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Daily Commentary

A Pause That Comes at a High Cost

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Yesterday, the market received what it had been asking for for weeks.
Oil fell, with Brent losing **7.6**%, closing at **104.8** dollars per barrel, and WTI returned below 100, after Iran's Supreme Leader gave the green light to negotiations, while reports of a breakthrough in mediation emerged from Qatar.
In Europe, gas lost almost **11**%.
With energy retreating and construction spending recording its sharpest decline since Covid in September (−**1.9**%), government bond yields fell across the entire curve, with the US 10-year yield returning below 5.0%, to around **4.89**%, its lowest level in almost two months.
The dollar lost ground, while gold climbed back towards 3,950 dollars.

On paper, it is the perfect scenario for equities, and indeed the opening was strong.
The Nasdaq 100 was gaining more than **1.0**% and Artificial Intelligence stocks seemed to have found a floor.
The recovery lasted only a few hours.
The index reversed, broke below Friday's lows and closed down **1.36**%, resting on its 200-day moving average and now more than **10**% below its highs.
A technical correction, in every respect.
The S&P 500 index lost **0.51**%, while the Dow gained **0.41**%.

However, the indices tell us little.
What matters is where the selling took place.
A broad basket of stocks linked to Artificial Intelligence lost around **2.7**%, while the S&P 500 index excluding AI rose by almost

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House
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1.0%.
Within the Artificial Intelligence ecosystem, the heaviest losses came where money had been concentrated: neoclouds (next-generation cloud operators) and optical networks fell by more than **6.0**%, while memory stocks erased their entire rebound from last week.
Lumentum −**18.6**%, Marvell −**12.7**% on the day it announced the acquisition of Lumentum itself, Oracle lost more than **8.0**% after announcing USD **10** billion in new shares and **10** billion in bonds, exhausting in a single morning the USD 20 billion fundraising ceiling it had set for the next four fiscal years.
Nvidia −**1.3**%, while Amazon +**2.2**% moved against the trend.

What kind of selling was it?

Not news-driven selling, but **selling driven by portfolio risk reduction**.
When the stocks that had risen the most are the ones falling the hardest and the momentum factor closes at its lowest levels since September, the message is that managers are reducing concentration, selling what they hold the most of and what has gained the most, and in some cases they do so because they have to (margin calls, risk limits exceeded), not because they want to.
Government bonds are once again acting as a safety net.
The negative correlation with equities has reappeared over the past month, and those buying Treasuries are also doing so to protect themselves against further declines.
Finally, credit is saying the same thing

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even more forcefully.
The basket of CDS (contracts that insure against the risk of default) **of hyperscalers has reached a new all-time high**, that of data centers has returned close to record levels, while investment-grade spreads have widened again with the new bond issuances by Oracle and Meta coming to market.
The market is becoming more selective, doing the math and increasingly doubting that the system can finance itself.

Yet, precisely as credit markets are showing signs of strain, opposing messages are coming from Hong Kong.
The heads of two of Wall Street's largest investment banks, at the local monetary authority's summit, expressed confidence that capital markets will continue to finance Artificial Intelligence infrastructure.
The first estimates that **major cloud operators will be able to spend between 800 and 1,000 billion a year for 7-12 years, reaching a cumulative 10-15 trillion over the decade**: "we are in the second inning of a nine-inning game".
The return will materialize in the form of productivity capable of adding 50-70 basis points a year to US real GDP.
The second speaks of "very robust" demand and solid financing to cover it.

Why are they so confident?
Three reasons.
The first, demand for computing power still exceeds supply today, and as long as this remains the case, every new data center finds a customer.
The second is the depth of the market.

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Global savings seeking returns (insurance companies, pension funds, private credit, sovereign wealth funds) are enormous, and placing a trillion a year is not impossible.
The third is less noble, but it needs to be told.
It is precisely these banks that structure and place the issuances of Meta, Oracle and Anthropic.
For them, the investment cycle in Artificial Intelligence infrastructure is a fee-generating machine.
No one saws off the branch they are sitting on.

However, there is one sentence that matters more than all the others.
The real limit to the scale of financing is not the availability of capital, but its cost.

Oracle secured its **20** billion USD, but paid for it with an 8.0% loss in market capitalization in a single day.
The money is there, but the price is rising.
If the cost of capital grows faster than the promised returns, a trillion a year becomes a hypothesis, not a certainty.
It is no coincidence that, during those same hours, the head of one of the world's largest bond asset managers warned that finance linked to Artificial Intelligence will eventually reach excessive levels.

Then, **there is politics**.
Today, America votes in the midterm elections and in **20** of the **36** gubernatorial races, a proposal for a pause or moratorium on data centers appears.
Two years ago, every governor wanted one.

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This year, they are calling for their suspension.
State laws on data centers have gone from almost zero in 2024 to around **80**, either approved or under discussion, while moratoriums, zoning restrictions and local ordinances exceed **250**.
It is a bipartisan issue.
In Texas, the Republican governor has frozen all new authorizations, in Ohio, both candidates want a moratorium, and in Georgia, the Democratic candidate is calling for a statewide pause.
This change is happening not because of data centers themselves, which only 7% of voters rank among their priorities, but because of **electricity bills**.
In Ohio, the average household electricity bill has risen by around **15**% in one year.
The pause wins votes, but comes at a cost.
In Texas, the queue of grid connection requests for large loads has reached **474** gigawatts, **90**% of which are data centers, more than five times the grid's historical peak demand.
According to estimates reported by Bloomberg, around **50 GW** (**20**% of the national pipeline) are at risk due to the Texas pause alone, and the first signs of damage are already visible, with banks left holding a **15** billion USD bridge loan for Anthropic's Texas campus, after the freeze derailed its refinancing through a high-yield bond.

This is where the circle closes.
Construction spending in September fell by **1.9**%, but data centers rose by **8.6**%, meaning they are the only construction

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projects driving growth.
Stopping them means shutting down one of the few engines of growth and, at the same time, telling the market that the cash flows intended to repay that trillion a year will arrive later.
This is the pause that comes at a high cost, because it costs the Artificial Intelligence sector, it costs the credit that finances it and, ultimately, it costs everyone.

However, the other side of the coin must also be told.
A leading American investment bank interprets much of these pauses as **a matter of timing** rather than opposition.
Capital will shift towards more welcoming states, such as Wyoming, Minnesota and Iowa, existing projects will largely be preserved, and in Texas the real battle will take place in the first half of 2027, not tonight.
Moreover, history is on the side of the bulls.
Since 1950, the S&P 500 index has always risen in the twelve months following the midterm elections, by an average of around 15%.
With one detail, however: the more the probability of a Democratic sweep increases (currently around 75% in prediction markets), the more Artificial Intelligence stocks decline.

As for today's trading session, the conditions are not favorable.
After the close, Apple was down almost **3.0%** due to weak margin guidance and Palantir was down **3.0%**, despite revenues having almost doubled.
Today, a volatile session is expected, with

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technology still under pressure and the rest of the market trying to hold up, awaiting the election results and, tomorrow, the Treasury's indications on the composition of its debt issuances.

There is no rush to buy the dip in stocks most exposed to financing, because the market has decided to do the math, and the math takes time.

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