

THEIA INVESTMENTS
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Daily Commentary

Rebalancing Was the Last Thing We Needed!

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Rebalancing Was the Last Thing We Needed!

Yesterday morning, all the conditions for a rebound were in place.
Positioning among operators was as light as it had not been in years.
Indeed, the ratio of long to short positions of hedge funds on the US technology sector was at its lowest since 2016, with the sector's weight in their portfolios around **18**% versus **29**% for the index.
Anthropic had priced its IPO at USD **83**, above the initial range, and **Nvidia** had delivered numbers that left no room for doubt, revenues of USD **115.8** billion in the quarter and forward guidance of USD **130** billion versus the roughly 125 expected.
The Nasdaq 100 opened at +**1.7**% and at 14:50 London time touched +**2.3**%.

Then, something broke.
Shortly before the release of Hunterbrook's bearish report on **AMD,** the market began to fall.
Not one of the usual nervous declines, made of jerks and recoveries.
No, it was one of those waves of selling that start suddenly, but decisive, continuous, almost driven by an obligation to sell.
When Anthropic opened, at 16:50, the index was already back to flat, then, in the following fifteen minutes it lost another two points.
The last leg, between 19:48 and 20:00, came without any news and with Treasuries steady.
At the close, the Nasdaq 100 was down **2.21**%, the S&P500 index **2.0**% (sixth negative session in a row, the longest streak since 2024) and the Dow Jones fell below 50,000 for the first time since June.

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House, FRED, ICE BofA, Zeygos Research
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But the most interesting detail is another one.
Over 90% of the stocks in the S&P500 index closed lower, all eleven sectors ended in the red and healthcare (−**2.05**%) lost as much as technology (−**1.90**%).
The equal-weighted S&P500 index too (the one that gives the same weight to each stock, regardless of capitalization) fell **1.76**%.
It was not an AI sell-off, but a generalized sell-off in US equities, everything, without distinctions.

Here comes the question, who is selling?
Not the hedge funds, which are already under-exposed, with net leverage (ratio between bullish and bearish positions) at five-year lows.
Not the CTAs (systematic funds, which follow the trend), already close to the maximum short on the Nasdaq 100.
A flow desk at a leading investment bank puts it bluntly: **those selling now are "someone who wants out"**, that is pension funds, allocators, traditional managers (long-only funds, which buy without short selling) and private investors.
The market is not unwinding a crowded position, because it has already unwound it.
It is changing allocation.
Managers are shifting part of their assets from equities to bonds, government and above all corporate.
And so, after the Fed, Nvidia without its founder and the export rules, all we were missing was **the rebalancing of portfolios**.
After all, if "the market" is already light on technology and equities, only a change in

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strategic weights can explain a sale this orderly, continuous and across the board.

Why right now?

Easy, the average yield of US investment grade corporate bonds (with a high credit rating) was **5.92**% on 18 November, after touching **6.03**% in early October, the highest level since November 2023.

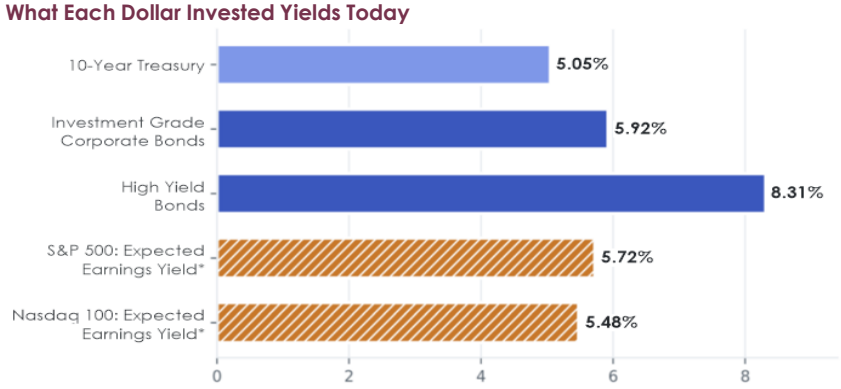
In the November survey of managers by a large US bank, **6.0**% is indicated as the threshold beyond which managers would go overweight bonds.

Now let's put this number next to that of equities.

At yesterday's prices, the S&P500 index offers an earnings yield (the inverse of the price/earnings ratio) of around **5.7**%, the Nasdaq 100 around **5.5**%.

