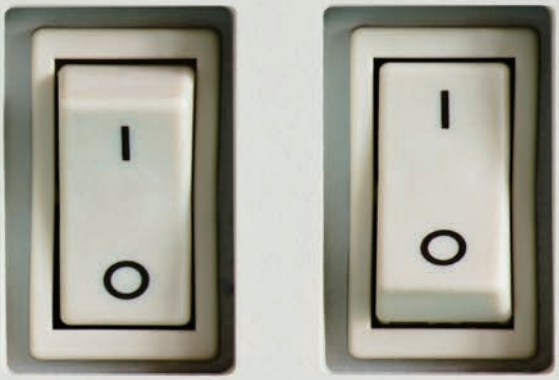


CIO Perspectives

17 November 2026

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INVESTMENT VIEWS 17 NOVEMBER 2026

AI Rationalization

Key takeaways

- The "blue tsunami", the backlash against data centers and a critical AI leadership change exacerbated a reality check that was already underway.
- However, we see a rebalancing of power as a positive development, particularly with the potential end to the Iran conflict.
- Most importantly, we believe AI regulations are likely to be less shocking than the election results, while wider adoption of agents is accelerating demand for compute. The productivity driven earnings growth is likely to continue after temporary setback.

A rebalancing of power is good

- Before the vote counts are even finished in Alaska and Mississippi, the first rebuke came for the Trump administration, and from the Republican party. Kentucky House Representative Thomas Massie initiated impeachment process against Defense Secretary Pete Hegseth, calling illegal not just the Iran war, but also three other major recent military operations.
- Whether Massie can succeed is still in doubt, but what's not in doubt are additional checks on the White House's ability to deploy the military. The Democratic leadership had also vowed to bring an end to the Iran war. Oil prices had already fallen by 22% since the start of November, offsetting a part of concerns over inflation and rates (see next page for further discussion).
- Even though volatility is elevated, we see a rebalancing of power as positive for markets over the medium to long run.

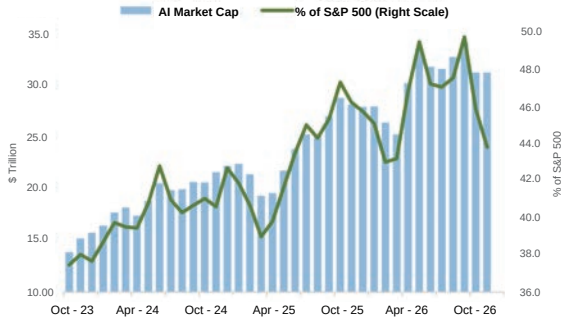
A reality check for AI

- Unfortunately, rebalancing also meant espionage investigations surrounding the top US AI leader, which is likely to disrupt the existing chips supply chain, drag revenue and earnings growth, while benefiting some competitors.
- Although the Democrats' victories were expected, markets were shocked by the complete bipartisan backlash against data centers. Voters felt left out in the decisions that could affect not just their power bills, but also the fate of mankind.
- The Democrat led Congress would likely push forward AI regulation, likely to focus on content management especially for children, as well as job protection. Setting guardrails for the development recursive self improvement (RSI) by AI agents is likely to also take priority by holding the corporate developers accountable for illegal conduct of the agents.
- The impact on AI companies is higher cost of compliance, narrower margins and slower earnings growth. We previously noted that the mid-term elections are likely to set off fiscal tightening in 2027 and weigh on growth. Now, a potential slowdown in AI investment growth is adding to this view.
- Over the past three years, AI related companies in the S&P 500 saw their market cap double to $35 trillion, peaking at nearly half of the index (Figure 1). The setback in the past two months represents a healthy reality check, in our view, while AI development shifts to the next stage.

