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MARKETS AND ECONOMY

A reset is not the end of the AI story



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Key takeaways

- The artificial intelligence build has seemed due for a reset as investors have increasingly questioned the enormous amount of capital being committed to AI infrastructure.

- We saw those worries translate into a sharp selloff to the Nasdaq, the Philadelphia Semiconductor Index, and companies closely associated with AI infrastructure.

- This does not change our longer-term view that demand for compute will continue to grow and that AI represents a powerful structural investment theme.

Investors had grown accustomed to semiconductor and artificial intelligence-related stocks leading the market higher. As I write this, they are leading it lower.

The selloff has been sharp. On Nov. 5, the Nasdaq was down roughly 5% in late-morning trading[1], while the Philadelphia Semiconductor Index had fallen nearly 11%.[2] Nvidia, AMD, Micron, and other companies closely associated with AI infrastructure have been among the hardest hit.[3]

We're not overly surprised. More importantly, we're not overly concerned.

The AI build was due for a reset

Concerns surrounding the AI investment boom didn't begin with this week's US midterm elections. Investors have increasingly questioned the enormous amount of capital being committed to AI infrastructure, particularly as interest rates moved higher during much of the year.[4]

That combination mattered. Building data centers requires tremendous amounts of capital, power, and increasingly expensive equipment. Higher borrowing costs naturally raise the hurdle for new projects. At the same time,

semiconductor and memory companies have been investing aggressively to satisfy expectations for extraordinary compute demand.

Demand has remained significant.[5] But there's an important distinction between strong long-term demand and the amount of equipment that needs to be purchased immediately. Some parts of the semiconductor ecosystem may simply have extended too far in preparing for that demand.

The election appears to have accelerated that reassessment. Investors are concerned that the Democratic victories could slow data center construction, especially after candidates skeptical of additional development prevailed in important states including Texas, Ohio, and Georgia. Local opposition was evident as well. Of 41 data-center-related ballot measures across 10 states, voters backed restrictions or rejected development-friendly measures in nearly every contest for which results were available.[6]

That's a legitimate new uncertainty. It could slow the pace of the build. We believe, however, that the rise in interest rates and the sheer scale of planned investment represented a more significant risk to the pace of AI spending than the election outcome itself.

A reset isn't the end of the AI story

None of this changes our longer-term views that demand for compute will continue to grow and that AI represents a powerful structural investment theme.

What may change is the speed at which capacity gets built.

That wouldn't necessarily be a bad outcome. Capital spending had reached levels that were increasingly raising questions about financing, profitability, and the ability of end demand to absorb new capacity quickly enough. A more measured pace could ultimately make the AI build healthier and more sustainable.

Markets rarely make those adjustments smoothly. When crowded trades unwind, especially when hedge funds and other levered investors are involved, price declines can become disconnected from changes in long-term fundamentals. Selling creates more selling. Resets often overshoot.

That appears to be part of what investors experienced Nov. 5.

Look beyond the headline index

There are also reasons not to interpret the technology selloff as a verdict on the entire market.

The S&P 500 Equal Weight Index closed at a record high on Nov. 4, illustrating how much market leadership had already broadened beyond the largest technology stocks.[7] Defensive areas such as consumer staples, health care, and utilities were gaining over the past month as technology shares fell sharply.[8] That follows a period when those defensive sectors, real estate, and US Treasuries have provided valuable diversification.[9] Non-US markets have also generally held up better than the technology-heavy US benchmarks.[10]

That rotation matters. A market in which leadership changes is different from a market in which everything is being indiscriminately sold.

Reset, not rupture

We don't view yesterday's decline as the bursting of an AI bubble or the end of an investment mania. Valuations across the entire AI ecosystem simply hadn't reached the extremes historically associated with the most famous speculative bubbles.

Instead, we see a reset in one of the market's strongest and most crowded trades.

The reset may continue, and the companies that led the market over the past several years do not necessarily have to lead over the next several months.

But lower prices and more reasonable valuations are improving the longer-term opportunity set.

For investors, this is also a useful reminder that diversification matters precisely when market leadership looks most certain. Technology can correct while other sectors, bonds, and international markets provide balance.

The AI build may become slower and more disciplined from here. In our view, that would represent a recalibration of an extraordinary investment cycle, not its end.

The long-term demand for AI and compute remains intact. The price investors are being asked to pay for that opportunity is simply being reset.

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Footnotes

1 Source: Bloomberg, L.P. Nov. 5, 2026.

2 Source: Bloomberg, L.P. Nov. 5, 2026.

3 Source: Bloomberg, L.P. Nov. 5, 2026. The mention of specific companies is not intended as investment advice.

4 Source: Bloomberg, L.P. Nov. 5, 2026. Based on the 10-year US Treasury rate.

5 Source: Bloomberg, L.P. Nov. 5, 2026. Based on the third quarter revenue of the technology companies in the S&P 500 Index.

6 Fast Company, “AI data centers also lost big in the 2026 midterm elections,” Nov. 4, 2026

7 Source: Bloomberg, L.P., Nov. 5, 2026.

8 Source: Bloomberg, L.P., Nov. 5, 2026. Based on the one-month return ended Nov. 4, 2026 of select S&P 500 Index sectors, including Consumer Staples +14.73%, Health Care +14.09%, Financials +10.51%, Real Estate +9.92%, and Information Technology -9.27%.

9 Source: Bloomberg, L.P., Nov. 5, 2026. Based on the one-month return ended Nov.4, 2026 of Bloomberg US Treasury Index +2.55%.

10 Source: Bloomberg, L.P., Nov. 5, 2026. Based on the one-month return ended Nov.4, 2026 of MSCI All-Country World Index (ACWI) ex USA -2.65%.

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Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn't ensure product or service success.

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The S&P 500® Equal Weight Index is the equally weighted version of the S&P 500® Index.

The Nasdaq Composite Index is the market-capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.

The Philadelphia Semiconductor Index (SOX) is a market-capitalization-weighted index that tracks the performance of companies involved in the design, manufacture and sale of semiconductors.

The Bloomberg US Treasury Index is an unmanaged index that measures the performance of US dollar-denominated, fixed-rate debt securities issued by the US Treasury.

The MSCI All Country World (ACWI) ex USA Index is an unmanaged index considered representative of large- and mid-cap stocks across developed and emerging markets, excluding the US. The index is computed using the net return, which withholds applicable taxes for nonresident investors.

Valuation is the estimation of an asset's value based on variables perceived to be related to future investment returns, on comparisons with similar assets.

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