

Wake-up call for AI — as reality bites

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A broad correction hit markets last week at the tail end of the recent euphoria in AI-related stocks.

Colossal AI spending raises doubts

Last week the US market was thrown off balance by a perfect storm of the AI-related sell-off, the more hawkish tone from Jerome Powell and the continued federal shutdown. News of the long-term deal between Amazon Web Services and OpenAI, worth a substantial USD 38 billion, pushed the cloud segment higher earlier in the week before profit-taking became the only game in town. In macro news, the ISM's manufacturing PMI was 48.7 in October versus a consensus in search of 49.9, confirming that factories are in trouble. Moody's Analytics lowered its Q4 2025 GDP growth estimate by 0.1 of a percentage point because of the shutdown.

Investors retreated into defensive sectors, namely consumer staples and healthcare (+1.2%). At the other end of the spectrum were regional banks, which shed 2.8% under pressure from the flat yield curve and weak lending. Credit spreads widened slightly, with US investment grade moving to 103bp and high-yield debt to 380bp. Fixed-income trading volumes remained positive, indicating that investors are interested in holding bonds but are not piling headlong into them.

The US Senate on Sunday passed a temporary budget deal, valid until January 2026, on its first reading, paving the way for federal agencies to reopen and SNAP benefits to be restored for the 42 million recipients of food stamps. Following the announcement, the 10-year Treasury yield climbed back to 4.12%.

In the Eurozone, a mixed bag of corporate results and weakness in Italian bank shares sustained the mood of caution. The manufacturing PMI held steady at 50.0, signalling near-stagnant economic activity. October's inflation was 2.1% year-on-year, reinforcing the rationale of the ECB's policy hold (2%).

In Switzerland, CPI was 0.1% year-on-year. This is another sign of stable prices, endorsing the SNB's neutral stance. The 10-year yield sank to 0.69%. The value of the Swiss franc held up in the currency market. Defensives of the likes of Nestlé and Roche helped support the equity market while UBS gave up ground, under pressure from integration costs relating to Credit Suisse and tighter compliance rules.

Surprise inflation uptick in China

The Caixin manufacturing PMI fell to 49.7, signalling a further contraction. Foreign flows have slipped, especially on a week-after-week basis. In contrast, Chinese CPI for October clocked in above expectations at 0.2% year-on-year. This uptick brings down the curtain on two months of deflation but does nothing to dispel concerns over domestic demand and the stranded property sector.

The Nasdaq 100 lost 3.08% last week, dragged down by share-price consolidation among AI bellwethers. The S&P 500 fell 1.61%. The Stoxx 600 followed suit, heading down 1.19%. The SMI edged 0.52% higher, keeping its head above water. Markets head into the week keen to see US employment and CPI data.

Swiss Market Index (SMI)

Earlier support at 12450 has switched to acting as resistance. A breakout past this level could provide impetus to 12570. The current support is 12300.



Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.81	0.93	12'298.35	5'566.53	23'569.96	7'950.18	9'682.57	6'728.80	23'004.54	50'276.37	1'381.63
Trend	➡	➡	⬇	⬇	⬇	⬇	➡	➡	➡	⬆	➡
YTD	-11.24%	-0.92%	6.01%	13.70%	18.41%	7.72%	18.47%	14.40%	19.13%	26.02%	28.47%

(values from the Friday preceding publication)

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