Market Watch

Are we close to a bottom?

Summary

Event: Markets corrected sharply on Friday, with the S&P 500 down 3.7% and the Nasdaq 100 down 5.7%, while the VIX surged above 35. Most sectors ended lower, although defensives such as healthcare and consumer staples fared better. At the industry level, semiconductors once again led the losses, falling more than 10%. Gold also declined sharply as systematic selling added to the pressure, while bonds gained in flight to safety.

Our View: While we acknowledge company-specific risks and downside risk to consensus AI capex estimates, much of this risk now appears to be priced in. We, therefore, recommend investors avoid overreacting and stay invested, while using elevated volatility through structured strategies and selectively building exposure to quality assets, including our latest opportunistic idea, US mega caps. A diversified multi-asset portfolio, including bonds, would serve as a strong foundation to weather market volatilities.

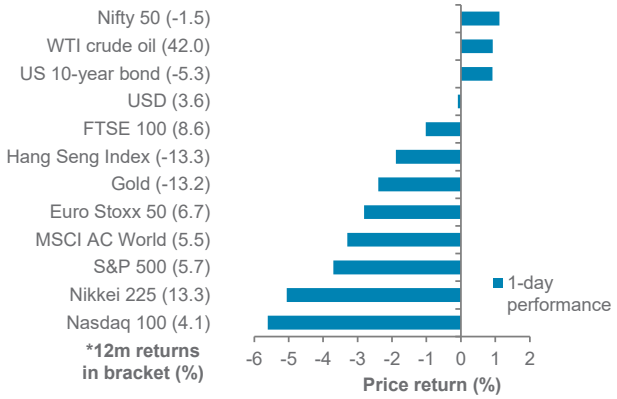
What is driving the sell-off?

With most valuation and sentiment metrics flashing oversold conditions, it appears that the market has moved beyond the traditional investment framework, with panic now driving the selloff as the typical policy support, or "Trump put," remains absent so far. During previous sharp corrections, such as the tariff-driven sell-off in 2025, or the pandemic shock in March 2020, a change in policy provided support to markets and helped trigger a sharp rebound. At this stage, not only is policy support missing, but headlines such as a potential SEC investigation into Nvidia are adding uncertainty.

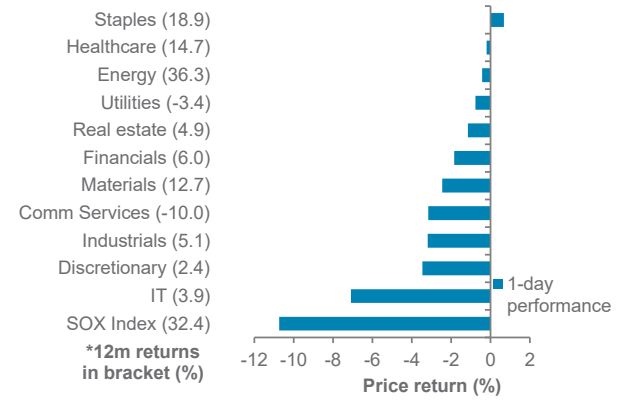
The ongoing correction remains largely centred on the AI theme. We have been arguing that there is 10-15% downside risk to consensus AI capex estimates, or roughly USD 200bn lower per annum. However, the roughly USD 3trn erosion in global semiconductor market capitalisation this month alone suggests the market is already discounting a more severe outcome.

