

Value or Value trap?

AI after the Sell-off

Key Messages

1. **Our October upgrade was (too) early.** By 20 November, the S&P 500 and US technology had fallen 11.5% and 20.4%, respectively.
2. **Remain constructive, but selective.** November's sharp repricing—driven by macro, geopolitical and governance shocks—has pushed valuations to multi-year lows and cleaned up positioning, creating an asymmetric risk-reward profile while leaving the core investment case for US equities and AI intact.
3. **A durable recovery needs fundamental support.** Lower front-end yields, continued evidence of AI monetization and confidence in 2028 earnings despite slower capital spending growth are the key conditions.

Being early and being wrong feels the same way

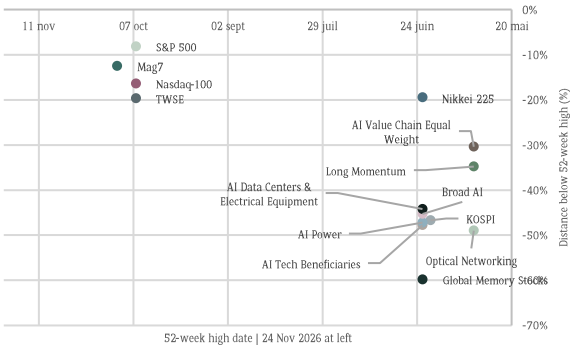
We remain constructive on US equities and AI, but the opportunity has become more selective. Our October upgrade was early: by 20 November, the S&P 500 and US technology had fallen 11.5% and 20.4%, respectively. Even as residual near-term downside cannot be ruled out, the correction has reset valuations to levels rarely seen since 2020 and materially cleaned up positioning, while the core AI investment case remains intact. A durable recovery, however, requires lower front-end yields, continued evidence of AI monetization and confidence that 2028 earnings can withstand slower capital spending growth..

Correction, not capitulation

Selling has concentrated in former AI infrastructure leaders, many of which are nearly 50% below their 52-week highs. The AI trade peaked in June, before the broader market topped in October (Chart 1). Nvidia then amplified the decline: it lost USD 2.7 trillion of market value in six weeks, fell 47.5% from its early-October high and accounted for 37% of the move of the S&P 500. Company-specific factors mattered, but Nvidia's decline and Jensen Huang's removal appear to have soured already fragile sentiment.

November's slump was not solely a story of Nvidia and crowded positioning, however. Three broader macro and geopolitical shocks converged at the same time. First, the prolonged conflict in Iran kept energy costs elevated and revived inflation concerns, lifting yields and forcing markets to price a more hawkish Federal Reserve — a direct headwind for equity multiples (Chart 2). Second, escalating US–China tensions and stricter semiconductor export controls reinforced the trajectory toward two distinct AI ecosystems, prompting investors to strip out China-linked growth assumptions. Third, the Democratic sweep in the US midterm elections fueled fears of tougher federal AI regulation and state-level curbs on data centers, threatening to slow the infrastructure buildout. In our view, the market is extrapolating the worst-case scenario on both politics and earnings. The scale of the broader correction is not unusual. Over the past 50 years,

CHART 1: MANY AREAS OF THE AI TRADE PEAKED IN SUMMER ALREADY



Source: BNP Paribas, Bloomberg

Stephan Kemper

Chief Investment Officer
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the S&P 500's average maximum annual drawdown was 20%, and a correction occurred in 35 years, yet the index still delivered an average annual return of 12%. (Chart 3) This history does not call the bottom, but it argues against treating the drawdown itself as evidence of a broken cycle.

Recent technology moves were more extreme. On 20 November, the Nasdaq 100 fell more than 5% and the Philadelphia Semiconductor Index more than 10%. Such declines occurred only 71 times for the NDX and eight times for the SOX, corresponding to the 0.674 and 0.098 percentiles. Both thresholds were breached twice within 15 trading days in November. That clustering occurred 40 times for the NDX but only once previously for the SOX, in March 2020.

History offers no simple rebound signal. NDX forward returns were weak after a breach and weaker when two occurred close together, although the dot-com bear market heavily skews the sample. SOX returns were above average after a single breach (Chart 4); following the March 2020 double breach, the index gained 136% over the next year. In both cases, short-term paths remained volatile. **A sharp fall alone is therefore not a sufficient reason to buy**.

Positioning has improved

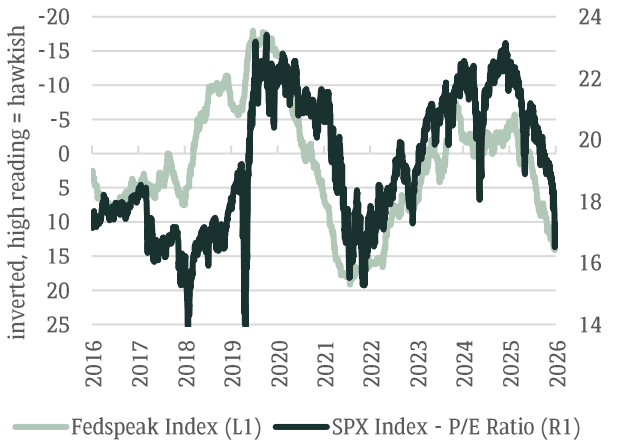
The sell-off triggered substantial deleveraging by hedge funds and systematic strategies. Our US equity positioning indicator moved into oversold territory, led by CTAs and volatility-targeting funds (Chart 5). Retail investors bought the dip through ETFs, but could not offset broader de-risking, which returned our risk-premium indicator to the buy zone (Chart 6). Neither measure is extreme, yet when both conditions were met historically, S&P 500 and NDX forward returns exceeded their unconditional averages and were positive more often (Chart 7). The technical backdrop is therefore cleaner and ready to support equities once fundamental catalysts for a rebound emerge.

