



MOATPEAK
INDEPENDENT RESEARCH

The Great Rotation

**Weekly Analytical Report: Navigating the
Collision of AI Ambition and Macro Gravity**

For the week of November 12, 2025

Executive Summary: A Strategic Pivot from Growth to Value Is Now Underway

The Conflict

The boundless optimism for the AI revolution is colliding with the hard realities of a deteriorating macro environment. Surging capex demands are straining balance sheets just as the labor market weakens and consumer sentiment falters.

The Reaction

The market is executing a decisive rotation out of high-valuation, speculative "Growth" stocks (semiconductors, pure-play AI) and into tangible "Value" sectors (healthcare, quality industrials).

This is not a temporary dip, but a fundamental repricing of risk.

The Opportunity

The most durable investment thesis has shifted from "slides" (AI models) to "shovels" (the infrastructure enabling AI). The path forward requires a focus on companies with strong free cash flow, defensible moats, and exposure to the physical build-out of power, cooling, and connectivity.

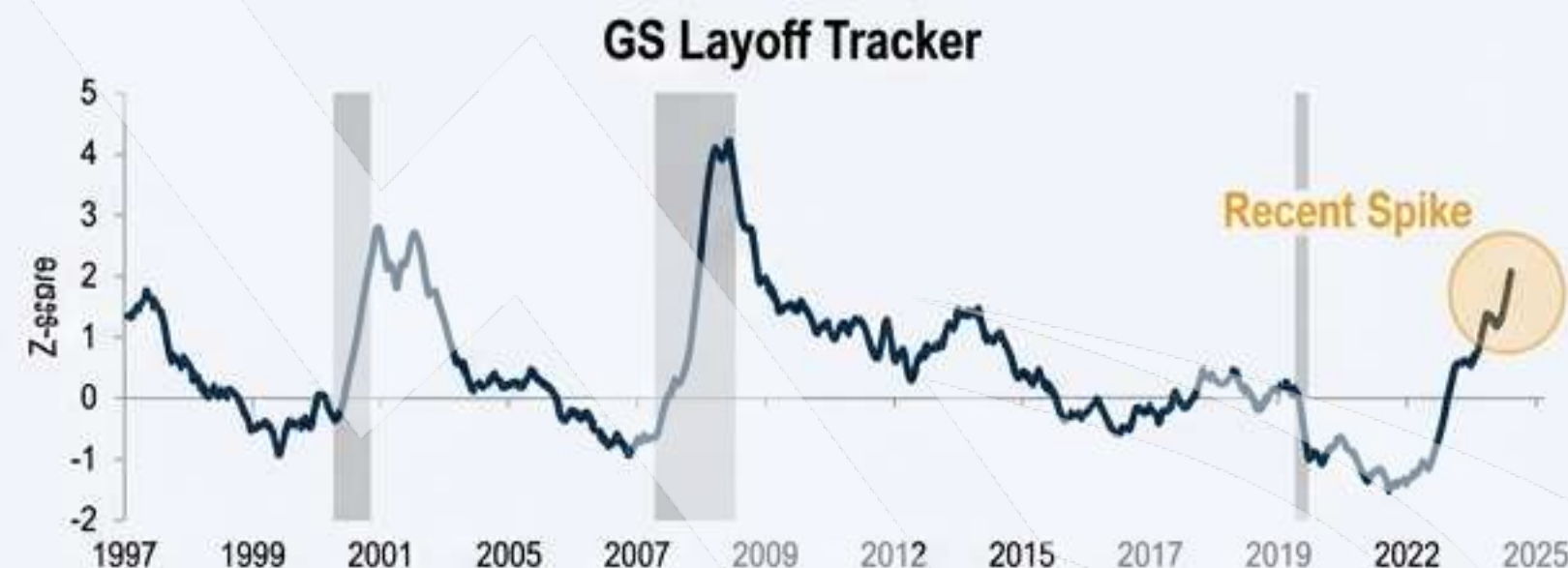
Dow reaches record high while Nasdaq weakens, signaling a clear divergence driven by a flight to quality.

The Economic Foundation Softens as the Labor Market Enters Freefall

Multiple leading indicators point to a sharp deterioration in U.S. employment, increasing the probability of a broader economic slowdown and challenging the narrative of immaculate growth.

