GLOBAL EQUITY [THORNBURG INSIGHTS]

When the Machines Sell: Amplified Market Fragility and Why It Could Favor the Patient, Unlevered Investor

12 Nov 2026 ❖ https://www.thornburg.com/article/when-the-machines-sell-amplified-market-fragility-and-why-it-could-favor-the-patient-unlevered-investor/

VIEW MORE ONLINE

AUTHORS



MATT BURDETT
Head of Equities, Portfolio Manager and Managing Director



CHARLIE ROTH
Portfolio Specialist

On Thursday, Nov. 5, 2026, the stock market behaved less like a forum for weighing the value of businesses and more like a forest laden with bundles of dry underbrush that caught fire, triggering a chain reaction that turned into a firestorm. Given the evolution of equity market structure, more rampantly escalating blazes should be expected.

This creates opportunities for patient fundamental investors who can nimbly take advantage of market dislocations. In such conflagrations, new ideas to buy often emerge. Existing holdings that may have proven resilient may prompt active managers to trim and deploy the proceeds into other existing holdings that were swept in the downdraft well below their assessed intrinsic value.

The Nasdaq 100 fell 6.4%, its worst day since March 2020. The S&P 500 lost 4.4%, and the Philadelphia Semiconductor Index plunged more than 12%. Bloomberg tallied $3.7 trillion of U.S. market value erased in a single session. The trigger, a reassessment of what a Democratic Congress might mean for the data-center buildout behind the AI boom, was real enough. But the size of the move had less to do with that turn in political risk than with the way today's market is laden with leverage within investment strategies that effectively must de-risk simultaneously.

A growing share of daily trading comes from investment vehicles that buy and sell not on a company's appraised value, but on direction of price, volatility parameters and leverage. In calm markets, these strategies supply liquidity and suppress swings. When conditions move outside their parameters, many are forced to sell at the same time, into the same thin market, often without regard to the price transacted, nor the value of the business the underlying stock represents.

The Chain Reaction

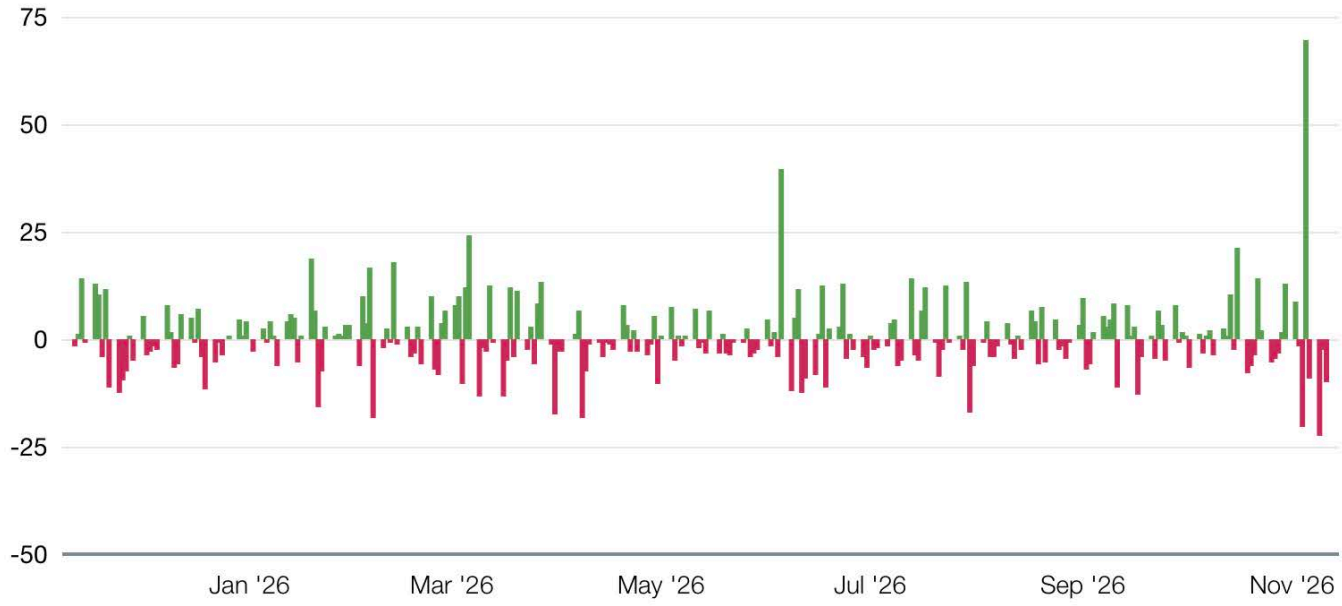
The selling began, unusually, with individual investors. Morgan Stanley's Quantitative Derivative Strategies team estimated that retail sold roughly $3 billion of U.S. stocks in the first hours of trading, a 5.7-standard-deviation event. By its count, the only heavier selling at that time of day came on Feb. 27, 2020, as the Covid crash took hold. Just two days earlier, Citadel Securities had reported 22 straight sessions of retail net buying, about $33 billion, much of it in semiconductors.

