Sunday, 23 August 2026

The Editorial

Asia deserves your attention

The long end of the yield curve has moved higher this week, and the familiar pressure points in equity markets have once again started to show. Few areas are more exposed to this than semiconductor stocks: long-duration, earnings-sensitive and at the centre of the AI investment cycle.

Just before the summer, we argued that the next stage of the AI trade would broaden beyond semiconductors and into companies supplying the suppliers. That argument was quickly stress-tested. Asian semiconductor stocks, and memory names in particular, sold off heavily. Yet the broader market did not follow. Cyclicals held up, software rebounded and industrials have continued to trade well. The market did not abandon the AI capex story. It migrated.

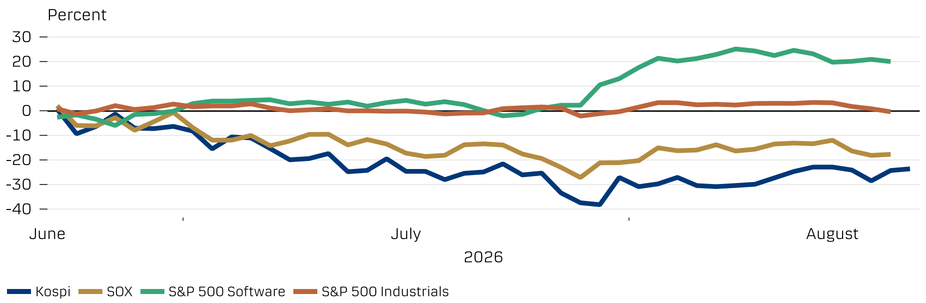
Since the start of July, Asian equities have seen sharp price moves, so today we revisit Asia and the semiconductor sector. We focus on three questions: 1) has anything fundamentally changed? 2) what growth assumptions are priced into valuations? 3) why are investors willing to pay a premium for AI-adjacent growth elsewhere while demanding a discount for the part of the supply chain closest to the data-centre build-out?

The backdrop

In early June, we published an Editorial titled *The next wave of AI investments*, where we argued that the AI trade was entering a second phase. The question was no longer whether the semiconductor rally was justified but where the next incremental dollar would land. At the time, our answer was that investors should broaden the exposure to include the companies supplying the semiconductor business' own capacity buildout.

Within weeks, that argument was taken to extremes. The semiconductor sector, and memory names in particular, sold off heavily. At its trough, the drawdown in the Kospi was 40%, before recovering to around 25% below the peak today. This was not an Asia specific event, but given its semiconductor-heavy sector composition, the region felt the brunt of the correction.

The great semiconductor unwind (return since 22 June 2026 peak)



Source: Macrobond, Danske Bank

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A drawdown of that size in one of the market's most important themes, could easily have triggered a broader risk-off move. It did not. Despite the semiconductor correction, the S&P 500 has reached new all-time highs over summer and traditional cyclicals like industrials are markedly higher since the AI-related sell-off began.

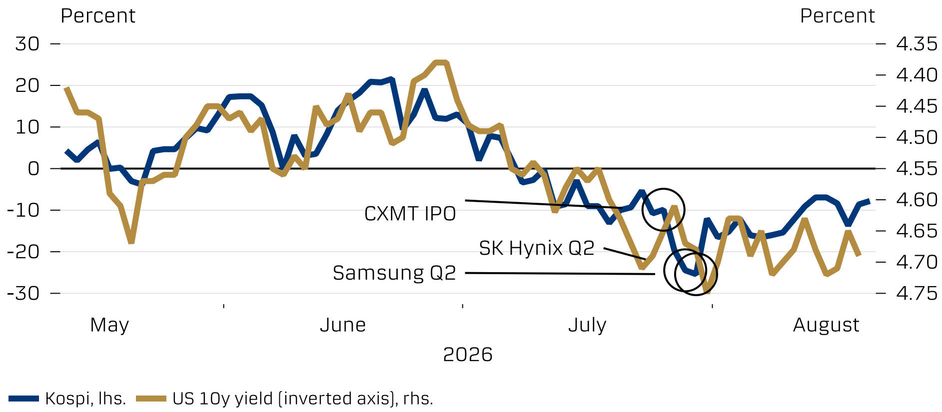
That makes Asia worth revisiting. Given the concentration of tech in equity markets, these are no longer narrow sector questions, but relevant for all allocators.