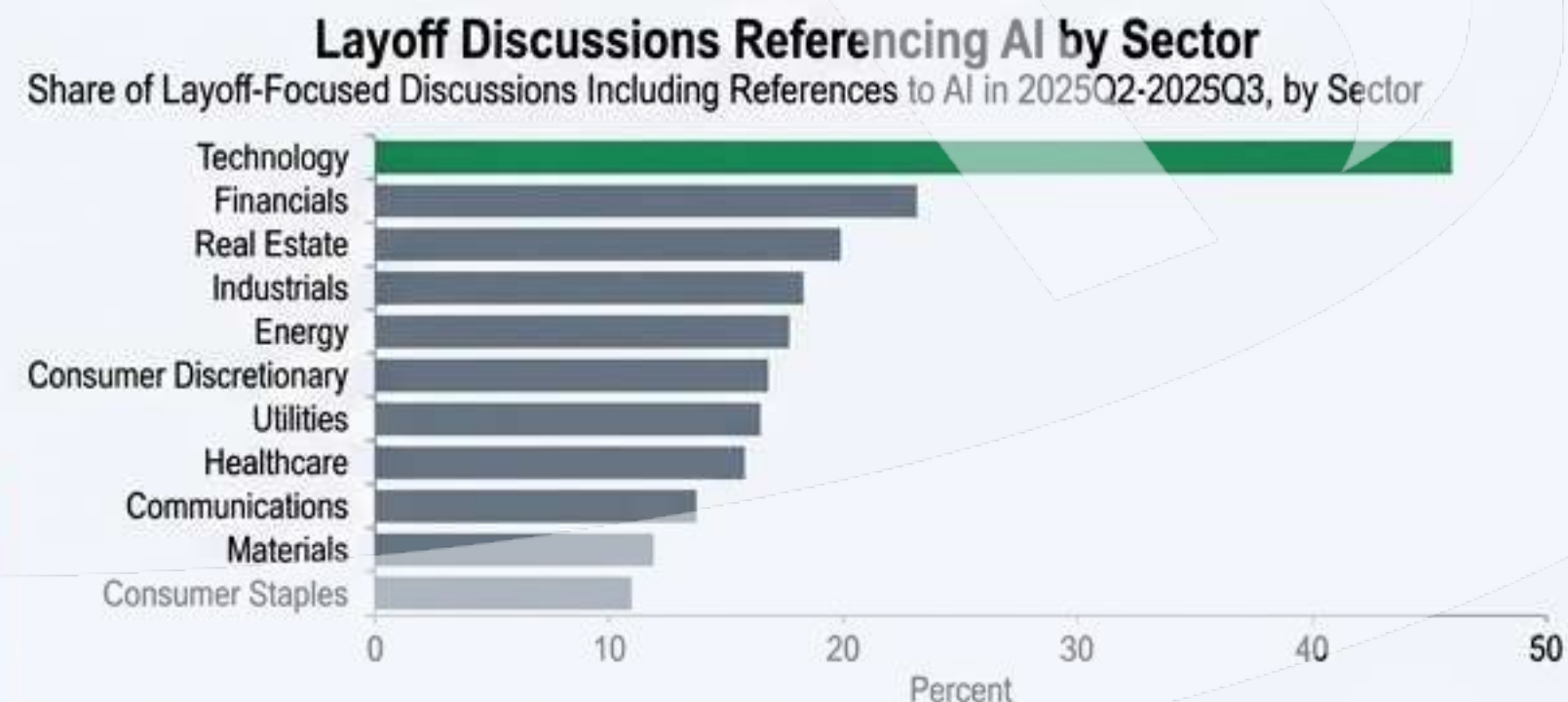
- **October Job Losses:** The U.S. lost ~50,000 private sector jobs in October, the largest monthly contraction since March 2023.
- **Mass Layoffs Surge:** Challenger data and WARN notices have reached their highest non-recessionary levels since 2016.
- **AI's Role:** Goldman Sachs analysis shows AI is increasingly cited in layoff announcements, particularly in the Technology, Financials, and Real Estate sectors. In tech, nearly **50%** of layoff-focused discussions in the last two quarters mentioned AI.

Investor Takeaway: Weak labor data increases pressure on the Fed to cut rates, but also signals falling aggregate demand, a direct threat to corporate earnings, especially in cyclical sectors.



*First principal component of our tracking of WARN notices, initial claims, Challenger layoffs, and earnings call layoff discussions.