The market is discounting an earnings problem—at multi-year valuation lows

Valuations began falling well before prices, in some cases during 2025 (Chart 8). Following November's sell-off, technology equities have rarely looked this inexpensive since at least 2020. The Nasdaq 100's forward P/E has compressed to below 17x (Chart 9), pushing its valuation premium over the S&P 500 to the lowest level in more than 20 years (Chart 10). The reset is even starker in IT Hardware: global semiconductors now trade at a 35% discount to the broader MSCI World index, versus a long-term average of a 10% premium (Chart 11).

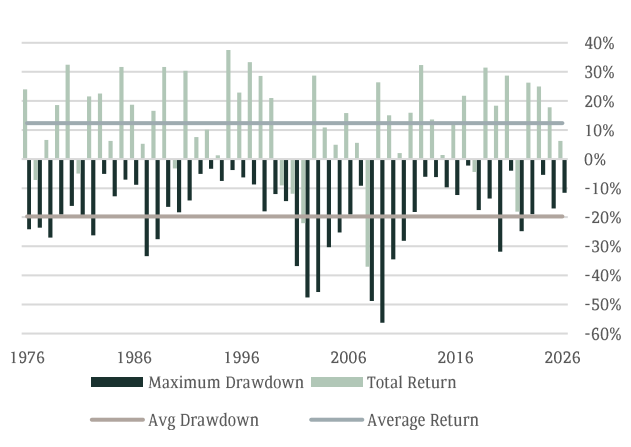
Admittedly, low headline multiples only hold up when the earnings denominator ("E") proves durable. The market is explicitly questioning that denominator, reflecting concerns about a) AI-capex returns, b) tighter financing conditions, c) circular funding, d) China decoupling and e) post-midterm restrictions on data-center development. The gap between share prices and analysts' estimates is now unusually wide: either investors are discounting a much weaker earnings path, or consensus forecasts have yet to catch down. Our view is that market expectations have become overly pessimistic. While further near-term volatility could trigger modest downside, the current valuation trough creates substantial medium-term upside once earnings resilience is confirmed — provided companies continue to prove monetization and free-cash-flow generation (Chart 12).

