Volatility is here to stay against a "glass-half-full" backdrop

- **Last week was negative for most major asset classes, especially stocks and the AI/tech complex**
- **Still, the earnings season proved reassuring and October PMIs only carried positive signals**
- **We didn't change our slightly defensive positioning in November**

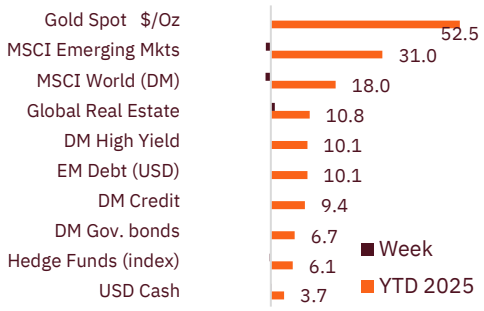
Last week Volatility continued to rise. The epicentre of concerns remains rich equity valuations, especially for the US AI and technology complex where a rising number of companies saw their share prices fall despite positive quarterly results and confident guidance. Of course, the backdrop of uncertainty from an endless US government shut down doesn't help as it deprives investors of the important data points that would normally be underpinning their predictions of the crucial trajectory Fed's interest rates.

Still, not all data was silenced. Starting with the top-down, the final PMIs for October were anything but alarming. At the composite level, all major regions are firmly in expansion territory. We didn't get the monthly NFP job report, but the private "proxy" from ADP was reassuring with over 40,000 net creations in October. The message was however blurred by outplacement firm Challenger saying that US companies have laid off more people last month than in any October of the last 20 years. Still, corporate health as measured by the quarterly earnings is solid. On average, companies which have reported so far (90% of the US S&P500) have exceeded EPS expectations by more than 6%. This is not unusual, but it is reassuring. Interestingly, market reaction was particularly demanding with expensive tech names.

Washington DC continued to feed headlines. The US Supreme Court started hearings relative to the legality of most of tariffs imposed by President Trump under an emergency regime. A ruling, expected in the coming weeks, could halt them. There would however be ways for the administration to reinstate them, first temporarily, and then permanently through a regular legislative process. On the latter, hopes for a resolution of the current government shutdown are rising.

Between sound fundamentals and rich valuations, we haven't forged a conviction to change our positioning for November. We remain slightly defensive. Have a great week.

Asset Classes USD % total. Return, Week and YTD 2025



November 3rd, 2025

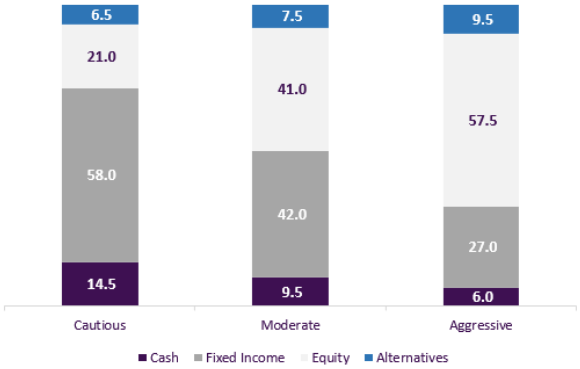
Cross-asset Update

The week closed in the red and was dominated by concerns about AI valuations and the sustainability of the related investments. The bulls would say that AI spending shows no signs of slowing and earnings remain solid, while the bears would argue that valuations are stretched and returns on bloated investments will be hard to come by. Famed investor Michael Burry sealed the debate by putting his money where his mouth his and revealing sizeable short positions on Nvidia and Palantir, AI investors' darlings. On a more positive note, corporate fundamentals continued to surprise to the upside, as with most of the companies having reported, including five of the Magnificent 7, about 82% beat expectation setting the index on track for 12% Q3 earnings growth. IT sector earnings grew by 22%, while several mega-cap tech stocks raised guidance on profits and spending related to AI. Yet, on AI we would tend to see two justified concerns: investments are no longer self-funded and are changing the sector from cash-rich to leveraged, though this is still in early stages, and capital expenditure estimates have gone vertical raising eyebrows about returns on investments. Leverage and overinvestment both create vulnerability and hark back to the old days of the Dot-com bubble.

And while headlines have continued to focus on big names related to AI capital expenditure, shrewd investors are starting to realize that constraints are not in compute capacity, but rather in electricity and space. New data centres require humongous energy supply and developing the related infrastructure can take years. In the years ahead bottlenecks will be shifting from the new economy back to the old one, where the winners will be the companies able to provide energy at a rate faster than its demand expands, as well as all the 'pick and shovel' activity related to the building of the data centres. Critical commodities will be in the spotlight, in particular copper, aluminium, and uranium, alongside rare earth elements used in energy production and storage. We are witnessing a market that is euphoric about the wonders of the new economy while neglecting that capex is driven by hard assets and the more traditional mining, manufacturing, and power supply companies. After the Dot-com bubble under-investments in the oil sector created major bottlenecks that laid the foundations for a bull market in energy stocks. Nowadays those stocks have been long forgotten, while we suspect they will be soon rediscovered alongside other basic resources shares amidst mounting energy and materials needs.

