The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

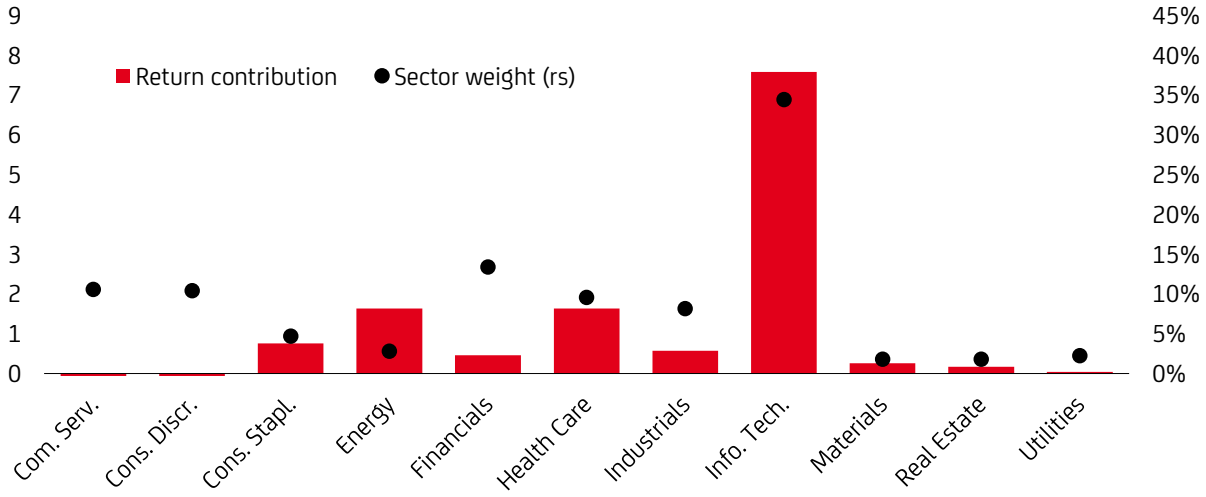
Technology's lead is being tested, not broken

27 October 2026

Technology has remained at the centre of recent market volatility as investors look for clearer evidence that rising AI expenditure will translate into sustainable returns. We remain constructive because the evidence points to broadening adoption rather than weakening demand, as the focus shifts from capacity build-out towards monetisation.

TECHNOLOGY REMAINS THE MAIN ENGINE OF THE S&P 500'S ADVANCE THIS YEAR

CONTRIBUTION TO S&P 500 TOTAL RETURN YTD (IN PP) AND SECTOR WEIGHT (IN %)



Source: LSEG Datastream, The Investment Institute by UniCredit

THE CONTEXT

Technology has returned to the centre of market volatility. Several recent earnings reports initially buoyed sentiment, only for gains to fade as investors turned their attention from headline results to capital-spending plans and financing needs. Meta illustrates the concern: strong revenue growth was overshadowed by rising AI expenditure and weaker cash-flow generation. Semiconductor and other AI-linked stocks have borne the brunt of the swings. The reporting season continues to point to robust AI demand, but investors have become less forgiving about the cost of meeting it. Recent market reactions suggest that the debate has shifted from whether companies will spend on AI to whether those investments can generate attractive returns within a reasonable timeframe. That scrutiny matters after a year in which technology has again accounted for a disproportionate share of the wider market's advance.



THE DATA

Our chart shows the extent to which technology has driven the S&P 500's year-to-date total return. Despite recent market turbulence, information technology had still contributed around 7.5pp by the end of last week, far more than any other sector, while accounting for roughly a third of the index. Health care and energy rank a distant joint second, each contributing around 1.5pp. Technology's outsized contribution reflects both the strength of the sector's performance and its substantial index weight.



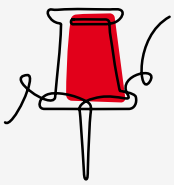
OUR VIEW

Technology's outperformance has a sound fundamental basis. The sector combines superior earnings growth, strong balance sheets and direct exposure to the AI investment cycle. Demand for processors, memory, networking equipment and data-centre capacity remains robust, while adoption is spreading from infrastructure providers to software companies and the wider economy. The investment case is nevertheless becoming more demanding. Investors are increasingly focused on whether rising AI investment can generate durable revenue growth, free cash flow and attractive returns on capital.

Recent earnings reactions suggest that strong demand alone is no longer enough. Markets want clearer evidence that AI spending can translate into profitable products, pricing power and productivity gains rather than simply more computing capacity. This does not undermine the structural AI theme, but it could lead to greater divergence in performance across the sector. Semiconductor companies retain the most direct exposure to infrastructure spending, alongside greater cyclicality and higher expectations. Software and digital platforms may capture more of the next phase as adoption broadens, although competition will determine how much of the resulting productivity gains accrue to shareholders rather than customers.

The macroeconomic backdrop is similarly two-sided. Persistently high oil prices could sustain inflationary pressure and tilt the balance of risks towards higher interest rates, with technology's longer-duration earnings profile leaving valuations particularly sensitive to changes to the discount rate. Conversely, a benign reassessment of the policy path would ease the valuation constraint on long-duration growth assets. This would provide an additional tailwind.

We therefore retain a positive view on technology, while recognising that differentiation is becoming more important. As the cycle matures, durable demand, defensible market positions and the conversion of AI investment into sustainable cash flow should increasingly determine performance. Broader sector participation would make the equity advance more resilient but need not come at technology's expense. If earnings hold up and monetisation becomes more visible, the sector should remain an important source of market support. Recent volatility has raised the burden of proof but has not broken the fundamental case or the structural growth opportunity associated with AI.



OTHER THINGS TO NOTE

Israeli election in the spotlight

Today, 7.3mn Israelis will head to the polls to elect a new parliament. The two main competing blocs are the governing alliance of Prime Minister Benjamin Netanyahu and the "change bloc", led by former IDF chief of staff Gadi Eisenkot. Netanyahu's alliance comprises his right-wing Likud party, the two ultra-orthodox parties Shas and United Torah Judaism, and the religious nationalist parties Otzma Yehudit (led by Itamar Ben-Gvir) and Religious Zionist Party (led by Bezalel Smotrich). The change bloc comprises Eisenkot's recently founded Yashar party, former Prime Minister Naftali Bennett's centre-right B'Yachad alliance, Avigdor Liberman's secular nationalist right-wing Yisrael Beiteinu and Yair Golan's centre-left The Democrats. For further details, see our Bottom Line – Votes, rates and volatility.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
-	IL	Israel elections	-	-	-	-
10:00	EZ	Euro area bank lending survey	4Q	-	-	-
10:00	EZ	M3 money supply (% yoy)	Sep	3.4	-	3.5

Source: The Investment Institute by UniCredit

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