July 2026 – Hard(ware) to call

Global equity markets have seen an increase in volatility over the past two months, albeit below the spikes seen in March as a result of the Iran-US conflict. In recent weeks, the volatility has been led by technology and semiconductor names that have been at the heart of the artificial intelligence ("AI") investment theme since 2023.

Investors have questioned the extraordinary levels of capital expenditure being committed by the largest technology companies and if it will translate into commensurate revenue growth. This has led to weakness in the tech hardware sector, notably semiconductor and chip manufacturers.

There have been a number of events which have led to this weakness, including higher capital spending plans from Taiwan Semiconductor and increased competition from China. This has been compounded by a hawkish shift in expectations for US interest rates and, most notably for our regional allocations, acute concentration risk within the South Korean equity market, where two semiconductor companies account for over half of the headline index. We set out below what has happened, why it matters, and how we are responding within client portfolios.

AI capital expenditure under scrutiny

The rally that has powered global equities for close to three years has been underpinned by a small number of very large technology companies committing enormous sums to AI infrastructure, notably data centres, chips and power generation. Portfolios have benefitted from this, notably through the "picks and shovels makers", including those within the semiconductor sector.

> The term "picks and shovels" refers to an investment strategy where you buy companies that provide essential tools, infrastructure, or services for an industry, rather than investing directly in the businesses that make the final product.

Investor attention has shifted from the scale of this spending to its eventual return on investment. Growing doubt over whether current levels of capital expenditure by the Hyperscalers can be justified by proportional revenue growth has triggered a repricing of the stocks most exposed to this theme.

This repricing has so far occurred alongside continued evidence of strong underlying demand. A number of the largest AI infrastructure providers have reported record data centre revenues even as their share prices have fallen, suggesting the move is, at least in part, a function of stretched valuations and portfolio positioning rather than a deterioration in the AI investment case itself.

Samsung, provides a great example of this. On the 7th July, South Korean listed Samsung who manufacture electronic products, including semiconductors, posted a record second quarter operating profit of $58.4 billion, but after a triple digit rally into the results, shares declined, exacerbated by the announcement they would increase spending on a new semiconductor manufacturing hub to meet demand.

Last week, Alphabet and Tesla kickstarted Mag 7 reporting for the second quarter (The "Mag 7" Magnificent Seven is a group of seven dominant, high-performing U.S. technology and growth companies such as Alphabet, Amazon, and Apple). Alphabet's result announcement (22nd July) spooked investors given they boosted their expected capex spend in 2026 to as high as $205 billion, with capex in the second quarter growing 100% year on year to reach $44.9 billion. This comes against the backdrop of delays in their Gemini 3.5 Pro model, whilst they try and compete against intensifying pressure from Chinese competitors and leading frontier models makers such as Anthropic and OpenAI.

This week, further Mag 7 names will report, with Meta, Microsoft, Apple and Amazon in focus, whilst major chip manufactures in Asia, SK Hynix and Samsung, will also update investors. Whilst many of these companies fail to meet the criteria for inclusion in portfolios, their large weight in global indices will drive sentiment, even more so now given the focus on AI spending against the wider AI ecosystem, such as hardware and energy. Meta and Microsoft's AI related capex will be under scrutiny, as will Amazon's cloud-based revenues given the AI related demand previously witnessed.

Semiconductors

One of the largest beneficiaries within the AI related "picks and shovels" bucket has been those within the semiconductor sector, which has helped drive markets higher through the first half of the year, but has been the most acute source of volatility. Several major chipmakers have seen sharp single-session declines, driven by a combination of profit-taking after an extended run of gains, specific concerns around memory-chip production plans, competition from regions such as China, and other company specific news such as reports that Meta is planning to sell spare AI compute capacity. The Vaneck Semiconductor Index has returned +103.39% in the first 6 months of 2026, but has returned -14.23% so far in July (to 24/07) as some of the steam comes out of the sector.

What is a semiconductor?

Term	What It Is	Role in Electronics
Semiconductor	A material (such as silicon) whose ability to conduct electricity can be manipulated i.e. it can turn on and off.	It serves as the physical foundation used to manufacture electronic parts.
Chip / Integrated Circuit	Physical piece of semiconductor - the actual, completed electronic device. Such as Central Processing Unit (CPU), Graphics Processing Unit (GPU) or memory chip (RAM).	Specialised for certain roles such as processing images and videos or temporary storage.

South Korean tech concentration

A particular area of focus for our regional allocations has been South Korea. The country's two largest listed companies, Samsung Electronics and SK Hynix, are both major global suppliers of AI-related memory chips, and both have seen their share prices rise dramatically over the past two years on the back of surging demand. The consequence is that these two stocks alone now represent close to 70% of the entire Korean index, up from around a quarter as recently as two years ago. This is one of the highest levels of single-market concentration seen in a major developed or emerging equity index.

This concentration means the fortunes of the broader South Korean market are now unusually tied to the memory-chip cycle and to sentiment around two individual companies, rather than to the health of the domestic economy more widely.

