

Recapping recent tech volatility: Markets level-set earnings expectations



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What happened?

A tech-focused selloff gripped markets on Friday, 5 June, and spread to Asian markets on Monday, 8 June. The Nasdaq 100 Index fell 4.8% on Friday, and the KOSPI saw a substantial drawdown in the Asian trading session, led by Korean beneficiaries of the artificial intelligence (AI) investment theme.¹

The trigger appears to have been a combination of a miss on Broadcom's revenue results (a semiconductor company with deep exposure to the AI theme), a stronger-than-expected US jobs report that pushed rate expectations higher and therefore yield and margin financing costs higher, and potentially some positioning shifts ahead of the SpaceX initial public offering (IPO) expected this week.² Our analysis shows that Asian tech stocks are directly linked to the US semiconductor cycle as they share the same supply chain and overlaps in investor positioning. That helps explain the moves in Asia.

Our view

In our view this will likely be a short-term correction to high-flying expectations around recent AI-related earnings results. Semiconductor-related names have performed very well in recent quarters, in large part due to strong earnings results.¹ We think this pullback reflects a reigning in of expectations after the rapid growth experience of recent quarters.

As we have written elsewhere, we do not think the recent experience of technology stocks constitutes a bubble, but we do note that growing market concentration in AI-related names presents diversification challenges.

In Asia, a few names in Korea and Taiwan have increasingly been powering country-level and overall emerging market equity returns (see overleaf). In the US, the concentration is noteworthy: Just five stocks make up more than a quarter of the S&P 500 index market capitalization (see overleaf). These concentration risks have led to the market becoming more exposed to movements in a narrow set of stocks and thus introducing greater market volatility, in our view.

Even though technology stocks – particularly in the US, Korea, and Taiwan – have soared over the past couple of years, valuations are less stretched than feared. For example, The 5-year average price-to-earnings ratio of the MSCI Korea Index has been around 10.5x and now has fallen to below 7x, enabled by record earnings results.¹

Ultimately, what's important here is that the outlook for tech hardware remains robust due to the strong demand from the AI capital investment theme. In our view, the global buildout of data centers that provide scalable cloud and AI computing resources will continue to accelerate.

What are the risks?

The key question, for us, is whether the current pace of AI capital investment—and the earnings growth it supports—can be sustained. Demand disappointment for AI tech hardware is a risk, and the bear case is that large investment flows into the AI theme moderate because customers have over-ordered.

We do not think one company's quarterly earnings report (as on Friday) signals an oncoming industry trend. Plus, the earnings report itself seemed healthy overall, in our view. Instead, this shows that market expectations for this group are very elevated and vulnerable to even small disappointments. For portfolios, diversifying to a greater degree geographically and across sectors could help investors weather this volatility.

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1. Source: Bloomberg L.P., as of 8 June 2026.

2. Source: CNBC: Broadcom stock plunges on weak software sales, unchanged AI chip forecast for the year, 3 June 2026.

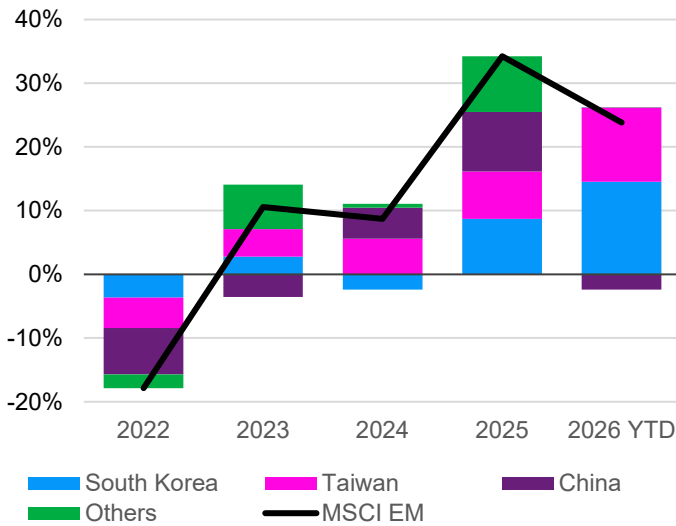
Despite rising more than 80% year-to-date, US semiconductor valuations do not appear extreme

Philadelphia Stock Exchange Semiconductor Index (PHLX): Earnings per share (EPS) versus price-to-earnings (P/E) ratio



