Week in review and ahead (vol.46-26)



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Week in review

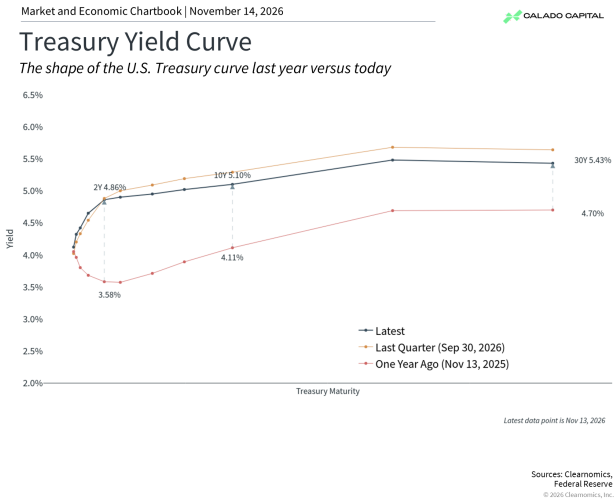
U.S. equities advanced during the week despite a meaningful deterioration in the rate environment. Higher-than-expected inflation data reinforced expectations for further monetary tightening, triggering a sharp bond market sell-off and driving Treasury yields higher across the curve. Investor sentiment remained fragile, however, as markets grappled with persistent inflation concerns, post-election political uncertainty, and fresh volatility surrounding the artificial intelligence investment theme following the resignation of NVIDIA's CEO. While earnings from several highly scrutinized "neocloud" companies generally exceeded expectations, concerns surrounding elevated leverage, substantial capital requirements, and the sustainability of AI-related spending continued to weigh on market sentiment.

U.S. Treasury yields rose sharply after four consecutive weeks of declines as investors repriced interest-rate expectations following the stronger-than-anticipated CPI report. The move was led by the front end of the curve, with the 2-year and 10-year Treasury yields increasing 37 and 29 basis points, respectively, to 4.88% and 5.15%, reflecting expectations that the Federal Reserve may need to maintain a more restrictive policy stance for longer.

Against this backdrop, all major U.S. equity indices posted weekly gains. The S&P 500 and Nasdaq Composite advanced 2.5% and 2.3%, respectively, snapping three- and four-week losing streaks as investors looked beyond rising yields and focused on resilient economic fundamentals, generally favorable earnings results, and increasingly attractive valuations following the recent market correction. The Dow Jones Industrial Average and Russell 2000 gained 2.1% and 1.4%, respectively, supported by renewed confidence in the broader economic outlook and a recovery in risk appetite.

International equities also moved higher, supported by improving investor sentiment and a broad rebound in risk assets. In Asia, performance was mixed but generally constructive, with Japan and South Korea leading regional gains. Japanese equities surged 6.5%, while South Korea's KOSPI advanced 5.1% as investors rotated back into cyclical and technology-related sectors. India posted a modest gain of 0.7%, while China and Hong Kong declined 0.4% and 3.5%, respectively, amid ongoing concerns surrounding economic growth and investor confidence.

European markets delivered broad-based gains, with the STOXX Europe 600 rising 2.5%. Germany led the region with a 3.6% advance, followed by France and the United Kingdom, which gained 2.8% and 2.1%, respectively. The rally reflected improving risk sentiment, optimism toward economic growth prospects, and strength across cyclical sectors.

