AI After the Sell-Off: What Needs to Go Right

23 November 2026

Key takeaways

- **Stay calm:** While volatility may persist in the near term, underlying economic and corporate fundamentals remain constructive.
- **Be discerning with artificial intelligence (AI) investments:** Review portfolio to avoid over-concentration in companies reliant on the infrastructure build-out. Favour resilience via companies that can turn AI adoption into stronger revenue and sustainable profits.
- **Retain a balanced and selective stance:** The downgrade of UOB's equity outlook to Neutral on 17 September 2026 was timely. Within equities, focus on healthcare, high-quality market leaders and large, well-capitalised financials. We continue to favour quality Investment Grade (IG) bonds as an anchor within a diversified portfolio.

The AI Trade Meets Its Reality Check

Since our update on 6 November 2026, the market correction has deepened as several pillars of the AI trade weakened simultaneously. The triggers were:

- Growing doubts over returns from massive AI spending, compounded by falling token expenditure.
- Leadership upheaval at a key semiconductor company that is both a key supplier and financial backer within the AI supply chain.
- Greater US regulatory scrutiny over the AI infrastructure build-out.
- New US restrictions on the sale of advanced semiconductor chips to China.
- Persistent inflation and the possibility of Federal Reserve (Fed) rate hikes.

Market Reaction

Our equity downgrade to Neutral on 17 September 2026 was timely.

The S&P 500 fell 8.6% last week, a severe weekly move, while the NASDAQ 100 slumped 10.4%, its worst week since March 2020.

- We believe the sell-off reflects a combination of deteriorating sentiment and forced deleveraging, where crowded investor positions led to automated selling and profit-taking.

NASDAQ 100

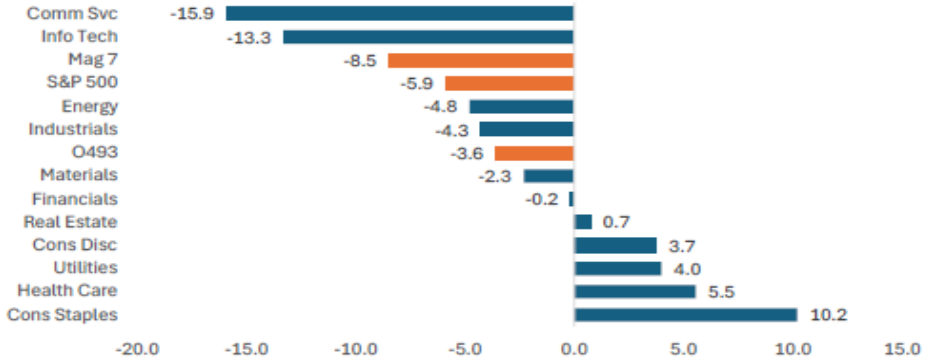


Source: Bloomberg, UOB Private Bank.

Investors have reduced exposure to technology and other high-growth investments.

The healthcare, consumer staples and utilities sectors have generally held up better, supported by more predictable demand and earnings.

Sector performance since our equity downgrade



Source: Bloomberg, UOB Private Bank

US Treasury and Investment Grade bonds have benefitted as investors sought greater portfolio protection.

Bonds have outperformed



Source: Bloomberg, UOB Private Bank

Key factors ahead

The market rotation underlines an important message: **quality, income, balance-sheet strength and earnings resilience are becoming increasingly important.**

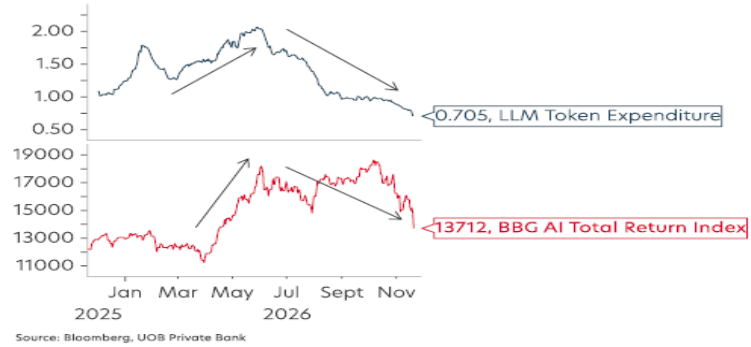
With the market sell-off tightening financial conditions, the Fed may not need to raise interest rates as aggressively as previously feared, with the market now pricing in two hikes instead of three by March 2027.

- While this is helpful, it is not a green light for all risk assets.

The correction does not mean that AI has lost its long-term investment potential, but investors are becoming more demanding about how quickly companies can turn large AI investments into actual earnings and shareholder returns.

- Keep a close eye on large language model (LLM) token expenditure as a proxy for whether leading Gen-AI companies can convert usage into profits.
- Token expenditure has been falling. While this is good for AI adoption, it also means falling revenues per unit of intelligence. It remains to be seen whether AI usage can increase at a pace that offsets falling token prices.

Token expenditure vs broad AI stocks



Source: Bloomberg, UOB Private Bank

Until volatility and systematic selling subside, rebounds in AI-related stocks should be viewed as opportunities to rebalance rather than proof that the correction is over.

Investment Strategy

- The scale of this sell-off leaves room for a technical rebound, but investors should not mistake a bounce for an all-clear prognosis for the AI trade.
- Review and rebalance investment portfolio to avoid an over-concentration in companies reliant on the AI infrastructure build-out.
- Maintain an appropriately diversified asset allocation across equities, fixed income and money market based on your investment objectives, time horizon, and risk appetite.
- Improve portfolio quality by gradually and selectively accumulating quality assets offering attractive income, strong balance sheets, resilient cash flows, and sustainable earnings.
- UOB's Neutral outlook on equities is a measured response to a more challenging near-term environment, rather than a negative assessment of the longer-term outlook for global equities or AI.
- Selective opportunities:

Quality IG bonds	• Offers dependable income and diversification benefits. • Favour an average duration of four to five years.
We maintain a **Neutral** outlook on equities with a preference for:	
Healthcare	• Demand and cash flows tend to remain resilient across different economic conditions. • Less dependent on the AI capital-expenditure cycle. • 2027 earnings growth is expected to improve versus 2026.
High-quality market leaders	With: • Proven business models. • Recurring free-cash-flow. • Strong balance sheets. • Sustainable profit margins. • Consistent record of delivering earnings.
Large, well-capitalised financials	With: • Diversified revenue sources. • Stronger capital positions. • Greater capacity to absorb potential credit losses.
Select Magnificent Seven Companies	With: • Strong core businesses.

	• Healthy cash flows. • The ability to finance AI investment internally. • Valuations that do not depend heavily on uninterrupted infrastructure spending or future earnings.

- Investors with the appropriate risk appetite can consider non-directional instruments like long-short equity strategies and certain structured products.
    - While they do not eliminate market risk, they can potentially help investors manage their exposure to market direction, reduce portfolio sensitivity to market moves, and generate returns in different market conditions.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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