Ruminations - Macro, Micro, Markets

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Feast and then famine

That last two to three weeks have been unplayable. A market that remains narrow and concentrated...and a totemic index level that remained high, able to withstand all walls of worry and seemingly incapable of realising volatility. The headline calm has masked the carnage beneath the surface. A combination of Ai unwind, de-gross and unwind and performance pain resulted in a huge amount of factor, sector, spread and theme volatility. To put it even more simply....it feels like if you have carried gross in the last few weeks you have lost money....across any region...any strategy...any gross, net or skew.

Nasdaq down over 6% in the last 2 weeks. A semis rout. Momentum down ~15% in the same period. A high velocity environment for a swathe of credit instruments linked to the Ai buildout and Ai sentiment. Momentum sold off (and make up continues to shift). Volatility had a meaningful spike. GS risk indicator has declined sharply over last 3 weeks and is in negative territory for first time since march. A lot of this has felt technical and flow driven…but in the absence of conviction, performance buffer we aren't seeing people willing to call a bottom… rather wait for one to become self evident.

Some newsworthy Private equity reports talking to the quantum and distribution of financing for the Ai build out…and the mark to market on returns from it. One strategist report stating that ai not yet showing tangible productivity gains in the numbers that matter outside of the tech universe… that rev per working up for Mag 7 but flat for S&P 493…profit margins up for the mag 7 but flat for the S&P 493. The combination of these factors causing the belly of the corporate world (maybe even the bulk) shift perspectives from token spend correlation with growth and productivity towards token spend and costs and impact to margins.

Meanwhile, we see re-escalation of growing anxiety in the middle east driving Oil back towards it april/may highs. We see social/civil unrest in France driving OAT-Bund spreads to all time highs. We see Yields retracing but that 'normalisation' now being viewed with less celebration as being linked back to the Ai 'unwind' and potential capex slowing and GDP impacts of a slower/smaller Ai tailwind for the economy. The 3 key themes of 2026...Oil, Yields and Ai....all

inter dependent to some degree as people think about power, cost of capital and growth...and how that interplay drives macro, micro, consumer and capital markets.

I think the key anchors for the market remain the same….watching Ai, Oil, yields….and now keeping a very close eye on credit and credit spreads also. Then juxtaposing those with growth, employment and earnings. More generally….we are seeing broadening. We are seeing rotation (to defensive/real assets/quality/low levg). We are seeing de-grossing. The sum of that mix resulting in a continuing challenging performance environment where investors are playing defense rather than offence. Long story short…feels closer to the end than the beginning… everyone hoping/needing/wanting a bit of vol normalization and calming as a first step.

We go into this week with data that will provide more information on all….what next in middle east (at least pre midterms), are yields normalising…and whether fridays ai reversion was a start of a rebound or an uptick in a deeper broader sell off. The Meta news this morning a potential clearing event that will give room to breathe.

We will see a huge chunk of the S&P report with the results so far having been very solid with little to no reward…and 3 of the hyperscalers giving us more colour on capex and roi on that capex. The market doesnt seem to know what it wants at the moment….Meta ramping capex and selling off….and Tesla cutting capex and also selling off. Spending and austerity being treated the same in this degross, performance pain vortex of the last 3 weeks. But this too shall pass.

H1 was a window that gave much to many (if not all). All news was good news…even bad news was ignored or turned to good. H2 has been something different entirely. Good news now judged with a higher bar, most news treated as bad news…and even signs of us being back in a bad news might be good news territory…at least in terms of yields and rate policy (fed hike probability moving from near certainty to now around 75% in last couple weeks).

Ultimately we are still in a debate around cost of build, who pays the bill, whether the pain is worth the gain…and how long we will have to wait for those revenues.

Seasonals. In the last 30 years.....November has only seen 3 drawdowns for teh S&P...Nov 2000 -8%, Nov 2007 -4.4%, Nov 2008 -7.48%.....obviously each of those years came with broader drawdowns...but every other november we've either been flat or up materially....5 more trading days to this november. Lets hope for flat or green...as red tends to signal very very red to follow.

