(UBS)

Diversification remains key to managing market risks

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CIO expects volatility to persist in the coming days as investors weigh the impact of potential business model disruptions from AI. Monetization will also likely be in focus, with Alphabet and Amazon set to report their earnings this week.

Without taking any single-company views, CIO offers several perspectives to help investors navigate the rapidly evolving AI landscape.

Markets are increasingly differentiating between AI beneficiaries and laggards. After three years of strong AI rallies fueled by capex expansion, investors are now rewarding AI spending only when it comes with strong revenue growth. We have also highlighted that, as with past innovation cycles, companies that leverage new technologies to improve business outcomes are likely to see tangible financial benefits. With AI continuing to reshape industries, we think the latest sell-off is unlikely to be a one-off event. Firms that can successfully generate revenues and profits from AI investment and adoption will likely be favored by investors.

Recent developments highlight productivity gains that extend beyond the tech sector. Just as past structural investments have boosted productivity, the latest advances add to growing evidence of AI-driven efficiency improvements. Last week, one major platform reported a 30% increase in output per engineer (and 80% for power users) since the start of 2025 thanks to the adoption of agentic coding, and management expects this productivity growth to accelerate. Regardless of how widely specific tools are adopted, the potential for productivity gains across areas should reassure investors about the long-term returns on AI investments.

Diversification remains essential in a volatile market. The S&P 500 Equal Weight Index has outperformed the traditional benchmark over the past three months, signaling a broadening rally supported by a favorable macroeconomic backdrop. Gains in Asian and European markets also point to opportunities arising from regional fiscal expansion and structural reforms. In today's environment, where risks are higher and outcomes less predictable, we believe diversification across sectors and geographies is especially important.

So, while we remain positive on the outlook for US equities and expect the S&P 500 to move higher, we believe diversification is key to managing market risks and enhancing long-term returns. To position for a broadening rally, we like financials, health care, utilities, and consumer discretionary in the US, and see attractive opportunities across Asia and Europe.

Original report – **Tech sell-off highlights need for diversification, 4 February 2026.**

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