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Market Volatility: A Repricing of Expectations, Not Yet a Breakdown in Fundamentals

by Investment Team

MARKET VOLATILITY: A REPRICING OF EXPECTATIONS, NOT YET A BREAKDOWN IN FUNDAMENTALS

Recent market volatility reflects several pressures converging at once rather than a single shock. Persistent United States (US) inflation and more hawkish Federal Reserve expectations have led to market pricing more Fed hikes, while investors are reassessing elevated technology valuations and whether substantial artificial intelligence (AI) investment will ultimately generate adequate returns.

Between 9 and 20 November, the S&P 500 fell 6.3% and the NASDAQ declined 8.0%, while the VIX closed at 35.9 on 20 November. US Treasury yields also rose as markets repriced the interest-rate outlook, with the two-year yield approaching 4.88% and the ten-year briefly exceeding 5.1%.

The correction has been concentrated in crowded technology and semiconductor exposures rather than signalling a broad deterioration in corporate fundamentals. Importantly, earnings remain relatively resilient, while structural demand for semiconductors and AI-related infrastructure remains supportive. The adjustment therefore appears to be as much about the price investors are willing to pay for future growth as the growth outlook itself.

For investors, this calls for greater selectivity with greater emphasis on diversification, valuations, resilient cash flows and strong balance sheets.

PORTFOLIO IMPLICATIONS

Multi-Asset

The recent correction illustrates how traditional portfolio hedges can behave differently when inflation and interest-rate expectations are driving volatility. Treasuries initially weakened as investors repriced Federal Reserve policy before recovering as equity losses intensified. Gold, meanwhile, declined approximately 14% between 9 and 20 November as higher real yields and deleveraging outweighed safe-haven demand.

Despite the market turbulence, the economic and corporate backdrop remains broadly supportive, with activity and earnings holding up. The correction therefore appears to reflect a repricing of valuations and policy expectations rather than a breakdown in the economic or earnings cycle.

However, structural risks to the rates outlook remain. Persistent supply-side inflation, rising government spending and widening fiscal deficits could keep longer-term yields elevated even if safe-haven demand brings some near-term relief.

We therefore favour a balanced rather than aggressively risk-on approach. Rather than relying on a single defensive asset, portfolio resilience should come from liquidity, diversification and multiple sources of return. Cash, fixed income and selective exposure to diversifying assets such as gold can complement equities, while periods of volatility may provide opportunities for disciplined rebalancing.

Equities

US weakness has been concentrated in technology, semiconductors and other long-duration growth exposures. Earnings remain relatively resilient, but investors are increasingly scrutinising AI capital expenditure, financing needs and whether this investment can ultimately generate sustainable returns.

In Asia, 2026 has been a year of two halves. Korea and Taiwan led the strong first-half rally on AI and semiconductor demand, but tighter financial conditions and concerns over AI investment returns subsequently drove a sharp de-rating.

Looking ahead, we remain cautiously constructive but selective. The correction has improved valuations, while semiconductor fundamentals and structural AI demand remain supportive. However, the market is shifting from rewarding AI expenditure towards demanding evidence of AI monetisation, sustainable cash flows and returns on investment.

This favours country and stock selection over broad market exposure, with an emphasis on quality companies with strong cash generation and reasonable valuations. US financial conditions, China's domestic economy and Sino-US technology restrictions remain important risks.

Fixed Income

Recent developments have led investors to reassess the durability of US growth. Two important supports for the economy, AI-related capital expenditure and consumer spending, are increasingly being questioned. Expectations for the pace of AI infrastructure build-out have moderated, while weaker equity markets could weigh on household confidence and discretionary spending through a negative wealth effect.

Against this more uncertain growth backdrop, US Treasury yields remain relatively elevated. The combination of a softer growth outlook and higher starting yields has improved the risk-reward for fixed income. Current yields provide an income cushion and potential for capital gains should economic growth moderate and interest rates subsequently decline. Reflecting this improved valuation, we have moved our duration positioning from short to neutral.

The key risk is sticky US inflation. Higher energy prices can feed through into transportation, production and other input costs, creating broader inflationary pressures. If inflation remains elevated, the Federal Reserve may not be able to dial back monetary tightening as quickly as expected, keeping Treasury yields higher for longer. This argues for a balanced rather than aggressively long-duration position.

Within Asia, Singapore corporate bonds currently offer selective opportunities. Recent weakness appears to have been exacerbated by an absence of natural buyers rather than a material deterioration in underlying credit fundamentals, creating more compelling valuations. A return of buyers could improve liquidity and provide support to Singapore corporate bond prices.

Currencies

The US Dollar (USD) remains supported by elevated US yields and demand for dollar liquidity during periods of market stress. However, as investors reassess the outlook for US growth, AI investment and consumer spending, the currency outlook has become more balanced.

Within Asia, performance is increasingly differentiated by external balances and capital flows. The Korean won (KRW) has faced pressure from technology-related equity outflows, while lower oil prices have supported energy-importing economies. The Singapore dollar (SGD) has remained comparatively resilient, underpinned by Singapore's external fundamentals and exchange-rate framework.

For SGD-based investors, maintaining a core SGD allocation while selectively diversifying into USD and other currencies may help balance domestic liabilities with protection against periods of market stress.

Key risks to monitor

- Inflation and rates: Sticky inflation or a renewed energy shock could force central banks to remain restrictive for longer.
- US growth and AI investment: Weaker consumer spending or slower AI investment could increase downside risks to growth and technology earnings.
- Fiscal and bond-market risk: Large government deficits and funding requirements could keep long-term yields elevated and tighten financial conditions.
- Geopolitics: Disruption to major energy routes, including the Strait of Hormuz, or renewed Sino-US technology tensions could affect inflation, supply chains and risk appetite.
- Europe: Further sovereign stress, particularly in France, could drive wider spreads and complicate the European Central Bank's policy response.
- Valuation and positioning: Crowded trades can unwind sharply even when longer-term fundamentals remain intact.

CONCLUSION

Current volatility is best understood as a valuation and liquidity adjustment against an uncertain policy and growth backdrop, rather than, at this stage, evidence of a broad deterioration in corporate fundamentals.

Hotter inflation and higher yields have challenged elevated valuations, while investors are becoming more demanding about whether AI investment can translate into sustainable cash flows and returns. At the same time, the correction has improved valuations and created selective opportunities across asset classes.

This environment calls for balance rather than aggressively risk-on approach. Portfolios should focus on resilience, quality, and diversification, while using volatility to add selectively to areas where fundamentals remain strong. Current risk-off environment still supports bonds as a good safe haven hedge against equity risk off. Rather than relying on a single defensive asset, portfolio resilience may therefore come from liquidity, balanced duration and diversification across different sources of return. Cash, fixed income and selective use of diversifying assets such as gold can complement equity exposure, while volatility may provide opportunities for disciplined rebalancing.

All data are sourced from Lion Global Investors and Bloomberg as at 24 November 2026 unless otherwise stated.

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