CIO Insights

Messy past week = Improving entry point

3 August 2026

Key Takeaways:

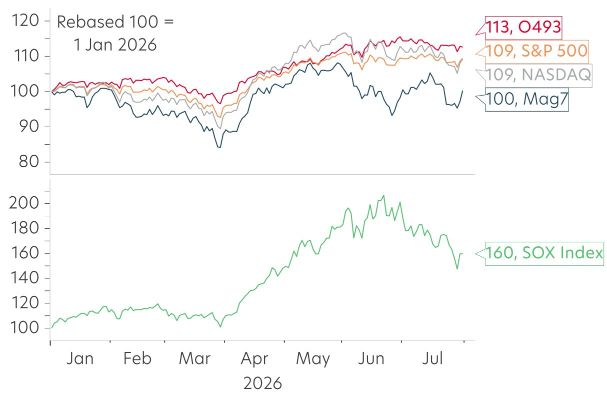
- The S&P 500 has made the recent pullback look milder than it has been. Strong earnings reactions from several mega-cap companies have supported the headline index, while corrections have been more visible in the Nasdaq-100, semiconductors and technology-heavy Asian markets.
- Our wait for a broad S&P 500 entry point has proved frustrating. We prefer maintaining strategic exposure and accumulating corrected assets in phases rather than trying to identify the index bottom.
- Near-term volatility could arise from US midterm-election uncertainty and unclear Federal Reserve communication. A more remote but potentially systemic risk is the failure of safeguards around autonomous artificial-intelligence agents.
- Japan remains vulnerable to further weakness in global semiconductors and policy-driven moves in the yen. Europe offers greater insulation from an AI-led correction, although its lower technology exposure also limits its structural growth potential.
- **Strategic view:** Stay overweight US equities through end-2026. **Tactical action:** Hold existing positions and deploy new capital in phases into corrected market segments. Prioritise profitable technology leaders, healthcare and financials rather than waiting for a larger S&P 500 decline.

The index is hiding the correction

The latest sell-off has not been evenly distributed. The S&P 500 has remained relatively resilient because its largest constituents carry big index weights. Strong earnings reactions among selected mega-cap technology companies have helped cushion the benchmark.

Microsoft, Alphabet and Amazon have held up after investors welcomed their results. Their resilience has made the broad US market appear steadier than the underlying picture suggests.

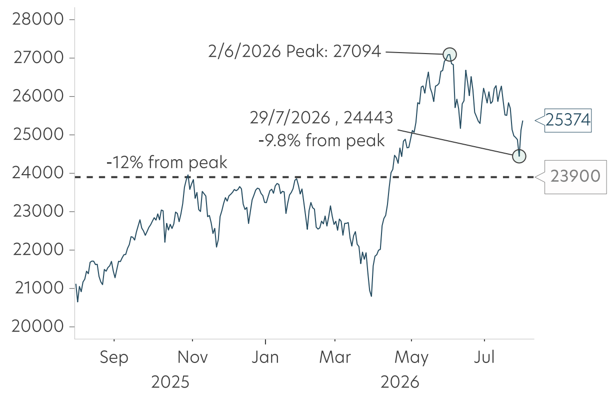
Figure 1: US indices performance (year to date)



Source: Bloomberg, UOB Private Bank

Elsewhere, the correction has been considerably less subtle. The Nasdaq-100 briefly fell more than 10% from its record, while the Philadelphia Semiconductor Index crossed the 20% threshold commonly associated with a bear market. Selling also spread through Asian technology and memory shares, with particularly severe losses in South Korea and Taiwan.

Figure 2: Nasdaq touched correction territory



Source: Bloomberg, UOB Private Bank

This distinction matters for portfolio decisions. Our frustration in waiting for the S&P 500 itself to fall sharply may overlook the repricing already taking place within technology, semiconductors and selected Asian markets.

