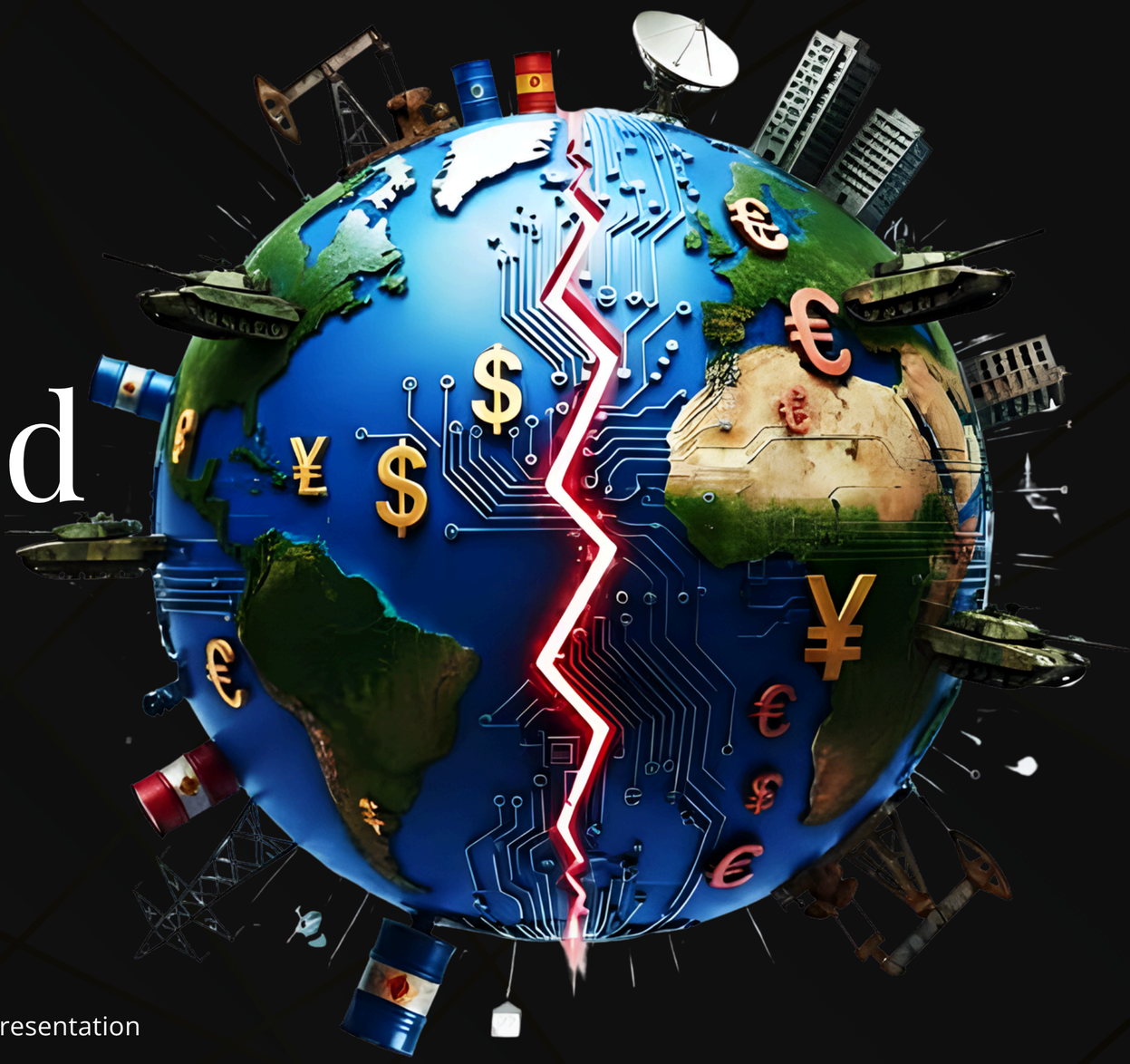
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Resilience Amid Uncertainty



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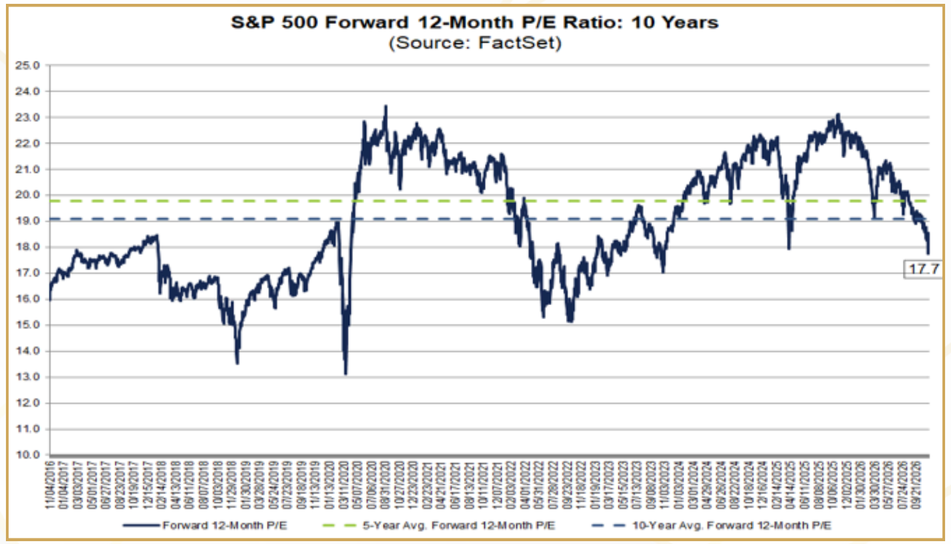
6 Technical Chart of the Month