Supply and demand. According to Openrouter....token demand is up 27x since last november...with open weight now accounting for 72% of those tokens. We see further proof of

growing demand with gpu pricing...with H200 pricing up 160% ytd, B200 up 120% and ever H100 up 35%....even the 6 year old A100 is renting for more today than it did at the start of the year re-writing depreciation forecasts and earnings potential for the full cohort looking out. The challenging (or interesting) thing about this data...is that both bulls and bears using at as confirmatory of their arguments. The bulls argument demand broadening and tam growing....and the bears talking about the cost per token vs the rev per token going wrong way as balance of power shifts to open weight. The tug of war continues in the debate around roi and winners/losers....but one thing is clear for now...the demand is growing.

Breadth. On one hand the 'broadening' has hurt investors and performance. As aum followed performance, like the market, it became crowded and concentrated and so this broadening has felt like a bug. The number of S&P 500 stocks trading above their 50 day average rallied 5% on friday...to 61%...for the highest reading since august. Over the last 3 weeks we have seen a 17% rise in this metric while the S&P has remained largely unchanged. Put differently....the unwind of late...has driven both a clean out of positioning, a reduction in concentration and a multiple normalisation across the broader market....all of which is hard to argue is unhealthy in the long term...while extremely challenging in the moment.

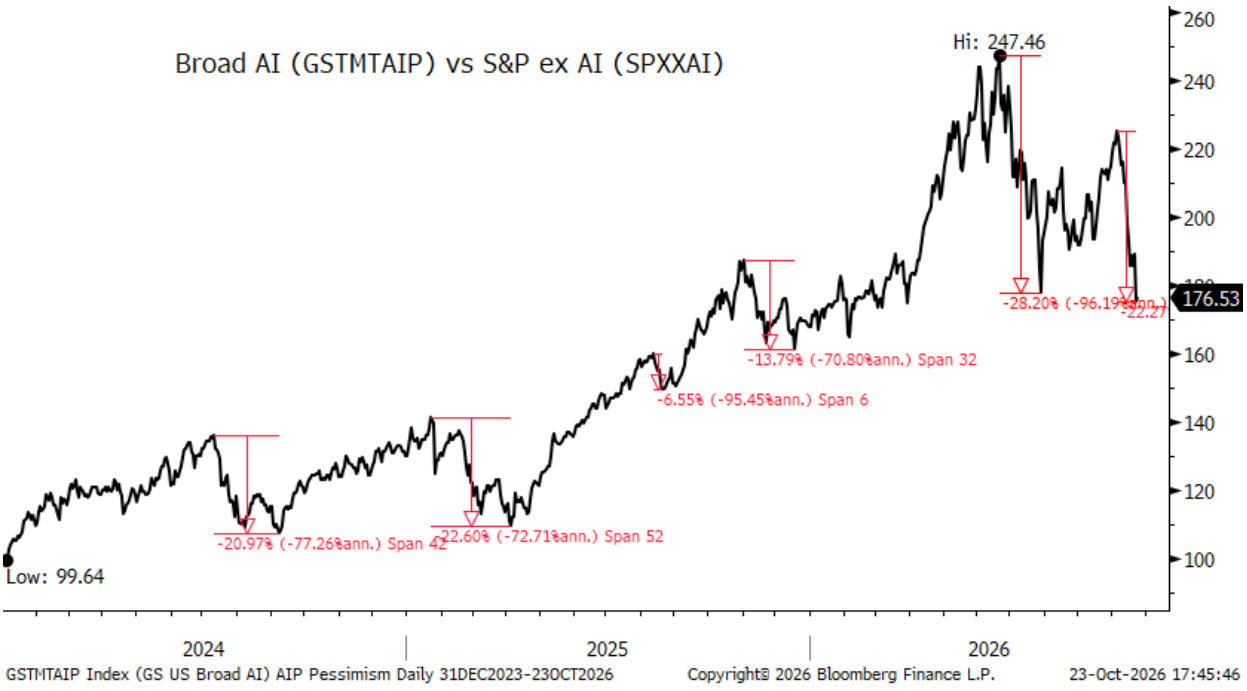
Public vs private. A very strange dynamic appearing in the private markets. The headline numbers for exits spectacular but extremely concentrated (spacex/cerebras/cursor/hugging face) and also very inter dependent (spacex/cursor, nvidia/hugging face). As the quantum of the outcomes and the speed and scale of some of these exits break out we are seeing new patterns emerge. Bigger and earlier bets…quicker fund raise cycles for companies…bigger valuation ramps (and in some cases with no catayls to the rerate other than a termsheet)…and importantly a growing number of venture funds chasing in this gold rush. The concern, for me, is the total dislocation between what we are seeing the public markets and what we war witnessing in the private markets. We are in the midst of an Ai risk off moment…its not the first….and it might not last…but it is a moment. Meanwhile we are seeing the private markets trade like Korea and Hynix in H1 as though it is an era of tokens forever and disruption of everything. These things often diverge and can remain dislocated for long periods…but then get re-rested via the capital markets and IPO process and that can be bumpy (eg Firmus and Oura).

