has declined 11.5%, while the Philadelphia Semiconductor Index and the MSCI AC Asia ex Japan Technology Index have fallen 24.6% and 24.7%[1], respectively. In our view, this correction reflects more cautious market sentiment rather than any deterioration in industry fundamentals.

Following a period of strong gains, several developments have heightened investor concerns around the AI investment cycle: Meta's entry into the AI compute leasing market and its potential to expand future supply; negative cash flow at certain cloud service providers, prompting questions over the sustainability of capital expenditure; and market unease surrounding Nvidia's investment commitments tied to OpenAI.

Importantly, according to **Eric Lin, Portfolio Manager, Eastspring Investments**, the current debate centres on the **pace** of AI investment and demand growth, **not on a fundamental shift in the industry's trajectory**. Two observations reinforce his view:

[1] Source: Bloomberg. As of 28 July 2026.

- **Corporate investment:** Companies continue to commit resources to AI development, with infrastructure build-out still progressing and no material change in long-term strategic direction.

- **Industry demand:** Demand across key segments of the AI supply chain such as advanced semiconductors, memory, and data centres remains robust, with no clear signs of slowing.

Corporate investment and industry demand remain robust

Addressing recent market concerns

Against this backdrop, we offer our perspective on some of the market's key concerns:

1. Meta's expansion into AI compute leasing does not signal oversupply

We believe Meta's decision to make part of its AI compute capacity available externally is primarily aimed at improving the utilisation and return on its existing infrastructure, rather than materially altering the industry's supply-demand balance.

Global demand for AI compute remains firmly in a rapid growth phase. Market concerns over potential oversupply of AI compute capacity appears overstated.

With AI model sizes continuing to scale, inference workloads rising sharply, and enterprise adoption accelerating, global demand for AI compute remains firmly in a rapid growth phase.

Against this demand backdrop, we believe market concerns over potential oversupply are likely overstated.

2. The cloud service provider (CSP) capex cycle has further to run

While some large CSPs have seen near-term operating cash flow pressured by elevated AI investment, AI remains one of the fastest-growing and most strategically important segments, and a key driver of broader cloud demand.

AI remains one of the fastest-growing and most strategically important segments for cloud service providers.

Major CSPs continue to fund AI infrastructure expansion through debt and other channels, and their strong balance sheets are more than sufficient to support long-term investment plans.

On balance, we do not view current conditions as a turning point in the AI capex cycle.

3. OpenAI-related investments carry different risks from "closed-loop" arrangements

We recognise investor concerns around Nvidia's growing investment in OpenAI, particularly the associated financial and credit risks. However, we view this as fundamentally distinct from so-called "closed-loop" transactions.

OpenAI's products and services ultimately serve a broad base of enterprise and consumer end-markets, rather than simply flowing back to individual suppliers.

Closed-loop arrangements typically see demand or revenue recirculate within a single ecosystem. By contrast, OpenAI's products and services ultimately serve a broad base of enterprise and consumer end-markets, rather than simply flowing back to individual suppliers.

We believe these developments warrant monitoring but are not sufficient to alter the fundamental case for long-term AI demand growth.

Why we believe AI's long-term growth trend remains intact

We see three structural factors supporting our view that AI-related investment is still at a relatively early phase of development:

1. Sustained investment commitments from technology leaders

- Major cloud service providers continue to invest in expanding their AI infrastructure, with no indication of a slowdown in capital deployment.
- Given the robust balance sheets and financing capacity of large technology companies, we expect AI data centre build-out to continue advancing over the coming years.

2. Persistent supply chain tightness, benefiting a broad range of AI sub-sectors

- Rising AI training and inference demand - Requirements for AI compute infrastructure, memory, optical communication components, and semiconductor equipment continue to grow.
- Medium- to long-term opportunities across the AI server supply chain - Demand for high-bandwidth memory (HBM), advanced packaging, and high-end substrates remains strong, with pricing trends still favourable.
- AI server specification upgrades - Continued upgrades are supporting demand across thermal management, power management, PCBs, and copper-clad laminates.
- Emerging supply-constrained segments - Certain high-end substrates and passive components are expected to move gradually into shortage, representing important forward-looking investment themes.

3. AI adoption broadening from advanced nodes into the wider semiconductor supply chain

- Advanced capacity remains tight - The structure of wafer foundry capacity is evolving. Strong demand for AI chips has kept advanced-node utilisation elevated on a sustained basis, prompting foundries to continue expanding capacity.
- Mature-node demand is recovering - Demand for mature processes including PMICs, analog ICs, and selected automotive chips is rebounding, with capacity gradually tightening.
- In our view, foundries with a competitive edge in mature-node processes are well positioned to emerge as key beneficiaries in the next phase of the cycle.

Where we continue to see opportunities

- Within Asia, we continue to focus on investment opportunities arising from the AI supply chain and the ongoing upgrade cycle in the semiconductor industry.
- During the recent market pullback, we have found selective opportunities in high-end substrates, passive components, and foundries positioned to benefit from improving supply-demand dynamics in mature-node processes.
- We remain constructive on Asian companies that occupy critical positions within the global AI supply chain, particularly those playing pivotal roles in advanced packaging, key components, and semiconductor manufacturing.
- As AI adoption continues to broaden, we expect these companies to remain well-positioned to benefit from sustained, long-term growth momentum.

Looking ahead, we believe the recent correction in technology equities primarily reflects short-term shifts in market sentiment and valuations, rather than any fundamental change in the long-term AI investment trend.

The core structural drivers - continued corporate investment in AI infrastructure, the semiconductor industry upgrade cycle, and accelerating enterprise digital transformation - remain firmly intact, underpinning our positive view on the medium- to long-term growth potential of the technology sector.

Accordingly, we will continue to focus on companies with clear technological leadership, strong industry positioning, and high earnings-growth visibility, while leveraging market volatility as an opportunity to create long-term value for our investors.

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