azimut

AZIMUT GLOBAL VIEW

24. 11. 25

Azimut Global Network

- Milan
- Abu Dhabi
- Austin
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- Luxembourg
- Mexico City
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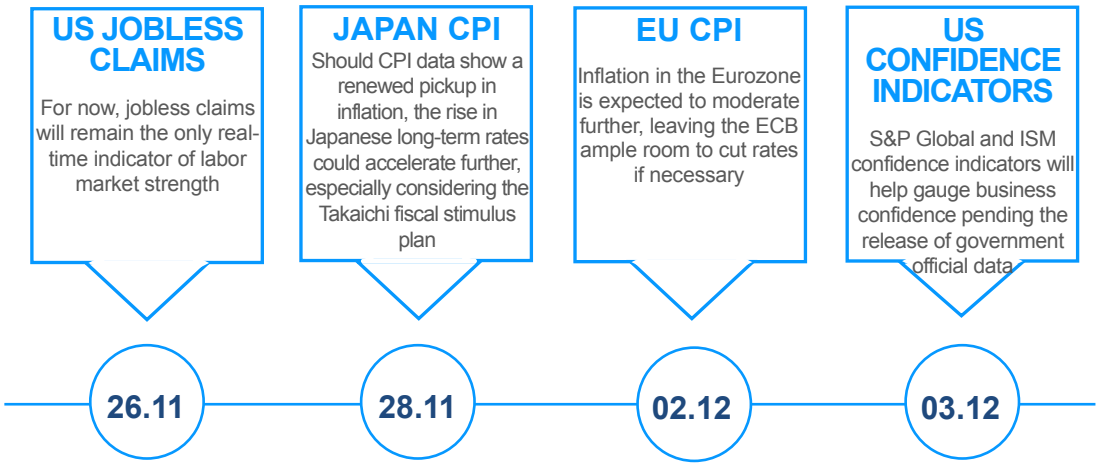
- New York
- Santiago
- São Paulo
- Shanghai
- Singapore
- St Louis
- Sydney
- Taipei

Main Events



NO REASON TO WORRY…YET

- **Stock markets suffered a correction in early November, driven by companies linked to artificial intelligence**
- **A retracement was overdue given the strong rebound since the April low. However, for the first time since the rise of AI, the market has focused not only on the growth potential of these companies but also on certain vulnerabilities related to the substantial investments required for AI development**
- **Nevertheless, hyperscalers remain unaffected by these concerns, and still have room to grow, thanks to margins that are expected to remain remarkably high**

After six months of an uninterrupted bull market, the market experienced bouts of volatility in November, particularly in retail-favorite companies, causing some pain to investors. Despite another strong reporting season, as discussed in the previous report and confirmed by Nvidia's figures last week, the stocks that have undergone the largest corrections in recent weeks are, in most cases, those related to artificial intelligence.

On one hand, a correction was overdue, considering the magnitude of the rally from April's lows. Valuations for AI-related stocks had become so stretched that even substantial "beats" proved insufficient to keep them rising. On the other hand, several unexpected factors also contributed to the pullback. For the first time since artificial intelligence became mainstream in early 2023, the narrative surrounding it has shifted. First, the circular nature of many deals in the sector was questioned, due to fears that companies' numbers could be artificially inflated. Then, assumptions about the future profitability of these massive investments were challenged. Finally, concerns increased that financing such large expenditures — particularly through debt issuance — could lead to a deterioration in creditworthiness.

One indisputable strength of hyperscalers, which has always been used as a distinguishing factor compared to the internet bubble of 2000, is that these companies have always been extremely profitable and had no debt. On the contrary, they generated enormous cash flows to finance their growth and conduct sizable buybacks, further supporting EPS growth.

