CALADO CAPITAL

Week in review and ahead (vol.45-26)



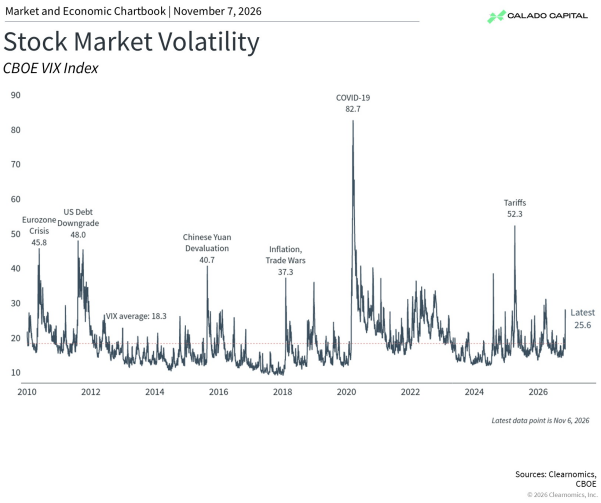
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November 7, 2026

Week in review

U.S. equities finished the week lower as volatility increased materially following the midterm elections, which renewed investor focus on the artificial intelligence investment theme after several weeks of mounting concerns. Specifically, apprehension that the pace of AI-related data center construction in the United States could slow meaningfully, or potentially be curtailed altogether, triggered a sharp reassessment of risk on Thursday, resulting in a broad selloff across AI-linked assets.

The CBOE Volatility Index (VIX) experienced a dramatic one-day surge of 70%, beginning the session just above 17, a level generally associated with stable market conditions, before closing near 28 as risk aversion intensified throughout the trading day. The resulting selloff produced the steepest single-day decline since the tariff-driven market correction of April 2025. The technology-heavy Nasdaq Composite fell 5.5% on the day, pushing the index into correction territory. Other major indices fared little better, with the S&P 500 and Russell 2000 each declining 4.4%, while the Dow Jones Industrial Average fell 3.4%.



Despite the market turbulence, macroeconomic data continued to point to a resilient U.S. economy. Nonfarm payrolls increased by 165,000 in October, significantly exceeding consensus expectations. Combined with upward revisions to the prior month's employment data, the unemployment rate declined to 4.1%, reinforcing the Federal Reserve's ability to maintain its focus on inflation. Nevertheless, Treasury yields continued to move lower as investors sought safety amid heightened volatility and a broad risk-off environment. Yields declined by at least five basis points across much of the curve, with the benchmark 10-year Treasury ending the week at 4.86%, while the 2-year Treasury yield fell to 4.51%.

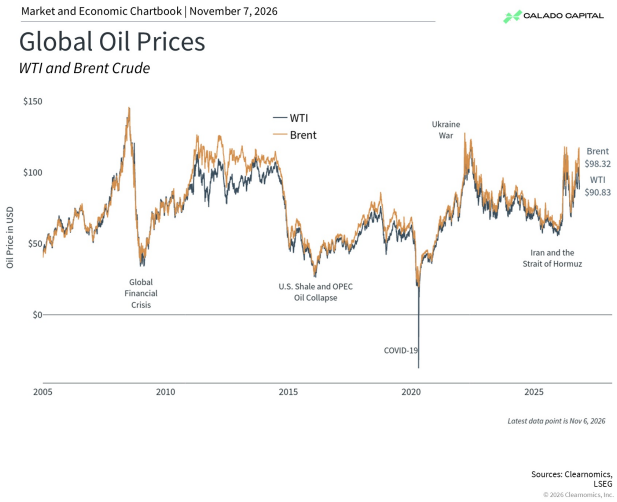
Geopolitically, Tehran's leadership authorized the government to pursue negotiations with the United States, signaling a willingness to explore a diplomatic resolution. The timing, occurring one day before the U.S. midterm elections, was notable given widespread concerns that further military escalation could necessitate renewed engagement between the parties. The announcement had a significant impact on energy markets, contributing to a sharp decline in oil prices. Both WTI and Brent crude fell approximately 13% during the week. WTI closed just below $91 per barrel, nearly $14 lower than at the beginning of the week, while Brent finished slightly above $98 per barrel, down roughly $15 from the prior week's close.

