Daily: Build resilience as tech volatility rises

UBS CIO · 2026-10-30 · English original

Thought of the day

Market sentiment came under pressure on Friday as tech earnings raised fresh concerns about capital expenditure. Stocks in Japan, South Korea, and Taiwan fell after a tech-led selloff on Wall Street, while Nasdaq futures were pointing 2% lower ahead of the US market open on Friday. Signs that the US may resume military strikes against Iran also pushed oil prices higher, with Brent crude trading at around USD 117/bbl at the time of writing.

But further volatility does not make retreating from markets an effective way to protect portfolios from potential drawdowns, in our view. We continue to see scope for equity gains overall and believe investors should focus on building a resilient portfolio that includes exposure beyond tech.

AI demand remains robust, but we see a rising risk of mid-cycle capex indigestion. Weaker-than-expected growth in megacap tech companies' core businesses was at the center of investors' concerns, as markets questioned how the next phase of AI capex would be funded amid continued signals of higher spending from hyperscalers. We are seeing a shift in the funding mix for AI investment after four years of relying on hyperscalers' cash flows, with incremental capex increasingly drawing on debt, equity, leases, and supplier-backed financing. In our view, the health of underlying demand remains a key metric to watch. Latest results showing accelerating cloud revenue growth and expanding advanced orders for cloud computing capacity point to still-robust demand for AI infrastructure, but we acknowledge the rising risk of mid-cycle capex indigestion, as financing and execution risks are emerging in the more capital-intensive areas of the AI buildout.

Resilient growth underpins opportunities beyond US tech. The US economy expanded at an annualized rate of 3.4% in the third quarter, ahead of the 3.1% estimate and up from 2.2% in the second quarter. This growth has helped keep inflation elevated, but the economy's resilience also supports the outlook for sectors beyond tech. In fact, the equal-weighted S&P 500 has outperformed its market capitalization-weighted counterpart year to date, suggesting that an improving cyclical backdrop, healthy consumer spending, and structural trends—such as the growing longevity industry—are also supporting market performance. Outside the US, robust earnings growth across the Eurozone and Asia gives investors a broader range of opportunities to participate in potential further equity gains.

Quality bonds can help stabilize portfolios. As equities have come under pressure, bonds have rallied, with the 10-year US Treasury yield falling by 37 basis points in October. This shows that quality fixed income is once again serving as a portfolio stabilizer, and we believe still-elevated yields provide sufficient income to compensate for the risk of potential yield volatility. Bonds could also benefit if inflation moderates or economic growth weakens, adding valuable diversification to portfolios.

So, with cash unlikely to overcome the combined portfolio challenges of inflation, taxes, longer lifespans, and withdrawals, staying invested remains critical for the long term. Within tech, we continue to like leading megacaps, defensive names in payment networks and consumer electronics, as well as quality semis and hardware companies. But those with an outsized allocation to US tech should diversify across sectors and regions. We also believe investors should maintain a well-diversified portfolio that includes

exposure to quality fixed income. Those willing and able to tolerate relevant risks can consider broad commodities and hedge funds to access additional return drivers.

Source: https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-30102026.html