

Week in review and ahead (vol.43-26)



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Week in review

U.S. equities finished the week mixed as volatility within the AI-themed and broader technology sectors persisted. Investors continued to scrutinize the substantial capital commitments required to build out AI infrastructure, particularly as elevated borrowing costs increase the hurdle rate for generating attractive returns on these investments. Despite a generally strong start to earnings season, with third-quarter earnings growth tracking above 25% year-over-year for a third consecutive quarter, robust corporate results did little to alleviate concerns surrounding AI economics and the sustainability of current spending trends.

With the economic calendar relatively light, investor attention remained centered on corporate earnings and the evolving AI investment narrative. Particular focus was placed on neocloud providers and other AI-linked companies whose business models depend heavily on continued investment in GPUs, data centers, and related infrastructure, increasingly financed through debt. As investors assessed the implications of higher financing costs and mounting leverage, concerns surrounding the sector's long-term return profile remained at the forefront.

Meanwhile, escalating geopolitical tensions in the Middle East and the prospect of renewed military confrontation reinforced a risk-off tone across financial markets, driving renewed demand for U.S. Treasuries. As a result, yields declined across the curve to their lowest levels in more than a month. The 10-year Treasury yield finished the week below 5% for the first time in approximately a month, while the 2-year and 30-year Treasury yields fell below 4.7% and 5.4%, respectively.

Interest Rates

10-year and 2-year yields since 2010

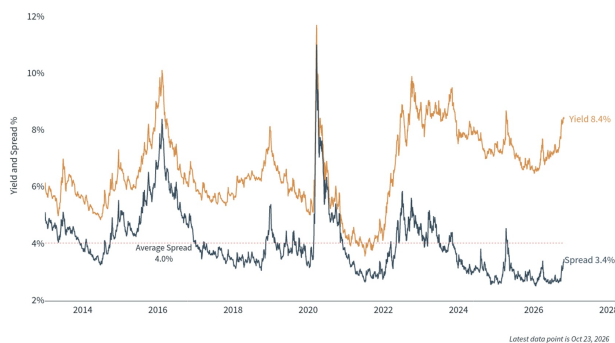
Sources: Cleonomics, Federal Reserve
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Notably, the decline in Treasury yields was accompanied by a widening in U.S. high-yield credit spreads, with the average risk premium rising to its highest level in roughly seventeen months. The divergence suggests investors are becoming increasingly selective toward lower-quality borrowers, particularly those with substantial refinancing needs. While resilient economic activity, persistent inflation, and rising government indebtedness had previously exerted limited influence on credit markets, investors are increasingly questioning how highly leveraged companies will perform should borrowing costs remain elevated for an extended period. Reports of postponed or cancelled debt offerings further suggest financing conditions may be beginning to

tighten at the margin.

Market volatility ultimately finished the week little changed, although trading throughout the period highlighted continued investor unease. The CBOE Volatility Index (VIX) initially declined to 16.7 before quickly reversing course, briefly moving above 20 and ending the week at 19.5. A VIX reading between 15 and 20 typically reflects a normal market environment characterized by modest uncertainty, while readings above 20 are generally associated with heightened investor concern and increased volatility expectations.

U.S. High Yield

Sources: Cleonomics, Bloomberg
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Against this backdrop, major U.S. equity indices delivered mixed results. The Dow Jones Industrial Average advanced 0.4%, benefiting from continued investor rotation toward more defensive and value-oriented sectors, as well as support from higher energy prices. Renewed concerns surrounding an escalation of Middle East tensions toward direct military confrontation lifted crude oil prices, with Brent crude surpassing \$117 per barrel for the first time since late April. The Russell 2000 gained 2.0%, benefiting from the decline in Treasury yields and improving financial conditions relative to earlier in the month. Conversely, the Nasdaq Composite declined 0.7%, following last week's near-5% selloff, as volatility within technology and AI-related shares persisted. The S&P 500 posted a more modest

decline of 0.5%.

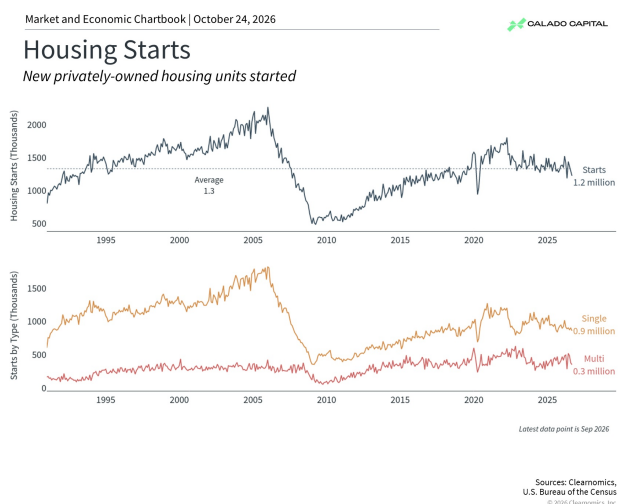
International equities were broadly weaker. Across Asia, investor caution surrounding higher borrowing costs, elevated energy prices, and uneven economic momentum weighed on sentiment. Losses were led by Hong Kong (-4.5%) and Japan (-4.0%), while China proved comparatively resilient, with the Shanghai Composite and CSI 300 declining 0.7% and 1.6%, respectively, as expectations for additional policy support helped cushion weakness. South Korea (-2.1%) and India (-2.4%) also moved lower amid technology-sector profit taking, earnings-related concerns, and persistent inflation pressures.