CIO View (1/4)

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Resilience Amid Uncertainty

Markets have navigated a busy few weeks. The US midterm elections delivered a clear Democratic victory, raising questions about tighter oversight of artificial intelligence and data-centre spending. At the same time, geopolitical tensions in the Middle East kept energy prices elevated, though some risk premium has eased. Sticky inflation readings and hawkish signals from Federal Reserve officials have shifted expectations toward a rate increase in December. Through it all, the US economy has stayed resilient, corporate earnings remain solid, and investors continue to focus on AI-driven growth themes.



US Equities

US stocks have been volatile. The S&P 500 recently traded near 7,560 after a sharp sell-off in large technology names linked to election concerns and questions about AI capital expenditure returns. Earnings growth in 2026 has been exceptionally strong, helped by AI investment and higher energy prices, but is expected to slow.

Despite the slowdown, most major houses remain constructive, implying meaningful upside from current levels. Valuations have become more attractive after the recent correction, with the forward price-to-earnings ratio near 18.5 times, well below recent peaks above 23 times.

The common theme is that resilient consumer spending, healthy household balance sheets and continued AI productivity gains should support further gains, even if returns become more selective and less concentrated in a handful of mega-cap names.

Near-term risks include a more aggressive Fed path if inflation stays sticky and any further regulatory pressure on Big Tech. Given Nvidia's centrality in the AI rollout and the US economy, we are also watching for signs of contagion from the recent challenges in that Company. Opportunities lie in broadening exposure beyond pure AI hardware into software, infrastructure, financials, industrials and healthcare.

CIO View (2/4)

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Other Developed Market Equities

Outside the US, Japan stands out. Corporate reforms, wage growth and a more normal interest-rate environment support earnings. Europe faces more headwinds from energy costs and slower growth; several houses keep a neutral-to-underweight stance, while favouring selective exposure in Asia-Pacific developed markets where AI-related supply chains and domestic demand remain supportive.

Overall, **other developed markets should deliver positive but more modest returns than the US** over the next three months, with Japan offering the clearest relative opportunity.

Emerging Market Equities

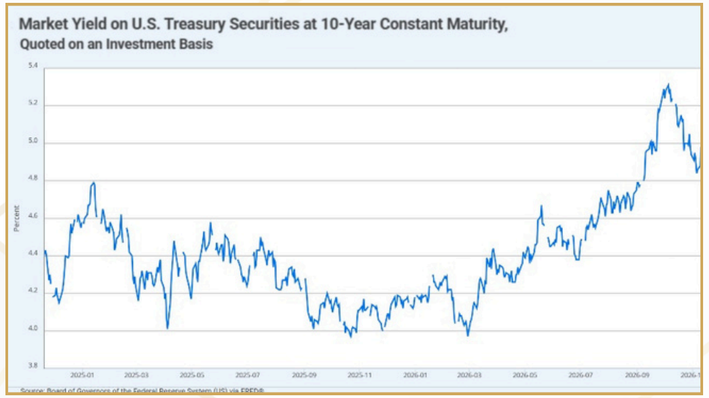
Emerging markets have shown mixed performance. Chinese equities benefited from rotation out of expensive US tech names at times, yet structural challenges persist. Broader EM indices remain supported by earnings growth in parts of Asia and commodity exporters. We see potential for outperformance if global growth holds and the dollar softens and maintain a **selective overweight, preferring markets with strong external balances and exposure to technology supply chains**.

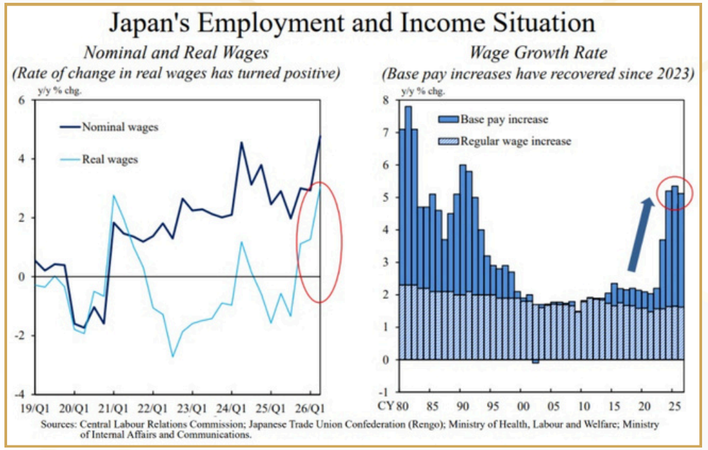
Currency volatility and higher US rates remain constraints. Selective exposure, rather than a broad overweight, looks appropriate for the coming quarter.

