Tech faces a near-term reality check

Bottom line: The past quarter has been rewarding for technology stocks, with the semiconductor sector in particular extending its lead thanks to AI driven enthusiasm. Yet, in the next six weeks, a more cautious stance appears prudent. While the long term structural story remains intact, there are eight compelling reasons why the risk/reward equation has tilted less favorably in the short run.

Executive summary

Taken together, these eight factors create a backdrop where caution is warranted – not because the structural bull case for US tech or semiconductors has collapsed, but because the balance of near-term risks leans heavier than the prospective rewards.

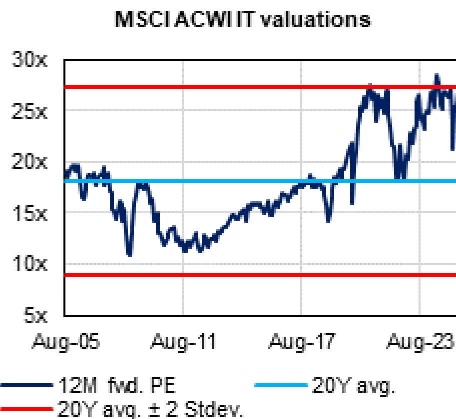
1. Valuation air pockets mean little room for error.
2. Macro volatility reclaims the driver's seat post-earnings.
3. Inventory digestion could blur growth optics.
4. Policy risk may alter the reward calculus.
5. Narrative fatigue in AI could dampen the sector's premium.
6. Trade tensions threaten to fragment supply chains.
7. Geopolitical shifts re-draw demand maps.
8. Binary event risk in Nvidia looms large.

For investors, the message is not necessarily to abandon exposure but to be deliberate: trim over-sized winners, maintain hedges, and set expectations for higher day-to-day volatility as summer liquidity thins. In short, the next six weeks are likely to be more about "capital preservation" than chasing incremental upside in a sector priced for perfection.

Exhibit 1: After underperforming in Q1, semiconductor stocks outperformed during Q2

Source: Philadelphia SE, MSCI, LSEG Workspace, and ADCB Asset Management

Exhibit 2: IT sector valuations have reached elevated levels once again, but remain below the dot-com peak



Source: IBES, MSCI, LSEG Workspace, and ADCB Asset Management

Kishore Muktinutalapati
Head - Investment Strategy
Tel: +971 (0)2 812 6457
kishore.muktinutalapati@adcb.com

Prerana Seth, CFA
Fixed Income Strategist
Tel: +971 (0)2 812 6449
prerana.seth@adcb.com

Mohammed Al Hemeiri
Senior Analyst
Tel: +971 (0)2 812 6450
mohammed.alhemeiri@adcb.com

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Eight reasons in detail

1. Valuations have little cushion left

After a powerful rally through Q2 2025 (exhibit 1), valuations across the tech sector – and particularly in semiconductors – now embed a lot of optimism. Many leading names are trading at forward price-to-earnings and price-to-sales multiples well above both historical averages and the broader market (exhibit 2). Elevated multiples leave limited margin for error: even modest disappointments in dataflow or guidance could catalyze outsized downside. In a market priced for perfection, asymmetry creeps in – the path of least resistance is lower if sentiment turns.

2. Macro will drive the tape as earnings season winds down

With Q2 earnings season essentially behind us, the equity market's near-term catalysts shift back to macroeconomic developments. That means a higher vulnerability to headline-driven volatility: economic data surprises, central bank signals, trade policy headlines, and geopolitical developments can move the indices, often with sector-specific amplification. Tech's strategic stature, its high beta to market swings and its concentration in benchmark indices make it especially sensitive in a period where news rather than fundamentals drives flows.

3. Frontloading in semiconductor demand signals a payback period

One under-appreciated dynamic has been the "front-loading" effect in semiconductor orders, notably evident in Taiwanese export data (exhibit 3). Robust shipments earlier this year suggest some end-markets and customers pulled forward purchases, either to secure supply or align with product cycles. Historically, such surges are followed by softer periods as inventories are absorbed. If that payback phase unfolds over the next couple of months, it will likely temper growth metrics and weigh on investor enthusiasm, especially in a market hypersensitive to sequential trends.

