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The Artificial Intelligence Unwind

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As of yesterday's close, the S&P 500 had declined for 6 consecutive days and had fallen 8.9% from its all-time high. While market declines of this sort can be disconcerting, we encourage investors to retain perspective, remain disciplined, and speak with their Janney financial advisor about their personal situation.

The U.S. economy remains solid and supportive of corporate earnings growth; the decline in the equity market has primarily been localized in technology and artificial-intelligence related stocks, and we believe this is a temporary correction within a sustained bull market.

Market Returns[1]

- Equity returns remain positive year-to-date, but major indexes have declined 9-17% from their peaks earlier this year (Fig. 1).
- Technology stocks have driven the recent decline. Since October 1, the S&P Information Technology sector has fallen -16.3% whereas the S&P Ex-Technology Index is up 0.5%.
- The 10-year Treasury yield stands at 5.0%, up slightly from 4.9% at the beginning of the month but down 0.13% this week.
- Gold has fallen along with the market and is down -16% in October and November.

Why are stocks declining?

- We believe it is increasingly clear that AI-related stocks face a short- and long-term earnings challenge and that the more-speculative parts of the market face continued fallout as lofty earnings growth expectations come back to earth.
    - Consensus next-12-months earnings-per-share growth estimates remain above 40% for the US Technology sector[2], leaving plenty of room for disappointment and little room for upside surprise.
    - Longer term, technology firms may struggle to raise enough revenue required to justify current AI spending plans (a 10.3 trillion cumulative spend between 2025-2032 requires $3.55 trillion of revenue by 2032 to achieve a 10% return on investment[3]). $3.55 trillion of revenue is nearly 9% of all spending in the U.S. economy.

[1] Source: Bloomberg, Janney Chief Investment Office. As of 11/19/2026.
[2] Source: Bloomberg, Janney Chief Investment Office. As of 11/19/2026.
[3] Van Nieuwerburgh, Stijn. Financing the AI Buildout. March 19, 2026.

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- Hedge funds and U.S. corporations have become net sellers of equity[4]. Hedge funds have been net sellers of technology stocks, in particular, whereas U.S. corporations have become net sellers in aggregate as they attempt to raise capital for AI investment.
- Monetary policy is likely to remain restrictive, as inflation remains well above the Federal Reserve's (Fed) 2% target and many Fed officials are advocating for additional rate hikes. Higher interest rates are generally a headwind for equity returns. In this case, the Fed may welcome some decline in equity prices to calm household spending and thereby fight inflation.

What is the historical context[5]?

- Consecutive declines that last 6 days or more have happened every 8 months, on average, since 1951. The last time we had a 6-day drawdown was April 2024.
- Since 1980, the median intra-year decline in the S&P 500 has been approximately 10% (Fig. 2). The current decline is unexceptional and "normal market volatility" in that context. Importantly, intra-year declines have rarely exceeded 15-20% without a coinciding economic recession.
- Significant up and down trading days generally cluster together. Attempting to time the market can lead to missing large recoveries.

What is our economic view?

- Non-residential investment, the "official" category for AI-related corporate spending, has driven about half of GDP growth over the last two years[6]. A pull-back in AI investment remains a risk to continued above-average economic growth.
- However, the U.S. economy remains solid, and we do not believe a recession is on the horizon. Unemployment is low and aggregate wage growth is accelerating, providing support to households and consumption spending.
- Fiscal policy also remains supportive of the U.S. economy, in our view, and monetary policy from the Fed today is neither supportive nor contractionary for the economy overall.

What is our market view?

- Global economic conditions continue to provide support for corporate earnings.
- We believe the current decline is a "bull market correction" with highly leveraged trades facing the brunt of the declines.
- In order to diversify away from the frothiest parts of the AI trade, we continue to prefer U.S. value stocks over growth stocks, and remain underweight fixed income in favor of diversifying alternative investments.
- Some sectors, such as commodities producers and industrial firms, have been caught up in the leveraged AI trade as they provide the physical material for datacenter build outs.

