

Week in review and ahead (vol.41-26)



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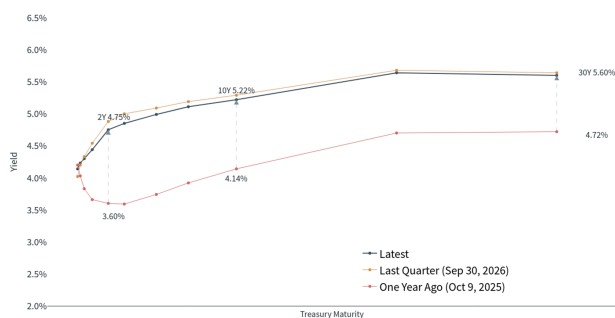
Week in review

U.S. equity markets finished the week mostly higher as concerns surrounding Treasury demand proved overstated following solid 10-year and 30-year Treasury auctions. Investors largely looked through the latest Federal Reserve meeting minutes, which reinforced a more hawkish policy stance and the potential for additional tightening if inflation remains persistent. Risk sentiment was briefly shaken by reports that private AI company OpenAI generated lower-than-expected third-quarter sales, sparking concerns regarding AI spending and the durability of the sector's growth trajectory. Subsequent clarifications, however, alleviated those concerns, allowing markets to recover quickly. The episode nevertheless highlighted the importance of leading frontier AI companies to investor sentiment and the broader AI-driven market rally.

Economic data was generally supportive of fixed income markets. A softer-than-expected ISM Services PMI, coupled with strong Treasury auction demand, helped drive yields lower. The 2-year, 10-year, and 30-year Treasury yields declined by approximately 30-40 basis points to end the week at 4.75%, 5.22%, and 5.60%, respectively.

Treasury Yield Curve

The shape of the U.S. Treasury curve last year versus today



Latest data point is Oct 9, 2026

Sources: Cleareconomics,
Federal Reserve
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Geopolitical tensions remained elevated and continued to influence energy markets. Oil prices eased late in the week after President Trump indicated that the U.S. would refrain from military action against Iran, at least before the midterm elections, and that diplomatic discussions remain ongoing. However, tensions in the region persisted. While crude shipments through the Strait of Hormuz reportedly approached pre-conflict levels, Iran appeared to resume attacks and Yemen's Houthi forces intensified hostilities, posing renewed risks to Saudi Arabia's East-West Pipeline, which had only recently resumed operations after prior disruptions.

Against this backdrop, major U.S. equity indices posted gains, with the exception of the Russell 2000,

which declined 0.9% and extended its losing streak to five consecutive weeks as higher-for-longer interest-rate expectations continued to weigh on small-cap stocks. The Nasdaq Composite rose 0.7%, marking its fourth consecutive weekly gain and longest winning streak since May, while also setting a new intraday all-time high during the week. The S&P 500 gained 1.2% and recorded new intraday and closing highs above 7,800, driven primarily by large-cap technology and AI-related stocks amid still-narrow market breadth. The Dow Jones Industrial Average advanced 0.9%, supported by strength in both cyclical and defensive blue-chip sectors.

Stock Market Performance

S&P 500 Index, recent period



Latest data point is Oct 9, 2026

Sources: Cleareconomics,
Standard & Poor's
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International equity performance was mixed. Asian markets generally rebounded after several weeks of weakness, while European equities stabilized despite ongoing concerns surrounding growth, fiscal policy, and interest rates.