Exhibit 3: Taiwan's exports and export orders rose sharply in recent months but may slow ahead

Source: Taiwan Ministry of Finance, LSEG Workspace, and ADCB Asset Management

4. Policy overhang from CHIPS Act funding conditions

Recent reports that the US government may seek equity stakes in companies receiving CHIPS Act funding – including industry heavyweights such as Intel – raise fresh concerns about the evolving relationship between Washington and strategic tech assets. Added to this is chatter about compelling Nvidia and AMD to share China-derived profits with the US government. Even if such measures are aimed at strategic resilience, for equity holders they introduce uncertainty about margins, capital allocation, and the precedent for future intervention. Policy overhangs of this sort tend to compress valuation multiples in the near term.

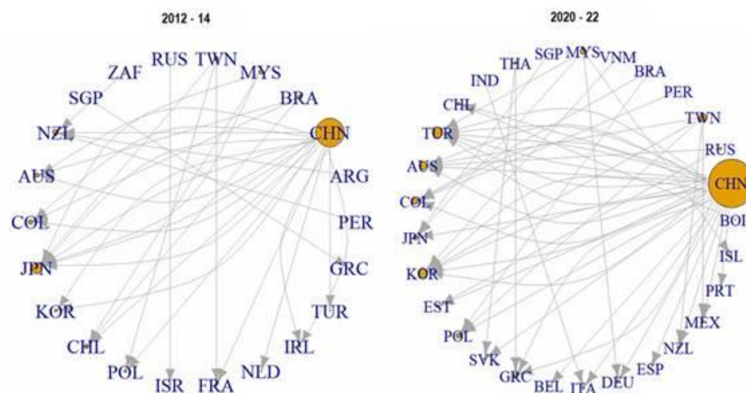
5. AI profitability concerns could dent sentiment

The semiconductor rally has been fueled by the AI build-out narrative – a story investors have eagerly paid up for. But a recent MIT report indicating that roughly 95% of AI investments fail to deliver meaningful financial returns, coupled with Sam Altman's high-profile remarks about a potential "AI bubble," could temper exuberance. Even if these cautionary notes do not derail the long-term cycle, they could prompt near-term position-trimming, particularly among momentum-driven investors who fear a sentiment shift.

6. Tariff risk adds to the list of overhangs

Trade policy is again a source of tail risk. Market speculation about potential new tariffs from a Trump administration, specifically targeting semiconductor goods, injects another layer of uncertainty. Even if the policy path remains hypothetical in the next six weeks, investors may choose to de-risk ahead of clarity, especially given semiconductors' globalized supply chains and dependence on cross-border flows (exhibit 4). The mere prospect of tariffs can alter buying patterns, guidance assumptions, and valuation multiples.

Exhibit 4: Semiconductor value chain has become more cross-border-trade-dependent



Source: OECD calculation based on UN Comtrade database, and ADCB Asset Management. Note: Each arrow represents one dependency at the economy-product level. Node sizes represent degree centrality, indicating the number of direct connections each node has. For methodology see "OECD Publishing: Mapping the semiconductor value chain: Working towards identifying dependencies and vulnerabilities", OECD Science, Technology and Industry Policy Papers, June 2025, No.182 (https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/mapping-the-semiconductor-value-chain_5ba52971/4154cdbf-en.pdf)

7. China policy shifts are a direct demand headwind

China's reported directive to its domestic tech champions to pivot away from Nvidia chips is a notable strategic and commercial drag. While such a shift will take time, the signaling effect is immediate: geopolitical bifurcation is alive and well, and addressable markets may shrink. The narrative is compounded by news that DeepSeek postponed its new AI model release due to reliance on Huawei chips, underscoring both the push for localization and the complexities global players face in navigating supply constraints and political sensitivities.

8. Event risk around Nvidia's August 27 earnings

Finally, a concrete date looms: Nvidia's Q2 results on August 27. For a company that has become both a bellwether for AI demand and a significant index weight, the outcome could swing not just the stock but sector sentiment. Strong numbers may already be largely priced in; any deviation from lofty expectations could catalyze a sharp re-rating. Conversely, an upside surprise could spark a short-lived rally but might not offset the cumulative headwinds outlined above.

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