RBC BlueBay Asset Management

Marketing communication

‘Thanksgiving Turkeys’

The CEO too big to fail

Key points:

- **AI investment cycle:** capital demand is outpacing supply as the AI flywheel demands ever-greater funding flows; with competition for capital intense, smaller changes in interest rate risk are having a larger impact on financial conditions.
- **Fed:** we still expect the Fed to hike by 25bp in December and then once more in Q1, before going on hold, provided inflation can be seen starting to decline from its peak.
- **Eurozone:** widening sovereign spreads are a tightening of financial conditions that, against an already softer growth backdrop, could merit ECB restraint.
- **Rates:** with yields at levels not far from historic highs, we see medium-term value in U.S., European, UK, and Japanese yields at prevailing levels.
- **Corporate credit:** recent weakness in spreads affords the opportunity to add exposure; we believe the weakness reflects market technicals and a supply/demand mismatch arising from competition for capital.

London, 27 November 2026: Jensen Huang's sudden reinstatement as CEO of Nvidia triggered a significant relief rally in stocks at the start of this Thanksgiving week, in the wake of the market's precipitous plunge last Friday. Stepping back, it may be worth considering why the fate of a single individual should have such outsized relevance. Much of the relief rally may hang on the quashing of fears that Nvidia's financing engine was about to take a more materially conservative approach with respect to funding its client base.

Patently, markets did not welcome a more cautious and responsible message. This speaks to the debate as to the extent to which circular cashflows represent entirely legitimate vendor financing, as opposed to something more reminiscent of a Ponzi scheme, serving to enrich insiders.

Clearly the development of AI technology is critically important to the U.S. and global economy right now and this reality is unlikely to alter in the quarters ahead. However, with respect to financial market valuations, there is a clear sense that for AI valuations to be justified, capital needs to keep flowing in order to keep the AI flywheel going. In this context, it has also become clear that against the backdrop of increased global competition for capital, smaller changes in interest rate risk are having a larger impact on financial conditions. This comes at a time when global demand for capital appears to be outrunning supply.

This is an important consideration for the Federal Reserve, and in this respect speaks to some caution on interest rates. Yet there is clear tension between the FOMC's commitment to delivering its mandate versus a national desire to triumph in the race for AI supremacy.

Reflecting on this, we continue to think that the Federal Reserve will hike by 25bp in December and then one more time in Q1, before going on hold, as long as inflation can be seen starting to decline from its peak. We sense that Warsh will be content with inflation if he can lower it to the high 2s. There is a growing body of

argument seeming to advocate for a bit more leniency with respect to the Fed's 2% inflation target, at a time when there is an unprecedented pace of business investment spending in a critical new technology.

Indeed, reflecting on this, it may be interesting to hear what the Fed's Inflation Taskforce will report when it delivers its findings (presumably early in the new year). Although we think that the FOMC will be very resistant to diluting its inflation mandate, there may be a sense in which the measurement of inflation is viewed differently going forwards. Ultimately this could speak to increased term premia if perceived inflation risks edge higher. During 2027, we may end up with the Fed sitting on hold with respect to monetary policy, once the easing that prior chair Powell delivered at the back end of 2025, in response to a mis-diagnosed slowing of economic activity at the time, has been reversed.

Meanwhile, in reflecting on the developments in AI, little will change the sense of growing public opposition to data centre construction in local communities. Some 80% of U.S. voters are opposed to the construction of a data centre in their locality, on the back of higher electricity and water bills and having to live with an irritating humming noise, which never ceases.

With data centres doing little for local employment, it is understandable that there may be growing regulatory pushback, with the Democrats about to inherit their largest majority in both houses of Congress for a generation. One can only imagine that any opposition will grow ever louder as and when jobs start being lost to AI. The risk to the unemployment rate is very much on the upside as we consider the economic backdrop over the coming couple of years.

We expect the Dems to be throwing sand into the gears of the AI rollout and thus this should help slow the investment frenzy and help alleviate some funding pressures in markets. This may speak to a more conducive environment for credit spreads in the weeks and months to come. However, AI-related debt issuance in 2027 will still exceed what has been raised in 2026, even if the quantum of acceleration is more modest than may have recently been feared.