US equity markets corrected sharply on Friday, 20-Nov

Asset performance: 19-Nov close to 20-Nov close



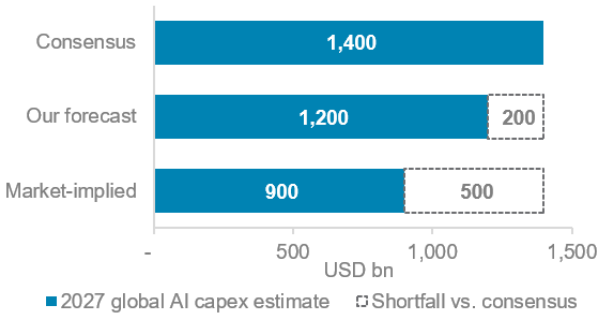
MSCI US sectors and Semiconductor Index (SOX Index)



Source: Bloomberg, Standard Chartered

We see downside risk of USD 200bn per annum to AI capex estimates, while markets on Friday are pricing in USD 500bn of cuts

Various scenarios for AI capex in 2027



Source: Bloomberg, Standard Chartered

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What can calm investor concerns?

We believe **three factors** could help: clearer **visibility around interest rates**, greater **clarity on neocloud AI capex** trends as several industry conferences take place over the next few weeks, and improved **visibility around Nvidia's leadership** given its critical role in the AI industry. Traditional support signals, such as the VIX reaching 25-30 or market drawdowns exceeding 10%, have failed to deliver this time. The Nasdaq 100 is already around 20% below its peak, while the S&P 500 is down over 10%. While it is difficult to call a bottom, the S&P 500 has historically delivered strong positive returns on average after a 10% drawdown, over the next 6-12 months.

Stay invested as structural growth is on sale

Last month, we downgraded global equities to Neutral as markets transitioned into a mid-cycle environment. Even by our conservative standards, however, the current correction looks excessive. We recommend investors avoid overreacting and stay invested, as the fundamental backdrop remains supportive.

At current levels, we estimate the market is effectively discounting around USD 500bn per annum of cuts to consensus AI capex estimates, considerably more than our roughly USD 200bn downside scenario. Such an outcome would effectively imply that most remaining AI capex is directed toward inference, with only limited spending on training. In our view, this is at odds with how the AI industry is progressing, particularly given the strong training pipeline and intensifying race toward Artificial General Intelligence.

At the same time, AI adoption continues to expand across both enterprises and consumers, with US AI adoption reaching around 25% based on the latest October data. We estimate this growth could require an additional 15-20GW of inference capacity, equivalent to roughly USD 700-900bn per annum of investment. Against this backdrop, the downside risks to consensus capex estimates appear manageable. Greater clarity around these numbers at upcoming industry conferences should help ease investor concerns.

While we expect sanity to eventually prevail and investors to stop indiscriminately selling good business models, we continue to advocate diversification. During the Q1 and Q3 2026 sell-offs, we pounded the table on semiconductors and introduced an opportunistic idea on the industry. This time, while acknowledging that value has clearly emerged, we prefer adding exposure through more diversified opportunities such as US IT and our recently-introduced US mega-cap ideas. We still expect a moderate reduction in consensus AI capex estimates, which argues for remaining selective within semiconductors. Investors in US equities should also be diversified across sectors (table on right). We

Since 2010, there have been nine drawdowns of 10% or more in the S&P 500. Average returns over the next 6-12 months have been 9-15%, with negative returns in one instance, 2022

Drawdowns of 10% or more in the S&P 500 since 2010

	Peak date	Days to -10%	Max drawdown	Return post 10% drawdown 6m	12m
1	23-Apr-10	27	−16.0%	10.0%	24.4%
2	29-Apr-11	97	−19.4%	9.4%	15.9%
3	21-May-15	95	−14.2%	2.8%	15.5%
4	26-Jan-18	13	−10.2%	10.7%	4.9%
5	20-Sep-18	64	−19.8%	8.5%	19.0%
6	19-Feb-20	8	−33.9%	15.6%	27.9%
7	3-Jan-22	50	−25.4%	-3.9%	-7.3%
8	19-Feb-25	22	−18.9%	17.9%	20.1%
9	6-Oct-26	45	−11.6%*	na	na
	Average	**47**	**-18.8%**	**8.9%**	**15.1%**
	Median	**45**	**-18.9%**	**9.7%**	**17.5%**

