A healthy correction with zero short-term visibility

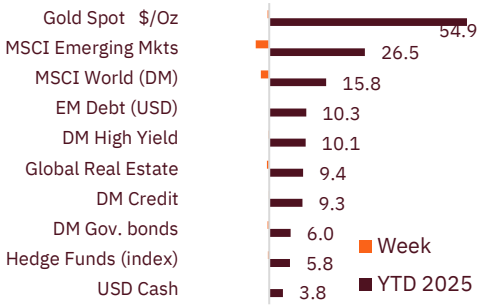
- **Risk-aversion hit all asset classes last week, from global stocks to bitcoin**
- **NVidia's strong results and overall benign macro data were not enough to dissipate anxiety**
- **The short-term is particularly unpredictable, but this correction could prove quite healthy**

Last week was extremely volatile and ended in the red for almost all major asset classes, with equities paying the highest tribute. While all sectors and regions were negative, the AI ecosystem continued to be particularly under pressure. Results from Nvidia were objectively strong, but they didn't address the current market concern, which is not about selling chips, but about questioning the amount and pace of investment from hyperscalers while matching returns are yet to be seen. Adding a correction in bitcoin and a hawkish tone from the minutes of the October Fed's policy meeting, along with solid job creations in September but the announcement that there won't be another report before the December FOMC, no surprise that risk aversion spiked. The week was however not a straight line, as it ended on a more positive note. First, due to comments from Fed officials, hopes for a December rate cut came back in force, with the implied probability from future markets rising from 30% to 60%. Second, flash PMIs for November came out and confirmed that there is currently no red flag on activity.

At this stage, from the data we have, our view is that the global economy remains in decent shape, and that with US unemployment rate having risen in September, the Fed should not take the risk of holding interest rates in their last policy meeting of the year. This is a close call, with low level of confidence, and the short-term remains absolutely unpredictable as market action is dangerously playing with important technical levels. But under this (reasonable) assumption, we could be seeing a healthy correction. We never had an issue with the backdrop, but with rich valuations and optimistic sentiment. The big picture may have improved for the medium term.

Our positioning remains slightly defensive and delivers so far (between +11% and +16% YTD in US$). The week ahead is relatively light in terms of data, and there will not be a weekly publication next week due to the UAE National Day.

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



November 24th, 2025

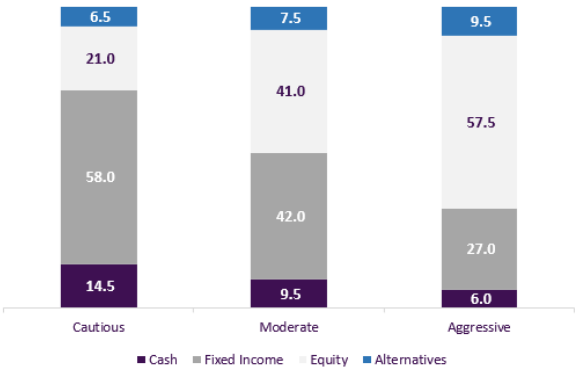
Cross-asset Update

Lofty AI valuations and massive outlays for data centers stoked concerns about a possible AI bubble amongst investors that triggered widespread losses. While markets were led lower by technology stocks, it was no utter capitulation either, as the equal-weighted S&P 500 and small caps both ended less than 1% lower. Bitcoin lost almost 6% with a drawdown of over 35% from the October highs, while the US dollar rose 0.9% for the week. This is telling, as both Bitcoin and the dollar tend to be an indirect gauge of market liquidity. Indeed, different gauges of financial conditions suggest that liquidity pulled back recently, hence the market sell-off and the dollar rebound despite widespread negative sentiment about the global reserve currency. We hold the view that eventually, the global risk-on rally should resume, and the dollar weaken again. Quantitative Tightening is soon coming to an end, from Dec. 1 as per latest FOMC minutes, the effects of the fiscally expansive One Big Beautiful Bill will be kicking in from early 2026, and global money supply is going to trend higher into 2026.

Going back to AI bubble concerns, looking into Nvidia's results is by far not enough to get comfort in this respect. It is a good sign that despite massive capex commitments by the so-called hyperscalers their return on invested capital is still rising, and that their demand for funding is being met with ample supply of capital. Very low vacancy rates for data centers point to high demand for compute, with most of them being preleased. Also, although IT megacaps are moving fast to the leverage part of the cycle, with the exception of Oracle their operational cash flows are still large enough to cover the bulk of their current stock of debt. Overall, according to current research one can speculatively say that it should take a couple of years before we really get worried about the sustainability of AI investments.