Fixed Income and Credit

Bond yields have risen. The US 10-year Treasury yield recently moved above 5.1%. Sticky inflation and expectations of a December Fed hike have driven the move. **Our base case is that the 10-year yield eases toward 4.7% over three months and 4.4% over twelve months** as growth remains solid but not overheating and energy prices eventually moderate.

Credit fundamentals look supportive so far. Investment-grade spreads are reasonable and high-yield markets have seen some widening that creates selective opportunities. Supply is expected to slow into year-end. **We view high-quality bonds as attractive after the recent rise in yields, offering both income and some protection if risk assets correct.** Duration can be increased but only modestly, with a preference for intermediate maturities and high-quality credit over lower-rated paper.





CIO View (3/4)

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Gold and Oil

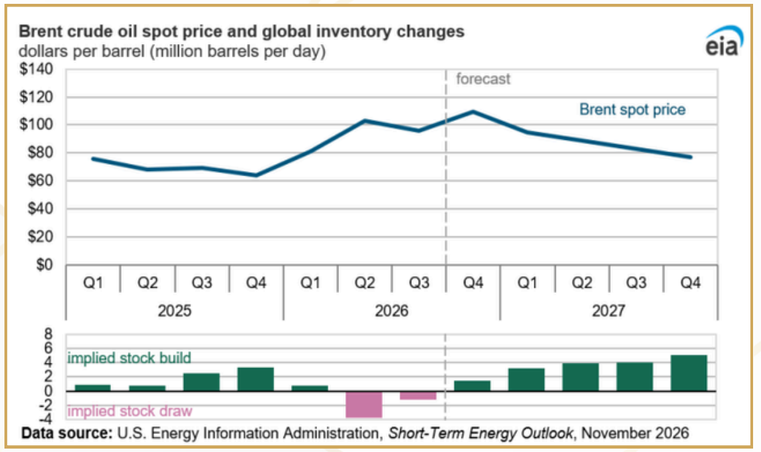
Oil prices remain elevated because of Middle East risks. Brent recently traded near $96 a barrel and WTI near $89. Our base case is for prices to moderate as supply adapts and the risk premium recedes, with a twelve-month view near $80. Of course, upside risks remain if tensions escalate in the Middle East or winter demand surprises.

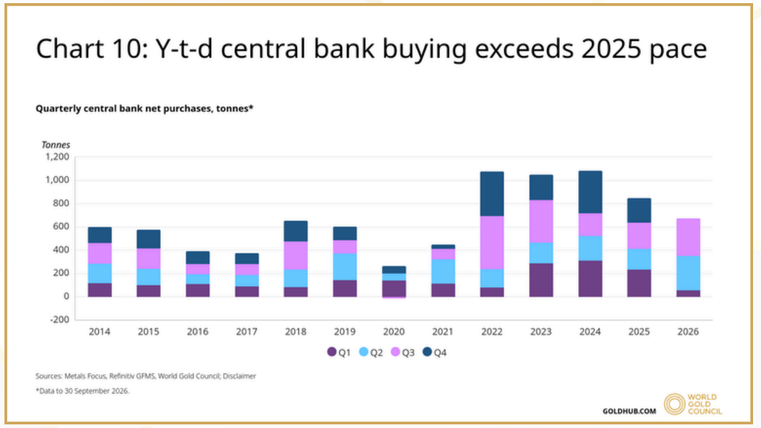
Gold has held near $3,880 an ounce. Central-bank buying continues and the metal remains a useful portfolio diversifier. Other metals such as copper also benefit from electrification, data-centre demand and constrained supply.

Three-Month Forecast Summary

The next three months should see continued volatility around Fed policy, geopolitical headlines and AI-related earnings news. US equities are expected to grind higher, supported by still-solid earnings and more reasonable valuations. Japan should outperform other developed markets. Emerging markets offer selective opportunities. Bond yields may ease modestly from recent peaks, supporting duration and high-quality credit. Gold remains favoured as a diversifier; oil is more likely to trade sideways-to-lower if supply risks do not escalate further.

Global growth is projected to stay sturdy at around 2.7–2.8% into 2027, with the US outperforming many peers. Recession probability remains low according to most major houses.





