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CIO Insights: Market Perspectives

AI After the Sell-Off: What Needs to Go Right

23 November 2026

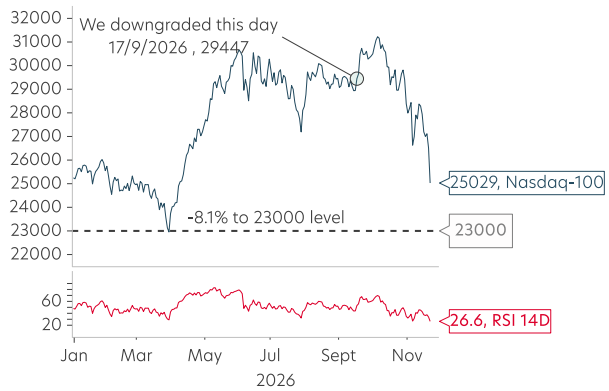
Key Takeaways:

- The sell-off reflects several pillars of the AI trade weakening simultaneously: rates turned higher, data-centre policy became less certain, Nvidia's governance crisis damaged the sector's central confidence anchor, and falling token expenditure raised fresh doubts over returns on AI infrastructure spending.
- Our September equity downgrade has limited portfolio damage. Developed-market investment-grade bonds have provided stability and attractive income, while defensives have outperformed. We continue to favour quality credit and healthcare but would not chase increasingly expensive consumer staples.
- AI spending now faces a tougher economic test. Falling token expenditure and the enormous compute costs of frontier models raise doubts over whether usage growth can offset price deflation and produce adequate returns on the billions invested in infrastructure.
- We expect a reflex bounce but a sustained recovery requires three things: a reasonable Democratic data-centre proposal, which may not be known until January 2027; no further blow-ups at Nvidia; and a positive inflection in token spending that establishes a credible path to returns on invested capital.

The AI Trade Meets Its Reality Check

Our equity downgrade on 17 September 2026, one day after the Fed's first hike of the new cycle, has spared investors meaningful damage. The S&P 500 fell 8.6% last week, a severe weekly move, while the Nasdaq 100 lost 10.4%, its worst week since March 2020. Friday alone delivered a 5.6% fall in the Nasdaq 100 and 3.7% in the S&P 500. We believe the sell-off reflects a combination of forced deleveraging and deteriorating fundamentals. Goldman Sachs' positioning indicators suggest systematic selling pressure, while declining AI-related earnings expectations and policy uncertainty have also contributed. Goldman's panic index reached 9 out of 10, with trend-following funds already short US equities and potentially more supply still to come.

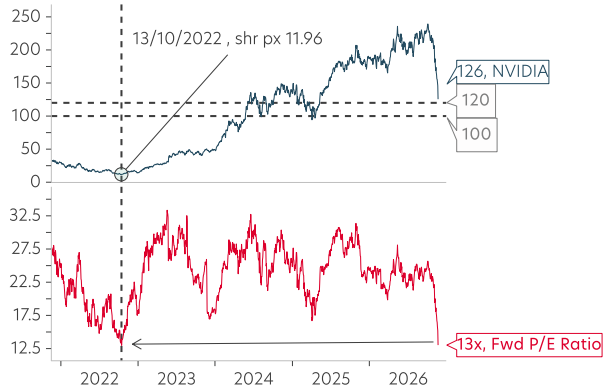
Fig 1: Nasdaq 100 price action



Source: Bloomberg, UOB Private Bank.

Since our downgrade, the Nasdaq 100 has fallen about 15% (**Fig 2**). Timing is not a victory lap; it is evidence that the regime changed when rates turned higher. Until volatility and systematic selling subside, rallies should be treated as opportunities to rebalance, not proof that the correction is over.

Fig 2: Example of megacap derating (Nvidia)



Source: Bloomberg, UOB Private Bank

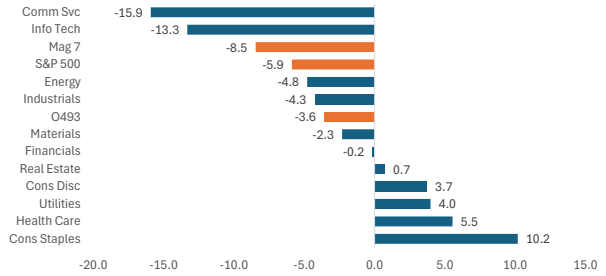
Nvidia is the clearest illustration of how quickly duration can disappear from an equity. The shares are roughly 50% below their 6 October peak and trade near 13x forward earnings, around the valuation reached during the 2022 tightening shock. We envision a reflex bounce but cheap is not the same as safe when governance, earnings quality and end-demand assumptions are all being questioned.

