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The AI reset – Fundamentals take centre stage

Market update

3 November 2026

Summary

- The recent sell-off in global technology stocks reflects greater scrutiny, not a breakdown of the AI growth story. Investors are becoming more discerning about valuations and whether rising AI investment is translating into earnings.
- The long-term AI opportunity remains intact, but 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. We are using the recent correction to identify attractively valued companies with strong earnings growth, improving fundamentals and compelling medium- to long-term prospects.

Recent market developments

Global technology stocks experienced another significant correction last week. **Eric Lin, Portfolio Manager,** Eastspring Taiwan believes that the sell-off primarily reflected valuation adjustments and increasing investor scrutiny of AI-related capital expenditure, free cash flow and investment returns.

Importantly**, the latest earnings season indicates that AI demand has not weakened** and continues to grow rapidly. Microsoft Azure revenue grew 48% year-on-year, Amazon AWS grew 39%, and Alphabet Google Cloud grew 103%, demonstrating continued strength in AI infrastructure and cloud demand.

However, as major technology companies continue to increase AI capital expenditure, investors are becoming more selective. **The focus is shifting from AI-related revenue growth alone toward whether AI can drive broader corporate revenue, earnings and cash flow growth, while creating meaningful improvements in existing business models**.

For example, alongside Azure's strong growth, Microsoft delivered 19% overall revenue growth while maintaining positive free cash flow. In contrast, despite strong growth in Google Cloud, Alphabet's advertising revenue came in below market expectations and

free cash flow turned negative, making investors more cautious about the near-term returns from elevated AI investment.

Intel showed a similar divergence across its businesses. Data Center and AI revenue grew 78% year-on-year, reflecting strong demand for AI servers and Xeon CPUs. However, Client Computing revenue declined 5%, while the Foundry business remained loss-making, demonstrating that investors are increasingly looking beyond AI growth, focusing on improvements across companies' broader businesses.

Therefore, Eric believes that the recent market correction does not reflect weakening long-term AI demand. Rather, the **market is moving from a broad-based "AI thematic re-rating" toward a phase that places greater emphasis on fundamentals, earnings delivery and returns on AI investment.**

Long-term AI growth remains intact

From a supply-chain perspective, **Jack Hsu**, **Portfolio Manager**, Eastspring Taiwan feels that AI investment remains in a period of rapid infrastructure expansion, while AI applications are gradually broadening from model training to inference and Agentic AI.

As AI inference and AI-agent demand continues to increase, Jack remains positive on AI computing infrastructure, memory, high-speed networking and optical components, and semiconductor equipment. Demand for high-bandwidth memory (HBM), advanced packaging and high-end substrates remains strong, while thermal management, power management, PCBs and copper-clad laminates (CCLs) continue to benefit from AI server specification upgrades.

The team believes that the recent correction has not changed the structural long-term growth outlook for AI. Instead, **investment opportunities are likely to become increasingly differentiated, with companies demonstrating tangible AI revenue contribution, earnings growth and reasonable valuations likely to be better positioned.**

Against the backdrop of the recent market correction, they see opportunities in selected AI supply-chain companies with strong revenue growth and attractive medium- to long-term prospects, including companies in memory, ABF substrates, semiconductor equipment and passive components that are benefiting from growing AI server and data-center demand.

As AI investment expands beyond GPUs into CPUs, memory, high-speed networking, advanced packaging, substrates, power management and thermal solutions, the range of beneficiaries across the AI supply chain is likely to continue to broaden.

The team remains focused on companies with strong earnings growth, improving fundamentals, reasonable valuations as well as attractive medium -to-long-term growth potential, while capitalising on opportunities that arise from the short-term market volatility.

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