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After the Storm What Has Changed, and What Has Not, in the Technology Investment Theme

Looking back at the July that has just passed, the market experienced a sharp and unexpected bout of volatility.

Zhang Jinqi, General Manager of the Dedicated Account Investment Department at Rosefinch Fund, believes that while the adjustment may have been triggered on the surface by a chain reaction stemming from deleveraging in the Korean market, the deeper issue may lie in the highly uneven distribution of profits across the global AI supply chain. This has intensified concerns over whether the relationship between AI investment and returns can develop into a sustainable positive feedback loop.

Since the beginning of the year, the AI industry has remained in a strong upcycle, driven by the rapid emergence of applications such as AI agents. Massive amounts of capital expenditure have flowed into the industry, yet a disproportionate share of profits has been captured by the memory segment, while model developers, cloud-computing providers, and software companies have yet to generate commensurate returns.

This extreme imbalance in profit distribution, combined with tensions created by the aggressive pricing stance of Korean memory manufacturers, ultimately contributed to the unwinding of leveraged positions in the Korean market, with the resulting risk-off sentiment spreading globally.

Financial Results Confirm That the Underlying AI Thesis Remains Intact

Fortunately, the earnings season of major U.S. technology companies at the end of July provided an important window for validation.

The market's earlier concerns over a contraction in capital expenditure did not materialize. The four major North American cloud providers not only refrained from cutting spending, but also provided guidance indicating continued growth in 2027.

More importantly, Amazon disclosed the returns generated by its AI data-center investments separately for the first time. The average payback period for computing servers and chips is approximately three years, compared with a useful life of five to six years for the servers themselves. In addition, a large proportion of computing capacity has already been secured through long-term contracts of more than five years.

This suggests, to some extent, that the return on investment in AI infrastructure is relatively attractive and that the industry is not simply an open-ended "money-burning" exercise, as some market participants had feared.

Microsoft, meanwhile, provided greater visibility into the incremental sources of demand for its AI cloud business. A significant portion of the growth is coming from genuine demand among small and medium-sized enterprises

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seeking productivity and efficiency gains, rather than simply from an arms race in model training.

The use of AI as a productivity tool is accelerating, while AI capital expenditure is increasingly shifting toward inference. Behind inference demand is the real-world adoption of AI applications by enterprises.

After a month-long decline, the share prices of major overseas technology companies gradually stabilized following the earnings releases, suggesting that the market was broadly receptive to the signals emerging from the results.

As for the temporary deterioration in cash flow at some companies, we believe this was largely within expectations. Given the established pace of capital expenditure, the second and third quarters were always likely to be periods of significant cash-flow pressure.

The market's real concern is not simply whether cash flow turns temporarily negative, but whether investment and returns can form a sustainable positive feedback loop.

The current earnings season has provided an initial and relatively convincing answer to this question.

Of course, whether companies' success in using AI to reduce costs and improve efficiency will ultimately translate into meaningful revenue and profit growth still requires confirmation from earnings reports across traditional industries.

Nevertheless, the value of AI in improving productivity has already become broadly accepted. Overall, we remain optimistic about the long-term prospects of the AI industry.

Moving Beyond One-Way Panic and Extreme Divergence

Based on these developments, our view is that the market may move away from one-directional panic and enter a more volatile but upward-trending environment.

However, the likelihood of another acceleration phase characterized by the extreme divergence seen during the first six months of the year appears relatively low.

We expect the market to become more balanced, with greater rotation across sectors. We have also adjusted our positioning accordingly, prioritizing high-conviction AI opportunities while using relatively undervalued sectors to improve the portfolio's risk-reward profile.

First, we have optimized the internal structure of our technology exposure.

We have reduced our previous focus on overseas AI server supply chains and are devoting more attention to China's domestic semiconductor ecosystem, including wafer fabrication, semiconductor equipment, materials, and chip design.

In our view, overseas restrictions have actually strengthened the investment case for domestic technological self-reliance and supply-chain autonomy. Following the July correction, the valuations of relevant companies have also become more attractive.

Second, we are increasing our focus on leading Internet companies.

These companies have been under sustained pressure due to weak consumption, but their underlying fundamentals remain solid, with growth generally in the high-single-digit to low-double-digit range.

More importantly, declining AI model costs are opening up new opportunities. As companies become increasingly willing to pay for AI productivity tools, major Internet platforms with massive user traffic and distribution channels could experience meaningful earnings upside.

Third, we continue to focus on selected consumer companies.

Although the fundamentals of the broader consumer sector have remained under pressure this year, we have seen continued operational resilience among several leading companies.

From an investment perspective, we will continue to focus on consumer companies characterized by high dividend yields, stable demand, improving competitive structures, and relatively limited sensitivity to macroeconomic fluctuations.

We will continue to seek opportunities in domestic-demand-oriented sectors and invest actively where sufficient valuation safety margins exist.

Once valuations have already priced in optimistic expectations, we will remain disciplined in exiting companies where there is insufficient room for further fundamental improvement.

In addition, we see opportunities in non-ferrous metals following market corrections.

The global reindustrialization process and increasing supply-chain instability are tightening the long-term supply-demand outlook for commodities such as copper and aluminum.

Following the substantial correction since April and May, the risk-reward profile of the non-ferrous metals sector has become increasingly attractive, bringing the sector into a more compelling allocation range.

Looking Further Ahead

Over a longer investment horizon, we believe this is a market cycle driven by the convergence of global industrial trends, and its underlying foundation remains relatively solid.

The productivity gains brought about by AI are a common objective across countries and regions. At the same

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time, capacity expansion across various parts of the AI supply chain faces significant technological and capital barriers, making it difficult for a speculative bubble to expand indefinitely.

Paradoxically, these barriers may help protect the sustainability of the current market cycle.

China is playing an important role in this global technology race. The trends toward technological innovation and greater domestic control over critical technologies are structural and unlikely to be reversed.

Of course, economic fluctuations, geopolitical uncertainty, and high volatility within the technology sector will continue to create periodic disruptions.

This requires us to remain focused on bottom-up valuation and make disciplined decisions at the individual-stock level.

When prices have risen substantially, we will take profits; when valuations have fallen excessively, we will look for opportunities to add exposure.

The objective is neither to become overly aggressive nor excessively defensive, but to identify structural opportunities amid market volatility.

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