

Daily: Higher oil and AI concerns drive risk-off move

UBS CIO · 2026-10-23 · English original

Thought of the day

Technology shares fell on Thursday as investors focused on the financing and potential returns from the next phase of the AI buildout. The Nasdaq fell 2.6%, its steepest one-day decline since 5 June, while the Philadelphia Semiconductor Index dropped 6.7% to its lowest level since July. Meta's shares declined 7% following its results, reversing an initially positive after-market reaction as concerns grew over the company's rising capital expenditure plan. But two-thirds of S&P 500 constituents advanced on the day, and the equal-weighted index gained 0.8%, suggesting the equity weakness remained concentrated in technology. Brent crude also rose 4% to a five-month high of USD 113/bbl amid renewed concerns over energy supplies. The resulting risk-off move pushed the 10-year US Treasury yield down nearly 17 basis points to 4.95%, its largest daily decline since August 2024.

But the latest moves do not alter our view that robust earnings should continue to support equities. AI demand remains strong, current bond yields provide attractive income, and geopolitical developments alone do not justify a broadly defensive investment stance.

Strong earnings growth extends beyond technology, although greater selectivity is needed within the AI ecosystem. We expect third-quarter S&P 500 earnings per share to grow 28% from a year earlier, driven by AI demand, an improving industrial cycle, and resilient higher-income consumers. Semiconductor profits are expected to contribute around half of that growth, while average cloud revenue growth is forecast to accelerate from 48% in the June quarter to 58% year over year in the September quarter. That said, risks are rising among specialized AI computing providers known as neoclouds, whose single-product business model focuses on renting compute capacity. In these more capital-intensive parts of the AI buildout, funding pressures and execution risks could reinforce each other. We therefore continue to limit exposure to neoclouds and favor well-funded hyperscalers for their better risk-reward. Beyond technology, nine consecutive months of expansion in the new-orders component of the ISM Manufacturing Index and 6% year-over-year growth in September US retail sales support our view that cyclical parts of the market should also see robust earnings growth.

The bond market repricing in recent months has restored meaningful return potential to high-quality fixed income. The 10-year US Treasury yield reached 5.36% in early October, its highest level since 2002, before falling to 4.95% during Thursday's flight to safety. We continue to rate fixed income as Attractive, with current yields offering an appealing income cushion. For capital losses to offset one year of income, two-, five-, and 10-year Treasury yields would need to rise by around 246, 109, and 63 basis points, respectively, from current levels. We consider increases of this scale unlikely and expect a moderate decline in yields over the next 12 months. We continue to favor selective exposure to medium- and longer-duration high-quality bonds. By contrast, we are cautious on the longest maturities given fiscal concerns and elevated issuance.

While higher energy prices pose risks to growth and inflation, the global energy system is continuing to adapt to disruption. Middle East crude and refined-product exports recovered to around 80% of pre-

conflict levels in September, supported by a partial restoration of flows through the Strait of Hormuz and rerouting through pipelines. However, in October geopolitical risks have intensified, with increased Iranian attacks on shipping in the Strait of Hormuz and the failure of Russia and Ukraine to agree to a ceasefire on energy infrastructure, pushing energy prices higher again.

The impact on global GDP growth from higher oil prices has so far been limited. Oil prices have risen by around USD 40/bbl on average compared with last year. In isolation, we estimate such a price increase could reduce global GDP growth by 0.3-0.5 percentage points, with the amount varying for each economy depending on how much energy they import. But the AI investment cycle and the strength of household balance sheets have enabled consumption to remain resilient. Moreover, following the 2022 oil shock, economies have become more adaptable to rising energy prices. Looking ahead, energy prices will likely continue to present a headwind for the global economy, but barring a significant and sustained rise from here, this should fade over the next 12 months.

So, we remain positioned for market gains through diversified exposure to cyclical and structural growth opportunities while reducing concentrated single-stock positions. Within AI, we favor well-funded hyperscalers, high-quality semiconductor and hardware beneficiaries, and defensive technology companies over more capital-intensive neoclouds. We also favor medium- and longer-duration high-quality bonds, while broad commodity exposure can improve portfolio diversification and provide protection against a prolonged energy-supply disruption.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-23102026.html>