US Equities: A Valuation Reset – Time to Buy?

- Nasdaq plunged 5.5% on 5 November as AI spending and policy concerns triggered a sharp valuation reset.
- S&P 500 forward P/E of 17.7x is below historical averages, but interest rates and earnings revisions limit safety.
- Selective buying opportunities are emerging in profitable technology leaders, although liquidity risks argue against aggressive accumulation.

US Equity Selloff: AI Repricing Meets Deleveraging Pressure

Nasdaq Composite plunged 5.52% on 5 November, compared with a 4.36% decline in S&P 500, as concerns over AI regulation and hyperscaler spending triggered widespread selling. Nvidia dropped 9.3%, while hedge-fund deleveraging amplified market volatility. Data show equity long/short gross-exposure drawdown approaching 8% by 30 October. Although US equities rebounded on Friday, persistent credit concerns surrounding AI infrastructure suggest the correction may not be over. We view the selloff primarily as a valuation reset intensified by positioning and liquidity pressures, rather than evidence of an imminent economic recession.

US Equity Valuations: Attractive Discounts, but Limited Margin for Error

Following the correction, S&P 500 traded at approximately 17.7x forward earnings on 6 November, below its five-year average of 19.8x and ten-year average of 19.1x. However, a forward earnings yield of 5.65% offers only a 0.8-percentage-point premium over the US ten-year Treasury yield of approximately 4.86%. Corporate earnings remain resilient, with Q3 blended growth of 31.4%, although earnings surprises have narrowed. A 10% reduction in earnings expectations would lift the index's forward P/E to approximately 19.7x at unchanged prices, effectively eliminating the valuation discount. Selectivity therefore remains essential.

Sector Valuations: Technology Offers the Clearest Relative Discount

Technology and Communication Services appear most attractive relative to historical valuations, trading at 19.9x and 16.0x forward earnings versus five-year averages of 25.5x and 18.3x, respectively. Meanwhile, Health Care, Consumer Staples and Industrials trade at premiums. Recent weekly performance reinforces this divergence: Technology fell 7.06%, while Communication Services gained 2.58%. However, cheaper multiples do not guarantee upside, particularly as Technology's expected earnings growth depends heavily on sustained AI investment. These pre-selloff sector valuations require updating following November's correction.

Magnificent Seven: Not All Technology Stocks Are Equally Cheap

Valuation dispersion across the Mag Seven has widened. Alphabet (17.9x), Meta (20.7x) and Nvidia (20.9x) offer relatively attractive forward P/Es versus Microsoft (26.5x), Apple (36.1x) and Tesla (~205x). Growth-adjusted valuations also favour semiconductors, particularly Nvidia, although these depend on sustained earnings expansion and AI monetisation. We prefer Alphabet and Meta for their established cash generation. Apple's premium multiple and Tesla's demanding growth expectations provide less valuation support.

Strategy and Recommendations: Selective Entry, Not an All-Clear Signal

We favour gradual accumulation of profitable US technology leaders following the valuation reset, while remaining flexible as liquidity tightens. The six-month-leading global M1 indicator signals potential equity pressure, although its predictive reliability remains uncertain. Rising AI infrastructure financing needs and borrowing costs challenge capital-intensive firms. Key catalysts include US CPI on 10 November and Nvidia earnings on 17 November. We remain Selective Overweight, favouring Alphabet and Meta, but would delay broad-market buying until earnings expectations, credit spreads and liquidity stabilise.