CIO View (4/4)

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Strategic Allocation for a Balanced-Risk Portfolio

For a balanced portfolio that seeks moderate growth with controlled risk, we recommend the following strategic positioning relative to a typical 60/40 equity/bond benchmark:

Equities overall: Slight overweight. Favour the US (core holding with diversification beyond mega-cap tech) and Japan. Keep other developed markets near neutral and emerging markets selective/neutral. Within equities, tilt toward quality balance sheets, financials, industrials, healthcare and utilities while maintaining measured exposure to AI infrastructure and applications.

Fixed income and credit: Neutral to slight overweight. Increase intermediate-duration government bonds and high-quality investment-grade credit. Use any further yield spikes to add. High-yield exposure should remain selective and limited.

Commodities: **Modest overweight** focused on gold as a diversifier and inflation hedge. Maintain limited oil exposure or use tactical positions given the expected medium-term moderation in prices. Copper and related industrial metals can form a smaller satellite allocation.

Cash and alternatives: Hold **a small cash buffer** for opportunities, but lower than benchmark. Consider modest allocations to liquid alternatives or multi-asset strategies that can dampen volatility.

This mix keeps equity exposure tilted toward the strongest growth engines while using bonds and gold to provide ballast. It reduces single-stock and single-theme concentration risk after the recent AI-driven moves. Rebalancing should be gradual and data-dependent, particularly around the December Fed meeting and upcoming corporate earnings.

Markets rarely move in a straight line. The combination of resilient growth, still-supportive earnings and more attractive valuations after the recent correction supports a constructive but selective stance for the months ahead. As always, individual circumstances and risk tolerance should guide final decisions.

Asset Class	Portfolio Allocation
Equities (Thematic growth)	55-60%
Commodities & Real Assets (Inflation /Geopolitical Hedge)	15-20%
Fixed Income / Credit (Stability & Income)	10-15%
Infrastructure & Alternatives (Real Asset Exposure + Yields)	10-15%
Cash / Short-Term (Dry Powder & Liquidity)	0-5%

Re-industrializing America – The First Step Towards Physical AI

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What is Physical AI?

LLM-based AI is software that understands and generates text (or code) from patterns in data, while physical AI is intelligence that senses and acts in the real world through robots or machines.

Market size

Arthur D. Little projects a best-case estimate of a 12T for the Global physical AI market and base-case estimate of $4T by 2050. By 2030, it projects a $40B-100B projection range. Morgan Stanley estimates US re-shoring to be a $10T opportunity (incremental IP and capex) by 2050.

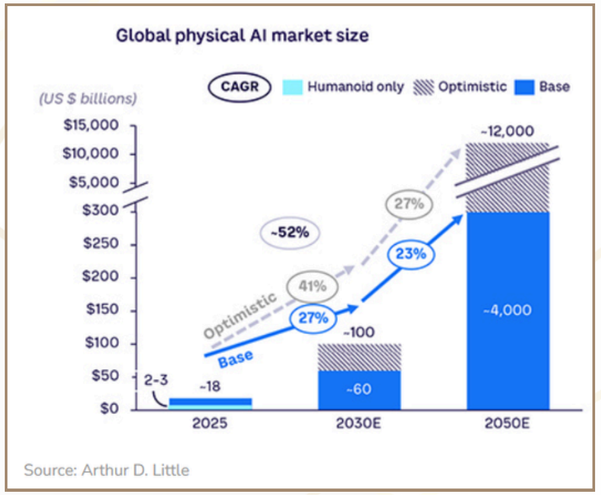
Technical Challenges facing Physical AI

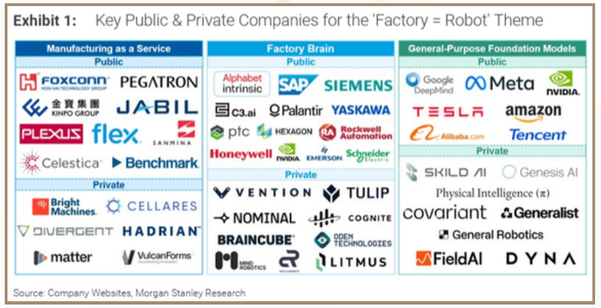
- Current AI models use text, voice, image, video as an input, reason on it and provide the output.
- Physical AI requires a deep understanding of multiple inputs at once: video, voice, language, image depth, physics, material texture and use, safety, values; to give a satisfactory result. And all of this ingestion, reasoning, action needs to happen in real time for a physical AI product to be useful. At the same time, all the parts of the robots should work in sync to be able to carry out a required task.
- Complicating this is the fact that a mistake made by a physical robot could be lethal.
- To be able to ensure real time action, the robots cannot be dependent on compute happening in a data center, it would have to be closer and ideally all the processing should happen on-device, and energy sources would also have to be built into the robot.