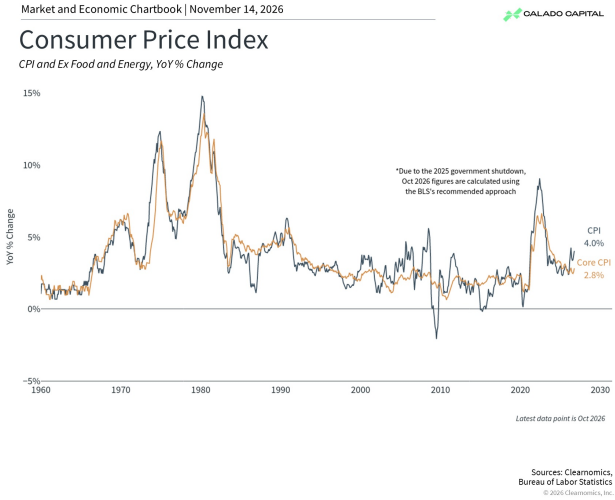


Week in review – US macroeconomics

Inflation returned to center stage this week, and the October data offered policymakers little comfort. The CPI and PPI reports, together with October existing home sales and a series of public remarks by Federal Reserve officials, framed a week that brought the prospect of a more forceful policy response firmly into view.

Consumer prices again ran hotter than expected. Both headline and core CPI rose about 0.1 percentage point more than forecast on a month-over-month ("MoM") basis. Core CPI rose 0.3% MoM, matching September's pace, while headline CPI rose 0.4%, a deceleration from 0.6% the prior month. Notably, the report did not include an annual inflation rate, as last year's government shutdown disrupted the collection of the comparable data. That omission deprives policymakers of a critical reference point at a pivotal moment for monetary policy.

Producer prices offered a measure of relief. Headline PPI rose 0.3% MoM, below the 0.4% expected and a marked deceleration from 1.4% in September. Core PPI rose 0.3%, in line with expectations and down sharply from 0.8% the prior month. The moderation in wholesale prices, following the outsized energy-driven gains of recent months, suggests that some pipeline pressures may be beginning to ease, even as consumer inflation remains firm.



The housing market, meanwhile, deteriorated further. Existing home sales fell 5.5% MoM to an annualized 3.75 million in October, well below the 3.85 million expected and down from a revised 3.97 million. That is the lowest level in 16 years, a pace last seen as the housing market struggled to recover from the Global Financial Crisis. Elevated mortgage rates and high prices continue to weigh heavily on activity.

Federal Reserve commentary grew notably more hawkish in the wake of the CPI report, with two officials still scheduled to speak before week's end. Policymakers broadly characterized the latest inflation data as disappointing and reiterated that further tightening will be required, with a growing number favoring an earlier and more forceful response. In a rare departure from customary caution, officials openly raised the possibility of an outsized 50 basis point increase at the December meeting. Others continued to favor a more measured, gradual approach, and some highlighted energy markets and the AI build-out as key sources of uncertainty for the outlook.

Markets responded swiftly. Following weeks of retracement, as investors rotated toward the safety of Treasuries amid

the selloff in risk assets, yields spiked across the curve, led by shorter maturities that are most sensitive to Fed policy. A December rate increase is now fully priced, while the probability of a 50 basis point move rose from essentially zero to roughly 10%, suggesting that the prospect of a more aggressive Fed is increasingly being reflected in Treasury yields.

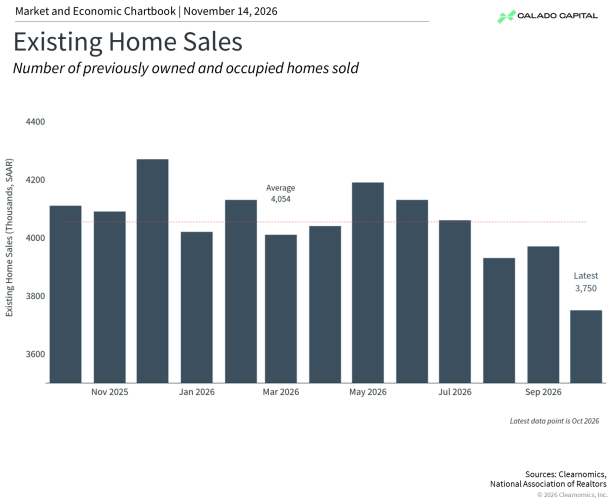
Corporate Earnings

With 91% of S&P 500 companies having reported, the third quarter earnings season is closing on a familiar note. Broad beats, but modest ones. According to FactSet, 84% of companies have exceeded EPS estimates, above the 5-year average of 78%, though by an aggregate of just 3.1%, which "will mark the lowest surprise percentage reported by the index since Q4 2022" if it holds.

