FROM BOND VIGILANTES TO CAPEX VIGILANTES

It's complexity that nips in the bud the certainties that investors dream of basking in, especially when reality defies feelings. The gains accumulated since the beginning of the year remain substantial and largely reflect the weight of technology in stock indices. In October, however, a new *sentiment* moved the markets: the S&P 500 lost 0.9% and the Nasdaq 100 6.7%, while the S&P 500 equal-weighted gained 4.9%. When each company weighs equally, a market emerges that is more resilient than one dominated by large caps.

Switzerland benefited: the SMI rose by 7.1%, supported by the return of interest in large defensive stocks. The absence of artificial intelligence (AI) players, long considered a limitation of the Swiss index, has turned into a virtue. In Europe, the DAX gained about 2.5% and the British FTSE 1.2%; the Stoxx Europe 600 ended its best month since June, although affected by sales in technology. A rotation also geographical, therefore, in a climate that was still worried. The financial conditions of technological development were put to the test. The transformation entrusted to "superintelligence", as Donald Trump would say, continues; however, the market is beginning to wonder how much to pay for it and who will be able to make it profitable.

The fuse was lit by the re-emergence of inflation. In the United States, consumer prices rose by 3.7% annually in September, compared to 3.4% in August. The monthly increase rose from 0.4% to 0.6%. Energy prices rose by 5.2% in the month and 20.4% in the year; core inflation also rose from 2.4% to 2.6% annually. For producer prices, the monthly increase of 1.3% brought annual growth to 6.3%, the highest since December 2022. The energy origin of the shock is obvious, and not only in the United States.

Inflation remains the main danger because it connects markets, geopolitics and social stability. Those who own assets can find compensation in the revaluation of assets. Those who only have their salary must contain their expenses: the slowdown in

price increases does not restore lost purchasing power.

It also becomes an indicator of social anger. The protests in France, Italy, Serbia, the United States and Israel have different motivations, but the cost of living can amplify discontent. When governments ask for resources for defense, energy and strategic priorities, a part of the population sees above all what is taken away from their needs.

Unease turns into distrust when the conviction that the benefits are private and the costs, with considerable regularity, collective is consolidated. The street contests this distribution, trying to set a social limit to geopolitical ambitions.

Oil makes the link visible. Wars transfer their costs through energy, transport and production. In the competition between the United States and China, critical energy supplies and minerals become instruments of pressure on each other. Venezuela, Iran and Brazil also enter this geography of power.

Lula's victory against Flávio Bolsonaro reduces the prospect of a Brazil more aligned with Washington. Trump probably counted on greater influence over Brazilian oil which, together with Venezuelan oil, would have strengthened his negotiating position vis-à-vis China, which holds a near-monopoly on rare earths. Pressure on Tehran is once again central to this strategy, and the risk of an escalation after the US mid-term elections acquires new, disturbing topicality. Penalizing the supplies of China and Europe, however, has a drawback: oil is also becoming more expensive for the Americans. Geopolitical supremacy, at the distributor, loses part of its charm.

Central banks need to figure out how much of the energy shock will be permanently transferred to services, wages and expectations. Raising rates does not produce oil, but it can curb this spread. The Federal Reserve's pause in October allows time; two members would have preferred an immediate hike. A hike in December remains possible. The European and Japanese Central Banks also kept rates unchanged, leaving the door open to future monetary tightening.

However, an important nuance has emerged in the bond world. After pushing into the 5.3% area in early October, the yield on the 10-year Treasury note has returned below 5%, helping prices

recover. German bunds have also benefited from falling yields, while France has continued to be affected by fears about public finances and the political environment. If it had only been fear of inflation, the bond recovery would be difficult to explain: investors have also considered the risks to growth.

Negative *free cash flow*, i.e. the absorption of more liquidity for investments than operating activity generates, does not automatically equate to a crisis. A platform with profitable activities can support this; On the other hand, a debt-indebted operator dependent on refinancing has lower margins and risks mortgaging its future. However, the competition for leadership in AI is such that no one can afford to be left behind. The warnings of Dario Amodei, co-founder and CEO of Anthropic, about the dangers of coexistence with "superintelligence", also shared by other industry leaders, are part of a race that is difficult to discipline: everyone could benefit from a more measured pace, but no one wants to slow down first.

The market has decided to intervene. Capex *Vigilantes*, as someone called them by recalling the expression *Bond Vigilantes*, coined by Ed Yardeni in the eighties, ask companies for the same discipline that bond investors demand from states. The willingness to finance the future remains; the willingness to do so without clarity on the payback times decreases. Confidence in the potential of AI does not disappear and the cycle is not over, but companies that bite off more than they can chew without adequately explaining the reasons are penalized, as happened to Alphabet, Amazon and Meta.

The size and quality of debt are also central again in the management of public finances. In Bangkok, at its October meetings, the International Monetary Fund (IMF) recalled the risks of high debts, higher interest rates and persistent spending pressures. The warning is not new. The policy response retains a certain freshness in the art of postponement. October thus brought corporate and government debt excesses into the spotlight, while inflation made their costs more visible even in the streets.

The greatest danger would emerge if inflation pushed yields higher again just as AI investments are disappointing. *Bond Vigilantes* and *Capex Vigilantes* would together restrict access to financing. For

now, it is probably enough to read the October moves as a *stress test* of a trend supported by growth and earnings. However, selectivity is set to increase: for indices, reaching new heights once again requires results and discipline in the deployment of capital.

China, whose stock markets continue to disappoint — the CSI 300 is down 20% from its June highs — deserves a separate note. The structural difficulties are enormous: real estate crisis, local debts, weak consumption, deflationary pressures and demographic aging. To all this the IMF adds the imbalances produced by debt-financed state investments. A disappointing stock market, however, does not demonstrate a technological lag. In a controlled economy, strategic priorities can receive resources even when immediate profitability would advise against them. This can produce waste but also progress that prices do not yet tell. What if, in some decisive areas of AI, the Chinese are further ahead than we suppose? Comparable performance at much lower costs would be enough to call into question the margins and investments of the American giants. It would be a real market shock, but also a systemic shock.