

Global Equities: Move From Defence to Offence, Start Buying Weakness

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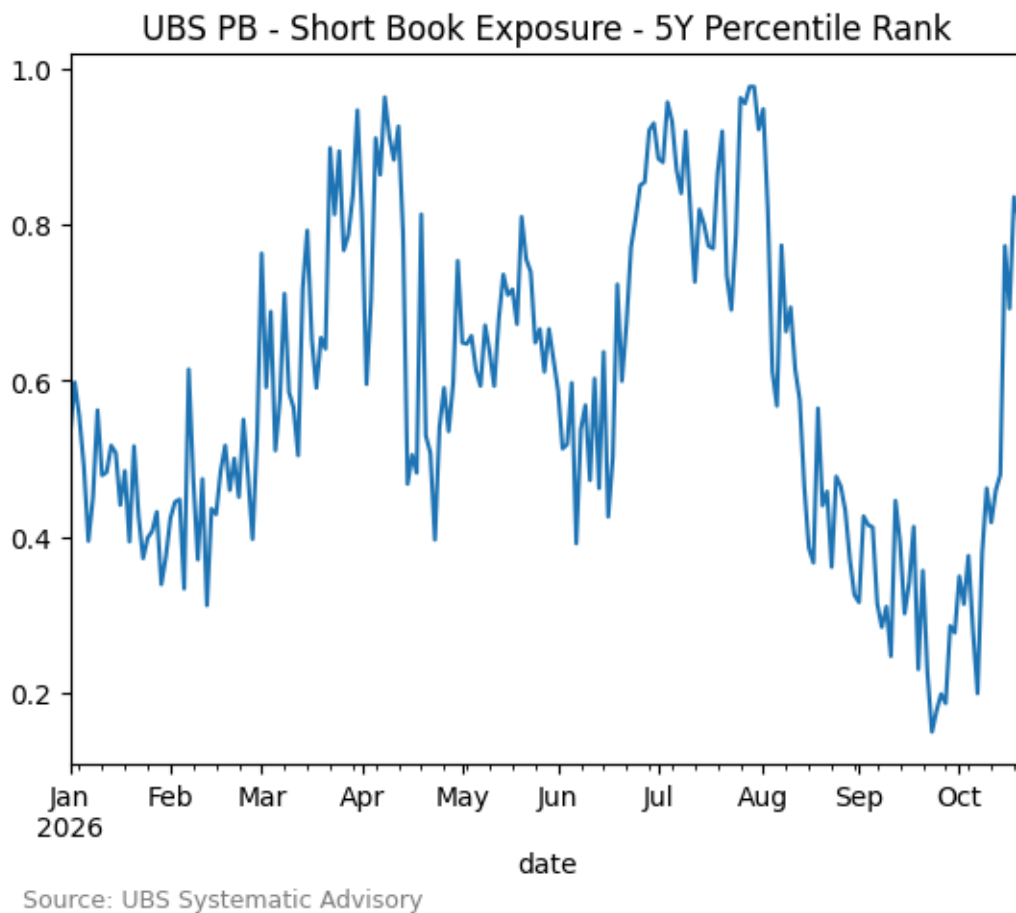
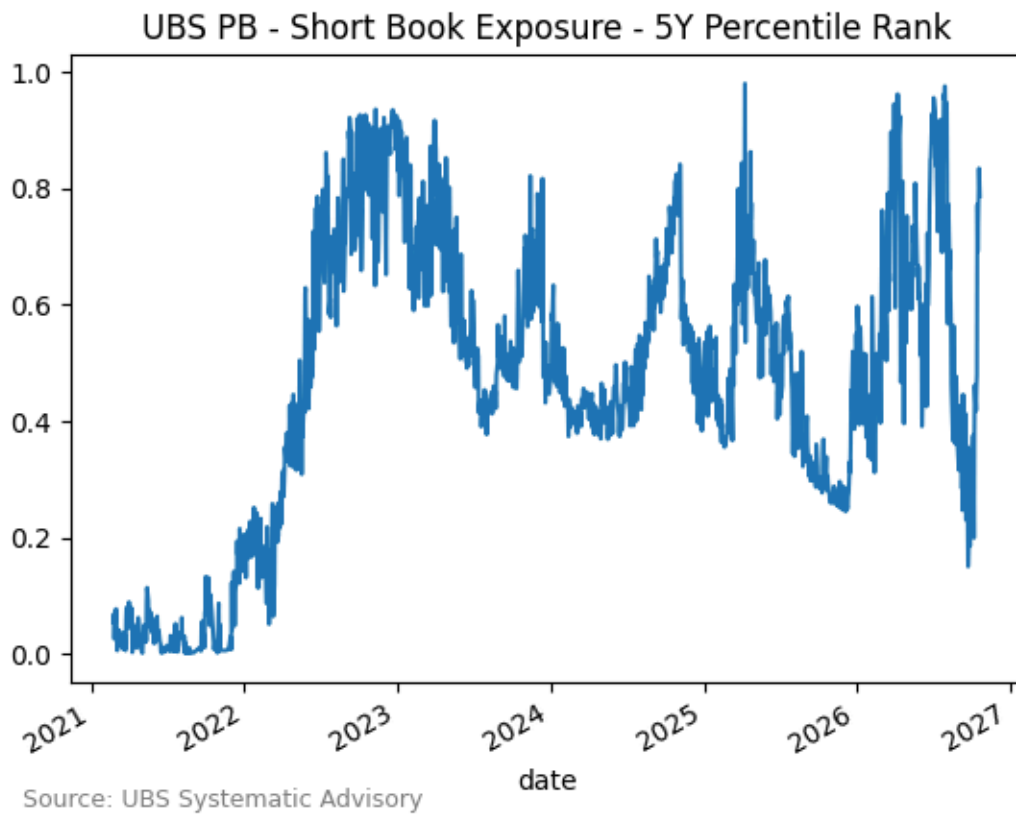
Equity markets are becoming technically washed out in Asia while parts of Europe look overbought, suggesting the balance of risk is shifting from maintaining defensive exposure toward selectively buying weakness, albeit with macro and correlation risks and levels still lingering but most likely largely baked in. Time to step in and take on the defensive rotation led by de-risking? Semiconductor stocks look interesting vs broader tech and software.