Analyst

Suwat Sinsadok, CFA, FRM, ERP
suwat.s@globlex.co.th,
+662 687 7026

Assistant Analyst

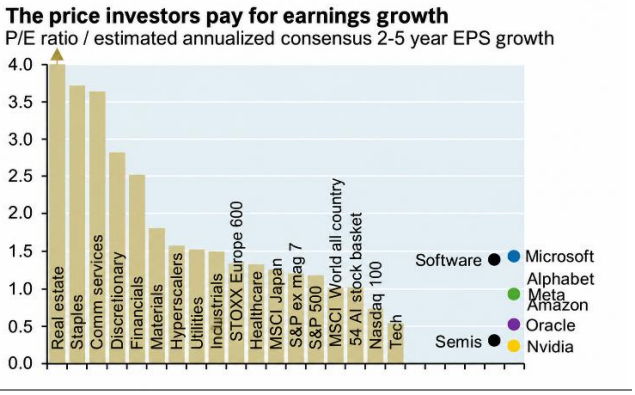
Peerayu Sirivorawong

Exhibit 1: S&P 500 Sectors Forward P/E

S&P 500 sector	Forward P/E	5Y average	vs. 5Y average
Information Technology	19.9x	25.5x	**-22.0%**
Communication Services	16.0x	18.3x	-12.6%
Consumer Discretionary	23.8x	25.9x	-8.1%
Utilities	16.8x	18.0x	-6.7%
Real Estate	17.5x	18.0x	-2.8%
Materials	17.5x	18.0x	-2.8%
Financials	14.9x	14.6x	+2.1%
Energy	13.2x	12.6x	+4.8%
Industrials	22.8x	21.0x	+8.6%
Consumer Staples	22.9x	20.9x	+9.6%
Health Care	20.0x	17.4x	**+14.9%**

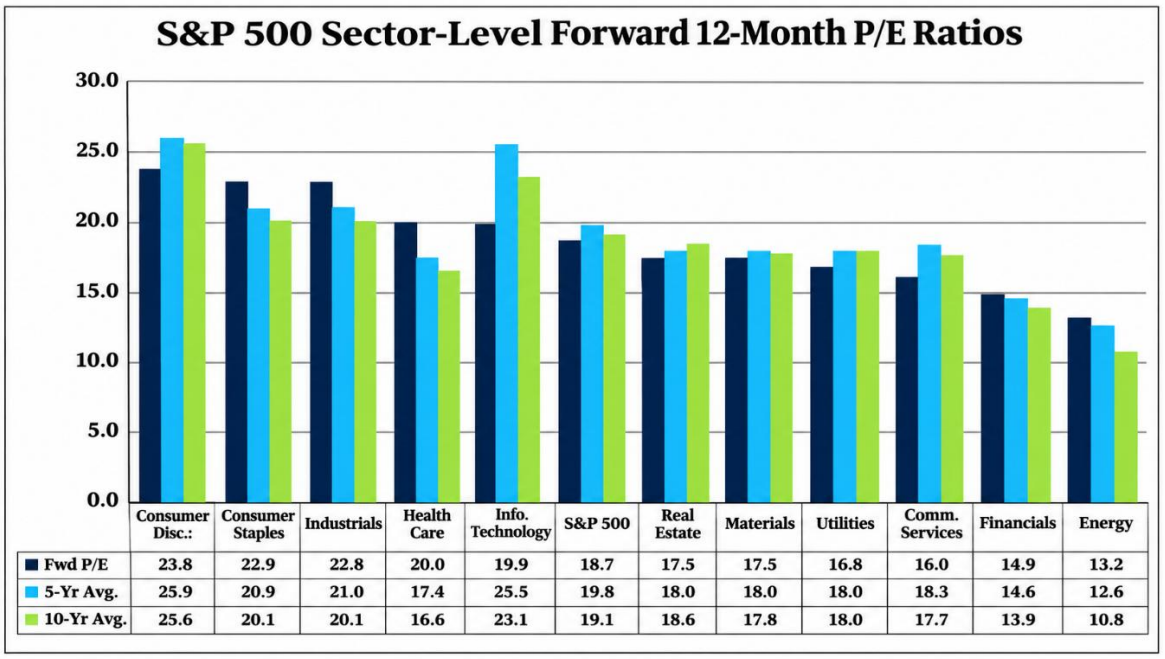
Sources: Factset, Globlex Research

Exhibit 2: Forward P/E Relative to Earnings Growth



Sources: Bloomberg, J.P. Morgan Asset Management

Exhibit 3: S&P 500 Sector Valuation – Forward 12-Month P/E vs Historical Averages



	Consumer Disc.:	Consumer Staples	Industrials	Health Care	Info. Technology	S&P 500	Real Estate	Materials	Utilities	Comm. Services	Financials	Energy
Fwd P/E	23.8	22.9	22.8	20.0	19.9	18.7	17.5	17.5	16.8	16.0	14.9	13.2
5-Yr Avg.	25.9	20.9	21.0	17.4	25.5	19.8	18.0	18.0	18.0	18.3	14.6	12.6
10-Yr Avg.	25.6	20.1	20.1	16.6	23.1	19.1	18.6	17.8	18.0	17.7	13.9	10.8