Meanwhile, in Europe we think that recent widening of sovereign spreads represents a tightening of financial conditions, which could merit restraint on the part of the ECB, given an already softer underlying growth backdrop in the Eurozone. In the coming week, we look for an EU announcement with respect to joint Eurobond issuance to finance support for Ukraine and it may well be the case that joint debt issuance is a topic that comes back onto the table should stress in spreads persist.

We would vigorously argue that, unlike in 2011, a break-up of the single currency and thus FX redenomination risk is not on the table at the current point in time. Therefore, inasmuch as spreads are solely pricing default risk, so the level of prevailing spreads in the Eurozone appears unwarranted on a fundamental basis. We see value in sovereign credit in the region and feel that there is an opportunity to add on weakness, with news flow in French politics potentially also improving with a solid chance a centrist candidate makes the second-round run-off versus Le Pen.

This backdrop appears relatively supportive for rates, given the extent of additional monetary tightening discounted in global bond curves. With yields remaining at levels not far from historic highs, we see medium-term value in U.S., European, UK, and Japanese yields at prevailing levels. Although short-term market volatility is a factor clouding the near-term horizon, there appear more reasons to look to position long rather than short rates, with energy prices remaining relatively contained – even allowing for a cold snap in European weather over the past week or two.

Meetings with investors and policymakers in Japan this week continue to highlight anticipated flow into domestic fixed income, which should support yields. Although the long-dated 30-year sector has been a laggard in the wake of soft auction demand in the past week, we take increased reassurance that Prime Minister Takaichi recognises the need to contain borrowing costs by preserving fiscal responsibility.

In this respect, we think that the steepness of the JGB curve prices debt sustainability concerns, which are not warranted. The Japanese economy remains in relatively robust health and inflation expectations have

normalised around 2%, with the rental property market now also adjusting to regular price reviews on a two-year cycle.

Turning to corporate credit, we think that recent weakness in spreads affords the opportunity to add exposure. In investment grade credit, investors have historically been overcompensated for default risks in bond spreads and with recession risk remaining low for now, so default rates should remain muted for the foreseeable future in this part of the market.

Recent weakness has more to do with market technicals and the competition for capital, which has seen a mismatch in supply and demand. However, we think that should Democrats in the U.S. slow investment plans such that the growth in investment is on a more shallow trajectory, this should be helpful to credit markets. In this regard, we currently think that financial markets discount a significant amount of bad news in the current price (and spread) of corporate bond securities.

Short-term market gyrations have made for a challenging backdrop, but increasingly, as rates rally, so it has been pleasing to see spreads for French OATs and Italian BTPs start to keep pace with bunds. We would note that if yields do move lower, this will end up having a disproportionate benefit to those sovereigns with the greatest indebtedness.

All eyes are on the equity market at the moment, and it has been interesting to field questions from investors as to how far stocks need to drop before central banks desist from raising rates further and even countenance easing policy.

Bluntly, we think that we are a long way still from such a point, though we think that the Federal Reserve and other central banks will be particularly attendant to developments in credit markets should rising spreads threaten to seize up corporates' ability to access finance. In this respect we see Chair Warsh operating with more of a credit market put than an equity market put, per se.

Looking ahead

Returning to Nvidia and AI, perhaps we would reflect that such are the norms in the Trump administration era that last weekend's intervention to reinstall Huang hardly seems that surprising. It is surely unhealthy that we not only have corporations, but CEOs who now seem to be too big to fail and can thus operate as a law unto themselves.

As we have seen as the week has progressed, undermining corporate governance standards can end up undermining trust in markets and lead to valuations being challenged. In this respect, it must be remembered that you can be a believer in the potential for AI as a technology to radically transform our world, whilst remaining more sceptical of asset price valuations in the sector.

Meanwhile, it will be worth watching whether any members of the US administration purchased stock in Nvidia prior to Jensen's reinstatement, which led to a 31% rise in the share price. Questions around the timing of trades and policy announcements have attracted scrutiny in recent months, and any suggestion of improper trading would be likely to draw close attention from Congressional Democrats.

It could also sharpen the debate about the administration's conduct more broadly. Certainly, there is a growing sense that many in the Republican Party are rapidly losing any love they have held for their Commander-in-Chief. It may end up that the only friends he has left are the Turkeys he’s pardoned this week!

Contact:
Lydia Cambata
lcambata@bluebay.com

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