BearBull
Global Investments Group

ECONOMIC RESEARCH – MARKET FLASH

CROSS-ASSET RESEARCH *Fixed income*

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TACTICAL REBOUND OR RISK OF CAPITULATION IN THE MARKETS?

A particularly favorable environment for our BRC strategies



Growth Stock De-Rating & Market Fragility

Growth and artificial intelligence equities, which served as the primary engines of broader index performance throughout 2026, are experiencing severe pressure on their elevated valuation premiums. Growing skepticism surrounding the true profitability of massive AI-related capital expenditures is now widely shared across the investment community, with institutional players increasingly questioning expected return on investment heading into 2027. The sell-off across major technology indices accelerated sharply following the recent Nvidia episode alongside Anthropic's IPO this week, whose substantial offering size proved too heavy for fragile market liquidity to absorb smoothly.



Institutional selling pressure appears to have spread first among leveraged hedge funds, whose net equity exposures and gross leverage have contracted dramatically in just a matter of days. Consequently, Nasdaq 100 valuation multiples have compressed sharply from 28x down to 21x, returning to levels last seen in 2019, as index prices sit 19.9% below their October 6 peak. Hovering right at the formal bear market threshold (-20%), the benchmark has completely erased its year-to-date gains to stand down 1% for the year, approaching the critical 24,000 technical level established in April at the start of its annual rally.



Lack of Capitulation & Monetizing Volatility via BRCs

Despite the severity of this drawdown, market conditions are likely not yet in place for a sustainable upward trend to resume. The market currently lacks a clear positive fundamental catalyst, and crucially, true capitulation among private retail investors has not yet materialized. Persistent macroeconomic headwinds, fragile underlying earnings trajectories, and thin market liquidity suggest that near-term buying flows may remain largely restricted to tactical short-covering rather than genuine institutional accumulation.



Attempting to buy broad market dips in this environment exposes portfolios to extreme volatility for highly uncertain upside potential, as the underlying technical trend remains deeply vulnerable. Conversely, this exact market turbulence creates an exceptionally favorable and promising backdrop for Barrier Reverse Convertible (BRC) strategies. By capturing elevated option premiums without requiring an immediate market rebound, these structured solutions offer a disciplined alternative to timing volatile equity bottoms.



Heightened investor anxiety and aggressive demand for portfolio hedging through options have caused implied volatility to spike dramatically, while steep underlying price declines mechanically lower the protection barriers on newly issued structured products. In a sideways or choppy market regime where equity indices struggle to establish a clear uptrend, oscillating instead within a wide range marked by tactical rebounds and moderate pullbacks, direct equity exposure will remain stressful and uneven. By contrast, BRC strategies allow investors to systematically monetize this elevated market uncertainty, generating high coupon income and delivering superior risk-adjusted returns while maintaining robust downside buffers.



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