CHART 2: A HAWKISH FED IS A SERIOUS HEADWIND FOR EQUITY MULTIPLES



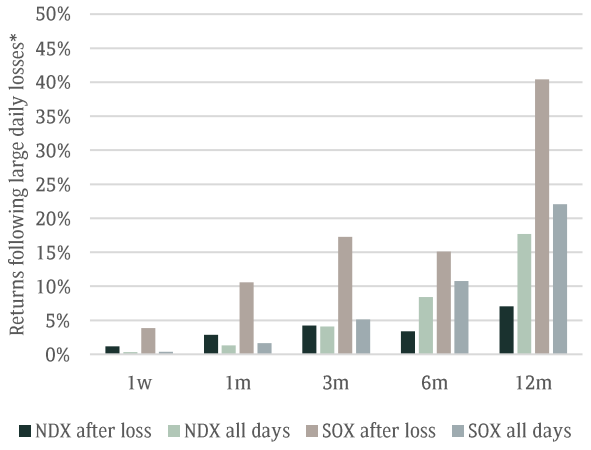
Source: BNP Paribas, Bloomberg

CHART 3: CORRECTIONS OF THIS MAGNITUDE HAPPEN ALMOST EVERY YEAR



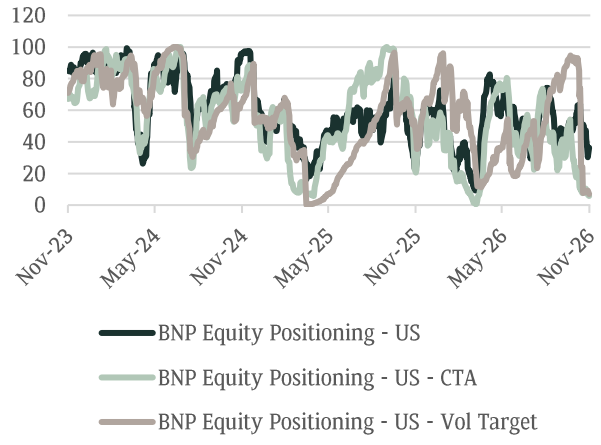
Source: BNP Paribas, Bloomberg

CHART 4: A CRASH IS NOT NECESSARILY A REBOUND SIGNAL



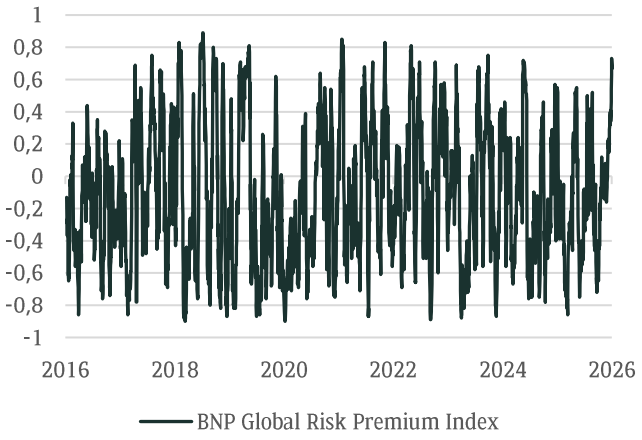
*Source: BNP Paribas, Bloomberg / *thresholds: 5% NDX & 10% SOX*

CHART 5: POSITIONING LOOKS MUCH CLEANER POST THE LATEST SELL-OFF...



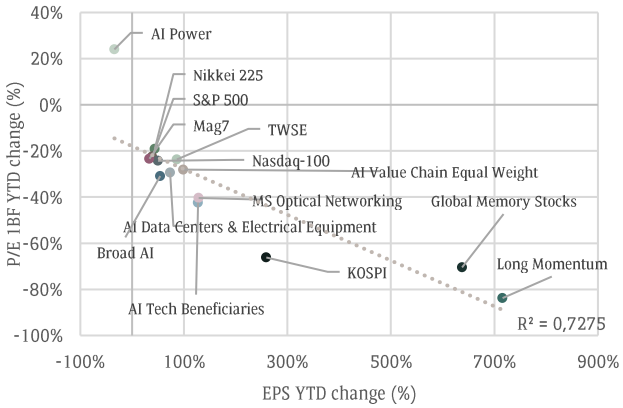
Source: BNP Paribas, Bloomberg

CHART 6: ...AND OUR RISK PREMIA INDEX IS BACK IN THE BUY ZONE



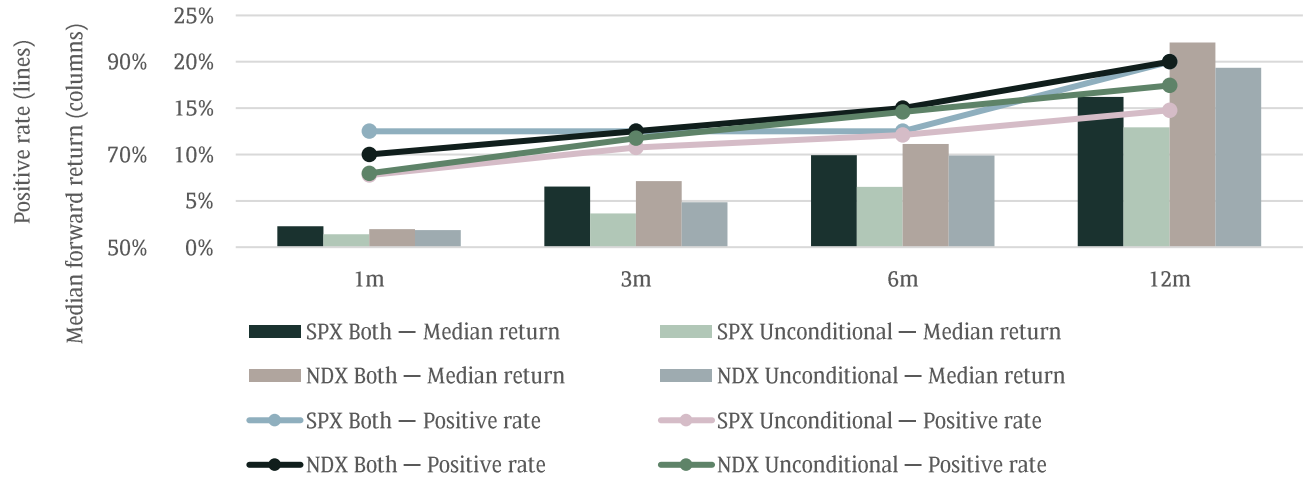
Source: BNP Paribas, Bloomberg

CHART 8: VALUATIONS FELL ON STRONG EARNINGS UPGRADES



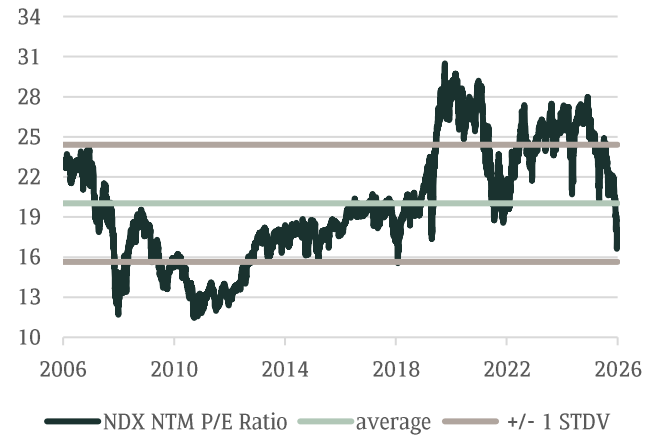
Source: BNP Paribas, McKinsey

CHART 7: LOW POSITIONING IN CONJUNCTURE WITH HEALTHY RISK PREMIA HAS HISTORICALLY PROVIDED FERTILE GROUNDS FOR STRONG FUTURE PERFORMANCE



