FORT SHERIDAN ADVISORS

Not in My Backyard

It has been an eventful week for investors, with market-moving developments from national elections to national security. Just a week after earnings took center stage in markets, politics and policy have taken over.

Nvidia Under Scrutiny

Nvidia Chief Executive Jensen Huang finds himself in controversy after acknowledging an affair with a woman U.S. officials suspect of working for Chinese intelligence. The woman was an executive at Megaspeed, a Singapore-based Nvidia customer that is under U.S. investigation for allegedly diverting restricted chips to China. According to The Information, a network of companies tied to her, including Megaspeed, supplied at least $7.5 billion of Nvidia chips to Chinese firms, many subject to U.S. export restrictions. Separately, Bloomberg reported that Nvidia's general counsel intervened in the U.S. probe of Megaspeed and that the company later gave regulators an incomplete account of its sales to the firm.[1] Although there is no evidence that Mr. Huang knowingly assisted any effort to undermine U.S. national security, Nvidia's board has opened an independent investigation. Objectively, none of this looks good for Mr. Huang, Nvidia's senior leadership or its corporate governance.

In the wake of these reports, Nvidia's stock has fallen 9.9% this week, including a further 5.9% decline as of the time of this letter. At $168, the stock trades 31% below its 52-week high and at less than 11 times the earnings analysts expect next fiscal year.[2]

Any question about Mr. Huang's ability to lead Nvidia is a serious one, given that he co-founded the company and has personally driven its strategy and product roadmap. The episode also weakens Nvidia's hand in Washington. The company has long argued that selling chips into China keeps Chinese developers dependent on American technology and leaves local chipmakers without the scale or incentive to develop a native AI chip industry that could undercut American firms on price. Mr. Huang will have a much harder time making that case now. Nvidia's sales routed through Southeast Asia will now draw more suspicion, and tighter export rules could follow. An estimated $40 billion, nearly a fifth of the company's revenue last fiscal year, was billed through Singapore, where some of those sales are suspected of serving as a conduit for Chinese-based firms to access Nvidia's chips. Actual identified customers based in China accounted for another 8% of revenue last quarter.[3]

Longer term, the question is whether Nvidia can keep executing on its product roadmap while its leadership is distracted. The company's opportunity remains enormous, with data center revenue of $89 billion last quarter, up 117% from a year ago, and management guiding to revenue growth of 70% next fiscal year. However, competition is intensifying as AMD, Google and Amazon advance their own AI chips and China accelerates its domestic efforts, leaving little room for a loss of focus.[4] We are monitoring these developments closely, including Nvidia's earnings report next week.

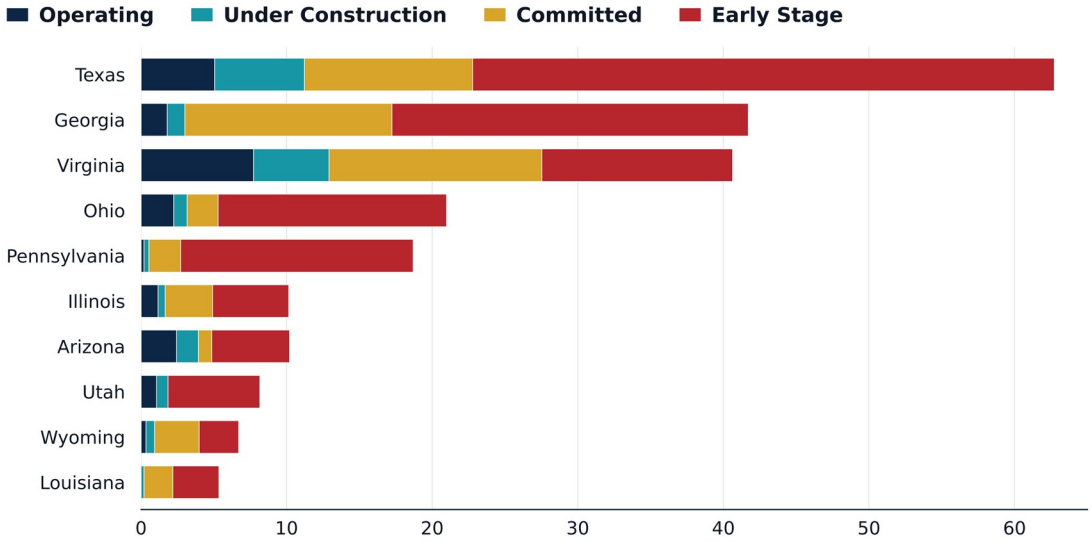
Voters Weigh In on Data Centers

Although it is still too early to judge the broader policy implications of the midterm elections, the most immediate one for investors was that data center construction will face more obstacles in the coming years. The greatest obstacles are likely to come at the state level, where newly elected governors in Texas, Georgia and Ohio each campaigned on pausing or tightening the rules for new data center projects. Those states carry outsized influence on the industry because they rank among the four largest for planned data center development, with Texas alone accounting for 24.5% of the capacity under construction nationwide. Local voters added to those obstacles, backing restrictions that ranged from outright bans to temporary moratoriums in 46 of 47 ballot measures.[5]

Most significantly, Texas' incoming governor, Gina Hinojosa, has called for a moratorium on new data centers until the legislature passes protections covering electricity, water and local control. We doubt Hinojosa will stop development altogether given the industry's importance to the state's economy and job market, and she has made clear that projects already permitted or under construction can proceed. The question is how much of the capacity planned for 2028 and beyond gets built and when. On that front, 64% of the existing and planned capacity in Texas is still in the early planning stage, as is 59% across the ten leading states.[6]

Most Planned Data Center Capacity Is Still Early Stage

Data center capacity by state and project stage, in gigawatts



Source: BloombergNEF, DC Byte (11.4.26). Early-stage projects are announced or in preliminary planning; committed projects have land, power and approvals in place.

