HB Wealth

Monthly Market Monitor

November 2026



Quick Takes

Investment Boom Yields Profits Windfall, Leaves Households Behind. The build-out of artificial intelligence (AI) continues to elevate business investment to record growth levels and is powering recovery in broad economic growth. While this is resulting in soaring profits for the beneficiaries of AI-investment, it is also commanding a lot from capital markets to fund the build. Meanwhile very slow job growth, affordability concerns and higher borrowing costs have consumers feeling glum.

Policy Moving from Tailwind to Headwind for 2027. Policy may remain an active source of volatility as the Treasury and Federal Reserve (Fed) are challenged by high inflation, bloated debt and deficits, and the AI investment boom. The dual support of fiscal and monetary policy has enabled markets since 2022, so the rate hike cycle and less fiscal impulse could pressure risk assets. Geopolitical risks also remain a source of inflation pressure as they create persistent supply chain strains.

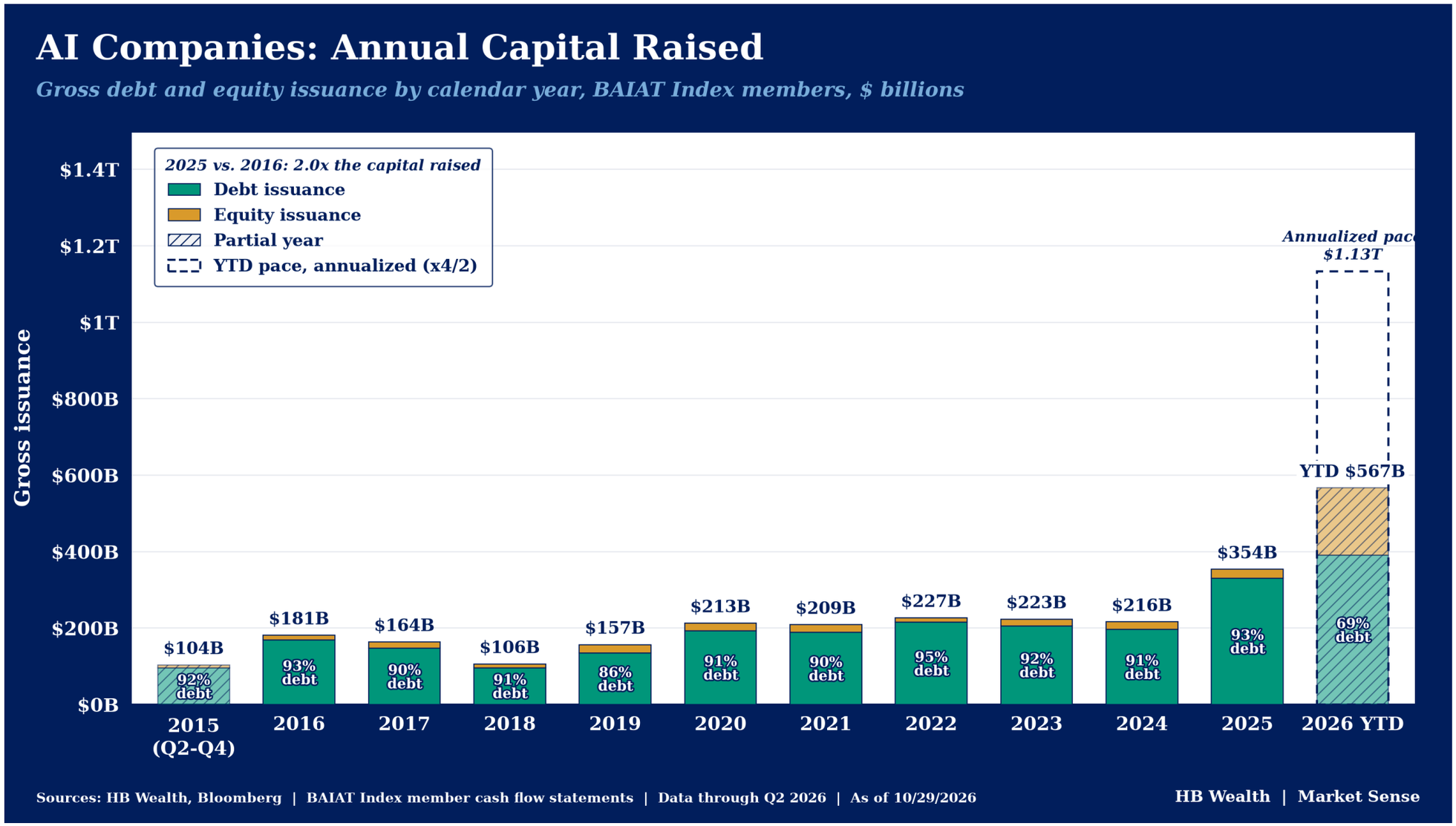
Yields Remain Critical to Equities with Stocks Following Their Gyrations. Yields peaked in early October, giving stocks a much-needed reprieve. Small caps were able to climb out of correction and the broadening trade that has defined much of this year resumed. We continue to watch yields closely as inflation concerns and the Fed's reaction to higher prices look likely to dictate stocks direction for the foreseeable future. Many investors were watching earnings as the next catalyst for stocks but thus far, reactions to reports have been volatile – especially for tech and related sectors where estimates were sky high.

Fixed Income Finds its Footing. Cyclical pressures from growth and inflation have been outweighed by cash moving into treasuries from the AI trade. Yields at 5%+ for Core bonds offer prospects for a positive return for bonds for the first time in years even if rate volatility were to reignite. The flight to quality paired with normalized liquidity in the municipal market led exempt bonds to recover much of the exaggerated September drawdown. Corporate credit spread widening has been heaviest in the lowest quality segment of the market.

Forward-looking statements are based on current expectations and assumptions and are subject to risks, uncertainties, and market conditions that may cause actual results to differ materially from those expressed or implied.

Chart of the Month: AI Funding Makes Waves

Magnificent 7 (Mag-7) stocks are up less than 6% this year, while the S&P 500 excluding Mag-7 has gained 15%. Shrinking free cash flow under the weight of continued AI capital spending is likely to blame. AI companies have leaned into capital markets to fund the build, and markets are pushing back, evidenced by widening spreads and shrinking valuations. We estimate that AI companies at large issued a combined $567 billion in debt and equity by midyear. If the pace continues through year end, annualized issuance will top $1 trillion, nearly triple the pace of 2025 and more than 4X the capital raised in 2024.



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Market Sense: Insights from October

Fed Will Wait and See for Now, Vote Less Next Year. The Fed decided to take a break from hiking rates in October despite persistent price pressures as CPI and PPI continued to run much hotter than expected. Still, two FOMC members dissented to the pause, believing they needed to act to curtail inflation. The Fed plans to have fewer voting meetings in 2027 and 2028, altering the voting cadence that has been in place since the early 1980s. Prior to the meeting, the bond market had given the central bank some room to breathe, with 10-year yields sliding from 5.3% to a touch under 5% as they once again turned into a safe haven trade with recent the recent volatility in tech stocks. As we noted in our Weekly Market Review on October 23rd, that drop in yields is driving a recovery in stock market breadth with the average stock outperforming the S&P 500 and small caps bouncing back out of correction territory.

Earnings Season is Beating High Expectations, But Mag-7 Weighs. The S&P 500 is on track to post 31.1% EPS growth on a 13.5% revenue gain versus preseason expectations for 24.5% and 12.2%, respectively. Likewise, the Russell 2000 is on pace for 9.8% revenue growth, edging out forecasts for 9.1%. While the run rate is extremely fast, it is still a touch slower than recent quarters, and key misses in the Mag-7 space are dragging on confidence somewhat. Financials results were uneven with surging yields taking a chunk out of FICC trading, though many noted the consumer is still resilient. Of the mega-caps to report thus far, SpaceX's release was received the best with the stock rising 7.7% in the day after on surging AI revenues. Microsoft's better than expected cloud revenue likewise pushed the stock higher in after-hours trading, though it dipped the following day. Meta beat earnings forecasts but the stock slid as free cash flow turned negative, while Tesla's reduced capex plans raised investor fears that the company could fall behind in the AI race. Alphabet surprisingly missed both top and bottom line forecasts, posted its second consecutive quarter of negative free cash flow and slid more than 12% the following day. Amazon missed its earnings hurdle and said it spent more than forecast, driving negative free cash flow and a selloff the following day. So far, 2Q's theme of beats with muted reactions given an extraordinarily high bar is repeating in 3Q as we outlined in our Market Sense on October 14th. Likewise, current valuations remain contingent on stocks at least meeting consensus forecasts, making this season critical to the bull market. See our Market Sense on October 13th for more.

IPOs are Back in the News with Anthropic Set to Go Public Before Thanksgiving. Anthropic is looking to quickly dethrone SpaceX as the largest-ever IPO when it goes public sometime before Thanksgiving. Rumors suggest the company could seek up to $100 billion at a $1.5-2 trillion valuation and we examine possible effects to the market and its likely sector, tech in our Market Sense on October 29th. The issue would push 2026 close to 2021's all-time record by deal value, though fears of an oversupply of shares are likely overblown given the reaction to SpaceX's IPO. Still, like SpaceX disrupted the communications/telecom sector, Anthropic could take some wind from tech's sails – especially if it's seen as displacing legacy software stocks as was the case in the first half of this year.

Small Caps, Emerging Markets Hit Correction in Volatile October. Equities were volatile in October. Small caps and emerging markets notably dipped into correction territory, but the Russell 2000 was able to pull out of its tailspin for now, following guidance from Treasury yields (see our Market Sense from October 22nd for more). At its worst, the VIX touched 20. For the month, small caps outperformed with value stocks leading the way, while emerging markets sunk more than 8% on tech trouble and political risk -- pulling them neck and neck with US large caps. US small caps are now in the lead among major market segments year-to-date. Every Russell 3000 sector gained this month except for telecom and tech, with energy, staples and utilities on top.

Oil Prices Remain Elevated With No End to War in Iran in Sight. West Texas Intermediate (WTI) crude closed the month just above $104/bbl, up more than 88% from the December low and in the 96th percentile since 1990. There are indications that the US and Israel are ready to resume strikes against Iran after the US midterms though recent reports that Iranian leadership is willing to resume talks lead to some relief to kick off November. Still, oil prices look to remain volatile for some time. Crude is already pushing headline inflation measures higher and denting the outlook for swaths of the S&P 500. The longer the conflict drags, the greater the potential fallout for markets.

Bond Markets Opened the Month Continuing the September Slide Before Rebounding. After hitting a multi-year high of 5.36% early in the month, rates rallied to close the month just below 5% as cash flowed into treasuries from AI stocks. CoreWeave bonds blew out to 15%+ and Meta's CDS found a record high after posting negative free cash flow, sending money to treasuries as a haven even as oil surged back above $100. Notably the September CPI print came in above expectations at 3.7% yet inflation expectations barely budged, pointing to real yields being the engine of the rate move. The Fed paused as widely expected with two members dissenting for a hike, futures markets are still pricing in a December hike. This month validated our focus on the belly of the curve as AI and fiscal stress kept the long end volatile.

Macro Summary: AI Boom Offset by Policy Pivot

Economy Fueled by AI Investment. The AI investment boom is nearly single-handedly fueling U.S. economic growth and is resulting in the strongest profits boom on records since 2021, with corporate profits now a record 14.5% of U.S. GDP. Economic growth is thus inordinately focused on investment, driven by hyperscalers' race to deploy AI via the data center build, now on target to touch an annualized $1 trillion by mid-2027.

Policy Pivots Take Center Stage. Rising borrowing costs and fiscal policy shifts may be most important risks to watch for the economy. Monetary policy is tightening as the Fed looks to achieve “price stability” just as fiscal policy support wanes given the ballooning debt and deficit. Trade policy may also continue to make waves as tariffs re-emerge, and geopolitical risks remain evident with oil prices still elevated. Without policy ballast, economic and market outcomes will increasingly depend on AI investment. That investment is increasingly unpopular as well as expensive.

Consumers Remain the Weaker Link. U.S. household consumption has been merely steady amidst the investment boom, and consumers remain glum. Weak jobs, slow income gains, rising borrowing costs and high inflation all are contributing to a challenging environment for consumers. Spending in the lower-income segment started to show weakness this summer as tax refunds ran out.

