Market Rotation Continues: Opportunities Beyond AI



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Weekly Market Summary

Equities advanced last week (S&P 500 +2.54%). Stocks advanced despite a hot CPI report, some hawkish Fed speak, and turmoil surrounding NVIDIA. All sectors advanced – best were energy (+5.14%), industrials (+3.72%), and communication services (+3.54%); laggards were materials (+0.40%) and real estate (+0.98%).

Market Analysis: AI Sell-off and the Outlook for Equity Markets

Markets have been hit by the deflating AI bubble, yet are still supported by ongoing solid corporate profits. Two recent positive developments for equity and credit markets have been the capping in government bond yields and a reversal in oil prices.

With regard to the bond market, solid global growth and sticky inflation mean that a sustained decline in bond yields is unlikely absent a meltdown in AI with significant contagion on overall equity and credit markets. Such contagion has not occurred so far; in fact, we would describe stock market action as being more of a rotation away from AI plays, rather than investors seeking to exit from equity markets.

The impact of a meaningful slowdown in AI capex in the most AI-vulnerable U.S. economy is frequently overstated. We doubt that such a slowdown would trigger a recession or even sub-potential growth, although it could generate a decent growth "scare" and investors may briefly fear the worst.

One of the factors that contributed to the upward pressure on bond yields this year is now likely to diminish, namely the abrupt borrowing binge by AI and related companies. It will be more difficult for AI companies to borrow at the current frenetic pace going forward, after several recent bond offerings in this space blew up. Potential buyers of such paper will now demand higher yields, or just avoid bidding at all given the abruptness of recent losses and the low odds of recouping the losses any time soon.

While it is still early days, even though semiconductor stocks (which are the most sensitive AI play) have melted since their June peak, the S&P 500 Index has managed a small gain, and the equally weighted index has risen modestly! The message so far is that (as in early-2000), high-flying stocks stopped rising once investors finally perceived that growth expectations were unattainable. The equity market outlook is challenging but with some bright spots, even if the AI bubble continues to deflate. There *are* opportunities, as shown by the gains in many non-tech areas.

Key Takeaways

The U.S. economy is strengthening and inflation is creeping higher. The recent capping of bond yields and decline in oil prices will reinforce the upbeat growth outlook for the U.S. and global economies. The global economic and corporate profit backdrop are supportive of a rotation in investment flows, rather than a broad de-risking. The speed at which the AI bubble deflates will continue to influence other asset markets. So far, there has not been much contagion outside of the tech space.

Market & Economic Highlights

1.	October's strong labor market report and inflation reports reinforce **a December rate hike as the most likely outcome**.
2.	Following the hotter than expected CPI print, **markets are now anticipating three additional hikes by the end of 2027**, as it has become increasingly clear that inflation remains well above the Fed's 2% target.
3.	**Not only the level, but the broadening in CPI inflation is problematic**: The Fed has work to do! The longer inflation stays above target, the more challenging it is to turn things around. Taking back the insurance cuts of last year is the bare minimum right now.
4.	**Oil's selloff has priced out much of the war premium**. With a swift peace deal far from assured, price risks are skewed to the upside. We expect oil to remain range-bound at $80-$100 per barrel.
5.	**Earnings growth in 2027 is expected to be 16%** with the technology sector accounting for 86% of the overall growth. Approximately 60% of technology gain is expected to come from NVIDIA and Micron.
6.	**Upward earnings revisions for the S&P 500 are beginning to show signs of rolling over**, which would be consistent with our view that expectations have gotten somewhat ahead of themselves.
7.	**Former NVIDIA CEO Jensen Huang resigning is smart on his part**. It saves himself and the company much grief and time. He will be missed. Risks exist (e.g., too many direct reports, no obvious succession plans, all of the issues related to circular financing) but much of that seems to be reflected in the stock's valuation.
8.	As a result of the midterm elections, **Democrats will hold their largest house majority in 32 years**.
9.	**Democrats have a wide menu of investigations they can conduct on the Trump Administration**. But NVIDIA is now a prime target, as it combines national security with possible corruption.
10.	Factoid: **The U.S. now has more single adults than married adults**.

Weekly Index Performance

U.S. Equity Market Performance

Equity markets (Index total return %)	Last Week	Year-to-Date
Dow Jones	2.13	10.36
S&P 500	2.54	11.54
NASDAQ	2.28	8.68
Russell 1000	2.91	11.85
Russell 1000 Growth	2.83	-2.46
Russell 1000 Value	2.29	26.72
Russell 2000	1.65	13.90

S&P 500 Sector Performance

S&P equity sectors (Index total return %)	Last Week	Year-to-Date
Communication Services	3.54	-6.09
Consumer Discretionary	2.65	3.18
Consumer Staples	2.67	22.63
Energy	5.14	48.16
Financials	2.63	8.50
Healthcare	2.19	23.58
Industrials	3.72	9.73
Information Technology	2.00	13.59
Materials	0.40	15.92
Real Estate	0.98	13.85
Utilities	2.09	5.39

International Equity Market Performance

International equity markets (Index total return %)	Last Week	Year-to-Date
MSCI ACWI	2.86	11.29
MSCI ACWI ex U.S.	2.54	11.01
MSCI EAFE	2.38	10.06
MSCI EM	3.53	12.66

Fixed Income Market Performance

Fixed Income markets (Index total return %)	Last Week	Year-to-Date
Bloomberg U.S. Agg Bond TR	-1.34	-1.49
Bloomberg U.S. Corp High Yield TR	-0.13	0.67
Bloomberg U.S. Govt/Credit TR	-1.25	-1.55
Bloomberg U.S. T Bill 1-3 M TR	0.04	3.24

Alternative Investment Performance

Alternatives (Index total return %)	Last Week	Year-to-Date
Real Estate (FTSE NAREIT)	0.69	14.60
Commodities (DJ)	-0.89	25.69
Global Listed Private Equity (Red Rocks)	0.84	-8.34
Currencies (DB G10 Currency Future)	0.92	12.80

Source: Bloomberg as of Nov. 13, 2026

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