[4] Hedge funds sell US equities for second week as... | Hedgeweek (11/17/2026)
[5] Source: Bloomberg, Janney Chief Investment Office. As of 11/19/2026.
[6] BEA, US Census Bureau, Janney Chief Investment Office. As of Q3 2026.

What should investors consider doing?

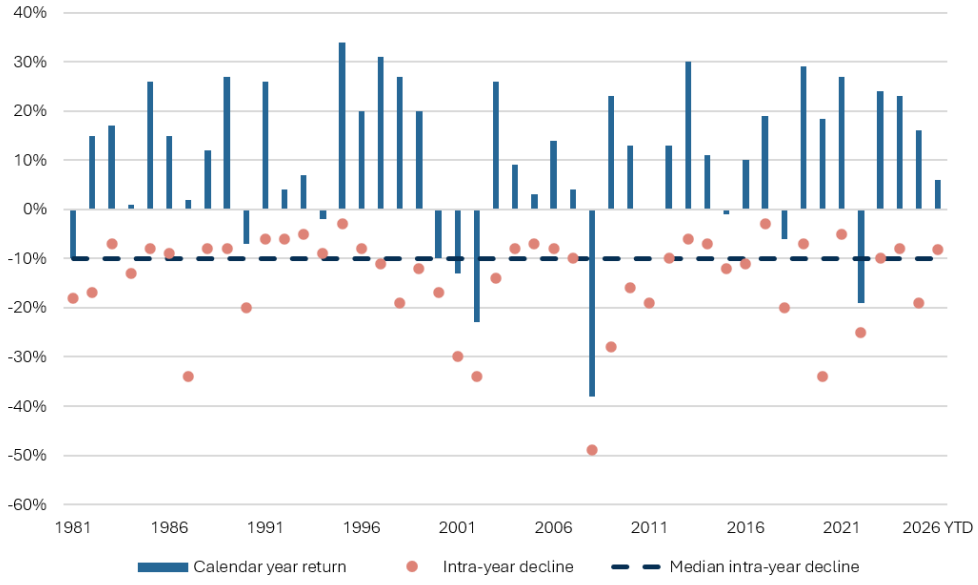
- First and foremost, we encourage all investors to remain disciplined, to recognize that the current decline is completely normal in the context of expected market volatility, and to speak with their Janney investment advisor about their personal situation. Most investors likely do not need to take action at all.
- Second, bull market corrections can provide an opportunity to proactively improve and strengthen portfolios.
    - Taxable investors should consider harvesting losses, if possible.
    - Investors dollar-cost averaging cash into the market over time can consider accelerating an investment tranche.
    - Some investors might consider rebalancing and/or adding diversifying exposures, particularly if heavily exposed to AI equities.
- Finally, investors that are disconcerted by the recent decline should revisit their financial plan with their advisor to confirm that their portfolio risk profile continues to fit their goals, time horizon, and tolerance for volatility.

Fig. 1: Equity markets are positive in 2026, but 10-20% off their highs
Trailing equity market total returns

	YTD	1-YR	3-YR	5-YR	Peak-to-Trough
S&P 500	5.9%	5.9%	17.7%	11.0%	-8.9%
DJ Industrial Average	3.5%	4.5%	12.8%	9.3%	-9.7%
NASDAQ Composite	3.3%	2.8%	19.6%	9.8%	-13.4%
Russell 2000	8.2%	7.6%	15.2%	5.3%	-13.1%
MSCI EAFE	6.6%	9.9%	15.7%	9.7%	-10.7%
MSCI Emerging Markets	7.9%	11.1%	17.6%	7.1%	-16.8%

Source: Bloomberg, Janney Chief Investment Office. As of 11/19/2026.

Fig. 2: Intra-year declines of -10% are historically normal Intra-calendar year peak-to-trough declines, S&P 500



Source: Bloomberg, Janney Chief Investment Office. As of 11/19/2026.

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