OBSERVATIONS

- Markets were choppy and mixed last week. Small caps (Russell 2000) once again led the pack and gained 1.3%, while the S&P 500 lost 0.6% and the tech-heavy NASDAQ lost 2.0%. The yield on the 10-year Treasury fell 7 basis points to end the week at 4.93%.[1]
- The S&P Cotality CS Housing Price Index posted a 2.1% year-over-year (YoY) increase in August (latest available), which was a slight increase from July's 1.9% YoY rate.[1]
- New home sales fell in September to 676k (annualized rate), which was 0.6% below August's 680k sales rate and 5.3% below new home sales from September-2025.[1]
- New orders for durable goods increased by 1.8% month-over-month (MoM) in September, which was in line with expectations. Excluding the volatile transportation category, durable goods orders increased by 0.5% MoM, which was also in line with consensus expectations.[1]
- The PCE price index showed that headline inflation increased to 3.6% YoY in September, which was above August's 3.4% YoY rate. Meanwhile, core-PCE—the Fed's preferred measure of inflation which removes the volatile food and energy category—also increased in September to 3.1% YoY from August's 3.0% YoY figure.[1]
- Initial unemployment claims remain very low and fell 1k last week to 194k new claims. Compared to the same week last year, there were over 24k fewer claims. Through the first 43 weeks of the year, total initial claims are running 7.7% below the same period last year.[1]

EXPECTATIONS

- The initial estimate for Q3 GDP shows the economy grew by 3.4% (annualized rate) with strong contributions by consumer spending and business investments—particularly in areas related to AI. Q3 GDP growth estimates will be revised twice over the next several weeks and may ultimately move lower, but it seems likely that the final figure for Q3 will show stronger growth than Q2's 2.4% growth rate reflecting a resilient consumer and the continued AI-ecosystem buildout.[1]
- Several central banks met last week, but only the Bank of Canada raised its main policy. Conversely, both the European Central Bank (ECB) and the US Federal Reserve held rates steady. The ECB emphasized its current policy rate (2.5%) made it well positioned to wait and evaluate further economic data. Similarly, the Fed Chairman Warsh emphasized the Fed would gain more clarity in the coming weeks as more data becomes available as to the state of the economy and the trajectory of inflationary pressures.[1]
- With about 60% of the S&P 500 having been reported, Q3 earnings season continues to be solid. About 82% of firms have reported a positive earnings surprise, which is above the 5-year (78%) and 10-year (77%) averages. The blended earnings growth rate for the S&P 500 is tracking towards 30.2% year-over-year.[2]

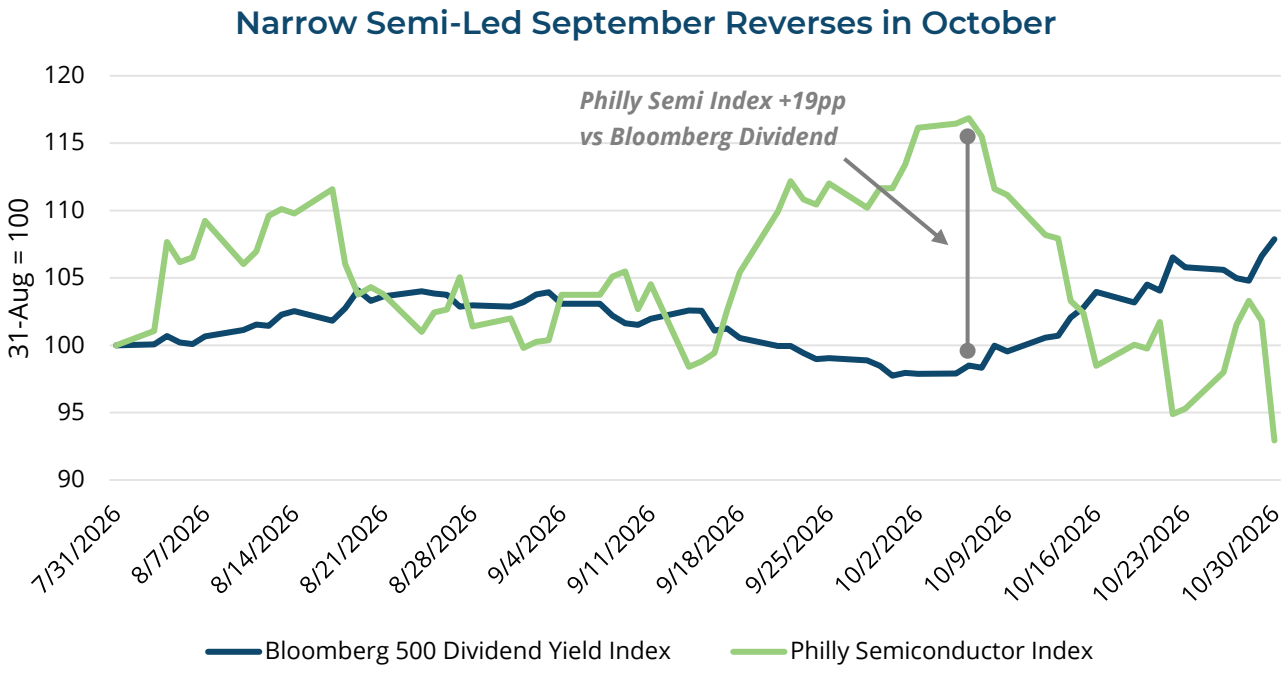
ONE MORE THOUGHT: October Sees a Reversal of Momentum[1]

The months of August and September saw a narrowing of equity market leadership primarily around AI-ecosystem with chip makers, semiconductor and memory firms, and hyperscalers leading the index. However, the narrow momentum of those late summer months promptly reversed in October. The tech-heavy NASDAQ lost 5.3% in October, while the S&P 500 lost 0.9% and the equal weighted S&P 500 gained 5.0%. Small caps (Russell 2000) and mid-caps (Russell Midcap), which lost 5.3% and 4.2% respectively in September, rebounded in October gaining 0.6%

[1] *Bloomberg LP, 10/30/2026*
[2] *FactSet Earnings Insight 10/30/2026*

and 3.2% respectively. Large cap growth companies (Russell 1000 Growth +6.0%) outpaced their value peers (Russell 1000 Value -1.2%) by over 7 percentage points between 1-August and 30-September. However, large cap growth stocks gave back most of the advantage in October as they declined by 6.1% and large cap value stocks gained 4.4%. The reversal of momentum was primarily driven by market jitters over the pace of capex spending by many of the largest hyperscalers as well as a more differentiated view of how various AI companies' return-on-investment would play out. The result was a decline in many AI-oriented names that had led the market in August and September. As jitters in equity trading grew in October, the yield on the 10-year Treasury declined as investors parked some of their AI winnings in the safety of government bonds as well as defensive equities. So far, Q3 earnings season is off to a good start, but several high-profile tech companies experienced misses in their earnings and revenues, which prompted select stock price weakness. After three years of stellar, broad-based AI gains, the market is beginning to increasingly differentiate between stronger and weaker AI-assets. No doubt, this trend will continue in the coming months and quarters. The US economy is growing solidly, and the AI-ecosystem buildout continues unabated for now, but tougher days may lie ahead for some of the firms at the heart of the AI-trade.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, 10/30/2026

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