Investors hold the view that AI justifies thinking yet again that "this time it's different". Nothing could be furthest from the truth, and a cycle akin to the one that followed the Dot-com bubble seems to be in sight.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.		=	
DM Credit	<		
DM H. Yield		=	
EM Debt		=	
DM Equity		=	
EM Equity		=	
Gold			>>
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

US Treasury yields showed volatility last week, with the 10-year yield fluctuating between 4.05% and 4.16%. The yield reached 4.16% on Wednesday after positive PMI data was released. In the absence of NFP figures, the ADP report became more important, as October recorded 42,000 new jobs, exceeding economists' estimates. The Supreme Court also began hearings about the legality of tariffs imposed by President Trump, and questions during these sessions raised considerations about possible changes to tariff policies that could influence future deficit projections. Later on, risk aversion increased as attention turned to AI stock valuations, which contributed to a decrease in yields. With expectations related to the reopening of the US government, Treasury yields rose again, and the 10-year yield is currently above 4.13%.

Although there is some rationale for expecting yields to decline, given signs of a weakening labour market as indicated by the recently published Challenger job cut figures, we prefer to await the release of official data before making any decisions regarding duration. The US Treasury's November refunding meeting reaffirmed that nominal coupon auction sizes will remain steady for "at least the next several quarters", while also signalling the possibility of adjustments further down the line. Investors are increasingly considering alternative government securities as a hedge against potential slowdowns. Notably, the Chinese government issued $4 billion in bonds last week, attracting order books that were more than 30 times oversubscribed. At present, Chinese 3- and 5-year bonds are trading at yields 30 basis points lower than equivalent US government bonds, reflecting investor confidence in robust emerging market sovereigns.

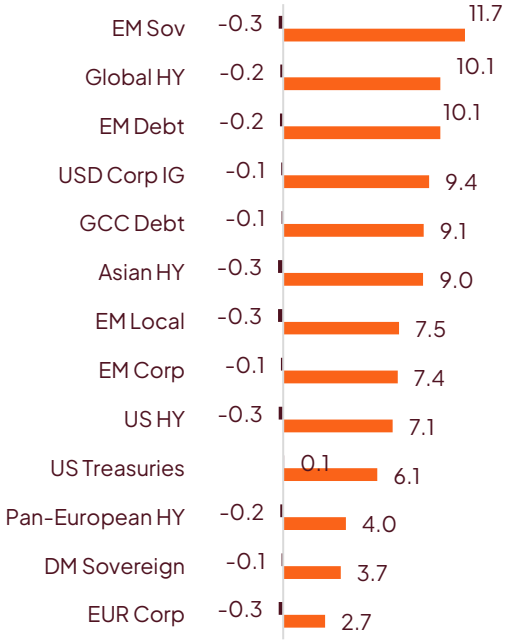
We also remained neutral on credit segments. The earnings season has remained strong with more than 450 of the S&P 500 constituents having reported numbers. The earnings surprise at 6.7% and 11.75% earnings growth indicate a good season that has so far supported the tight spreads. The risk-return profile in the credit space remains stretched and 12-month forward returns at current levels of spreads historically have been low. However, timing the widening remains tough. We would look at initial jobless claims to move higher before making any moves.

During the past week, the GCC region saw multiple noteworthy issuances. The Government of Qatar led with a USD 3 billion 10-year sukuk priced at 4.25%, alongside a USD 1 billion 3-year bond at 3.625%. Additionally, QIIB Bank of Qatar issued a USD 500 million 5-year senior unsecured sukuk at 4.5%. GIB-KSA, 50% owned by the Public Investment Fund (PIF), completed a USD 500 million perpetual NC5.5 issuance at 6.625%. In Saudi Arabia, AviLease Capital raised USD 850 million through a 5-year senior unsecured bond at 4.75%. Within the UAE, Ittihad Investment Company entered the market with a USD 550 million 5-year senior unsecured sukuk at 7.375%, while Sharjah Islamic Bank successfully issued a USD 500 million 5-year sukuk at 4.6%. To date, total GCC issuances have surpassed USD 132 billion. This week, DIB has issued a mandate for selling 5-year senior $ sukuks and NBO plans to sell a 5.5-year non-callable perpetual $ bond.