Source: Goldman Sachs Global Investment Research, Department of Labor, Challenger, Gray & Christmas, Federal Reserve



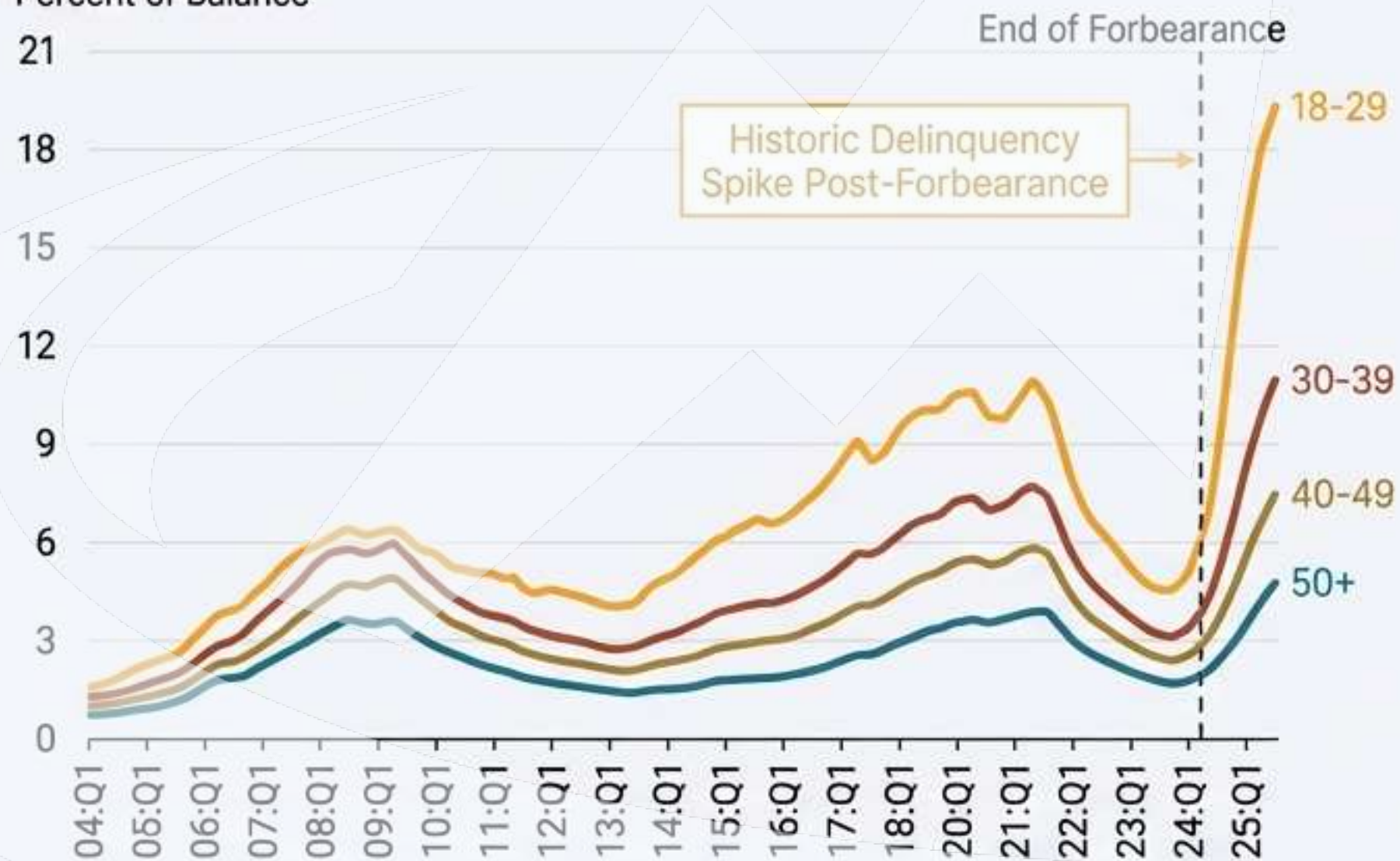
Source: Goldman Sachs Global Investment Research, GS Dataworks

The Consumer Engine Is Sputtering, Pressuring Discretionary Spending

A sharp decline in spending intentions among Gen Z and low-income households, coinciding with the student loan “cliff,” signals a significant headwind for consumer discretionary sectors.

Transition into Serious Delinquency (90+) for Student Loans by Age

Percent of Balance



Note: 4 Quarter Moving Sum. Age is defined as the current year minus the birthyear of the borrower. Age groups are re-defined each year.