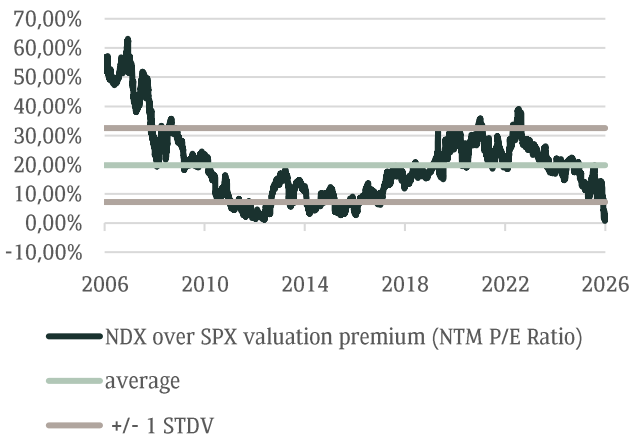
Source: BNP Paribas, Bloomberg / Both means BNP Positioning Indicator ≤ 33 and Risk Premia Index ≥ 0,75

CHART 9: NDX VALUATIONS FELL COMPRESSED TOWARDS THE 2018 LOWS



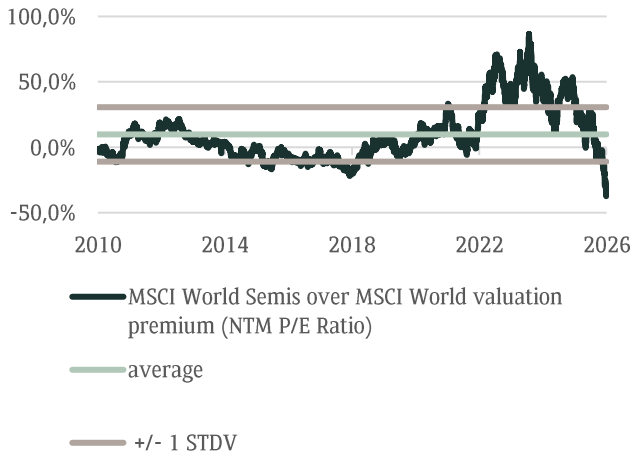
Source: BNP Paribas, Bloomberg

CHART 10: TECH´S VALUATION PREMIUM HAS ALMOST DISAPPEARED



Source: BNP Paribas, Bloomberg

CHART 11: SEMIS ARE TRADING AT RECORD DISCOUNTS TO THE BROAD MARKET



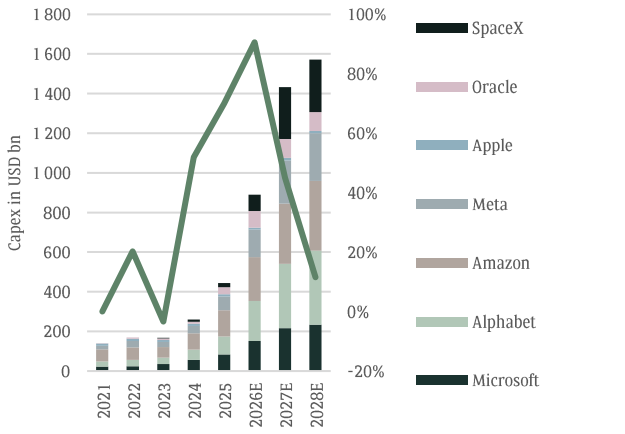
Source: BNP Paribas, Bloomberg

CHART 12: BIG DERATINGS ARE FOLLOWED BY RECOVERIES UNLESS EPS FALTERS

			Retruns Post De-Rating				% Change Over Next 12 Month	
	12m Fwd PE	De-Rating	3M	6M	12M	PE After 12m	PE	EPS
29-Feb-88	11.0	-21%	-1%	-1%	12%	10.3	-6%	15%
31-Oct-90	10.3	-12%	14%	26%	33%	14.1	38%	-6%
30-Dec-94	12.1	-17%	10%	20%	38%	14.3	18%	13%
28-Sep-01	18.2	-21%	11%	11%	-20%	15.4	-15%	-8%
31-Jul-02	15.9	-25%	-2%	-5%	11%	17.2	8%	1%
31-Oct-08	10.4	-29%	-14%	-9%	10%	14.2	36%	-21%
31-Aug-10	11.6	-22%	13%	28%	19%	10.8	-6%	24%
30-Nov-11	10.9	-14%	10%	6%	16%	12.6	16%	-2%
29-Feb-16	15.7	-9%	9%	14%	25%	17.9	14%	8%
31-Dec-18	14.3	-22%	14%	19%	31%	18.4	28%	0%
31-Mar-20	14.9	-10%	21%	31%	56%	21.6	45%	6%
30-Jun-22	16.1	-24%	-5%	2%	20%	19.1	18%	-1%
18-Nov-26	17.9	-20%						
Average		-19%	7%	12%	21%		16%	2%
Hit Rate			67%	75%	92%		75%	58%

