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MAKING SENSE OF *THIS* WORLD

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Tech Sell Off Signals Emerging Signs of AI Stocks Over-Valuation

Last week, equity markets across the globe were rattled by a marked sell-off originating in the tech sector, and the semiconductor complex bore the sharpest correction. The Nasdaq Composite plunged over 4% in a single session; semiconductor stocks shed more than $1.3 trillion in market value — the most significant correction in the AI trade of 2026. Micron lost approximately 13% of its value in a single session, a remarkable reversal for a stock that had surged nearly 800% over the preceding year on the back of AI-driven memory demand. The contagion spread eastward with equal ferocity: South Korea's tech-heavy Kospi index closed 10% lower, dragged down by SK Hynix and Samsung, both of which ended the session with losses exceeding 12%. In Europe, ASML, Infineon and STMicroelectronics fell between 4% and 7%. The sell-off was, in the most literal sense, global.

Three causes operated within the tech sector itself, against one macroeconomic backdrop that offered no mitigation. The first tech-specific cause refers to the recent IPO of Space-X. Days after the hyper-valuation of Space X, a large market correction was expected to emerge as it often happens after large IPOs.

The second and most structurally significant is the growing investor scepticism about whether artificial intelligence can generate returns commensurate with the capital it has consumed. Combined 2026 capital expenditure across Microsoft, Alphabet, Amazon and Meta has now exceeded $452 billion — a figure that has migrated, in investor psychology, from impressive to alarming. When Apple and Microsoft simultaneously announced price increases on consumer hardware, citing soaring component and chip costs, the market read the subtext clearly: the AI infrastructure buildout is consuming margin across the entire supply chain, and those costs are now being passed downstream. Studies from MIT and the Harvard Business Review found that 95% of organisations have seen no tangible return from AI projects to date, even as cumulative industry investment approaches $1.6 trillion since the modern AI boom began. The gap between capital deployed and value demonstrably created has become too wide to ignore.

The third tech-specific cause is structural and geopolitical in equal measure: China has repeatedly demonstrated that comparable AI results can be achieved with a fraction of the investment, directly undermining the narrative that underpins hyperscaler valuations. The most prominent case beyond DeepSeek is Alibaba's Qwen3, which ranks near the top of global leaderboards in reasoning and language tasks while operating under the same chip-constrained conditions facing all Chinese labs — and, unlike DeepSeek, is backed by a major listed company with real revenue. MiniMax produced its M1 model trained on just 512 Nvidia H800 GPUs, a figure US hyperscalers would have dismissed as inadequate for any competitive frontier model. Ant Group demonstrated something more pointed still: the ability to train AI models on domestically produced chips at lower cost with equivalent results — compute substitutability, not merely compute efficiency. Moonshot AI's Kimi K2.5 costs four times less than OpenAI's GPT 5.2 while scoring an identical Intelligence Index of 47. The aggregate pattern, confirmed by RAND in early 2026, is that Chinese AI models run at one-sixth to one-quarter the cost of comparable American systems.

Against this already unsettled backdrop, the macroeconomic environment offered no comfort. Geopolitical tensions in the Middle East continued to furnish a reliable volatility amplifier, sustaining fears of supply disruptions, persistent inflationary pressure and the possibility of a Federal Reserve less inclined toward accommodation than markets had priced. The US Dollar Index climbed to a new 2026 high above 101, reflecting safe-haven flows. Capital rotated accordingly — out of mega-cap technology and into healthcare, utilities and consumer staples, the perennial refuges of the risk-averse. Central banks rotated their investment from US Treasuries to gold.

This was not a repudiation of artificial intelligence as a transformative technology. It was something more disciplined: markets withdrawing the blank cheque extended on faith, and issuing instead a conditional invoice. Payment terms: verified earnings, sustainable margins, and a credible timeline from expenditure to return.

Looking Ahead

The Week Ahead: US Final Reading of Q1 GDP to Show Accelerating Growth

In the US, in June, unemployment rate is expected to remain at 4.3%. NFPs are seen increasing by 114K (*p:* 172K). In June, S&P Global Manufacturing and Services PMIs are expected to increase to 55.7 (*p:* 55.1) and to 51.3 (*p:* 50.7).

In the EZ, in June, headline inflation rate is seen easing off to 3.0% y-o-y (p: 3.2%), whereas core inflation is likely to remain at 2.6% y-o-y. In May, unemployment rate is likely to stay unchanged at 6.3%. In June economic sentiment is expected to rise to 94.3 (*p:* 93.5). Consumer confidence is likely to increase to -1.7 (*p:* -19). In June, S&P Global Manufacturing PMI is expected to decline to 51.3 (*p:* 51.6), while Services PMI is likely to increase to 48.9 (*p:* 47.7). Composite PMI is seen edging up to 49.5 (*p*: 48.5).

In the UK, in Q1, according to the final estimate, GDP growth rate is seen advancing by 0.6% q-o-q (*p:* 0.2%) and 1.1% y-o-y (*p:* 1.0%). In June, S&P Global Manufacturing and Services PMIs are expected to decline to 53.3 (*p:* 53.9) and to 48.7 (*p:* 49.3). Composite PMI is seen edging down to 49.4 (*p*: 49.7).

The Quarter Ahead: US-Iran Ceasefire Under Strain; Google Caps Meta's AI Access; Starmer Steps Down

US-Iran tensions escalated after US strikes on Iranian military targets prompted Iranian missile and drone attacks on Kuwait and Bahrain. President Trump warned that further escalation could lead to the "annihilation" of Iran, underscoring the fragility of the recently agreed ceasefire.

