

## CIO Office Morning Notes

10 November 2025

The week closed in the red and was dominated by concerns about AI valuations and the sustainability of the related investments. The bulls would say that AI spending shows no signs of slowing and earnings remain solid, while the bears would argue that valuations are stretched and returns on bloated investments will be hard to come by. Famed investor Michael Burry sealed the debate by putting his money where his mouth is and revealing sizeable short positions on Nvidia and Palantir, AI investors' darlings. And it didn't help either that Morgan Stanley CEO and Goldman Sachs chief, amongst other Wall Street executives gathering at the Global Financial Leaders Investor Summit, warned about a market correction. The tech-heavy Nasdaq (-3.1) led losses, the S&P 500 (-1.6%) was weighed down by IT (-4.2%) and Communication Services (-1.7%), while small caps (-1.9%) did not fare any better. Energy (+1.5%) and Healthcare (+1.3%) topped returns. On a more positive note, corporate fundamentals continued to surprise to the upside, as with most of the companies having reported, including five of the Magnificent 7, about 82% beat expectation setting the index on track for 12% Q3 earnings growth. IT sector earnings grew by 22%, while several mega-cap tech stocks raised guidance on profits and spending related to AI. To conclude on AI, two justified concerns: investments are no longer self-funded and are changing the sector from cash-rich to leveraged, though this is still in early stages, and capital expenditure estimates have gone vertical raising eyebrows about returns on investments. On the economic front the newsflow was rich, with business confidence indicators overall painting still a positive picture, while at the same time the US labor market continued to slow down, raising odds of Fed rate cuts for December to 70%. The BOE meeting was a nonevent, holding the line on rates as anticipated by markets, though altering its guidance to state that rates will continue on a downward path. Given the ongoing US government shutdown, investors focused on private data sources to track the jobs market. Reports from payroll processor ADP to consulting firm Challenger painted an underwhelming picture. Private employers added just 42,000 jobs in October, and with no broad-based hiring across the economy, also the number of job cuts announced by US companies was the highest for any month of October in the last 20 years at more than 150,000. Expectations for unemployment as per the University of Michigan survey reached a new cycle high and consumer sentiment remained utterly depressed. It seems there will be quite some work to do for the Fed in 2026 according to these datapoints. Treasuries failed to react decisively to the newsflow with the yield curve steepening only mildly, the 10-year yield ending 2bps higher and the 2-year over 1bps lower, while the US dollar (-0.2%) retraced some of the previous week's gains. Globally, the divergence between a sluggish manufacturing and a more solid services sector was confirmed by the PMIs, and overall, for October the global PMI was consistent with GDP growth above expectations and shy of 3% annualized. In the United States the services recovery was explained by the AI boom. Both the euro area and the UK PMIs surprised to the upside with services leading. In China the PMI biased to the smaller companies provided a similar picture. Japan's print was more mixed suggesting lingering soft pockets in the economy. Gold was unchanged for the week and found support around 4,000 after a 10% pullback, while Brent crude (-2.2%) was weaker.

The US Supreme Court expressed reservations about the Trump's administration authority to issue "emergency" tariffs in preliminary hearings, reinforcing the case the Court would eventually rule at least partially against them. Much will depend in practice on how the answer will be structured while at the same time the administration would be able to tap other tariff authorities to keep the framework of major deals - EU, Japan, Korea, China - in place. Yet, one main concern stands out: in the case of reduced tariffs revenue risks to the US fiscal position would be coming to the fore again, hitting Treasuries, the US dollar, and in turn equities. In another political development unfavorable to the current Republican leadership the Democrats won gubernatorial races in New Jersey and Virginia, and more notably Democratic socialist Mamdani won the New York mayoral election to become the city's first Muslim mayor.

On a fleeting note, Palantir reported record sales that failed to impress investors. Amazon and OpenAI said they would be joining forces with the AI startup agreeing to pay Amazon \$38 billion for computing power in a multiyear deal. Microsoft inked a \$9.7 billion deal with data-center company IREN to secure access to AI computing power. OpenAI CFO Sarah Friar said at an event that the company is looking to create an ecosystem of banks, private equity and a federal "backstop" or "guarantee" that could help OpenAI finance its investments in cutting-edge chips. Although the remark about a possible public intervention was walked back, it still underscores the unprecedented scale of expenditure that private companies can hardly undertake without that "backstop".

### Markets this morning:

Sentiment in the Asian morning session was lifted by hopes for a deal to end the longest government shutdown in US history. S&P 500 and Nasdaq 100 futures rose 0.7% and 1.2% respectively as of the time of writing as Senate Republican leadership Thune said a deal was "coming together". Asian shares rose 0.5% with South Korea leading gains. Treasuries fell across the curve with the 10yr yield gaining 3bps to 4.13%, while the yen fell 0.4% against the dollar. Meanwhile, in China consumer prices unexpectedly rose in October due to the holiday season known as the "Golden Week" in a pickup that many economists see as fleeting. Brent crude advanced above \$64 bbl, silver spiked almost 2%, and copper gained 0.8% alongside gold.

### Upcoming key events/data:

There will be pretty little data to squint on due to the prolonged government shutdown. CPI, PPI, jobless claims, and retail sales will all be delayed most likely even in the case of a reopening. Tuesday will see the release of the smaller-company survey in the United States, the NFIB Business Optimism Index. On Thursday, the UK 3Q GDP is due out, and on Friday in China fixed asset investments, retail sales, and industrial production. Aggregate financing in China is expected sometime in the week. Walt Disney and CoreWeave will be reporting, possibly highlighting the divergence between struggling consumer-facing firms and earnings growth concentrated around AI.

Have a great day.

Chief Investment Office  
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