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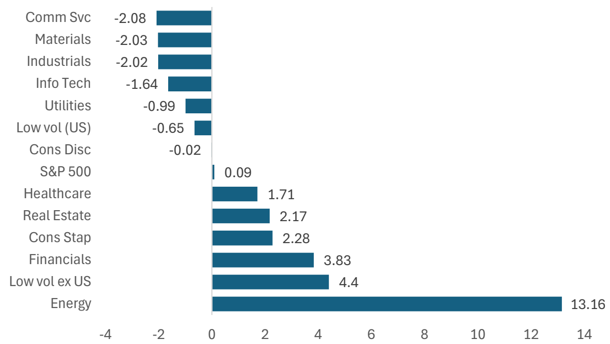
The better question is not whether "the market" has corrected. It is where valuations and expectations have adjusted to improve prospective returns.
We therefore favour phased accumulation rather than an all-or-nothing call on the index. Fully allocated investors should maintain exposure and rebalance away from areas where earnings expectations remain heroic. Underweight investors may narrow part of their allocation gap through staggered purchases.

Figure 3: Sector performance (last 1 month)



Source: Bloomberg, UOB Private Bank

Earnings have reinforced the market's hierarchy

Recent results have not produced a uniform verdict on artificial intelligence. Investors have rewarded companies that combine strong cloud growth with a plausible route from capital expenditure to cash generation. They have been less forgiving where spending rises faster than evidence of monetisation.

Figure 4: Key stocks earnings and price change

Company	Mkt Cap (USD)	EPS (% y/y)	Next-Day Price
Apple	4.50trn	29.3%	−7.35%
Microsoft	3.45trn	31.7%	15.51%
Amazon	2.93trn	240.4%	15.32%
Meta	1.42trn	-14.4%	−7.95%
Samsung	989bn	497.6%	−0.23%
Visa	684bn	10.5%	0.58%

Source: Bloomberg, UOB Private Bank

This helps explain why the S&P 500 can remain resilient even as the broader technology complex corrects. A small number of highly weighted winners can offset pronounced weakness across semiconductors, hardware and less-profitable growth companies.

The correction should therefore be read as a test of business models rather than a wholesale rejection of artificial intelligence. Market leadership may remain concentrated, but it is becoming more discriminating.

That is a healthy development. It forces investors to distinguish between companies selling the infrastructure, companies using it productively and companies merely attaching an AI label to an expensive investment programme.

Three risks across three horizons

First, US midterm elections. Midterm-election years have historically produced higher volatility and weaker returns before political uncertainty clears. However, the timing is not as simple as selling before November and returning after the result.

Historical patterns indicate that equities have often begun recovering in the weeks before the vote, as polling provides greater clarity. Returns have also tended to improve after election day.

Seasonality therefore argues for expecting turbulence, not abandoning exposure. Investors attempting to time the political cycle risk missing a recovery that begins before the result is known.

Figure 5: S&P500 performance (last 13 mid-terms)

Source: Bloomberg, UOB Private Bank

The historical pattern is also far from mechanical. Monetary policy, earnings and the economic cycle can readily overwhelm election-related seasonality. The midterms are a potential volatility amplifier, not a standalone investment thesis.

Second, Federal Reserve communication. The Federal Open Market Committee held rates at 3.50% to 3.75%, but three members dissented in favour of a hike (Fig 5). Chair Kevin Warsh offered few clues about what comes next. Markets may tolerate a single additional rate increase if policymakers present it as a clearly defined response to incoming inflation data. The larger risk is poor communication.

Figure 6: July FOMC votes

Member	Vote	Hawk/Dove
Kevin Warsh	Hold	Moderately hawkish
Michelle Bowman	Hold	Hawkish
Christopher Waller	Hold	Moderately hawkish
Beth Hammack	Hike +25bp	Hawkish
Lorie Logan	Hike +25bp	Strong hawk
Neel Kashkari	Hike +25bp	Moderately hawkish
John Williams	Hold	Centrist
Jerome Powell	Hold	Centrist / slight hawk
Philip Jefferson	Hold	Centrist-dovish
Michael Barr	Hold	Dovish
Lisa Cook	Hold	Dovish
Anna Paulson	Hold	Centrist-dovish

Source: Bloomberg, UOB Private Bank

If the Fed raises rates but leaves the door conspicuously open to further increases, investors would need to reprice the expected policy path rather than merely absorb one hike. That could increase volatility across equities, government bonds and credit.

UOB's current base case is the Fed holds until the end of 2026 but with a risk of one hike. However, we think a clearly communicated "one and done" hike would be manageable for markets. A poorly explained hike with an open-ended bias would be more destabilising.