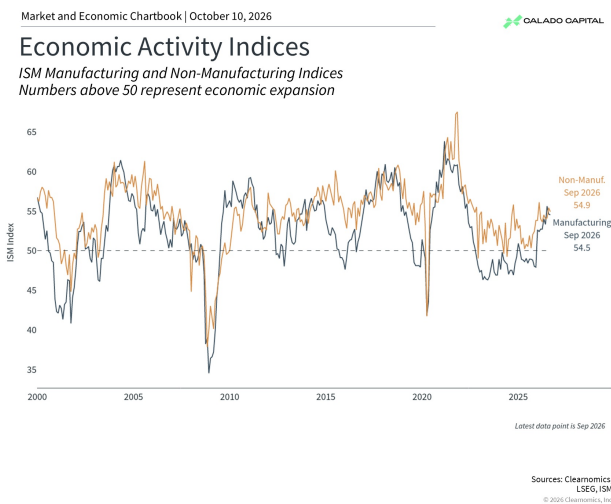
Asian markets displayed significant divergence. Japan, Hong Kong, and India each advanced roughly 1% for the week, reflecting investor preference for markets with stronger earnings momentum and better growth visibility. In contrast, mainland Chinese equities continued to decline amid persistent economic concerns, while South Korea's KOSPI underperformed sharply as semiconductor and technology shares came under pressure following the OpenAI-related demand concerns.

European equities proved resilient as investors focused on easing oil prices, moderating bond yields, and improving geopolitical sentiment. The STOXX Europe 600 posted a modest gain of 0.1% for the week. The U.K.'s FTSE 100 outperformed with a gain of nearly 1%, while Germany's DAX recovered sharply into week-end trading but still finished down 0.4%. France's CAC 40 declined 1.2% as investors remained cautious amid ongoing fiscal concerns.

Week in review – US macroeconomics

With a light economic calendar this week, investors looked to the Treasury market, where 3, 10 and 30 year auctions tested demand for U.S. government debt at multi-decade-high yields. The September ISM Services PMI was the week's most significant release. The preliminary October University of Michigan consumer sentiment survey and weekly initial jobless claims rounded out the slate.

The services sector continued to expand, albeit at a slightly slower pace. The ISM Services PMI registered 54.9, essentially in line with expectations of 55.0 and down from 55.4 previously, but still 0.8 points above its 12-month average of 54.1. All five sub-indexes held in expansionary territory, including employment, which had previously contracted. Business activity and new orders slowed, falling 5.2 and 1.1 points respectively, while supplier deliveries and inventories accelerated by 1.9 and 1.1 points. Backlog of orders grew at its fastest pace since July 2022. Unfortunately, so did prices paid for services, adding to inflationary pressures and concerns.



The Treasury auctions delivered the week's clearest signal. The 3-year note auction was soft, settling at its highest yield since May 2026, with the bid-to-cover ratio and indirect participation (a proxy for foreign demand) below recent averages raising some (demand) concerns. Its only redeeming feature was that dealers were not left with an unusually large share of the issue. The 10-year note auction, by contrast, was strong. It stopped through by 1.7 basis points, yet still settled at 5.3%, the highest in 25 years. A bid-to-cover ratio of 2.77x and indirect participation of 80.3% were well above normal, and dealers took only 2.5% of the issue, so investors absorbed nearly all of the supply. The 30-year bond auction was less robust but still solid. It settled at 5.618%, a marginal 0.1 basis point tail,

while the other metrics exceeded recent averages: bid-to-cover of 2.54x (+0.13x), indirect demand of 72.32% (+3.22 percentage points) and dealer takedown of 6.79% (-3.51 percentage points). Investors remain willing buyers of long-dated Treasuries, but only at yields that continue to reprice the cost of capital.

Consumer data was less reassuring. Preliminary October consumer sentiment surveyed by the University of Michigan fell further to 46.1, well below expectations of 48.1, driven by a significant decline in current conditions. More concerning for policymakers, inflation expectations rose again, with the 1-year outlook at 4.7% and the 5-year at 3.5%. The labor market remained resilient. Initial jobless claims came in at 197,000, slightly below the prior week's revised 199,000 and expectations of 200,000.

Federal Reserve commentary throughout the week leaned hawkish with Fed governors indicating further tightening of monetary policy to address inflation. With a tightening cycle expected to occur over the next six (6) to nine (9) months, the speakers did stop short of confirming it would do so at the very next October meeting, just days ahead of the midterm election.