Boom loops. When a capex ramp creates a revenue tailwind. The more hyperscalers spend...the more it drives revenues into the ai ecosystem. This in turn pulls venture capital and growth equity capital towards the growth so you get a two way funding all driven by one initial thing....Ai capex. The missing link here is sustainability and the ability for those revenues to persist and grow without that capex anchor. Elsewhere we get vendor financing..or balance sheet as a service...where the link between providers and customers becomes grey and revenue and financing lines also blur.

Facts and stories. Or balance sheets vs narratives. Every now and then the market decides to focus on a story...during covid it was work from home forever, food delivery forever and e-comm everything forever. Then in 2022 it was the revenge against that mentality with a focus on cash flows and profitability over growth. Then Ai came to the fore and it became about disruption...of everything....the change of ....everything...and the need for more...more chips, more cloud, more compute and more power.

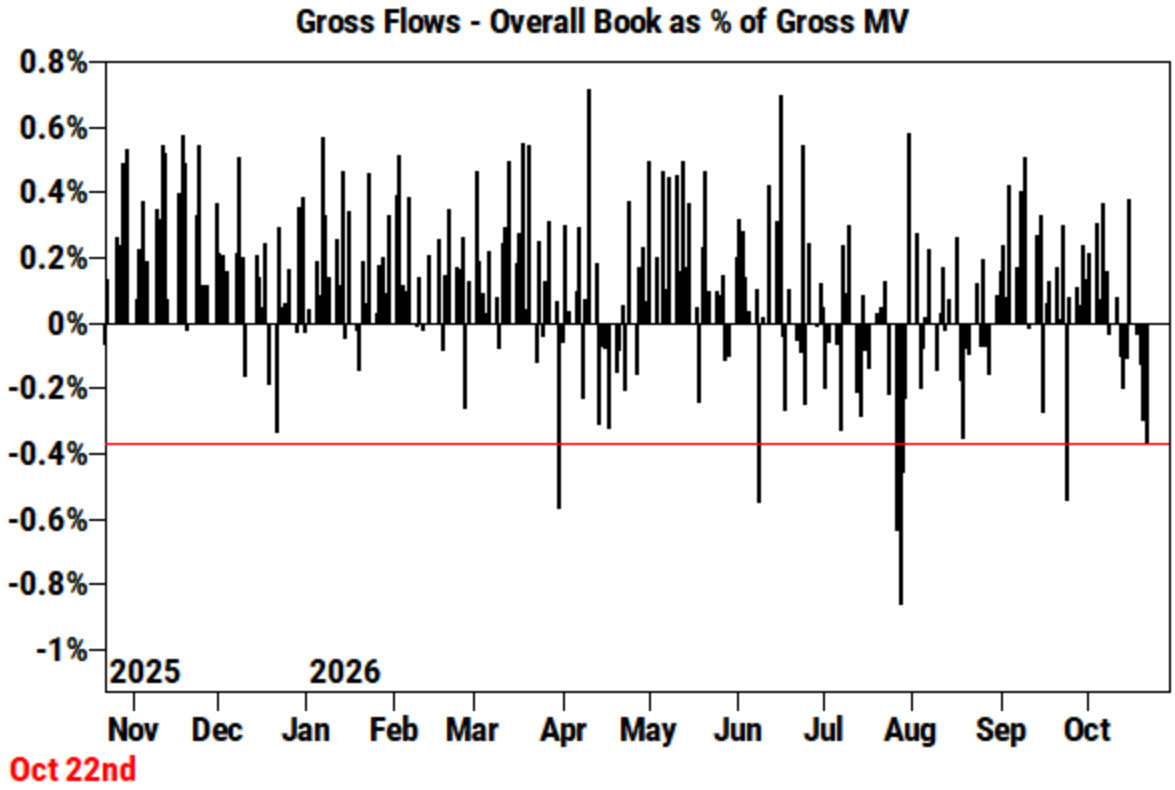
some charts to finish.....