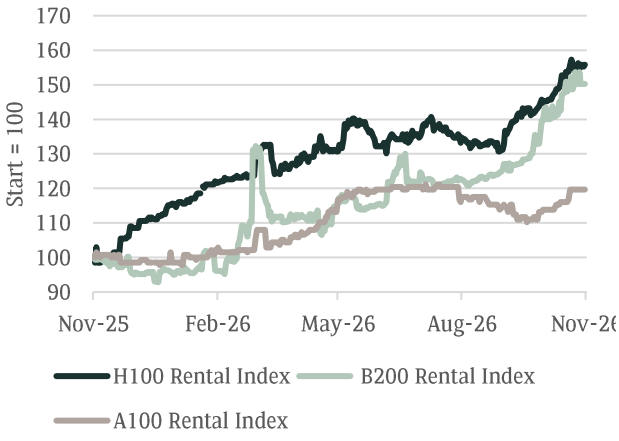
Source: BNP Paribas Equity Research estimates. De-rating measured as %y/y change in NTM PE

CHART 13: US CAPEX GROWTH IS EXPECTED TO SLOW



Source: BNP Paribas, Bloomberg

CHART 14: GPU RENTAL PRICES REFLECT STRONG DEMAND TRENDS



Source: BNP Paribas Bloomberg

Current company guidance does not support a broad capex downturn. Tencent expects quarterly cash capex of about USD 8.9 billion to remain near its peak through 2026 and into 2027, then decline after 2027. It is the only major Chinese AI company to identify a peak: Alibaba is exceeding its original plan, Baidu is moderating without defining a peak, and ByteDance remains aggressive. In the US, only Oracle has indicated a peak, in FY2027–FY2028, with a possible decline in FY2029. Amazon, Alphabet and Microsoft guide to further acceleration into 2027, while Meta continues to signal aggressive investment without quantifying 2027. US hyperscaler spending is expected to reach USD 1.6 trillion in 2028, with growth slowing from earlier years (Chart 13). Estimates have also tended to understate realized spending since 2023 by ~29%, creating some upside risk, though that historical surprise should not be extrapolated mechanically.

Any near-term deceleration is more likely to reflect constraints in power, chips and labour than weaker demand. Rising rental prices for GPUs, including older models, are consistent with supply remaining the binding constraint (Chart 14).

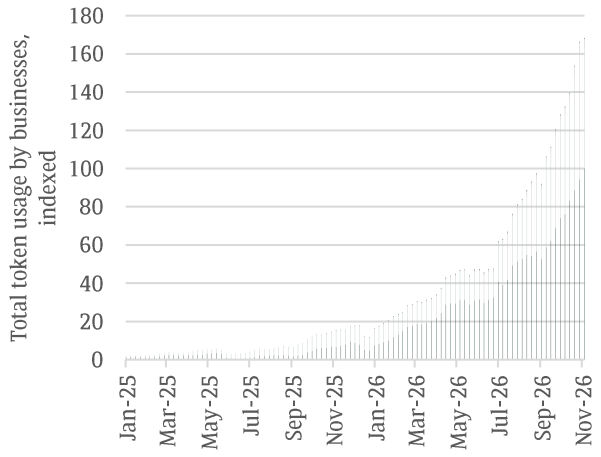
What could invalidate the view

Five risks matter: i) supply shortages, ii) regulatory barriers to data-centre construction, iii) weaker demand or monetization, iv) financing stress, and v) deeper geopolitical fragmentation. Several of these interact and partly offset one another. Persistent shortages, for example, could be eased by slower permitting, reducing input inflation and margin pressure. The most damaging outcomes would be a capex slowdown caused by weak monetization or regulation that materially delays construction. Infrastructure suppliers would be most exposed; hyperscalers could partly offset lower growth through reduced financing needs and faster free-cash-flow recovery.

On US politics, the negative market reaction to the Democratic sweep looks overstated. Presidential veto power should block sweeping anti-tech legislation at the federal level over the next two years, limiting the immediate policy threat to state-level permitting. We therefore expect the midterm results to shift some projects from 2028 into 2029 rather than cause a broad moratorium. Projects already under construction, particularly those scheduled for 2027, are unlikely to be disrupted. Texas has restarted approvals, in Ohio two gas plants have been approved only das after voters rejected them and hyperscalers can redirect some activity toward states such as Tennessee and Louisiana. Even so, new requirements could create a 2028 air pocket, weaken pricing power and raise inventories across the technology supply chain. Infrastructure companies' ability to protect margins through that period is the key risk. Current shortages, advance sales of 2029 production and compressed valuations provide a meaningful cushion, while additional construction in Asia and EMEA could soften the impact.