Our View: Focus on near-term applications

Given the mammoth challenges that are yet to be solved to achieve a fully autonomous humanoid robot, we expect that in the near term - stationary, fixed, repetitive task robots are more realistically viable. Hence, we suggest exposure to the below technologies:

- **Fixed Factory Floor Robots** – Given the move towards re-shoring, deglobalization and shortage of skilled labor; manufacturers are adopting physical automation in the form of machines/stationary robots. (See attached chart for businesses in the industry)
- **Autonomous Trucks** – Since transportation trucks mostly have a designated route, it is the prime application for self-drive technologies. Kodiak Robotics, Gatik AI, Waabi, Einride, Aurora Innovation, Waymo are a few high-profile businesses in this space.





High Oil Prices: A Growth, Inflation & Portfolio Shock

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Supply and logistics shock

- Brent +75% year-on-year — about $115/bbl on 27 Oct versus $65.75 a year earlier; roughly +13% over one month.
- Stocks down 509m barrels — global observed inventories were 509m barrels below end-February by end-September.
- Shipping and refining strained — record tanker rates and disrupted flows lifted delivered crude costs; diesel exports were 700k b/d lower year-on-year in September.

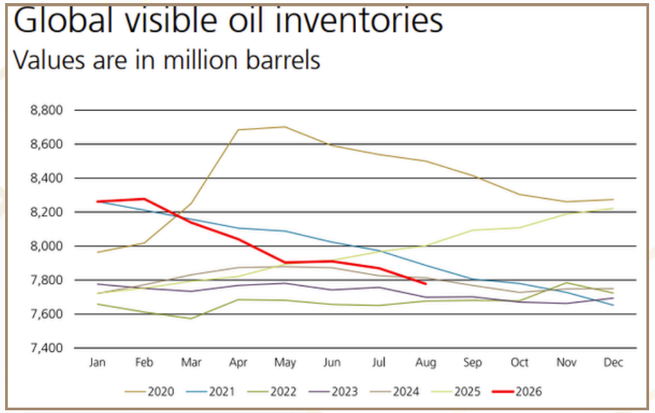
Elevated prices; demand destruction grows

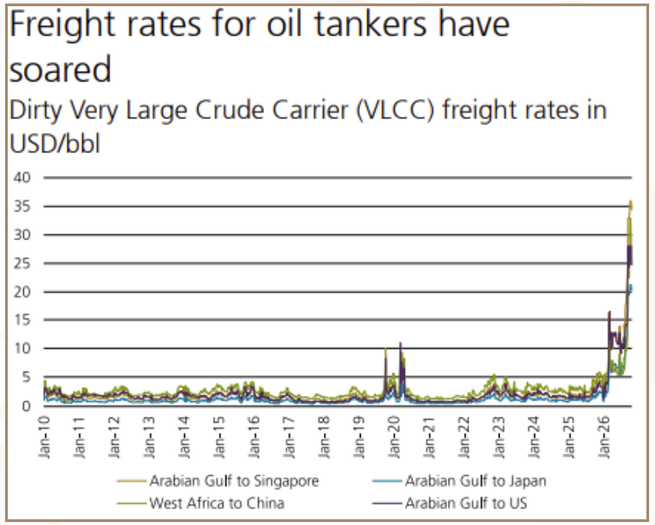
- World Bank sees Brent averaging $91/bbl in 2026 and $79 in 2027; an adverse scenario puts 2027 at $105.
- Supply recovery remains fragile — September global supply rose 2.5m b/d month-on-month to 102.3m b/d, but renewed attacks threaten the rebound.
- Oil demand forecast to fall 2.6m b/d in 2026, according to the IEA; 4Q26 demand is projected down 2.5m b/d year-on-year.

Margin pressure, sticky inflation, dispersion

- Inflation risk can delay easing — higher fuel, freight and fertilizer costs pass through to transport, food and goods; real household income is squeezed.
- Sector dispersion widens — upstream/ mid stream energy may benefit, while airlines, transport, chemicals and other fuel-intensive firms face margin pressure.

Pipeline and midstream infrastructure companies are well positioned, supported by resilient, largely fee-based transportation revenues and rising demand for energy infrastructure.





Global Logistics Since The Iran War

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In October, chartering a supertanker to carry US crude to China cost a record ~USD 80m, more than a SpaceX Falcon 9 launch (~USD 74m). It has since fallen to ~USD 45m.

What has happened to the world's shipping lanes?