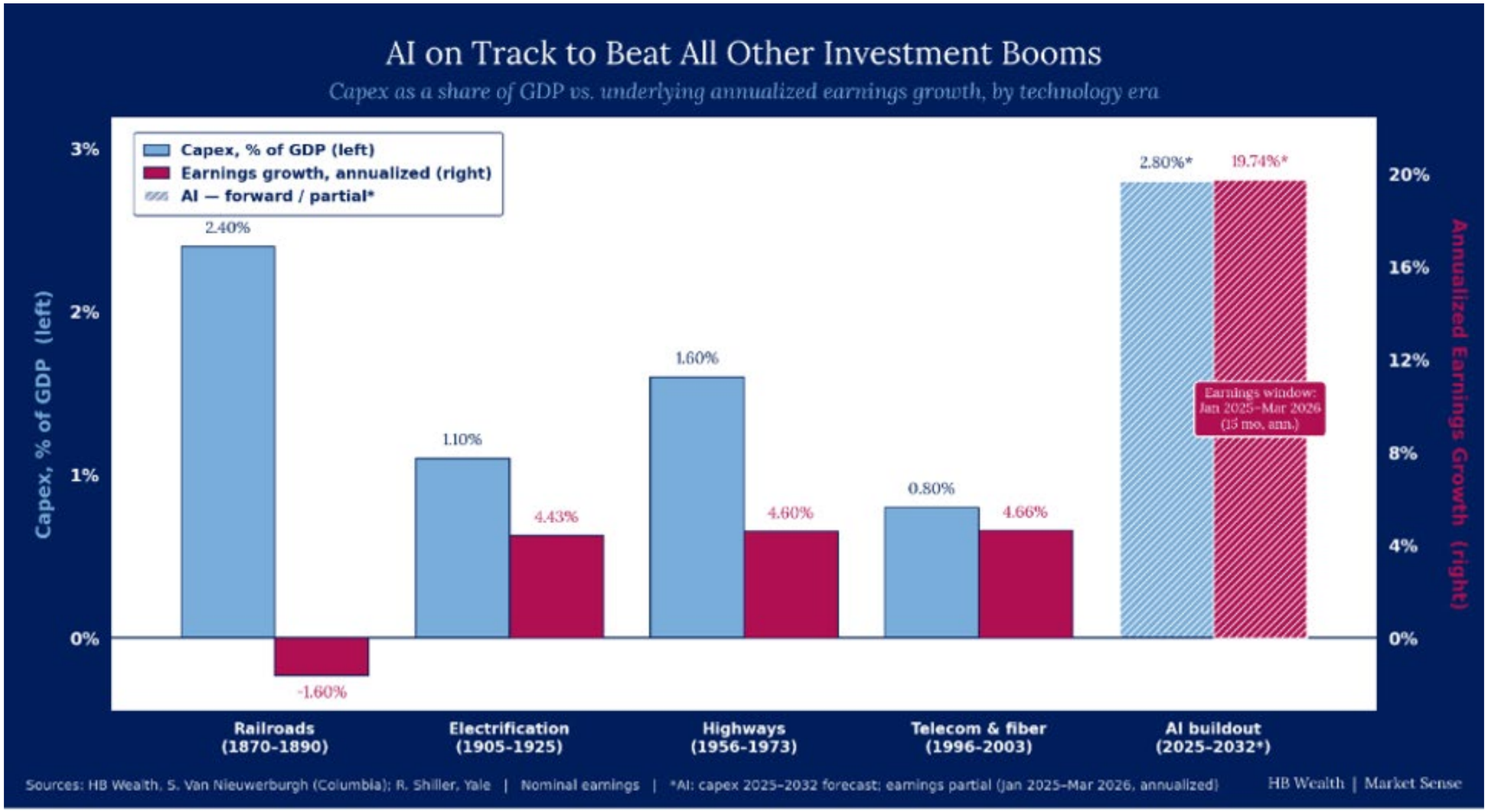
Inflation Still Too Hot to Be Comfortable. Price growth remains uncomfortably above the Fed’s target rate, in part due to the AI-fueled mix of economic growth. Commodity prices and financial conditions both remain at levels last recorded in 2022. Even after some modest reprieve this summer, core consumer prices continue to rise at a pace north of 3%.

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GDP Growth Powered by AI

Real economic growth in the U.S. averaged 2.6% over the last three years, about the same as the 2.5% pace of growth, still well below the 4% average recorded in the 1990s due to slower growth in U.S. consumption and housing. Nonetheless, the boom in AI investment is driving an extraordinary shift in the drivers of GDP.

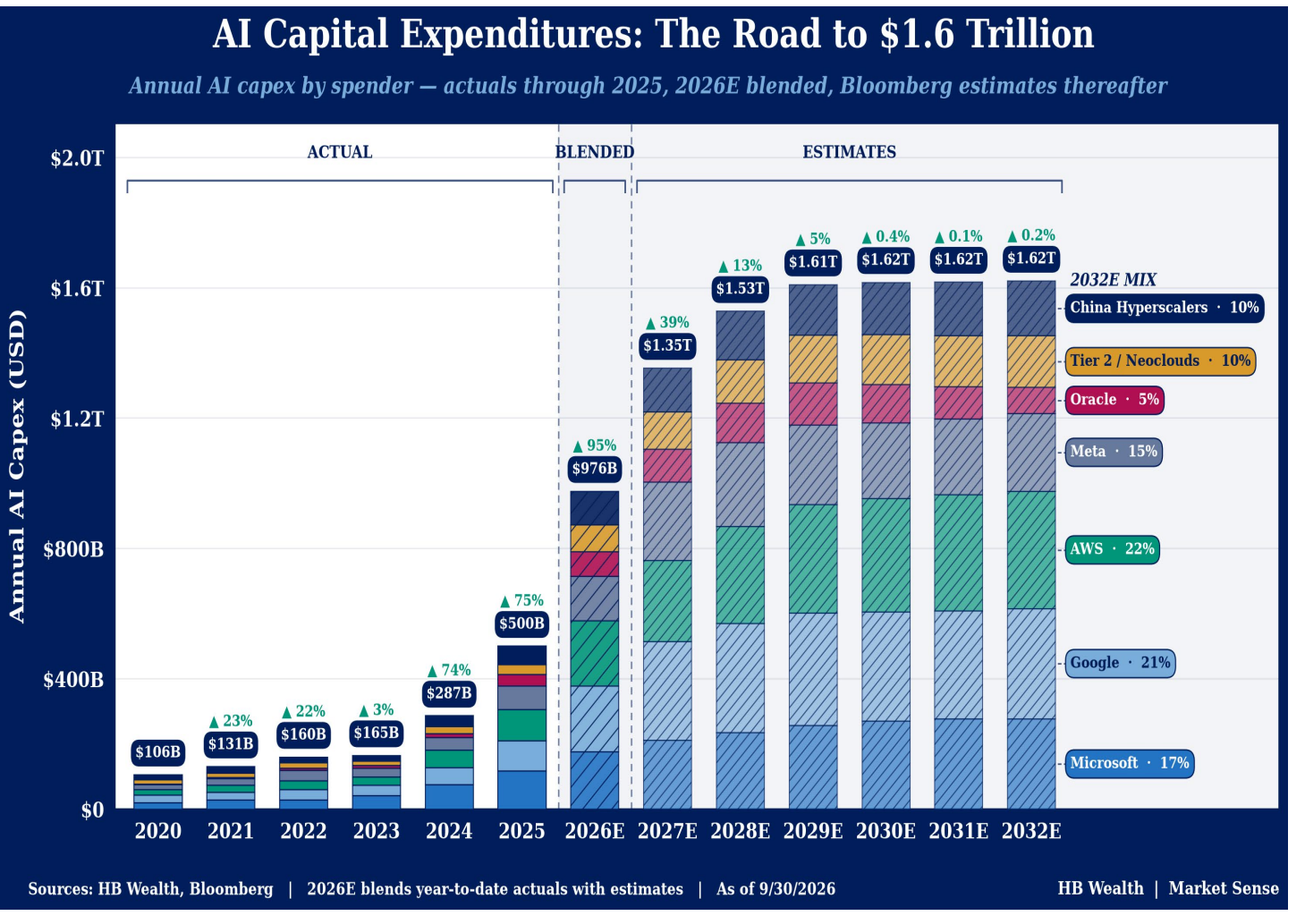
On pace to be the largest in U.S. history, AI investment is elevating revenues for suppliers and driving tech's contribution to GDP growth to levels beyond those of prior investment surges such as the telecom/fiber buildout of the late 1990s and the railroad boom of the late 1800s.

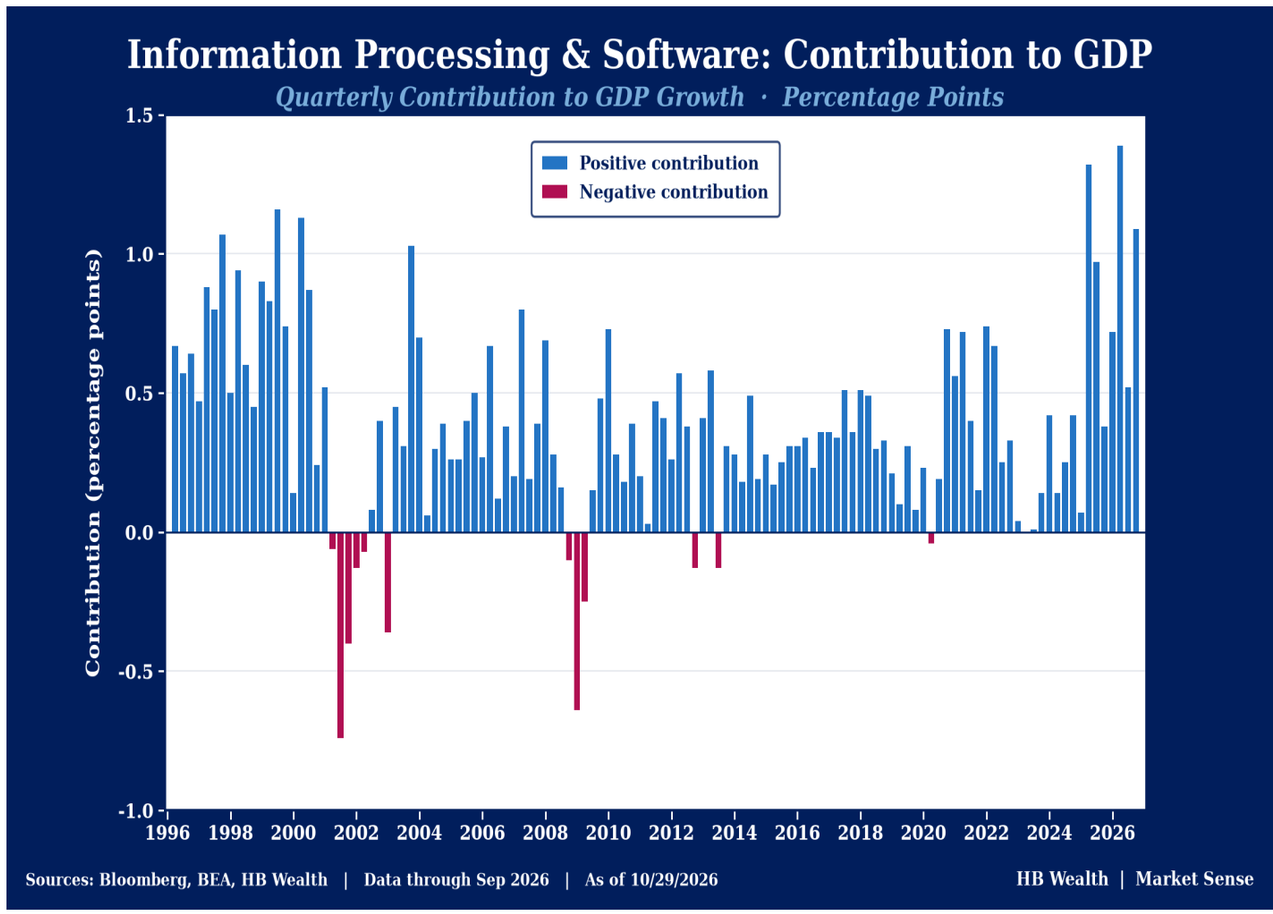


AI Spending is Driving Investment to New Highs

While GDP hasn't changed much relative to its pre-pandemic trend, the shift in mix is extraordinary as hyperscaler capital spending is driving growth. Information processing and software investment grew at an average year-over-year pace of nearly 17% and drove nearly half of U.S. GDP growth in four of the last five quarters.

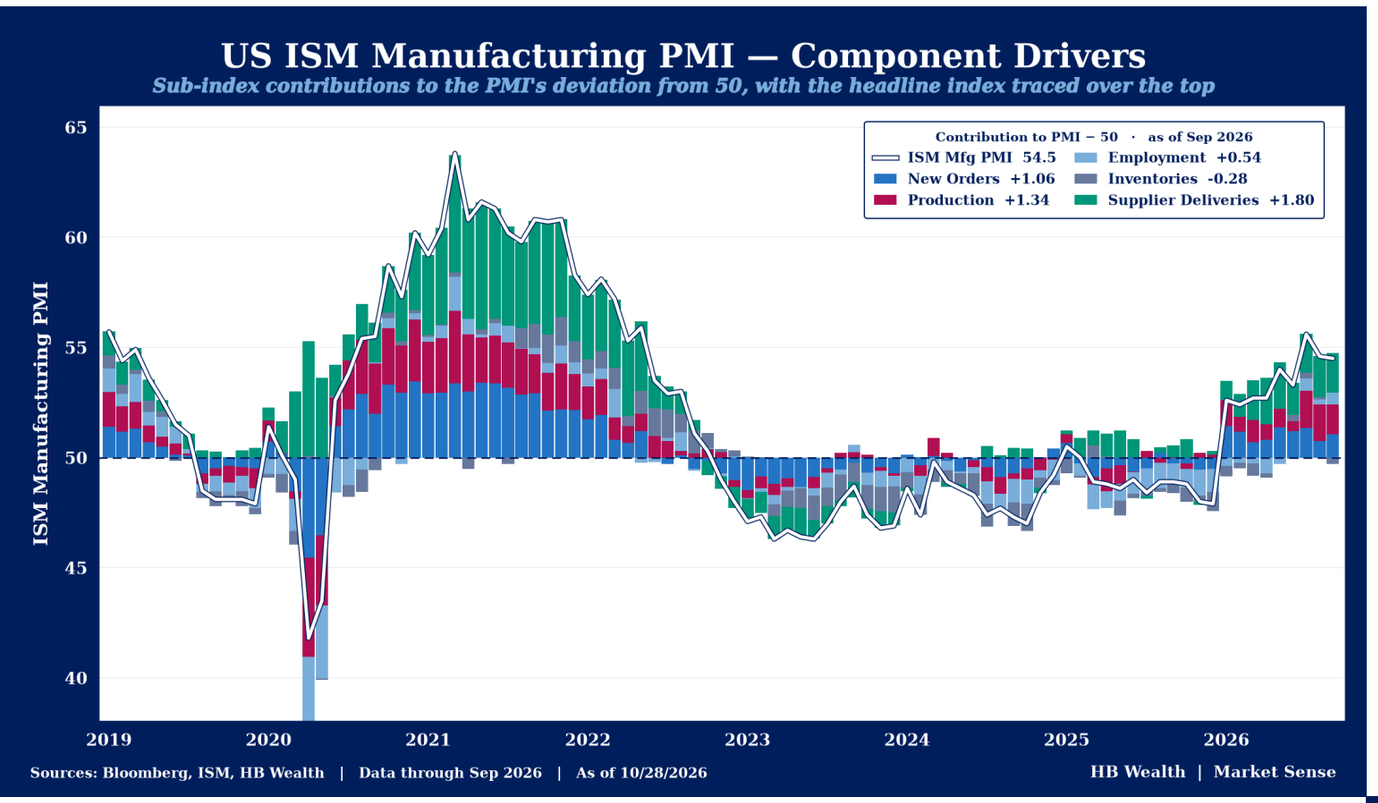
Microsoft, Alphabet, Amazon, Meta, Oracle, and CoreWeave combined are now expected to spend well over $800 billion dollars in 2026 and $1 trillion+ each of the next four years.