What broke in Asian tech?

There are many possible explanations for any sell-off but we will limit ourselves to four: 1) Chinese competition fears, 2) Q2 earnings, 3) leveraged ETFs and 4) higher yields.

The last point is often downplayed in the semiconductor debate, but the chart below makes it difficult to ignore. The sector was weakening long before earnings reports and China headlines. In fact, this week alone, the volatility in long-end rates has taken no less than 5% off the US semiconductor index (SOX).

Kospi performance versus US 10y yield (May 2026 to now)



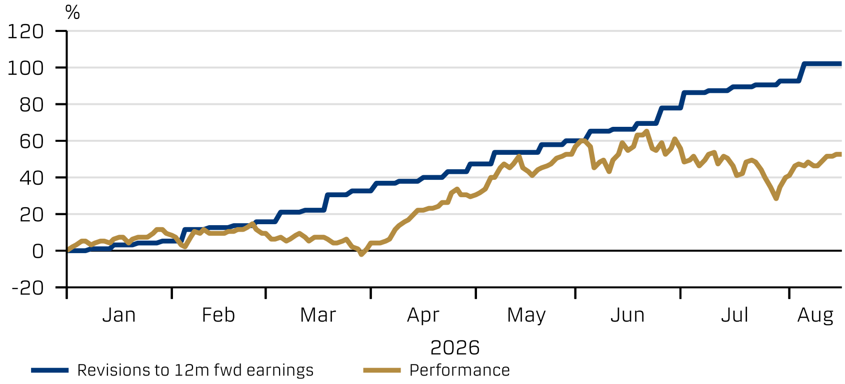
Source: Macrobond, Danske Bank

Starting with the Chinese competition fears: The steepest leg of the daily declines came on the back of the Chinese memory chip maker CXMT's IPO in late July, which revived concerns around China's semiconductor ambitions and risks of increased competition. Such concerns are undoubtably valid. As strategists, we will not pretend to have a definitive view on CXMT's competitive position, yet what calms us, is that the prevailing interpretation among industry experts is less about an immediate disruption to the global memory industry. Rather, CXMT was a reminder to investors about geopolitical tensions already known to the market.

Secondly, the earnings. SK Hynix reported extraordinary Q2 numbers with operating profits rising 557% y/y, with an operating margin of 76%. Yet the results were only broadly in line with consensus, and investors had hoped and positioned for a beat. Samsung Electronics the next day told a similar story. A 19-fold increase in operating profit would usually be treated as spectacular but given the rally into the numbers, it was not enough. When a stock falls on an in-line report, it usually means the market was positioned for estimates to rise. The immediate conclusion following Q2 reports, therefore seemed to be that the positive revision cycle was about to stall.

That has not happened. If anything, the opposite occurred: semiconductor earnings estimates have accelerated since Q2 numbers, supported by higher memory prices, another leg up in hyperscalers' capex guidance and optimistic commentary from company executives. At the time of writing, markets have opened up a striking disconnect between share price performance and earnings revisions, optically very similar to the March-April tech rout earlier this year (see chart below).

MSCI World Semiconductors and Semiconductor Equipment revisions to 12m fwd earnings and performance YTD



