

Week in review and ahead (vol.44-26)



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October 31, 2026

Week in review

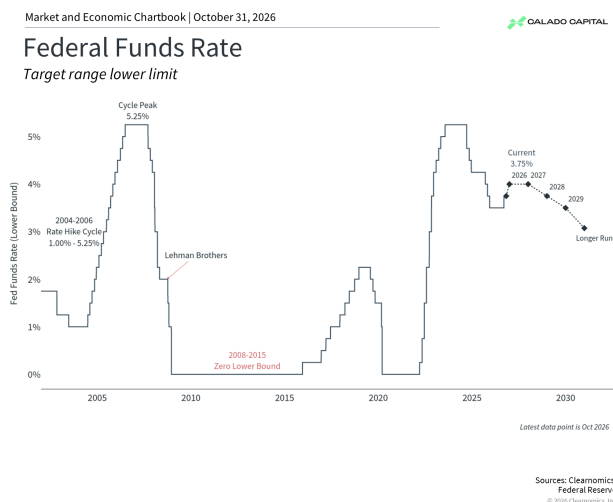
U.S. equities finished the week lower as investor concerns surrounding capital spending discipline and prospective returns on investment within the artificial intelligence ecosystem resurfaced. The shift in sentiment followed a series of underwhelming earnings releases from several high-profile technology companies, including Alphabet on Wednesday and Intel on Thursday (see the “Number of the Week” section), despite the broader earnings season continuing to exceed expectations overall.

Notwithstanding a strong start to the week, aided by enthusiasm surrounding Anthropic's IPO filing that somewhat underpinned optimism toward AI-related growth opportunities, investor conviction that had been tentative now for weeks, faded amid elevated sector valuations. By midweek, several earnings reports, including those that exceeded consensus estimates and increased guidance, appeared to have failed to satisfy investor's lofty expectations. As a result, sentiment deteriorated rapidly, culminating in a broad-based selloff that accelerated throughout Friday's trading session.

Risk sentiment was further challenged by reports that Binance had fallen victim to a cyberattack resulting in the theft of approximately \$6.3 billion of digital assets, reportedly the largest security breach in the history of the cryptocurrency industry. While the immediate suspension of withdrawals by Binance and certain blockchain participants initially unsettled markets, assurances that affected accounts would be made whole helped contain broader contagion concerns. Bitcoin declined approximately 5% immediately following the news, falling to roughly \$77,000 before stabilizing at those levels.

In addition, investors remained focused on the Federal Open Market Committee (FOMC) Meeting, where policymakers left interest rates unchanged, in line with broad expectations. While the policy decision itself was widely anticipated, market attention shifted to the decidedly hawkish tone adopted by Federal Reserve (“Fed”) Chair Warsh during the post-meeting press conference. Notably, the decision was not unanimous, with two committee members dissenting in favor of additional monetary tightening. Although policymakers acknowledged that financial conditions have tightened, they emphasized that current conditions remain insufficiently restrictive to ensure inflation returns sustainably to target. This view was reinforced by the subsequent release of September's Core PCE Price Index, the Fed's preferred inflation measure, which accelerated to 3.1% year-over-year, well above its target of 2%. Looking ahead, the inflation outlook

remains complicated by persistent geopolitical tensions and ongoing constraints within global energy markets, factors that could continue to exert upward pressure on prices that are increasingly entrenched and complicate the path toward price stability.



Against this backdrop, major U.S. equity indices declined for the week. The technology-heavy Nasdaq Composite posted the largest loss, falling approximately 2%, with much of the weakness concentrated on Friday's nearly 3% decline, its sharpest single-day retreat since early June amid earnings-related volatility and renewed scrutiny of AI-related investment spending. The Dow Jones Industrial Average demonstrated relative resilience, while both the S&P 500 and Russell 2000 experienced more pronounced weakness amid the technology-led selloff and a broader reduction in risk sentiment. Investor focus had been shifting towards the sustainability of earnings growth, the balance between aggressive capital expenditures and long-term profitability, and the financing

requirements underpinning the AI buildout for some time now. These concerns have led to heightened volatility and a more defensive positioning across asset classes.