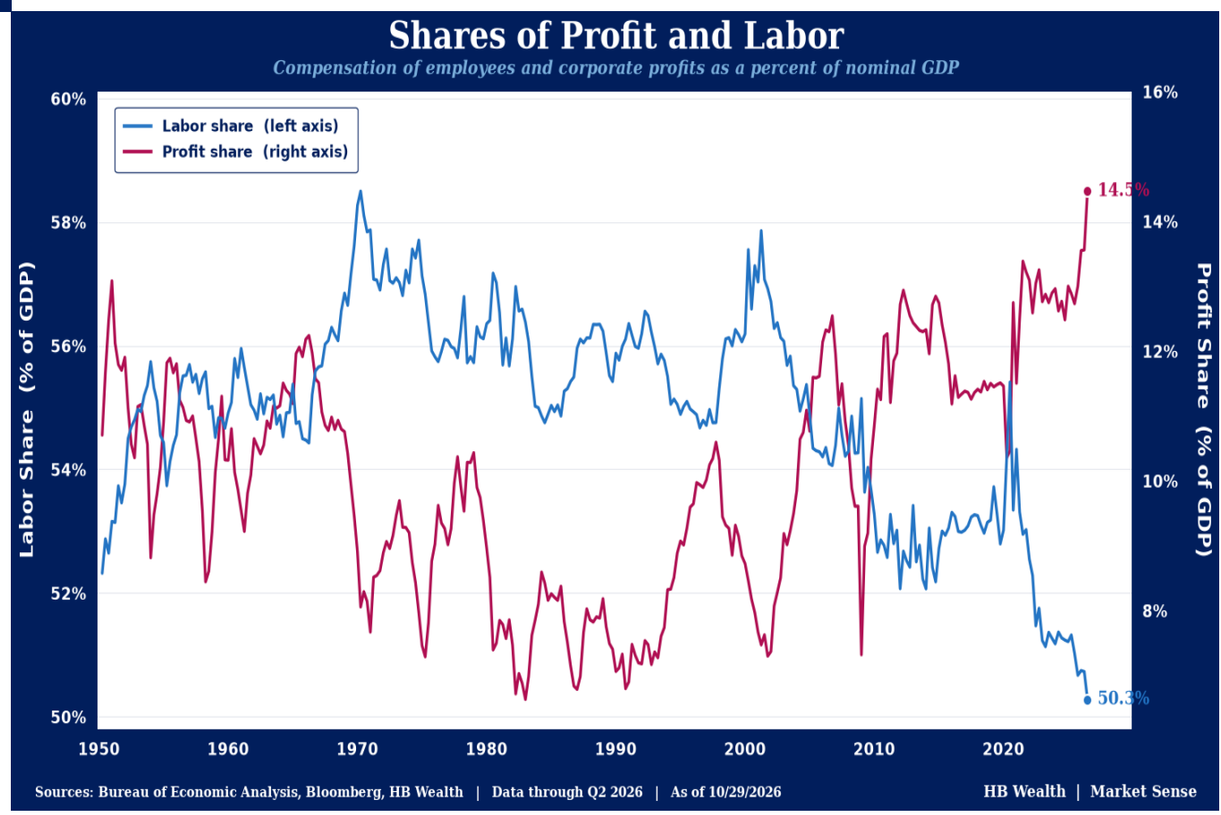
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Business Sentiment is Booming as Corporate Profit Share Surges



Hyperscaler investment is still driving a broadening infrastructure recovery that is notably improving business sentiment. The ISM manufacturing PMI has expanded every month so far in 2026 for the first time since 2022. Services sentiment has likewise reached a new post-pandemic high. While job growth is still limited, production and new orders are accelerating and showing signs of extending beyond technology to a broader array of industries supporting the AI-data center buildout.

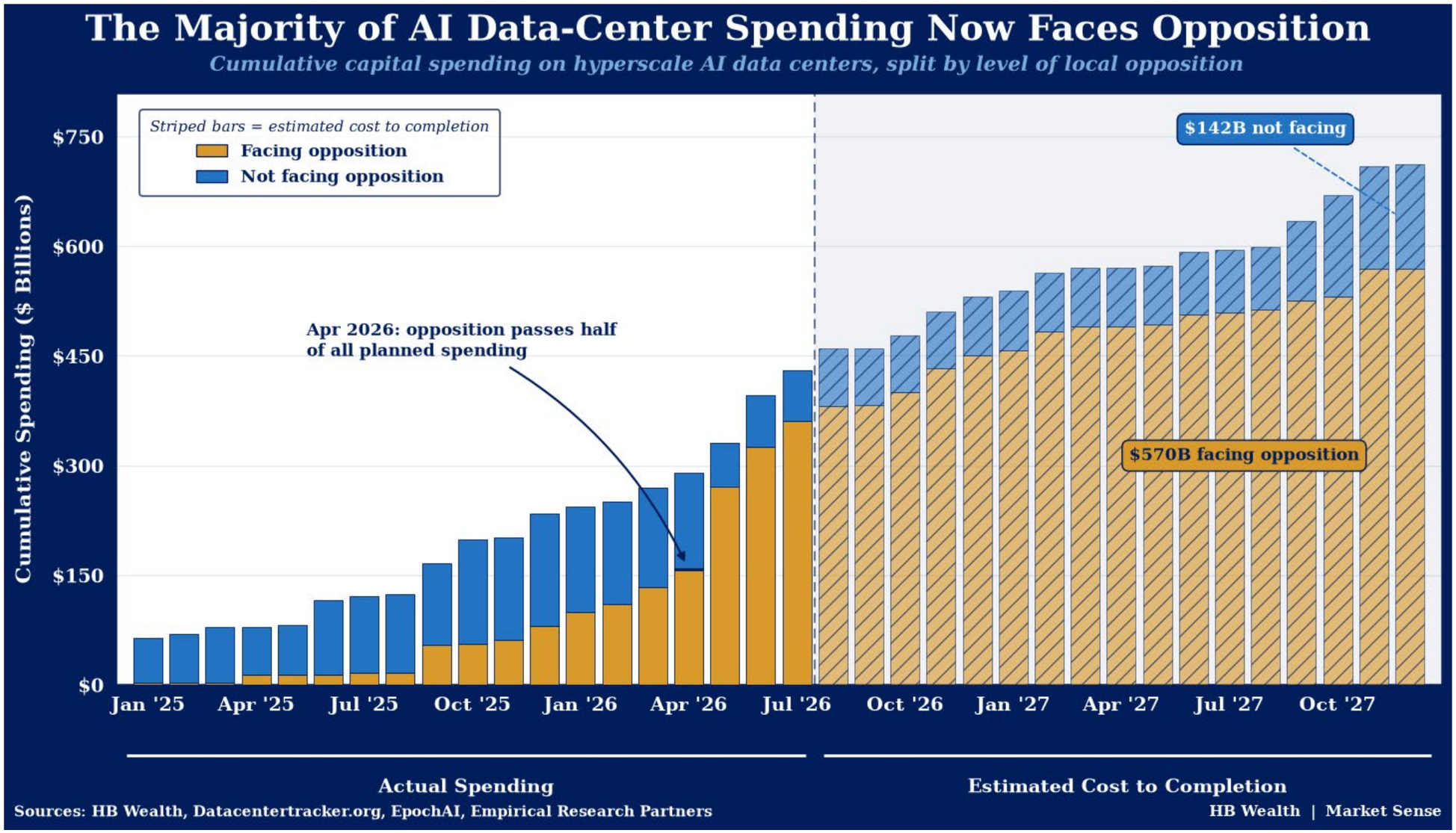
It has also resulted in a broadening K shape between households and corporates. The investment boom has elevated corporate profits to an average pace of growth of 16% in 2026, 2.1 times the long-term average pace. However, it has also bloated corporate profits share of economic output. As of Q2 2026, corporate profits share of GDP is at a new high of 14.5%, while household income share is down to a record low of 50.3%.



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Data Centers May Be in Focus During Midterms

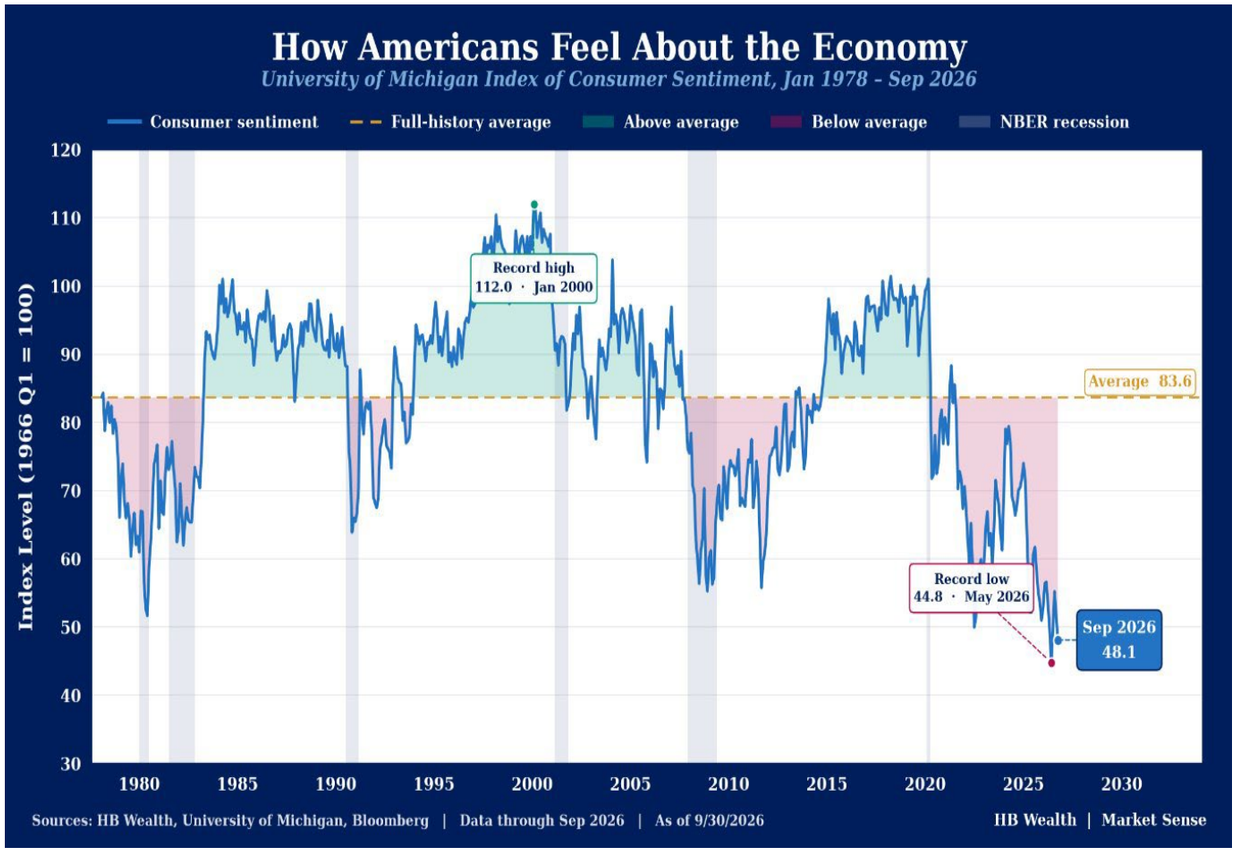
While utilization of AI continues to expand and drive hyperscalers' data center spending, AI Investment is starting to hit political speedbumps. A year ago, less than half of data center spending was contested, but today more than 80% of planned spending is facing local opposition. Given the fact that investment in data centers is the predominant driver of economic growth, any policy-imposed construction slowdown may elevate prices and/or slow economic and earnings growth.