Hedge funds and long-only managers followed, Bloomberg reported. Then the mechanical sellers kicked into gear. Vanda, an independent market intelligence tracker of investor positioning, capital flows and macro strategy for institutional investors, pointed out that institutional money stepped back just as retail and systematic managers were aggressively selling. "These are the kind of flow dynamics we rarely see outside periods of genuine market stress," it added.

An Architecture Built for Blue Skies, not Squalls

Several features of modern market structure turned an ordinary political repricing into the Nov. 5 rout.
Volatility-targeting funds size their equity exposure inversely to market swings. With the VIX starting Thursday at 16.6, these funds came in heavily invested. By the close the VIX was near 28, almost a 70% jump in one day. Nomura estimated that volatility-control strategies needed to shed about $61 billion of stock, and Barclays calculated a 30-percentage-point cut in their equity exposure in one day, the largest since February 2020.

CBOE Volatility Index, Daily Percentage Change



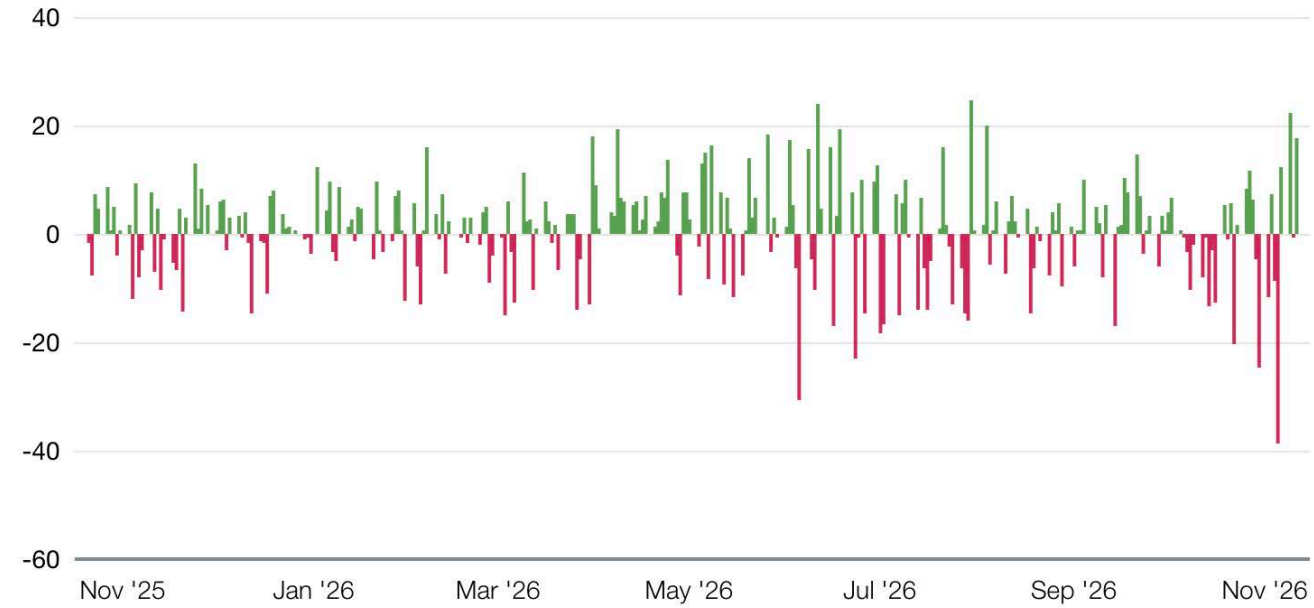
Source: Bloomberg
Past performance does not guarantee future results.

