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What's next after the tech sell-off?

"Market update"

6 November 2026

Summary

- The tech-led sell-off reflects concerns over AI financing costs and tighter data center regulation after the US mid-terms. Our outlook for data center development is for delays, not cancellations or outright mass prohibitions.
- The recent falls in market prices of tech and AI-related stocks have already discounted a good deal of earnings downgrade risk. While markets may discount the risk further, our analysis suggests that a lot of work has been done.
- Bonds are regaining their defensive role as yields fall. Asia dividends and disciplined value investing can help portfolios stay resilient as market leadership rotates. India equities could present a compelling opportunity especially if energy prices fall.

AI investment cycle is not over

Share prices of IT hardware producers (semis), hyperscalers, and AI related companies weakened significantly in the weeks ahead of the US mid-term elections and convulsed lower in the US trading session yesterday with the Nasdaq falling 5.9%.

Our **Chief Economist, Ray Farris** believes that two main forces are at work.

- Markets are concerned that the higher bond yields arising from global central bank tightening will constrain the ability to finance AI infrastructure spending.
- The US mid-term elections have shifted control of local governments from AI-friendly Republicans to Democrats who favour greater regulation of AI in key states as we wrote about in this week's CIO views and Market update.

Starting with the politics, over the past couple of months we have warned that US public opinion has turned more hostile toward data center development and that this risked delays in projects. **However, our analysis suggests that the outlook is for delays, not cancellations or outright mass prohibitions.**

In all of the key states we identified in this week's CIO Views, we see none of the Democrats who had won the election as arguing for a cessation or ban on data center development.

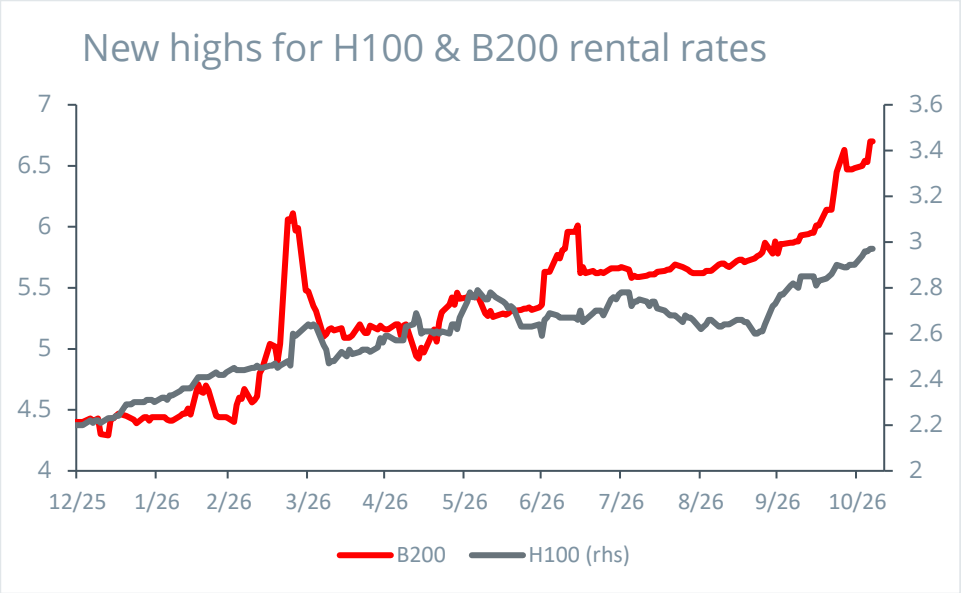
In contrast, their platforms focus on pushing state legislatures to enact new regulations requiring greater data center responsibility for local utilities costs, changes to taxes on data centers, and granting ultimate approval authority for new developments to local jurisdictions. Some, but not all, of these newly-elected officials have advocated moratoria on new developments to give time for legislation to pass.

