

What tech sell offs mean for investors



Market update

19 October 2026

Summary

- ▶ Recent tech weakness reflects a reset in sentiment, not fundamentals. Underlying AI demand remains robust despite concerns on funding costs, memory competition and earnings uncertainty.
- ▶ The long-term AI growth thesis remains intact. Rising Agentic AI adoption could broaden demand across the server market while strong AI chip demand is supportive of foundries with leading-edge capacity.
- ▶ Market weakness is creating selective opportunities. The correction provides opportunities to build exposure to high-quality technology companies at more attractive valuations.

Recent market developments

Technology stocks have experienced a notable pullback recently, reflecting a more cautious market risk appetite rather than any meaningful deterioration in industry fundamentals. A series of recent developments has raised investor concerns over the sustainability of the AI investment cycle, mainly centred on these areas:

1. Market concerns have shifted from supply-side bottlenecks, such as semiconductors, memory and power, toward access to capital and the cost of funding.
2. Persistently elevated US Treasury yields have increased financing costs and investment hurdle rates for AI data centres, while growing regulatory scrutiny and community concerns surrounding their build-out could further constrain future expansion, potentially moderating growth in AI server demand.
3. Intensifying competition could put pressure on the medium-term pricing power and market shares of US and Korean memory manufacturers, thereby limiting the near-term re-rating potential of memory stocks.
4. Korean won appreciation (13% in 3Q26) has raised the risk of earnings downgrades, keeping investors cautious on Korean technology stocks ahead of third-quarter results.

Our assessment of current developments

We acknowledge that higher funding costs could raise the investment hurdle for AI infrastructure projects. However, from a demand perspective, AI-related backlogs at major cloud service providers (CSPs) continue to expand, indicating that underlying demand for AI infrastructure remains in a strong growth phase. In other words, while the market is currently focused on the rising cost of capital, it may be overlooking the fundamental reason companies continue to require substantial funding: demand for AI infrastructure remains robust.

At the same time, AI adoption is also broadening beyond model training and infrastructure build-out toward enterprise and consumer applications, particularly Agentic AI. As enterprises increasingly deploy Agentic AI to grow revenue, enhance operational efficiency and improve profitability, and consumer AI applications continue to expand their user bases, we believe the commercialisation of AI remains firmly on track.

Next, while China's largest DRAM manufacturer, ChangXin Memory Technologies (CXMT), progress in 4F² technology has raised concerns over greater competitive pressure. However, a meaningful gap remains between product development and large-scale commercial production. Lengthy customer qualification, manufacturing complexity and restrictions on access to advanced equipment could slow adoption. By then, leading US and Korean memory manufacturers are also likely to introduce next-generation products. As such, it remains too early to determine whether CXMT can establish a sustainable technology lead through its 4F² architecture. Nevertheless, CXMT warrants monitoring, but we do not expect it to materially alter DRAM supply-demand dynamics in the near term.

Lastly, the Korean won appreciated by approximately 13% against the US dollar during the third quarter, while the New Taiwan dollar was broadly unchanged against the US dollar. Korean technology companies could therefore face more pronounced currency headwinds, potentially prompting downward revisions to gross margin and operating profit expectations. Third-quarter results should provide greater clarity on currency impacts, while the recent market correction suggests some earnings downside is already priced in. Robust AI and memory demand could refocus attention on fundamentals once earnings uncertainty recedes, supporting a rerating of Korean technology stocks.

Bottom line: The long-term AI growth thesis remains intact

We believe the AI investment cycle remains in its early stages, with opportunities continuing to broaden across the technology supply chain. Rising demand for AI training and inference should continue to support growth across AI computing infrastructure, memory, advanced packaging, high-end components and semiconductor equipment.

We remain particularly constructive on the medium- to long-term opportunities across the AI server supply chain. Demand for high-bandwidth memory (HBM), advanced packaging and high-end substrates remain strong, while pricing trends also remain supportive. Rising computing and power requirements should also broaden opportunities to thermal and power management, as well as energy storage.

Meanwhile, rising Agentic AI penetration could further broaden AI-related demand across the overall server market, benefiting not only AI servers but also general-purpose servers and their associated supply chains.

Another important trend is the evolving capacity structure within the semiconductor foundry industry. Strong AI chip demand is keeping advanced-node capacity utilisation at high levels and encouraging foundries to continue expanding leading-edge capacity. Meanwhile, demand for mature-node applications, including power-management ICs (PMICs), analogue ICs and selected automotive semiconductors, is also gradually recovering. This is supporting improving utilization rates and progressively tighter supply-demand conditions for mature-node capacity. We therefore see opportunities across both advanced- and mature-node foundries.

Investment implications

We maintain a positive view on the long-term outlook for the technology sector and AI development. While near-term market volatility has increased, we believe the structural growth outlook for AI computing infrastructure, the server supply chain and semiconductor equipment remains firmly intact.

In our view, the recent market correction primarily reflects weaker risk appetite and a valuation reset. At the same time, it has created opportunities to build positions in high-quality companies at more attractive valuation levels.

We are therefore continuing to take advantage of market weakness to increase exposure to companies with clear structural growth drivers, strong competitive positioning and good earnings visibility.

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