

Week in review and ahead (vol.42-26)



Claudio Calado | Managing Partner

October 19, 2026

Week in review

U.S. equity markets finished the week decisively lower as investors grappled with renewed inflation concerns, higher interest-rate expectations, and growing scrutiny surrounding the economics of the AI infrastructure buildout. Investor sentiment was further pressured by increasing political involvement ahead of the midterm elections, including proposals aimed at slowing data center development and AI advancement, as well as calls from the New York State Comptroller for one leading frontier AI company to delay its planned initial public offering.

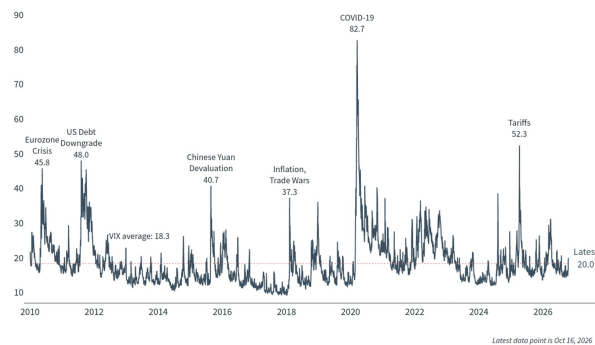
The week's key catalyst was Wednesday's hotter-than-expected Consumer Price Index (CPI) report, which prompted an immediate repricing across financial markets. Treasury yields initially surged in response, with the 2-year Treasury yield briefly reaching 4.95%, as investors reassessed the likelihood of a prolonged period of restrictive monetary policy.

Concerns about the increasing cost of the AI buildout, amid elevated valuations and the growing need for debt to finance further expansion, evolved into a decisive risk-off sentiment during the week. Investors increasingly questioned the sustainability of the spending required to support continued AI infrastructure growth, leading to a broad rotation out of AI-related equities and the technology trade more broadly, which has been the principal driver of risk assets for most of the year.

Perhaps more notably, risk aversion manifested through increased demand for traditional safe-haven assets. Following their post-CPI surge, Treasury yields reversed course and finished the week lower as investors sought safety in government bonds. The 2-year, 10-year, and 30-year Treasury yields declined to 4.71% (-8 basis points "bps"), 5.08% (-16 bps), and 5.43% (-13 bps), respectively. Market volatility rose sharply in the aftermath of the inflation report. The Cboe Volatility Index (VIX) climbed steadily through the week, reaching an intraday peak of 21.3 on Friday before moderating to close at 20.0, representing an increase of approximately 30% from the prior week and signaling a meaningful deterioration in investor risk appetite.

Stock Market Volatility

CBOE VIX Index



Geopolitical tensions also remained a significant concern. Risks in the Middle East continued to escalate as Iran continued attacks on commercial vessels transiting the Strait of Hormuz, including the reported sinking of a ship, while Yemen's Houthi forces intensified hostilities toward Saudi Arabia. With prospects for de-escalation appearing increasingly remote, energy markets have begun to price in a higher geopolitical risk premium. Brent crude oil closed the week just below \$110 per barrel, its highest level since May.

Against this backdrop, major U.S. equity indices moved lower across the board, with the notable exception of the Dow Jones Industrial Average, which gained 0.7%. The Dow benefited from investor

rotation into more defensive, value-oriented sectors and support from higher energy prices. The Nasdaq Composite declined 4.5%, reflecting heavy selling pressure in technology and AI-related shares, while the S&P 500 fell 2.0%. Small-cap equities remained under pressure as higher-for-longer rate expectations weighed on more interest-rate-sensitive companies. The Russell 2000 declined 3.1%, extending its losing streak to six consecutive weeks.

International equity market performance was mixed during the week, largely reversing the regional leadership observed the previous week. While European markets rebounded strongly following several weeks of weakness, most major Asian markets moved lower amid rising global interest-rate concerns and continued weakness in growth-oriented sectors.

