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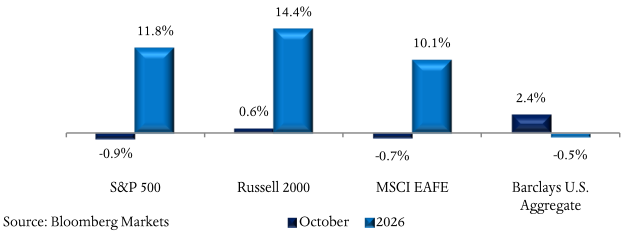
October - November 2026 Issue # 282

Markets

October reversed the prior month's narrow equity leadership, with weakness in the largest technology companies masking a substantial recovery elsewhere. The S&P 500 declined -0.9% (+11.8% ytd), while the Nasdaq Composite fell -5.3% (+10.0% ytd). Conversely, the equal-weighted S&P 500 advanced +5.0% (+15.5% ytd), significantly outperforming its capitalization-weighted counterpart by 5.9%. Participation improved markedly as 61% of S&P 500 constituents finished above their 50-day moving averages, compared with just 21% in September, indicating a robust capital rotation affected by various factors. For example, the large company Russell 1000 Value index gained +4.4% (+24.5% ytd), while its Growth counterpart declined -6.1% (-0.2% ytd). Notably, nine of eleven large-cap sectors advanced, led by energy (+14.0%; +59.9% ytd), consumer staples (+11.6%; +18.3% ytd) and utilities (+10.2%; +3.9% ytd). Meanwhile, technology (-6.8%; +19.6% ytd) and communication services (-15.1%; -11.3% ytd) led to the downside as investors increasingly questioned the financing requirements and prospective returns of the AI infrastructure buildout. Lastly, small-caps in the Russell 2000 edged higher +0.6% (+14.4% ytd), outperforming large-caps.

Foreign stocks, as measured by the MSCI EAFE index, slipped -0.7% (+10.1% ytd). Europe's Stoxx 600 recovered +2.0% (+12.4% ytd), while Japan's technology-sensitive Nikkei 225 fell -5.2% (+27.6% ytd). Emerging markets declined -8.0% (+13.8% ytd), with pressure concentrated in technology-heavy Asian markets. China's Shanghai Composite lost -6.1% (-7.4% ytd), exhibiting underlying divergences between strength in selected export industries and the still-slack local economy.

Fixed income also zagged. The 10-year US Treasury yield retreated from an intramonth high of 5.36% to 4.93%, reversing much of September's increase. The Bloomberg US Aggregate index recovered +2.4% (-0.5% ytd), while US high yield returned +0.3% (+0.3% ytd). Falling government yields supported bond prices, but widening credit spreads reflected greater scrutiny of leveraged borrowers, particularly those funding AI infrastructure, highlighting he distinction between interest-rate risk and credit risk.



Source: Bloomberg Markets

Commodities again moved in different directions. WTI crude oil rose +15.2% to $104.12 per barrel (+81.3% ytd), reflecting persistent supply concerns, while gold declined -6.8% to $3,875/oz (-10.2% ytd). The decline in bullion was a reminder that defensive assets can respond differently to changes in yields, currencies and liquidity. Overall, the S&P GSCI commodity index advanced +3.3% (+37.5% ytd).

Geopolitics

The November 3 US midterm elections materially changed the political landscape. Democrats won control of both the House and Senate, set to end unified Republican control when the new Congress takes office in January. The result reached well beyond traditional battlegrounds. Affordability, dissatisfaction with the Iran war and concerns about government corruption featured prominently. According to an AP voter survey, approximately eight in ten voters reported that inflation had caused moderate or severe household financial hardship.

For investors, the principal consequence is a more constrained legislative agenda, as opposed to a guaranteed reversal of administration policy. We expect greater congressional scrutiny of military spending, executive orders and corporate relationships with Washington. Major tax and spending changes will require negotiation, while budget and debt-ceiling disputes could become more contentious. At the same time, a divided government may restrain some policy changes. Either way, it remains to be seen whether Washington will enact fiscal discipline given that compromises can preserve existing commitments while adding new spending. Meanwhile, President Trump retains substantial influence over trade and foreign policy, limiting Congress's ability to deliver an immediate reset.

The clearest potential economic benefit would come from Middle East de-escalation. Vice President Vance publicly questioned the cost of the Iran war following the defeat, while reporting indicates renewed diplomatic engagement. Nevertheless, diplomacy and military actions continue simultaneously. Trump's election-day remarks about ending military assistance to Israel also leave implementation uncertain. Our assessment is that the political incentive to reduce energy costs has strengthened, but a durable settlement cannot yet be assumed.

United States

US economic activity strengthened, although the gap between aggregate performance and household experience remains significant. Third-quarter GDP expanded at a 3.4% annualized rate, following 2.2% in the second quarter, with investment, consumption and government spending contributing. The latest employment report also improved the picture, with October payrolls increasing 165,000, leading unemployment down to 4.1%, while August and September jobs were revised higher by a combined 84,000. These revisions temper the weakness evident in last month's report.