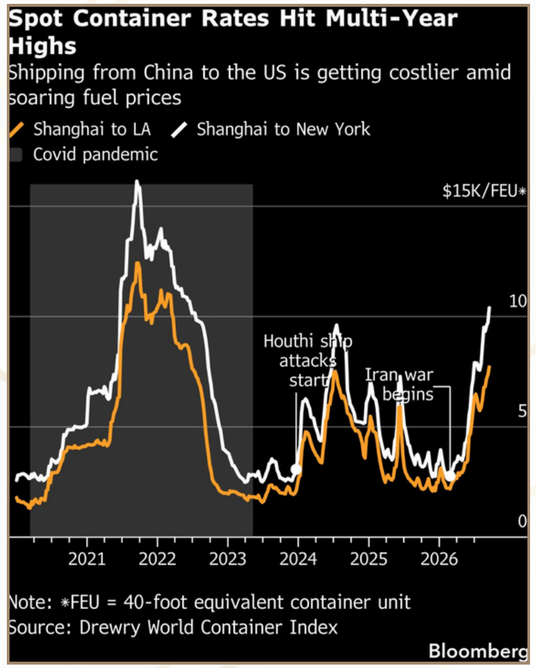
- Hormuz remains effectively closed. Before the war it carried ~20m b/d of oil, about 20% of global petroleum liquids consumption, and ~20% of global LNG trade (US EIA, 2024 data). IMF PortWatch counted 3.9 transits a day in the week to 8 November, against ~85 a day before the war. Iranian strikes hit at least 16 tankers in the first half of November.
- The Red Sea is moving the other way. Bab el-Mandeb tonnage is up 43% y/y but still 46% below October 2023. Drewry counted 53 Suez Canal transits in the week to 12 November.
- Gulf trade has been pushed onto land and alternative ports. DP World has moved ~1m TEU through alternative corridors. Its Jeddah South Container Terminal (capacity 4m TEU) has set throughput records.

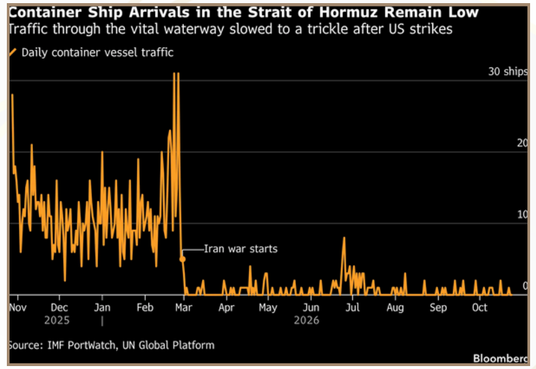
Why has a Gulf war raised freight costs everywhere?

- Container costs are well above pre-war levels but past their peak. The Drewry World Container Index fell 2% to USD 4,305/FEU on 12 November. Shanghai–New York is at USD 9,020/FEU (lowest since August) and Shanghai–Rotterdam at USD 3,504/FEU.
- Tanker costs went parabolic. Clarksons recorded record average VLCC earnings of USD 805,000/day. The US Gulf–China delivered freight cost reached ~USD 40/bbl in October, against ~USD 8.60/bbl before the war.
- War-risk insurance alone now prices out many voyages. A single Hormuz transit costs 6–10% of hull value, against ~0.25% before the war (Marsh), or up to USD 20m for one supertanker voyage.

Who has gained, and who is paying?

- Carriers and forwarders are earning windfall profits. COSCO's Q3 net profit rose 81.9% y/y, and Maersk raised its 2026 EBITDA guidance to USD 14.0–14.5bn. Kuehne+Nagel's Q3 EBIT rose 53% to CHF 435m.
- Tanker investors have done best of all. The Breakwave Tanker Shipping ETF (BWET) started 2026 at ~USD 18 and closed at USD 618.68 on 13 November, up more than 3,000% YTD, though ~40% below its October peak above USD 1,000.
- Gulf hubs are bearing the cost. Jebel Ali handled 374,000 TEU in Q2, down 90.1% y/y, and DP World's H1 profit fell 39.1%. War-risk claims of USD 2–3bn exceed the segment's USD 1.5–2bn annual premium.





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Global Logistics: The road ahead

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The midterms raise the odds of a Hormuz deal. That matters more for freight in 2027 than any tariff change.

What the midterms change

- **A deal is more likely.** From 3 January a Democratic Congress controls war funding and oversight. Qatar-mediated US–Iran talks have sped up since the vote, and Brent fell about $30/bbl.
- **Tariffs and China-focused maritime policy stay.** Democrats cannot override a veto, and the policy on Chinese-built ships has support from both parties.