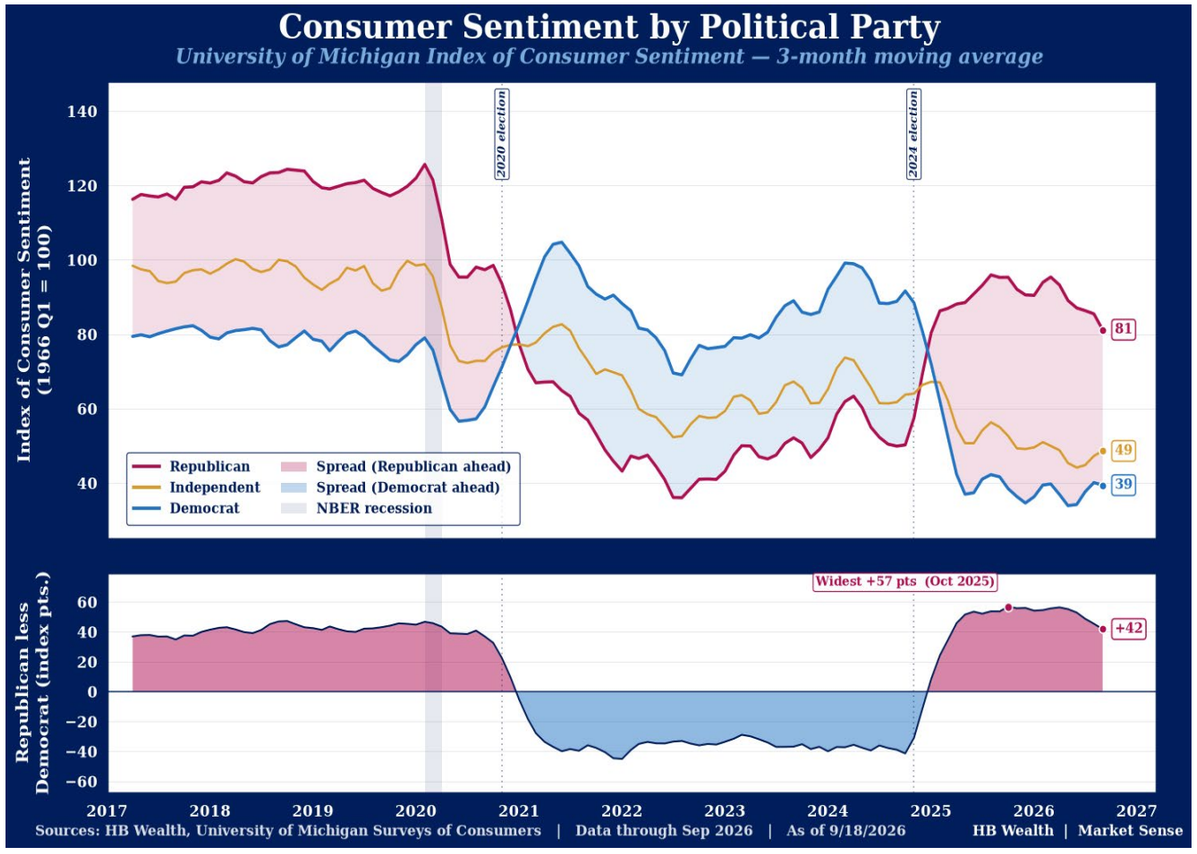


Sentiment is Below Pre-Pandemic Norms

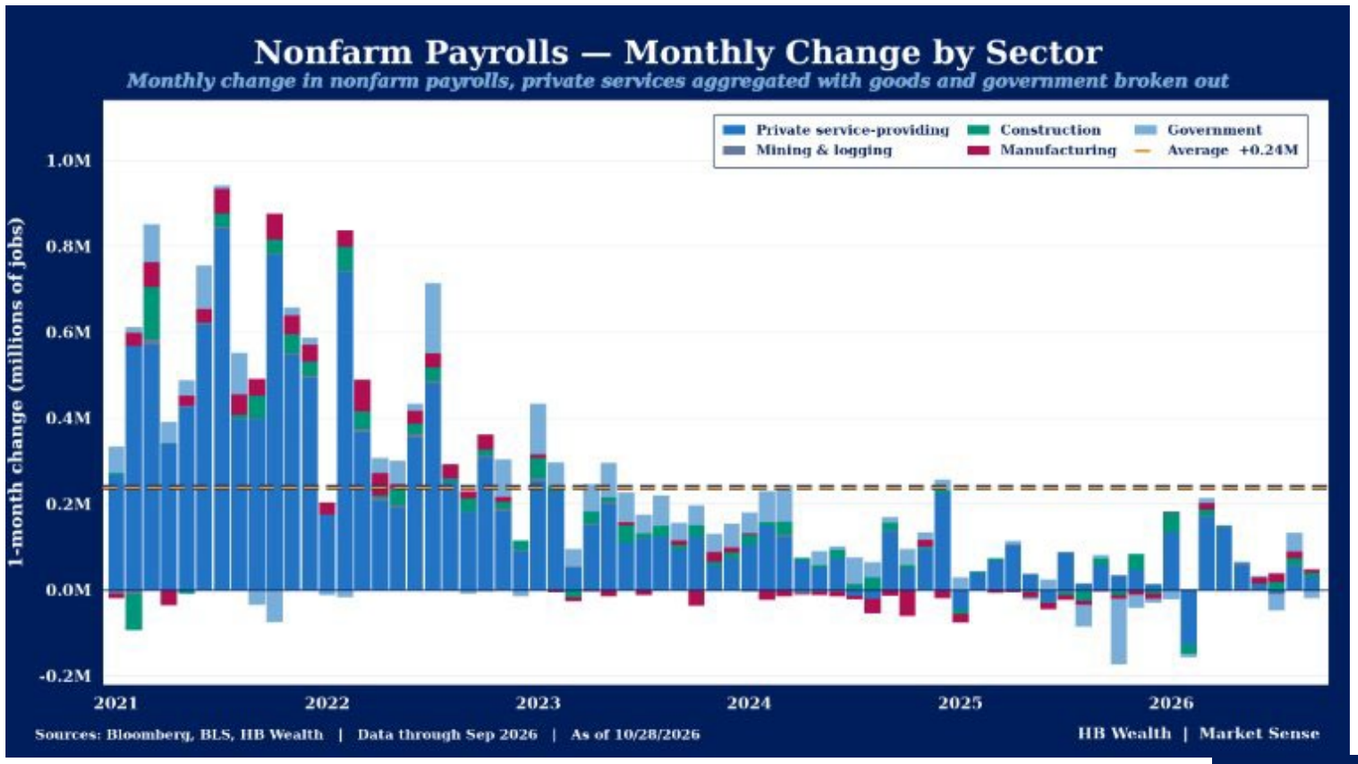
Consumer sentiment remains in a severe slump at a level near all-time lows. Sticky inflation, due in part to the rapid build and natural resource drain of data centers, geopolitical tensions, and rising medical care costs, has consumers in a persistently sour mood. The sharpest drops in sentiment are concentrated among older adults, lower- and middle-income households, and those without stock holdings or higher education credentials.

Confidence is low across voter profiles, suggesting elevated probability of turnover in the midterm elections. Consumers of all political stripes have lower confidence than was the norm before the pandemic and will likely hold incumbents responsible for their concerns about the economy. Republican voter confidence has slipped the most since the start of the war in Iran.



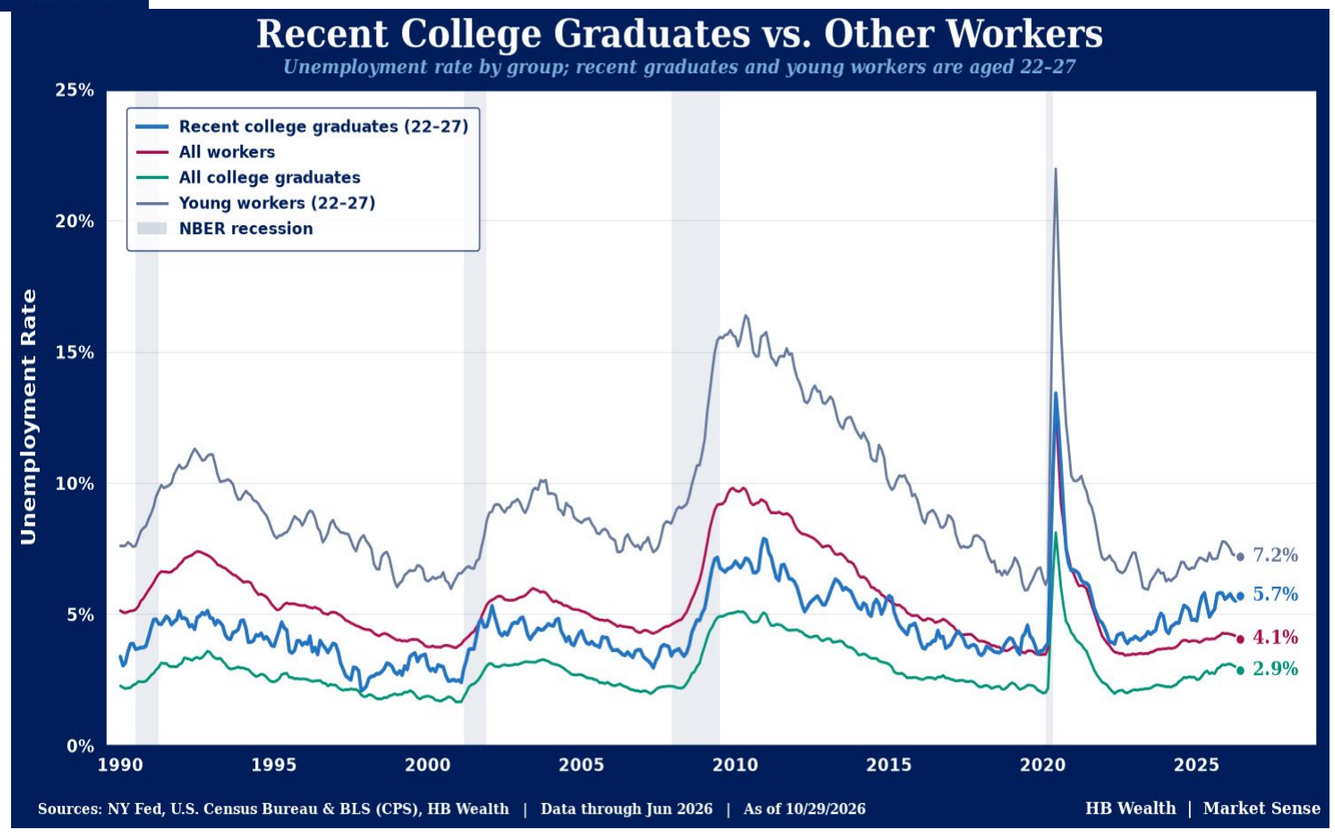


Job Growth is Weak, Particularly for Recent Grads



Employment growth has been abnormally slow, particularly for an economy that is growing relatively quickly, and this is weighing on consumer spending potential. Average monthly job growth has been 68,000 so far this year, still well below average monthly job growth of 183,000 in the 2010-2019 post-financial crisis era. Even excluding government workers, job growth is weak. Nonfarm payroll gains for the private sector alone are up an average 70,000 each month so far this year.

The unemployment rate has been remarkably stable during the last few years, but youth unemployment is rising as the lack of job growth weighs heavily. The unemployment rate for new college grads has ticked up to 5.7% from its post-pandemic low of 3.9% and remains well above historical norms. The only period in history when new college grad unemployment was this high was in the five years just after the financial crisis.

