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STRATEGY OUTLOOK

NOVEMBER 2026



Strong Earnings vs weak sentiment and confidence.

Markets in October were hit by fears that the AI capex train was slowing. Earnings and margins however continue to boom, yet sentiment and positioning were perhaps the dominant factors driving significant deleveraging over the month. Indeed, Goldman Sachs reported that 8–14 October saw the largest net selling of global AI stocks in a year. Within the indices the AI bell weathers like Nvidia, Marvell or Micron were down 10%, 25% and 17% respectively.

Add in fears over the financial sustainability of the AI buildout (again there are clear parallels to the railroads or the cable/tech boom where debt explodes and later cannot be serviced). Add in the scenes in France or what the BBC tried to downplay as "mostly peaceful" with the looming Midterms and **it's not surprising that markets are skittish**.

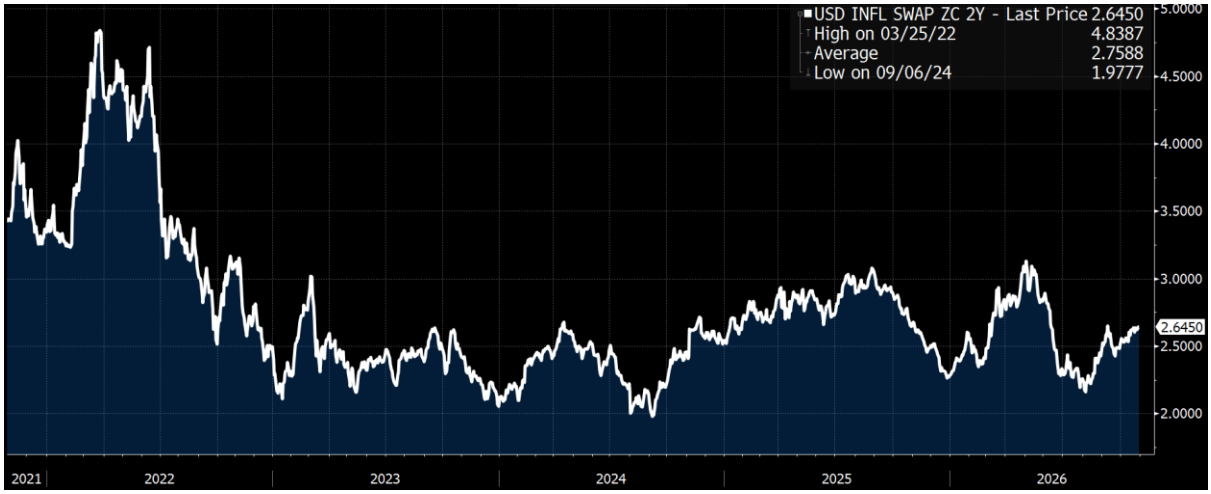
The polls for the Midterms allude to a blue wave. What does this mean for future datacentres? Mr Trump having tried motivating voters by money is now (or specifically his Treasury secretary) threatening fiscal austerity if his administration loses.

"The president and I are working on a fiscal consolidation plan. I think we're going to unveil that right after the midterm" Bessent 8 October

	October	YTD
S&P	-1.1%	10.7%
Rest of the World	1.1%	10.5%
US Treasury	2.1%	-0.5%
Gold	-7.3%	-10.3%
Bitcoin	-8.5%	-12.3%
WTI Crude	12.1%	81.3%
USD Index	-0.2%	3.6%

Between the elections and the beginning of Jan, in theory Congress has a 2-month window. Potentially this could sabotage markets, and the only likely winner would be the US dollar and maybe government bonds.

"When you see burning steeples and raging fires in France, just remember that is what the radical Dumocrats want to do to America" Trump 19 October



Credit (and political) worries have taken over from interest rate worries (the market prices in an 80% chance of a December hike). As we discussed last month, the market is now contemplating a bond yield of around 5%. Five years ago, that same yield was only 1.5%.

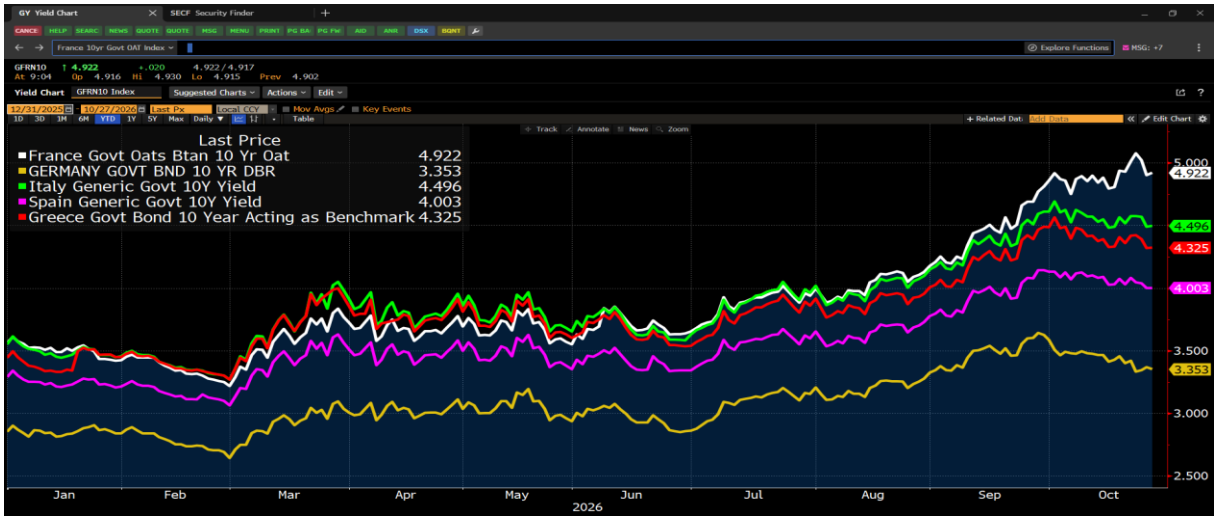
Traditionally, the appeal of bonds was as a hedge against equity market falls. In a portfolio with 60% in stocks and 40% in bonds, a negative correlation between the two helped smooth returns. Today, that correlation is absent, and deficits are significant. Any recession will require further increases in the deficit, making the investment case for bonds is not clear-cut.