Most importantly, compute demand keeps rising

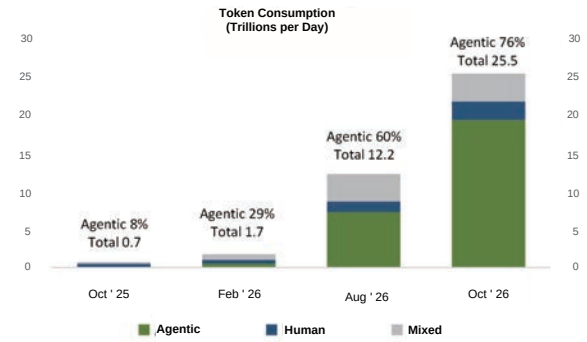
- Potential regulations increase uncertainty, but we actually think are unlikely as draconian as some might fear. US tech competitiveness remains important to both sides of the aisle, especially on the international geopolitical stage. Its current decisive leading position would allow for some slowdown, but unlikely to see a reversal.
- More data centers are still likely to be built in the US, just at a higher cost given the need to convince local voters with more direct and concrete economic benefits. The higher cost of compliance could hurt margins, particularly for highly leveraged firms that depend predominately on data center rental.
- Most importantly, compute demand continues to rise, with the expanded use of AI agents. According to data from OpenRouter, agentic traffic went from about 8% of tokens a year by October 2025 to 76% by October 2026 (on 790 trillion tokens, about 25x January 2026). This marks the shift to the next stage of AI development, as the pace of diffusion into the real economy is accelerating.
- As we noted previously, productivity is a key driver of earnings growth, which was the dominating contribution to the current bull market (see RFO Market Roundup, 16 October 2026). After the recent market shake up, we expect AI generated productivity would re-assert its support for equities.

Figure 1. AI related market cap doubled in three years, amounting to half of S&P 500 at peak, a setback can be healthy



Note: The chart uses 50 S&P 500 constituents with positive Bloomberg AI thematic exposure scores. Source: Bloomberg, as of 6 November 2026

Figure 2. Demand for compute, as measured by token consumption, is accelerating with agentic AI



Source: OpenRouter estimates of aggregate global consumption on major AI models, as of October 2026

IMPLICATIONS FOR INVESTORS

- ***Equities*:** AI development will continue regardless of who runs the White House or Congress. Setbacks are driven by fear of regulatory costs and associated pressure on margins, while demand for compute continues to grow. We would hold strategic equity exposures, and add to quality on weakness. We differentiate within AI by cash flow, balance sheet and financing needs.

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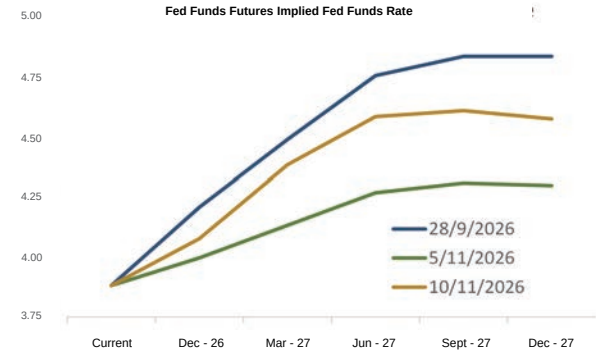
INVESTMENT VIEWS 17 NOVEMBER 2026

Inflation worries return, but we see continued moderation

Key takeaways

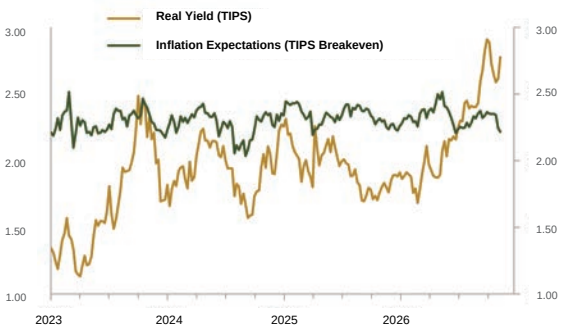
- The CPI report reignited rates risk. But we continue to expect lower oil prices, slower growth and tighter financial conditions to bring inflation lower in 2027. Locking in high income, with short-to-medium duration high grade bonds remain a key allocation.
- Spreads in rate-sensitive, capital-heavy sectors are the early warning signs of stress. Stay high quality in credit.

Figure 3. Fed rate hike expectations faded post-election but rebounded on CPI



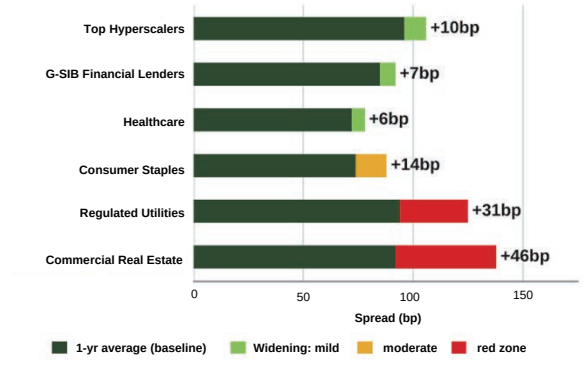
Source: Bloomberg, as of 10 Nov 2026

Figure 4. TIPS market shows that while real yields surged on tighter financial conditions, inflation expectations fell