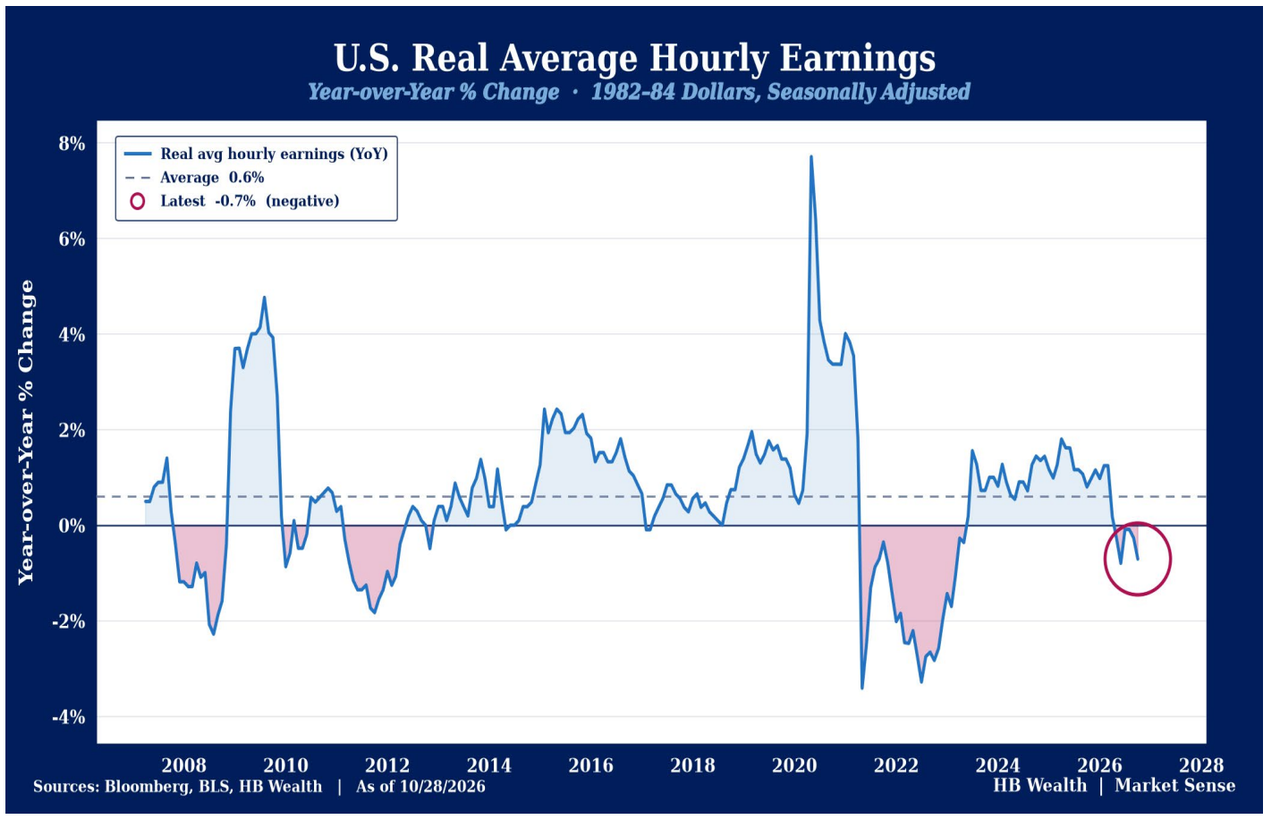


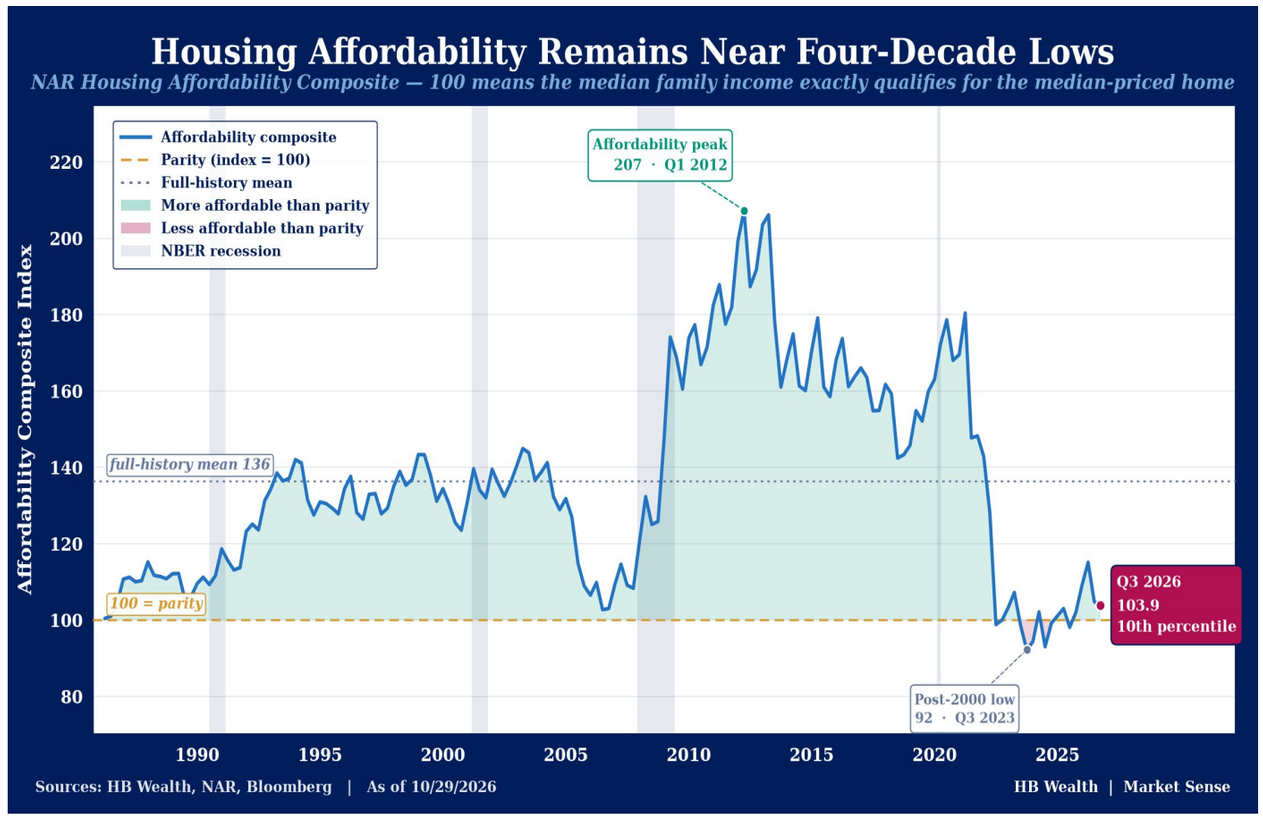
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Consumer Outlook Limited by Prices

Limited wage gains combine with high housing price growth to further pressure consumer confidence. On account of extremely slow job growth, wage growth is too slow to offset price inflation, resulting in negative real average hourly earnings growth this year for the second time in the post-pandemic era.

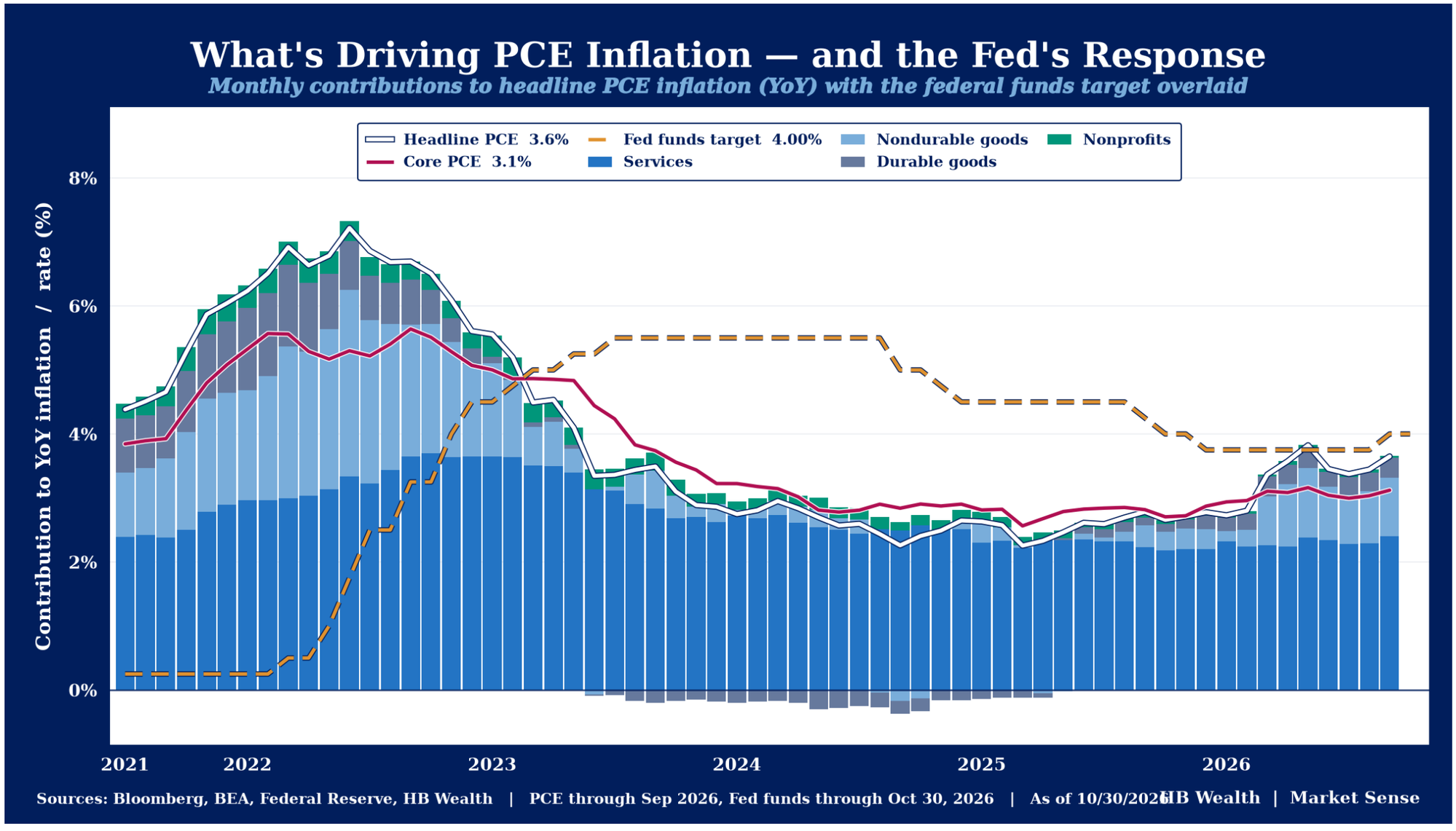
Meanwhile, housing prices remain near record highs. This, combined with continued increases in the average 30-year mortgage rate (now over 7%) is keeping housing affordability extremely low, and a lack of transaction activity is weighing on consumption trends.





Inflation: Consumer Prices are on the Rise

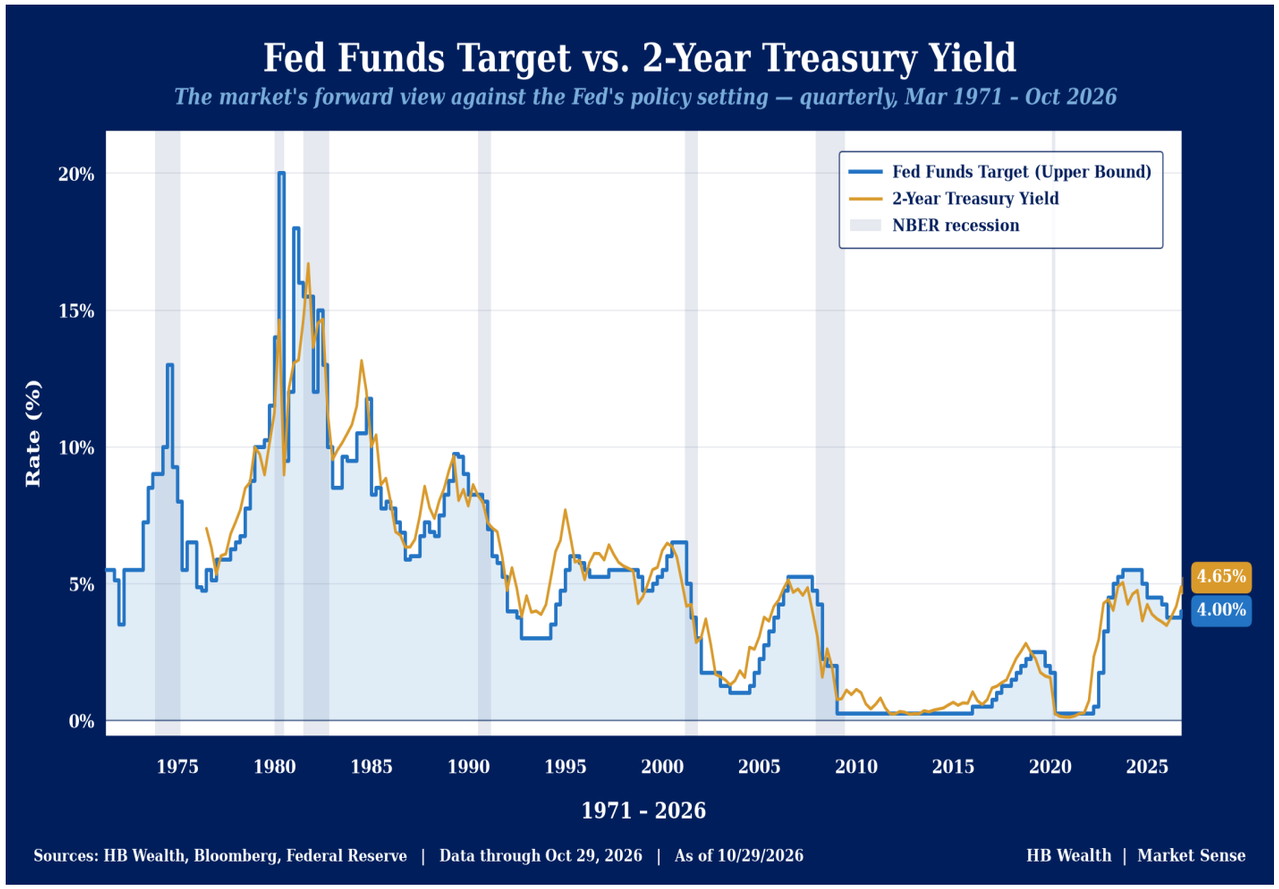
After easing for most of the last few years, consumer price inflation has reaccelerated in 2026, and is likely a primary cause of consumer angst. Inflation in energy prices has been particularly rapid, reflecting the wartime acceleration in oil prices, but recent price gains extend beyond the pump. Core consumer prices (excluding food and energy) have accelerated at an average pace of 3.1% since April. Excluding housing and energy, core services price gains are approaching 4% and have not been below 3% since early 2021. These sticky prices may continue to pressure the Fed to raise interest rates, as core inflation has been above the Fed's target for 66 consecutive months.