Source: Macrobond, Danske Bank

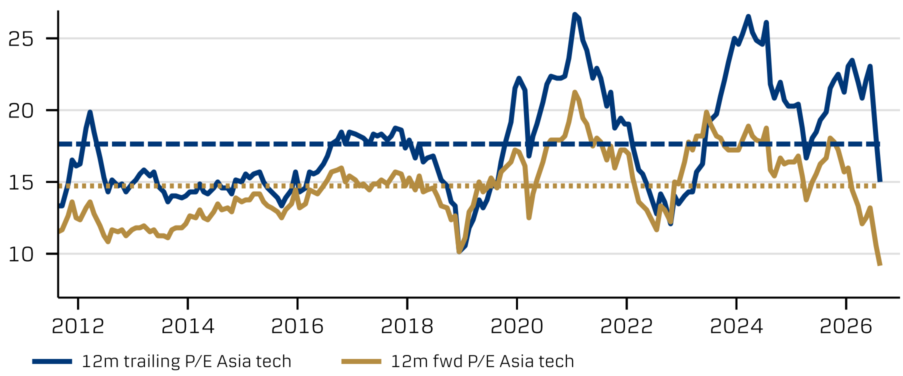
Third, leverage: Hence, perhaps the market's problem was not Q2 earnings themselves, but the amount of leverage built on top of them. The timing was unlucky: South Korea approved single-stock leveraged ETFs in late April, with the first products linked to SK Hynix and Samsung launched in late May, almost 'perfectly' coinciding with the peak in semiconductor and memory euphoria. When the shares slid on the triggers mentioned above, those products amplified the declines, triggering forced selling. A sharp selloff was in the making.

What is the market pricing now?

In cyclical industries such as materials, semiconductors and especially memory, one of the market's oldest ironies is that the multiple often looks lowest precisely when earnings are at their peak. A low trailing P/E in the middle of a sharp earnings ramp is therefore not, by itself, proof that a stock is undervalued.

That makes it difficult to back out the market's implicit growth assumption from valuation alone. Asia's tech sector trades at around 9x 12-month forward earnings, compared with a historical average closer to 16x. Such a discount implies that the market either does not trust bottom-up consensus estimates, or assumes that earnings will plunge shortly after the 12-month forecast horizon. Given the boom-bust history of memory, that is not an irrational assumption.

Forward- and trailing P/E of MSCI Asia Information Technology

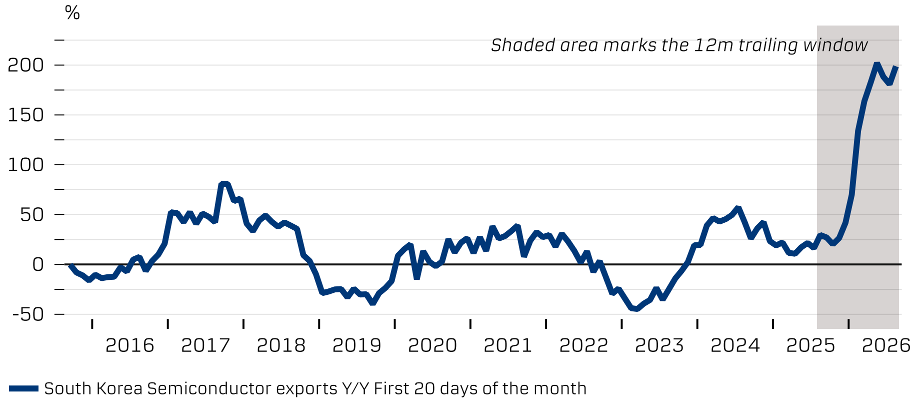


Source: Refinitiv, Danske Bank

The more striking observation in the chart above, however, is that trailing valuations are *also* below their historical average. This matters because the trailing earnings base includes two quarters of relatively normal memory pricing.

In other words, investors are not willing to pay an average multiple on profits that at least partly reflect a partly normalised pricing. Our interpretation is that the market is expecting semiconductor prices (and memory prices in particular) are close to rolling over. So far, however, export and price data tell a different story. South Korean semiconductor exports are among the timeliest macro indicators available, and the first 20 days of August show continued growth.

South Korean semiconductor exports y/y (incl. 20 days into August)



Source: Macrobond, Danske Bank

A peak-earnings discount is legitimate, but it is not infinitely legitimate. If prices were simply to hold steady at current levels, which the South Korean export data is suggesting, then SK Hynix's 12m fwd P/E would be as low as 3x. If prices were to go higher, the valuation would drop further. In other words, if memory prices do not roll over soon, current valuations may still prove too low, even if today's profits are temporary.

The honest answer is that the market's message is ambiguous. It may be under-pricing a longer and more structurally supported AI-driven upcycle. It may also be correctly discounting a cyclical peak, especially given the capacity build-out underway. Distinguishing between the two is not a spreadsheet exercise. It is a judgement call on capacity discipline, memory pricing and whether AI demand is durable enough to be treated as secular rather than cyclical. The multiple alone cannot settle that debate. It only tells us that the re-rating could be violent in either direction once investors get more visibility on 2027 capacity and pricing.