Turning to financing cost and capacity, we have argued recently that higher financing costs would likely crowd out some spending by neoclouds on the margin. However, total neocloud planned spending is only about 7% of estimated total US spending in 2027 and we think it would excessive to argue that all of this will be crowded out. If we were to assume that fully half of this is canceled – likely an overestimate – it would imply a reduction in total spending of only about USD84bn.

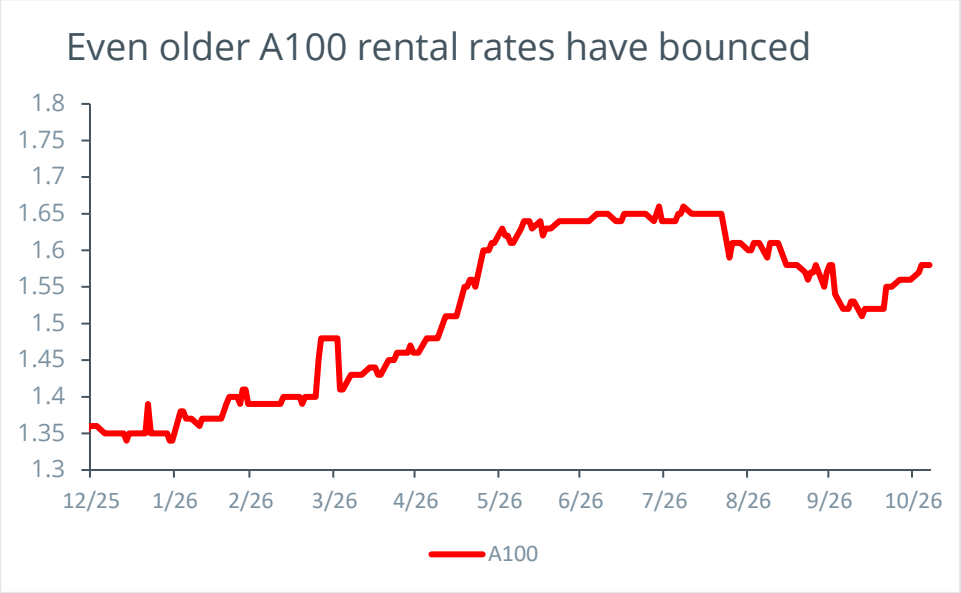
However, the hyperscalers who account for essentially 93% of planned AI capex spending do not seem to face significant financing constraints. Since October 1, Bloomberg data shows the hyperscalers as having successfully raised USD199.9bn in new financing: USD72.5bn in new bond debt, USD12.5bn in mandatory convertibles, USD34.9bn in new equity and USD80bn in supplier financing established. Much of this has come in the last week.

Another USD60bn equity offering by a hyperscaler is in progress and, we believe, likely to complete. A leading AI lab is in the process of raising up to USD100bn in an IPO and roughly USD35bn in neocloud IPOs are in progress.

Equally important, market pricing of data center compute suggests that continued growth in AI infrastructure spending makes sense. The available data show data center capacity is still in deficit relative to demand, not surplus. GPU rental rates for new H100 and B200 racks have risen to new highs and rates for six-year old A100 racks have reversed higher. Several of the US hyperscalers noted in their Q3 earnings announcements that compute shortages had limited their revenues.