Source: Bloomberg, Standard Chartered. *Up to 20-Nov-2026

US mega caps is our new opportunistic idea to gain exposure to high-quality companies on sale

Equity opportunistic ideas: Adding US mega caps

Region	Idea
Global	Global High Dividend
US	US Mega Caps*
	US Healthcare
	US Information Technology
Europe	Euro Area Banks
	MSCI Switzerland
Asia	Japan Banks

Source: Standard Chartered. * Denotes new idea, with performance measured based on the S&P Top 20 Select 35/20 Capped Index

Diversify across sectors during mid-cycle

The four growth pillars of the S&P 500

	Technology	Financials & Real Estate	Resources	Healthcare & others
Preferred US sectors	**Information Technology**	**Financials**	**Materials**	**Healthcare**
Other exposures	Comm.. Services Consumer Discretionary	Real Estate	Industrials Energy Utilities	Consumer Staples Others
Share of S&P 500 2027 EPS	48%	18%	20%	14%

Source: FactSet, Bloomberg, Standard Chartered

see four key sector blocks in our framework for the S&P 500. We are overweight on US information technology (IT), US Financials, US Materials and US Healthcare, drawn from each of the four key sector blocks.

Gold – Still waiting for a bottom. Gold depreciated sharply to just under USD 3,600/oz last week, likely reflecting forced liquidation and margin calls as equity losses deepened. With our 3-month price target at USD 4,000/oz, we will be closely tracking market technical levels and investor positioning to get a sense when we reach a near-term bottom. Fractal signals seem to indicate the risk of a reversal may be looming. We will issue another Market Watch should these indicators emerge.

FX – USD nearing a peak. The USD looks like it may be near a peak in this current cycle on peak Fed hawkishness and we retain our 12-month target of 98.5 on the DXY, which also supports our constructive gold price target of USD 4,500/oz in 12 months.

Bonds – Providing better diversification benefits. US government bonds have resumed their negative correlation to risk assets and we continue to recommend an allocation to the 3-to-7-year tenor for high-quality corporate credit. Any rebound in risk sentiment could see the 10-year US government bond yield return to our 3-month target range of 5.00 to 5.25%, which we believe would be attractive for investors.

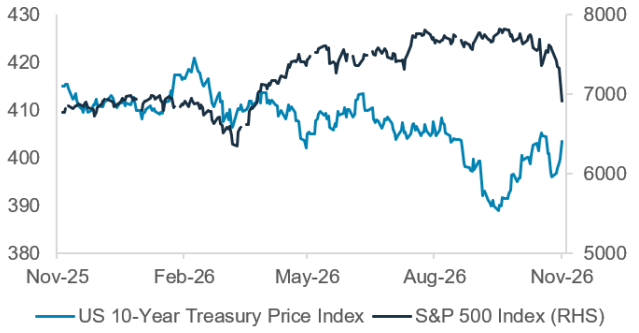
— Sundeep Gantori, CFA, CAIA *CIO, Equities*

— Jonathan Liang, CFA, *CIO, Fixed Income & FX*

— Fook Hien Yap, *Senior Investment Strategist*

Bonds have once again become a risk diversifier

S&P 500 Index vs US 10-Year Treasury Price Index



Source: Bloomberg, Standard Chartered

Investor diversity in Gold and EUR has fallen below a key threshold

Our proprietary market diversity indicators as of 20 Nov close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.93
Global Equities	◐	↓	1.30
Gold	○	↓	1.25
Equity			
MSCI US	◐	↓	1.36
MSCI Europe	◐	↓	1.30
MSCI AC AXJ	◐	↓	1.29
Fixed Income			
DM Corp Bond	●	↑	1.94
DM High Yield	◐	→	1.42
EM USD	◐	→	1.47
EM Local	◐	↓	1.39
Asia USD	●	↑	1.69
Currencies			
EUR/USD	○	↓	1.18

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ◐ Low to mid | ○ Critically low

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