

Video Transcript

Zooming In: Decoding the global tech rotation – What's next for semis, software and hyperscalers?

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Neha:

Hi everyone.

Welcome to a brand new episode of our CIO Zooming In series, where we discuss burning market and investor questions. Whilst AI is still the dominant story, markets have swung between competing AI narratives through 2026, driving sharp rotations across semis, hyperscalers and software.

To put this recent AI rotation into context and to understand how investors should be navigating these sudden market flips whilst investing for the long run, today, I'm joined by Alastair Pinder, who is the Head of EM and Global Equity Strategy at HSBC's Global Investment Research division.

Alastair, welcome and thanks for joining us today.

The market has been swinging between totally different AI storylines. From AI euphoria to hyperscaler overspend and AI positioning capitulation. What's the one practical investor playbook to navigate these sudden narrative flips? How should investors size their AI positioning? And where should one want exposure today? Is it in semis, hyperscalers, infrastructure and power or software?

Alastair

That's such a great question, Neha.

Just in the last few months, we have seen concerns switch between China competition, hyperscaler overspend and frothy positioning. Now, at this very point in time, our preferred area is the semis names. They look set to benefit from the huge CapEx spend from the hyperscalers. In fact, almost 70% of that CapEx you mentioned is targeted towards chips, GPUs and AI servers. And valuations still look compelling.

We also like the hyperscalers, but, on a relative basis, are less bullish. We believe they have the capability to monetise their AI investments, particularly through the cloud business. But there's undeniably a lot of uncertainty and concerns about competition. We are less bullish on software. We think they face long-term questions about disruption from AI, and we don't think valuations are as cheap.

They've already de-rated quite a bit. But when you consider they still trade 22x 12m forward PE, they are more expensive than the semiconductor sector.

Neha

With AI CapEx heading towards \$1 trillion by 2027, markets are worried that hyperscalers are overspending on AI and that their financing structures look circular. But demand for cloud has already risen three fold this year. So, is the concern over hyperscalers' overspending excessive? And what's the one monetisation proof-point that would settle this debate in the next 6 to 12 months?

Alistair

I think the biggest long-term debate right now is whether the hyperscalers can effectively monetise their CapEx. And while concerns are, to a certain extent, valid, they overlook several important factors.

First, demand for AI models remains extraordinarily strong. And recent reports suggest Anthropic reached an annualised revenue run rate approaching an incredible \$80 billion as of July. Second, hyperscaler monetisation extends well beyond the models themselves, and they are clearly monetising AI through increasing workloads on their cloud platforms. And on that front, we like to monitor their remaining performance obligations. This essentially tracks the backlog of orders across the hyperscalers, and that reached approximately \$2.35 trillion in Q2, up from \$800 billion a year earlier. Third, pricing in the compute market continues to signal scarcity rather than oversupply.

So the one other monetisation proof point to watch in the next 6 to 12 months is the data available from Ramp AI. They track how the median company is spending on AI per employee, per month, and it's critical that it continues to rise in the coming quarters.

Neha

US data centres are facing real political and community backlash, with several states issuing moratoriums and data centre legislature bills going up several fold this year already. If this pushback spreads, who are the winners and losers in this AI buildout?

Alistair

Data centre pushback is certainly escalating ahead of the 2026 US midterm elections, with it being a really key campaign point for the Democrats. Now, there is a risk, of course, that if the CapEx starts to slow, data centre plays, particularly within Industrials and Utilities could underperform. However, we also think there are areas that could outperform a mere data centre regulation.

And one of the themes that I think would be important is that if we do see more regulation on data centres, hyperscalers are going to try and make sure that the data centres they do have and are building are more efficient and more powerful. And so areas to focus on would be companies that can basically help upgrade data centre infrastructure and make power supplies more efficient.

Neha

On the AI model layer, are the US frontier labs at the risk of being outflanked by Chinese openweight models on cost and speed, especially as enterprises try to keep their tokens spent down? Or, do US players keep their edge because regulated enterprises need security, governance and stay on the right side of US rules?

Alistair

The narrative around Chinese competition really escalated following the launch of Kimi 3, and it has escalated concerns that Chinese models could intensify competition and essentially pressure return on investment for those US hyperscalers. Now, those concerns have also been reinforced by accelerating adoption of Chinese models in the US, and some estimates actually say that Chinese models account for almost 50% of US token usage.

Now, while these concerns deserve attention, we think they overlook several important offsets. First, the aggressive pricing of Chinese models may prove less durable than many assume. Take, for example, the fact that DeepSeek recently announced significant price increases to their models. There's also the risk that there becomes more regulation in the future, which again prioritises US models over the Chinese. And then the other point to make is that as we move towards widespread agentic AI, the advantage of having stronger compute and more intelligent models becomes exponentially larger. And that again benefits the US models.

Finally, as enterprises use AI, they will also want to basically prioritise security, internal data, and the fact that we have to give these models access to our databases. And from that perspective, there again might be a bias towards actually using the US models versus the Chinese.

Neha

Zooming out to the next 3 to 5 years, with the market oscillating between AI overspend fears and positioning washouts, what's your long-term map for investors? Who captures the AI economics? Is it the model providers, cloud platforms or AI-enabled enterprises? And where would you be overweight in the AI ecosystem? And how would you diversify away from AI so that you do not depend on one single crowded theme?

Alistair

Within the AI trade, we think the best economics are within the semis and memory space. They are seeing huge upgrades to earnings revisions and are also deploying more buybacks and dividends. I think one of the most underpriced areas of the market broadly is actually still within the AI space. But companies using AI to either boost productivity or reduce costs, and we think this will be a substantial driver of margin expansion in the future.

From this perspective, both banks and healthcare could be some of the longest term biggest beneficiaries.

Neha

Here's our Private Bank view on AI.

Markets have been swinging between AI euphoria and overspending fears. So our strategy is to stay diversified across the broad AI stack, but be selective within the different AI layers and size exposures appropriately to avoid getting whiplashed.

Near term, the clearest fundamentals look to be in semiconductors and memory names. Hyperscalers can monetise via cloud, but their margins may remain under pressure. With cloud backlogs and AI compute demand remaining tight, demand signals indicate that AI adoption is still in its early innings.

We therefore maintain an adequate AI exposure in our portfolios, but diversify through AI adopters like Financials and Industrials, where we can see clear productivity benefits.

Neha

Thanks for joining us.

And we'll see you next time with a new episode of CIO - Zooming In