The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

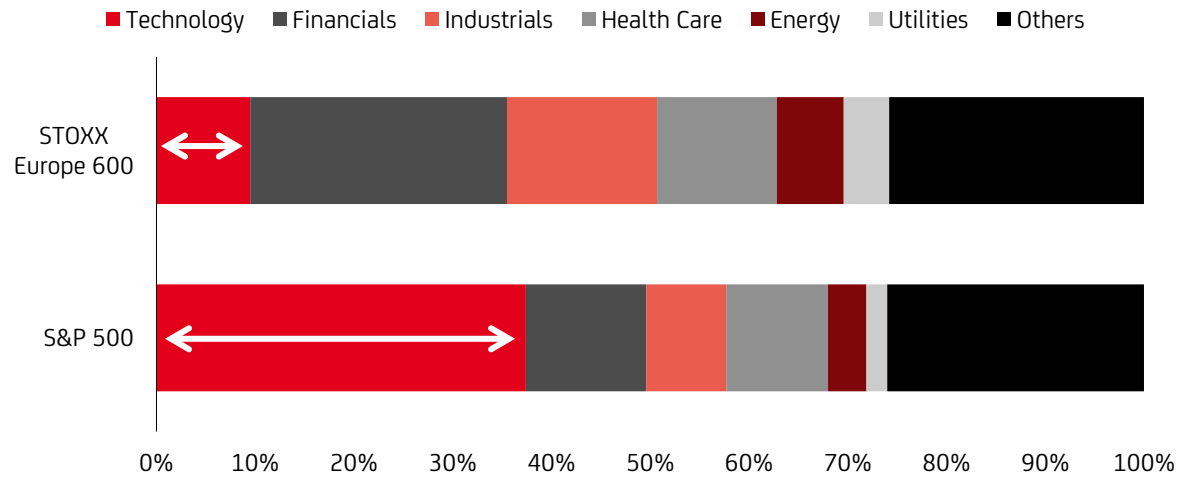
When sector composition matters

11 November 2026

Last week's correction showed how index composition shapes both returns and risk. The S&P 500 offers more direct exposure to structural growth, but also greater benchmark concentration and volatility. The STOXX Europe 600's broader earnings base provided relative stability, while its strengths in electrification, industrial automation and engineering may help the region benefit as AI investment broadens beyond computing capacity towards real-world deployment.

TECH EXPOSURE IS MUCH MORE CONCENTRATED IN THE US

SECTOR WEIGHTS: STOXX EUROPE 600 VERSUS S&P 500



Source: S&P Global, STOXX, The Investment Institute by UniCredit

THE CONTEXT

Last week's reassessment of the AI trade spread quickly across global markets. Concerns about regulation, investment returns and financing costs fell most heavily on US technology and semiconductor stocks. The Nasdaq declined 3.4%, entering correction territory and recording a fourth consecutive weekly fall, while the S&P 500 lost 2.7% in its worst week for more than a year. Europe was not immune to the retreat from risk, but the STOXX Europe 600 still ended the week slightly higher.



THE DATA

Our chart illustrates the difference in sector composition between the two indices. Technology accounts for a much larger share of the S&P 500, while the STOXX Europe 600 has greater exposure to financials, industrials and health care. These differences were visible in last week's performance and changed the year-to-date ranking. The S&P 500 had led for much of 2026, supported by technology and AI-related companies. When those came under pressure, the index fell more sharply and surrendered its advantage. The STOXX Europe 600, broadly stable last week owing in part to its lower technology weight and wider sector mix, moved slightly ahead of the S&P 500 year to date. The reversal reflected the extent to which each index is exposed to the sectors at the centre of the correction. This is a feature of index construction rather than a lack of breadth in the US corporate market. The US has a deeper and more diverse listed-company universe, but the market-capitalisation weighting of the S&P 500 means that a relatively small number of mega-cap companies exert an unusually large influence on its overall returns.



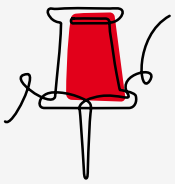
OUR VIEW

Index composition is not merely a matter of diversification. It determines which economic variables investors are implicitly buying. The S&P 500 offers greater exposure to innovation, productivity and future earnings growth, but also to the discount rate applied to those earnings. Its benchmark concentration has amplified returns as expectations have risen but can equally magnify setbacks when assumptions about capital expenditure, monetisation or interest rates are challenged. The STOXX Europe 600 offers a different set of exposures. Its greater emphasis on financials, industrials and other value-oriented sectors links returns more closely to credit creation, nominal activity, infrastructure investment and dividends. This can make the index less sensitive to a correction in long-duration growth assets, although that does not necessarily make it more defensive or better diversified.

The relative outlook will partly depend on what drives the next phase of market returns. Clearer evidence that AI investment is translating into durable revenues, free cash flow and attractive returns on capital should continue to support the US market. Progress is unlikely to be uniform, however, and periods of uncertainty over the timing or scale of those returns could produce larger benchmark swings, given the S&P 500's concentration and valuation sensitivity. The US also remains the dominant force in the physical AI build-out. Its hyperscalers, semiconductor companies and infrastructure providers are driving investment across computing capacity, data centres, networking, power and cooling. Europe nevertheless has important global leaders in selected parts of the value chain, including semiconductor equipment, electrification, industrial automation and engineering. It could therefore benefit increasingly as AI investment moves from foundational computing capacity towards power infrastructure and adoption across manufacturing and other industries.

For investors, the two regions are best viewed as complementary exposures, but for more precise reasons than diversification alone. The US provides the most direct exposure to AI development, commercialisation and infrastructure spending, supported by the depth of its corporate and capital-market ecosystem. Europe offers a different sector mix, lower benchmark dependence on mega-cap technology and targeted exposure to the industrial deployment of AI. Combining the two can preserve exposure to structural growth while reducing dependence on a narrow group of index heavyweights.

OTHER THINGS TO NOTE



USTs under pressure following strong CPI data

Stronger-than-expected US CPI data led to a significant increase in UST yields, especially at the short end of the curve, where the 2Y yield rose by almost 20bp to 4.75%. The 10Y UST yield rose by 10bp to nearly 5%. Notably, the move was entirely due to an increase in the real-yield component, while market-based inflation expectations barely changed, indicating market confidence in the Fed's ability to counter inflationary pressure. EGBs also came under pressure, but outperformed Treasuries, with the 10Y transatlantic spread widening by 5bp to 167bp. The 10Y BTP-Bund spread widened by 2bp. Yesterday's release pushed EUR-USD to around 1.1150, with the US dollar strengthening across the board.

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