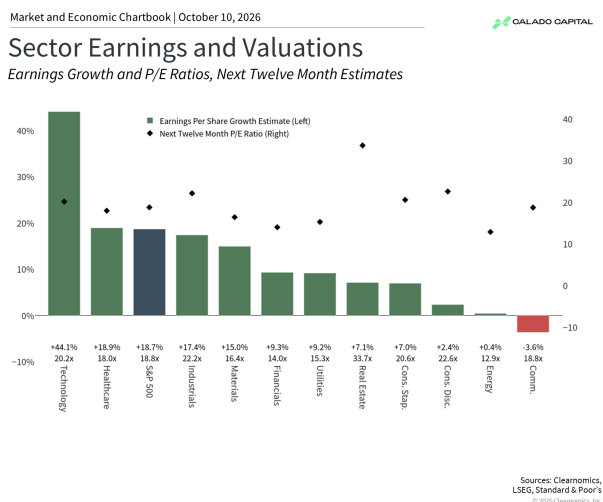
Taken together, the economy remains fundamentally firm, with services expanding, layoffs subdued and long-dated Treasury supply still finding buyers. The Atlanta Fed GDPNow projection for Q3'2026 remains above 3.5%. Yet rising services input costs and climbing household inflation expectations keep the inflation fight at the center of the policy debate. With policymakers signaling further tightening as likely, if not imminent, markets will continue to weigh the resilience of growth against a rising cost of capital.

Week ahead

Inflation returns to center stage in the week ahead, with the September CPI and PPI reports likely to shape expectations for the Federal Reserve's October 27–28 meeting. Attention will fall mainly on core CPI, which is projected to hold at last month's level, a reading that would offer little evidence of further disinflation. Producer prices, by contrast, are expected to tick up. Coming after this week's jump in services prices paid and rising consumer inflation expectations, a firmer PPI would add to concerns that pipeline price pressures have yet to ease.

Beyond the inflation data, September retail sales will provide an important update on the health of the consumer. Expectations call for a more moderate figure following the very elevated prior reading, though a sharper slowdown would sit uneasily alongside the recent deterioration in consumer sentiment. Import and export prices, existing home sales and weekly initial jobless claims will round out the data calendar. A further slate of public remarks from Federal Reserve officials will also give investors another read on how policymakers are weighing the timing of the next rate increase.

Major U.S. banks are scheduled to report third-quarter results next week, unofficially kicking off the corporate earnings season. The season will be critical for risk assets. Corporate fundamentals, particularly in technology and AI-themed companies, have underpinned current valuations despite multi-decade-high Treasury yields and persistent inflation concerns. Investors will therefore look for confirmation that earnings growth remains strong enough to justify those valuations and sustain equities' resilience.



Number of the week: \$50 billion

OpenAI's annualized revenue run rate for September, as communicated to investors and reported on October 8. On its own, the figure is remarkable: a 2.5-fold increase from the roughly \$20 billion run rate at which the company began the year. Yet it fell about \$20 billion short of the nearly \$70 billion the company had signaled only days earlier. The gap reportedly reflects OpenAI excluding sales made through cloud partners rather than weaker demand, but markets were unforgiving, nonetheless. The semiconductor sector, as measured by the iShares Semiconductor ETF (SOXX), fell 3.4%, while hyperscale cloud and AI infrastructure providers experienced even steeper

declines and the S&P500 slipped 0.5%, as investors reassessed assumptions surrounding future AI demand and capital spending.

The reaction underscores how much of the market's resilience now rests on a single theme. AI-related companies have underpinned equity valuations despite multi-decade-high Treasury yields. The spending commitments across that ecosystem rest in large part on revenue projections that, in OpenAI's case, are not yet supported by audited financials. When a figure at the center of the theme is revised, the repricing extends quickly across chipmakers, cloud providers and the lenders financing them.

The theme's importance, however, extends well beyond the stock market. Census data show construction spending on data centers reached a record annualized pace of roughly \$85 billion in August, up 73% from a year earlier. Even so, total construction spending stood 1.7% below year-ago levels and 3.1% lower year-to-date, amid elevated borrowing costs. Without data centers, private nonresidential construction would have contracted 5.9% over the past year, rather than

the 1.0% decline reported. In our view, AI infrastructure has become one of the few sources of investment growth in an economy otherwise constrained by restrictive financial conditions. Any reassessment of the theme's economics therefore carries implications not only for valuations, but for growth itself.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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