Asian equities generally declined as higher-than-expected U.S. inflation and elevated global bond yields weighed on investor sentiment and triggered a broad sell-off in technology and AI-related shares. Japanese and Hong Kong equities were particularly affected by weakness in semiconductor and growth-oriented companies, while Chinese markets continued to contend with concerns surrounding domestic economic growth and demand. Indian equities proved comparatively resilient but nevertheless faced headwinds from foreign capital outflows, rising energy prices, and tighter global financial conditions.

European equities staged an impressive rebound, with the STOXX Europe 600 advancing more than 2% for the week, marking its strongest weekly performance since late June. Germany's DAX gained approximately 2.0%, France's CAC 40 rose 2.5%, and the United Kingdom's FTSE 100 led major regional benchmarks with a 3.1% advance. The rally was supported by encouraging third-quarter earnings results, renewed investor interest in value and defensive sectors, and increased diversification away from the highly concentrated U.S. technology trade. Europe's relatively attractive valuations and broader sector composition also provided support as investors rotated toward areas of the market perceived to be less exposed to the risks associated with rising financing costs and AI-related capital expenditures.

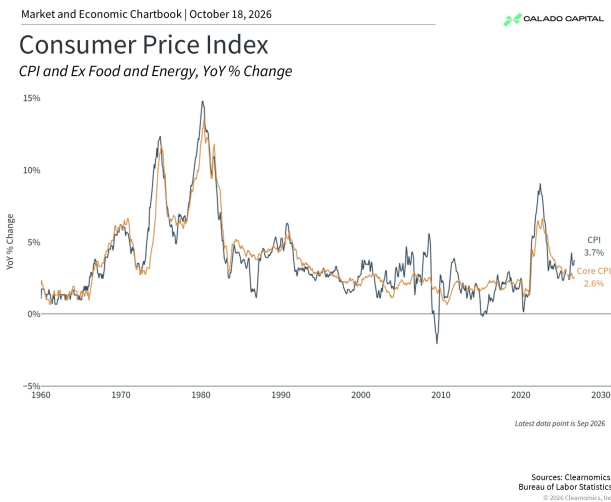
Week in review – US macroeconomics

Inflation took center stage this week, and the September data offered little comfort to policymakers. Consumer, producer and trade prices all came in hotter than expected. Retail sales, industrial production, existing home sales and weekly jobless claims rounded out a busy calendar, while remarks from Federal Reserve officials, including Chair Warsh, set the tone ahead of the October 27–28 FOMC meeting.

Consumer prices accelerated on both, headline and core measures. Headline CPI rose 0.6% month-over-month (“MoM”), in line with expectations but up from 0.4% in August, lifting the annual rate to 3.7%, above the 3.6% consensus and up from 3.4%. More concerning, core CPI rose 0.3%, above the 0.2% expected and matching the prior month’s pace.

The annual core rate accelerated to 2.6% from 2.4%, against expectations that it would hold steady.

Wholesale inflation was markedly hotter. Headline PPI surged 1.3% MoM, well above estimates of 0.5% and up from an upwardly revised 0.5% previously. The annual rate accelerated to 6.3% from an upwardly revised 5.6%, against expectations of 5.3%. Core PPI rose 0.7%, more than double the 0.3% expected and up from 0.2% previously, lifting the annual core rate to 5.0% from an upwardly revised 4.8%, above estimates of 4.4%. Trade prices told a similar story. Export prices rose 2.2% MoM, against estimates of 1.0% and up from 1.2%, while import prices climbed 1.1%, against expectations of 0.8% and up from 0.5%.



Taken together, the September reports suggest that the energy-driven supply shock is no longer confined to headline inflation but is increasingly fed through to core measures across the retail and wholesale pipelines. Treasury markets reacted swiftly. Yields spiked across the curve following the inflation data, with the 2-year yield rising to about 4.95%, its highest level of the month, the 10-year moving above 5.3%, and the 30-year above 5.6%.

