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The virtues of rediscovered diversification.

The world economy has continued to confound the gloomiest forecasts. Indeed, despite the convergence of at least three shocks – trade and geopolitical tensions, the rising cost of capital and surging commodity prices – the IMF is expecting the economy to grow at a pace of 3.1% in 2026, before gathering speed and expanding by 3.4% in 2027. **Until now, investments in technology have partly offset the impacts of the energy shock, while corporate profits and the wealth effects of recent years have continued to support massive inflows into equity markets. This trend remains, however, vulnerable to ongoing geopolitical tensions, inflationary pressures and regulatory uncertainties** that could affect the technology investment cycle in the wake of the mid-term elections.

This resilience - driven by an economic regime in the United States one could refer to as "hyper-growth", based on its nominal growth above 6 per cent - has enabled us, on the one hand, to look further than the friction observed in recent months between inflation and innovation, and on the other, to maintain our equity overweight. **However, we are shifting our allocation in two directions: we are diversifying investments which until now, had been deeply concentrated within the US market and American artificial intelligence, and are returning to bonds**, where the yields and diversification characteristics are now much more attractive.

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Our view on the **economic potential of artificial intelligence remains positive**, despite questions regarding the profitability of the investments made. The fundamentals of demand remain strong, as demonstrated by the historic series of upward revisions to the Capital Expenditure (CAPEX) estimates of the world's largest technology companies: growth forecasts for 2026 have been upped from 84% to 96% since the last earnings season, while estimates for 2027 have been revised from 23% to 37%. **Nevertheless, the roll-out of these capabilities may prove less straightforward than expected: in some regions, the expansion of data centres is now coming up against challenges relating to local acceptance, energy availability and regulatory issues.**

In this respect, Nouriel Roubini's optimism seems rather incongruous, as he expects the convergence of AI, robotics and other innovation to bring annual growth in the US from 2 to around 4% by the end of the decade. Yet demand is starting to outline the economic potential of AI. According to the Ramp index, almost 56% of sample companies are now paying for AI-related services, while only 2.2% of US households monitored by PNC are said to have subscribed to fee-paying services. This contrast suggests a considerable potential for monetisation within the retail segment, though multiple free offers and competition from China could limit the capacity of service suppliers to capture the full value.

Finally, with the pace of Capex expected to slow down in 2028, hyperscalers could see their cash flow improve considerably, as the income derived from Cloud services continues to grow.

That said, recent tensions in the neo-cloud segment have highlighted growing selectivity among investors. The 25% market dive in just two weeks and widening credit margins reflect concerns over these capital-intensive business models, where funding needs are several years ahead of cash flow generation. Despite an order book of over 100 billion dollars, CoreWeave is a perfect example of these weaknesses. However, these difficulties tend to be concentrated among the most high-leveraged companies, with little contagion to the rest of the market, while large hyperscalers continue to display financial fundamentals that are clearly more robust that those of tech companies during the Internet bubble. Local regulatory changes and negotiations with the relevant authorities nevertheless represent a source of short-term volatility, which could delay certain projects or increase their cost. Added to this are the numerous referendums and local votes against the development of data centres, which account for 170 GW of the 300 GW of planned capacity in the United States; the provisional results of these are unequivocal, with the adoption of around twenty restrictive measures aimed at curbing the creation of new data infrastructure.

Since mid-October, we have been seeking to diversify our sources of returns in order to reduce our reliance on US AI. Productivity gains are expected to gradually benefit other sectors, without the companies funding the infrastructure necessarily reaping the lion's share. European equities offer opportunities in this regard, particularly amongst high-quality companies capable of defending their margins and financing their growth from their own resources. Emerging markets, particularly the ASEAN and Latin America, offer additional sources of growth, beyond the Asian economies most dependent on the semiconductor cycle (Taiwan, Korea). **We are therefore maintaining our overweight position in equities, favouring a broadening of the drivers of performance beyond AI-related stocks alone, whilst recognising that short-term visibility may remain limited, particularly for those stocks most directly exposed to the AI infrastructure cycle.** This view is accompanied by greater geographical and sectoral diversification, as well as a renewed focus on valuations. The divided political landscape in Washington could also limit major budgetary advances; whilst this factor is potentially favourable for sovereign bond yields, it does not eliminate the risks associated with the implementation of economic and regulatory policies.

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Our second allocation shift concerns bonds, where we have raised our exposure. History has shown how the bond market's power to diversify depends on the economic regime. Between 1990 and 2020, during the Great Moderation, low inflation and the structural decline in rates boosted their performance, while the overall negative correlation with equities from the 2000s made bonds incredibly effective within mixed asset funds. Over a timeline stretching back to the 1950s, this relationship appears much less stable, as periods of high inflation have regularly triggered simultaneous selloffs across both asset classes.

The disruption in 2021 marked the end of a regime that had been particularly bond friendly. Owing to the return of inflation, higher volatility, and the correlation with equities turning positive, bonds lost much of their appeal, particularly because the excess yield delivered over cash remained limited. These various factors caused investors to lower the weight of bonds in their portfolios.

We believe that the conditions are now being met for this movement to be partly corrected. The reconstitution of the bond carry, amid renewed concerns about growth in 2027, could improve their contribution to the risk/return ratio. The recent tensions affecting AI-related stocks after fears were voiced over OpenAI on October 8th,

together with retreating sovereign yields in the US, also suggest that bonds could recover some of their protective powers in the months to come. This aspect will improve the effective coexistence of our equity overweight with some bond carry on high yield and financial debt.

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To achieve this, we favour short and medium-term maturities, where the combination of carry and roll-down is particularly attractive, as the monetary tightening forecasts factored into some of the yield curves seem excessive to us. If central banks either take a firmer stance than expected, or a wait and see approach, which we believe may happen, these segments will benefit without the need for sharp rate cut expectations. **However, we are cautious about longer maturities, which are more exposed to fiscal imbalances and term premiums, with the US deficit nearing 6% of GDP and tech investments further increasing global funding needs.**

Owing to the inflationary and fiscal risks that remain present, we are not assuming that the exceptional regime of 2020-2020 will return. However, current yields do offer more convincing returns, and if the correlation between bonds and equities were to normalise, even partially, this would substantially improve the efficiency of mixed asset portfolios.

To sum up, after several rewarding years for heavy concentration in large-cap tech equities and weak bond allocations, have been largely rewarded, the current environment calls for a rebalancing of the sources of return. Without questioning the potential of artificial intelligence – which may be undergoing a mid-cycle correction – or our preference for equities and credit carry, we now favour a more diversified allocation across regions, sectors and asset classes. The return of more attractive bond yields does indeed offer the opportunity to strengthen the robustness of portfolios, whilst maintaining exposure to the structural drivers of growth. In an environment where regulatory, fiscal and geopolitical uncertainties remain high, **diversification is thus once again not only a factor in resilience, but also a potential source of better risk-adjusted performance.**

Key takeaways

— **A more resilient global economy than expected.** Despite trade and geopolitical tensions, high interest rates and rising commodity prices, global growth remains robust, driven in particular by investment in technology and strong corporate earnings.

— **Diversify beyond US artificial intelligence**. Whilst the structural potential of AI remains undisputed, market concentration and uncertainties surrounding infrastructure roll-out suggest broadening sources of returns to other sectors, European equities and certain emerging markets.

— **The return of bonds to the asset allocation.** With the rebuilding of the yield curve and more attractive yields, bonds are regaining their role as a diversifying asset in portfolios, with a focus on short- and medium-term maturities given the persistent fiscal risks associated with long-term maturities.

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