1, Breadth and S&P ex AI



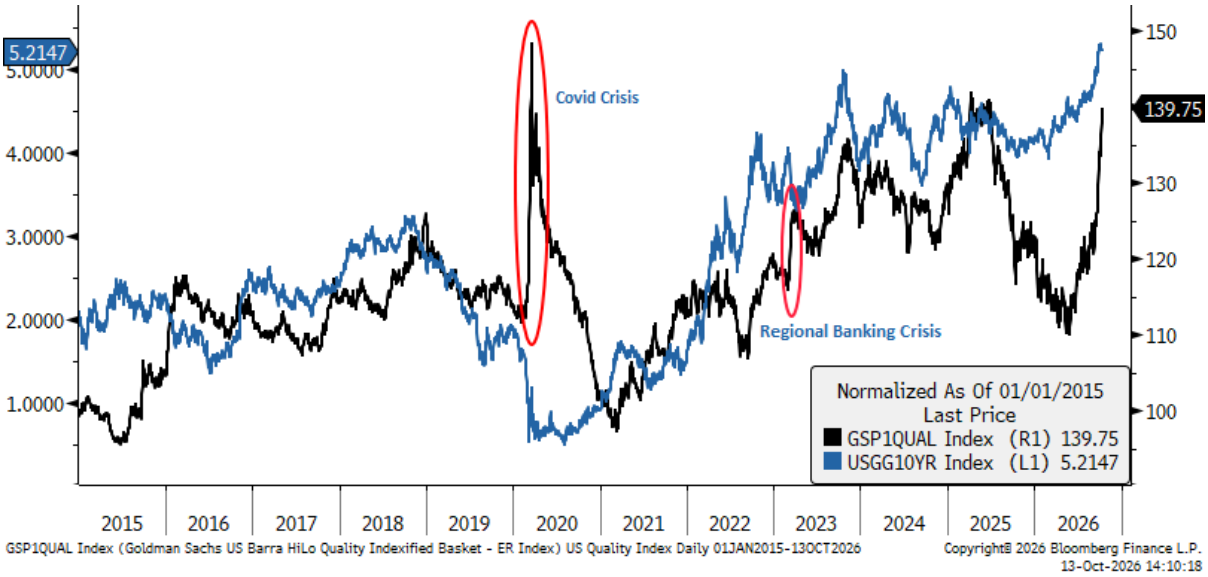
2, De-grossing

22nd October was the 5th largest de-grossing event this year driven entirely by long selling and it was largest long selling since September 2025.



