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AIP

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Staying tactical within a diversified allocation

Equity market volatility has subsided after the brief spike following the Democratic clean sweep in the US midterm elections. Questions about the pace of buildout of AI data centres are likely to linger until Democrats assume their positions in the Congress and state governments in January. History suggests that sharp selloffs can be followed by continued volatility in the near term, particularly during periods of broader macro stress. However, the balance of historical outcomes has shifted strongly to the upside over a three- to six-month horizon.

US IT sector benefits as volatility subsides

As volatility eases, further upside for US IT sector is relatively a more diversified idea as valuation remains attractive. Rotation is occurring within the IT sector from semiconductors – impacted by concerns about the pace of buildout of AI data centres - into other segments, such as software and hardware providers, which have strong cash flows and balance sheets and which are likely to benefit from AI monetisation. The latter group has more than 60% weight in the IT sector.

Remain constructive on US healthcare

US healthcare earnings are projected to grow almost 23% in 2027, the second-fastest among MSCI US sectors, driven by improving biopharma earnings. The US healthcare sector's valuation gap against the broader market has been recovering from a steep historical discount a year ago, but there is a scope for further upside as earnings delivery builds conviction. Healthcare innovation also underpins long-term earnings growth for the sector. With the market rotating away from concentrated AI exposure, healthcare's stable, non-cyclical demand profile offers a compelling exposure for investors seeking both defensiveness and growth in the near-term.

Locking gains from our bullish US inflation-protected bonds idea

US headline and core inflation surpassed expectations in October as still-elevated fuel prices, techflation and past tariffs seeped into directly exposed sectors. However, inflation is easing over the coming year as the Republicans' heavy losses in the US midterm election increases pressure on the Trump administration to end the Iran conflict. One-year inflation expectations have slumped with oil prices as markets anticipate a resolution to the conflict, even as tariff effects fade. A potential slowdown in the pace of AI buildout is also likely to ease techflation. The disinflationary outlook means the risk-reward for US inflation-protected bonds have become less compelling.

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