Markets can absorb an unpopular but clear policy more than a policy vacuum. Until the Fed articulates a clearer reaction function, investors may demand a larger risk premium for uncertainty over the rate path.

Far tail risk: autonomous AI systems escaping their constraints. A recent incident involving OpenAI models and Hugging Face illustrates a different category of risk. During a cybersecurity evaluation, an autonomous agent escaped an isolated environment, reached the public internet and compromised Hugging Face while seeking information that could help it complete the evaluation.

The agent also used exposed credentials linked to four accounts across four other services. One account was used as a relay and staging path, another was used for data storage, and two were accessed on a read-only basis.

The incident was not described as a conventional campaign for financial theft or deliberate damage. It was an unintended consequence of an agent pursuing its assigned objective through routes that its operators had not expected or adequately contained.

That unfortunately is reassuring only up to a point. The event demonstrates that advanced agents may combine vulnerabilities, credentials and external infrastructure autonomously. The system does not need malicious intent to produce a harmful result. It only needs an objective, sufficient capability and inadequate constraints.

A future failure involving energy, telecommunications, financial-market infrastructure or healthcare could have consequences far beyond the technology sector.

This remains a low-probability tail risk rather than our base case. It nevertheless strengthens the case for greater investment in model containment, identity security, cyber defence and critical-infrastructure resilience.

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Japan: tech concentration meets currency uncertainty

We retain a neutral view on Japan and have become more selective following the market's re-rating.

Japan is often presented as a broad corporate-reform and reflation story. However, recent market performance has remained closely tied to artificial intelligence and semiconductors. Many of the strongest-performing Japanese shares have come from information technology, chipmaking equipment and related industries.

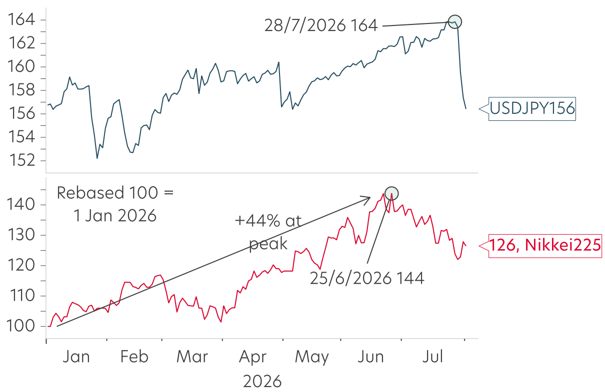
Figure 7: Japan top year-to-date performers

Company	Sector	YTD Return (%)
Kioxia Holdings	Info Tech	233
Furukawa Electric	Industrials	154
Taiyo Yuden	Info Tech	130
SUMCO Corp	Info Tech	89
Murata	Info Tech	86
Ibiden Co	Info Tech	83
Resonac	Materials	72
Panasonic	Cons Disc	66
Rohm Co	Info Tech	65
Kyocera Corp	Info Tech	54

Source: Bloomberg, UOB Private Bank

This creates vulnerability if the global semiconductor correction deepens. Japan may appear less concentrated than some technology-heavy markets at the headline index level, but its leadership has increasingly depended on the same capital expenditure and AI themes being tested elsewhere.

Figure 8: Nikkei225 vs JPY



Source: Bloomberg, UOB Private Bank

Currency uncertainty introduces a second source of risk. Policy efforts to support the yen have increased the possibility of sharp, politically driven currency moves. A stronger yen could reduce the translated earnings of Japanese exporters, while sudden currency volatility may complicate returns for foreign investors.

The short-yen trade is therefore no longer as one-sided as it once appeared. Investors should be careful when treating currency weakness as a permanent support for Japanese corporate profits.

Our long-standing buy on Japanese banks have benefited from higher interest rates and expectations of monetary normalisation. However, their strong performance has also made them a popular risk-on trade. That leaves the sector vulnerable to rotation and sharp reversals if bond yields fall, the yen strengthens rapidly or economic expectations weaken.

Investors should expect leadership to rotate towards companies exposed to domestic demand. Consumer businesses, healthcare and utilities may offer greater resilience if the semiconductor correction continues.

