INDOSUEZ WEALTH MANAGEMENT

CIO PERSPECTIVES

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From AI Hope to Doubt to Fear: What's Next?

The S&P 500 has fallen more than 11% from its peak on the 6 October. Around 6 trillion dollars has been wiped from the US stock market over that period. The market has rarely been so polarised around artificial intelligence (AI): is it the most revolutionary technology of our time, or the greatest threat to humanity? Investor anxiety can overwhelm fundamentals for a while, but not in the long run. We need to be prepared for further volatility. Yet opportunities will arise for investors who look beyond the noise.

THE ANATOMY OF A SELL-OFF

We see three main drivers behind the market sell-off.

1. The Fed's hawkish stance

October's inflation (CPI[1]) print was clearly a "bad" one: inflation remains too high, and we are beginning to see signs of pass-through effects. While this is not our base case—we continue to expect inflation to gradually recede into 2027—it has clearly left the Federal Reserve (Fed) in a difficult position. What caused further nervousness among investors was Fed communication suggesting that a 50 basis point (bps) rate hike could be warranted at the 9 December meeting.

2. From AI doubts to AI fears

Four factors have displaced the previous bullish stance on AI.

- First, and linked to the point above, tighter financing would inevitably put pressure on companies that need to raise significant amounts of capital to fund their capital expenditure CapEx. If capital is becoming more expensive, CapEx remains high and free cashflow turns negative, investors will naturally question the sustainability of the spending.
- Second, the Midterm elections and the Democrats' sweep have raised fears of a sharp slowdown in the AI build-out, particularly in data centres. These concerns are valid: the issue was important to voters.

[1] Consumer Price Index.

- Third, Nvidia—the world's largest hyperscaler company, with a market capitalisation that had reached 5.3 trillion dollars —was hit by a scandal involving its CEO's extramarital affair with a woman suspected of being a Chinese spy. The episode eventually led to his departure and has since broadened into a debate about the AI race between China and the US. Reports of a black market for US chips in China — nothing new in themselves — have prompted the US administration to announce tighter export restrictions. The big unknown for the market is how much this could slow the AI trade. Another major US semiconductor company, AMD, has also been targeted by short sellers over the risks associated with its business in China.
- Fourth, question marks on China. China is estimated to account for around 25–30% of AI compute demand. Reduced access to the Chinese market could weigh directly on demand, while a less competitive US-China environment may also affect the pace of AI development and investment. The implications for demand across the AI and semiconductor value chains remain uncertain.

3. Technical factors

The Democrats' sweep was initially seen as a short-term negative for equities. Yet, stocks advanced after President Trump quickly acknowledged the Democrats' victory, while oil prices fell sharply as further escalation with Iran appeared to be off the table after all. Many investors had begun positioning for a year-end rally.

Long positions across the market — held by long-only funds, hedge funds and systematic strategies — were caught on the wrong side. The sudden reversal in market momentum triggered a substantial wave of selling by systematic strategies. The VIX, Wall Street's fear gauge, reached 36% on Friday, its highest level since April 2025. "Short gamma" — when options dealers are forced to sell into the close to adjust their books — certainly exaggerated the latest sell-off; exposure was estimated to be at its most negative on record.

Finally, the Anthropic IPO[2], which raised a world-record 107 billion dollars, may also have drained liquidity from the market. We note that institutional investor demand, estimated at 400 billion dollars, was not met, leaving the allocation to retail investors. This may have significantly reduced market liquidity as retail investors made room to subscribe to Anthropic.

IS THIS THE END OF THE AI TRADE?

These three factors have amplified the market's primary concern: technology companies' capital expenditure and the impact of its reversal on free cashflow and profitability. These are real concerns. Yet, while the fears are now well priced in, we still lack a clearer picture of how these investments will be monetised.

At the same time, S&P 500 companies have reported year-on-year EPS[3] growth of more than 30% for the third quarter. Earnings have beaten analysts' estimates for almost 13 consecutive quarters. Margins have also accelerated, reaching more than 15%. The S&P 500 is back to flat year-to-date. Given the strength of earnings growth, valuations have fallen by 25%; the index is now trading below 16.5 times forward earnings, below its 10-year average (based on closing of Friday 20 November).

The technology sector has also seen a sharp adjustment, with valuations at their lowest levels since the pandemic began in March 2020. With a P/E[4] of 15 times — half its 2025 peak — the tech sector is now much further from bubble territory.

Consider bellwether Nvidia (not an investment recommendation): the stock is down more than 40% and trades at nine times forward earnings. In its quarterly results, the company reported no sign of a slowdown in demand, revised its revenue growth outlook upwards to 75%, increased its projected margins and raised its share-buyback authorisation to a total of 225 billion dollars — equivalent to 7% of its market capitalisation at current levels.

[2] Initial Public Offering.
[3] Earnings per share.
[4] Price to earnings ratio.

CATALYSTS FOR A REBOUND?