Elevated retail margin lending against these stocks has amplified recent price swings, and the exchange has triggered trading circuit breakers on several occasions this year. This level of volatility has not seen since the mechanism was introduced.

For clients with exposure to South Korea or broader Asian technology allocations, this is a structural risk we are monitoring closely. This is not because the underlying businesses are weak (both companies have continued to report very strong earnings growth), but concentration of this magnitude can exaggerate both the upside and the downside of any shift in sentiment towards the AI theme.

What this means for client portfolios

Our model portfolios are constructed to avoid excessive reliance on any single theme, sector or market within the boundaries of our ethical screens. Exposure to AI-related technology is held within a broader, diversified equity allocation rather than as a concentrated position, but tech hardware weights have naturally risen given the success of the sector.

We are monitoring regional index concentration, including in South Korea, as part of our ongoing due diligence on underlying fund exposures, and will adjust allocations where we judge that concentration risk is not being adequately compensated by expected returns. Given this, at our recent rebalance we have taken the opportunity to trim our EM exposure which has been dominated by these chip stocks, alongside Taiwan’s TSMC.

Short-term volatility of this kind, while uncomfortable, is not unusual following a period of strong gains, and should be viewed within the context of clients' long-term investment objectives and risk profiles.

We expect volatility around the AI and technology theme to persist over the coming months as markets work through the tension between continued strong underlying demand and questions over the sustainability of current spending levels. Federal Reserve policy, the pace of AI infrastructure investment, and developments in South Korea's index concentration are all factors we will continue to monitor closely monitor.

This week we hear from both the Bank of England and the United States Federal Reserve, with meetings coming at a time where the price of oil has surged given the escalation in the Middle East over the last two weeks. Whilst bets have increased that rates will be tightened, it’s expected that both central banks will be on hold this week, with September and November pointing to over a 50% chance of a 0.25% rate hike. Within fixed income sleeves, we remain below neutral in our duration exposure, with the potential for higher rates and ongoing government deficits continuing to drive this allocation.

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Glossary:

Term	Definition
AI (Artificial Intelligence)	The investment theme driving markets since 2023, centred on technology enabling machines to process data and generate outputs, requiring significant infrastructure investment (chips, data centres, power).
Semiconductor	A material (e.g. silicon) whose electrical conductivity can be controlled, forming the physical basis of electronic components.
Chip / Integrated Circuit	A completed electronic device made from semiconductor material, specialised for tasks like processing (CPU/GPU) or memory storage (RAM).
Hyperscalers	The very large technology companies (e.g. the major cloud/AI infrastructure providers) committing enormous capital to data centres, chips, and power generation to support AI growth.
Mag 7 (Magnificent Seven)	A group of seven dominant US technology and growth companies, including Alphabet, Amazon, Apple, Meta, Microsoft, and Tesla, whose earnings and spending heavily influence market sentiment.
Capex (Capital Expenditure)	Funds a company spends on acquiring, building, or upgrading physical assets, in this context largely AI infrastructure such as data centres and chips.
TSMC (Taiwan Semiconductor Manufacturing Company)	A major Taiwanese chipmaker whose capital spending plans have contributed to recent volatility in the semiconductor sector.
Samsung Electronics	A South Korean company manufacturing electronic products including semiconductors; one of two firms dominating the South Korean equity index.
SK Hynix	A South Korean supplier of AI-related memory chips; alongside Samsung, represents close to 70% of the South Korea equity index.

EM (Emerging Markets)	Developing economies' financial markets; in this context, an allocation recently trimmed due to concentration in chip-related stocks.
Index concentration	The degree to which a stock market index's performance is dominated by a small number of constituent companies — a structural risk currently acute in South Korea.
Circuit breakers (trading)	Exchange mechanisms that temporarily halt trading to curb extreme volatility; triggered several times on the South Korean exchange this year.
Margin lending	Borrowing against existing investments to buy more securities; elevated retail margin lending against Korean chip stocks has amplified recent price swings.
VanEck Semiconductor Index	A benchmark tracking global semiconductor companies, cited as up over 103% in H1 2026 before falling over 14% in July.
Data centres	Physical facilities housing computing infrastructure (servers, chips) required to run AI applications; a key focus of Hyperscaler capex.
Bank of England (BoE)	The UK's central bank, responsible for setting UK monetary policy including interest rates; scheduled to meet this week alongside the Fed.
Federal Reserve (Fed)	The US central bank, responsible for setting US monetary policy; its interest rate decisions and outlook are a key driver of market sentiment referenced in the commentary.
Duration (fixed income)	A measure of a bond portfolio's sensitivity to interest rate changes; the portfolio is currently positioned "below neutral" (i.e. less sensitive to rate rises) given expectations of higher rates.
Fixed income sleeve	The portion of a portfolio allocated to bonds and other debt instruments, as distinct from the equity allocation.
Rate hike	An increase in a central bank's benchmark interest rate; markets are pricing over a 50% chance of a 0.25% hike by September/November.
Government deficits	The shortfall between government spending and revenue, typically financed through bond issuance; cited as a factor supporting a below-neutral duration stance.