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Daily Commentary

FOBU or a Change of Scenario?

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Yesterday Wall Street showed us two markets on the same day.
On one side, Alphabet, −**12.64**%, the worst session in its history with around **500** billion dollars in market capitalization wiped out in a few hours, the Nasdaq at −**1.38**% and semiconductors at −**1.4**%.
On the other, over **400** stocks in the S&P500 index closed higher, the Russell 2000 at +**1.0**%, healthcare at all-time highs, driven by Eli Lilly (+**6.63**%) and financials at +**1.4**%.
Overnight, Amazon (−**7.0**% after the close) and Intel (−**23**%) added fuel to the fire and Nasdaq futures point to an opening today between −**1.5**% and −**2.0**%.

The question is whether we are witnessing a complete reassessment of investment in Artificial Intelligence, or something much more practical.
That something has a name, **FOBU**, (fear of benchmark underperformance), meaning the **fear of doing worse than the benchmark**.
The manager sells technology, not because they believe in it less, but because this year, with technology in the portfolio, they cannot beat the benchmark.

Let's start with an honest line of reasoning.
Those selling have their arguments.
The first is **cash**.
Amazon has negative free cash flow of **42.4** billion USD over the last twelve months (a year ago it was positive at **14.8**), Alphabet burned through **9.1** billion USD in a single quarter, Meta **2.1** billion USD.

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House
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The second is **debt**.
Amazon's long-term debt has risen from 51 to **173** billion USD in one year, Meta's from 58.7 to **80.9** billion USD, and just yesterday Microsoft placed **25** billion USD in bonds.
Share buybacks, which supported these stocks for years, have disappeared.
Then there are the first cracks in **demand**.
Microsoft's commercial order backlog is stuck at **677** billion USD and new bookings have fallen by **12**%.
Finally, there is the **cost of money**, the real elephant in the room, with the ten-year yield close to 5.0%, PCE inflation at **3.6**% and a market preparing for a rate hike in December.

The higher the rate, the more it costs to wait for a return that will arrive in three years.

A slowdown in growth?
No.
AWS is growing by **39**%, its fifth consecutive acceleration, and in a single quarter it added **82** billion in signed contracts, bringing the order backlog to 578 billion USD, over three years of revenue already locked in.
Amazon closed with the highest operating profit in its history, **28.1** billion USD, **7**% above expectations.
Azure went from +43% to +**48**%.
Google Cloud more than doubled (+**103**%).
Meta is growing by **26**% and has raised the lower end of its investment range.
Even Intel, which we will discuss shortly, saw its data center business grow by **78**%.

Then why the selling?

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House
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Because the market is asking these companies for something no entrepreneur would ever dream of asking of themselves, **to collect today the return on an investment made today**.
In between, there is a phase in which cash falls while profits rise, because the outlay for the data center is paid entirely upfront and the cost is spread over the years.
That is exactly where we are.
Anyone who looks only at quarterly free cash flow and concludes that Artificial Intelligence "does not pay off" is acting as an analyst, not an entrepreneur.
Amazon is the same company that Wall Street accused for years of not making profits, and AWS was born precisely out of that period of investment.
Intel is a separate case.
The quarter was its best in years, with **revenue** +**21**%, gross margin at **44.1**%, earnings per share of **0.52 dollars** against an expected 0.40 dollars.
The stock is falling because of its fourth-quarter guidance (indications), **15.5 billion** USD in revenue against an expected 17, and the reasons have nothing to do with a slowdown in Artificial Intelligence: the correction in PCs (−**12**% this year, according to management), the explosion at Fab28 in Israel and the fact that Intel cannot produce enough server CPUs.
The problem is the opposite of a decline in demand.
Valuation does the rest.
Indeed, after a rise of around 150% since the start of the year, even after the plunge the stock trades at almost 50 times earnings.

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House
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Intel is not the verdict on Artificial Intelligence, but it is the verdict on a price that had run too far.

Who is selling and why are they doing it now?

If this were really a change of scenario, we should see money flowing out of equities.

Yesterday, the opposite happened, because small caps, banks, industrials and healthcare rallied, with third-quarter GDP at **3.4**% proving those buying into the cycle right.

It is not a flight from risk, it is a rotation within the equity market.

In October, the Nasdaq is down around **2.5**%, while the Dow is up almost **3.0**%.

Let's put ourselves in the shoes of a manager who is overweight technology: the sector falls and everything else rises.

They lose twice relative to the benchmark.

So, what do they do?

They sell what they own and buy what they do not own.

These are forced sales, made because they have to be made to avoid losing performance, not because they want to make them.

The calendar helps too.

Today is the last day of October and many American mutual funds close their fiscal year, the classic moment to adjust the portfolio and realize capital losses.

We had already seen it on October 22, when every piece of news about investment was read negatively, whether spending rose or fell.

Answering the initial question, FOBU or a change of scenario, **the data say FOBU, with a healthy dose of legitimate**

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nervousness about the cost of money and cash.
A change of scenario, if it comes, will first be found written in quarterly results, namely in order backlogs that stop growing, capital expenditure guidance being cut and customers postponing.
Today, there is none of this.

A heavy opening awaits the technology sector, following Tokyo (−**2.6**%) and Seoul (−**4.7**%), with labor cost data at 13:30 acting as the arbiter on interest rates.
Before pressing the "sell" button, however, it is necessary to reread the quarterly results calmly.
If the scenario had changed, you would already find it written there, and it is not there.

Better to use these days to gradually accumulate shares in companies that are filling their order backlogs, instead of chasing those who are merely running after the benchmark.

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