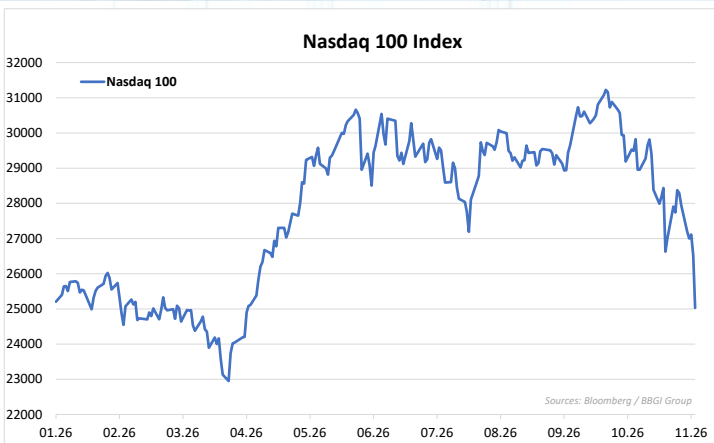
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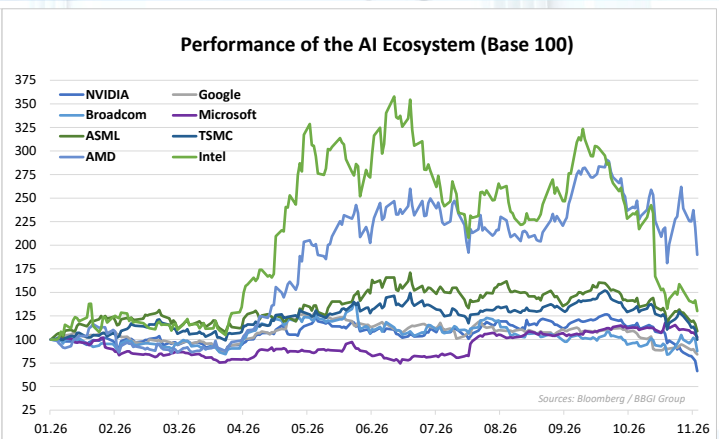
Investments - Flash

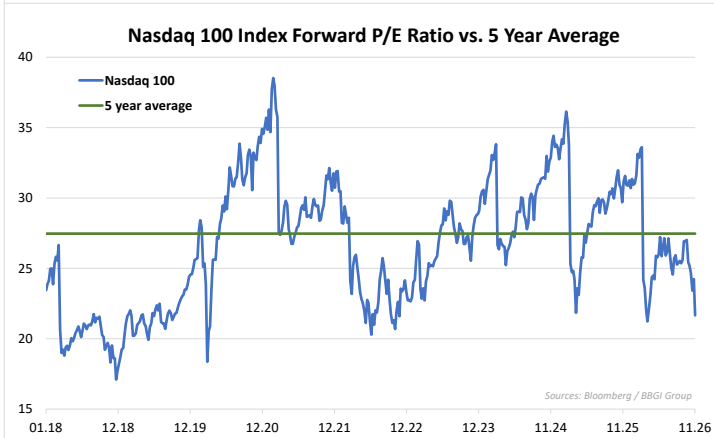
TACTICAL REBOUND OR RISK OF CAPITULATION IN THE MARKETS?

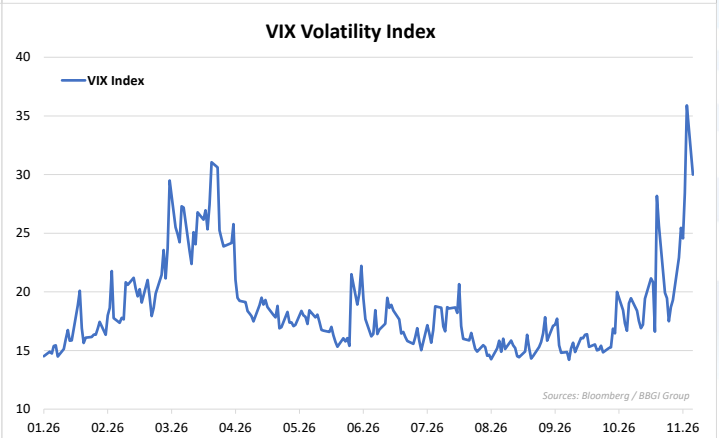
A particularly favourable environment for our BRC strategies

Growth and AI stocks, which had driven most of the indices' performance in 2026, are seeing their valuation premiums come under severe pressure. The questions we raised about the profitability of AI-related capital expenditures are now more widely shared by investors, who are also beginning to doubt the actual returns from AI in 2027. The sell-off in tech indices accelerated with the Nvidia episode and Anthropic's IPO this week, whose size may have been too large for the market to absorb in such an environment. The market is realizing that the earnings forecasts underpinning the sector are at risk, while the Fed is signaling further rate hikes that could even reach 50 basis points in December. The selling pressure most likely spread first among hedge funds, whose net equity positions and leverage have fallen sharply in just a few days. Nasdaq 100 valuations have plunged from 28x to 21x, returning to the level seen in 2019, with prices down 19.9% from the October 6 high. Just above the bear market threshold (-20%), the index has erased all of its gains for the year and is now down 1%. The correction is now more than significant and is approaching the 24,000 level seen in April, which had marked the start of its uptrend for the year. The VIX volatility index, which fluctuated between 15 and 20 during the rally, touched the 40 mark on Friday, surpassing the level reached when the war with Iran broke out in March. However, in our view, the conditions are likely not yet in place for a sustained uptrend to return, given the absence of a catalyst and of a capitulation by private investors, which does not appear to have occurred. Macroeconomic and fundamental risks persist, market liquidity remains poor, and buying flows could be limited to "short covering" this week. Buying the market today exposes investors to high volatility for a more uncertain potential gain, while the underlying trend is fragile. That said, the current environment offers a favorable and promising backdrop for our BRC strategies. Market jitters and demand for protection via options have caused implied volatility to spike, and the already substantial price declines are mechanically lowering the barriers of new structured products. In a scenario where markets struggle to regain a clear uptrend but oscillate within a wider range, alternating between tactical rebounds and moderate pullbacks, investing in equities will remain more anxiety-inducing. Conversely, our BRC strategies will allow investors to monetize this uncertainty and deliver more attractive risk-adjusted returns.









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