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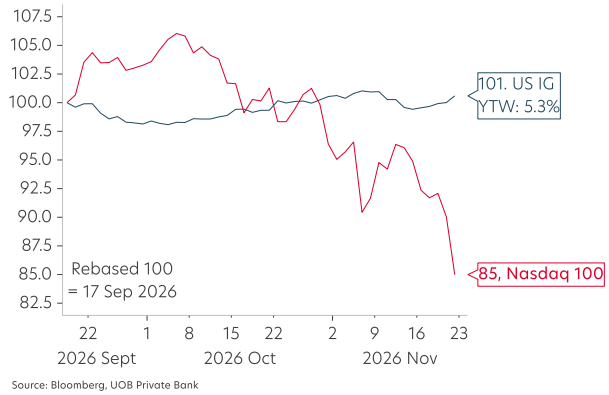
Fig 3: Sector performance since our downgrade



Source: Bloomberg, UOB Private Bank

The rotation has been textbook. Utilities, healthcare and consumer staples have outperformed since our downgrade because their cash flows are less dependent on distant growth and abundant capital. The signal is useful, but the trade is no longer equally attractive across all three sectors.

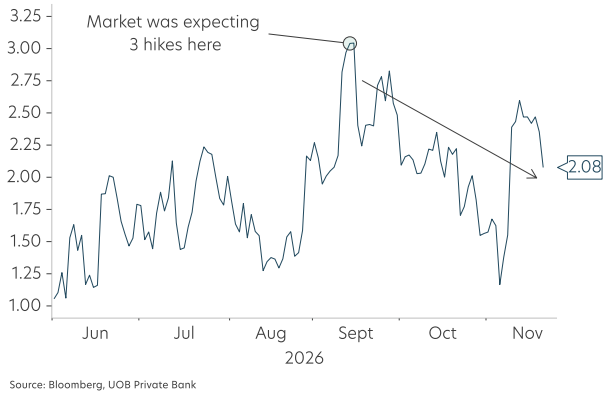
Fig 4: Bonds outperforming since our downgrade



Source: Bloomberg, UOB Private Bank

Developed-market investment-grade credit, our sole overweight, has done its job. The broad US IG index (**Fig 4**) has held broadly steady and offers a yield-to-worst near 5.3%, while the Nasdaq 100 is down about 15% since our downgrade. Investors are being paid a coupon without reaching for weak balance sheets or heroic equity assumptions.

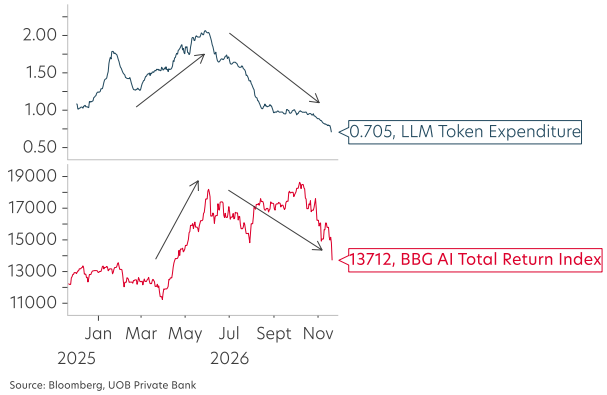
Fig 5: Market shifts back to 2 Fed hikes by March 2027



Source: Bloomberg, UOB Private Bank

The market has rapidly repriced from three Fed hikes to two by March 2027 (**Fig 5**), now matching our house view. With falling equities already tightening financial conditions, the Fed may not need to raise rates as aggressively as previously feared. That is helpful at the margin, but it is not a green light for risk assets. Historically, easing cycles have tended to support equities when implemented pre-emptively alongside resilient earnings. Outcomes have been less favourable when rate cuts coincided with recessionary earnings declines.