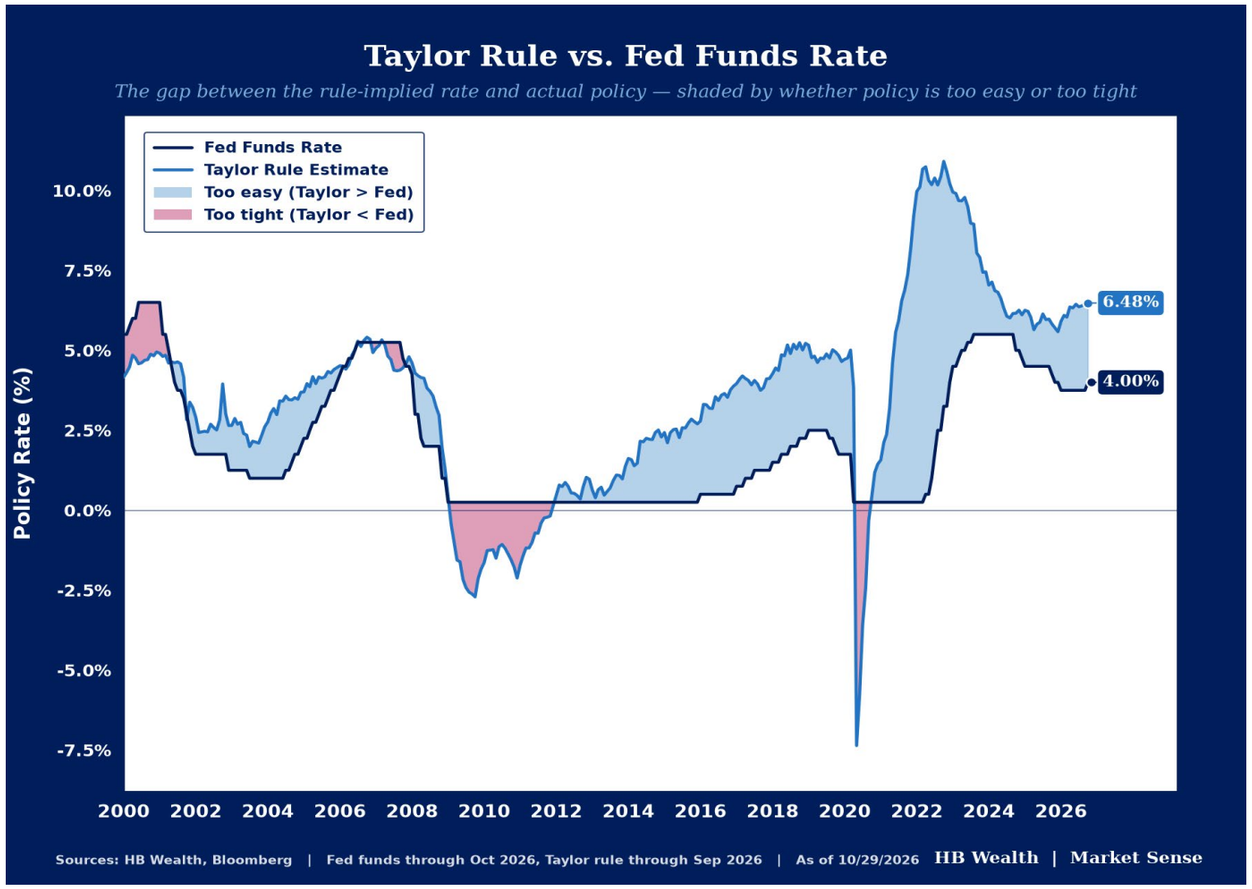


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Monetary Policy

Monetary policy at the Fed is making waves in markets, as the Fed hiked rates in September for the first time since 2022. After the easing cycle in 2024-2025, several measures suggest the Fed's policy rate is still technically too "easy" at its current level, even after the September hike. The 2-year Treasury yield is at 4.65%, still 65 basis points above the Fed funds rate, and the Taylor rule suggests a policy rate of 6.48% would better account for the current pace of growth and inflation. Markets are pricing in one 25bps hike in December to cap off 2026.

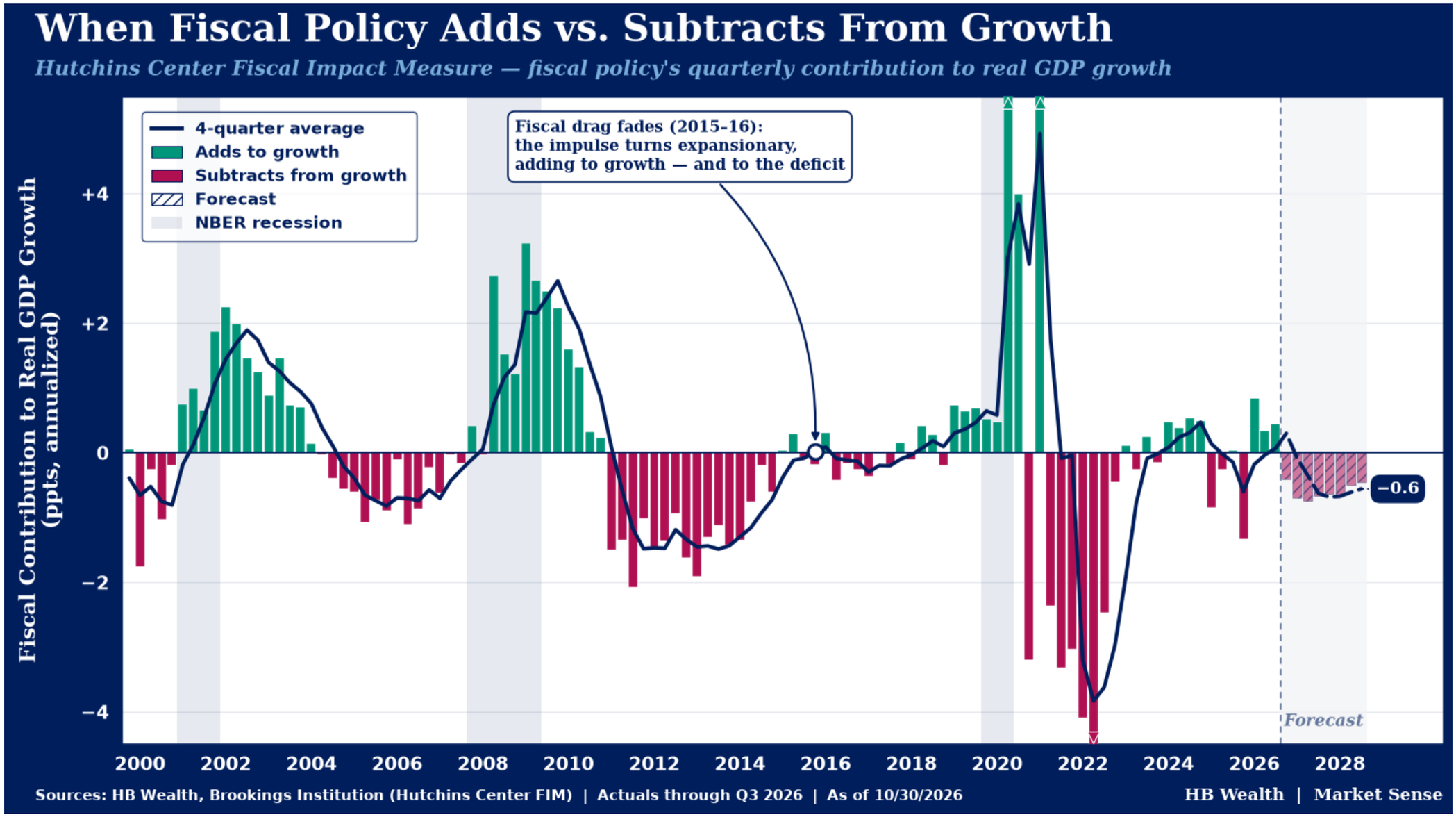




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Fiscal Policy Has Been Adding to Growth

The Federal Budget deficit is still about 6% of GDP, bigger than any post-1970 recession deficit except for the Great Financial Crisis and COVID-19 recession. Nonetheless, fiscal expenditure expanded in 6 of the last 9 quarters, and the 2025 tax reform contributed nearly half a percentage point to growth in the first half of 2026. The mismatch between federal spending and revenues may become a constraint on spending, particularly if a mixed-party Congress emerges after the midterms. Federal, state, and local purchases are expected to contract in the year ahead, more consistent with economic expansions.



Equity Summary: Stocks Get Reprieve From Yields

Rates Reprieve Revives Rotation Trade. Bond yields backed down from their highs earlier this month, allowing stocks a much-needed reprieve. The 10-year was weighing on stocks outside of tech and its drop this month helped small caps bounce back out of correction and reignited the broadening trade that defined much of 2026.

Earnings Season is in Full Swing. Earnings results continue to roll in and so far, both the S&P 500 and Russell 2000 are on track for beats – though stocks' reactions couldn't be more mixed. Financials got the season started and were hurt by weak FICC trading in the wake of the yield surge. Likewise, reactions to mega-cap earnings have skewed negative as lofty earnings bars and investor skepticism around the AI-buildout weigh.

Stocks are Fairly Valued as Long as Consensus is Right. Equities trade close to our modeled multiple given today's rate backdrop. But that requires lofty consensus earnings forecasts for the next year to come to fruition. Widespread misses could lead to significant de-rating, though stocks have a long track record of beating consensus forecasts.

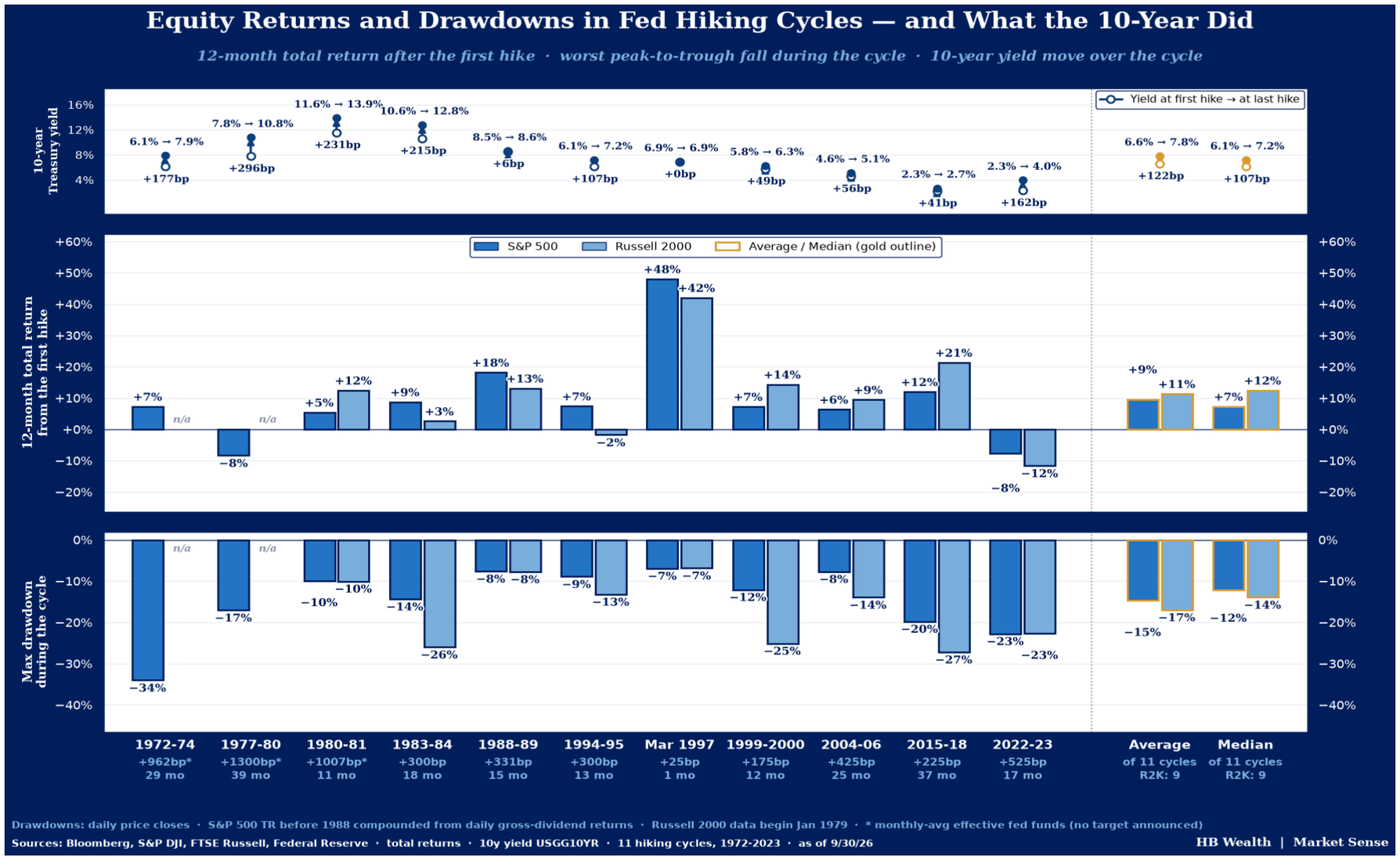
Anthropic Brings IPOs Back Into the Spotlight. Anthropic is set to IPO sometime before Thanksgiving in what could be the largest issue ever, surpassing SpaceX's offering earlier this year. Like SpaceX though, Anthropic could spell some trouble for tech, especially if it proves disruptive. 2026 is already on track to be the second-best year for IPOs based on deal values.