Last week brought several chaotic trading days. In response to the question, "Has the AI bubble popped?", the debate continues — but parts of the market are behaving as though it has. *Momentum* traders still have room to sell, and various strategists estimate that this is likely to continue for another week. A great deal of negative sentiment is already priced into the market.

Yet the US economy is not decelerating. PMI[5] indicators and the job market are holding up. South Korea's export growth is strong and accelerating. And, on earnings calls, major players across the AI value chain continue to talk about demand far outstripping supply, visibility extending to 2030 and strong pricing power.

Although greater clarity on the drivers of the sell-off will take time to emerge, and volatility may persist, we remain alert to four potential catalysts for a rebound:

1. **A softer tone from the Fed**. Kevin Warsh has spoken repeatedly about financial conditions and the wealth effect. With the market sell-off, financial conditions are tightening in effect, easing the pressure on the Fed to raise rates further. Interestingly, the market has started to revise down the number of rate hikes expected in 2027 to just two, from nearly four after the CPI release. We expect only one next year.

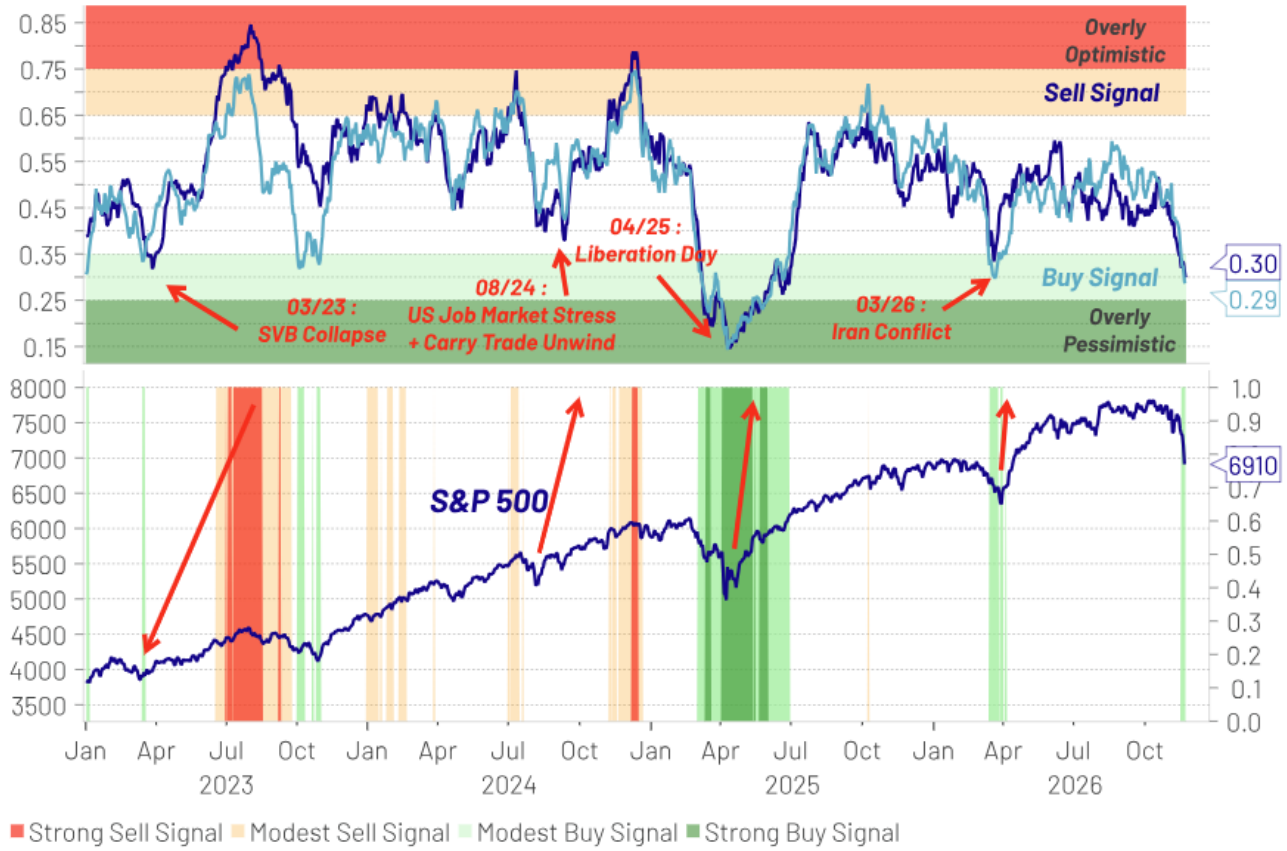
2. **A new CEO at Nvidia**. Investors dislike uncertainty and need visibility—particularly when it concerns one of the world's largest companies. New governance could ultimately prove positive if it brings greater discipline to financing the AI build-out and eases concerns about circularity in the AI theme.

3. **Continuing evidence of broadening AI adoption**. Our investment strategy is based on the premise that, as AI adoption matures, AI-driven earnings growth is expected to extend beyond a small group of technology leaders like the semiconductor sector. This broadening out is likely to occur as industrial companies, healthcare providers, consumer businesses, and financial services start to increasingly use AI to improve efficiency, products, and service offerings.

