

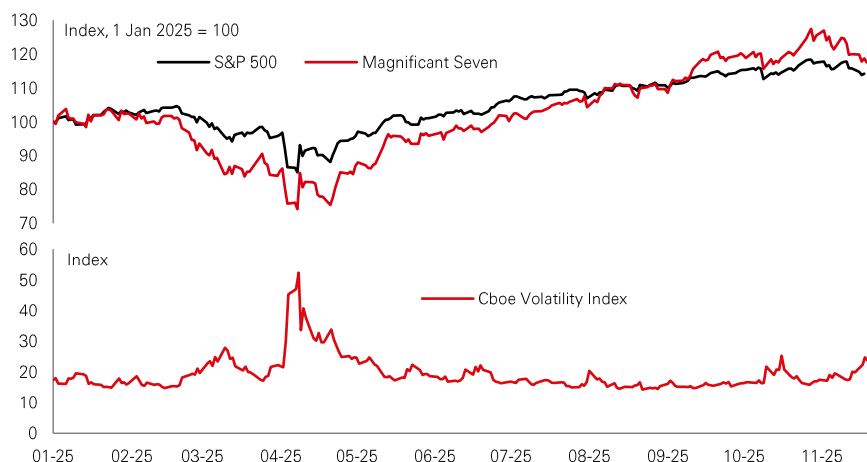
Tech jitters

Investment Event | 24 November 2025

Investors on edge

Over the past few weeks, global technology stocks have experienced a pick-up in volatility. Having peaked on 29 October, the Magnificent Seven index of leading US mega-cap stocks is down around 8%, underperforming the broader S&P 500 index (Figure 1).

Figure 1: S&P 500 and Magnificent Seven year-to-date performance, VIX volatility index



Source: Bloomberg, HSBC AM as of 20 November 2025. Past performance does not predict future returns.

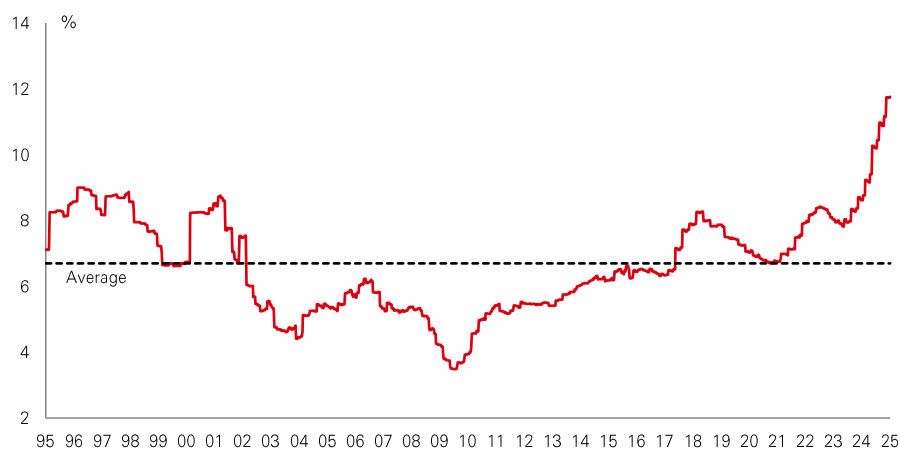
The latest bout of volatility may be attributed to several factors:

1. A solid Q3 earnings season, but concerns over AI spending commitments

After a strong first half, the technology sector – which along with communication services is expected to contribute 65% of total S&P 500 profit growth in 2025 – came into Q3 with record upward revisions. Yet, the tech sector has still managed to beat expectations, not least Nvidia.

But the guidance on future AI-related capex investment has exacerbated concerns over return on investment, the possibility of “overspending”, and the circularity of the financing. Hyperscalers’ – companies that operate massive data centre networks – latest capex plans suggest c. USD800bn spending by 2028, up from c. USD200bn in 2024. This is from a starting point where the capex-to-sales ratio is already well above its long-term average, signalling the risk of overinvestment and potential cash flow issues further down the line (Figure 2).