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Under the Surface, Stocks Are Following Gyrations in Yields

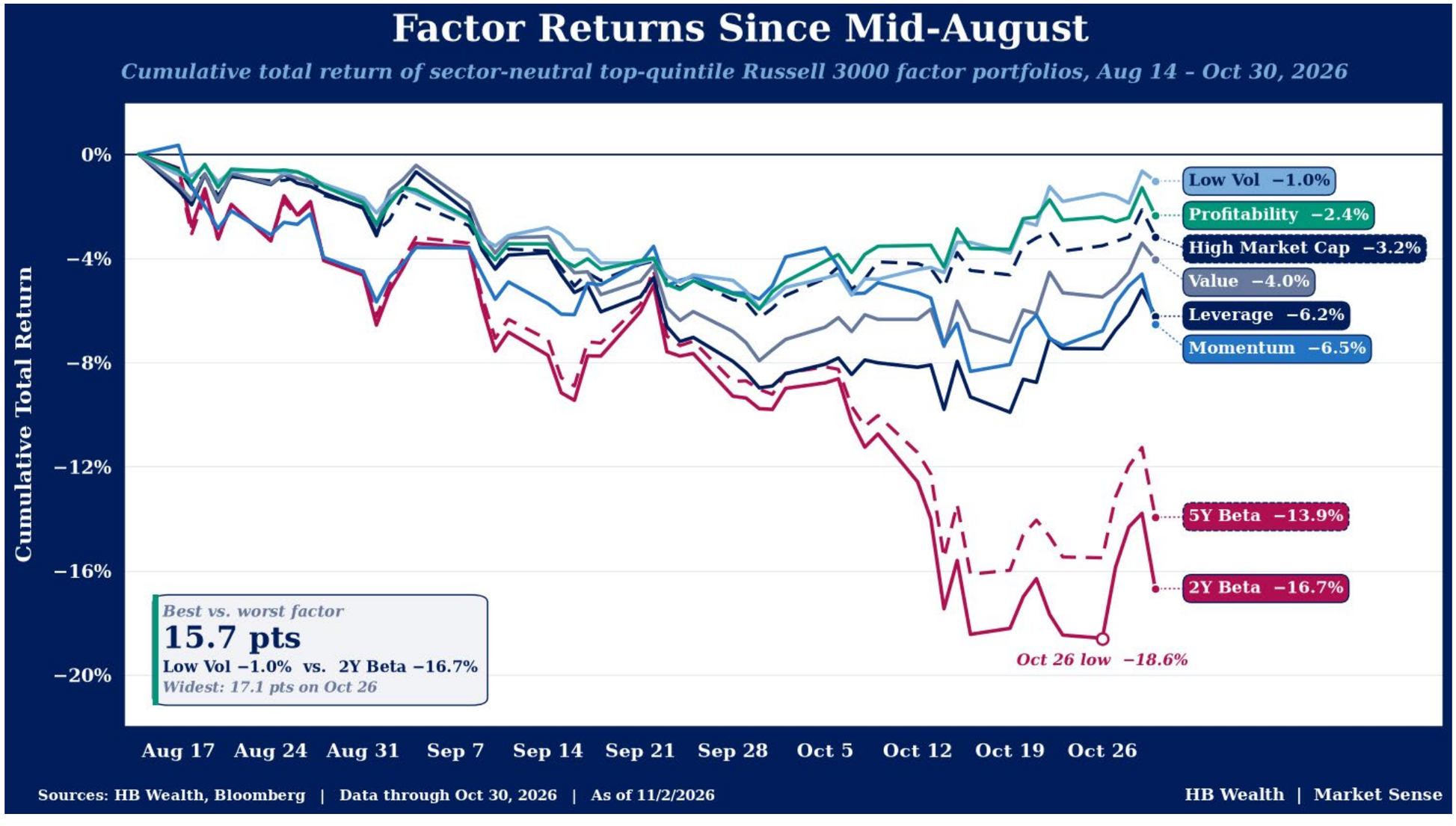
The Fed's first hike in three years is already driving significant churn under the surface of equity markets, and that's to be expected if history is any guide. Over the past 11 hike cycles, stocks generally fared well in the year after the initial Fed funds rate move. However, all but four saw at least a correction in the S&P 500, with the large-cap gauge facing an average 15% drawdown to the Russell 2000's 17% drop across nine cycles. The bond market's reaction to hikes likewise has some say over stocks' direction – smaller moves usually result in better outcomes, especially for more rate-sensitive small caps. In fact, the surge in yields appears to be the culprit behind small caps' recent correction and the reversal in bonds this month re-ignited the broadening trade.



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Small Caps Buckled Under Weight of Higher Yields

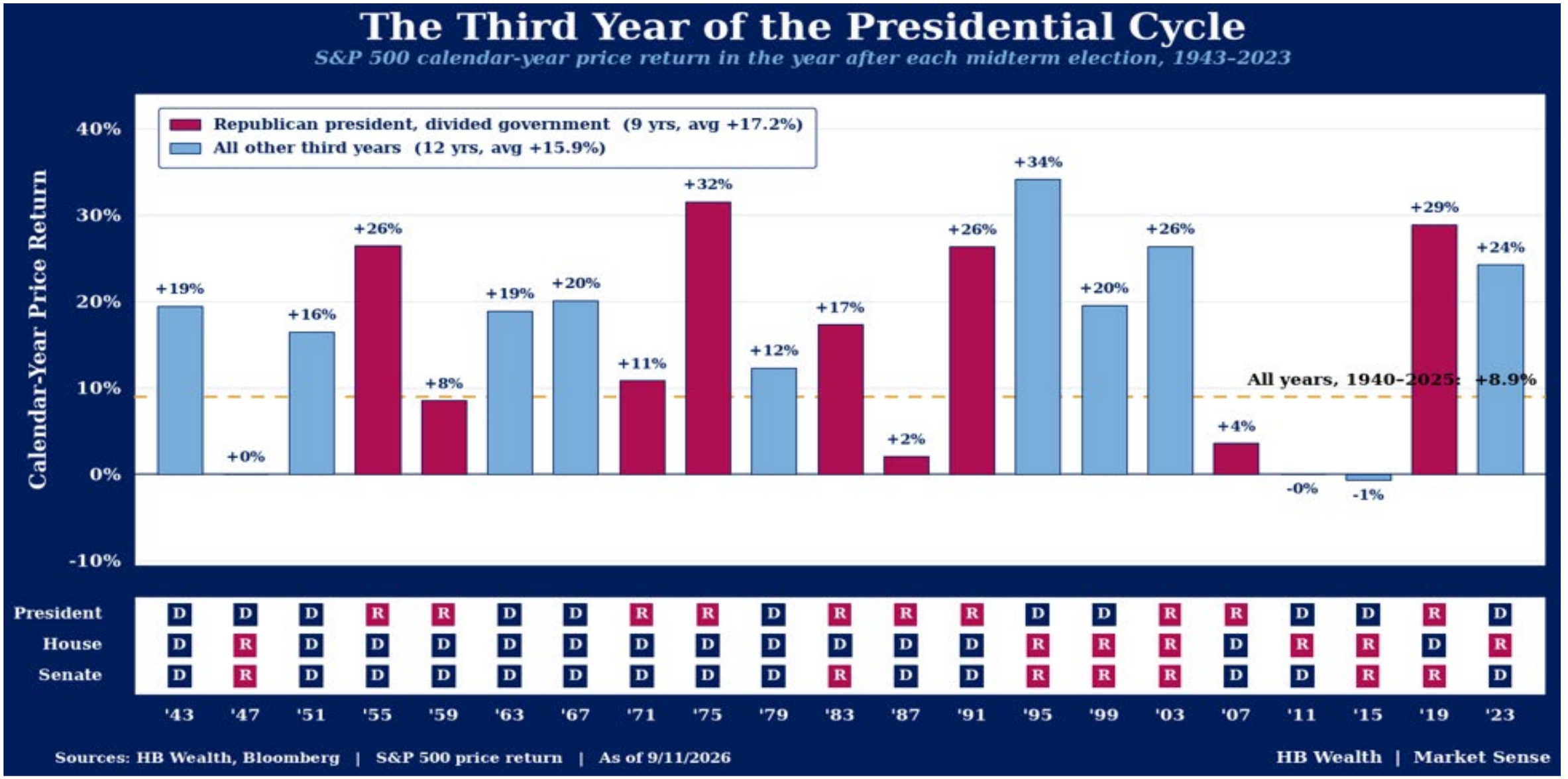
Each major small cap factor category has also struggled since the mid-August high on a long-only basis, but beta – a measure of historical risk that illustrates how much a stock should move versus the market – struggled the most. Since the Russell 2000's peak, 2-year beta is the worst performing factor, followed by 5-year beta. High leverage, market cap and momentum have likewise struggled during the correction. The factor downdraft across large caps has been much less severe but the signal is similar – yield-driven weakness is the underbelly of the market. In fact, this same pattern of factor performance emerged during the rate surge from December 2021-October 2023 – both versions of beta led the way lower, followed by leverage. In both 2022 and today, profitable stocks held up the best – offering some insight into what exposure might provide some shelter from the rout.



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Midterms Should Not Derail Stocks

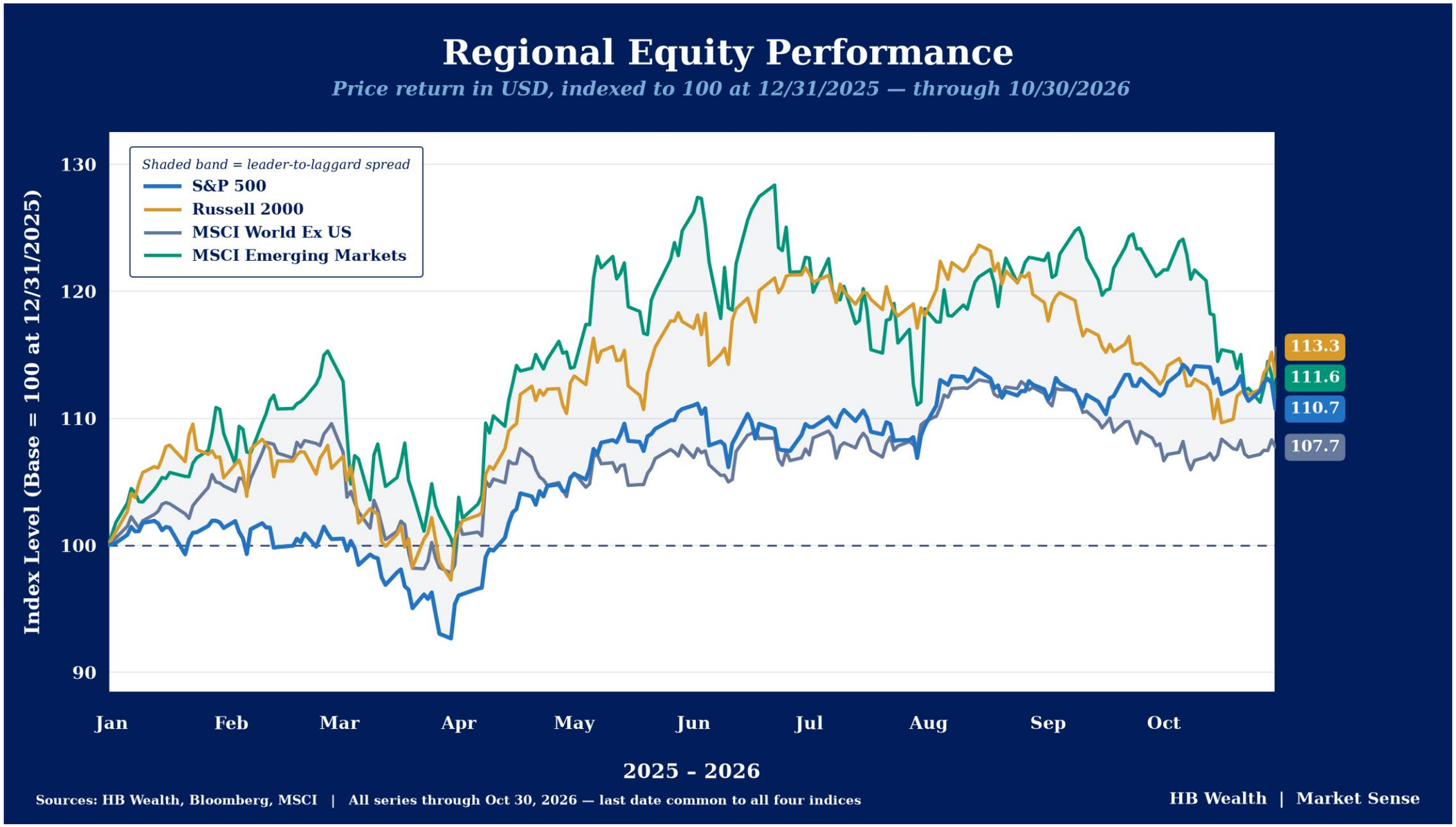
Elections are just one of the multitude of factors that drive stocks at any given time, and history suggests the outlook for equities should not change much with a turnover in Congressional party control. Since 1940, the average S&P 500 return in the third year of the election cycle has been 16.5%. Under Republican Presidents, the average is 18.2%, and under Democrats, it is 14.9%. Republican Presidents with a Mixed Congress (2 instances) presided over an average 23.1% return in the year after midterms, while Republican Presidents with a Democratic Congress (7 instances) saw a 15.6% return.