3, flight to safety

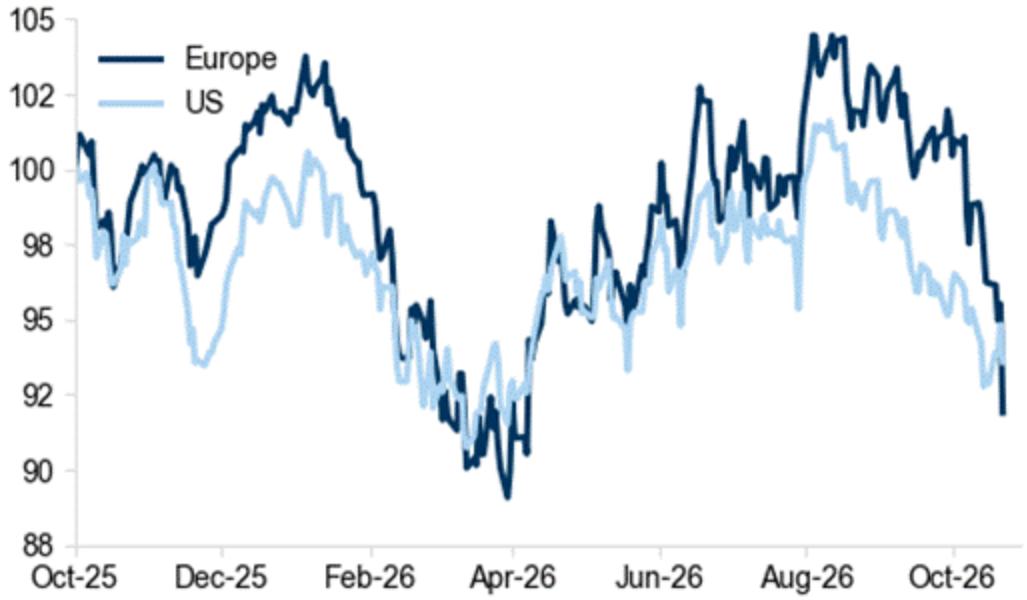
US Quality has had one of its strongest periods of outperformance and is at 12m highs



4, Rotation

Cyclicals vs. Defensives has been weak with the Momentum sell-off

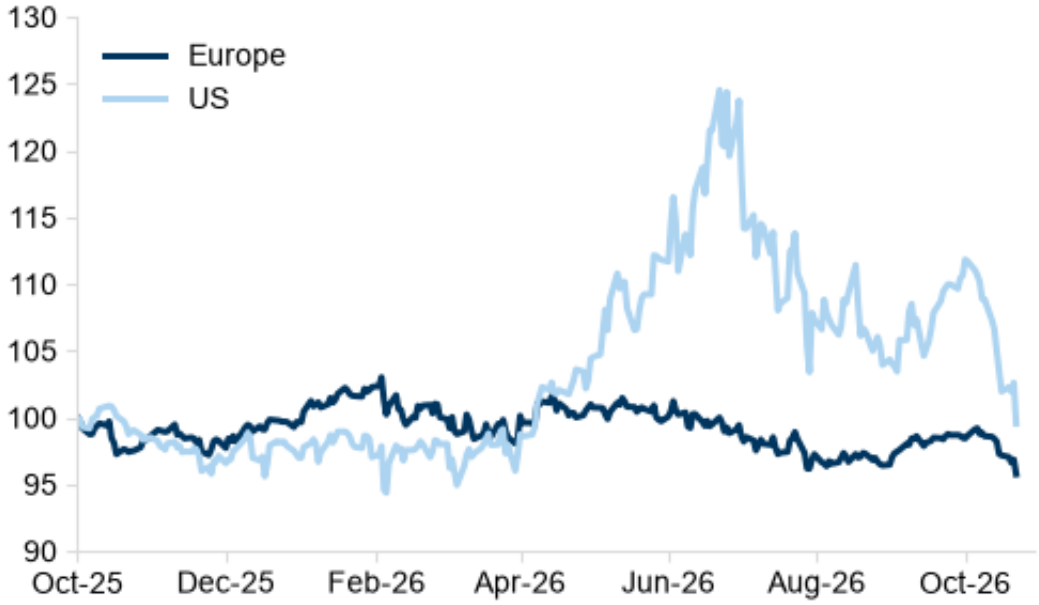
Cyclicals = Equal Weighted: Industrials, Financials and Cons Discretionary. Defensives = Equal Weighted: Utilities, Health Care, Com Services, Cons Staples



