November 2026

October Review: A Battle of the Narratives

OpenArc CIO Office

October was a tough month for the AI trade, and our models lagged as a result. In our view, two forces hit the same names at once: hedge fund de-risking, amplified by crowded positioning, and a shifting narrative around the heavy debt and equity issuance funding the AI buildout. Earnings from a few notable mega-caps added to the pressure. The underlying fundamentals have held up more broadly, while semiconductor valuations now sit well below their average since the AI boom began. We see this as a digestion phase within a multi-year investment cycle, and we remain positive on and are positioned for its next phase.

Our view

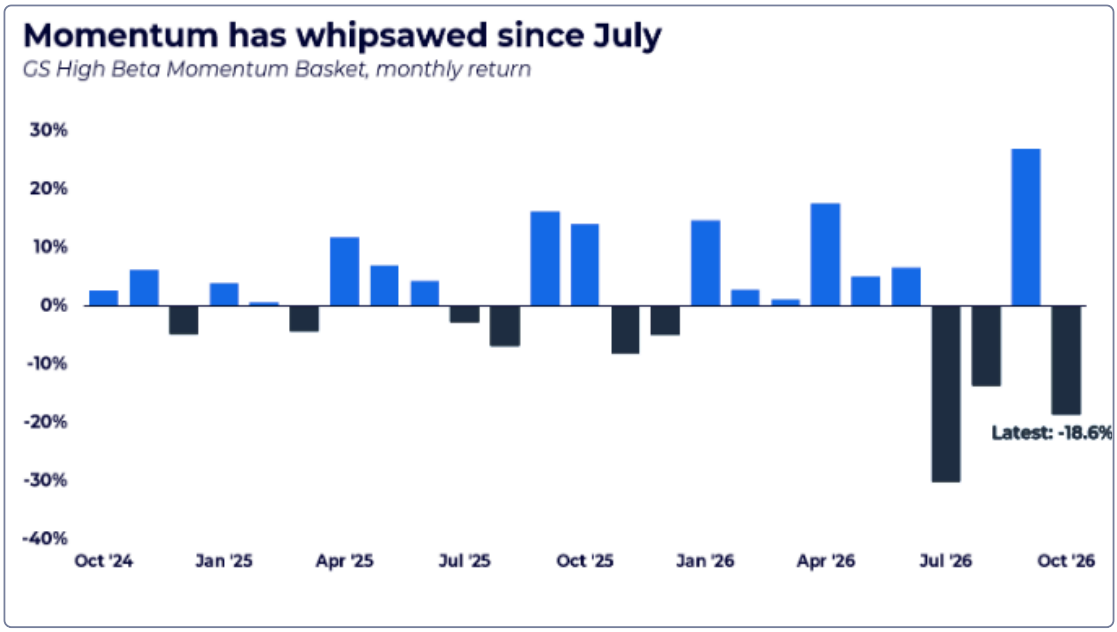
Beneath the selling, the companies we own keep delivering, with earnings beating and estimates rising even as valuations fall. The semiconductor industry now trades at a forward P/E of 16.5x, a significant discount to both the market and its average since the start of the AI boom. To us, that looks like a market pricing a shorter cycle than the evidence supports.



Investor sentiment is now very bearish. When sentiment reaches an extreme in either direction, markets have historically tended to move the opposite way, as the selling or buying that drove it runs out of fuel. The anxiety that makes this market so uncomfortable may be the very thing that keeps it from breaking. Seasonals are turning in our favor, and positioning appears to have been cleared out. That said, we still expect volatility under the surface to persist, even if the index holds up. The funding needs ahead remain large, with AI-lab IPOs alone potentially adding $200 billion or more, so we'll be tracking financing conditions as a signal for our AI thematic allocations.