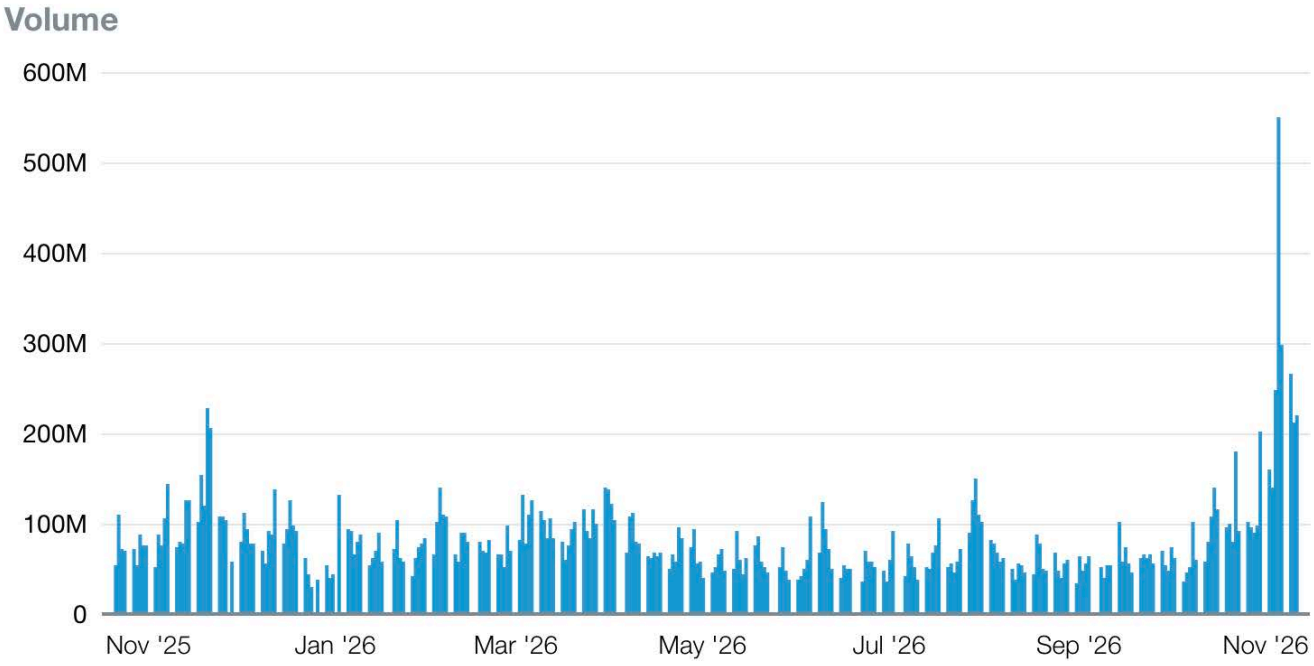
Trend-following CTAs (commodity trading advisors) buy what is rising and sell what is falling. As the S&P 500 broke through successive technical thresholds, Vanda estimated they sold about $13 billion of index futures.

Leveraged ETFs, which promise two or three times an index's daily move, added a lot of fuel to the fire. They must rebalance every afternoon. After a down day, that means selling near the close, regardless of price. Estimates of Nov. 5 rebalancing ran to roughly $47 billion. In May, Citadel Securities had flagged record leveraged-ETF assets of about $203 billion, roughly 70% of the equity portion in technology, warning that such products "create a meaningful source of synthetic short gamma exposure." The 3x semiconductor SOXL ETF fell about 39% on Nov. 5 and as of Nov. 11 still sat roughly 80% below its peak.