European equities also finished the week lower as rising energy prices, political uncertainty in France, and a mixed earnings season weighed on investor sentiment. The STOXX Europe 600 declined approximately 1.6%, marking its largest weekly loss since early September, with weakness concentrated in luxury and consumer-oriented sectors. Germany's DAX fell 1.7% for the week, while French equities were pressured by domestic political uncertainty and a sharp decline in luxury shares, declining by 2.2%. In the United Kingdom, the FTSE 100 fell 1.8% as investors weighed the implications of higher oil prices and tighter financial conditions.

Week in review – US macroeconomics

Following the prior week's heavy slate of inflation data, the economic calendar was notably lighter, with attention turning to the housing market alongside final consumer sentiment, preliminary business activity surveys, and weekly jobless claims. With the FOMC meeting scheduled for next week Federal Reserve officials were in their customary blackout period.

Housing remained the economy's clear soft spot. Building permits were essentially unchanged in September at an annualized 1.40 million, down 0.2% month-over-month ("MoM") and just nominally above estimates of 1.39 million. Housing starts, however, disappointed, falling 5.2% MoM to 1.22 million, well below the 1.30 million expected. More concerning, pending home sales declined 7.3% MoM and 11.3% year-over-year, as mortgage rates were just below 7.5%, a multiyear high, and elevated housing prices continued to weigh on demand.



Beyond housing, the economy continued to show considerable strength. S&P Global's flash PMIs for October remained firmly in expansion territory, just off the prior month's pace, with the composite index at 58.4 and the services and manufacturing indices at 58.8 and 55.9, respectively. Initial jobless claims held at 199,000, nearly unchanged from the prior week and in line with expectations of 200,000, underscoring the labor market's resilience. The Atlanta Fed's GDPNow estimate for third-quarter growth edged down to a still-robust 3.5% from 3.6%. Consumer sentiment offered a modest improvement, though little relief on inflation. The University of Michigan's final October reading rose to 48.1, above the 46.3 expected, but inflation expectations were unchanged from the preliminary

survey, with the 1-year outlook at 4.7% and the 5-year at 3.5%.

Taken together, the data portrays an economy that remains fundamentally strong besides a housing sector constrained by elevated borrowing costs. For policymakers heading into next week's FOMC meeting, resilient activity, a stable labor market and stubbornly elevated inflation expectations offer little reason to believe that inflation pressures will ease on their own.

Corporate Earnings

Third-quarter earnings season gathered momentum this week, and results continue to impress on growth, if less so on the size of positive surprises. According to FactSet, with 24% of S&P 500 companies having reported, 83% have beaten

EPS estimates, above the 5-year average of 78% and the 10-year average of 77%. However, “the magnitude of earnings surprises is below recent averages,” with companies reporting earnings 2.1% above estimates in aggregate, against a 5-year average of 7.5%. Revenue results have been softer, with 66% of companies beating estimates, below the 5-year average of 70%.

Even so, growth remains exceptionally strong. FactSet notes that the blended earnings growth rate rose to 29.5% from 29.2% last week, led by the Energy, Information Technology, Communication Services and Materials sectors. If that pace holds, “the index is still reporting (year-over-year) earnings growth above 25% for the 3rd straight quarter,” and the eighth straight quarter of double-digit growth. Blended revenue growth stands at 12.7%.

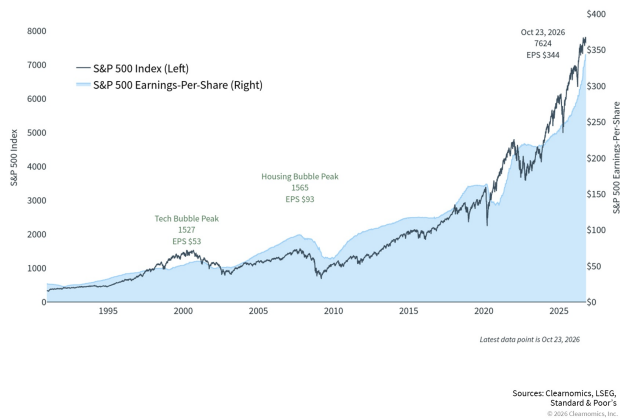
Despite generally solid results, risk assets remained under pressure during the week as concerns over rising credit costs overshadowed corporate fundamentals. Investors will now turn to a heavy slate of technology earnings, headlined by Magnificent Seven members Microsoft and Alphabet on Wednesday, October 28, and Amazon on Thursday, October 29. Following Meta and Tesla’s reports earlier this month, those results will offer a critical test of whether AI-driven demand can continue to justify the scale of capital spending, and the borrowing, now underpinning the technology trade.