Source: New York Fed Consumer Credit Panel/Equifax.

- Data from Goldman Sachs and HundredX confirms a sharp drop in discretionary spending intentions among younger and lower-income consumers.
- This coincides directly with the end of the student loan forbearance period, which has triggered a historic spike in delinquencies.
- Companies with high exposure to non-essential goods are most at risk. Target, for instance, generates less than half its sales from essential goods, leaving it vulnerable compared to Walmart.

"The current weakness in the rental market is alarming. It suggests that deflationary pressure on the housing sector/economy is much stronger than people think."

— **Nick Gerli**, CEO of Reventure, on falling rental prices as another sign of consumer weakness.

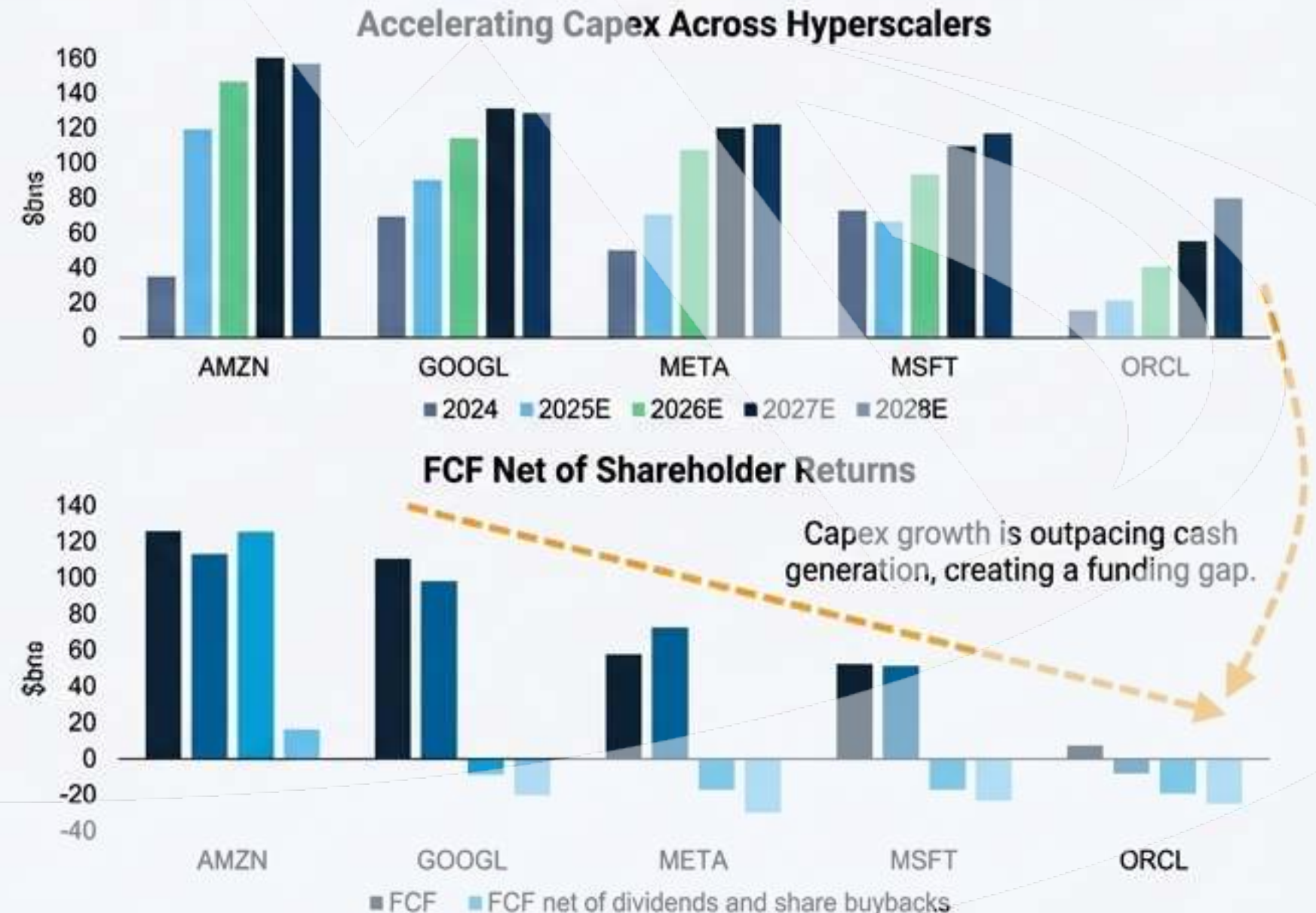
The AI Funding Model Is Breaking: Oracle's Debt Downgrade Signals a Wider Cash Squeeze

Key insight: Barclays has downgraded Oracle's debt to "underweight," citing an unsustainable funding model for its massive AI capex. This makes Oracle the "first AI domino to fall" and reveals a critical vulnerability for the entire sector: free cash flow can no longer cover capex ambitions.