Even so, investors have been notably forgiving. FactSet observes that "the market is rewarding positive earnings surprises… more than average" while "punishing negative earnings surprises… less than average." Companies that missed estimates declined an average of 1.1%, against a 5-year average decline of 3.1%. FactSet attributes this in part to an improving outlook. Analysts have raised fourth-quarter EPS estimates by 1.1% since September 30, and 58% of companies providing guidance have issued positive guidance, well above the 5-year average of 40%.

The exception has been the market's largest constituents. Per FactSet, "the market has punished EPS surprises reported by the 'Magnificent 7' companies for Q3 more than the entire S&P 500," with those that missed estimates falling an average of 7.8%. The divergence underscores a recurring theme. Investors are holding the companies at the heart of the AI trade to a markedly higher standard.

Looking ahead, 14 S&P 500 companies, including four Dow 30 components, are scheduled to report in the coming week, according to FactSet. Markets will await Nvidia's results on Tuesday with particular anticipation, as the first report under its interim leadership and a key test of sentiment toward the AI trade.



Week ahead

The consumer takes center stage in the week ahead. October retail sales will offer a timely read on household spending, which has thus far proven resilient despite elevated inflation and real wages under pressure. The final November University of Michigan consumer sentiment survey will provide further insight into household confidence, with particular attention on inflation expectations. Together, the two reports will help gauge whether consumers can continue to underpin growth as the economy heads into the holiday season.

The housing market will also be in focus. Housing starts and pending home sales will offer an additional glimpse of whether the sector can find any footing following this week's report of existing home sales at a 16-year low. October industrial production will round out the economic calendar, providing an update on the momentum signaled by recent manufacturing surveys.

On the policy front, Chair Warsh is scheduled to speak on Monday, offering investors a timely opportunity to gauge the Fed's thinking following this week's hotter-than-expected inflation data and the growing debate over the size of a December move. Given the Chair's reluctance to provide any forward guidance markets should expect more of the same.

On Wednesday, the release of the October FOMC meeting minutes will shed further light on the committee's decision to hold policy steady. Of particular interest will be the reasoning of the members who dissented in favor of an immediate rate increase.

Number of the week: $570 billion

That is roughly how much market value Nvidia has shed this week, as its shares fell about 13% from $186.64 last Friday to approximately $163 at Friday's close. It was the company's worst weekly performance since the April 2025 tariff selloff. The decline extended Nvidia's longest weekly losing streak since 2012, with losses since its October 6 record now approaching $1.7 trillion, and pushed its market capitalization below $4 trillion for the first time since July 2025. The catalyst was the abrupt resignation of founder and CEO Jensen Huang on Thursday, with finance chief Colette Kress named interim CEO while the board searches for a permanent successor.

The timing could hardly have been more consequential. For more than two decades, Huang has been synonymous with Nvidia's strategy and, increasingly, with the AI trade itself. His departure introduces a degree of leadership uncertainty at the company most central to the AI build-out, just days before it reports quarterly results on Tuesday. The selloff also spilled over into the broader semiconductor and AI complex on Friday, even as the major indices held on to gains for the week, a reminder of how concentrated the market's exposure to the theme has become.

The episode underscores a dimension of risk that valuations rarely capture, or key-person risk. Markets have spent recent weeks reassessing the financing, profitability, and regulatory outlook of the AI trade. This week added a further consideration, the extent to which the theme's leadership rests on a small number of companies, and, in some cases, on the vision of individual executives. Tuesday's results, and the clarity the interim leadership can provide on strategy and succession, will be critical in determining whether this week's selloff marks a temporary dislocation or a more lasting reassessment.

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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