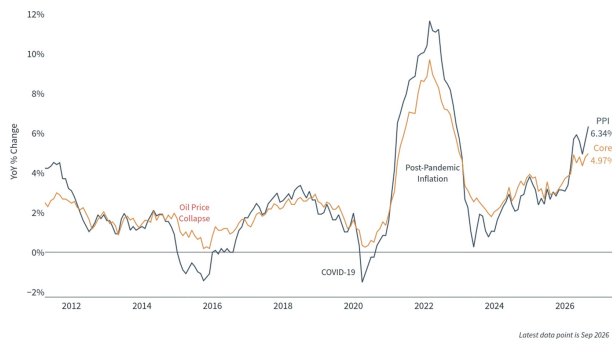
The consumer data was more nuanced. Headline retail sales rose 0.8% MoM, well above the 0.3% expected, though down from August's exceptionally strong 1.3% increase, with higher gasoline prices accounting for much of the gain. The control group, which feeds directly into GDP calculations, rose a

modest 0.1%, well below estimates of 0.3% and a sharp slowdown from August's 1.2% increase. Even so, consumer spending appears intact. Credit card data continues to look solid, and the Atlanta Fed's GDPNow estimate for third-quarter growth remained unchanged at 3.6% following the release.

Elsewhere, the data pointed to an economy that remains on firm footing, with housing the notable exception. Industrial production rose 0.7% in September, well ahead of expectations, its largest gain in five months, and a marked acceleration from 0.1% previously. Initial jobless claims of 199,000 were in line with expectations and little changed from the prior week, suggesting the labor market remains relatively stable. Existing home sales increased 1.5% MoM to an annualized 3.99 million, modestly above the 3.95 million consensus and up from 3.93 million. Even so, sales remain at extremely low levels, reflecting subdued activity in a housing sector still constrained by elevated borrowing costs. Federal Reserve commentary underscored the dilemma facing policymakers. Before the CPI release, New York Fed President Williams reiterated that one more hike may be appropriate this year, while Vice Chair for Supervision Bowman saw "some time to wait." Afterward, Chicago Fed President Goolsbee called the data discouraging, citing services inflation. Chair Warsh, speaking in Bangkok on Friday, reaffirmed the Fed's commitment to price stability but declined to signal its next move, stating, "I don't prejudge meetings." CME FedWatch odds of an October hike jumped from 22% to 50% after the CPI report before falling back to 28% the following day.

The challenge for the FOMC is clear. With growth resilient, the labor market stable, and inflation broadening from energy into core prices, the case for further tightening has strengthened. Yet officials appear reluctant to commit to a move at a specific meeting. Holding steady in October risks reinforcing perceptions that policy is falling behind a reaccelerating inflation trend, particularly with household inflation expectations already rising.

Producer Price Inflation



Corporate Earnings

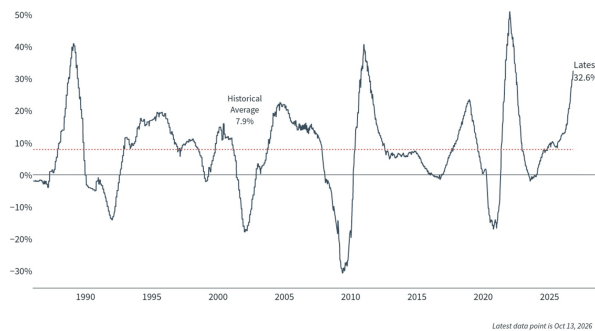
The major U.S. banks unofficially opened the season with a mixed report card. Four of the six largest banks beat consensus earnings estimates, but only three topped revenue expectations. Bank executives generally struck a cautious tone, citing sticky inflation, large fiscal deficits and rising interest rates as risks to the outlook. Investors were equally restrained as bank shares were largely mixed to lower on the week despite generally solid results, suggesting that the bar for further gains in the sector has risen.

Elsewhere, according to FactSet, the S&P 500's third-quarter earnings season has made a mixed start. Of the 9% of companies that have reported so

far, 84% beat EPS estimates. That is above the 5-year average of 78% and the 10-year average of 77%. However, the size of those beats has been modest. In aggregate, earnings came in 2.6% above estimates, well below the 5-year average of 7.5%. Downward revisions to Health Care estimates, only partly offset by upward revisions in Energy, lowered the blended earnings growth rate to 29.0%, from 29.4% last week and 29.2% at quarter end. Even so, if 29.0% holds, it would mark the third straight quarter of earnings growth above 25% and the eighth straight quarter of double-digit growth.