Perhaps surprisingly, consumer confidence recovered to 91.7 from September's revised 84.2, even though

October 2026 Economic Statistics

	Oct-26	Dec-25	Dec-24
Federal Funds Target Rate	*3.75 - 4.00%*	*3.50 - 3.75%*	*4.25 - 4.50%*
Consumer Confidence Index	*91.7*	*89.1*	*104.7*
Manufacturing PMI Index	*55.5%*	*47.9%*	*49.3%*
Unemployment Rate	*4.1%*	*4.4%*	*4.2%*
JPY/USD	*157.53*	*156.65*	*157.18*
USD/EUR	*1.1158*	*1.1745*	*1.0353*
Gold/oz.	*$3,875.02*	*$4,314.12*	*$2,623.81*
Oil (WTI)/bbl	*$104.12*	*$57.42*	*$71.72*

Sources: see disclosure *

inflation continues to erode purchasing power. September headline CPI increased 3.7% year-over-year, versus 2.6% excluding food and energy, with gasoline accounting for more than half the monthly increase. October wage growth of 3.1% remained below the latest headline inflation reading, an indication that the average consumer is being squeezed. An improvement in confidence therefore does not eliminate the affordability pressures highlighted by the election results.

The Federal Reserve held its target interest rate range steady at 3.75-4.00% on October 28, with two members favoring an increase. Chairman Warsh emphasized resilient spending, investment and productivity, while acknowledging elevated inflation. We view the decision simply as a pause for assessment amid elevated uncertainty. Stronger employment reduces the urgency to support growth, while any sustained easing in energy prices would improve the inflation outlook without requiring a sharper contraction in demand.

Europe

European economic activity remained resilient, with eurozone third-quarter GDP increasing 0.4% sequentially. The European Central Bank held its deposit rate at 2.50% in October, retaining a data-dependent approach. The policy balance remains difficult. Rising energy costs weigh on household spending and industrial competitiveness, yet complicate efforts to contain inflation. Continued economic expansion provides some cushion, but does not remove the region's energy vulnerability.

France remains the principal source of regional fiscal concern. Its 10-year sovereign spread over Germany widened to 166 basis points as social unrest and political fragmentation complicated the passage of a credible budget. With a deficit near 5.5% of GDP, rising debt-service costs constrain the government's room to respond. So far the economic repercussions remain localized, without contagion, but investors are reminded of the potential for another euro-area debt crisis.

Asia

China's third-quarter GDP growth improved to 4.5% year-over-year from 4.3%, but the economy remains divided. High-technology manufacturing continued to expand rapidly, while September retail sales increased just 1.1%. Fixed-asset investment contracted 7.2% over the first nine months, including a 20.6% decline in property development. September producer inflation reached 5.0%, compared with consumer inflation of 0.9%. In our assessment, this combination points to pressure on input costs without a commensurate improvement in domestic pricing power.

The Bank of Japan held its policy rate at 1.25%, following September's increase, amid a stated tightening bias. Further slated interest rate hikes may help contain imported inflation, but also raise financing costs for businesses and a heavily indebted government.

Outlook

October provided a useful test of the concerns discussed in recent letters. Strong earnings did not prevent a reassessment of capital-intensive technology companies, while diversification within equities and across asset classes proved valuable. We do not interpret the ongoing stock market rotation as evidence that the economic expansion has ended. Rather, it suggests that investors are becoming less willing to treat growth, regardless of its financing requirements, as sufficient justification for valuation.

Corporate profitability remains an important support. With roughly two-thirds of S&P 500 companies having reported, blended third-quarter earnings growth stood at 30.2%, with associated revenue growth of 13.4%. The index's forward P/E declined to 18.7x, below its five-year average of 19.8x. However, the prevailing earnings surprise has been only 1.9%, versus a five-year average of 7.5%. Looking ahead, our research indicates that it will be important to favor earnings durability, cash conversion and balance-sheet strength over aggregate growth alone.

The AI investment cycle increasingly requires discrimination between technological adoption and investment returns. Computing demand can grow while the economics of supplying it deteriorate. Borrowing to build infrastructure before revenues arrive has created a mismatch; financing assets whose useful lives or customer contracts may be shorter than the associated debt creates another. Nevertheless, diversified hyperscalers and established businesses applying AI to reduce costs are not equivalent to highly leveraged infrastructure providers. Our preference is for demonstrable customer economics, credible financing and conservative assumptions about utilization and equipment replacement, not a blanket rejection of the technology.

In fixed income, notwithstanding October's recovery we maintain a short-duration bias given inflation and fiscal uncertainty, but would not exclude selective intermediate-maturity exposure provided the associated income compensates for these risks. Floating-rate and higher-yielding bonds limit interest-rate sensitivity but do not eliminate credit risk, which needs to be monitored.

Our practical objective remains preserving purchasing power while retaining the flexibility to invest through dislocations. We favor high-quality global equities, adequate liquid reserves, selective credit, hedged strategies and measured hard-asset exposure. We favor gold, and so have central banks which accelerated purchases to 321 tons in the third quarter (+675 tons ytd). However, higher real yields remain a counterweight. For longer-duration capital, we continue to evaluate investment opportunities in AI inference, cybersecurity, water infrastructure and battery storage. Lastly, our proprietary efforts to source direct investments continue to gain traction, with several interesting small and middle-market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.