CAIM CROWN AGENTS INVESTMENT MANAGEMENT



Capital Markets Monthly
EQUITIES

November 2026

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United States

Strong rotation but limited retreat

U.S. equities were increasingly driven by the AI trade, which overtook France and energy as the main source of market volatility. Weakness in semiconductors broadened into concerns over whether substantial AI infrastructure spending would generate sufficient returns. Inflation also surprised to the upside, with broad-based strength reinforcing concerns over persistent price pressures.

The FOMC left rates unchanged at 3.75%-4.00%, as expected, though two members dissented in favour of a 25bp hike. The Committee upgraded its assessment of growth to "strong" and noted persistent inflation, while Chair Warsh's comments reinforced expectations for another rate increase before year-end. While acknowledging that economic conditions had tightened, Chair Warsh reiterated that he was "unable and unwilling to call them tight". Separately, Warsh also outlined plans to devote one of the eight annual FOMC meetings to strategy discussions from 2027, rising to two strategy meetings per year from 2028.

U.S. economic data remained resilient despite a weaker-than-expected September payrolls report, with broader labour market indicators, including unemployment, participation and underemployment, pointing to continued stability. Recent jobless claims data also suggest labour market conditions remain robust. Inflation surprised to the upside, strengthening expectations of further Fed tightening. While higher energy prices contributed to the increase, stronger-than-expected core inflation and broad-based price pressures indicated that inflation remains persistent beyond the energy sector.

Corporate earnings remained a key support for equities, although investors increasingly questioned whether strong profit growth could be sustained. Banks had a mixed start to the earnings season, with several reporting weaker-than-expected trading revenues, particularly in fixed income. However, earnings expectations for both Financials and the broader S&P 500 continued to move higher. Importantly, large U.S. banks reported that consumer fundamentals remain healthy, supported by solid income growth and contained credit losses. JPMorgan, Goldman Sachs and Citi all saw shares fall following results, despite generally resilient underlying business trends.

The hyperscalers remained at the centre of the AI debate, with investors increasingly focused on whether rising capital expenditure will generate adequate returns. Meta initially rallied after beating earnings and revenue expectations and raising its 2026 capex range, but later reversed as spending plans came under greater scrutiny. Microsoft delivered strong results, driven by Azure growth and robust AI demand, while guidance also exceeded expectations. In contrast, Alphabet disappointed on earnings and revenue despite strong cloud growth, fuelling concerns over execution and contributing to its sharp share price decline. Amazon's results highlighted a similar tension, with solid cloud growth overshadowed by a significant increase in capital expenditure, doing little to alleviate investor concerns around escalating AI-related spending.

US equity markets adopted a more defensive tone as higher oil prices raised concerns over the growth and inflation outlook, while higher interest rates and wider credit spreads prompted questions about the sustainability of the AI-driven capital expenditure cycle. This shift in sentiment supported traditionally defensive sectors such as consumer staples, utilities and healthcare, alongside energy, which benefited from stronger commodity prices. Meanwhile, communication services and technology underperformed as investors subjected the AI investment theme to greater scrutiny, focusing on stretched valuations, rising funding requirements, intensifying competition, regulatory risks and the pace at which AI-related revenues can be monetised.



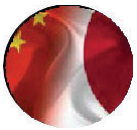
Europe

Equities benefit from the defensive rotation trade

European equities posted modest gains despite rising concerns over stagflation, weakening growth and France's fiscal outlook. While Moody's decision to maintain France's Aa3 sovereign credit rating provided some reassurance, this was partially offset by Fitch's move to revise its outlook on French sovereign debt to negative.

The ECB left rates unchanged at 2.50%, as expected, with President Christine Lagarde signalling that the "direction of travel" remains towards a further rate hike in December. Markets also digested news that Lagarde plans to step down on 7 February. While her departure had long been expected, the timing had not previously been known.

Corporate earnings have remained resilient, with results broadly exceeding expectations. While the energy sector continues to be the largest contributor to earnings growth, performance has been strong across the market, with eight of the remaining ten sectors delivering double-digit earnings growth. Market leadership shifted towards defensive sectors, with pharmaceuticals, consumer staples and utilities outperforming. In contrast, cyclical sectors, including financials, lagged amid concerns over French fiscal and credit stresses, while information technology underperformed as investors questioned the sustainability of AI-related spending and growth expectations.



Developed Asia

AI narrative questioning sees selling pressures

Developed Asia markets saw declines as investors increasingly questioned the global AI narrative amid decelerating ARR growth, elevated earnings expectations, limited free-cash-flow generation and rising financing needs. Risk aversion increased amid heightened tensions in the Middle Eastern and rising crude oil prices. The AI monetisation concerns led to a rotation out of AI semiconductor stocks and overseas demand-driven cyclicals into domestic demand-driven defensives, high-dividend, low-volatility, and quality stocks.

Emerging Markets



Emerging market equities saw substantial declines in October, the worst monthly performance since March, significantly underperforming their global developed counterparts.

Regional performance was mixed. EM Asia was the worst performing region, with the US earnings season highlighting AI monetisation risk, especially for the negative FCF hyperscalers, which saw contagion to EM tech, despite upbeat 2027 capex trends. Latam was hindered more by the surprising victory of the incumbent in Brazil's presidential elections against both polling and prediction markets pricing, prompting a sharp negative market reaction. CEEMEA was relatively the most resilient though still negative over the month.

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