The Oracle Case Study

- **The Problem:** Oracle's aggressive cloud infrastructure forecast requires massive capital expenditure that its free cash flow cannot support.
- **The Trigger:** Barclays highlights that hyperscalers are now turning to debt markets to fund growth, a major shift from their historically FCF-funded model. Oracle is the most leveraged and cash-flow-negative of the group.
- **The Trade:** Barclays recommends selling ORCL bonds and buying 5-year CDS protection, anticipating a potential downgrade to BBB- and a significant cash burn through 2026-2027.

Sector-Wide Implications



*Using BBG Consensus, using AMZN total capex
Source: Bloomberg, Barclays Research

Quantifying the Hyperscaler Cash Deficit

A sensitivity analysis reveals that under various capex growth scenarios, Oracle and Meta face significant cash shortfalls by FY26-27, while Microsoft and Amazon remain more resilient. This creates a clear divergence between the 'haves' and 'have-nots'.

2026 Cash Excess/Shortfalls (\$mn)					
Capex upside vs. consens.	AMZN	GOOGL	META	MSFT	ORCL
0%	47,312	28,859	9,070	26,031	-1,672
5%	38,231	20,948	2,390	22,387	-3,031
10%	29,150	13,038	-4,290	18,743	-4,391
15%	20,069	5,127	-10,970	15,099	-5,751
20%	10,988	-2,783	-17,650	11,454	-7,111
25%	1,907	-10,693	-24,331	7,810	-8,470

2027 Cash Excess/Shortfalls (\$mn)					
Capex upside vs. consens.	AMZN	GOOGL	META	MSFT	ORCL
0%	99,427	51,539	-1,942	55,061	-29,909
5%	81,669	36,771	-14,942	45,646	-33,813
10%	63,912	22,004	-27,943	36,231	-37,718
15%	46,155	7,236	-40,943	26,816	-41,622
20%	28,398	-7,531	-53,943	17,402	-45,526
25%	10,641	-22,299	-66,944	7,987	-49,431

0% = current consensus, using FY, AMZN total capex.
Source: Bloomberg, Barclays Research

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Source: Bloomberg, Barclays Research

- **Oracle:** The clear outlier, facing a substantial funding need in nearly all scenarios. Expected to run out of cash by November 2026 even with zero capex upside.
- **Meta & Google:** Increasingly vulnerable, with potential cash deficits emerging if capex estimates rise by 10-15%. Share buybacks are a key variable that could be curtailed.
- **Amazon & Microsoft:** Most resilient, maintaining positive net cash flow in most scenarios. This gives them the ability to be opportunistic in the debt markets.

Investor Takeaway: The ability to self-fund AI ambitions is becoming a key differentiator. Scrutinize company balance sheets and net free cash flow projections, not just revenue growth forecasts. The risk of dilutive equity raises or credit downgrades is rising for the less-capitalized players.