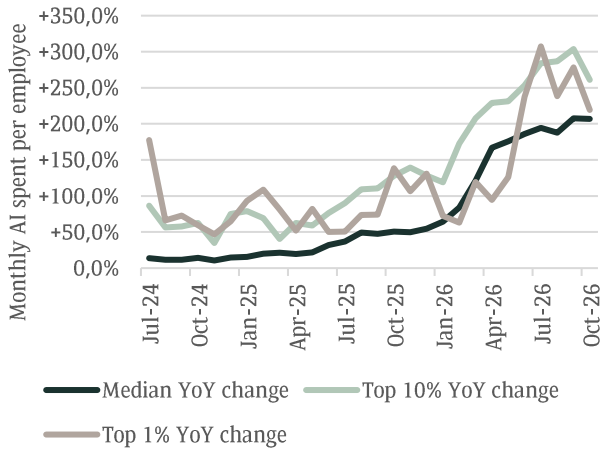
Similarly, US–China tech tensions are steadily cementing two separate AI ecosystems, as Washington tightens export controls and Beijing pushes domestic chip self-sufficiency. While this bifurcation limits Western semiconductor firms' addressable market in China and raises compliance risks, leading US suppliers have already largely excluded China data-center sales from forward guidance, leaving Western hyperscaler and sovereign AI demand as the primary earnings engine.

CHART 15: TOKEN USAGE KEEPS CLIMBING...



Source: BNP Paribas, ramp.ai

CHART 16: WHILE SPENDING ON AI GOES UP AS WELL



Source: BNP Paribas, ramp.ai

A slower buildout could also extend the capex cycle and improve supply-demand balance. It may increase visibility, support compute lease rates and improve the credit outlook, raising the value of operating capacity and favoring hyperscalers. Semiconductor earnings growth would slow, yet a lower risk of a severe cyclical downturn could support higher valuation multiples.

Monetization is progressing, but must broaden

AI usage remains constructive. Token volumes are rising (Chart 15) as prices fall, and monthly AI spending per employee is increasing (Chart 16), consistent with Jevons paradox. Total token spending has stalled since August and warrants monitoring, though growth has historically arrived in waves. Strong third-quarter cloud revenue at US hyperscalers also argues against an abrupt demand slowdown (Chart 17).

The larger challenge is the revenue required to justify investment. Estimated cumulative AI capex by US hyperscalers and frontier laboratories is about USD 6 trillion for 2025–2030. A low-teens return hurdle, and reasonable depreciation assumptions imply USD 2–3 trillion of incremental annual AI revenue, versus roughly USD 6 trillion of current global IT spending. The arithmetic is demanding, yet the benchmark may be too narrow. Microsoft 365 Copilot, for example, lifts commercial-seat revenue outside Azure, while other customers may redirect existing IT budgets or apply AI in industrial processes. Hyperscalers have also reported USD 1.8 trillion of revenue backlog. These figures provide visibility rather than proof, and revenue growth, margins and returns on invested capital must continue to improve.

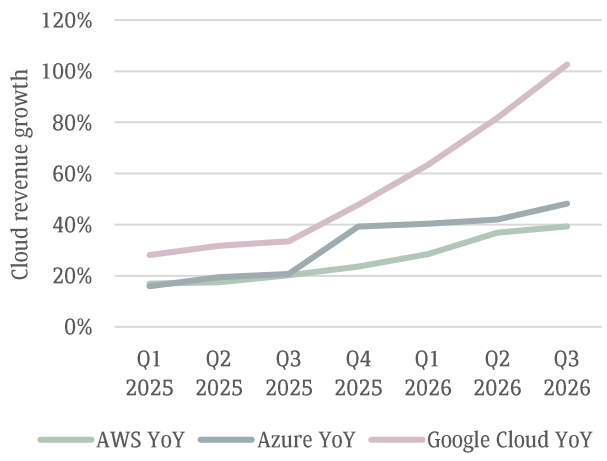
Front-end yields are the other critical condition for a recovery. Energy price pressure from the Iran conflict and hawkish Federal Reserve commentary pushed the market rate path above the dot-plot trajectory, lifting yields, widening CDS spreads and compressing equity multiples (Charts 18 – 20). We expect two further rate increases, in December 2026 and January 2027, while markets price 2-3 hikes. Encouragingly, gasoline futures have fallen 30%, from USD 3.50 to USD 2.50 per gallon, and lower refining margins should reduce pump prices over the next one to two months. Financial conditions have already tightened (Chart 21) through higher yields a stronger dollar and lower stocks, reducing the urgency for an aggressive Fed response. Easing inflation pressure and a less hawkish Fed, echoing 2018, would lower discount rates and support a valuation recovery (Chart 22); a persistently hawkish Fed remains the clearest challenge to that view.

Monetization is progressing, but must broaden

On balance, we think we were early rather than fundamentally wrong. Positioning is cleaner, valuations sit at multi-year lows and the principal macro, political and geopolitical risks appear either overstated or largely reflected in prices. Some residual near-term downside cannot be excluded, yet the medium-term risk-reward has turned decidedly asymmetric in favor of upside. Lower yields, constructive company guidance and clarity on Nvidia's permanent leadership should help restore confidence. Defensive trades that benefited from the sell-off—particularly richly valued consumer staples—may therefore warrant profit-taking into year-end (Chart 23).