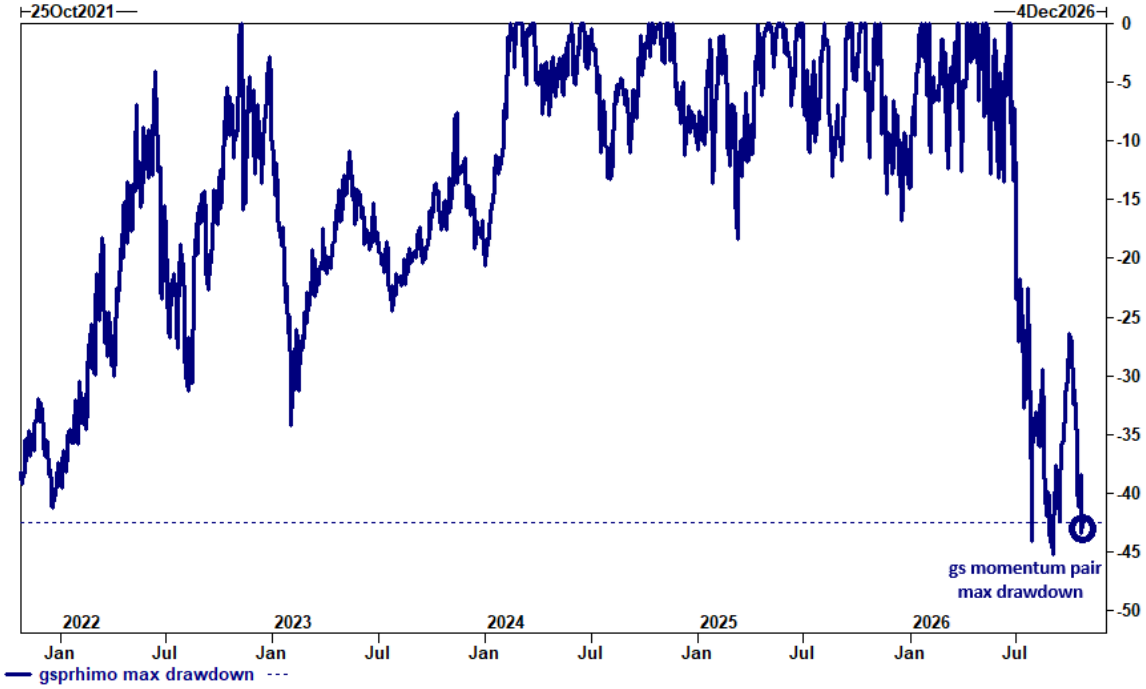
5, Momo vs market

Momentum vs. Market where Momentum has given back all its gains this year

MSCI indices



6, Momo drawdown



7, Momo Volatility

	> 5% sessions	avg calendar vix
1999	0	24.4
2000	23	23.3
2001	6	25.7
2002	1	27.3
2003	2	22.0
2004	0	15.5
2005	0	12.8
2006	0	12.8
2007	1	17.5
2008	7	32.7
2009	16	31.5
2010	0	22.5
2011	0	24.2
2012	0	17.8
2013	0	14.2
2014	0	14.2
2015	0	16.7
2016	0	15.8
2017	0	11.1
2018	0	16.6
2019	1	15.4
2020	21	29.3
2021	7	19.7
2022	8	25.6
2023	1	16.8
2024	1	15.6
2025	5	18.9
2026	30	18.1