What happened in October

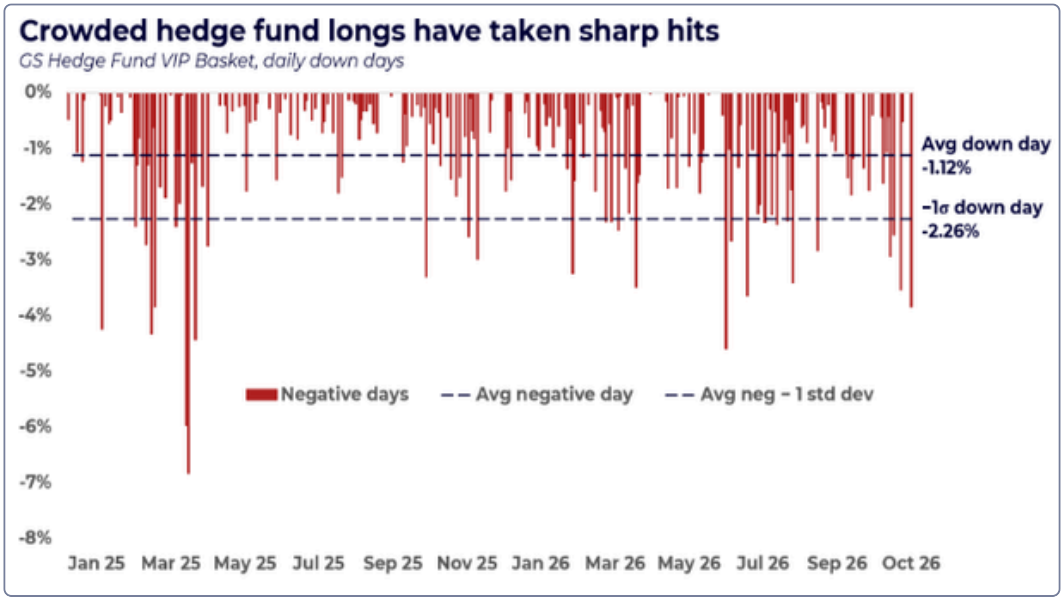
The S&P 500 finished October down 0.93%, but the calm at the index level hid a great deal of turbulence in the AI complex. Goldman Sachs' momentum basket, for example, fell 30% in July and another 14% in August, rebounded 27% in September, then fell 18.6% in October. In our view, July was largely a positioning unwind, and October's narrative re-ignited concerns around the capital needed to support the buildout for AI. According to Goldman Sachs, October 22 was the fifth-largest de-grossing day of the year, driven entirely by long selling, and the Nasdaq fell more than 6% over the two weeks leading up to October 26.



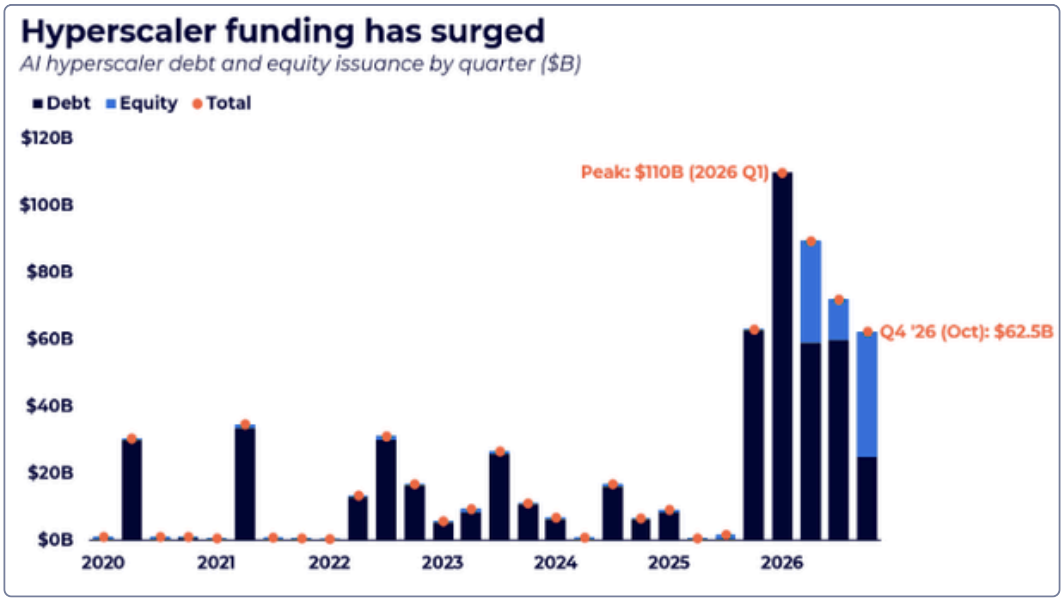
Earnings from tech giants Alphabet and Intel added fuel to the fire for a market looking for any reason to sell. Alphabet fell nearly 13% on October 29 after its third quarter results, its worst day since the company went public in 2004, erasing close to half a trillion dollars of market value. Semiconductors took the hit the following day, finishing the month down roughly 15%, and the sector has been hovering near oversold territory since mid-October.



