

Navigating the Risk-Off Reset

6 February 2026

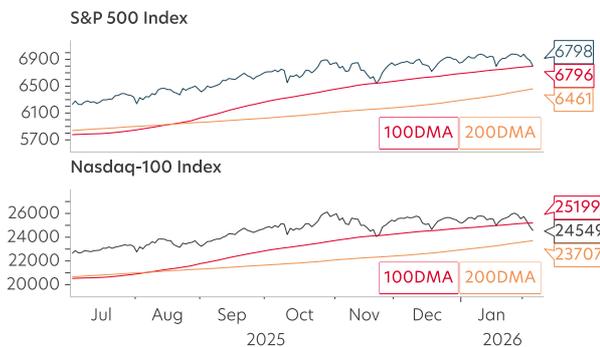
Overview

- **Risk-off bites:** MSCI World >1% lower; major US indices turned negative YTD; VIX spiked above 20; selling was broad (tech, small-caps, commodities, crypto) with gold/silver whipsawed; software being “eaten alive” by AI.
- **Drivers:** Weaker US labour data, an AI valuation/capex-ROI rethink amid crowded positioning, a rotation to safe havens, and a potentially hawkish leaning Fed Chair next contributed to the sell-off in risk assets.
- **Investment implications:** This correction reflects a valuation/positioning reset. Investors should trim high-multiple AI stocks, tilt to quality compounders, S&P 500 equal-weight/low-vol, keep quality FI/alternatives, and buy dips selectively. Cybersecurity companies are less likely to be disrupted by AI, while other tech segments with narrow moats focused on cost efficiency and data processing have higher odds of being disintermediated.

Market Move Summary – A Broad Risk-Off Phase

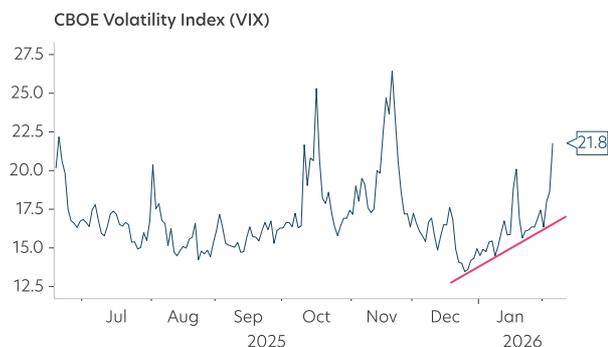
Global equity markets weakened this week, with the MSCI World index down by more than 1% and most major US indices falling, including the Dow Jones, S&P 500, and Nasdaq-100 (Fig. 1). Meanwhile, the volatility index (VIX) has spiked above 20 (Fig. 2). The US market now stands negative after recent declines.

Figure 1: Major US indices and their support levels



Source: Bloomberg, UOB Private Bank

Figure 2: Volatility index on the rise



Source: Bloomberg, UOB Private Bank

The selling through the week was broad-based: tech names, small-caps, commodities, and crypto all suffered heavy losses – notably, Bitcoin slid sharply, while precious metals like gold and silver were also whiplashed by volatility following their meteoric rise.

Beneath the market indices, software and tech stocks have also seen sentiment unwind across Europe and the US as narratives about durable growth and sticky recurring revenues are now being disrupted by AI.

What Drove the Sell-Off – Multi-Factor Stress

The rout cannot be attributed to one single event. Rather, it is a convergence of pressures.

1) **Macro Data & Growth Concern:** Recent labour market data disappointed – job openings hit multi-year lows, layoffs spiked, and unemployment claims rose above expectations – challenging the belief in a continued “soft landing” for the US economy.

2) **AI-Valuation Reset:** The earlier narrative that AI innovation would propel valuations inexorably higher has encountered pushback. Against a backdrop of crowded positioning, investors are questioning the scale, cost, and profitability of AI deployments, triggering a sharp correction in tech stocks.

3) **Safe-Haven Rotation:** Bond yields have fallen as capital has shifted from risk assets into perceived safer stores like government bonds and defensive equities. Recent volatility in the prices of traditional safe-haven assets like gold following their surge suggests some speculative froth is being purged.