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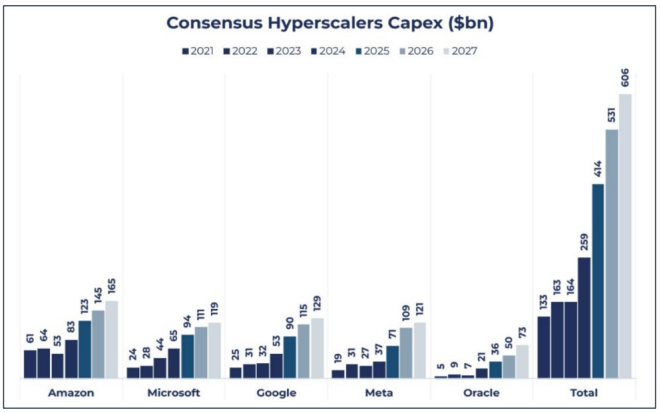
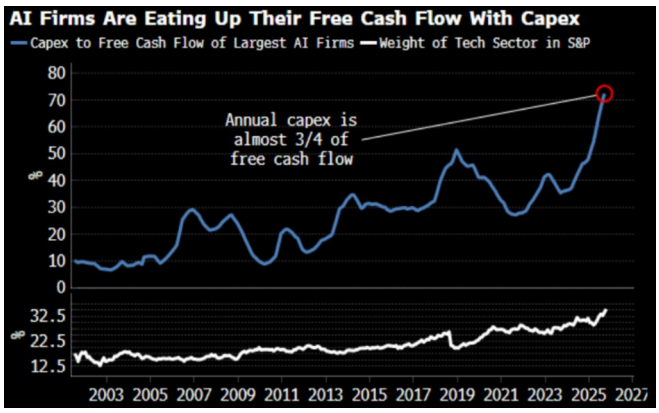
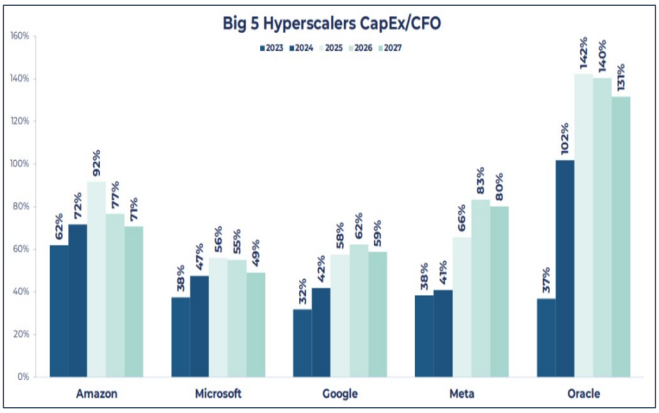


Source: Guinness Global Investors, Bloomberg

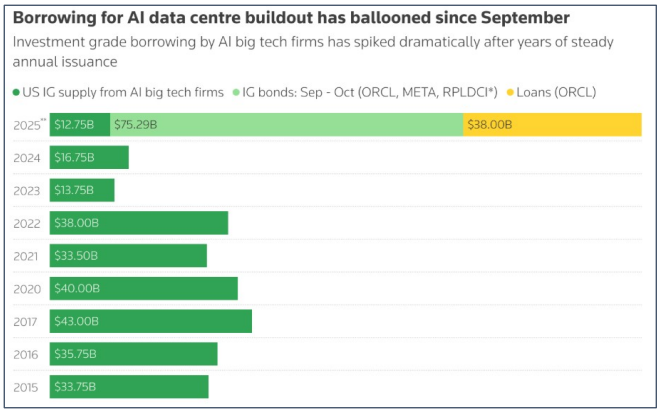


Source: Bloomberg

But over time, companies have committed to an exponential increase in capital expenditure in an effort to position themselves as the ultimate winners in the race for artificial intelligence. However, investments in AI are absorbing an ever-increasing share of the free cash flow generated. While these capex levels remain sustainable for hyperscalers, for many other companies the investment requirements are so demanding that cash flow is no longer sufficient, leading to a growing reliance on debt, particularly since September.

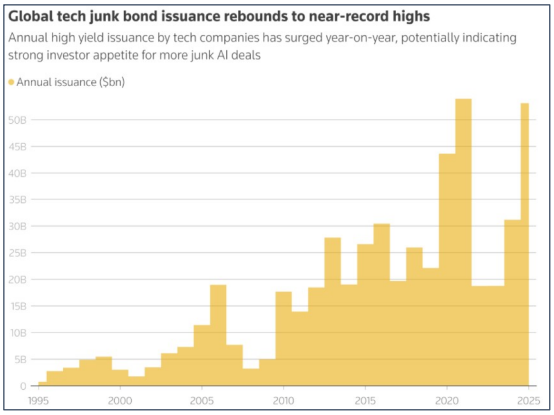


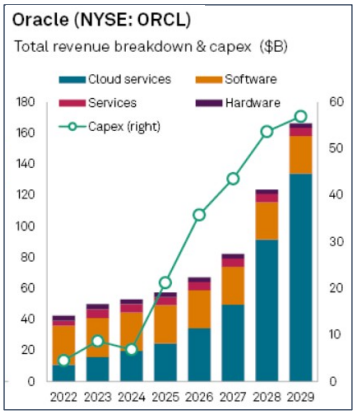
Source: Guinness Global Investors, Bloomberg