Fig 6: Token expenditure vs broad AI stocks



Source: Bloomberg, UOB Private Bank

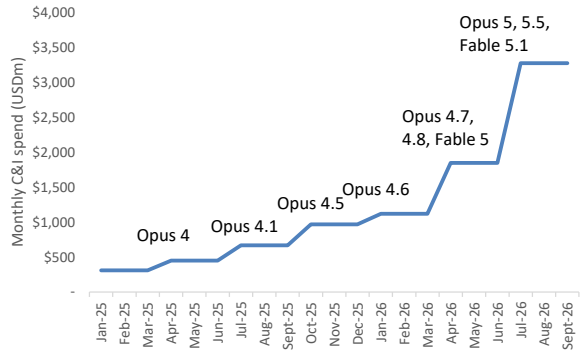
We are watching LLM token expenditure as a practical proxy for whether frontier laboratories can convert usage into profits. The decline in **Fig 6** is uncomfortable: cheaper inference is good for

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adoption, but it also compresses revenue per unit of intelligence. The key question is whether volume can outrun price deflation before funding patience runs out. We think the jury is still out on this.

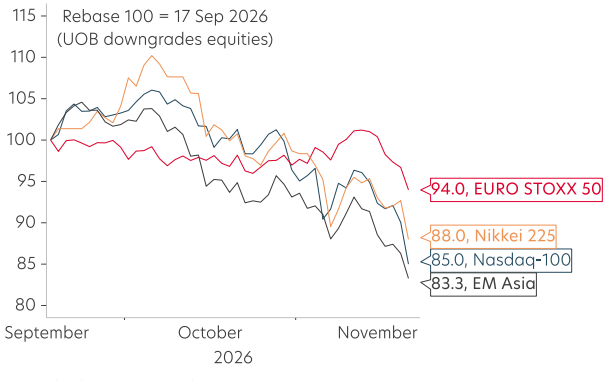
Fig 7: Monthly compute and infrastructure (C&I) costs



Source: BloombergNEF, UOB Private Bank

Fig 7 shows Anthropic's monthly compute and infrastructure bill running into the billions when new frontier models are trained and deployed. The company is caught between a rock and a hard place. Slower model roll-outs preserve cash but weaken demand down the hardware chain. Faster roll-outs defend premium pricing but deepen losses, while Several Chinese frontier models now deliver benchmark performance close to leading US models at significantly lower development and deployment costs, though gaps remain in advanced reasoning and enterprise workloads.

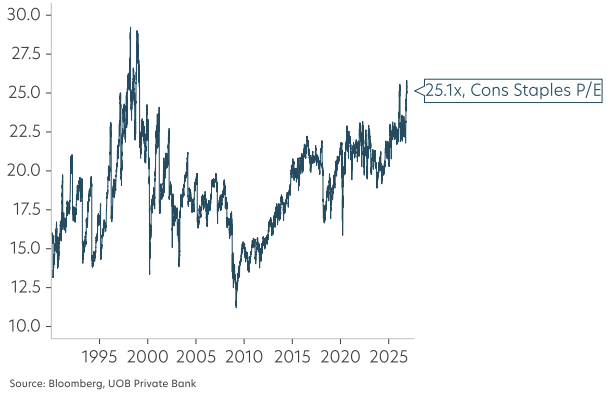
Fig 8: All major markets sold off on AI sentiments



Source: Bloomberg, UOB Private Bank

There was hardly any geographical hiding place as it all links back to the AI complex. Fig 8 shows Europe, Japan and emerging Asia sold off alongside the US. Japan's Nikkei and South Korea's Kospi each fell more than 5% on Friday. Taiwan, Korea and parts of Europe may have different index labels, but their earnings sensitivity to semiconductors, capital equipment and global liquidity is very similar.

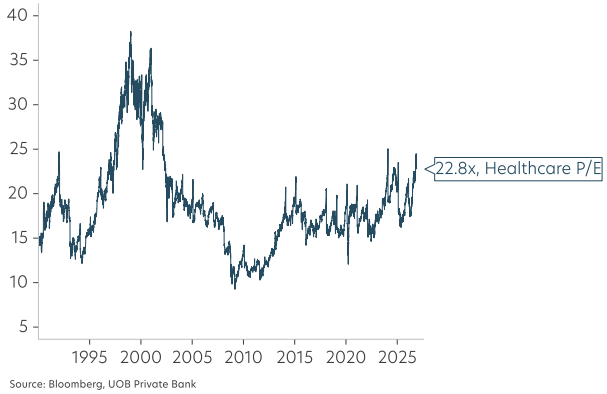
Fig 9: Consumer staples look expensive and priced in



Source: Bloomberg, UOB Private Bank

Consumer staples provided refuge, but the price of safety now looks excessive. On forward P/E valuation, the sector is back near dotcom-era extremes (Fig 9). If markets rebound sharply, fast money may rotate out just as quickly as it rotated in. We would not chase this indiscriminately after the outperformance.

