THE SHORT AND LONG

Weekly Bulletin

Substance over Sentiment: The Case for Optimism

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TAKEAWAYS

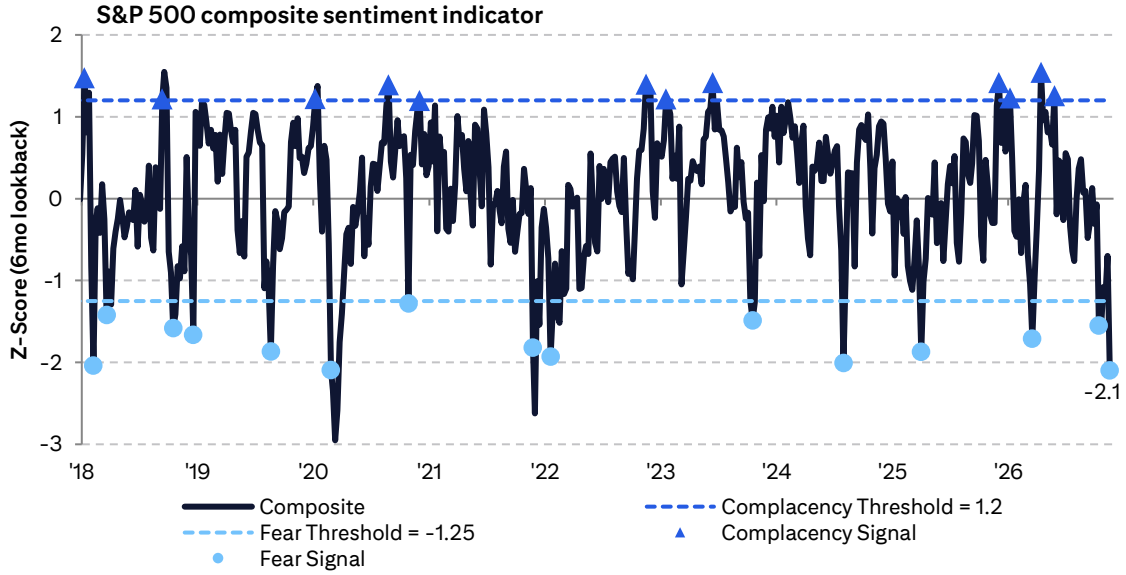
Investor sentiment flashed fear even as economic and earnings fundamentals remain strong. Historically, 10% drawdowns without earnings contractions have been rare, and we believe investors with excess cash should consider deploying it into equities.

Recent technology outages appear driven by an unprecedented pace of software patches, not hacks, as AI uncovers vulnerabilities faster than ever. We believe these fast, messy fixes may create future risks and strengthen the case for cybersecurity exposure.

Capital spending remains strong and broad, with about half of S&P 500 companies growing capital expenditures (capex) more than 10% year over year. Semiconductor export data and company commentary show no signs that the AI investment pipeline is slowing

THIS WEEK IN CHARTS

FIGURE 1: Fear signals triggered amid historically weak market sentiment



Source: Bloomberg as of November 23, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary. The indicator combines measures of market volatility, options activity, and speculative investor positioning into a single score. Each reading is expressed as a z-score, which shows how far current sentiment sits from its average over the past six months.

LOOKING CLOSER

An S&P 500 composite sentiment and positioning indicator we reference, which helps identify potential opportunities (when markets are fearful) and possible risks (when markets are complacent), triggered the fear threshold in both October and November. A fear reading is typically associated with above-average returns over roughly the next six months.

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FEAR RISES WHILE FUNDAMENTALS STAY STRONG

Markets have swung sharply in recent weeks, but the foundations remain solid. Our Wealth CIO investment process rests on four pillars: macro regime, fundamentals, valuations, and sentiment. Three of the four look constructive, and the fourth, sentiment, is flashing the kind of fear that has often signaled potential opportunity.

On the macro front, U.S. growth and inflation continue to run above expectations. Consumer behavior remains firm, and signs of the AI capex buildout continue to point to durable growth. Equity fundamentals remain strong: earnings growth is robust, margins have expanded, and analyst upgrades continue to outnumber downgrades. Valuations have also improved meaningfully after a significant derating over the course of the year (U.S. forward P/E stands more than 15% below its 5-year average) which makes the setup more compelling in our view.