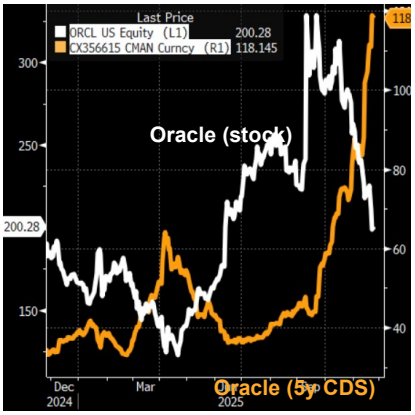


Source: Reuters, BofA Global Research

While signs of unease with this explosion in debt issuance have so far been felt mainly among companies with lower credit ratings (junk), there is one notable exception that was probably behind the recent correction in AI stocks: Oracle. Back in September, Oracle announced that it "signed four multi-billion-dollar contracts with three different customers", resulting in "RPO *[note: remaining performance obligation — a measure of contracted sales yet to be recognized]* contract backlog increasing 359% to $455 billion." This will require a threefold increase in capex relative to 2025 levels, part of which will have to be financed through debt. Oracle's share price rose as much as 40% on the news, only to fall back below the announcement day level as its CDS started to spike up.







Source: Reuters, Dealogic. Data as of October 30, 2025 *Source: S&P Global* *Source: Bloomberg*

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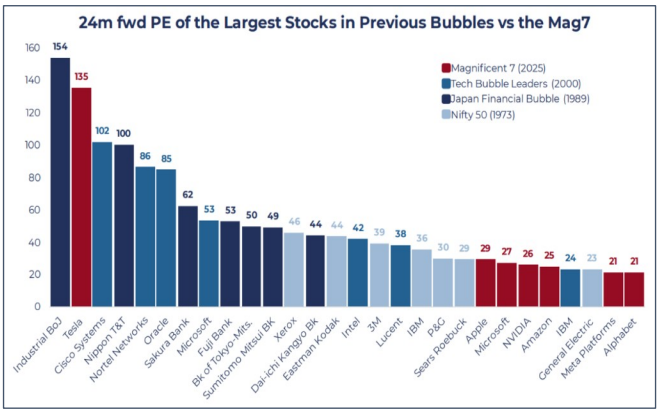


Source: Guinness Global Investors, Goldman Sachs

Source: Bloomberg

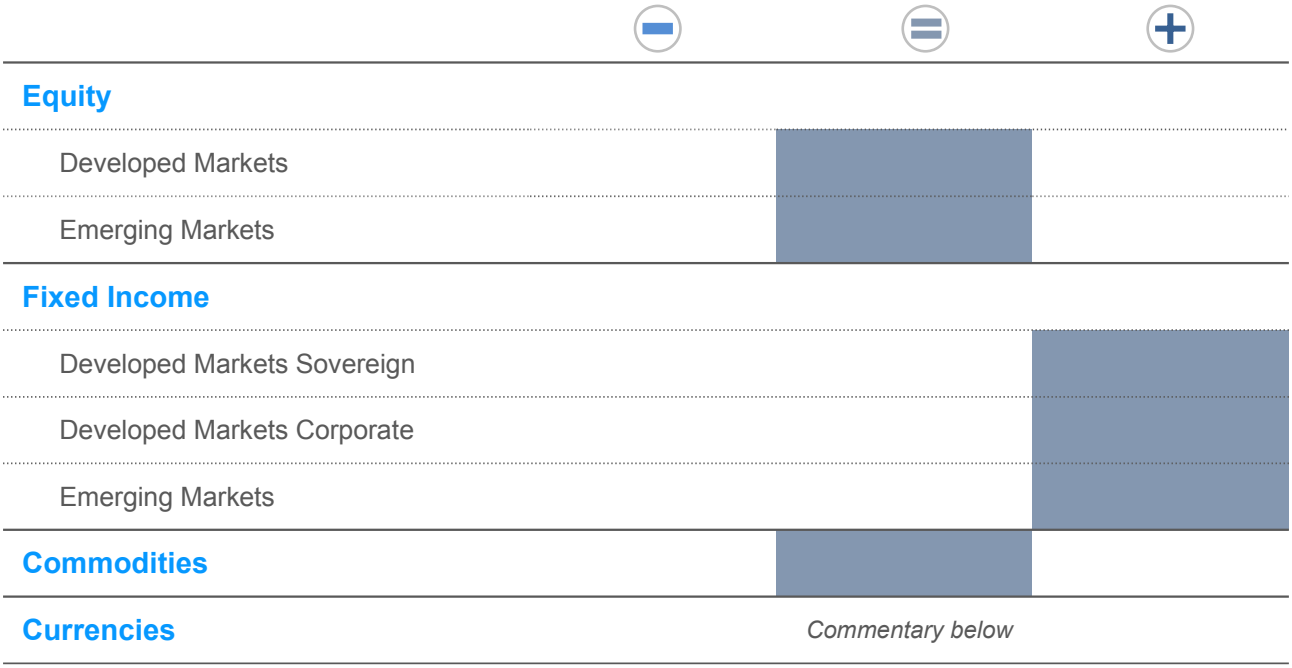
So, should we start worrying? The answer is no, at least for now. Recent events, however, could signal the end of the first phase of Artificial Intelligence development, namely the one in which the AI wave lifted all boats.