Freight in 2027

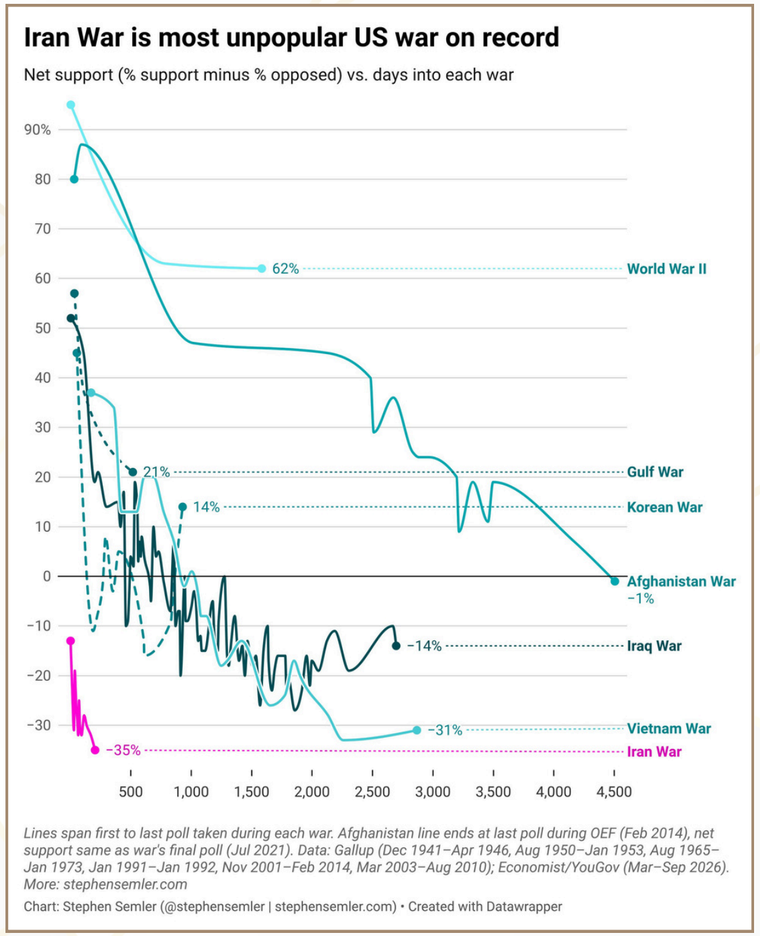
- **Supply outruns demand.** BIMCO expects 9% fleet growth in 2027 against 0.5–4.5% demand growth. Drewry expects Suez transits back to 80% of pre-diversion levels by February, which frees about 5% of fleet capacity.
- **The Gulf recovers more slowly.** The IMF assumes Hormuz reopens gradually from March and returns to normal by October 2027. VLCC rates are already more than 50% below their October highs.

Winners and losers

- Shippers, consumers and Gulf hubs gain as rates fall. Carriers and tanker owners give back their 2026 windfall.
- Saudi Red Sea ports, Omani ports and the land corridors keep the customers they won, because shippers will hold on to them as insurance.

Our view:

Our central case is a negotiated reopening of Hormuz in H1 2027, in line with the IMF's March assumption. The main risk is escalation before the new Congress sits. East–West rates and carrier earnings fall as Suez capacity and new ships arrive. The Gulf follows once war-risk pricing catches up. We favour asset-light forwarders, diversified port operators and the GCC's new gateways over exposure to freight rates.



Defence: Where are spends going, and who benefits

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Structural shift in global defence spending

For three decades, post the Cold War, defence was a seen as a stable component of government budgets – that is an assumption undergoing a significant change. Conflicts and tensions around the world, rapid advances in technologies, and a recognition that countries need their own industrial capabilities to rely less on existing supply chains, are leading to a resurgence in spending. Defence spending is slated to land at 2.5% of global GDP in 2026, the highest level seen since 2009, and NATO has committed to raising defence spending to 5% of GDP by 2035

What is driving the spending?

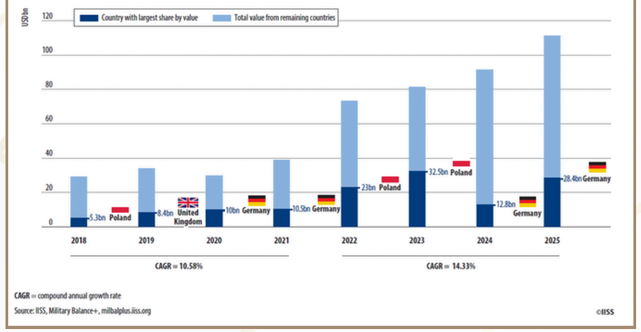
- **Replenishment of inventories:** Conflicts have demonstrated how quickly stocks of missiles, artillery ammunition and other consumables can be exhausted. Governments increasingly recognise that having sophisticated weapons systems is insufficient without the capacity to produce and replenish them at scale.
- **Modernisation of existing forces:** Many militaries face substantial requirements in aircraft, air defence, naval vessels, armoured vehicles and communications infrastructure. These are typically long-duration procurement programmes, potentially supporting contractors for many years.
- **Changing military technology:** Drones, autonomous systems, electronic warfare, artificial intelligence and integrated missile defence are becoming central to military planning. This creates opportunities for specialist technology companies alongside traditional defence contractors.

What parts of the industry stand to benefit?