Google has reportedly limited Meta's access to Gemini AI models after being unable to meet the company's demand for computing capacity, highlighting ongoing AI infrastructure constraints. The restrictions have reportedly delayed some of Meta's internal projects and pushed the company to use AI tokens more efficiently.

UK Prime Minister Keir Starmer announced he will step down as Labour leader, triggering a leadership contest to select his successor. He will remain prime minister until a new leader is chosen, with Andy Burnham emerging as the early frontrunner.

Last Week's Review

Real Economy: US Final Reading of Q1 GDP Showed Accelerating Growth; PCE Prices Rose In US

In the US, in Q1, according to the final estimate, GDP growth advanced by 2.1% q-o-q (*c:* 1.6%; *p:* 0.5%). In May, PCE and core PCE prices increased to 4.1% y-o-y (*c*: 4.1%; *p:* 3.8%) and 3.4% y-o-y (*c:* 3.4%; *p:* 3.3%). In June, Michigan Consumer Sentiment rose to 49.5 (*c:* 50.0; *p:* 44.8)

In the EZ, in June, consumer confidence increased to -17.7 (*c:* -17.5; *p:* -19).

Financial Markets: Stocks Were Down; Long-Term Yields Fell; Dollar Rose; Oil And Gold Prices Declined

Market Drivers: US equities ended mixed, as weakness in large-cap technology and AI stocks weighed on the S&P 500 and Nasdaq. Treasury yields declined, as lower oil prices and in-line inflation data supported bonds. A late-week selloff in global technology stocks on AI valuation concerns weighed on sentiment in Europe as well.

Global Equities: decreased *w-o-w* (MSCI ACWI, -2.1%, to 1,102.60). The US S&P 500 index declined (-2.0% w-o-w, to 7,354.02). In the EZ, share prices were down (Eurostoxx 50, +1.1% w-o-w, to 6,221.55) In EMs, equity decreased (MSCI EMs, -4.5%, to 1,706.40). Volatility rose to 19.06 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: *w-o*-w, the 10-year US Treasury yields declined (-12 bps to 4.37%). The 2-year US Treasury yields rose (+9 bps to 4.09%). The German 10-year bund yields edged down (-13 bps to 2.85%).

FX: *w-o-w,* the US Dollar Index increased (DXY, +1.6%, to 101.36; EUR/USD -0.7%, to 1.14). In EMs, currencies declined (MSCI EM Currency Index, -0.5% w-o-w, to 1,856.46).

Commodities: *w-o-w,* oil prices declined (Brent, -9.9% to 72.6 USD/b). Gold rose declined w-o-w (-1.8% to 4,096.30 USD/Oz).

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Nato Balavadze *contributed to this Viewsletter.* *The picture in the first page was taken from this website.*

Abbreviations, Acronyms and Definitions

a	Actual
AKP	Justice and Development Party, Turkey
ann.	annualized
ARS	Argentinian Peso
avg.	Average
bn	Billion
BoC	Bank of Canada
BoE	Bank of England
BoJ	Bank of Japan
bpd	Barrels per day
bps	Basis points
BS	Balance sheet
c	Consensus
C/A	Current account
CB	Central bank
CBB	Central Bank of Bahrain
CBK	Central Bank of Kuwait
CBT	Central Bank of Turkey
CDU	Christian Democratic Union, Germany
CNY	Chinese Yuan
CPI	Consumer Price Index
DJIA	Dow Jones Industrial Average Index
DJEM	Dow Jones Emerging Markets Index
d-o-d	Day-on-day
DXY	US Dollar Index
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
EIA	US Energy Information Agency
EM	Emerging Markets
EP	European Parliament
EPS	Earnings per share
EU	European Union
EUR	Euro
EZ	Eurozone
Fed	US Federal Reserve
FOMC	US Federal Open Market Committee
FRB	US Federal Reserve Board
FX	Foreign exchange
FY	Fiscal Year
GCC	Gulf Cooperation Council
GBP	British pound
GDP	Gross domestic product
IMF	International Monetary Fund
INR	Indian Rupee
IPO	Initial public offering
IRR	Iranian Rial
JPY	Japanese yen
k	thousand
KSA	Kingdom of Saudi Arabia
LN	Northern League, Italy
M5S	Five Star Movement, Italy
m-o-m	Month-on-month
mb	Million barrels
mb/d	Million barrels per day
MENA	Middle East and North Africa
MHP	Nationalist Movement Party, Turkey
mn	Million
MPC	Monetary Policy Committee
NAFTA	North-American Free Trade Agreement
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
Opec	Organization of Petroleum Exporting Countries
p	Previous
P2P	Peer-to-peer
PBoC	People's Bank of China
PCE	Personal Consumption Expenditures
PE	Price to earnings ratio
PM	Prime minister
PMI	Purchasing managers' index
pps	Percentage points
pw	Previous week
QCB	Qatar Central Bank
QAR	Qatari Riyal
QE	Quantitative easing
q-o-q	Quarter-on-quarter
RE	Real estate
RBA	Reserve Bank of Australia
RRR	Reserve Requirement Ratio
RUB	Russian Rouble
SWF	Sovereign Wealth Fund
tn	Trillion
TRY	Turkish Lira
UAE	United Arab Emirates
UK	United Kingdom
US	United States
USD	United States Dollar
USD/b	USD per barrel
UST	US Treasury bills/bonds
VAT	Value added tax
VIX	Chicago Board Options Exchange Volatility Index
WTI	West Texas Intermediate
WTO	World Trade Organisation
w	Week
w-o-w	Week-on-week
y	Year
y-o-y	Year-on-year
y-t-d	Year-to-date
ZAR	South African Rand
2y; 10y	2-year; 10-year