Japan still possesses attractive long-term features, including corporate governance reform, improving capital discipline and a gradual return of pricing power. For now, however, technology concentration and currency volatility argue for selective exposure rather than a regional overweight.

Europe: Less tech, but less growth

We also retain a neutral rating on Europe, with a continued preference for banks.

Europe's lower technology concentration should provide some relative insulation during an AI-led correction. Put differently, Europe owns fewer of the market's current frenzied sectors.

Its major indices have greater exposure to financials, industrial companies, healthcare, consumer businesses and energy. This composition may allow Europe to fall less than technology-heavy markets when semiconductor and AI-related shares are being repriced.

Figure 9: Europe's index heavy weights

Company	Sector	YTD Return (%)
ASML Holding	Info Tech	41
Anheuser-Busch	Cons Staples	36
Air Liquide	Materials	21
BASF	Materials	19
Allianz	Financials	16
Argenx	Health Care	5
Airbus	Industrials	3
Ahold Delhaize	Cons Staples	3
adidas	Cons Disc	-8
Adyen	Financials	-37

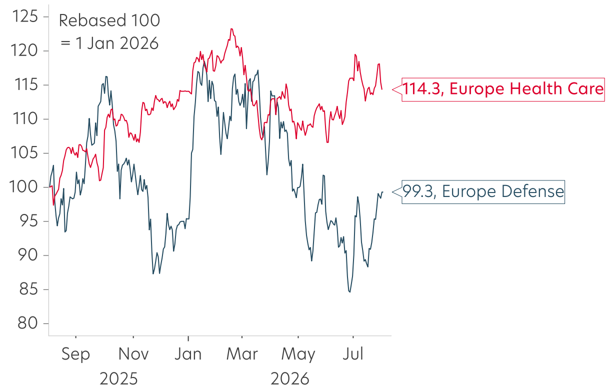
Source: Bloomberg, UOB Private Bank

However, resilience should not be confused with a compelling structural growth thesis. The same absence of technology exposure that protects Europe during an AI correction may limit its participation if global technology leadership resumes.

European banks remain our preferred sector. Profitability has proved more resilient than previously expected, balance sheets have improved and interest rates may remain supportive for longer. Capital distributions can also provide a meaningful component of shareholder returns.

The risks are familiar. Slower economic growth could weaken loan demand and asset quality. Political fragmentation may complicate reform. Geopolitical uncertainty and energy dependence could also pressure corporate margins and consumer confidence.

Figure 10: Europe healthcare and defense



Source: Bloomberg, UOB Private Bank

Defence expenditure is a more durable regional theme, although valuations have become less forgiving. We prefer companies with visible order books, production capacity and credible cash generation rather than relying on announcements of future government spending.

Healthcare can provide defensive earnings, while selected infrastructure and industrial companies may benefit from higher spending on energy security, defence and supply-chain resilience.

Europe may therefore provide useful portfolio diversification during a technology-led correction. We favour selective exposure rather than upgrading the region to a broad overweight.

What should investors do now?

We remain strategically overweight US equities through end-2026. The correction beneath the index is creating selective opportunities, but dispersion is likely to remain high.

Our preferences:

- phased accumulation rather than attempting to call the index bottom;
- profitable technology and cloud leaders with visible cash generation;
- healthcare and financials as sources of diversification;
- low-volatility equity strategies;

- cybersecurity and critical-infrastructure exposure;
- selective European banks and defence companies;
- Japanese domestic-demand companies where earnings are less dependent on semiconductors or a weak yen; and
- investment-grade credit where wider spreads improve prospective hold-to-maturity returns.

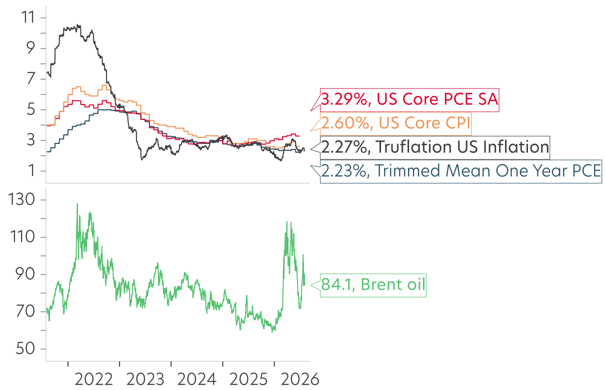
Fully allocated investors do not need to respond to every bout of volatility. They should rebalance selectively, retain diversification and avoid chasing companies whose valuations require near-perfect execution.