Source: Bloomberg, as of 10 Nov 2026

Figure 5. Sector credit spread vs. 1-year baseline



Source: Bloomberg L.P., as of 30 October 2026

Why we think inflation and rates are still likely to fade in 2027

- October CPI was unambiguously hawkish, with a third consecutive 0.3%m/m core CPI reading (3-month annualized pace of 3.7%). Markets now price a December hike as a certainty, with some expecting a 50bps hike. The 2027 path is also priced higher.
- However, we continue to see the path for inflation as moderating, particularly as oil prices have fallen 22% so far in November as the odds for the Iran war to end had risen post-election. Recent market volatility had also tempered rates (Figure 3).
- CPI data is backward looking and does not account for the potential for slower growth, with government gridlock likely to tighten fiscal policy in 2027. Higher real interest rates reflect tightening financial conditions, while inflation expectations are actually falling, as shown in the Treasury Inflation Protected Securities market (Figure 4). This suggests more downward pressure on inflation in 2027.

Our take on the Fed's likely path

- We doubt that the Fed would hike by 50bps in December, when seasonally thinner liquidity could cause more tightening than intended. For 2027, one to two more hikes are possible, but a potential rate cut is also being priced in by the end of the year. The FOMC's own forecast of 4-4.25% by end of 2027 (one hike) remains convincing. So why raise twice just to cut within a year?
- In sum, volatility in yields is likely elevated near term. But with 10-year yields back above 5.00%, while 2-5-year yields at 4.80 - 4.90%, the opportunity to lock in high incomes remains strong. We continue to prefer short-to-medium duration in our portfolio.

Credit: uneven widening may be an early warning

- Along with volatility in rates, credit spreads are widening. This is happening unevenly versus 1-year averages (Figure 5): commercial real estate (+46bp) and regulated utilities (+31bp) are in the "red zone", while hyperscalers (+10bp), banks (+7bp) and healthcare (+6bp) have barely moved.
- Capital-heavy issuers face immediate re-pricing as rising long-end yields force them to roll short-term debt into higher permanent interest costs.
- Financials are structural beneficiaries of higher-for-longer rates; healthcare is the most defensive sector; hyperscalers combine fortress balance sheets with capex risk.
- We prefer high-quality bonds in financials, healthcare and the strongest technology balance sheets, and treat real estate and utilities as the early indicators to watch.

IMPLICATIONS FOR INVESTORS

- ***Rates*:** Yields above 5% remain attractive, but we would favor favour short-dated, high-quality holdings and add duration only gradually.
- ***Credit*:** Spreads in rate-sensitive, capital-heavy sectors are the early warning signs of stress. We would stay in high-quality issuers and favor financials and healthcare. We hold hyperscaler credit with a neutral view, and cautious on commercial real estate and utilities.

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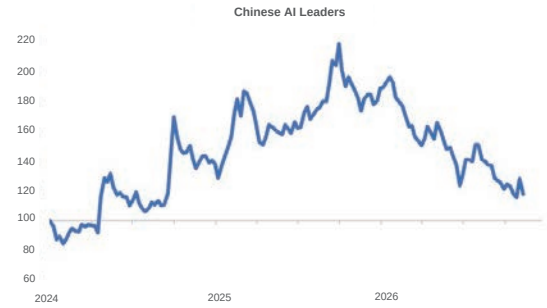
INVESTMENT VIEWS 17 NOVEMBER 2026

China begins to restore growth, as AI premium wiped out

Key takeaways

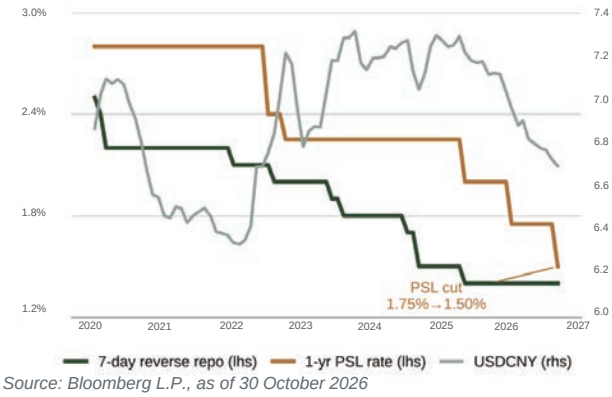
- China rolled out two sets of policies to restore economic growth and equity markets. But neither appear sufficient for sustained lift.
- In October, the PBOC expanded previous credit facilities for funds, insurance and brokers, originally announced in 2024.
- In September, the PBOC mortgage subsidies and targeted credit easing measures to support property and infrastructure sectors.
- We see Chinese equities as a tactical opportunity. The stimulus as short-term and tactical; its impact can be volatile.