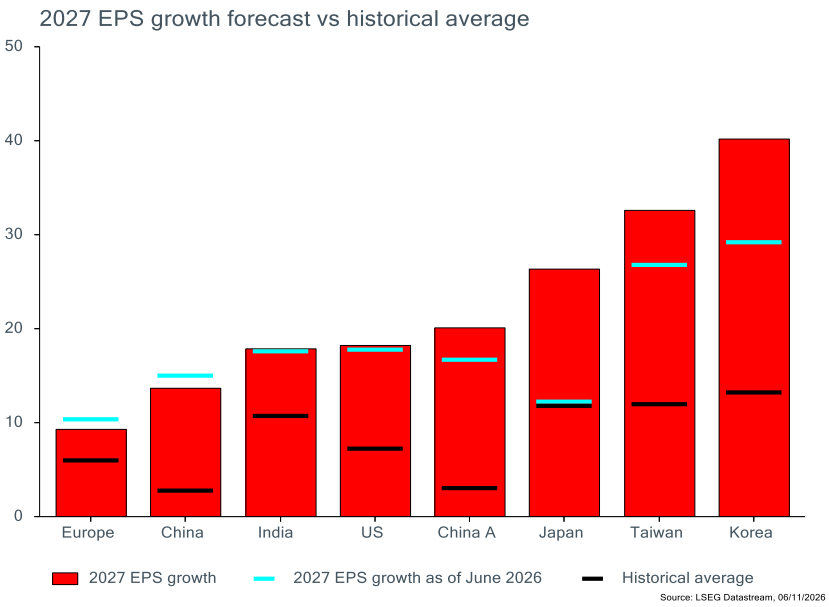
Source: Bloomberg



Source: Bloomberg.

Nonetheless, markets may vacillate in their estimates for growth in AI infrastructure spending and revenues in the near term. We judge part of the market problem could be due to excessive upgrades to the projection for data center development over the past several months.

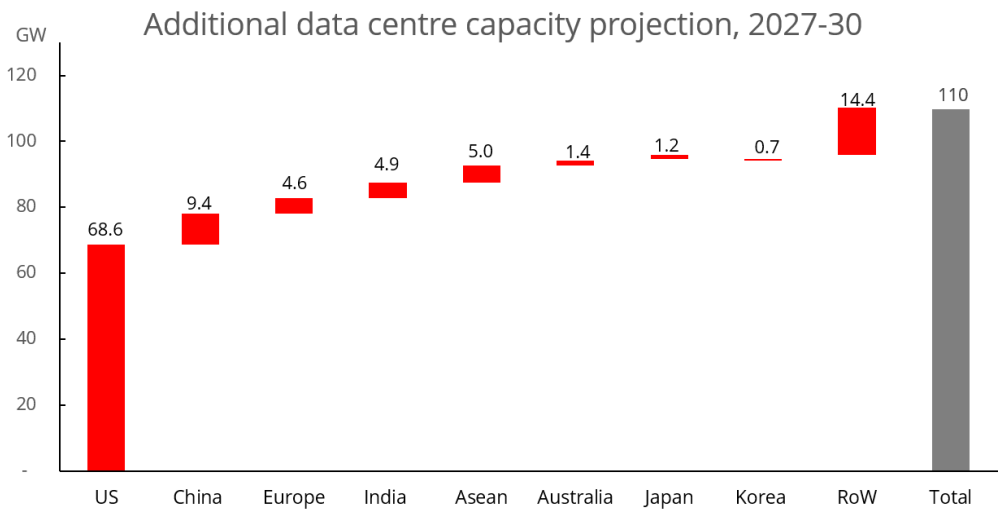
Since mid-year we have watched investment bank estimates for the increase in global data center capacity from 2027 – 2030 climb from about an already impressive 110GW to staggering numbers of 180GW – 230GW. This has driven persistent upgrades to earnings estimates for AI-related companies. The chart below shows that consensus estimates for 2027 earnings for Japan, Taiwan, and Korea have risen significantly since mid-year.



Some of these upward earnings revisions are now at risk of downgrades. However, two key points stand out.