Figure 2: US Tech capex to sales ratio



Source: Refinitiv, Datastream, HSBC AM as of 20 November 2025

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The recent pick-up in US tech stock volatility comes amid increased concerns over huge capex commitments

There may also be concerns that US economic growth is becoming increasingly lopsided

The narrative around AI – and the strong revenue generation potential that it brings – can remain a powerful driver of US stock market momentum

But given the ongoing uncertainty around the AI business model, episodic volatility in US stocks could become the norm in 2026

Geographically diversified portfolios may be the ideal route to maximising returns and limiting exposure to downside AI and US macro risks

We also think investors need to think more holistically around assets and strategies to build portfolio resilience

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2. A “K-shaped” economy

A “K-shaped economy” is where different parts of the economy diverge, resembling the two arms of the letter “K”. Looking at the US economy in this way, the “winning arm” currently represents high-income earners and technology industries, while the “losing arm” includes lower-income individuals and struggling businesses.

So, while the economy appears to be expanding at a reasonable pace, it is unbalanced with a relatively narrow set of winners driving growth. These vulnerabilities may be weighing on market sentiment, not helped by the recent US government shutdown, which created a data vacuum.

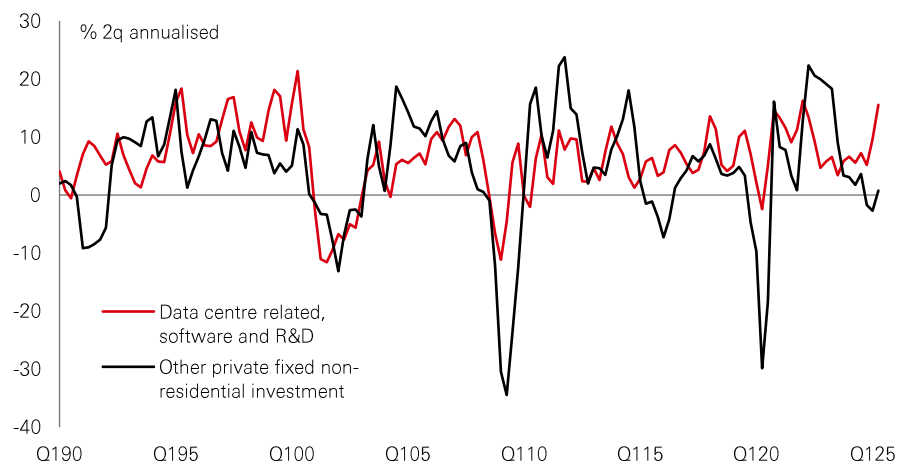
Box 1: The winners and losers in today’s “K-shaped” economy

The winners: AI has gone from being a market driver to a macro driver. In the first half of the year, the US economy grew by an average of 1.5% q/q, of which at least one percentage point came from AI-related investment. If the hyperscalers stick to their spending plans, the data centre build-out and other AI-related capex are likely to remain strong supports for the economy in the coming quarters and support GDP growth of around 2% next year.

AI has also bolstered consumption, with the outsized gains in tech-related stocks boosting household wealth. However, the impact has been relatively narrow, with the top 10% richest households owning over 80% of US equity and mutual fund shares.

The losers: Thus far, however, there is little evidence that this investment spending is broadening out into a wider investment binge. Indeed, non-tech investment appears to be stagnating, potentially due to still-mildly restrictive interest rates (Figure 3).