Figure 6. Chinese AI leaders' stocks have unwound nearly all of the gains since Deepseek stirred global markets.



Note: chart shows performance of equal weight basket of 8 large Chinese AI players.
Source: Bloomberg, as of 9 November 2026.

Figure 7. PBoC 7-day repo rate unchanged, yuan stronger



Source: Bloomberg L.P., as of 30 October 2026

Figure 8. PSL extended to six networks, alongside other measures

PSL extended to 6 networks 六张网	Other stimulus measures
Water Network 水网	RMB 550bn in unused local govt debt quota
New-Type Power Grid 新型电网	1-year mortgage subsidy for first-time homebuyers
Compute Network 算力网	RMB 200bn for sci-tech upgrade facility; coverage ratio raised from 60% to 100%
Next-Generation Communicatio Network 新一代通信网	Expanded relending quota for agriculture, micro-businesses and small companies by RMB 500bn
Urban Underground Pipeline Network 城市地下管网	Support housing demand in tier 3 / 4 cities to absorb real estate inventory
Logistics Network 物流网	Stimulus to support 4.5% to 5% GDP growth

Source: Bloomberg L.P., PBoC, as of 30 October 2026

Policy support after AI premium vanished

- After October's sell-off, in which the CSI 300 entered a bear market, the ousting of an AI leader deepened the underperformance of Chinese equities. Authorities have begun policies to restore growth, but more is needed and likely.

  The People's Bank of China (PBoC) boosted the buyback relending facility, cut the borrowing rate to 1%, and launched a third swap-facility. The State Council also pledged stronger stabilization mechanisms. State backed funds was also said to have entered the market, though of uncertain size.
- Compared with 2024, when the buyback facilities were originally announced, this expansion round appears less potent. After several moderate stimulus attempts in 2023-24, the big rally finally arrived in 2025, but was driven by substantial developments in AI that challenged US leaders.
- Since then, however, Chinese AI leaders have lost nearly all of the performance generated from AI development (Figure 6). Investors may argue how profitable China's AI investments might be, but "zero value" seems harsh.
- Recent turbulence in the US AI industry is likely to further curtail China's access to advanced chips, which presents a hurdle to Chinese AI models, but could be a boost to domestic chip development and production. With cheap valuations and more proactive policy measures, we see a tactical opportunity forming for Chinese equities over the next 3-6 months.

A bit more credit for infrastructure and property

- Prior to the latest equity stabilization efforts, the PBOC also provided some extra credit for the real economy. The central bank lowered the 1-year pledged supplementary lending (PSL) rate by 25bp to 1.50% (Figure 7). PSL was expanded to cover six areas of infrastructure (networks): water, new power grid, compute, next-generation communications, urban underground pipelines and logistics (Figure 8).
- Other measures include RMB 550bn of unused local-government debt quota, a one-year mortgage subsidy for first-time buyers, an extra RMB 200bn for the sci-tech upgrade facility (coverage ratio raised from 60% to 100%), RMB 500bn more relending for agriculture and small businesses, and support for housing demand in 3rd and 4th tier cities.
- These measures came after GDP growth beat forecasts in 3Q with 4.5% y/y. Yet, data show manufacturing activity contracting in early 4Q, while property slump, weak domestic demand and cautious global trade environment weigh on growth prospects.
- Moderate targeted measures tend to have only limited effect to stabilize growth. Given that the official data still shows growth within range of policy target, there is likely no impetus for large scale policy stimulus. This leaves earnings growth to fend for equities. That said, over the past year, MSCI China index earnings grew by 6%, while multiples contracted from 12.7x to 9.4x.

IMPLICATIONS FOR INVESTORS

- ***Equities*:** Policy support can stabilize China-linked assets, but the follow-through in domestic demand and property is unproven. That said, the selloff in 2026 had wiped out nearly all of the performance since Deepseek put Chinese AI under the spotlight. We see Chinese equities as a tactical opportunity.

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