What can be of real concern on the other hand is that global equities are unlikely to be in a sustainable uptrend unless cyclical stocks can take the baton from the AI darlings. According to the latest PMI surveys manufacturing is still subdued globally, that sits at odds with the forceful rally in EM equities. At some point, either the cycle inflects higher, and the goods sector grows more strongly supporting non-AI shares, or activity slows to a point that drags down the whole market. This remains quite a question mark for the outlook and will be decided to an extent by the multiplier effect of AI investments for the old economy.

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 declined across most of the curve last week, with moves concentrated in the front end and belly where yields fell by roughly 6-9 bps. The long end was comparatively stable. The shift reflected a combination of softer US labour indicators and continued caution from the Federal Reserve. September payrolls rose by only 119k, unemployment climbed to 4.4%—the highest in four years—and continuing claims reached their strongest level since 2021, all pointing to a cooling labour market. At the same time, Fed officials maintained a firm tone, signalling that a December rate cut is far from assured and highlighting ongoing inflation concerns. Despite the hawkish messaging, the weaker labour data had a stronger influence on investor positioning, prompting demand for duration and pushing yields lower through the week.

Last week, Amazon returned to the U.S. investment-grade bond market with a major issuance, raising approximately $15 billion of multi-tranche senior unsecured notes in its first U.S. dollar bond sale in three years. The deal was well received, with investor orders reported to exceed $80 billion, allowing Amazon to tighten pricing on its longest maturities—one tranche, for example, priced at spread of roughly 80 basis points over U.S. Treasuries. The proceeds are earmarked for general corporate purposes including capital expenditure in its cloud and AI infrastructure, repayment of upcoming maturities and deepening its financial flexibility—ambitions that reflect how big tech is funding a wave of investment across data centres and next-generation compute networks. Spreads in this segment have stayed tight because investors see solid cash flows and good long-term visibility. However, it is important to note that this may not last if debt levels rise meaningfully. The AI investment cycle requires heavy capex, and if companies fund too much of it through borrowing, spreads could widen from current levels. However, for now, the fundamentals remain supportive, and demand for top-tier tech issuers like Amazon is still deep.

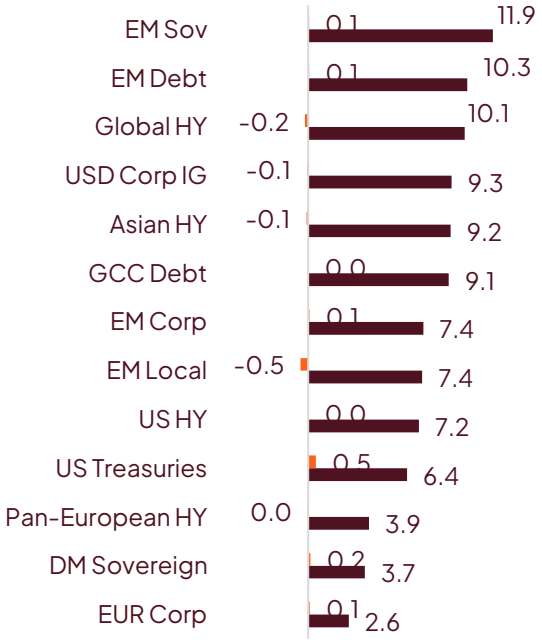
EM fixed income remained soft last week, with caution driven by China-related worries, geopolitical headlines, and the lack of clear direction from US data, leaving flows mostly influenced by global rate volatility. The main bright spot came from China, where the government's €4bn euro-denominated bond sale attracted more than €100bn in orders, one of the largest books ever recorded for a Chinese euro deal according to the South China Morning Post. The strong demand, which followed a well-received US dollar issuance earlier in the month, showed that global investors still have solid confidence in China's credit even as broader EM sentiment stayed mixed.

Primary activity slowed last week, with only two issuances coming from the UAE. The Government of Sharjah raised $750mn through a 10.5-year senior unsecured bond priced at 5.2%. FAB also issued a $1 bn perpetual bond at 5.875%, with IPTs compressed by 50-60 bps, highlighting the strong demand for high-quality GCC names. Year-to-date, total GCC issuance has reached $139.6bn, with Saudi Arabia accounting for 45% of the total.