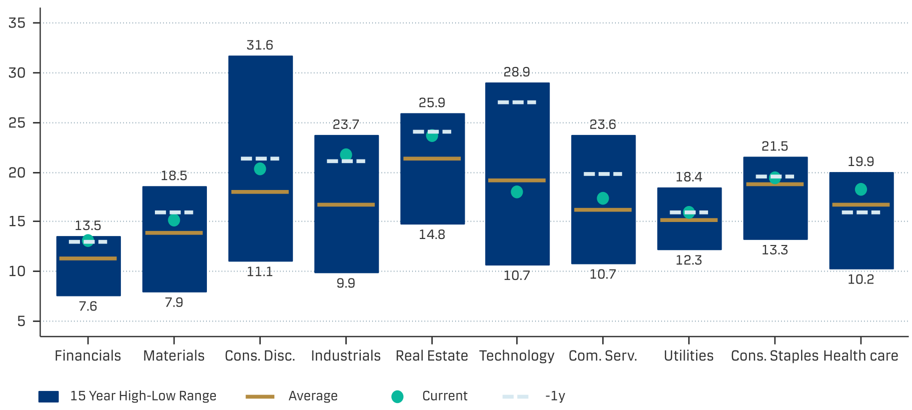
The AI trade has not disappeared — it has migrated

What stands out in the recent semiconductor sell-off is not only its size, but the fact that it did not spread to the broader equity market. Instead, the S&P 500 has made new highs, and the leadership has even come from cyclical sectors that are linked, directly or indirectly, to the data-centre investment cycle. Global industrials, for example, are 4% higher since the rout in Asian semiconductors since June.

Industrial companies do not carry the same degree of memory-price risk, nor do they face the same overcapacity fears. Their data-centre exposure is usually one revenue stream among several, not the entire earnings story. Still, the valuation divergence is striking. Global industrials are expensive both relative to their own history and relative to the broader market. The sector now trades at 21x earnings, which is nothing less but a 30% premium above its long-run average. It also implies a 27% premium to the overall market.

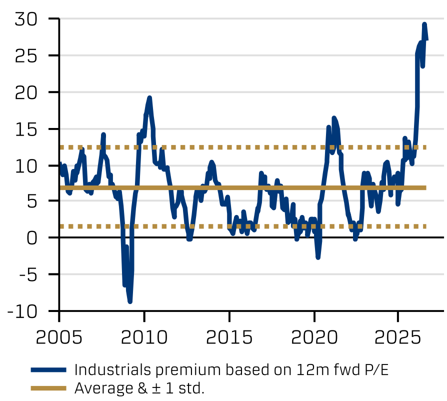
From an allocator's perspective, the question is hard to avoid: Are investors paying very different multiples for what may ultimately be the same temporary AI capex impulse?

Global sectors – 12m forward P/E (x)



Source: LSEG Data & Analytics, Danske Bank

Global industrials relative valuation



Source: LSEG Data & Analytics, Danske Bank

Conclusion: From selectivity, to broadening to selectivity again

Before the summer, we argued that the Asian equity rally was fundamentally justified. In the short-term rear-view mirror, that was poorly timed. But the broader call, that the AI investment cycle would move beyond the semiconductors and into general industrials has, on the other hand, worked almost too well.

That is why the allocation message is changing again. The first phase of the AI trade was about identifying which companies that would get paid from these massive investments The second phase of the AI trade was about broadening exposures, include companies supplying the semiconductor industry's own capacity buildout. The next phase is likely to be about selectivity again.

This is not a call against the underlying cycle. Semiconductor companies may still need to spend significantly more, and the datacentre buildout has momentum. But many cyclical sectors now appear to price a very favourable macro and investment backdrop, while parts of tech are being valued as if the cycle is already close to rolling over. That asymmetry is an opportunity.

For CIOs and allocators, the right question is therefore not whether to own the theme, but where the theme is still being priced with a realistic margin of safety. After the summer correction, parts of Asian tech once again deserve attention. After the broadening elsewhere, selectivity matters more than beta.

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