International equities broadly rebounded from the previous week's declines, recovering a meaningful portion of the weakness as investor sentiment stabilized across most major markets.

Across Asia, performance was led by South Korea, where equities advanced a robust 4.2%, supported by renewed strength in technology and export-oriented sectors. India also delivered solid gains of 1.8%, while Japan's Nikkei 225 rose 1.0%, as investors reacted favorably to domestic economic and corporate developments. Hong Kong equities finished modestly higher, gaining 0.9% on the week. In contrast, mainland Chinese markets underperformed regional peers, declining approximately 2.9% amid continued weakness and concerns surrounding economic momentum and investor confidence.

European equities similarly recovered from the prior week's declines, supported by improving risk sentiment and resilient economic and corporate fundamentals. The broad STOXX Europe 600 advanced during the week by 1.8%, reflecting gains across most major continental markets. Regional performance was led by Germany, where equities rose 2.5%, closely followed by France with gains of 2.4%. The United Kingdom posted a more modest advance of 0.4%, reflecting a comparatively defensive market composition. Collectively, European markets exhibited broad-based strength and outperformed many global peers, helping to reverse a portion of the weakness experienced during the previous week.

Month in review

For the month, October proved to be of sharp divergence beneath the surface of U.S. equity markets. The technology-heavy Nasdaq Composite declined 5.3%, its worst monthly performance since March 2025, as mounting scrutiny of AI-related capital spending, the financing behind it, and a series of disappointing earnings from key technology and semiconductor companies weighed on the sector that has led markets for most of the year. The S&P 500 fared considerably better, slipping 0.9%, while the Russell 2000 edged higher by roughly 0.5%. The Dow Jones Industrial Average was the standout, advancing 1.7% in the month, supported by investor rotation into defensive and value-oriented sectors and by strength in energy shares amid rising oil prices. Taken together, the month's performance

reflects a market increasingly reassessing its reliance on the AI trade and broadening its search for value elsewhere.

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Stock Market Cycles

NASDAQ Composite since 1995



Sources: Clearnomics, Nasdaq
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Week in review – US macroeconomics

The week brought the Federal Reserve’s October policy decision, followed by the first estimate of Q3’26 GDP and September’s PCE inflation, personal income and spending data. Because the FOMC met before either release, policymakers set policy without the benefit of the latest readings on growth and their preferred inflation gauge. Durable goods orders, consumer confidence, housing data and weekly jobless claims rounded out a busy calendar.

The September PCE report confirmed that inflation pressures remain firmly entrenched. Headline PCE rose 0.5% month-over-month (“MoM”), lifting the annual rate to 3.6%, both in line with expectations

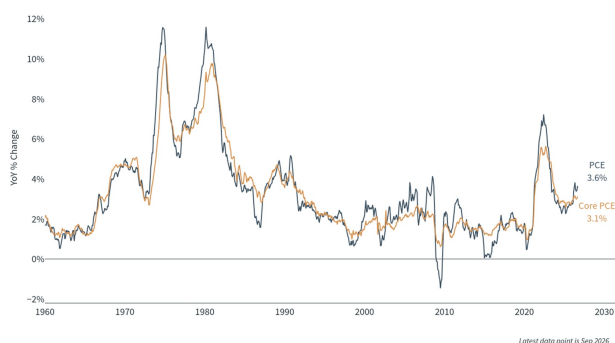
but each 0.2 percentage points above August’s pace. Core PCE, which excludes volatile food and energy, rose 0.3% MoM and 3.1% year-over-year (“YoY”), again in line with expectations, with the annual rate edging higher from the prior month.

Income and spending data pointed to a consumer stretching to keep pace. Personal spending rose 0.5%, though real spending, adjusted for inflation, rose just 0.1% for a second consecutive month. Personal income increased 0.2%, below the 0.3% expected and matching the prior month’s pace. The consumer continues to hold up, but how long spending can be sustained if income growth fails to keep pace with inflation is becoming an increasingly pertinent question.