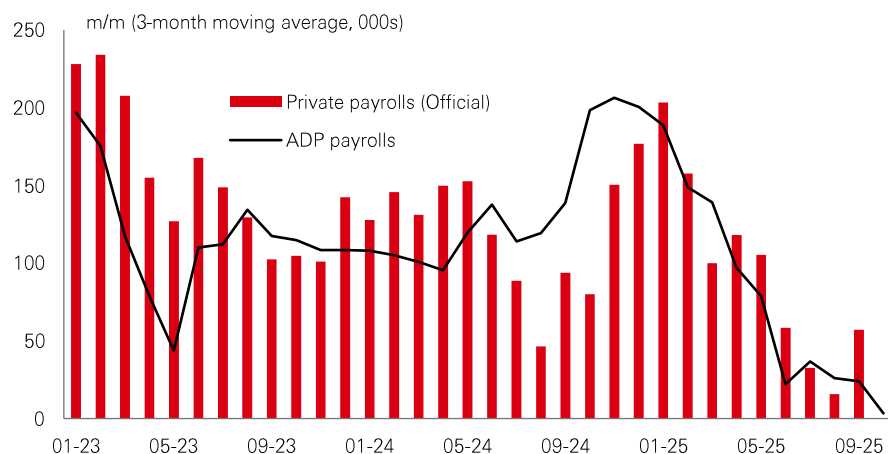
Figure 3: US tech versus non-tech business investment



Source: Macrobond, as of 20 November 2025

Most households rely on labour income or housing wealth to fund consumption. With 30-year mortgage rates still well north of 6%, the housing market remains under pressure and equity withdrawal is unappealing. And since the summer it is clear the labour market is cooling (Figure 4).

Figure 4: US tech versus non-tech business investment



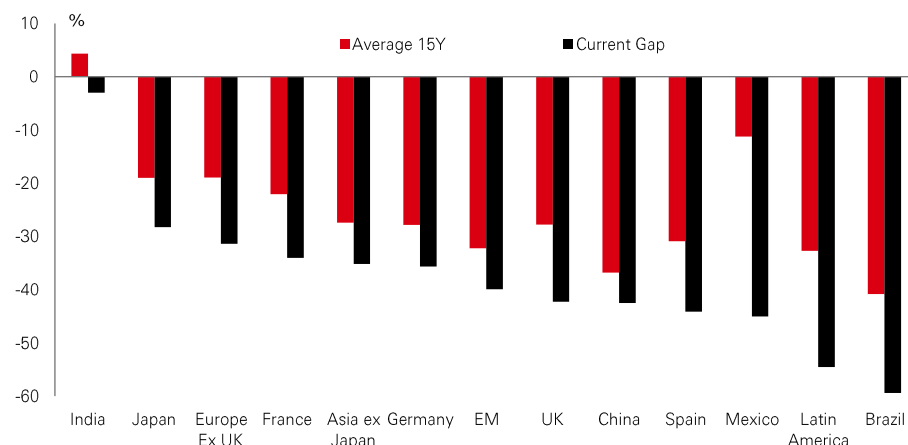
Source: Macrobond, as of 20 November 2025

Although some of the slowdown in employment growth reflects weaker labour supply following a crackdown on illegal immigration, slowing wage growth suggests demand has cooled by more. The combination of weaker jobs growth, moderating wage growth and some upward pressure on inflation from tariffs is likely to weigh on consumer spending late this year and into 2026.

3. A strong run in US tech has left valuations looking relatively high

Despite the recent wobble, US technology stocks have had a very strong run this year, extending major gains in 2023 and 2024. And even though rest-of-the world markets have also performed strongly in 2025, US stocks' long stretch of outperformance from 2010 means a significant valuation gap still exists and remains considerably higher than the average over the past 15 years (Figure 5).