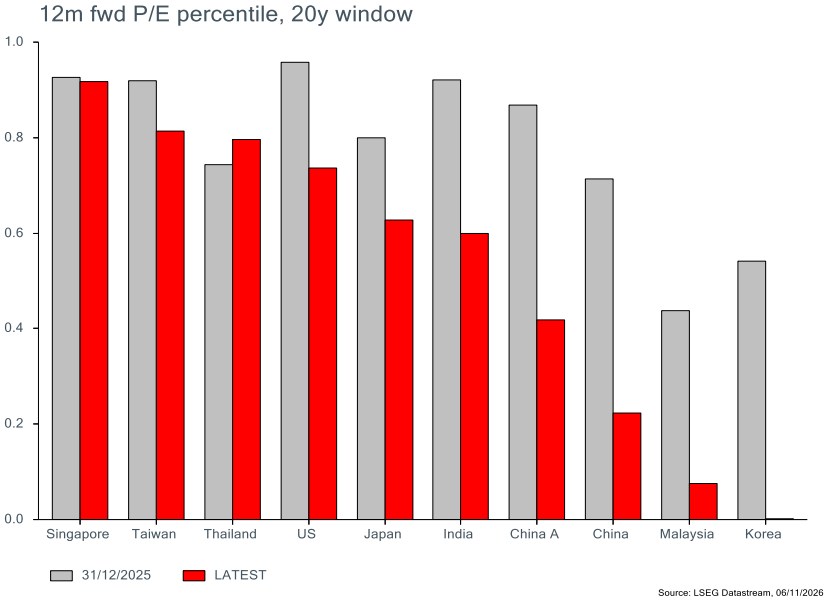
- **First, most revenues for IT hardware in 2027 are already locked in**. Data from Alterio show that the US alone has 85GW of data centers already under development across 888 facilities with only about 8.4GW delayed. **Most of these are likely to proceed and would require GPUs, DRAM, and other data center infrastructure hardware, most of which will come from Asian producers.**

  The bulk of market uncertainty going forward is likely to be about data centers in the pre-development or planning phase. Alterio counts 464GW pre-development data centers currently still in the proposal stage. This is a staggering number that we judge to be unlikely. We continue to think that the global development schedule we suggested at midyear for about 110GW of new compute through 2030 is a reasonable estimate. At a now conservative USD38.5bn per GW of development cost, this would translate into about USD4.2tn of spending globally over the next four years. We think a bear case would be about 75GW of new development which would still equate to USD2.9tn in spending.

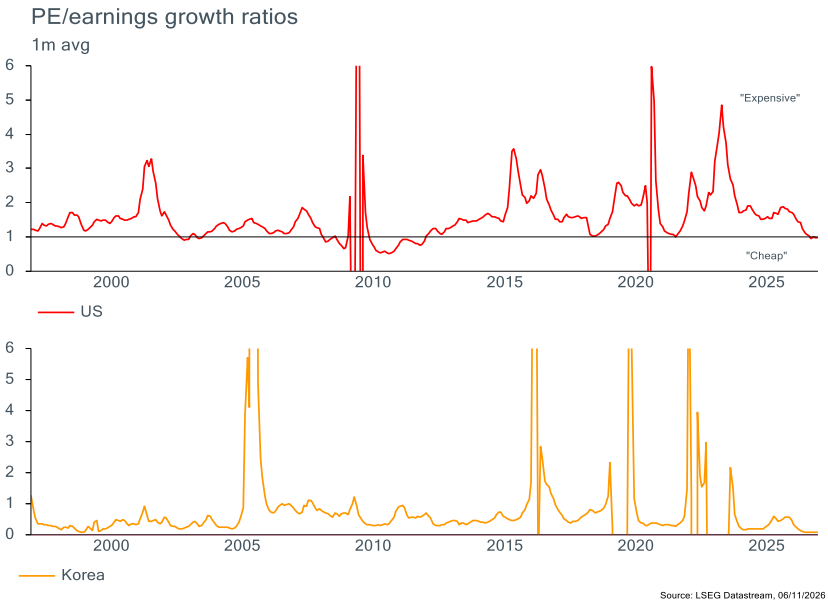


Source: Eastspring Investments, Morgan Stanley, UBS.

- **Second, we see that the recent falls in market prices have already discounted a good deal of earnings downgrade risk.** Forward price-to-consensus-earnings (PE) ratios are well off their highs for the year in absolute terms and relative to their historic averages.



Arguably more relevant to the current period of cyclically higher growth, forward PE to earnings growth rate ratios have fallen to levels that are so low they would require very large cuts to earnings estimates to return to average levels, much less expensive valuations.