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PCE Inflation



Sources: Clearnomics, Bureau of Economic Analysis
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Economic growth, meanwhile, remained robust. Third-quarter GDP expanded at an annualized 3.4% quarter-over-quarter, ahead of the 3.2% expected, supported by personal consumption growth of 2.5%. Business investment surged 9% (adding to the overall gross private investment of 3.3% for the quarter), led by a 20% increase in equipment spending. Much of that equipment was imported, however, causing net exports to subtract 3.3 percentage points from growth and suggesting the underlying strength of the economy was greater than the headline indicates.

Other data reinforced the picture of a resilient economy. Durable goods orders rose 1.8% MoM in September, ahead of the 1.2% expected and a

marked acceleration from 0.1% previously, while orders excluding transportation rose 0.5%, just shy of the 0.6% consensus. The Conference Board’s consumer confidence index rose to 91.7, well above the 81.0 expected and up from an upwardly revised 84.2. Initial jobless claims fell to 194,000, 5,000 below estimates and little changed from the prior week. The 4-week average settled below 197,000, and continuing claims fell to 1.7 million, about 20,000 below both

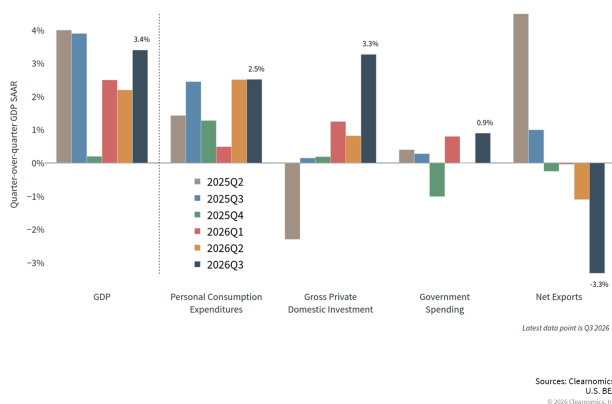
expectations and the prior week. Housing, by contrast, remained mired in malaise. Final building permits fell 0.4% in September, steeper than the 0.2% decline expected, and new home sales slipped 0.6% following an upwardly revised 5.1% gain the month before. The S&P/Case-Shiller index rose 2.7% YoY, ahead of expectations and the prior 2.5%, while 30-year mortgage rates averaged just below 7.4%.

Against this backdrop, the FOMC held the federal funds rate at 3.75%–4.00% in a 10-2 vote, with Governor Cook and Cleveland Fed President Hammack dissenting in favor of an immediate hike. Chair Warsh acknowledged that “inflation remains elevated,” noted that growth in the first half was revised up to 2.4% and that the third quarter was “likely running above 3 percent,” and described labor market conditions as solid. He observed that credit conditions “have tightened for some businesses and households” and that market participants are “becoming somewhat more discerning in their capital allocations.” Yet he stopped short of declaring policy restrictive, stating that while “overall financial conditions are tighter, I’m unwilling and unable to call them tight.” Reaffirming that “the Committee will deliver price stability,” Warsh said “the accumulation of more information will help” determine the policy stance. Futures subsequently priced roughly an 85% probability of a hike at the December 9 meeting. Warsh also announced changes to the meeting calendar. The FOMC will keep eight meetings a year, but one meeting in 2027 will focus exclusively on monetary policy strategy, without a rate vote or policy statement, and in 2028 two meetings will be devoted to strategy and six to setting policy.

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GDP Growth Components Over Time

Quarterly GDP growth rate (SAAR) and contributions



Corporate Earnings

More than halfway through the season, third-quarter results continue to impress on growth, if less so on the magnitude of positive surprises. According to FactSet, with 60% of S&P 500 companies having reported, 82% have beaten EPS estimates, above the 5-year average of 78% and the 10-year average of 77%. In aggregate, however, companies are reporting earnings just 1.9% above estimates, well below the 5-year average of 7.5%. FactSet notes that this “will mark the lowest earnings surprise percentage reported by the index since Q4 2022” if it holds. Revenue results have firmed, with 70% of companies beating estimates, in line with the 5-year average.