In other words, **a quality corporate bond today yields more than the earnings you buy with the index and pays them with a certainty that equities cannot offer.**

The risk premium, that is how much equities yield over the ten-year Treasury, has fallen to about **0.66 points**, against a twenty-year average of **3.4**%, we are at the **11th percentile** of the last twenty years.



Sources: 10-year Treasury, Nov 19 close (Yahoo Finance); ICE BofA US Corporate (Nov 18) and US High Yield (Nov 17), effective yield (FRED). *ZEYGOS estimate: 10-year yield plus risk premium implied by 12-month forward earnings.

If you can take home **6.0**% on an

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investment grade bond, why risk it on equities, with such a low risk premium and with all the doubts surrounding the financing of Artificial Intelligence?
From the end of September to 13 November, quality corporate bonds gained **1.2**%, while the S&P500 index, dividends included, lost **1.1**%.
A large manager estimates an annual return of **6.0**% for US large caps over the next five years and **5.1**% for investment grade credit, almost the same, with much lower risk.
The comparison between bonds and equities will be a central theme for allocators from now to year end.

The Fed is making bonds even more competitive.
C. Waller has opened to a **50** basis point hike in December, the minutes of the last meeting point to Artificial Intelligence as a relevant source of inflation risk, and yesterday afternoon **A. Goolsbee**, president of the Chicago Fed, said that the boom in Artificial Intelligence investment must be prevented from overheating the economy, citing precisely the wealth created by the Anthropic IPO.
The market prices a **25** basis point hike in December with a probability of around **95**%.

The short circuit is evident.
The more Artificial Intelligence runs, the more the Fed fears inflation, the more the Fed fears inflation, the higher rates stay, the higher rates stay, the more bonds take space away from equities.
Every piece of good news is bad news.

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Anthropic's debut is the perfect example: USD **81** billion raised with the IPO alone is new paper to be absorbed, and to buy it someone had to sell what they already had in their portfolio.
The stock opened at USD **111.50** and closed at USD **97.17** (+**17.1**% over the placement price of USD 83).

In the meantime, the news of recent days has made it a bit harder to carry out Artificial Intelligence projects.
The first front is **financing**.
On the call of 18 November, Nvidia confirmed its support for partners and customers, neoclouds included, but in a "disciplined and selective" way, with priority given to buybacks and dividends.
The "Nvidia bank" has tightened the credit purse strings.

Meanwhile, two European banks have put up for sale up to USD **800** million of data center loans, an operator in the sector raised about USD **300** million instead of the 800 sought, and new AI-related issues have to offer a premium of about **18** basis points, against the usual less than 7.
Not by chance, in the managers' survey, the bonds of hyperscalers (large cloud operators) are indicated as the most likely source of a credit event (**38**%).
The second front is **rules**.
Yesterday, **the US Department of Commerce rule that requires licenses for advanced chips** destined for Indonesia, Malaysia, Singapore, Thailand and Brazil, and for data centers that sell computing power to companies based in China, came into force.
It is exactly the raw nerve touched by the

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report on AMD, which closed at −**7.72**% after losing as much as **11.2**% during the day.
Nvidia fell **3.3**%, on its sixth session of decline.

Putting the pieces together (quality bonds at **6.0**%, a Fed that reads the AI boom as inflation, an ecosystem that struggles more to finance itself and to export), **moving part of the portfolio from equities to bonds is not panic, but a rational choice.**
However, with such light positioning it does not take much to trigger a forced rebound by those who are positioned for a decline.
According to the desks' estimates, CTAs would return to buying with a rise of between **2**% and **4**%.

There is then a paradox: the mechanical month-end rebalancing (the one that brings weights back to target levels), after a November in which equities did worse than bonds, should push toward buying equities, not selling them.
But that is precisely the point.
If they sell anyway, it is because the objectives have changed.
From here on, **to change minds a good quarterly result will not be enough, but a cooling of yields and a Fed that stops citing AI as a source of inflation will be needed.**

This morning Asia took the hit, Nikkei and Kospi lost more than **4.0**% and the area is heading for its worst week since 2020.
US futures are down **0.4**% on the S&P500 index and **0.7**% on the Nasdaq, the

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ten-year falls to **5.03**% and the dollar strengthens.
Today, monthly options expire and dealers are short gamma (a net position that forces them to buy on rallies and sell on declines, amplifying every move in both directions).
We expect a still weak opening and a nervous session.
A rebound may come, even a violent one, but as long as a quality bond yields 6.0%, **equities will have to sweat for every dollar.**

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