Against this backdrop, all major U.S. equity indices posted weekly losses. The Nasdaq Composite once again underperformed, declining 3.4% despite a partial rebound of 1.1% on Friday following Thursday's sharp selloff. The Dow Jones Industrial Average demonstrated relative resilience, while the S&P 500 and Russell 2000 experienced more pronounced weakness amid the technology-led downturn and broader reduction in risk appetite. Investors had already been increasingly focused on the sustainability of earnings growth, the balance between aggressive capital expenditures and long-term profitability, and the financing requirements underpinning the AI infrastructure buildout. Those concerns intensified following the midterm elections, driving volatility to its highest levels since late March and prompting a more defensive posture across asset classes.

International equities delivered a notably mixed performance during the week as investors remained constructive on regional growth prospects and welcomed signs of geopolitical de-escalation following Iran's indication that it was prepared to engage in negotiations.

Asian equity markets exhibited pronounced divergence. Japan's Nikkei 225 and South Korea's KOSPI declined 9.3% and 10.3%, respectively, reflecting persistent caution toward export-oriented and technology-heavy economies. In contrast, Chinese equities continued to recover, with the Shanghai Composite advancing 1.4% and Hong Kong's Hang Seng Index gaining 5.1%. India outperformed all major regional peers, rising 8.8% as investors remained optimistic regarding the country's domestic growth outlook. Overall, performance across the region suggested a rotation toward markets perceived to benefit from supportive policy measures and reduced geopolitical uncertainty.

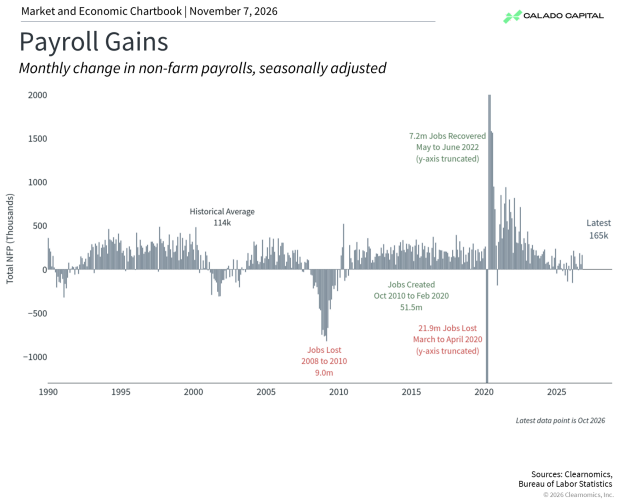
European equities generated modest gains during the week, with the STOXX Europe 600 advancing 0.2% as investors balanced improving global risk sentiment against ongoing economic uncertainties. Regional performance remained mixed, with France's CAC 40 leading major markets with a 2.1% gain, while Germany's DAX finished broadly unchanged. In contrast, the United Kingdom's FTSE 100 declined 0.5%, pressured by weakness in energy-related shares amid the sharp decline in crude oil prices. The week's results underscored continued investor preference for domestically supported and growth-oriented sectors, while commodity-sensitive markets generally lagged.



Week in review – US macroeconomics

The October employment report took center stage this week, and it left little doubt about the labor market's resilience. Productivity, ISM surveys of both manufacturing and services, JOLTS job openings and preliminary consumer sentiment rounded out a calendar that pointed to an economy entering the fourth quarter with considerable momentum.

Nonfarm payrolls rose by 165,000 in October, far exceeding the 65,000 expected and well above September's upwardly revised gain of 60,000. The unemployment rate fell to 4.1% from 4.2%, against expectations that it would hold steady, even as labor participation rate rose to 61.9% from 61.8%. Wage growth was equally firm. Average hourly earnings rose 0.4% month-over-month ("MoM"), above the 0.3% expected, and 3.1% year-over-year ("YoY"), above the 2.9% consensus, though down from an upwardly revised 3.2% in September. Notably, annual wage growth of 3.1% equals September's core PCE rate, however, continues to trail September's 3.6% headline PCE inflation, leaving real wages under pressure. Besides the nonfarm payroll report, weekly initial jobless claims fell to 189,000, better than the 196,000 expected and the revised 195,000 previously, Taken together, the nonfarm payroll report should reinforce the Fed's resolve to concentrate on its inflation mandate while the employment side remains stable and near full employment levels.