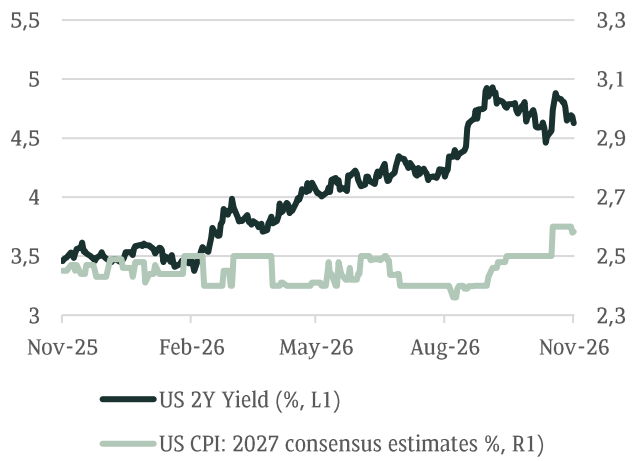
The recovery is unlikely to lift all AI infrastructure stocks equally. Slower capex growth should moderate earnings and share-price gains despite elevated absolute spending.

CHART 17: HYPERSCALER CLOUD REVENUE GROWTH KEEPS ACCELERATING



Source: BNP Paribas, Bloomberg

CHART 18: SHORT TERM RATES IMPLY ABOVE CONSENSUS INFLATION



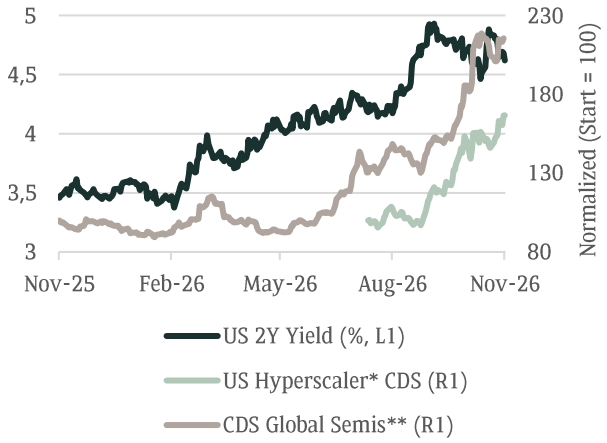
Source: BNP Paribas, Bloomberg

Semiconductor stocks already appear to discount a substantial EPS decline over the next several years, lowering the bar for a rebound. A durable re-rating requires confidence in 2028 earnings and beyond — a path that will demand patience and resilience from investors. We favor high-quality market leaders across the AI value chain with strong visibility, improving cash flow and favorable contract terms. An interesting portfolio diversifier for the case of weaker-than-expected price trends in memory chips can be found in companies with negative sensitivity to chip prices, i.e. stocks for which memory is a key input price component such as PC makers, consumer electronic and appliance makers. Those names could also benefit from improved consumption conditions on the back of falling gasoline prices.

The debate is shifting from whether AI investment will continue to whether it can generate timely, adequate returns. Companies with high leverage, expensive funding and no visible route to positive free cash flow, including neoclouds, remain most vulnerable. Scale, access to capital and low-cost infrastructure finance favor the largest US cloud platforms and the strongest specialist operators. The five largest US hyperscalers trade at 22x forward EPS, versus a 2020 peak of 40x and a 10-year median of 28x (Chart 24). Access to existing compute capacities, accelerating cloud revenue, moderating capex growth and multi-year low multiples create a compelling setup for 2027, provided slower spending reflects easing supply constraints rather than weaker demand.

The opportunity should also broaden beyond infrastructure providers. As the buildout matures, value will migrate toward companies using AI to reduce costs, raise productivity or increase sales. The next phase should reward measurable improvements in margins and cash flow while penalizing business models exposed to AI disruption. Selectivity, balance-sheet strength and evidence of monetization will matter more than broad thematic exposure. Investors should therefore expect continued volatility and dispersion as the market discriminates between AI winners and losers.