- **Missiles, ammunition and air defences:** Driven by inventory replenishment and new air-defence installations.
- **Drones, autonomous systems and counter-drone technologies:** Lower-cost unmanned systems are changing the economics of warfare. Autonomous aircraft, surveillance, electronic warfare and counter-drone technology
- **Sensors, electronics, space and communications:** Modern defence increasingly depends on detecting threats, sharing information and coordinating responses. This creates opportunities in radar, infrared sensing, electronic warfare, secure communications and space-based surveillance

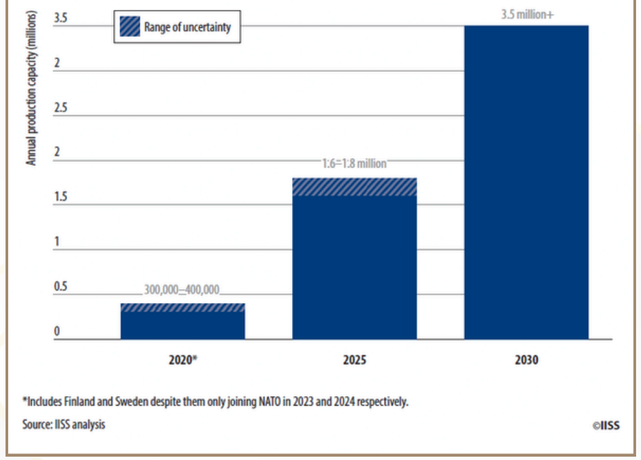
Invest in NATO, DFNS for exposure to these themes.

Figure 1.1: **NATO Europe: selected defence-procurement contracts, 2018–25 (USDbn)**



CAGR = compound annual growth rate
Source: IISS, Military Balance+, milbalplus.iiss.org
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Figure 1.2: **NATO Europe: estimated annual 155mm-ammunition-production capacity, 2020–30**



*Includes Finland and Sweden despite them only joining NATO in 2023 and 2024 respectively.
Source: IISS analysis
©IISS

Defence: Missiles, Air Defence and Ammunition

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Conflicts have exposed the gap between munitions consumption and replenishment capacity. Multiyear orders and factory expansion are turning defence priorities into a longer-duration industrial investment cycle.

Air & missile defence

PAC-3, THAAD and naval interceptors benefit from inventory rebuilding and additional air-defence deployments.

Demand spans interceptors, radar, tracking and command systems.

Precision missiles

GMLRS, PrSM, AMRAAM and Tomahawk address replenishment and demand for long-range precision strike.

Higher output requires propulsion, guidance and electronics capacity.

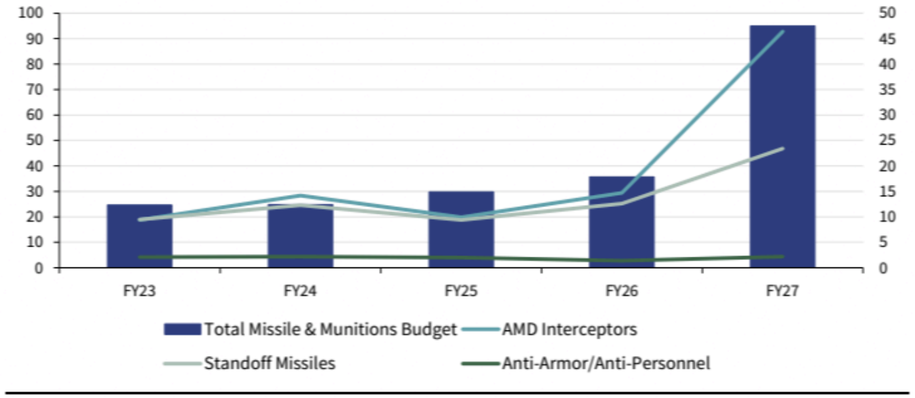
Artillery & ammunition

155mm artillery and other munitions are seeing investment in new production lines.

Critical constraints include propellants, explosives, shell bodies and skilled labour.

Investment Lens: Production execution, supply-chain bottlenecks and cash conversion matter as much as order growth.

Fig 7: Missiles and munitions budget increases (LHS, $m) and total obligation authority for air and missile defence (AMD) interceptors, standoff missile and anti-armour/anti-personnel missiles (RHS, $m)



Source: Rothschild & Co Redburn, CSIS, Under Secretary of War (Comptroller), Ursa Major

ILLUSTRATIVE LISTED BENEFICIARIES	
LMT	PAC-3, THAAD, GMLRS and PrSM
RTX	SM-3, SM-6, AMRAAM and Tomahawk
LHX	Rocket motors and propulsion
Rheinmetall	Artillery ammunition and air defence
BAE Systems	Munitions and MBDA missile exposure

Technical Chart of the Month

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NASDAQ 100



S&P 500



We view Thursday's (5 November) correction as unusually sharp. Declines of this magnitude, particularly those closing at the lows, have historically been followed by a further sell-off, which has yet to materialise.
Nasdaq: The rebound has been equally sharp. Should a further sell-off occur, we expect support to hold at 26,500 / 26,200.

S&P 500: A similar pattern is evident. Supports are at 7,293 / 7,237, and the index has also rebounded strongly while still awaiting a retest in the near term.

Fundamentally, there is nothing wrong with the underlying companies, all of which delivered strong Q3 2026 results.
Strategy: Clients can look to add quality technology names to their portfolios on a name-by-name basis, or consider 12-month non-levered accumulators, subject to portfolio suitability.

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