Fig 10: Healthcare likely more room to re-rate



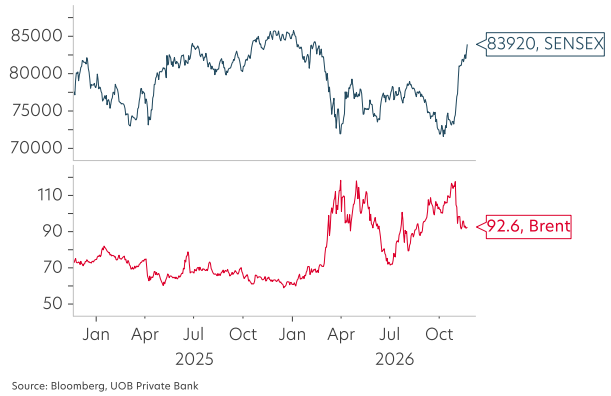
Source: Bloomberg, UOB Private Bank

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We think Healthcare offers a cleaner balance of defence and valuation (**Fig 10**). It is also the only major sector where 2027 consensus earnings growth is expected to improve versus 2026. That gives the sector two ways to win: resilient near-term cash flows and a better earnings slope once the market begins looking through the slowdown.

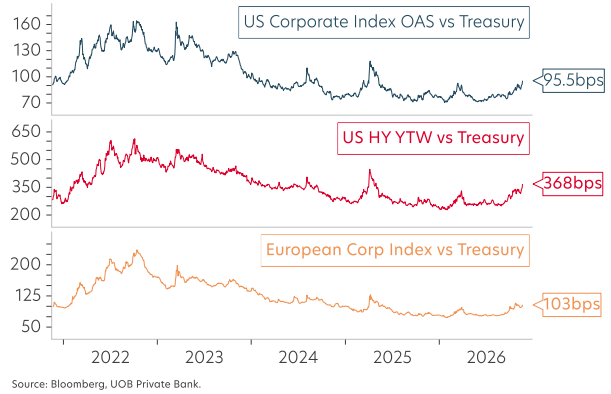
Fig 11: India perceived as "anti-AI & war" trade



Source: Bloomberg, UOB Private Bank

India has regained its footing as an "anti-AI" trade. Its equity market is driven more by domestic credit, consumption and formalisation than by frontier-model economics, while lower oil prices improve the external balance and corporate margins. Valuation remains the constraint, so accumulation should be selective rather than celebratory.

Fig 12: Spreads widening out but not at crisis levels



Source: Bloomberg, UOB Private Bank

Credit spreads as seen in **Fig 12** have widened, but they are not signalling crisis. With further Fed hikes possible and heavy bond issuance ahead, entry points may improve. Investors sitting on gains accumulated since ChatGPT launched in November 2022 can now begin adding quality bonds in stages. The objective is simple: clip a healthy coupon, preserve optionality and avoid going down the quality spectrum merely to manufacture yield.

Conclusion: What needs to go right for AI

The violence of the sell-off leaves room for a tactical rebound, but investors should not mistake a bounce for a repaired AI thesis yet. For fast-fingered traders, this is a haven for making money. For longer term investors, accumulating a broad set of quality stocks should do their portfolios well over the next 12-24 months. Finally, option writing strategies will benefit from this bout of heightened volatility.

We view three developments as particularly important catalysts for a sustained recovery, although earnings revisions, interest rates, liquidity conditions and competitive dynamics will also remain significant drivers. First, Democrats producing a workable data-centre proposal in January 2027; Second, Nvidia avoiding further governance or operational blow-ups; and finally, token spending turning decisively higher, providing evidence that AI demand can support credible returns on the vast capital already committed. Until then, favour resilience over momentum and hope.

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