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BILBoard November 2026 – From momentum to fundamentals



Recent market conditions have been particularly challenging. The sharp equity-market correction has understandably unsettled many investors, particularly after a prolonged period in which a relatively small group of technology companies drove a significant share of market returns.

The change in market direction shows that investors are becoming more discerning. Strong narratives and ambitious spending plans are no longer enough: companies are increasingly being assessed on their ability to generate sustainable earnings and cash flows. Against this backdrop, we are adjusting portfolios to strengthen diversification and resilience while preserving exposure to the long-term investment themes in which we continue to have conviction.

MACROECONOMIC CONTEXT

The US economy remains in good shape. GDP expanded by 3.4% in Q3 2026, its strongest pace in a year, supported by resilient consumption and strong private investment, including AI-related expenditure. Inflation remains the principal challenge. Higher prices, particularly for

essentials such as food and gasoline, are likely to constrain household purchasing power over the coming quarters, with real wage growth now in negative territory.

The Federal Reserve kept its policy rate unchanged at 3.75-4.00% at its October meeting but left the door open to further increases. Markets currently expect two additional rate hikes by next summer, with the first potentially arriving as early as December.

In the political sphere, the US midterm elections resulted in the Democrats gaining control of both the House and the Senate, although without securing the two-thirds majority required to override a presidential veto. This institutional balance should limit the scope for an abrupt shift in fiscal or regulatory policy. Nevertheless, political debate over issues such as AI regulation is already contributing to market uncertainty. The expiry of federal government funding on 11 December represents another potential source of volatility.

The outlook is more challenging in the Euro Area, where the cycle appears to be weakening. Inflation remains elevated, driven primarily by energy prices, while rising wages and service costs risk making underlying pressures more persistent. The ECB kept its policy rate at 2.5% in October and sought to downplay the likelihood of significant second-round inflation effects. Nevertheless, financial markets expect two further rate increases and assign a very high probability to a move in December. A combination of slower growth and higher financing costs also clouds the outlook for European corporate earnings.

China's recovery remains uneven. Policy support and external demand continue to benefit advanced manufacturing and technology, but weak consumer confidence and the prolonged property downturn are holding back domestic demand.

INVESTMENT STRATEGY

Against this backdrop, we are making several adjustments to adjust the balance between resilience, income generation and long-term return potential within portfolios.

In fixed income, we are further reducing exposure to European sovereign bonds and reallocating towards euro-denominated investment grade corporate bonds. Persistent government deficits, inflation and geopolitical uncertainty leave longer-dated sovereign bonds vulnerable. Simultaneously, spreads on euro investment grade corporate bonds have widened, creating what we consider to be a more attractive entry point. This segment of the market offers compelling yields coupled with relatively conservative credit risk.

In defensive and low risk portfolios, we are also reducing exposure to total return bond strategies in favour of a fixed-maturity bond fund. The latter offers greater visibility on yield generation and can help limit interest rate sensitivity.

Within equities, we are reducing European exposure and further adding to US value stocks. This decision reflected our expectation that market leadership would continue to broaden beyond the largest technology companies. Value stocks generally have a greater proportion of their expected earnings in the near term and therefore, their valuations tend to be less sensitive than those of long-duration growth companies to higher interest rates.

We have also adopted a more defensive sector balance. Communication services has been downgraded to negative, as growing competition from satellite-based connectivity threatens established business models, while pressure on household purchasing power could accelerate customer migration towards lower-cost providers.

Consumer staples has been upgraded to neutral due to its defensive characteristics and broadly healthy balance sheets.

Healthcare has been upgraded to positive. The sector exhibits resilient demand, while it also has the potential to benefit from AI-led improvements in productivity, diagnostics and drug development. The US political backdrop may also become more supportive for parts of the healthcare sector if Democratic control of Congress leads to an expansion of Medicaid coverage or the restoration of Affordable Care Act subsidies. The eventual impact will depend on the legislation that can be agreed and implemented.

A NOTE ON TECHNOLOGY: GREATER SCRUTINY, ENDURING POTENTIAL

Within the technology sector, legitimate questions have arisen about the scale and sustainability of AI-related capital expenditure. Building data centres requires substantial investment in computing infrastructure, energy and supporting networks. The returns on this spending may take time to materialise, while political developments could slow the construction of new facilities in certain US states.

Companies making the largest investments will increasingly need to demonstrate that this expenditure can generate sustainable revenue, earnings and cash flows. This represents an important shift from momentum towards fundamentals.

Nevertheless, we do not believe that the AI investment cycle is over. The technology's long-term potential remains significant, but the market is becoming more discerning about which companies are best placed to capture it.

Our approach is therefore becoming more selective. We are placing greater emphasis on high-quality businesses whose free cash flow is not excessively burdened by capital expenditure commitments. We are also focusing on more defensive beneficiaries of AI adoption, including companies that can use the technology to improve their products, productivity and/or margins

without having to finance an exceptionally large infrastructure build-out.

REMAINING INVESTED, WITH GREATER SELECTIVITY

Recent market developments signal an important change in the investment landscape. Ambitious growth plans are no longer enough without compelling evidence that investment can translate into sustainable earnings and cash flows.

This does not diminish the long-term potential of technology and AI, but it does raise the bar for companies and investors alike. As fundamentals regain importance, we believe quality, valuation discipline and selectivity will be the most reliable guides through the period ahead.

Our objective is to respond thoughtfully rather than reactively, preserving meaningful exposure to long-term growth opportunities while strengthening portfolio resilience against any economic and market risks that may lie ahead.



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