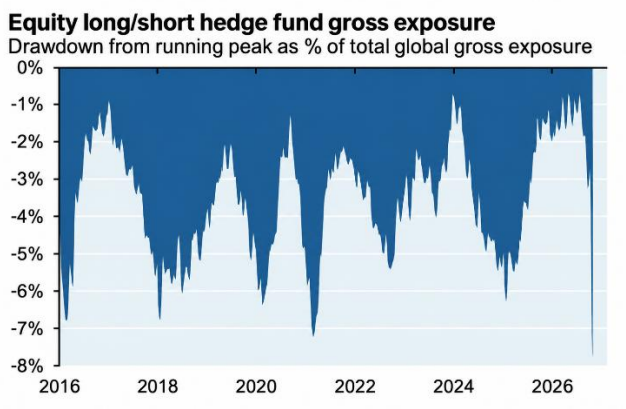
Sources: Factset

Exhibit 4: Magnificent Seven Forward P/E

Company	Ticker	Forward P/E	Assessment
Alphabet	GOOGL	17.9x	Attractive
Meta	META	20.7x	Attractive
Nvidia	NVDA	20.9x	Selective
Amazon	AMZN	24.4x	Watch
Microsoft	MSFT	26.5x	Watch
Apple	AAPL	36.1x	Not cheap
Tesla	TSLA	205.0x	Not cheap

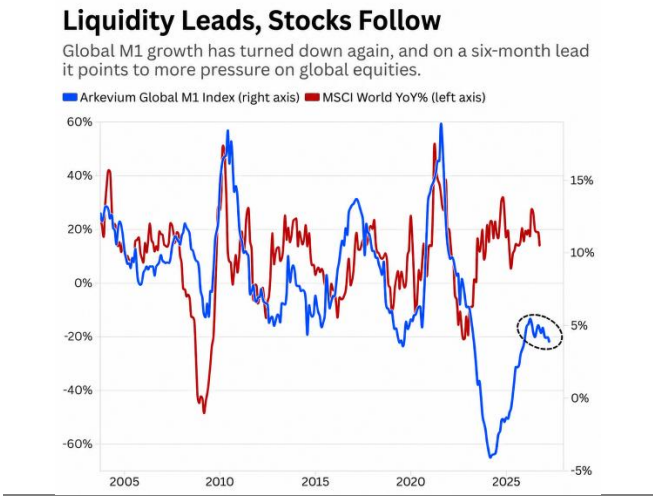
Sources: Factset, Globlex Research

Exhibit 5: Hedge Fund Exposure Drawdown Signals Institutional De-Risking



Sources: Morgan Stanley Prime Brokerage

Exhibit 6: Global M1 Growth Weakens, Signalling Potential Pressure on Equities



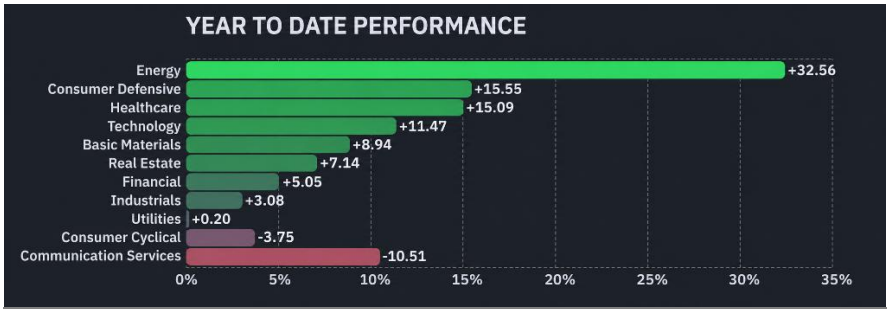
Sources: Bloomberg, Arkevium Research

Exhibit 7: S&P Sectors 1 Week Performance



Sources: Finviz

Exhibit 8: S&P Sectors YTD Performance



Sources: Finviz

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.