To be sure, we cannot be certain that markets will not further discount AI earnings downgrade risk. However, our analysis above suggests to us that a lot of work has been done.

Investment implications

Multi asset

The sharp market sell off appears to reflect investors reassessing the implications of the US midterm elections for the pace of AI-related data-centre investment and, consequently, future semiconductor demand. While there remains considerable uncertainty, our **Multi Asset Portfolio Solutions team believes that it is premature to assume a material and sustained disruption to the broader AI investment cycle or US growth at this stage**. The magnitude of the recent move also appears to have been amplified by technical factors, including volatility-targeting strategies and leveraged ETF deleveraging, rather than reflecting fundamental deterioration alone.

Valuations have adjusted meaningfully, while the corporate earnings backdrop remains relatively robust. This reinforces their view that the longer-term AI investment thesis has not fundamentally changed, although near-term volatility could remain elevated.

For now, the team is **maintaining a cautious stance rather than adding risk. They reduced their equity overweight earlier this week** following a deterioration in their systematic signals and moved from their previous overweight to now underweight Emerging Markets relative to the US. Portfolios retain only a modest equity overweight, while they continue to favour selected structural exposures including semiconductors, cybersecurity and Korea, alongside European banks and long-duration assets as diversifying positions.

The team recognises that further near-term weakness is possible as positioning adjusts. However, valuations are becoming more attractive and, once markets show greater signs of stabilisation, the team will reassess opportunities to add

equity exposure selectively, either directly or through options.

Equities

While the long-term AI opportunity remains intact, performance is likely to become more differentiated. As investment expands from GPUs into memory, advanced packaging, networking, and other infrastructure, the opportunity set is broadening. **Market volatility is creating selective opportunities.** Our managers that are focused on Asia tech are using the recent correction to identify attractively valued companies with strong earnings growth, improving fundamentals and compelling medium- to long-term prospects.

Meanwhile, contrarian positioning by our value managers has led them to be largely underweight the technology/AI space which has proved beneficial going into the current tech-led sell-off. **For value investors, the most important question is how the market prices risk**. **If investors overpay for the perceived safety of quality while excessively penalising weaker businesses, the resulting dispersion can create attractive value opportunities.** Following the technology sell-off, the question our value managers will be asking is whether the valuation reset in the sector already more than discounts the deterioration in growth or profitability that investors fear. **Across all sectors and markets, our value managers look for opportunities where depressed expectations and attractive valuations appear to more than discount the risks, particularly where there is potential for an earnings recovery.**

The India equity market could present a compelling opportunity especially if energy prices fall. Indian equities continue to offer exposure to structural growth opportunities, while providing valuable diversification for portfolios. Recent underperformance, partly reflecting higher oil prices and limited participation in the AI-driven rally, could offer an attractive entry point for long-term investors.

For Asia dividend investing, the recent tech-led sell-off and rapid shifts in market leadership reinforce the **benefits of a diversified, style-agnostic approach**. By seeking opportunities across the dividend cycle rather than relying on a single source of income or dominant market theme, our managers aim to build portfolios with **multiple return drivers that can be more resilient as market leadership changes.**

Bonds

Against the current backdrop of equity market volatility, fixed income markets have provided some diversification benefits, with bonds benefiting from the recent decline in yields. This suggests that **bonds may be re-establishing their traditional role as a defensive asset** during periods of market stress, offering investors valuable **portfolio diversification**.

Our fixed income team continues to actively manage portfolio duration, **balancing the potential to benefit from further declines in yields with the need to remain responsive should interest-rate expectations shift.** Alongside this, the team remains prudent in managing credit and currency risk, with a strong emphasis on credit quality, liquidity and capital preservation. Positioning is continuously assessed, with exposures scaled back when spreads compress or valuations become less compelling, preserving

flexibility to take advantage of opportunities as market conditions evolve.

Although risk-free rates have fallen over the last few weeks, bonds' starting yields are still attractive, providing investors with meaningful carry income and potential capital upside should global growth risks intensify.

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