Hedge fund de-risking, or in simpler terms hedge fund selling, is getting much of the blame for this turbulence, and we think it deserves a good share of it. Market structure has made these moves sharper. Barclays strategist Alex Altmann points out that assets at multi-manager "pod shop" hedge funds have roughly tripled since 2020, from about $300 billion to more than $1 trillion, with much of that borrowed capital chasing a pool of stocks that hasn't grown. These firms run large trading books using similar risk models, so they tend to own and hedge the same things. When a shock hits, that shared positioning acts as an amplifier, and the selling spreads across the same stocks all at once.



Still, we don't think hedge fund selling explains the whole move. The volume of capital raised to fund AI infrastructure has been a culprit too. Roughly $690 billion of debt and equity has come to market this year, and absorbing that supply has put heavy pressure on prices. In our view, as that supply met crowded hedge fund positioning amid a fear-driven narrative like the one we saw in October, many of the same names took the hit from both sides.



We think this kind of environment is where our longer-term time horizon works in our favor. Pod shops are judged on their profit and loss day to day, and sometimes minute to minute, so when losses build they have to cut risk whether or not anything has changed in the businesses they own. Because of their size, that selling moves prices, often well beyond what fundamentals would justify. Our models, on the other hand, are built for the long-term around multi-year themes, and the managers we allocate to can hold, or add to, companies whose earnings are still rising while forced sellers head for the exit. That patience doesn't spare us months like October, but it does let us look at them as potential opportunities.

What our partners are saying

In our conversations with BlackRock, the October 30 selloff came up as an extreme move, several standard deviations from normal, with Intel and Google behind some of the sharpest declines. BlackRock's view is that the market has spent much of this year absorbing an enormous wave of new debt and equity, and that the wave has now largely passed. The one large deal left is the Anthropic IPO, which it expects to be well received. More broadly, BlackRock believes investors are mispricing what comes in 2027 and beyond, and that the AI investment cycle is still in its early stages.

Our discussions with TCW centered on a market fixated on the capital cycle. Since the Fed's September hike, financing has tightened and lenders have grown more selective, which matters for a buildout that will cost trillions. The underlying businesses, though, keep delivering. Nearly all of the power infrastructure companies TCW owns that have reported this quarter beat expectations, and most have seen estimates rise since June. Bloom Energy, for example, grew Q3 revenue 138% and raised full-year guidance for the third time this year, yet the stock sits nearly 40% below its June high. TCW also pointed out that valuations across its holdings have compressed about 20% on 2027 earnings, even as those earnings estimates moved higher.

TCW sees power demand resting on more than AI. Reshoring, electrification and an aging grid are all adding load at the same time, so the need for new power infrastructure holds up even if AI spending cools. The firm has trimmed companies whose customers lean on the capital markets and added to those that rely on them less, describing these as sizing changes with conviction intact. Its view is that we are closer to the beginning of this cycle than the end.

Final word

Our conviction in the long-term thesis is intact, but we're always watching for risks that could change it. The greatest risk in this cycle may lie less in overestimating what AI will eventually accomplish and more in asking the financial system to make increasingly long-term commitments to a future that is getting harder to forecast. Technology is accelerating, but capital still has a clock, which is why we're watching financing conditions so closely. For now, we maintain conviction in the view that we are early in a multi-year investment cycle and that the portfolios are positioned for its next phase.

We're glad to talk this through with you.

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