Sentiment also reflects the recent valuation compression and provides a similar contrarian signal. An S&P 500 composite sentiment and positioning indicator we reference, which tracks volatility, options activity, and investor positioning, triggered fear signals in both October and November and stood at –2.1 as of November 20, well below our fear threshold of –1.25 (Figure 1). A reading below -1.25 triggers a fear signal, meaning sentiment is unusually pessimistic relative to its recent history, while a reading above 1.2 signals complacency. We use this indicator as a contrarian signal: forward returns once this threshold has hit outperform average returns with a three- and six-month look. When fear runs this high and fundamentals remain intact, we see potential opportunity rather than a reason to retreat.

History supports that view. Drawdowns of 10% or more in the S&P 500 without a contraction in earnings have been rare. The VIX, a measure for expected 30-day volatility in the S&P 500, reached 40 on Friday, the highest since Liberation Day[1]. Since the 1987 crash, the S&P 500 has traded higher three and six months later in all but one of the 14 prior episodes in which the VIX reached that level.

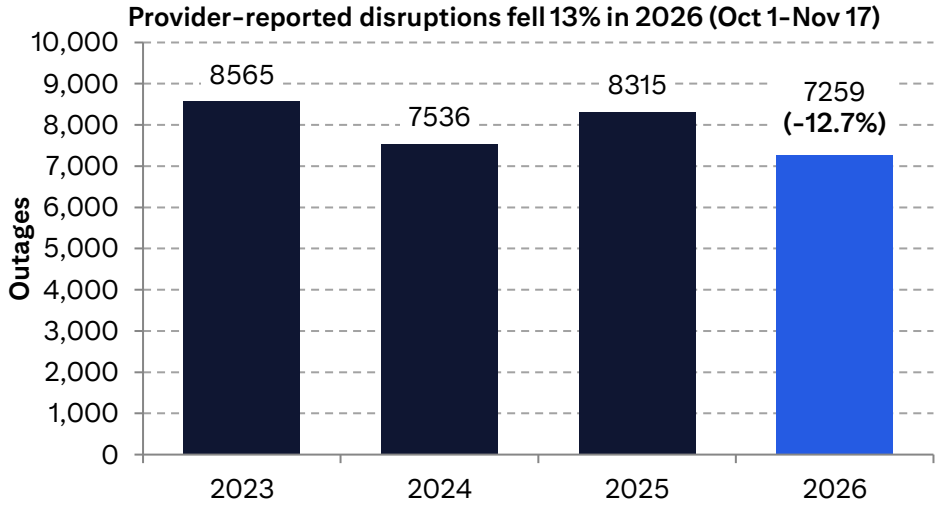
For investors who are fully invested, we believe the message is to stay invested. For those who are underinvested in equities or holding excess cash, we believe this environment may offer a potential opportunity to put that cash to work.

Bottom line: Strong economic and earnings fundamentals, combined with weak sentiment and attractive valuations, have historically created compelling entry points. We believe investors with excess cash may consider deploying it into equities, while those fully invested should stay the course.

FAST, MESSY PATCHES STRENGTHEN THE CYBERSECURITY CASE

Last week's widespread technology outages raised understandable concerns about cyberattacks. The data tells a more nuanced story. Though headlines and major providers suggested acute weakness among systems, provider-reported service disruptions between October 1 and November 17 fell about 13% from the same period last year, to 7,259 from 8,315 (Figure 2).

FIGURE 2: Despite headlines, tech disruptions are lower than prior years



Source: StatusGator as of November 17, 2026.

[1] Liberation day refers to the day President Trump announced new U.S. tariffs under the International Emergency Economic Powers Act (IEEPA).

What has changed is the cause. Companies affected by recent outages report that the root problem was not a hack. In most cases, it was a system upgrade gone wrong. This year has brought an unprecedented number of software patches as sophisticated AI tools seek to uncover vulnerabilities in critical software.

Speed comes at a cost. Industry reporting describes these patches as arriving "fast and messy." In our view, rushed fixes at this volume may not only cause outages today but also could create new vulnerabilities down the road.

That reinforces one of our highest-conviction themes. Spending on security for AI systems, which protect AI models, agents, prompts, and data, is projected to grow at a 65% compound annual rate from 2026 to 2028, roughly five times the 11% pace projected for overall cybersecurity spending[2]. We see this as further evidence that security investment must rise beyond prior expectations.

Bottom line: Recent outages appear driven by an unprecedented wave of fast, messy software patches rather than hacks. We believe this adds to the case for cybersecurity exposure as AI accelerates both the discovery of vulnerabilities and the need to defend against them.

CAPEX SIGNALS SHOW NO SLOWDOWN IN INVESTMENT

Investors keep asking one critical question: has the excess demand behind the AI buildout started to fade? Based on the latest earnings reports and high-frequency data, our answer is no. Companies continue to describe demand that outstrips supply.