The details:

- Defensive positioning and more aggressive downside expressions have worked well over the past two or three days. However, several moves are beginning to look stretched on both price action and positioning metrics even if observable macro indicators are at uncomfortable levels.
- Thursday's APAC session was notably weak, with the magnitude of the risk-off move appearing disproportionate to the information available from post-market earnings and geopolitics. The HSTECH Index is now trading 23% below its 200-day moving average, with an RSI of 27, highlighting extreme oversold conditions.
- The CSI 300 is similarly depressed, with an RSI of 23.9, matching historical lows while testing its weekly 200-day moving average.
- By contrast, pockets of Europe are becoming increasingly overbought. Roughly 40% of the SMI and 25% of the DAX (driven largely by Insurance and SAP-related exposure) are trading with RSI readings above 70.
- The market still feels dominated by a broader cross-asset dynamic. Elevated oil prices, wider OAT-Bund spreads and higher sovereign yields have all contributed to the recent risk-off environment, although yields are now easing somewhat amid a flight to safety. These have been accelerated by political and geopolitical headline oscillations.

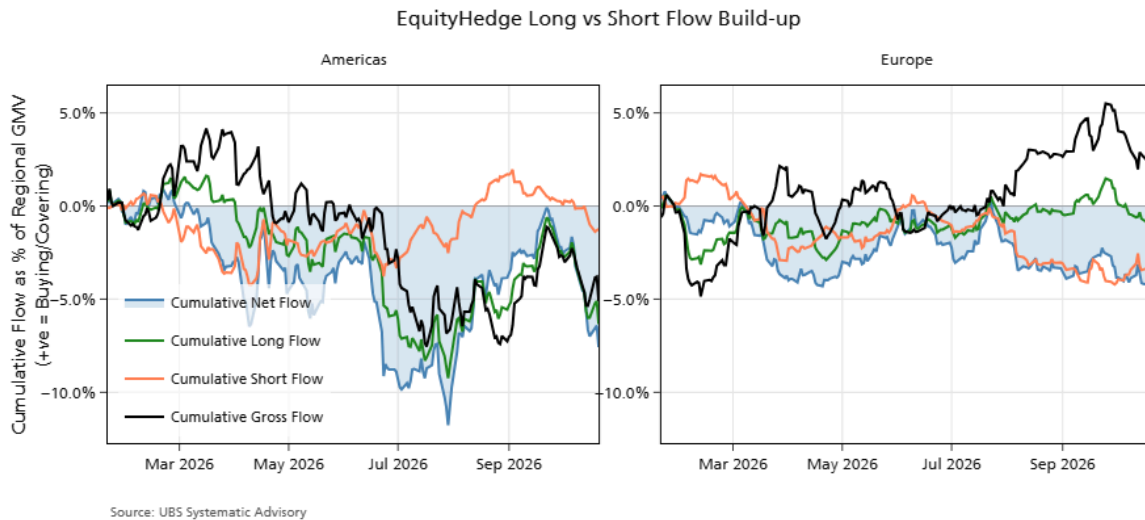
- Some correlations are starting to re-emerge, while several relative-value relationships, particularly within Semis versus Software, are approaching extreme levels.
- Hong Kong absorbed the majority of the selling pressure, with the Hang Seng registering a 95% down day, but the weakness was broad-based. The KOSPI sell-off was also severe, with 627 decliners versus only 152 advancers.
