Caron's Corner Transcript – 11.9.2026

A Reset, Not Retreat: Finding Opportunity in a Changing Market

- The shift in Washington raises the risk of higher costs and longer timelines for AI infrastructure.
- The buildout can continue, but permitting delays, potential moratoriums and higher power costs make the returns harder to deliver.
- Investors were already asking when that spending would pay off. Now the hurdle is higher.

Jim Caron: Hello, this is Jim Caron, CIO of the Portfolio Solutions Group. Welcome to another edition of Caron's Corner powered by The BEAT, our asset allocation framework across Bonds, Equities, Alternatives, Taxes and short-term Transitional (cash) investing.

Well, there is a lot of volatility in markets. Our takeaway is that this is a reset, not a retreat. So, the reason that we say that is that we believe the upward trend in equities is still intact. But the market is reassessing the pace of growth and what investors should actually pay for it.

If we look at the recent midterm elections, the so-called blue wave raises the risk of higher costs and longer timelines for AI infrastructure build-out. The build-out can continue, but permitting delays, potential moratoriums and higher power costs make the returns harder to deliver. Investors were already asking when that spending would pay off, but now the hurdle is higher. And I think this is what's being priced into markets.

But the economy enters this adjustment with solid growth, resilient employment and a consumer who is still spending. Just look at the recent weekly jobless claims and the nonfarm payrolls (report from the U.S. Bureau of Labor Statistics) that came out on Friday. But markets tend to be forward-looking and price in the next increment of growth. In our view, that growth continues but its trajectory becomes less steep.

So, going forward, how are we positioned? Well, I think the upside in the market will be more dispersed. It will not be a direct rebound of what we've seen earlier in 2026. Let me go through a couple of different items. Healthcare: We like (the sector's) combination of defensive earnings and upside potential. Some businesses could benefit from the Democratic Party's priorities, although drug pricing and reimbursements remain at risk (from heightened regulatory scrutiny). Selection matters and we prefer owning the managed care sector.

Now, let's think about global diversification. Japan offers opportunities tied to corporate reform, domestic demand and shareholder returns. We are selective in Europe where valuations can be attractive, but energy costs are weaker and growth remains challenged.

Currency exposure obviously matters in both (regions), and what we like about Japan and Europe is that their dependency on the AI capital expenditure build-out is not as high. Therefore (foreign currency) becomes a diversifier.

Technology: I think a lot of people are going to be looking for bargains.
We still like the semiconductor sector. (We favor) semiconductor manufacturers with diversified customers and profitable enterprise software. We must be very clear about this. Those are the hunting grounds, not blanket buys. A lower share price is attractive only if earnings and cash flow can hold up.

What we're looking at is chips, profitable software, diversified electrical equipment and selected healthcare businesses. The common thread is that (these businesses have) strong balance sheet and cash flows that do not require every optimistic AI (growth) forecast to come true.
So, we'll buy selectively and build positions in stages. A stock can fall sharply and still be expensive if earnings estimates are falling faster. The opportunity is where prices have reset more than the underlying businesses.

Let's talk about fixed income and credit. Stabilizing yields and fewer expected rate hikes because of the recent volatility can support equities. But we want high-quality credit. A delayed AI project is much more dangerous for a leveraged borrower than a company funding investments from its own cash flow. That is something to keep in mind.

In our view, what's changed most after the midterm elections?
Clearly, Washington matters, but so do governors, local permitting authorities and access to power. We are distinguishing campaign proposals from enacted restrictions. This is key in identifying which companies can still earn attractive returns under tougher conditions. The bottom line is that the next phase should offer more dispersion between winners and losers. That gives us more opportunities to generate alpha and build a better-diversified portfolio, provided the exposures have genuinely different drivers. Returns are still available, but the sources of those returns are changing and our job is to reposition for that.

Let me go into more detail here. I want to position (discuss) some of these opportunities and the tests they must pass. I am going to start with semiconductors because the sector has been under a lot of pressure. The chip complex has been at the center of the autumn correction. I am looking for diversified exposure to industrial automation, autos and communications, alongside equipment suppliers serving multiple customers and chip categories. The opportunity is that prices may discount a broader spending collapse than ultimately occurs. The test is inventory normalization, credible orders and earnings that withstand delayed AI projects.

Now the other aspect is thinking about profitable enterprise software and cybersecurity. So, selling has spread into software, including security and infrastructure applications. Our hunting ground would be essential products with recurring revenues, strong customer retention and established free cash flow. The opportunity lies in businesses whose customers still need to operate and protect their systems even if data center construction slows. The test is going to be durable pricing power and valuations that account for AI competition.

Now let me move on to electrical equipment, grid infrastructure and power management. This is another big theme of ours. Suppliers associated with the data center boom have also come under pressure. I'd favor businesses with demand from grid replacement, industrial electrification and utility investment as well as AI. The opportunity is that the market may treat diversified suppliers as pure data center bets. Then the test for all of this will be how much backlog is funded, enforceable and exposed to cancellations. That is something to keep in mind.

Now let's go back to the healthcare sector (and specifically) established pharmaceuticals and commercial-stage biotechnology (companies). Healthcare underperformed in 3Q with weakness in pharmaceuticals and selling in commercial-stage biopharma over the summer.

The opportunity in this broader sector within healthcare is that current earnings, cash generation and identifiable product catalysts are at more attractive prices today. The test for this is patent expirations, pipeline quality and reimbursement exposure. Democratic support for healthcare access does not automatically mean support for industry margins.

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