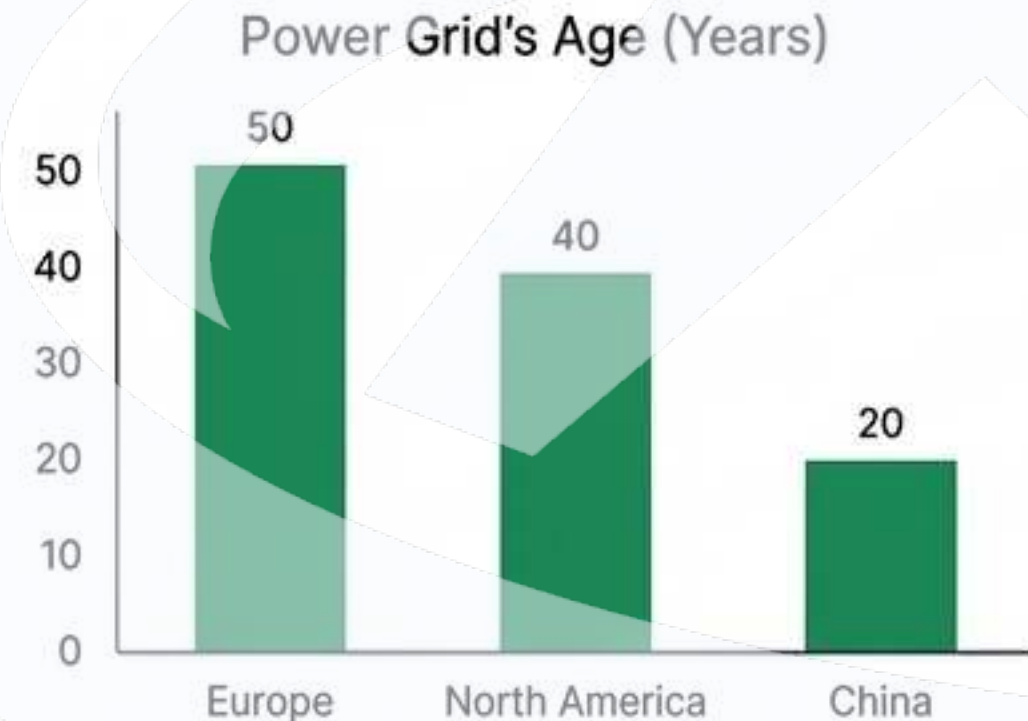
The Revolution Will Be Powered... But How?

Physical Bottlenecks Emerge as a Critical Constraint

The voracious energy and land requirements for AI data centers are running up against an aging power grid, supply bottlenecks, and local development challenges, creating a new set of risks for the AI build-out.

The Power Deficit

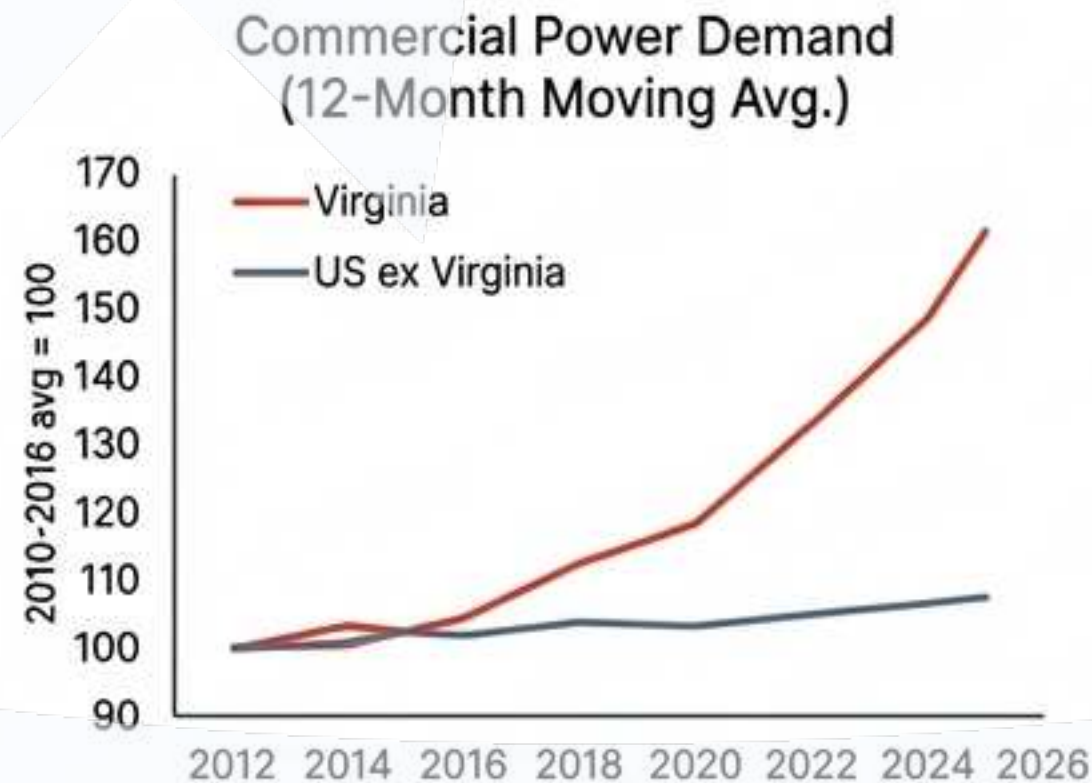
The AI industry will require the equivalent of 44 new nuclear power plants by 2028. Global data center infrastructure may cost over \$5 trillion to build.