FIXED INCOME KEY CONVICTIONS (2024)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US$ TR, YTD, Last Week)



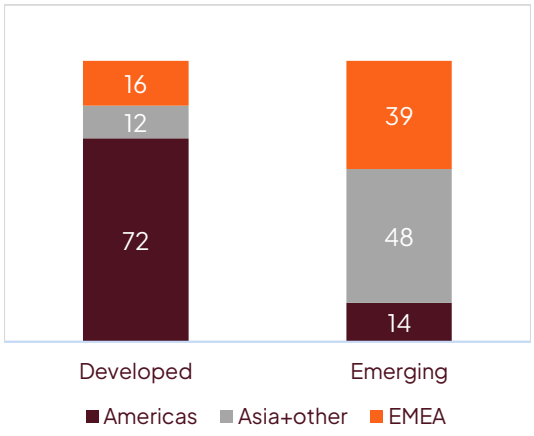
Equity Update

Global equities lost ground last week as the rally that carried markets through October began to lose momentum. The MSCI Index fell 1.5%, with developed and emerging markets both weaker as valuations came under closer scrutiny and earnings growth showed uneven strength across regions. Technology shares, which had led the advance for much of the year, became the focal point of selling as markets adjusted to lofty valuations and more cautious guidance from some of the largest companies. In the U.S., the S&P 500 declined 1.6%, marking its steepest weekly drop since April. Corporate highlights include AMD's quarterly outlook which failed to meet expectations and raised doubts about the pace of future AI-related demand. Palantir weakened as elevated valuations met a cooling in sentiment, even with solid revenue growth. On the earnings front, about 91% of S&P 500 companies have now reported third-quarter results, with 82% surpassing earnings estimates, the highest beat rate since late 2021 and above both the five- and ten-year averages. In aggregate, earnings have come in 7% ahead of forecasts, a level consistent with the long-term trend and a sign of ongoing profit resilience. Disney advanced after announcing an AI partnership with CoreWeave. McDonald's reported firm U.S. sales supported by value-focused demand, and Pfizer raised its outlook following the completion of its $10 billion acquisition of Metsera. Rivian narrowed its losses through tighter cost control, and Tesla traded unevenly as debate over Elon Musk's compensation plan persisted. Overall, the U.S. earnings picture remains solid, but the market reaction has turned more selective as attention shifts toward 2026 earnings expectations and valuation support.

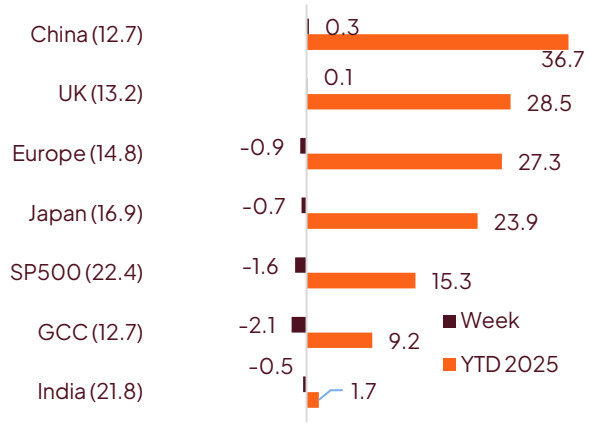
In Europe, equities extended their decline, with the MSCI Europe Index down 1.1%. BP delivered stronger profits on improved efficiency and stable output, yet the positive surprise was offset by weakness in healthcare and consumer shares. Novo Nordisk lowered guidance amid intensifying competition in the obesity drug market, and Smith & Nephew tumbled after missing revenue targets. Across Asia, the MSCI Asia Pacific Index recorded its sharpest weekly drop since August. Japan's Topix fell 1.0% as semiconductor and industrial names retreated. The yen's prolonged weakness, which had supported exporters earlier in the year, is now becoming a headwind as it approaches levels that risk destabilizing capital flows and dampening confidence in Japan's equity market. China provided relative stability. The MSCI China Index gained 0.4% as markets rotated toward value-oriented and state-linked sectors. Earnings season is gathering pace, with early reports showing improving momentum led by AI-related industries including media, electronics, and computing.

The week ahead will remain focused on equities as markets evaluate whether the recent pullback marks a pause within the uptrend or the start of a longer consolidation. A key highlight will be NVIDIA's earnings on November 20, given its market cap and pivotal role in the AI-driven growth narrative. Global equities are entering a more deliberate stage of adjustment, where further progress depends on consistent earnings growth and a broader base of participation across sectors. Any correction at this stage should be viewed as healthy, helping to consolidate gains and create fresh buying opportunities for investors seeking exposure to quality names in leading themes.

Equity Recommended Regional Positioning

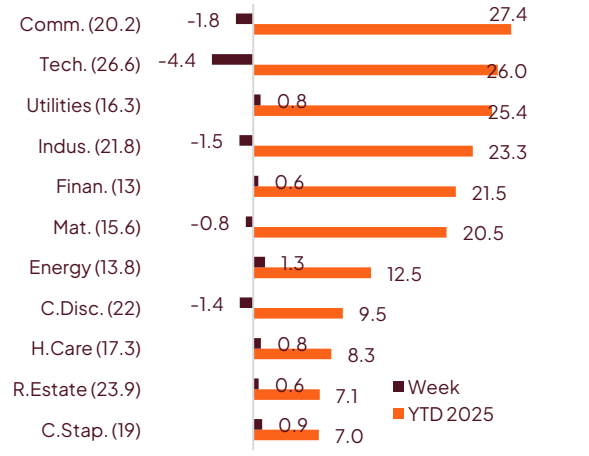


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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