S&P 500 Earnings Growth Rate

Trailing 12 month earnings per share



Week ahead

The economic calendar will be light in the week ahead, with attention turning to the housing market. September building permits and housing starts will update the picture of residential construction activity, and pending home sales will show how many contracts were signed on existing homes. August's construction spending data showed total construction spending below year-ago levels amid elevated borrowing costs. These reports will show how much multi-decade-high Treasury yields continue to weigh on builders and buyers alike.

The University of Michigan will also release the final results of its October consumer sentiment survey, which is expected to hold at the previously

estimated 46.3. Attention will likely center on inflation expectations, after the preliminary survey showed both the 1-year and 5-year outlooks moved higher. Weekly initial jobless claims will round out the data calendar.

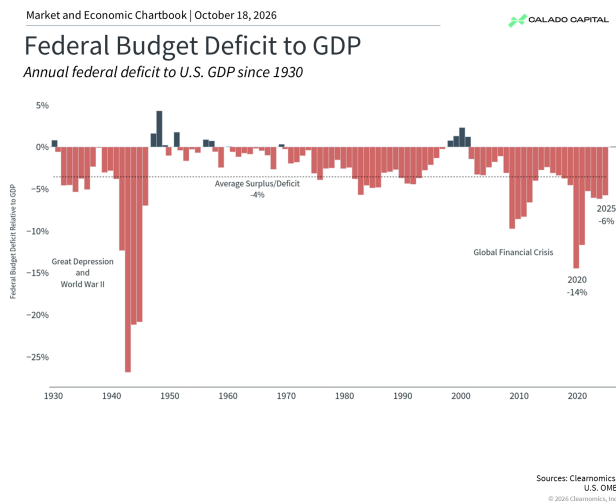
Number of the week: \$1.99 trillion

The U.S. federal budget deficit for fiscal year 2026, which ended September 30, according to the Treasury's final monthly statement released this week. The shortfall widened 12% from \$1.78 trillion a year earlier, the largest in five years and the third largest on record, surpassed only by the pandemic-era deficits of 2020 and 2021.

The cost of servicing the debt highlights the challenge. According to the Congressional Budget Office, net interest rose 11% to \$1.14 trillion, consuming more than 21 cents of every dollar of federal revenue. That is more than the government spends on Medicare or national defense, and it now trails only Social Security.

Importantly, Washington is not the only borrower competing for capital. Alphabet, Amazon, Meta, Microsoft, and Oracle had issued roughly \$220 billion of bonds by early August to fund the AI build-out, well above the \$121 billion they issued in all of 2025. That additional supply adds to the pressure on interest rates, as investors must absorb record Treasury issuance alongside a growing pipeline of AI-related corporate debt.

The dynamic is self-reinforcing and a challenge that is increasingly difficult to ignore. This week's hotter-than-expected inflation data pushed the 10-year yield briefly above 5.3%, and Fed officials continued to signal further tightening. Higher rates widen the deficit, which requires more borrowing and in turn pressures yields higher. For investors, the message is that the cost of capital is being set not only by the Fed, but by an expanding supply of debt from Washington and Silicon Valley alike.



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.

The opinions and analyses presented are for educational and informational purposes only, and do not necessarily represent investment advice. As such, it does not consider anyone's particular investment objectives, financial situation, suitability or needs and therefore cannot be relied upon as an appropriate recommendation. If acting on information in these analyses you should consider whether it is appropriate and suitable for your circumstances and may want to seek advice from us, your financial or investment advisor.

Past performance is no guarantee of future results.

Copyright (c) 2026 Clearnomics, Inc. All rights reserved. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports posted on or via www.clearnomics.com or any affiliated websites, applications, or services are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed in this report are proprietary to Clearnomics, Inc. and constitute valuable intellectual property. All unauthorized reproduction or other use of material from Clearnomics, Inc. shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Clearnomics, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Clearnomics, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