From One Extreme to the Other

Markets reacted sharply once investors digested the election results. The S&P 500 fell 4.4% on Thursday, its worst day since April 2025, while the Nasdaq Composite dropped 5.5% to close more than 10% below its October high. The companies supplying the AI buildout fared worst, as the Philadelphia Semiconductor Index plunged 12%, dropping to 38% below its June peak.[7] Although the S&P 500 recovered more than half of its loss with a 2.4% gain on Monday, many chip, power, industrial and data center stocks remain far below their highs.

In our view, the election accelerated a reassessment of AI spending that was already underway. As we noted in our letter last week, consensus expectations for growth in hyperscaler capital spending over the next three years had fallen from more than 160% in late July to just over 120%. As a result, the semiconductor index was down 27% from its June high prior to the midterm election results.[8] This suggests expectations for the pace of AI investment had grown too optimistic in recent months. After the election, sentiment swung to the opposite extreme, as if data centers will never be built again.

We think the actual pace of data center construction lies somewhere in the middle. Although the era of seemingly unlimited capital and frictionless permitting to support the AI buildout is probably over, demand for AI computing remains strong enough that we think much of the planned data center pipeline will still get built, only on a longer timeline (and not necessarily all in the U.S.). A buildout that takes 5-6 years, for instance, instead of 2-3 would also ease industry funding strains after data center developers have raised $794 billion in the twelve months through June, increasingly through debt.[9] Ultimately, a more measured buildout may prove healthier for the entire AI ecosystem as it allows for the supply and demand of both capital and components to come into balance.

The clearest near-term barometer of investor appetite for AI will be Anthropic's planned initial public offering next week. The developer of the Claude AI models is seeking a valuation of $1.4 trillion (well above the $1.1 trillion some investors had discussed during last week's sell-off, but below the $2 trillion floated last month) and plans to raise as much as $90 billion between the offering and a concurrent private placement.[10]

Inflation Runs Hot

Shifting gears, this morning's October inflation report showed consumer prices excluding food and energy rising 0.3% (a 3.7% annualized pace over the past three months) – above expectations for a third straight month and faster than the Federal Reserve under Chair Kevin Warsh will tolerate. As a result, investors now expect another interest rate hike in December, with markets pricing at least two by mid-2027.[11]

The inflation report also reversed last week's decline in Treasury yields. The 10-year yield had slipped from 4.95% on Election Day to 4.84% on Thursday, as investors anticipated that a potentially slower AI buildout would mean less corporate borrowing and slower economic growth. This morning it jumped back above 5%, while the two-year yield rose 20 basis points to 4.77%.[12] Until inflation subsides, we see limited scope for yields to fall meaningfully from here.

Where We See Opportunity

Although much remains in flux for the technology sector, the sell-off has created compelling entry points for portfolios that are underweight tech. The sector now trades at 17 times expected earnings over the next year, below the S&P 500 at 18 times and well below sectors with more limited growth prospects like consumer staples at 24 times.[13] Risks of a slower AI buildout aside, we still expect technology to be a key driver of the economy and the market for years to come.

S&P 500 Sector P/E Valuations Relative to History

Consensus forward 12-month P/E valuation

	Current P/E	Absolute P/E %ile rank vs. history		P/E vs. S&P 500 %ile rank vs. history	
		10-year	30-year	10-year	30-year
Consumer Discretionary	24x	36%	78%	47%	80%
Consumer Staples	24	97	93	100	95
Industrials	22	60	87	94	98
Health Care	20	95	81	100	71
Real Estate	18	46	63	59	47
S&P 500	**18**	**31**	**64**		
Materials	17	60	77	91	64
Information Technology	**17**	31	40	28	30
Utilities	17	52	84	88	91
Communication Services	16	4	7	14	5
Financials	15	41	68	80	68
Energy	12	22	22	40	19

Source: Compustat, FactSet, IBES, Goldman Sachs (11.6.26).

Outside of technology, financials, energy and health care remain areas we find attractive. Health care is particularly compelling despite its recent rally, in part because we think the industry stands to benefit from AI applied to the drug discovery process. We are also reviewing homebuilders and other firms tied to housing construction, as a bipartisan consensus appears to be emerging that the country must build more homes to address affordability.

Though we expect volatility to remain elevated until there is more policy certainty, we still see worthwhile investment opportunities across the market. As always, please reach out with any questions or to discuss your portfolio.

Sincerely,

The Team at Fort Sheridan Advisors

Citations and Disclosures

[1] New York Times (10.29.26); Bloomberg (11.8.26); Bloomberg (11.9.26); Bloomberg Intelligence (11.9.26); The Information (11.10.26).
[2] Bloomberg (11.10.26).
[3] Bloomberg (11.10.26); Nvidia securities filings.
[4] Nvidia investor materials.
[5] Bloomberg Intelligence (11.5.26); Redbud Consulting (11.10.26).
[6] UBS (11.5.26); Bloomberg (11.9.26); BloombergNEF (11.4.26); Fort Sheridan Advisors calculations.
[7] Bloomberg (11.5.26); Bloomberg (11.9.26).
[8] Bloomberg (10.30.26).
[9] BloombergNEF (11.9.26).
[10] Bloomberg (11.6.26); Bloomberg (11.10.26).
[11] Bloomberg (11.10.26).
[12] Federal Reserve; Bloomberg (11.10.26).
[13] Goldman Sachs (11.6.26).

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