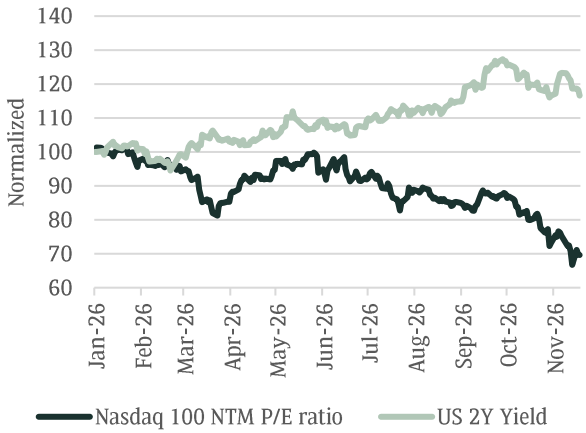
CHART 19: RISING YIELDS CONTRIBUTED TO CREDIT CONCERNS



Source: BNP Paribas, Bloomberg /

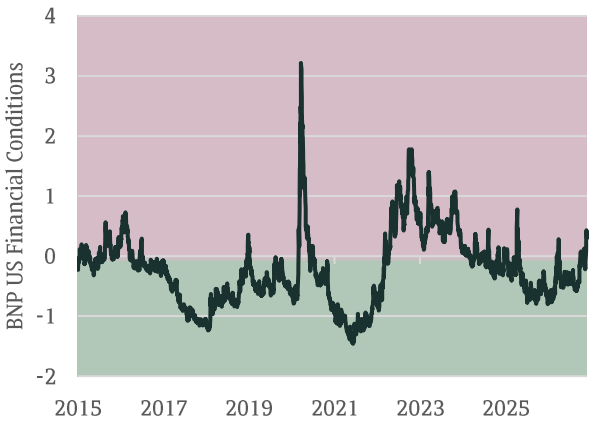
**Meta, Amazon, Microsoft, Alphabet, SpaceX, Oracle // ** Nvidia, Samsung, TSMC, Intel, AMD,SK Hynix, Broadcom*

CHART 20: RISING YIELDS PUT PRESSURE ON VALUATIONS



Source: BNP Paribas, Bloomberg

CHART 21: FINANCIAL CONDITIONS ALREADY TIGHTENED MATERIALLY



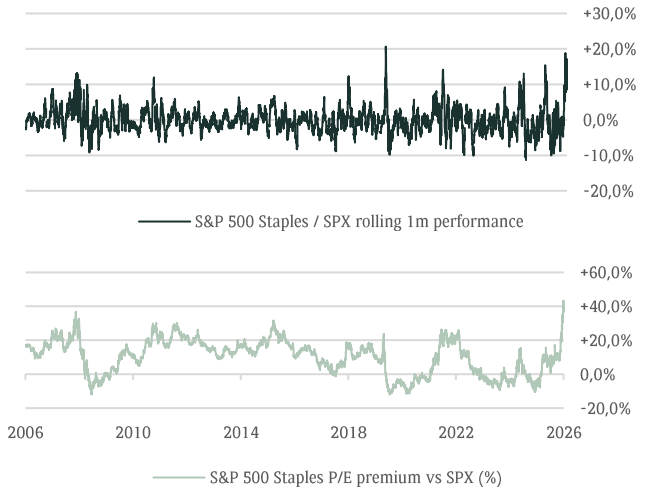
Source: BNP Paribas, Bloomberg

CHART 22: WE BELIEVE THE 2018 FED PIVOT TO BE A REALISTIC PLAYBOOK FOR TODAY



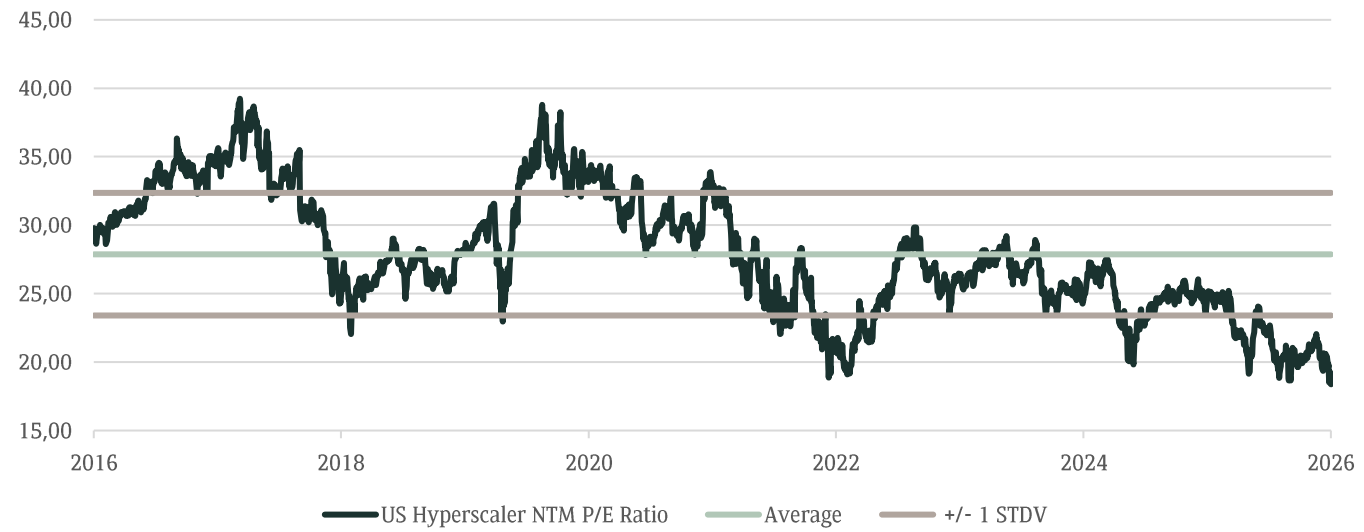
Source: BNP Paribas, Bloomberg

CHART 23: US STAPLES – AS MANY OTHER DEFENSIVES – ARE LOOKING STRETCHED



Source: BNP Paribas, US Department of War

CHART 24: US HYPERSCALER ARE TRADING AT DECADE LOWS



Source: BNP Paribas, Bloomberg

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