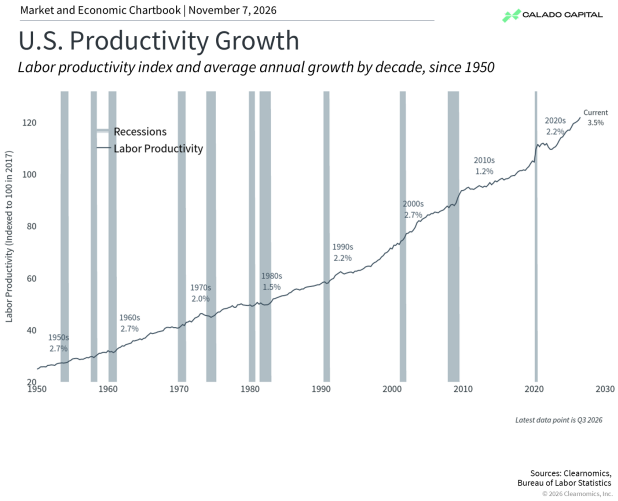
Equally encouraging was the preliminary estimate for third-quarter nonfarm productivity, which rose at an annualized 3.6% quarter-over-quarter, well ahead of the 2.8% expected and the previous quarter's revised 2.1%, the strongest pace since Q3'25. The gain was driven by a 3.7% increase in output, while hours worked were virtually unchanged at 0.1%. Productivity growth matters because, together with growth in the labor force, it ultimately determines how fast an economy can expand without generating inflation. When workers produce more per hour, businesses can absorb higher wages without raising prices, because unit labor costs are contained, profit margins are supported, and real incomes can rise sustainably. Sustained productivity gains therefore raise the economy's potential growth rate, the ceiling above which demand becomes inflationary. Whether this quarter's strength reflects early dividends from the surge in business investment, including AI-related spending, will be closely watched. If sustained, it would offer one of the few paths to strong growth and moderating inflation at the same time.

Business surveys confirmed the economy's breadth. The ISM manufacturing PMI rose 1.0 percentage point to 55.5 in October, above the 54.6 expected and in expansion for a 10th consecutive month, with all five sub-indexes expanding, including employment for a fourth consecutive month, albeit at a slower pace. The ISM services PMI eased 0.4

percentage points to 54.5, just shy of the 54.8 expected, but remained in expansion for a 28th consecutive month and about 0.2 percentage points above its 12-month average. Its reading also remained well above the 48.1 threshold that ISM associates with overall economic expansion, extending that run to 77 consecutive months. All sub-indexes expanded, including employment for a second consecutive month. The one persistent concern in both surveys remains prices. Prices paid stood at 75.2 in manufacturing and 73.0 in services, only modestly below the prior month's 77.9 and 74.0, respectively, indicating that input costs continue to rise at an elevated pace. Factory orders rose 1.8% in September, ahead of the 1.2% expected and up from 0.3% in August, and the Atlanta Fed's GDPNow estimate for fourth-quarter growth stands at a solid 3.4%.

Consumer sentiment also improved. The University of Michigan's preliminary November index rose to 51.0, ahead of the 48.0 expected, while 1-year inflation expectations eased to 4.3% from 4.7%.

Federal Reserve officials, speaking publicly for the first time since the October meeting, delivered a notably consistent message that reinforced the committee's hawkish tilt. Inflation was repeatedly described as the central bank's foremost risk, one that has remained too high for too long, and the prevailing view among policymakers is that further tightening will likely be required, even as the timing and magnitude of any move remain undecided. Several officials also favored a gradual pace of increases as less disruptive to the economy and financial system. Accordingly, following the jobs report, futures priced roughly a 77% probability of a hike at the December 9 meeting.



Corporate Earnings

With the peak weeks of earnings season now behind us, FactSet characterizes third-quarter results as "mixed" relative to expectations. Of the 88% of S&P 500 companies that have reported, 84% 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 2.7% 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 been notably stronger, with 74% of companies beating estimates by an aggregate 2.1%, both above their 5-year averages.