- Given current sentiment, positioning, and the number of well-known macro headwinds already reflected in prices, it increasingly feels appropriate to move away from an outright bearish and defensive stance on potential relative rates of change. Yes – the levels are uncomfortable, but we should look to price forward “what-if” scenarios?
- While conditions do not yet justify a full “green light” risk-on approach, it appears to be getting closer. At current levels, risk/reward increasingly favours buying weakness rather than selling strength.
- That said, this does not yet resemble a classic market-wide capitulation. Net exposures have fallen, but gross exposure, particularly in the US, remains elevated. The next source of pain may come from rising correlations and crowded sector positioning. The real risk is a reversal in established price relationships and market breadth, especially against a backdrop of increasing short interest.
- The sharp build-up in US equity short books, both on an absolute basis and relative to previous years, suggests that a meaningful portion of the positioning adjustment may already be behind us (see charts below) and we are likely to be more susceptible to squeezes than gaps lower in this segment.
- UBS's high-touch flow has been situational and idiosyncratic over earnings. There has been an arrest of the overwhelming defensive flow.

These charts show short exposure pick up and scale (vs previous years, then zoomed in for 2026) courtesy of UBS Systematic Advisory (Amandine-Parisa Kara).

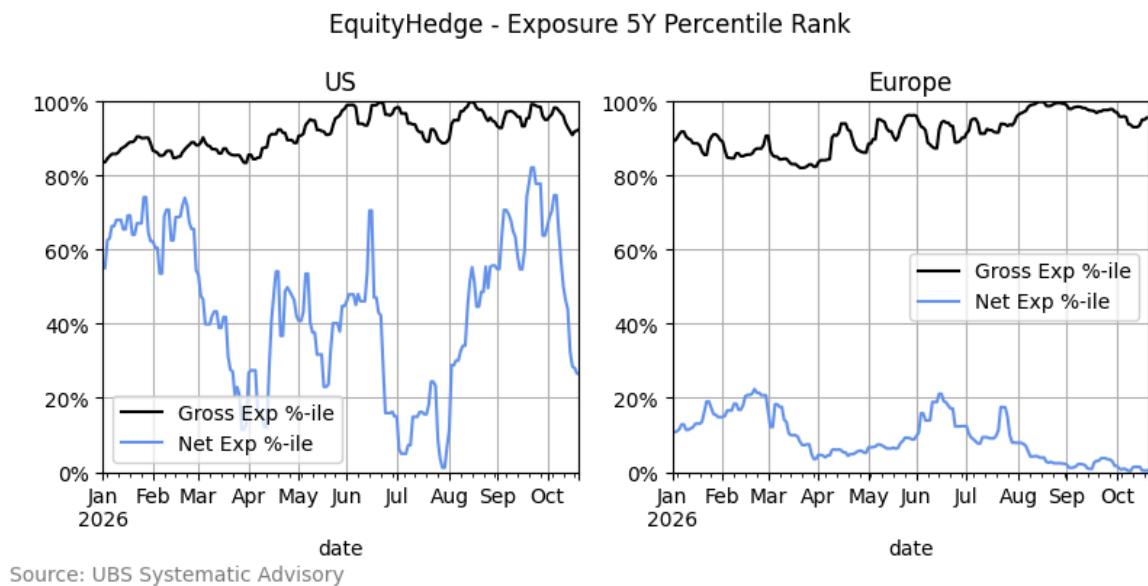


Positioning Changes

US Long selling accelerated, and a small increase in shorting (hedging). In Europe, there have been net inflows for defensiveness.



Grosses remain high and, it seems likely, very concentrated



More specifically within Tech, de-grossing of semis has accelerated, and started to see Hyperscalers. It is tempting to sell the latter and cover the former, or play a ratioed relative.

