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AIP

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Staying diversified, adding US mega caps

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US mega caps

AI-related concerns continue to weigh on equities, especially with new US restrictions on third-country access to advanced American semiconductor chips. However, two major event risks this week turned out to be less concerning - Nvidia's Q3 revenue and earnings exceeded expectations, while Anthropic's record initial public offering was priced above its indicative range. With VIX spiking above 25 and investor positioning and sentiment indicators suggesting limited downside, there is value emerging in the US mega caps segment following its recent underperformance.

Diversifying beyond the AI trade

Although cross asset and sector correlations returned this week, sector rotations earlier this month reinforces the importance of maintaining exposure to different drivers of equity returns. The US sectors remain IT, healthcare, financials and materials, combining technology participation with opportunities beyond AI-related developments. Beyond the US, Euro area and Japanese banks, which are benefitting from elevated interest rates, actively managed global dividend strategies, especially Swiss equities for their high dividend yields, and Indian equities due to their low correlation with the AI trade.

Increasing diversification offered by bonds

The one-month correlation between global stocks and bonds have turned negative after over a year. This means bonds have started to offer increased diversification benefits amid the drawdown in equities. Minutes from the Fed's October policy meeting suggest policymakers are likely to hike rates further. A dovish outlook vs. markets on the Fed's 12-month rates as lower oil prices and fading tariff effects lead to noticeable disinflation by H2 2027. Particularly value in the 3-7-year maturity bucket, with a preference for BB-to-BBB segment corporate bonds, which have resilient balance sheets and offer attractive yield pickup. The US 10-year government bonds offering value if yields rise above 5.25%.

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