Market and Economic Chartbook | October 24, 2026

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The Stock Market and Earnings

S&P 500 Index price and trailing earnings-per-share since 1990



Week ahead

The week ahead will be defined by the Federal Reserve’s FOMC meeting on October 27–28, a decision that comes on the heels of a hotter-than-expected September inflation report and amid growing signs that energy-driven price pressures are filtering into core measures. With policymakers having signaled further tightening as likely but declining to commit to a specific meeting, the central question is whether the committee acts now or continues to wait. Equally important will be the message accompanying the decision. Chair Warsh’s reluctance to offer forward guidance leaves investors to parse the statement and press conference closely for any indication of the

committee’s resolve, at a time when market expectations for an October move swung sharply.

Notably, the September PCE price index, the Fed’s preferred inflation gauge, is scheduled for release after the meeting and will therefore not inform the committee’s decision. It will nonetheless offer an important test of whether the firmness seen in CPI and PPI carried through to the Fed’s preferred measure. It will arrive alongside September personal income and spending data, which will show whether consumers continue to outspend income growth.

The first estimate of third-quarter GDP will also be closely watched. With the Atlanta Fed’s GDPNow tracking 3.5%, the report should confirm whether the economy maintained the robust pace of growth that has thus far underpinned corporate earnings and somewhat complicated the Fed’s inflation fight.

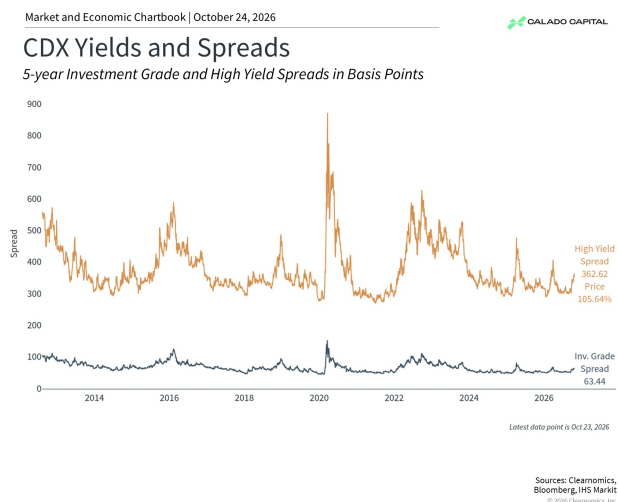
Additional housing data will round out the calendar, including building permits, September new home sales, and the S&P/Case-Shiller home price index for August, offering a further read on a sector under pressure from multiyear-high mortgage rates. September durable goods orders and weekly initial jobless claims will provide additional insight into business investment and the health of the labor market.

Number of the week: 8.2%

The effective yield on the ICE BofA US High Yield Index, which reached 8.21% on October 20, up from roughly 6.55% a year earlier. The advance has been driven predominantly by higher Treasury yields, with the index's spread over government bonds, at approximately 327 basis points, remaining close to its 10-year median. Beneath this relatively composed surface, however, investors are becoming markedly more discerning. The premium demanded to hold high-yield rather than investment-grade bonds has widened to its highest level since May 2025, while global corporate credit spreads have reached a 17-month high.

Nowhere is this growing selectivity more pronounced than in the financing of AI infrastructure. The cost of insuring CoreWeave's debt against default rose from roughly 368 basis points on October 6 to a record intraday high near 1,195 basis points on October 15. According to S&P Global Market Intelligence and ICE Data Services, that level implies a five-year default probability in excess of 60% for a company carrying approximately \$35 billion in borrowings. Oracle's credit default swaps likewise reached a record.

In our view, the implications are becoming difficult to overlook. While rising borrowing costs are being felt across the market, credit investors are drawing an increasingly sharp distinction between companies whose AI ambitions are financed by internal cash flow and those reliant on debt. More broadly, the widening premium on high-yield over investment-grade bonds, record credit default swap levels among AI-related issuers, and the widest global credit spreads in 17 months suggest that investor attention may be shifting from the level of interest rates toward credit risk itself. Should that shift take hold, the next phase of market pressure is likely to be shaped less by the trajectory of monetary policy and Treasury yields than by the capacity of individual borrowers to sustain their obligations.



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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