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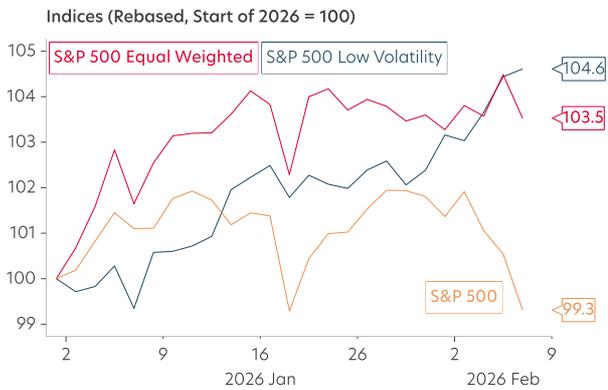
4. Appointment of “hawkish leaning” Fed Chair: Recent volatility has been amplified by President Trump’s nomination of Kevin Warsh as the next Fed Chairman, triggering a repricing across global assets as investors moved to discount a more hawkish-leaning and balance sheet-tightening Fed regime.

Investment Implications

For the 2026 year-ahead outlook, we have advised clients to reduce concentration risks in highly valued tech stocks with stretched valuations or delayed profit realisation, especially those with heavy AI spending and capex narratives lacking clear ROI.

Instead, investors should diversify into other sectors including healthcare, industrials and financials as growth broadens. On this note, we also highlighted our preference for S&P 500 equal-weighted index and S&P 500 low-volatility index as opposed to the tech-heavy S&P 500. Discernibly, these stocks have more reasonable valuations and have held up much better in the wake of the latest volatility spike (Fig. 3).

Figure 3: S&P 500 Equal Weighted and Low Volatility indices saw positive YTD returns



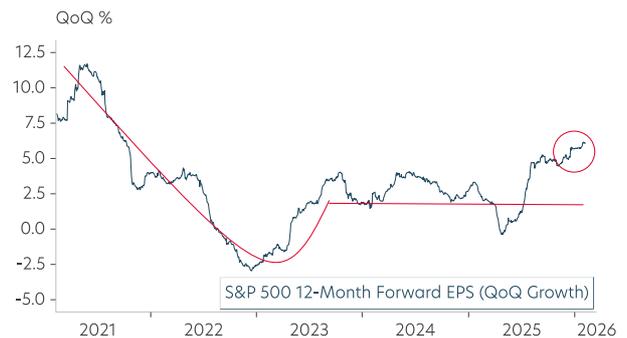
Source: Bloomberg, UOB Private Bank

In terms of asset allocation, quality fixed income continues to play a pivotal role as both a diversifier and yield generator in portfolios. We also advocate alternative assets such as hedge funds and other private-market funds. These strategies provide less correlated returns to public markets and have been demonstrating resilience in times of volatility.

Taken together, the latest market drawdown appears to be a correction rather than a regime shift. We see it as a valuation and positioning reset, rather than a 2008-style system event. While US high-yield bond spreads have widened more than 20bps from January lows, financial conditions have remained relatively benign in the absence of a liquidity crisis.

Importantly, earnings delivery will determine market direction going forward. Despite the headline news that corporate margins are under pressure from AI capex, wages and financing costs, about 66% of the S&P 500 companies which have reported results thus far actually saw a sales beat. US corporate earnings growth continues to grind higher as well (Fig. 4).

Figure 4: S&P 500 companies have mostly been beating earnings per share (EPS) expectations



Source: Bloomberg, UOB Private Bank

Having said that, with company guidance dispersion widening, the stock-level volatility is set to rise. The market is shifting from multiple expansion to earnings scrutiny; stock selection will be of utmost importance. Overall, we prefer companies with strong pricing power and balance sheet flexibility. In our view, cybersecurity companies are less likely to be disrupted by AI. Other tech segments with narrow moats focused on cost efficiency and data processing have higher odds of being disintermediated.

In terms of portfolio positioning, investors should refrain from excess concentration in high-multiple growth names, rebalancing into quality compounders with cash flow visibility. Market dislocations will create selective opportunities; investors can gain defensive equity exposure via sell-put strategies.

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