Cetera®

Commentary

November 5, 2026

AI Concerns Spark a Broad Sell-Off: Why Diversification Matters

- Stocks fell sharply after the post-election rally amid AI earnings worries.
- The sell-off is broad, with investors moving into U.S. Treasuries and gold.
- Falling yields are a silver lining, and diversification remains key.

Stocks fell sharply after yesterday's post-election rally. Yesterday's rally can be viewed as a movement of relief: investors who received the certainty of the divided government they had been expecting. Today's reversal reflects a confluence of factors.

Earnings: We have noted that earnings drive stock market returns, particularly expectations for future earnings. Last night, another AI-related company reported rising memory costs and a drop in revenue. AI stocks were already volatile amid questions about whether heavy capital spending will ultimately generate stronger earnings. Investors have been willing to pay a premium for future growth, so when results suggest costs are rising faster than revenue, valuations can come under pressure quickly. Importantly, one company's report does not settle the question. Still, the report reminds investors that growth expectations are high and that the path from spending to profits may not be straightforward.

Election: Voters in several referendums rejected large data center projects. Although this outcome was widely anticipated, it may slow the AI build-out by making data centers harder to site and build. Projects that take longer to approve can push back the timing of the revenue companies expect from them, which is one more factor investors are weighing.

AI-related stocks fell the most in today's sell-off, but the decline was broad. Value and small-cap stocks were also lower. Investors are moving toward safety, pushing U.S. Treasury prices and gold futures higher. When selling spreads across many areas of the market at once, it often signals a shift in risk appetite rather than a problem with any single group of stocks.

Today's price action extends a rotation that has been underway all year. Large technology stocks carried the market for the past few years, but in 2026 value and small-cap stocks have led. It is a reminder of the importance of diversification: investors should not count on a single outcome but instead build portfolios that can weather a range of market conditions. A portfolio concentrated in one theme, sector, or company size can swing widely when sentiment shifts. Exposure across asset classes, investment styles, and company sizes can help reduce the impact. Leadership in markets changes over time, and it is rarely clear in advance which areas may lead next.

We still anticipate greater market volatility in the fourth quarter because earnings expectations are very high. Corporations continue to report strong earnings, but signs suggest that future earnings growth will be harder to achieve.

The sell-off has some silver linings. The 10-year Treasury yield, above 5.25% a month ago, is now below 4.90%. Lower yields bring down mortgage rates and ease financing costs for corporations and the U.S. government. The probability of a Fed rate hike in December is also falling, easing headwinds for the economy. Looking ahead, upcoming earnings reports and Fed communications will likely shape the market's direction.

Sell-offs, and even corrections, are a normal part of investing, and they can arrive quickly and unexpectedly. Reacting emotionally to short-term swings can turn a temporary decline into a permanent loss. Stay focused on your goals and time horizon while maintaining a diversified portfolio to meet them. Your Cetera financial professional can help you stay focused and prepared.

About Cetera® Investment Management
Cetera Investment Management LLC (CIM) is a Securities and Exchange Commission registered investment adviser owned by Cetera Financial Group® (CFG). Cetera Investment Management LLC (CIM) provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers and registered investment advisers.

About Cetera Financial Group
Cetera Financial Group (Cetera) is a network of independent retail firms, including those that are members of FINRA/SIPC: Cetera Advisors LLC; Cetera Wealth Services, LLC (formerly known as Cetera Advisor Networks); Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors); and Cetera Financial Specialists LLC. Entities registered as investment advisers with the Securities and Exchange Commission include Cetera Investment Management LLC and Cetera Investment Advisers LLC. Cetera's principal office is located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

Cetera Planning Partners ("CPP"), a registered investment adviser within the Aretec Group, Inc. (dba Cetera Holdings, an affiliate of Cetera). All of the referenced entities are under common ownership. Advisory services may only be offered by investment adviser representatives in connection with an appropriate Advisory Services Agreement and disclosure brochure.

The material contained in this document was authored by and is the property of CIM. CIM provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative and/or investment adviser representative is not registered with CIM and did not take part in the creation of this material. They may not be able to offer CIM portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific advice to any individual without the benefit of direct and specific consultation with a financial professional. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about CIM, please reference the CIM Form ADV 2A and the applicable ADV 2A for the registered investment adviser your financial professional is registered with. Please consult with your financial professional for their specific firm registrations and available program offerings.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices.

Please consult your financial professional for more information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. A diversified portfolio does not assure a profit or protect against loss. This report is created by Cetera Investment Management LLC.