4. **Extremely bearish positioning**. Sentiment and positioning have deteriorated sharply in recent weeks, after remaining in neutral territory since the summer, although some measures suggest that institutional and retail positioning has not fallen as much. We are not there yet, but a more pronounced deterioration in positioning would indicate a more favourable asymmetry for future market returns. Markets may remain volatile, but it is worth remembering that, historically, corrections of more than 15% have on average been followed by positive returns over the subsequent year. This underscores the importance of keeping a cool head during periods of market stress.

[5] Purchasing Managers' Index.

Chart 1: S&P 500 vs. Sentiment and Positioning Signals



Source: Macrobond (23.11.2026), Indosuez Wealth Management.

Table 1: S&P 500 performance following a 15% correction, since 1929

Date	Peak	Trough	MaxDD	Duration	3M	6M	12M	2Y	3Y	5Y	10Y
23.10.1929	16.09.1929	01.06.1932	-86,2	989	-14,3	-12,4	-32,9	-62,1	-73,8	-65,8	-54,1
07.10.1957	02.08.1956	22.10.1957	-21,6	446	-4,1	-0,3	20	35,2	26,5	35,2	131
23.05.1962	12.12.1961	26.06.1962	-28	196	-2,6	1,9	14,7	31,8	45	47,6	74,8
19.08.1966	09.02.1966	07.10.1966	-22,2	240	0,7	10,1	18,4	26,5	17,1	23	34,1
25.07.1969	29.11.1968	26.05.1970	-36,1	543	6,1	-6,9	-15,3	7,7	15,3	-9	10,6
03.07.1973	11.01.1973	03.10.1974	-48,2	630	7,8	-9,3	-17,2	-6,9	2	-6,4	67,9
08.09.1981	28.11.1980	12.08.1982	-27,1	622	6,6	-7,5	2,9	39,9	41,3	114,4	234,1
16.10.1987	25.08.1987	04.12.1987	-33,5	101	-14	-6,6	-2,5	18	6,1	42,4	241,4
23.08.1990	16.07.1990	11.10.1990	-19,9	87	3,6	20,3	27,4	36,2	48,6	82,1	385,8
31.08.1998	17.07.1998	31.08.1998	-19,3	45	20,1	35,6	37,9	57,7	20	6,7	32,4
20.12.2000	24.03.2000	09.10.2002	-49,1	929	-8,8	-2,2	-8,5	-30,8	-12,3	-0,5	-0,5
18.01.2008	09.10.2007	09.03.2009	-56,8	517	4,8	-4,7	-39,2	-14,1	-3,3	12,6	114,2
20.12.2018	20.09.2018	24.12.2018	-19,8	95	14,1	20,5	30,6	49,7	88,4	92,7	
09.03.2020	19.02.2020	23.03.2020	-33,9	33	9,3	23,8	41,1	51,9	42,7	101	
09.05.2022	03.01.2022	12.10.2022	-25,4	282	7,2	0	3,7	30,9	47,6		
04.04.2025	19.02.2025	08.04.2025	-18,9	48	23,4	30,9	33,7				
		Average	-34,1	363	3,7	5,8	7,2	18,1	20,7	34,0	106,0
		Median	-27,6	261	5,5	-0,2	9,2	30,9	20,0	29,1	71,4

Source: Macrobond (23.11.2026), Indosuez Wealth Management.

Note: "Trough" is the date on which the S&P 500 reached its low following the peak. "MaxDD" denotes the maximum drawdown from peak to trough; "Duration" is the number of calendar days from peak to trough. The 3M-10Y columns show the index's percentage performance over the stated periods following the trough.

The recent market rout could be interpreted as a sign that the AI trade is evolving and that the market's attention is moving from building the infrastructure towards optimising and monetising it. This could even lead to slowing growth of AI related capital spending in 2027. A moderation in investment spending would be a natural and healthy phase of the cycle rather than a sign of weakening fundamentals. It is likely to improve financial sustainability. Reduced spending pressure would allow investors to better assess cash generation and profitability.

Remember that AI is only four years old: ChatGPT was released in 2022. Claude followed in 2025, and AI is spreading everywhere. The technology is unlikely to disappear, but some companies will fail while others remain undisputed leaders. The strong oversubscription of Anthropic's IPO shows that opportunities to raise capital remain very much alive, with a major AI player having the funding to make investments that will benefit the entire AI value chain.

Investor anxiety can overwhelm fundamentals for a while, but not in the long run. "Market bears tend to have the best arguments but the worst performance numbers[6]." Equity earnings are still expected to grow at a mid-teens rate next year. With forward multiples below their 10-year average, equities no longer look overvalued. Bonds finally provided some protection during this sell-off, improving portfolio resilience and easing pressure to reduce equity weights.

We need to be prepared for further volatility. Yet many opportunities will arise for investors who look beyond the noise.



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[6] Financial Times, 18 November 2026.

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