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PHILEQUITY CORNER

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Volatility continues

Last Monday, we advised investors to remain exposed to the AI transformation but to proceed with caution. The past week showed why. Oil briefly climbed above $100 as geopolitical conflicts intensified, bond yields rose and technology stocks sold off. Investors also began questioning whether massive AI spending would generate adequate returns.

These developments triggered another wave of risk aversion and kept volatility elevated. The turbulence eventually reached the Philippines, where stocks declined and the peso fell to another record low.

Tech rotations leave investors bewildered

Leadership shifted rapidly within technology—from hyperscalers to chipmakers and software, then back again. Money rotated from the companies funding the AI buildout to those receiving the spending, and from hardware to software, only to reverse shortly afterward. This constant rotation has left investors confused and bewildered over where the next source of leadership will emerge.

The tech-heavy Nasdaq Composite dropped 2.1 percent for the week, while the Magnificent Seven ETF (MAGS) fell 5.6 percent. Semiconductors were especially volatile. The VanEck Semiconductor ETF (SMH) rose 5.5 percent through Wednesday before surrendering nearly all its gains and ending the week just 0.8 percent higher. By comparison, the broader S&P 500 fell just 0.6 percent, while the Dow Jones Industrial Average lost 0.4 percent.

Oil returns above $100

Brent crude futures surged to $102 per barrel on Thursday, crossing $100 for the first time since May. Although it later eased below that level, oil still gained 11 percent for the week and more than 30 percent for the month as the Middle East conflict threatened key supply routes.

The Iran-aligned Houthis attacked two Saudi oil tankers in the Red Sea, raising fears of disruption through the Bab el-Mandeb Strait while traffic through the Strait of Hormuz remained constrained. The Russia-Ukraine war also intensified, with attacks on refineries, pipelines, ports and tankers disrupting fuel supplies and threatening grain exports.

30-year Treasury yield nears 2007 high

The surge in oil revived inflation fears and pushed bond yields sharply higher. The US 10-year Treasury yield climbed to 4.71 percent, its highest in more than 18 months, while the 30-year yield approached 5.2 percent, near its highest since 2007. Markets now assign roughly a one-in-three chance of a rate hike at the upcoming July 28-29 FOMC meeting.

Higher rates put pressure on expensive growth stocks and raise the cost of financing data centers, power plants and semiconductor facilities required by the AI boom.

Trump adds another layer of uncertainty

Following the Houthi attacks on Saudi oil tankers, President Trump warned that “major military punishment will be inflicted upon Iran and, of course, the Houthis, themselves.” He later said the US was “locked and loaded,” adding to fears that the conflict could escalate further.

At the same time, the Trump returned to tariff warfare. New duties on 60 trading partners, including 50 percent tariffs on select Canadian goods, showed that the threats were directed at friends and foes alike. The constant changes raise inflation risks, make corporate planning harder and add to market uncertainty.

The AI spending question

Concern is also growing over hyperscaler capital spending. Microsoft, Meta, Amazon and Google continue to spend enormous sums on GPUs, data centers, networking and power. But investors now want proof that this spending is translating into stronger revenue, profits and free cash flow.

A slowdown would ease pressure on hyperscaler cash flows but hurt semiconductor, memory, server and data-center companies whose valuations depend on continued rapid growth in AI investment.

Cheaper Chinese models

Last year, in “DeepSeek sparks global tech selloff,” we discussed how low-cost Chinese models could challenge the economics of the American AI boom. Moonshot AI has brought that issue back into focus.

Jefferies strategist Chris Wood warned that cheaper Chinese models could undermine the profitability assumptions behind US AI spending. As the cost of using AI falls, usage may increase, but revenues and profit margins may not rise fast enough to justify the enormous capital investment.

Yen hits 40-year low; peso sets record

With wars escalating, oil rising and bond yields climbing, investors returned to the US dollar as a safe haven. The Japanese yen weakened to 163.96 per dollar, its lowest level in 40 years. Japanese authorities again threatened intervention, but earlier efforts to support the currency provided only temporary relief. The Indonesian rupiah and Indian rupee also remained under pressure, trading near record lows.

The Philippine peso fell to a new record low of ₱61.847 against the dollar last Friday. The PSE Index also fell 1.9 percent for the week as rising oil prices, higher US yields and a stronger dollar weighed on Philippine assets.

Why volatility continues

Markets dislike uncertainty, and today it is coming from almost every direction: wars, shipping disruptions, tariffs, oil, inflation, interest rates, currencies and questions over the profitability of AI spending.

For the Philippines, these global pressures are compounded by a weak peso, dependence on imported oil and food, territorial disputes and lingering concerns over governance and politics. That is why markets are weak—and why volatility continues.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity’s managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email ask@philequity.net.