Growth nonetheless remains exceptional. FactSet reports that the blended earnings growth rate rose to 30.2% from 29.5% last week, with all eleven sectors reporting year-over-year growth, led by Energy, Information Technology and Materials. If that pace holds, it “will mark the third consecutive quarter of earnings growth above 25% and the eighth consecutive quarter of double-digit earnings growth for the index.” Blended revenue growth improved to 13.4%. Strong aggregate figures, however, did little to shield the technology trade from disappointing results at several of its most critical companies (see Number of the week).

Attention now turns to another heavy week, with 140 S&P 500 companies scheduled to report, according to FactSet. Apple, the remaining Magnificent Seven member yet to report this season apart from Nvidia, headlines the calendar on Monday, November 2, alongside Palantir. AMD follows on Tuesday, November 3, and Qualcomm on Wednesday, November 4, offering further insight into semiconductor demand following this week’s sharp selloff.

Week ahead

Investors will focus on three (3) key events that are likely to shape markets in the week ahead. First, the U.S. midterm elections, escalating geopolitical risk, and the October employment report.

The midterm elections on Tuesday, November 3, may introduce a fresh source of volatility. Beyond their customary implications for fiscal policy and the regulatory agenda, the outcome could carry particular consequences for the technology and AI-themed trade, at a time when political scrutiny of data center development and AI advancement has intensified and investors are already reassessing the economics of the sector's capital spending.

Geopolitical risks are also poised to rise, as the President weighs whether to escalate the military conflict with Iran. Any escalation would likely reverberate through energy markets, where Brent crude has already climbed to multi-month highs, adding to inflation pressures that remain a central concern for the Federal Reserve.

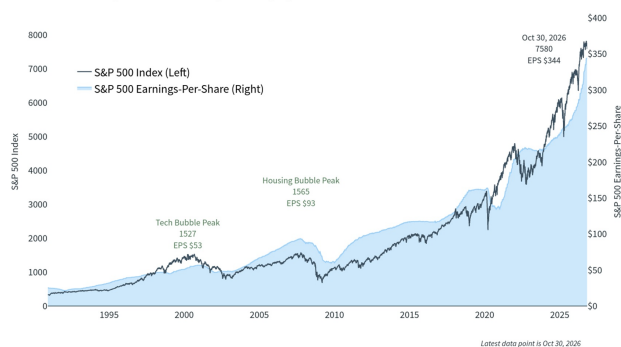
On the economic front, the October employment report will be the week's most consequential release, offering a timely test of a labor market that has thus far proven resilient. September JOLTS job openings and weekly initial jobless claims will provide additional context. The October ISM manufacturing and services PMIs will offer an early read on fourth-quarter activity, with the Atlanta Fed's GDPNow model initially tracking solid growth of 3.2%. September construction spending and the preliminary November University of Michigan consumer sentiment survey, with particular attention on inflation expectations, will round out the calendar.

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The Stock Market and Earnings

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



Sources: Clearnomics, LSEG, Standard & Poor's
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Number of the week: 28.6%

That was Intel's one-day decline on Friday, October 30, when shares closed at \$65.76. It was the company's steepest single day drop since July 5, 1974, when the stock fell 29.9%, and the second largest in its history as a public company. The selloff followed a fourth-quarter outlook that fell well short of expectations, with revenue guidance of \$15 billion to \$16 billion against roughly \$17 billion expected. Management also warned that an AI-driven shortage of memory chips, which is raising PC prices, could weigh on demand through at least the first half of next year.

Intel's collapse capped a week in which disappointing results from several of the market's most critical companies reignited concerns over the cost of the AI build-out. On Thursday, Alphabet fell 12.6%, erasing roughly \$500 billion in market value, after AI-related spending pushed free cash flow into negative territory. On Friday, the selloff broadened. The Philadelphia Semiconductor Index fell 7.2%, with 29 of its 30 members declining, and the Nasdaq Composite dropped 2.9%, its steepest daily decline since June, as investors rotated toward defensive sectors.

The losses were not confined to private investors. The U.S. government, which acquired a 9.9% stake in Intel in August 2025 at \$20.47 per share, saw the value of that holding fall by about \$12 billion in a single session. While the position remains well above its cost, at roughly three times the purchase price, the episode is a vivid reminder that when the government becomes a shareholder, the risks of the AI and semiconductor cycle are borne not only by investors, but by taxpayers as well.

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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