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PHILEQUITY CORNER

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Rotation

US tech stocks, which had led the stock markets to record highs, fell sharply last week. The Nasdaq 100 dropped 2.5 percent last Friday and ended the week down 5.5 percent. The S&P 500 index lost two percent. Semiconductor stocks were among the hardest hit as the Philadelphia Semiconductor Index fell 11.4 percent. This was its worst weekly decline since April 2025. The index also closed lower for eight consecutive sessions, a losing streak last seen two decades ago.

A casino, says Broadcom CEO

At a conference in Singapore last week, Broadcom CEO Hock Tan compared speculative AI investing to gambling in a casino. He said many investors don't fully understand what they own. Tech giants are pouring money into chips, data centers and power. AI developers face heavy training and inference costs. Datacenter operators are borrowing at higher rates to buy equipment that loses value quickly. Tan said the industry's biggest constraint may be access to capital, not a shortage of chips or memory.

Fear is back

In our July 20 article, "More greed than fear," we quoted Goldman Sachs CEO David Solomon, who warned that there was more greed than fear on Wall Street. Investors were still chasing AI stocks despite the sharp run-up and stretched valuations.

Now, fear is returning. After the record-breaking rally in AI and semiconductor stocks, the recent precipitous drop has raised fears of a repeat of the dot-com bubble that burst in 2000. Adding to investors' concerns are the massive capital spending, rising debt levels and growing signs of stress in the credit markets.

CoreWeave's debt load

CoreWeave is one example. The Nvidia-backed AI cloud provider has piled up about \$50 billion in debt. Some of its bonds now yield 15 to 16 percent, levels usually associated with distressed borrowers. Its credit default swaps, which insure against a default, have climbed to about 1,200 basis points. This effectively prices in a 63 percent chance that CoreWeave defaults within five years.

Much of the AI boom is built on borrowed money. When loans become more expensive, less cash flow is left over. Lenders turn more cautious and charge even higher rates for new loans. When credit tightens, data-center projects get delayed. Fewer chips are ordered, and this travels back to the supply chain, creating a negative feedback loop.

Oil, interest rates add pressure

US inflation reached 3.7 percent in September, though core inflation was a milder 2.6 percent. Brent crude reached \$112 a barrel as tensions flared around the Strait of Hormuz and the Houthis went after Saudi energy facilities. High oil prices could keep inflation elevated and leave the Federal Reserve with less room to maneuver.

Treasury yields fell late last week as investors sought safety. But despite the decline in Treasury yields, heavily indebted AI companies may still face higher borrowing costs as investors demand more compensation for risk.

But 7 out of 10 stocks were up

As of Friday's close, 351 S&P 500 constituent stocks (or 70 percent) finished the week higher despite the index declining two percent. The Dow gained 0.7 percent, while the NYSE Composite rose 0.6 percent.

In our Oct. 5 article, "Market's narrowing breadth," we noted that 78 percent of S&P 500 stocks declined in September, even as the index traded near record highs. Only a few technology and semiconductor stocks were carrying the market.

Now, the opposite appears to be happening. As investors reduce their exposure to AI and technology stocks, some money is moving into US Treasuries, while funds looking to stay invested in equities are shifting into energy, utilities, consumer staples, pharmaceuticals, financials and other previously neglected sectors. This buying has helped push these stocks higher.

Can emerging markets benefit?

Investors may be starting to look beyond US tech. According to Reuters, global technology equity funds suffered \$4.75 billion in outflows last week. Meanwhile, emerging-market equity funds attracted \$717 million, their first weekly inflow in six weeks.

The Philippines could be one beneficiary if investors keep searching for cheaper, under-owned markets. Last Friday, the PSEi jumped 2.1 percent to 5,782.70, supported by bargain hunting, shareholder buybacks and modest foreign net buying.

Rotation or systemic risk?

The fear is that an AI bubble fueled by excessive spending and rising debt could trigger a broader credit problem. However, corrections and rotations can be healthy. They remove speculative excess and allow market leadership to broaden. The question is whether the debt problems of AI companies remain isolated or spread to the broader financial system.

Review your allocations

Investors who have benefited from the AI rally should review their allocations. If technology stocks now account for an outsized share of their portfolios, it may be prudent to take profits and rebalance according to their risk tolerance.

For those with little or no AI exposure, the correction offers an opportunity to gradually buy into financially sound AI companies at more reasonable valuations. The AI revolution is far from over. If this correction removes speculative excess and broadens market participation, it could strengthen the bull market. The key is to review your portfolio allocation and make sure it is appropriate for your own risk tolerance, financial goals and investment horizon.