Until now, companies involved in AI have enjoyed multiples as if each of them could be the ultimate winner, or one of the few, in the AI race, which cannot be true by definition. In other words, while it is entirely plausible that some of these companies will prove to be excellent investments, despite currently trading at high multiples, if they turn out to be among the few selected winners, it is impossible to argue that all companies will collectively emerge as winners. For many, the future could end up being very different from current expectations.

From now on, it may be essential to be selective and carefully evaluate the prospects of each individual company. The major players in the AI sector may continue to be favoured, given their dominant position, their diversification into several other business areas, and their significant cash generation. Furthermore, looking at the 24-month price-to-earnings ratio, the current valuations of the Mag7 (excluding Tesla, which, by the way, is the only company among them that has little to do with AI) are at acceptable levels and well below the heights reached by other companies in previous speculative bubbles.

However, when other indicators such as the price-to-sales ratio are considered, valuations appear significantly higher, suggesting caution. The link between the price-to-earnings ratio and the price-to-sales ratio is profit margins, which are currently substantially higher than normal levels for technology companies. As long as the major players continue to focus on building AI infrastructure and maintain a high level of capital expenditure, there is no significant risk of a sustained correction. However, when major players start competing with each other—which is to be expected sooner or later—margins could return to more normal levels, negatively impacting the price-to-earnings ratio. However, at this stage and given investors' bullishness, this does not yet appear to be a significant concern.

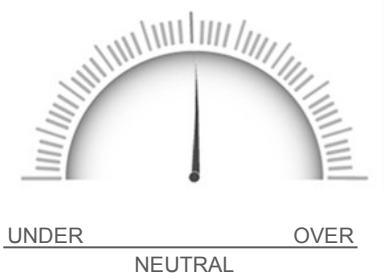
Asset Allocation View



UNDER NEUTRAL OVER

Equity

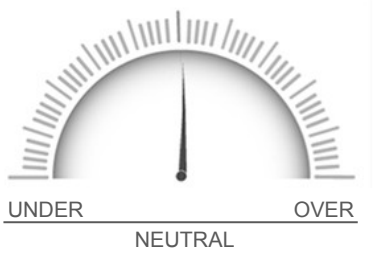
Developed Markets



Our stance on Developed Market equities remains Neutral. Elevated valuations and the strength of the post-April rally still point to potential volatility, though seasonal trends offer support. Committee views are divided: one group sees current conditions as an opportunity to accumulate ahead of a possible year-end move higher, while another believes that the ongoing correction might extend further due to concerns about valuation. Over the medium term, however, the committee's view is that equity market has the potential to rise to new highs. We maintain our recommendation for broad diversification across sectors and regions