"The average European power grid is older than the Apple II computer."

The Land Grab

In Virginia's "Data Center Alley," land prices are setting new records as supply dwindles. A recent 100-acre parcel sold for over \$3.5M/acre.



Not weather adjusted. Source: Haver, Goldman Sachs Global Investment Research

The Development Hurdles

The Trump-linked **Fermi project**, a massive 11 GW data and power campus in Texas, is facing delays in signing its first anchor tenant, highlighting the execution risk in these mega-projects.



The Market's Verdict: A Decisive Flight to Quality and Tangible Value

As fears over valuations and the economy grow, capital is rotating out of high-P/E tech and into traditional, defensive industries. This is visible in index performance, factor leadership, and sector flows.



Sector Flows

Money is flowing out of "pure AI" and semiconductors and into Health Care (XLV), Consumer Staples (XLP), and Materials (XLB).



Index Divergence

The Dow Jones Industrial Average is hitting new highs, driven by staples like Merck and Amgen, while the tech-heavy Nasdaq is lagging significantly.

Vanguard Value ETF (VTV) vs. Nasdaq 100 (QQQ) YTD Performance



Factor Reversal

Momentum "Winners" are underperforming while Momentum "Losers" outperform, a classic sign of a market rotation.



Investor Quote

"Investors fear high P/E ratios and inflated expectations, and are moving into more traditional industries. There is a demand for higher quality growth."

Beneath the Surface, Bond Market Volatility Flashes a Warning Signal

The historical tandem movement between the S&P 500 and inverted bond volatility (MOVE Index) has broken down. The recent divergence is a troubling signal that rising market anxiety is not yet priced into equities.



Explanation

Throughout 2025, equity prices (SPX) have moved in lockstep with falling bond volatility (inverted MOVE). Lower volatility in the bond market created a stable environment for stocks to rise.

The Divergence

In recent weeks, this relationship has decoupled. Bond volatility is rising (inverted MOVE is falling), but the SPX has not yet followed suit. This is a classic risk-off signal from the bond market that equities are ignoring.

Investor Takeaway

This divergence suggests that buying "convexity" (i.e., portfolio protection via options) on major indices is a prudent strategy right now. The market may be underpricing the risk of a sharp correction.

The New Investment Thesis: Prioritize the 'Shovels,' Not Just the 'Slides'

In a capital-constrained environment, the most durable AI investments are not the high-P/E software and model developers ("slides") but the companies providing the essential, non-discretionary physical infrastructure ("shovels").



SELL/REDUCE 'THE SLIDES'

Pure-play AI software, companies with high valuations, negative free cash flow, and unproven business models.

Risks

- Highly sensitive to funding conditions
- Extreme valuation risk
- Vulnerable to economic slowdowns
- Competition from open-source models

Examples Mentioned: 'High P/E rocket stocks,' companies with weak FCF.



BUY/OVERWEIGHT 'THE SHOVELS'

The essential hardware and infrastructure required for the AI build-out.

Sub-categories

- **Power & Infrastructure:** Power generation (e.g., PLUG), UPS, cooling, EPC contractors, data center REITs.
- **Core Components:** Wafer Fab Equipment (WFE), Electronic Design Automation (EDA), testing equipment.
- **Data Foundation:** Memory (DRAM/NAND) and Hard Disk Drives (HDD).

Rationale: These companies receive budget even when ROI is scrutinized; their products are physical necessities for the AI ecosystem.

Playbook Part 1: Rebalance the Core Portfolio Toward Defensible Value

Tactically overweight sectors that offer quality, reasonable valuations, and resilience in a slowing economy. Use rallies in over-extended growth names as an opportunity to reduce exposure ahead of key catalysts like Nvidia's earnings.

TACTICAL OVERWEIGHT

Sector 1: Health Care (XLV)

- **Rationale:** Non-cyclical demand, strong balance sheets.
- **Key Movers:** Merck (MRK) and Amgen (AMGN) leading the Dow higher.

Sector 2: Financials & Quality Industrials

- **Rationale:** Beneficiaries of a stable rate environment; focus on quality.
- **Example:** PGIM Jennison Value Fund highlights include JPMorgan (JPM) and RTX Corp. (RTX).

Sector 3: Consumer Staples (XLP) & Materials (XLB)

- **Rationale:** Defensive positioning, pricing power.