Capital spending is both strengthening and broadening. About half of S&P 500 companies report capex growth of more than 10% over the past year, well above the long-term median, and aggregate capital spending growth continues to climb. Broad participation matters because it suggests investment is not resting on a handful of companies.

High-frequency data corroborates what companies tell us. South Korea's semiconductor exports, an early indicator of AI-related capital spending, rose 294% year-on-year in the first 20 days of November[3]. Meanwhile, companies are reporting increasing lead times and delivery delays. Supply chains remain stretched.

Business surveys point the same way. A November survey of U.S. businesses found more than twice as many respondents reporting rising sales as falling sales, improved employment expectations, and strong capital spending plans, with many firms already seeing productivity gains from AI. Nothing in the data suggests a fundamental slowdown. Recent volatility appears far more like a positioning story.

Looking ahead, we are watching October Personal Consumption Expenditures (PCE) inflation as this report will influence the updates to the U.S. Federal Reserve (Fed) Summary of Economic Projections at its December 9 meeting. We also continue to monitor a potential U.S. government shutdown and developments in the Iran war.

Bottom line: Capex growth remains strong and broad, and the AI investment pipeline shows no signs of slowing. We believe recent volatility reflects positioning rather than fundamentals, which supports staying invested.

[2] Gartner as of August 26, 2026.

[3] Haver Analytics as of November 22, 2026.

	WHAT HAPPENED	WHAT'S AHEAD
ECONOMIC DATA	**U.S.** November Philly Fed prices received the highest hit since June 2022 while new orders dropped to its lowest reading since May in the index's fourth consecutive decline. October pending home sales fell to levels last seen three decades ago.	**U.S.** October PCE
	Global Japan Q3 GDP fell 0.1% Q/Q vs. +0.2% expected. October CPI ex-fresh food rose 2.2% Y/Y, the fastest pace this year. UK October CPI was in line at 3.6% Y/Y, with services slightly cooler.	**Global** ECB meeting minutes to be released Eurozone Flash CPI for November
POLICY	**U.S.** FOMC minutes were hawkish: inflation elevated, risks skewed up, and a couple of officials said 50bps may be warranted.	**U.S.** Fed pace debate (25bps vs. 50bps) ahead of the 12/9 FOMC. Possible government shutdown: funding ends 12/11
	Global The U.S. Department of Commerce tightened export controls on advanced AI chips aiming to close a loophole for Chinese access, President Trump and Xi Jinping's meeting at the APEC summit left the issue unresolved. ECB Governing Council member Nagel said the ECB should lift interest rates next month into a range where they begin to constrain the economy.	**Global** White House sought assessments of Iranian response to potential U.S. strike scenarios; Iran widened strikes in the Gulf. We remain attentive to potential escalation.
MARKETS	**U.S.**	**U.S.**
	Global An unwinding of the AI trade alongside concerns of a more hawkish Fed drove a selloff in metals this week with copper down ~9% and gold down ~8%.	**Global** Oil was down ~6% last week, we remain attentive to supply dynamics, risk-off sentiment, and the Iran war.

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RELATED READING

November 17, 2026 | Asia's AI Divide: Fundamentals Over Headlines

In last week's Bulletin, we looked at why we viewed the recent market selloff as a continuation of a valuation reset, not a break in fundamentals. We also looked at how the AI supply chain exposure has split Emerging Markets Asia markets as investors rewarded specialized AI suppliers in parts of the region.

October 29, 2026 | The Short and Long Podcast

In episode five of Citi Wealth's The Short and Long, Chief Investment Officer Kate Moore takes a comprehensive look at the rapidly shifting global energy landscape. Her guests, Patrick Pouyanné, Chairman and CEO of TotalEnergies, and Alastair Syme, Head of Global Energy Research at Citi Research provide an assessment of rising global power demand, the structural costs of the energy transition, and the geopolitical forces redefining market risk. Watch now on YouTube, Apple, or Spotify and subscribe for future episodes.

October 7, 2026 | The Short and Long: Q4 Macro Investment View

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report delivers a breakdown of inflation, AI investment cycle, role of gold, natural resources, and portfolio resilience, and lessons from our key investment calls throughout 2026.

September 24, 2026 | Global Investment Council

The Citi Wealth Global Investment Council met September 24, 2026, and increased allocations to U.S. equities, Japanese equities, and the cybersecurity theme, funded by a reduction in the overweight to U.S. securitized fixed income. The Council also reviewed and endorsed the portfolio's drift, remaining comfortable with the market-driven increase in equity exposure relative to fixed income.

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Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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Weekly Bulletin