US	Europe	Japan

Emerging Markets

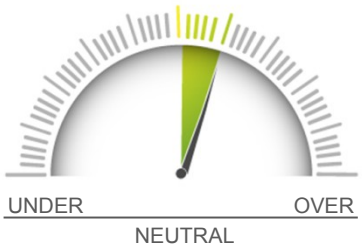


We reaffirm our Neutral stance on Emerging Market Equities, with China remaining the primary driver of the outlook. Macroeconomic indicators increasingly confirm a marked slowdown in China's economy, and without substantial government fiscal intervention, a sustained recovery appears unlikely. This reinforces near-term uncertainty for emerging markets, while simultaneously creating potential upside should policy support materialize. Despite these risks, emerging-market valuations continue to trade at a notable discount to developed markets, offering selective opportunities. Geopolitical consideration, continue to warrant close monitoring

Asia ex-Japan	EEMEA	LATAM

Fixed Income

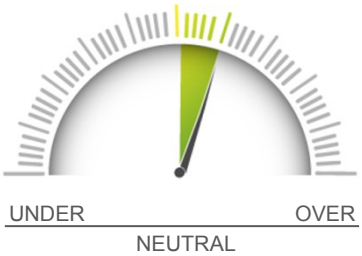
Developed Markets Sovereign



We maintain our **Slightly Overweight** stance on Developed Market sovereign bonds. Rate volatility has moderated, and we expect the current trading range to remain largely unchanged before year-end. We continue to prefer the portion of the curve until the 10-years, where risks are more contained. We remain cautious on longer-dated securities, where volatility is likely to remain high as a result of two opposing forces: on the one hand, upward pressure on rates whenever concerns about fiscal slippage emerge, and on the other, downward pressure should fears of an economic slowdown materialize.

EU Core	EU Periphery	US Treasury	Japanese JGB

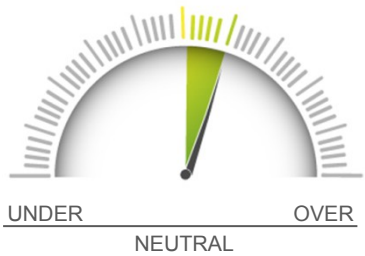
Developed Markets Corporate



We maintain our **Slightly Overweight** recommendation on Developed Market corporate bonds. Demand for credit remains robust, and spreads have tightened to record lows. Although the U.S. labor market is showing some early signs of softening, it is not advisable to remain underweight credit given the continued resilience of the U.S. and European economies. We continue to recommend a focus on high-quality issuers, while avoiding excessive exposure to high-yield instruments.

IG Europe	IG US	HY Europe	HY US

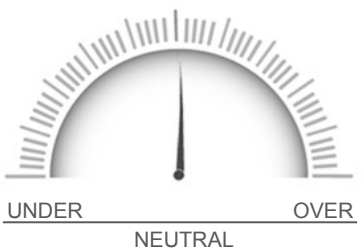
Emerging Markets



We maintain our **Slightly Overweight** recommendation on Emerging Market Bonds. The rapid narrowing of spreads in developed market bonds leaves emerging market spreads comparatively more attractive versus similarly rated developed issuers. U.S. dollar weakness and ongoing diversification away from U.S. assets by international investors can further support capital flows into emerging markets. Valuation remains compelling across much of the asset class and still offers a higher source of yield for investors seeking income without taking on excessive credit risk.

Local Currency	Hard Currency IG	Hard Currency HY

Commodities



We maintain our **Neutral** recommendation on Commodities. Within the asset class, recent price action has been marked by unusually strong volatility over the past few weeks after the huge increase over the past months. We therefore prefer to wait for the asset class to settle before raising our recommendation back to overweight, as our medium- to long-term outlook remains positive.

Precious	Energy	Industrial	Agricultural

Currencies

We acknowledge the possibility of a continuation of the short-term rebound in USD, driven by temporary shifts in market sentiment or adjustments in interest rate expectations; therefore, we maintained our **Neutral** recommendation on the greenback waiting to act after clarification on monetary policy at the next FED meeting.

The view on the Euro remains as **Neutral.**

We have maintained our **Neutral** stance on the **Chinese Renminbi**, awaiting more clarity on the outcome of the ongoing trade negotiations with the United States, as well as on the potential announcement of futher stimulus.

The outlook for other **emerging market currencies** has been confirmed as **Neutral with a bullish bias**. The massive YTD outperformance of emerging debt strategies has been gaining momentum among investors, despite the uncertainties still surrounding trade relationships.

Euro	USD	CNY	Other EM
=	=	=	+