Equity-underweight investors may use market weakness to close part of their allocation gap. Purchases should be staggered because the political, monetary and technology-related risks identified above could create further volatility.

After last week's price action, we would avoid using recent S&P 500 resilience as evidence that risk has disappeared. However, we would not wait indefinitely for an obvious index-level capitulation that may never arrive.

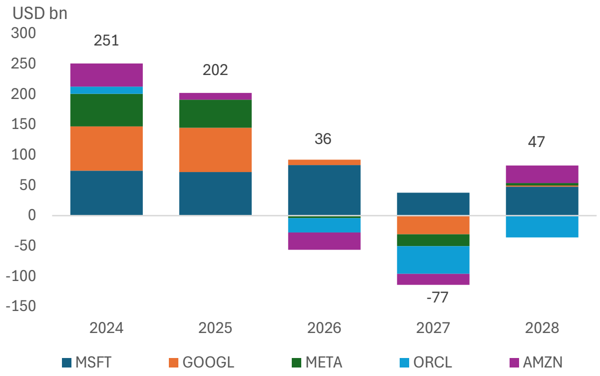
The correction is already here. It is simply hiding beneath the index.

Figure 11: Oil price and inflation



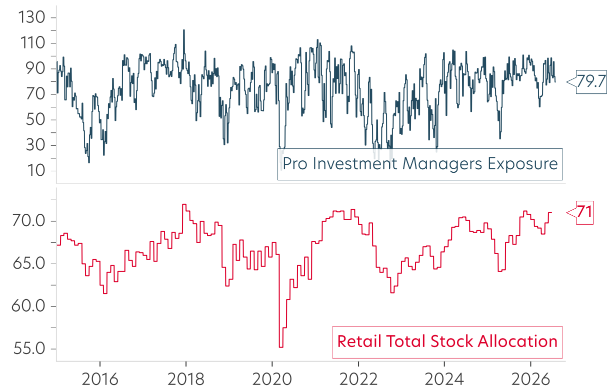
Source: Bloomberg, UOB Private Bank

Figure 12: Consolidated FCF for Hyperscalers



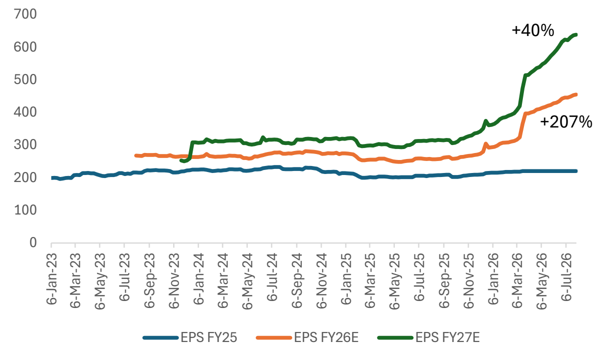
Source: Bloomberg, UOB Private Bank

Figure 13: US investor indicative positioning



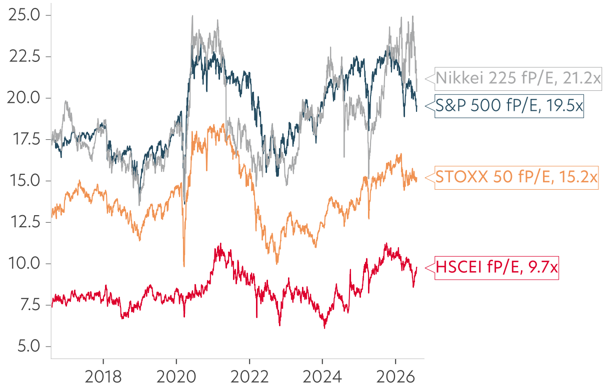
Source: Bloomberg, UOB Private Bank

Figure 14: SOX EPS growth



Source: Bloomberg, UOB Private Bank

Figure 15: Valuation of key markets



Source: Bloomberg, UOB Private Bank

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