SOXL US Equity Daily Semiconductor Bull 3x ETF

SOXL US Equity Daily Semiconductor Bull 3x ETF





Source: Bloomberg
Past performance does not guarantee future results.

Options dealers, who hedge the contracts they sell, were positioned “short gamma.” That forces them to sell as markets fall and buy as they rise, amplifying moves rather than absorbing them. Nomura estimated that dealers were adding about $7 billion of selling for every 1% decline.

Levered and crowded hedge funds compounded the pressure. Goldman Sachs’ prime desk estimated that technology-focused long/short funds lost more than 4% in a day, and Mizuho counted two six-sigma momentum unwinds in a single week.

Each mechanism is rational in isolation. Together, they create a combustible compound: they sell because prices fell, which makes prices fall further. “Part of what we’re seeing is portfolio pain and indiscriminate selling,” JPMorgan noted in a research report.

Why the Structure Cracks

Fragility had been building for months. The S&P 500 sits near its most concentrated on record, with a handful of AI-linked companies setting the index's direction. Deutsche Bank noted that on Oct. 22, 337 S&P 500 stocks rose, yet the index fell 1.2%, the second-worst showing on record for a day with that many advancers. When so much of the market's weight rides on one theme, a shock to that theme becomes a shock to everything benchmarked against it.

Leverage and rules-based selling can turn a repricing into a cascade. Positions built on borrowed money or low volatility unwind together, just as fundamental buyers step back. On Nov. 5, memory, optical-networking and data-center baskets fell 12% to 15%, five- and six-standard-deviation moves, and the damage spread well beyond them. The S&P 500 excluding AI names still fell 2.3%. Tellingly, Morgan Stanley noted that within its own quant equity strategies, value, low-risk and quality factors more than offset sharp losses in momentum.

The Opportunity in Forced Selling

This is where unlevered, long-term investors may enjoy a structural advantage. Forced sellers are, by definition, indifferent to value. A volatility-control fund doesn't distinguish between an overextended AI darling and a durable franchise trading at an attractive multiple. When they all sell at once, sound businesses get marked down alongside speculative ones, and prices often disconnect from intrinsic value.

We don't borrow to amplify returns, so we face no margin calls and aren't forced to sell into weakness. Our research is bottom-up and focused on what a business is expected to earn over the next few years, not on next week's anticipated technical flows in the market. Our discipline is anchored on entry price and thesis monitoring. We maintain portfolios and watchlists of high-quality companies along with the valuations at which we would want to own them or own more. Days like Nov. 5 can bring those prices within reach in hours.

None of this means calling bottoms. Our edge since we launched our equity investment business more than three decades ago lies not in predicting panic, but in being able to act when price and value diverge.

Leverage and crowding have turned corrections into cascades before, from the Dot-Com unwind to the 2008 Global Financial Crisis and the 2020 Covid crash. In each case, investors able to buy durable businesses at distressed prices, rather than being forced to sell them, were generally better positioned for what followed. Across several of our strategies, we believe that discipline has contributed to returns that have compared favorably with benchmarks and peers over full market cycles.

The market's architecture has grown more complex over time, like a taller Jenga tower. The opportunity it periodically creates for disciplined, unlevered investors has not changed. But it has become amplified.

Important Information

This document is intended purely for informational purposes and does not offer any recommendation or investment advice. It should not be viewed as a forecast for market or investment performance, nor as a solicitation or offer concerning any financial instrument, product, or service, including those provided by Thornburg or its affiliates. Thornburg disclaims responsibility and liability for anyone's use of, or reliance on, the information and opinions presented here. The views expressed may change at any time after this publication date.

There is no guarantee that any projection, forecast or opinion in this material will be realized.

Investments carry risks, including possible loss of principal.

© 2026 Thornburg. All Rights Reserved.

WA00003