FIXED INCOME KEY CONVICTIONS (2025)

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

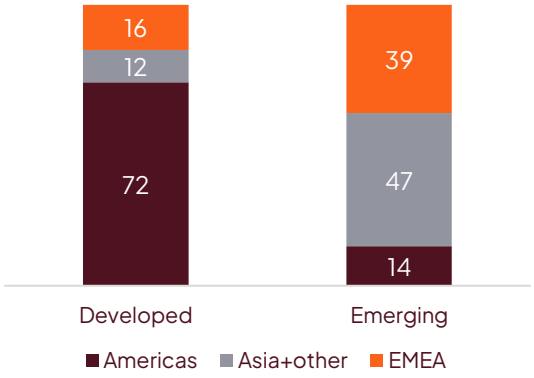
Global equities retreated again last week as markets digested a sharp reset in AI-related valuations and mixed macro signals. The MSCI World Index was on track for a weekly loss of about -2.5%, the largest since August, with selling pressure broad based across regions and sectors. In the U.S., the S&P 500 fell about -1.9% for the week to notch its steepest decline since August as well, while the Nasdaq slid roughly -3% as mega-cap technology came under renewed scrutiny. At the index level, Q3 reporting is essentially complete. With 95% of S&P 500 companies having reported, 83% have beaten EPS estimates, earnings growth is running at 13.4% y/y and revenue growth at 8.4%, both above long-term averages, although the "Magnificent 7" are showing slower growth than in recent quarters. The market reaction has been less generous: sector analysis points to modest average one-day moves even on positive surprises and outsized sell-offs on misses, reinforcing an environment where valuation and forward guidance matter more than headline beats.

Nvidia's update reaffirmed exceptional AI demand and validated the broader earnings strength in large-cap technology, but it also sharpened debate over capex saturation and the sustainability of future growth. In consumer sectors, Walmart reported another strong quarter, with revenue around $179.5 billion and a beat on EPS, and raised its FY sales and profit outlook as it continues to gain share among price-sensitive shoppers. Target's Q3 numbers were broadly in line on earnings but showed net sales down 1.5% and comparable sales down 2.7%, prompting a lower full-year EPS range and cautious commentary on the holiday season, a reminder that middle-income consumers remain under pressure. Home Depot missed expectations and cut its profit outlook as weak housing and softer big-ticket demand weighed on results, adding to the sense that discretionary spending is uneven. Aggregate surprises are smaller than in prior years and the S&P index forward PE of about 21.5 remains above 5- and 10-year averages, reinforcing a more selective, valuation-sensitive tape.

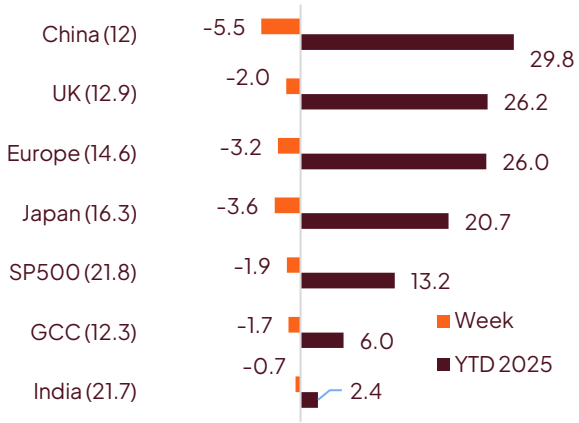
Defensive pockets such as healthcare and staples, which had attracted strong inflows earlier in Q3, offered only limited protection. Across Asia, the picture was similarly weak. The MSCI Asia Pacific and Asia ex-Japan indices fell more than -3.9% and around -4% respectively over the week as renewed worries over AI valuations and ambiguous U.S. jobs data prompted broad risk reduction. Japan's Nikkei dropped around -3.5% for the week, even as the government announced a ¥21.3 trillion stimulus package and the yen hovered near a 10-month low, developments that did little to support risk sentiment in the short term. Hong Kong's Hang Seng Index fell -5.1% with chipmakers and high-beta tech names hit hardest as AI-linked exposures were revisited. Mainland Chinese equities also declined, with both the Shanghai Composite and MSCI China benchmarks finishing the week lower, although the correction there remained more measured than in some regional peers.

Fund-flow data show that equities are still being added to overall, particularly in the U.S. and parts of Asia. In this phase, further progress for global equities is likely to depend on sustained double-digit earnings growth, evidence that AI capex is translating into durable cash flows, and a broader leadership profile beyond a narrow set of mega-cap names.

Equity Recommended Regional Positioning

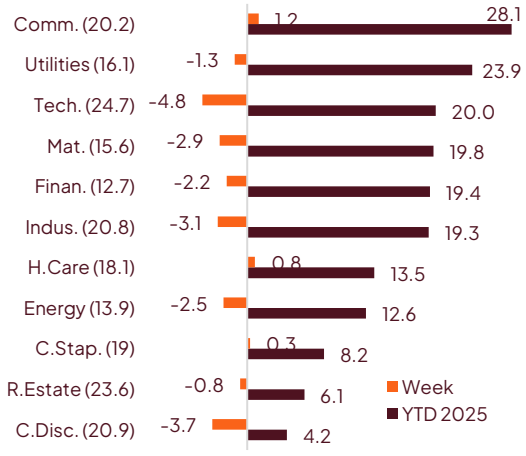


Major Indices Performance (TR, US$), P/E in brackets



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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