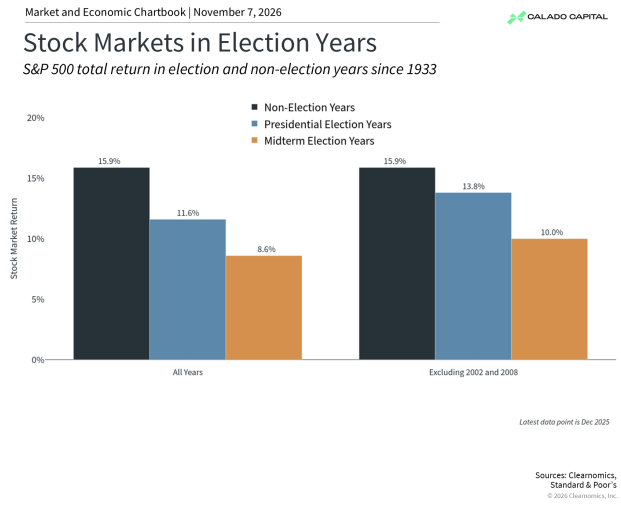
Growth, nonetheless, remains exceptional. According to FactSet, the blended earnings growth rate rose to 31.4% from 30.1% last week, which would mark "the third consecutive quarter of earnings growth above 25% and the eighth consecutive quarter of double-digit earnings growth for the index." All eleven sectors are reporting growth, led by Energy, Information Technology and Materials, while blended revenue growth improved to 14.3%. Analysts expect earnings growth of 28.4% in the fourth quarter. Notably, the recent selloff has compressed the forward 12-month P/E ratio to 17.7, below both its 5-year (19.8) and 10-year (19.1) averages and down from 19.0 at the end of September.

The earnings calendar quiets considerably in the week ahead, with just 13 S&P 500 companies scheduled to report, according to FactSet. Attention will center on AI infrastructure and networking, with results from cloud-computing, networking and semiconductor-equipment companies offering a timely read on the outlook for data center investment following this week's turbulence.

Week ahead

Inflation returns to center stage in the week ahead, with the October CPI and PPI reports likely to shape expectations for the Federal Reserve's December 9 meeting. September's data showed price pressures broadening from energy into core measures, with annual headline CPI at 3.7%, core CPI at 2.6% and producer prices at 6.3%. Investors will be watching closely for signs that this trend is persisting or beginning to ease. Particular attention will fall on core CPI and on whether the elevated prices-paid readings in this week's ISM surveys are filtering through to wholesale and consumer prices. With policymakers signaling that further tightening is likely and futures pricing a high probability of a December hike, another firm reading would all but cement that expectation.

Beyond inflation, October existing home sales will offer a further read on the housing sector that remains under pressure from mortgage rates near multiyear highs. Weekly initial jobless claims will provide a timely check on a labor market that has thus far proven resilient. A series of public appearances by Federal Reserve officials will round out the week, offering investors a fresh opportunity to gauge the committee's resolve ahead of its final meeting of the year.



Number of the week: -12.25%

That was the decline of the Philadelphia Semiconductor Index on Thursday, November 5, its largest one-day drop since March 2020. The selloff spread well beyond chipmakers. The Nasdaq Composite fell 5.52%, its worst session since April 2025, and closed in correction territory, more than 10% below its October 6 record. The S&P 500 declined 4.36%, while the largest technology companies collectively shed more than $1 trillion in market value in a single day.

The catalyst was political as much as financial. The midterm election results heightened concerns that AI data center construction could face tighter regulation, or even pauses, at a time when rising electricity prices have made the build-out a campaign issue. Those fears compounded doubts that had been building for weeks: about the financing of AI infrastructure, the turn to negative free cash flow among some of its largest spenders, and the growing stress in credit markets tied to the sector. Even record revenues and upbeat outlooks within the semiconductor sector offered little protection, while forced selling from leveraged and systematic strategies amplified the decline.

In our view, the episode marks a meaningful shift in how the market is pricing the AI trade. For much of the year, investors rewarded the scale of AI investment. They are now scrutinizing its durability, its financing and, increasingly, its political and regulatory risk. Thursday's selloff did not reflect a deterioration in demand, which by most accounts remains robust, but a reassessment of the conditions under which that demand can be met. Until there is greater clarity on the regulatory outlook for data center development and on the sustainability of the capital behind it, volatility in AI-related assets is likely to remain elevated, a dynamic of particular consequence for an equity market whose leadership has rested so heavily on the theme.

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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