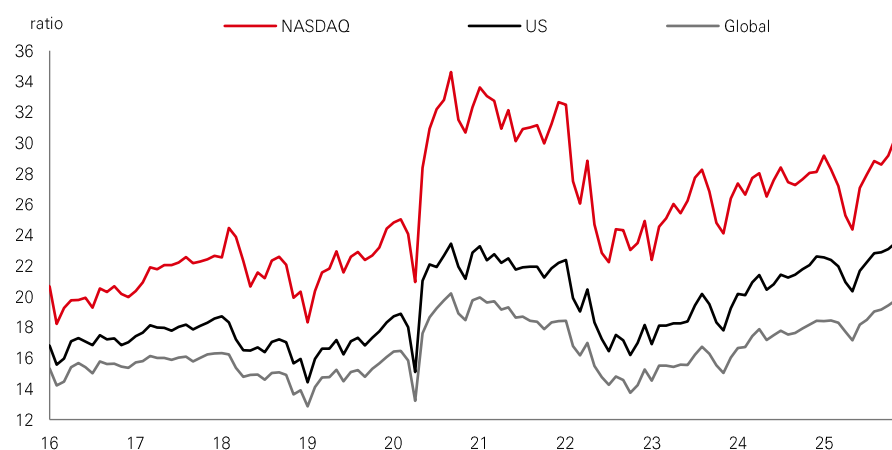
Figure 5: Regional PE gap versus US (MSCI indices)



Source: Refinitiv, Datastream, HSBC AM as of 20 November 2025

This makes US stocks more sensitive to some of the recent market concerns – especially those in the technology sector where the valuation premium is even higher than the broader market (Figure 6). Some prominent investors – such as Michael Burry, best known for his successful bet against the housing market before the 2008 crisis – have recently expressed concerns over big tech valuations, potentially also damaging investor sentiment.

Figure 6: 12-month forward price earnings ratios: US versus world



Source: Refinitiv, Datastream, IBES, HSBC AM as of 20 November 2025

4. Fed cuts on the radar. December chances have come down

The good news for global investors is that policy uncertainty measures are falling back. Following the seismic shock that was April's "Liberation Day" tariff announcements, trade policy is now less topical for investors.

But that doesn't mean policy uncertainty has dissipated completely. In particular, the outlook for the Fed remains clouded by questions around the impact of political interference, and increasingly divergent views on the FOMC around the state of the labour market and inflationary pressures in the economy, further complicated by the impact of AI.

Indeed, recent market volatility has coincided with several hawkish comments from Fed officials, with some concern over still-high levels of inflation. This follows Fed Chair Powell noting a December rate cut is far from a foregone conclusion in his October meeting press conference. The probability of a cut in December has slipped below 50%, perhaps unnerving some investors (Figure 7).

Figure 7: Probability of 25bp rate cut at Fed's December meeting



Source: Bloomberg, HSBC AM as of 20 November 2025.

5. The moat around US tech dominance looks to be shrinking

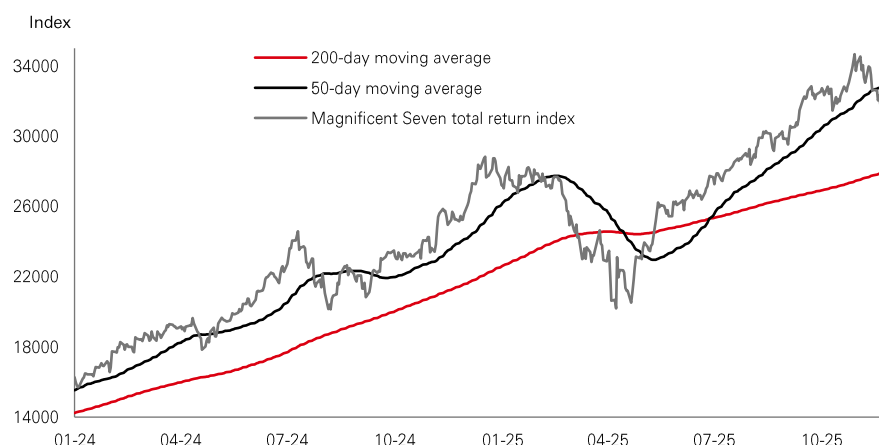
China's burgeoning tech sector continues to be a challenge, with the country's latest Five-Year Plan prioritising China's capacity for basic research and innovation – including around AI. The recent release of Beijing-based Moonshot AI's latest open-source reasoning model, Kimi K2 Thinking, showed very impressive results versus US peers, confirming that January's "DeepSeek" moment wasn't a one off.