TACTICAL UNDERWEIGHT

Sector 1: Semiconductors (SOX)

- **Rationale:** Overheated, highly cyclical, and facing extreme expectations.
- **Catalyst:** "Nvidia's upcoming earnings report is the key 'arbiter.' Without an outstanding guide, the sector risks further de-rating."

Sector 2: High P/E 'Pure AI'

- **Rationale:** Most vulnerable to the funding squeeze and a risk-off environment.
- **Example:** Softbank's sale of its entire NVIDIA stake to fund its core AI bets indicates a shift even among major AI bulls.

Playbook Part 2: Exploit Inexpensive Volatility for Tactical Hedging

Current market pricing shows complacency in key areas of credit and rates. Options on certain fixed-income ETFs are unusually cheap, offering a cost-effective way to hedge against a sudden increase in market stress.

Assessing Option Pricing Across Key Macro Instruments			
Instrument	Volatility Pricing	Implication	Actionable Trade Idea
High Yield Credit (HYG)	CHEAP	The market is under-pricing the risk of credit spreads widening.	"Fear is absent. Consider buying puts." A significant volume of puts targeting a HYG price of \$77 for April 2026 was recently traded.
Long-Term Treasuries (TLT)	CHEAP	The market is under-pricing the risk of a sharp move in interest rates.	"Recent weakness in oil prices and rental data are tailwinds for bonds." Cheap options make buying calls or call spreads on TLT an attractive way to play a rally.
S&P 500 (SPX)	FAIR	Volatility is reasonably priced.	Directional or relative value strategies are viable. No clear mispricing in volatility itself.

Navigating the Weeks Ahead: Key Catalysts and Risks to Monitor

The current market balance is fragile. The following events and trends hold the potential to either validate the rotation to Value or trigger a sharp reversal.



AI Earnings Bellwether

NVIDIA's upcoming earnings report is the single most important near-term catalyst. The market needs to see an exceptional guide on AI demand to justify current valuations in the semiconductor space. Any disappointment could trigger a sector-wide sell-off.



Geopolitical Leverage

China's control over >90% of refined rare earth metals remains a key geopolitical lever. While a trade 'truce' is in place, Beijing is restricting access for military-linked buyers, increasing supply chain risk for US defense and tech sectors.



Private Credit Cracks

The sudden liquidation of private equity-backed Renovo demonstrates stress in the private credit market. The gap between illiquid private valuations and public market realities is a key vulnerability. Watch for further signs of stress.



U.S. Government & Fed

The end of the government shutdown will release a backlog of economic data, potentially increasing market volatility. The Fed remains data-dependent, but a weakening labor market is increasing the odds of a rate cut in December, now priced at ~64%.

Appendix: MUFG Global Macro & Market Forecasts (Q4 2025)

Global Growth & Policy

- **Global Growth:** 2.8% in 2025 (below 3.5% long-term norm).
- **Regional Forecasts**

Region	2025E	Commentary
US	2.1%	(Resilient due to AI investment)
Eurozone	1.3%	(Germany weak, Spain strong)
China	4.8%	(Compensating US losses with ASEAN/India)
India	6.9%	(Pacing leader)

- **Fed Policy:** Fed funds rate to fall to 3.5% by mid-2026.

Asset & FX Forecasts

- **U.S. Dollar:** USD Index -7.6% YTD. Forecast is for continued structural weakness.
- **Key FX Forecasts (Q3 2026 Targets)**
 - EUR/USD → 1.26
 - GBP/USD → 1.40
 - USD/CHF → 0.76
- **Rates & Commodities (Forecasts)**
 - 10Y US Treasury: 4.1%
 - Brent Crude: \$63/bbl
 - **Gold: \$4,100/oz (new high)**

"The 2025 [US-China] truce is tactical, not strategic. Both sides are using the year of breathing room to strengthen their positions... Trade tensions will resume in 2026." - MUFG Summary

The End of AI's Easy Mode

The market has shifted from a period of narrative-driven momentum to a new regime demanding tangible ROI, robust balance sheets, and viable paths to profitability. The AI revolution is not over; it is maturing. The primary opportunity no longer lies in speculating on limitless potential, but in identifying the durable companies building the physical and financial infrastructure of this new era.

The path forward demands a focus on Durability, Profitability, and Physical Reality.

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Our research integrates insights from global investment banks, asset managers, and macroeconomic data sources, translated into clear, actionable perspectives for long-term, strategic investors.

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