RBC BlueBay Asset Management

Marketing communication

When the chips are down

A trillion-dollar indiscretion…

Key points:

- **Inflation surprise:** U.S. headline CPI has come in above expectations at 0.4% month-on-month, with core inflation running at around 2.7% year-on-year.
- **Fed rates:** above expectations US CPI, together with hawkish comments from some FOMC members saw market expectations for Fed hikes rise. We think consecutive 25bps hikes in December and January now look probable, but the outcome thereafter is much less certain.
- **Escalation risk fades:** the probability of a renewed escalation with Iran has fallen materially, with the Israeli opposition moving swiftly to try to form a government and oust Netanyahu, reducing near-term conflict risk.
- **Dip buyers return:** equity and credit markets have staged a strong recovery this week, with semis rebounding on CoreWeave results, and cheap valuations attracting dip buyers.
- **Nvidia's bad week:** former Nvidia CEO, Jensen Huang, has resigned his position following a scandal involving reports of espionage, wiping over a trillion dollars from the company's market capitalisation.

London, 13 November 2026: The market switched its attention back to fundamental factors this week. The release of the latest CPI inflation data in the U.S. certainly got everyone's attention, especially in the context of hawkish comments by a number of Federal Reserve policymakers (most prominently, Chris Waller).

Headline CPI came in at 0.4% month-on-month vs 0.3% expected, and the core number was also a tenth above expectations at 0.3%. This takes core inflation to around 2.7% year-on-year. There is no disguising the breadth of this report.

The question to ask is whether this reflects second round effects from the economy's persistent strength and the surge in energy costs through Q3 (as Chris Waller suggests), or whether the focus should be forward looking, where energy prices are now meaningfully lower and favourable base effects will kick in at the start of 2027. What has been particularly unsettling for the market was that Chris Waller's comments indicated he is open to a hike of 50bps at the next FOMC meeting.

Since we last wrote, U.S. fixed income yields have led the way higher heading towards, and in the wake of, the stronger-than-expected CPI report. As we write, short-dated rate contracts in the U.S. are now pricing 82bps of hikes out to October 2027. The Fed is nailed on to hike rates again in December, but we think it is highly unlikely that they hike 50bps.

What is now probable is that they will hike 25bps consecutively in December and January, but thereafter, the outcome is much less certain and will depend on the evolution of energy prices. We remain flat on U.S. duration but observe that the front end of the yield curve in the U.S. is now in overshoot territory and beginning to look attractive.

There has not been much development in the Middle East. It has seemed that there has been a renewed push for a deal to end the stalemate with Iran in the wake of the mid-term elections but this has not come too much.

In Israel, it is looking somewhat more likely that Gadi Eisenkot will be able to form a government and oust Netanyahu from power. Reports indicate that Netanyahu is pushing hard for a reescalation in hostilities with Iran, but we understand the opposition is moving as rapidly as possible to form a sustainable government making this outcome much less likely.

Overall, we maintain the view expressed last week that the scale and breadth of the “Blue Wave” Democratic sweep in the election has materially reduced the probability that Trump will return to a “kinetic” war, even if a sustainable deal remains elusive.

Switching to Europe, yields have moved modestly higher, in sympathy with moves in the U.S. However, there has been no material fundamental news, and we expect rates in the European region to continue outperforming the U.S. Our macro stance has not changed materially since we last wrote.

Given our view that escalation in the Middle East is much less likely, it follows that the energy price complex should resume its downward trajectory and that will benefit European fixed income and risk disproportionately. We remain modestly long outright duration in France, Italy, and Romania.

In the UK, the BoE’s watchers conference this week reinforced their message to tighten monetary policy in an environment in which headline inflation will continue to rise into Q1 next year. The outlook thereafter largely hinges on the geopolitical picture and natural gas prices, although so far, the broadening of price pressures is limited.

We continue to think the BoE is on course to hike rates once or twice more over the next few months before taking stock. Moreover, meetings with policymakers this week reinforced the economic message around the Budget, and its focus on bringing inflation down. This has polled well with the public and provided some political capital for which Burnham’s broader policy agenda can be implemented next year. In that respect, we think gilts x-region look attractive here as the ‘gilt premium’ erodes over the medium term.

Equity markets initially sold off aggressively in the wake of the mid-terms, particularly in AI-related sectors. However, this week has seen big recovery. Semis have recovered most of the drawdown on reassuring results from CoreWeave and concerns around funding seem to have subsided for the moment.

The more positive tone can also be observed in credit markets, where markets are trading much better after a poor October. Positioning has cleaned up materially and cheap valuations are attracting dip buyers. The flurry of new issues coming to market have been relatively well received. Across the board, our investment teams have been tentatively adding to credit exposures.

In currencies, last week we had moved to a more negative U.S. dollar stance in the wake of the U.S. mid-term election result. The more hawkish tone from Federal Reserve policymakers has complicated the path to a weaker U.S. dollar and we have trimmed back some of the conviction in this trade.

Finally, returning to the topical theme of crimes and misdemeanours. Jensen Huang’s indiscretion has cost him his job and wiped off over a trillion dollars from Nvidia’s share price. We can only speculate at this stage as to what the more long-term consequences of this scandal are going to be given the reports of espionage swirling around the saga.

The next questions will surely focus on who knew what when - though it is worth noting Elon’s post on X last year that said: “If she’s a 10 – you’re an asset!” It is perhaps appropriate to roll out an old cliché that it’s more often the case that the cover up is worse than the crime.

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