Things to monitor

The latest market wobble needs to be taken seriously given the outsized weight of US tech stocks in global portfolios. Here are some key areas of the economy and markets that we think are worth monitoring in the coming weeks:

- Currently, robust **profits growth and earnings expectations** are consistent with a stabilisation in the equity and labour markets. But this requires careful monitoring, especially given elevated medium term profit expectations for US semiconductor firms. Any disappointment on this front could be damaging.
- It will be worth keeping an eye on **key financial metrics** for big tech firms, such as operating cash flow, to ensure revenues are generating cash, after expenses. Net profit margins will also be worth watching given they are at record levels and vulnerable to correction. Data on user adoption of AI tools can also help gauge demand, a key concern given the huge build-out of data centres.
- We also need to be aware of the risk from profit growth being heavily reliant on mega-cap tech firms. **Weaker firms could start to lay off workers** even if, in aggregate, corporate profits remain solid. In this regard, we need to keep a close eye on the so-called Challenger layoff announcements release, which spiked in October. The absence of a meaningful move back down in November would be concerning.
- The latest drawdown should also be put into context. It pales into insignificance compared to the tariffs-driven spring sell-off. Unlike that episode, the Magnificent Seven index remains well above its 200-day moving average. A well-known **technical analysis** signal "the death cross" indicating a potential shift to a prolonged downtrend, but not necessarily a crash (whereby the 50-day average drops below the 200-day average) is also far from being triggered (Figure 8).
- We also need to be aware of **amplification mechanisms** in financial markets. For example, the widespread use of margin accounts and increased institutional leverage for securities purchases – essentially using borrowed money to fund trades – could mean a further tech sell-off triggers a vicious cycle of forced selling, accelerating price falls. This would be exacerbated by any upward move in interest rates – for example, if the Fed delays further policy easing – that places further stress on leveraged positions.
- Although December rate cut chances have fallen, the longer-term outlook remains broadly unchanged, with investors still expecting the Fed Funds Rate to drop to around 3% by the end of next year. However, **any disappointment on the inflation front**, or persistently cautious and hawkish messaging from the Fed, could create more significant market turbulence.

Figure 8: Magnificent Seven index and 50- and 200-day moving averages



Source: Bloomberg, HSBC AM as of 20 November 2025. Past performance does not predict future returns.

Broadening out to diversify portfolios

Our broad investment strategy remains modestly pro-risk. In our core scenario, we do not expect a recession next year, but we do have some sticky inflation, modest interest rate cuts, and reduced policy uncertainty.

The narrative around AI – and the strong revenue generation potential that it brings – can remain a powerful driver of US stock market momentum. But given the ongoing uncertainty around the AI business model and some underlying fragilities in the US economy, episodic volatility in US stocks could become the norm in 2026 even as profits remain strong. With global profits and GDP convergence next year supporting the possibility of an ongoing broadening out of market returns, **geographically diversified portfolios may be the ideal route to maximising returns and limiting exposure to downside AI and US macro risks.**

And for investors still looking for exposure to the AI theme, **the global technology sector – especially in Asia – could be the way forward.** Tech stock valuations outside of the US are less demanding, offer strong earnings potential, and diversification across business models, regulatory environments, and economic cycles. This could mean lower volatility and implies the potential for superior risk-adjusted returns.

Importantly, in a highly complex and uncertain macro situation, **we think investors need to think more holistically around assets and strategies to build portfolio resilience.** The recent sell-off highlights the limited capacity of traditional diversifiers such as US Treasuries to hedge portfolios, with the US 10-year yield inching higher over the past few weeks. The dollar has performed better, however.

We think investors will need to consider “bond substitutes”, which can include liquid alternatives such as gold or hedge funds. Real assets such as listed infrastructure are well-placed to benefit from the global data centre build-out, but also navigate a higher inflation scenario. Finally, private assets benefit from structurally low volatility, with private equity in particular benefiting from Fed rate cuts.

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