Having been underweight the asset class for more than three years, we added back some interest rate risk to conservative and, to a lesser extent, balanced portfolios. We felt that, at a yield of 5.3%, **a lot of bad news was already priced in**, positioning was very low and being negative on bonds had become the consensus view. We are not structurally bullish on bonds but, tactically, the risk/reward has changed for some risk profiles. This applies to US bonds only. As the graph highlights, US two-year inflation expectations are above the 2% target, albeit nowhere near 2022 levels.

The second graph highlights the path of the French government bond yield relative to the rest of Europe. It's not new news. France has one of Europe's largest welfare states with persistent deficits, enormous public debt and now rising borrowing costs. It has a currency it cannot print, an economy that isn't growing, politicians that are unpopular with no ability to raise tax or cut spending. We could also add in an immigration issue and a flawed Europe wide energy policy. **Another key issue is that foreigners own most of its debt**. Compare this to Italy where circa 30% of debt is owned abroad (Japan is around 12% plus has control of its own currency).

Alongside falling bond prices, the scenes across France will have got international holders worried. On the one hand it can be argued that French politics is unique, its often decided on the streets. But an election looms and the ball has probably been passed to Le Pen (50% in the polls). With this and the rise of the Afd in Germany **Brussels must be worried**. What they do about it is another thing but their cosy, costly bureaucracy is at risk from societal change.

The graph shows French 10 yr debt now yields 157bps above Germany and 60bps above Greece. Back in the last European sovereign crisis Greek 10 years hit 35%. The ECB won't let that happen again and France is far more integral to the fluidity of European markets, but it seems the potential for French debt to price in yet more social, political and economic discounts makes us very wary on European bonds markets. **It's also a significant headwind to the euro.**

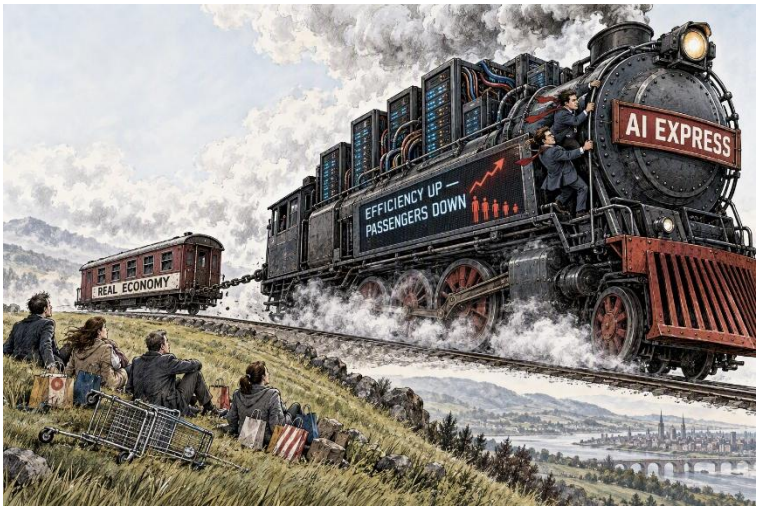


Portfolio positioning and conclusions

With earnings season ongoing, 80% of results have beaten estimates. Sideways markets are compressing valuations, while sentiment remains poor and hedge funds have cut exposure aggressively—whether from caution or to lock in gains is unclear. The pain trade is probably higher into Christmas. **After the Midterms, attention will turn to the next IPO: Anthropic**. A sobering reminder: the 20 largest public offerings since 2010 averaged a 60% drawdown in their first 12 months.



The Nasdaq is up 178% since the 2022 Covid low but has traded sideways for six months, within the green lines shown. Rising yields, dollar strength and a higher oil price may explain the pause by tightening financial conditions. Despite AI credit concerns, investment grade credit markets remain stable, and a December Fed hike is already priced in. Slower AI capex growth will eventually weigh on growth, while consumers remain squeezed. Reopening the Strait of Hormuz could help ease that pressure; diesel prices are still 78% higher this year.



We remain invested in our long-term themes: energy transition, digitalisation, hard money, changing demographics and indebtedness. Gold struggled as some central banks sold for liquidity given the USD and oil headwinds, with Bitcoin following. **Heading into 2027, it is not the time to get over your skis**. Expect sharp repricing, sticky inflation, slower growth but continued ample liquidity. The AI trade remains in its infancy however the gainers and losers will only likely diverge. Greater dispersion could make 2027 less of an "everything up" market, with quality mattering more than hope.

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