CHARLOTTE SQUARE
INVESTMENT MANAGERS



A VIEW FROM THE SQUARE

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Should we get Huang up?

The past three weeks have provided a useful reminder that financial markets rarely move in a straight line. After a relatively sanguine summer and autumn for equities, investors have become increasingly concerned about interest rates remaining higher for longer, the sustainability of the technology-led rally and the enormous sums being committed to Artificial Intelligence (AI), or "Super Intelligence" as President Trump now refers to it. Add to that a resounding Democratic victory in the US midterms and the resignation of the CEO of one of the world's most important technology companies, and investors suddenly have plenty more to think about.

Perhaps the biggest political development has been the US midterms, where the Democrats secured control of both the House of Representatives and Senate. Although the scale of the result was striking, the President's party losing ground at the midterms is actually very common. In 18 of the 20 midterm elections between 1946 and 2022, the party occupying the White House lost seats in the House, with an average loss of approximately 26 seats. What makes 2026 more notable is the breadth of the Democratic victory. Current results have the Democrats gaining more than 40 House seats and 8 Senate seats, particularly in deep red states like Texas, South Carolina and Kansas.

For markets, however, the question is less about the political embarrassment for President Trump, primarily caused by the war in Iran, and more about what the change in Washington means for businesses.

There is little doubt that AI possesses significant long-term commercial potential, but investors are beginning to distinguish between believing in AI and believing that every dollar currently being invested will generate an attractive return.

The midterms have added another variable to that calculation. Democrats have increasingly focused on the electricity, and water demands associated with data centres, alongside the impact that rapid development can have on local communities and consumer energy bills. This is particularly relevant because Democratic victories occurred in several states important to America's AI infrastructure build-out. The risk is not that America suddenly stops investing in AI but that building the infrastructure becomes slower and more expensive.

The market therefore appears to be moving beyond the simple question of "who benefits from AI?" and towards the much more important question of "who ultimately makes money from it?"

This increasing selectivity has also coincided with an interesting broadening of equity-market performance. The STOXX Europe 600 has recently traded around record levels, while European equity funds have attracted significant investor interest. Our domestic market has also remained resilient, with the FTSE 100 trading close to all-time highs. After several years in which concentrating portfolios in the largest US technology companies has been remarkably successful, investors appear increasingly willing to look elsewhere. European and UK markets offer very different sector exposures and, importantly, continue to trade at significantly lower valuations than their US counterparts.

More recently came the surprising news surrounding Jensen Huang, CEO and co-founder of Nvidia, whose affair revelations led to his sudden resignation. Does it really matter?

For Nvidia, clearly, it does. Huang has been more than simply a chief executive. He has been the architect and public face of the company and one of the central figures within the global AI ecosystem. Nevertheless, his departure does not suddenly remove Nvidia's extraordinary competitive position. The company remains dominant in AI computing and sits at the heart of relationships across the production line. The risk may instead come at the margins. Huang has personally been the key link in many industry relationships, potentially providing competitors such as AMD, Broadcom and ARM with an opportunity to gain market share. With Nvidia's CFO taking the interim CEO role and results due imminently, investors will understandably be watching closely for any indication that customer relationships or capital-spending plans have been affected.

Interest rates provide a further complication. The US Federal Reserve left rates unchanged at its October meeting, but subsequent inflation figures have reduced expectations for an early easing of monetary policy. October consumer prices increased by 0.4% during the month, slightly ahead of expectations, reinforcing the possibility that rates may have to remain restrictive for longer. The UK faces similar inflationary pressures, not least from higher energy prices as the war in Iran continues, providing another reason for central banks to remain cautious.

None of this means that the AI investment cycle is ending or that Democratic control of Congress is inherently negative for equities. History actually suggests investors should be wary of making investment decisions based solely on election results. Instead, we believe recent events reinforce the importance of diversification and valuation discipline. The long-term prospects for AI remain extremely interesting, and many high-quality growth companies trade on valuations much more appealing than over the last 3 years or so, but being associated with AI may no longer be enough. There is little reason to believe the current uncertainty will disappear quickly, but neither should it prevent investors from taking advantage of the opportunities being created. As ever, maintaining diversified portfolios gives us the flexibility to participate in long-term structural growth themes without relying on one company, sector, geography or political outcome to deliver returns.

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