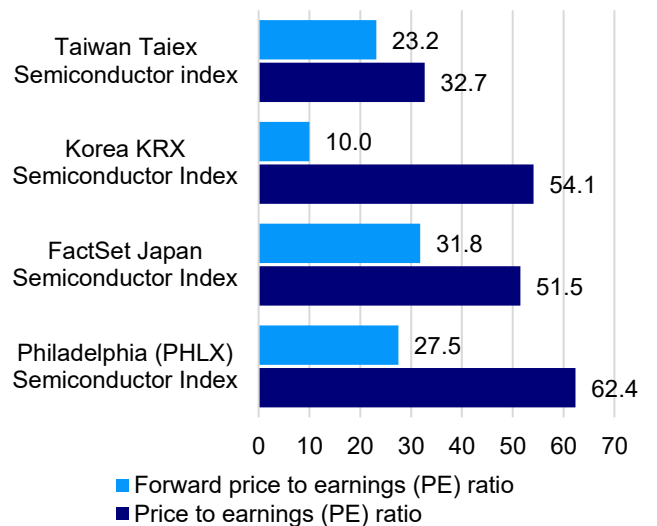
Emerging market equities return contribution by region

Calendar year returns through 29 May 2026



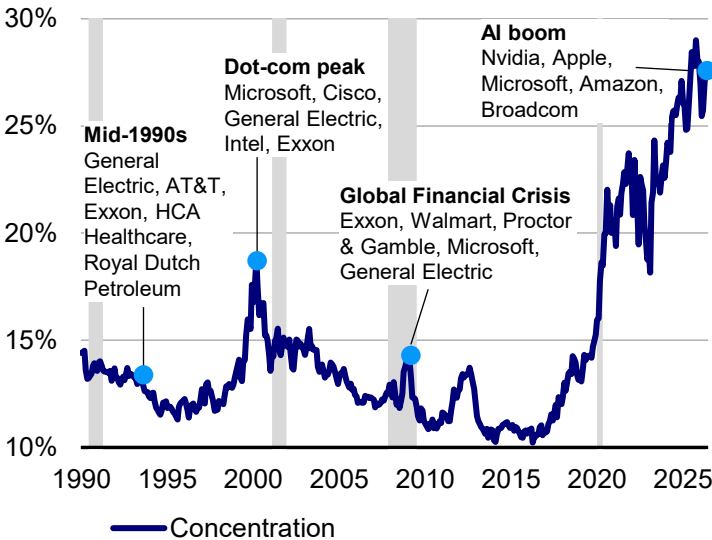
Semiconductor valuations by region

Equity multiples (trailing and forward) across key regions



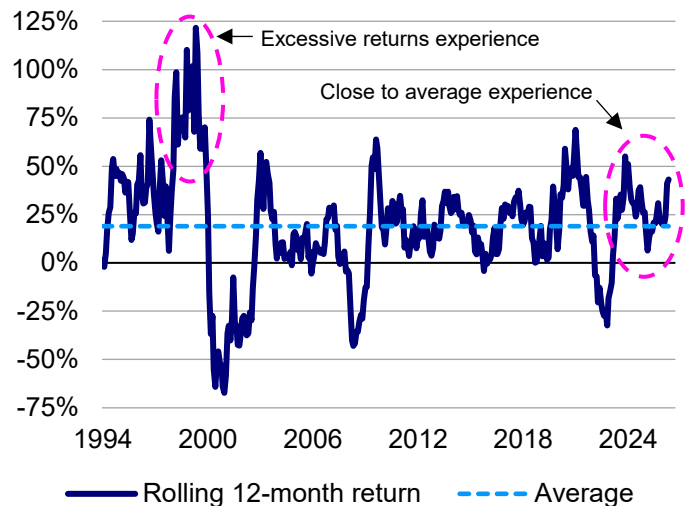
Growing index concentration is a challenge for diversification

Top five S&P 500 holdings as percent of total market capitalization



Recent returns have not been a cause for alarm, in our view

Nasdaq-100 Index rolling 12-month return



Note: MSCI EM = MSCI Emerging Markets Index, measured in USD. Nasdaq 100 Index rolling returns are measured in price returns, USD. Sources: Invesco Strategy & Insights and Bloomberg L.P., as of 8 June 2026. **Past performance does not guarantee future results.** An investment cannot be made directly in an index.

Investment risks

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