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Stabilizing Yields Drive Relief Rally Across US Stocks With Broadening Evident

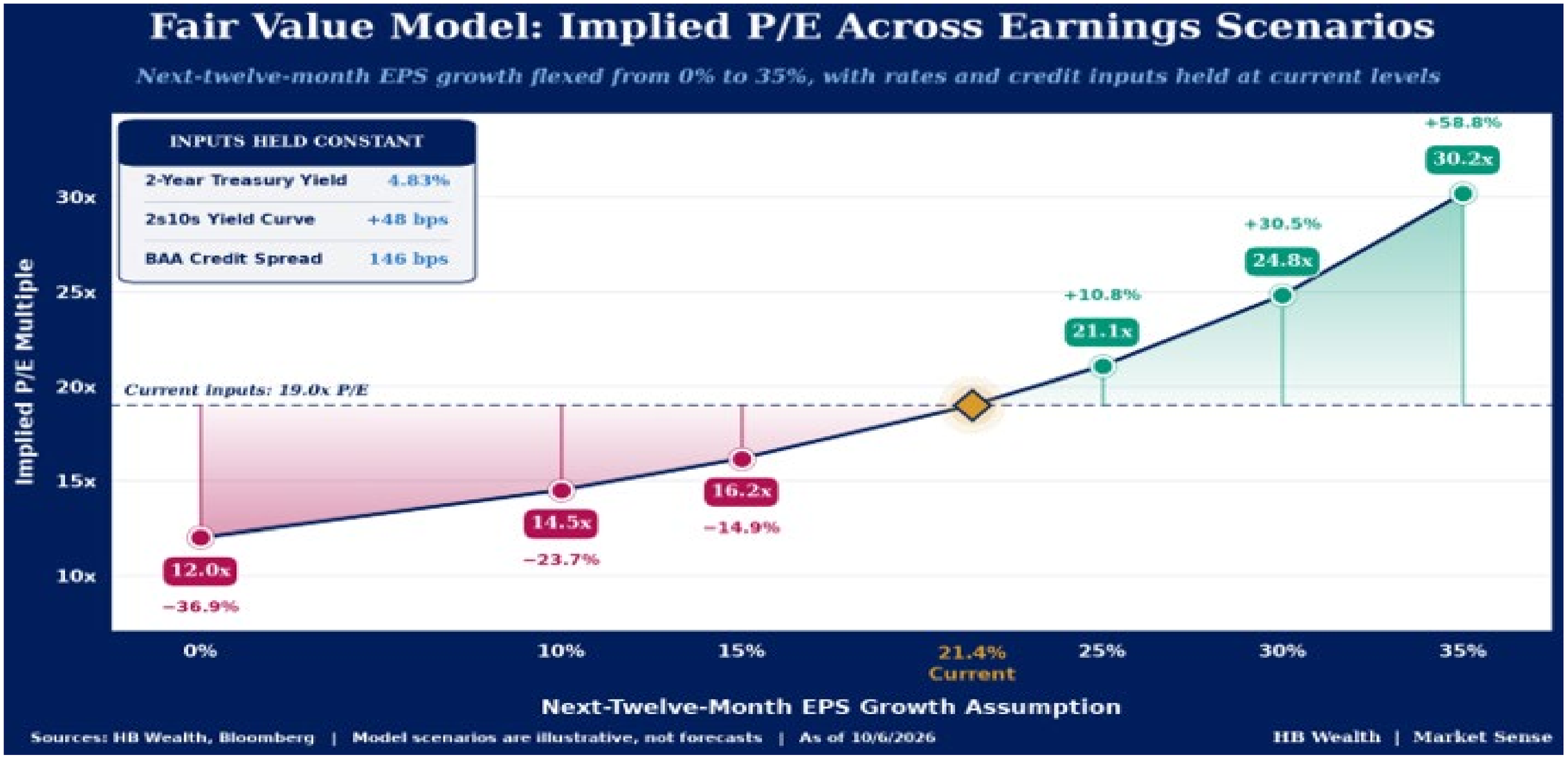
US Stocks were broadly up in a volatile October as yields moderated. At its worst, VIX touched 20 and though small caps dipped into correction territory, they were able to pull out of the tailspin with both growth and value contributing to the rally. That was unique to the size as growth stocks – hurt by growing fears surrounding the AI trade and earnings-related volatility around large cap tech stocks -- slid across large caps. Emerging markets took the brunt of declines, with MSCI's gauge in correction as China fell into a bear market. For the year, emerging markets and US small caps are on top.



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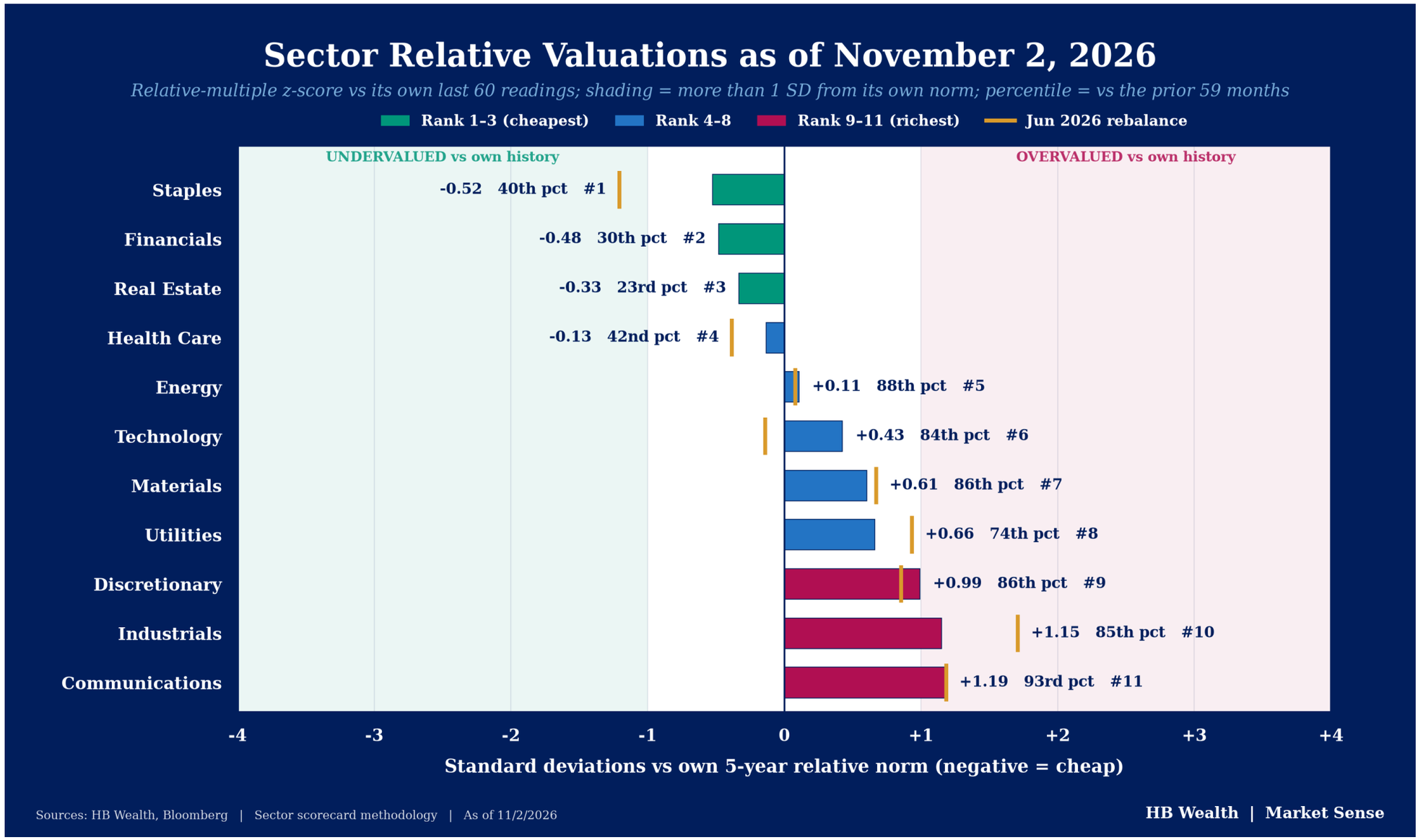
S&P 500 Multiples Back Below Our Fair Value Model But Heavily Reliant on Consensus Earnings

S&P 500 forward P/E multiples are trending lower, largely because extraordinary earnings advances are being offset by surging bond yields, and they are now back in line with our fair value model. Currently, the large-cap gauge trades at 18.8, which is 0.6 standard deviations above the average since 1990. This is a touch below our model's estimate of 19.4x. Multiples have contracted from 23.1x at the end of October 2025 and remain short of the 2021 high that was fueled by a unique combination of monetary and fiscal stimulus. Likewise, at the height of the dot-com bubble, S&P 500 forward valuations had climbed north of 25x – a level the market has yet to approach this cycle. Still, current multiples remain heavily reliant on hitting consensus earnings targets.



Plenty of Sectors Carry Reasonable Multiples

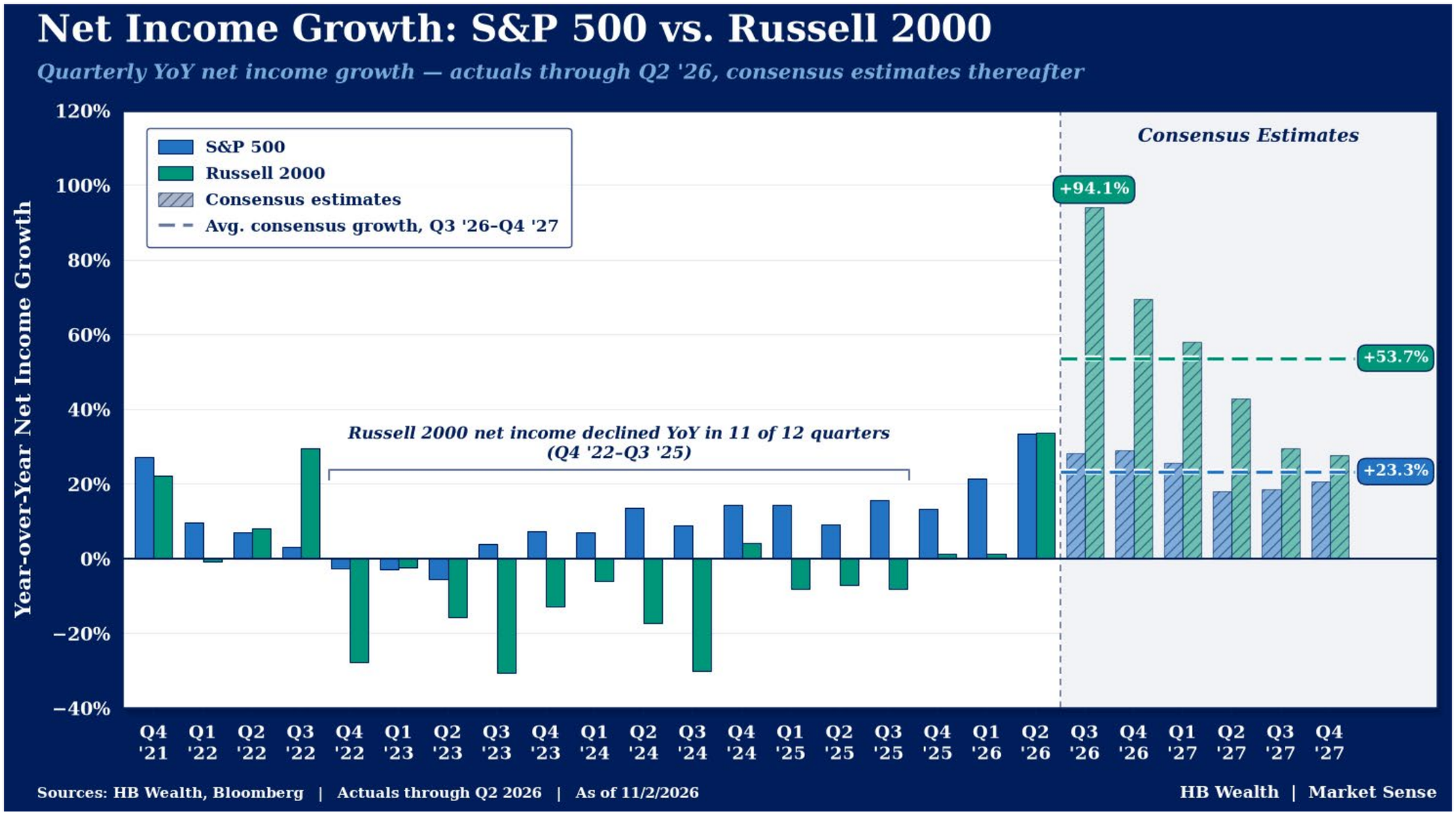
Many S&P 500 sectors trade within a stone's throw of norms, highlighting the breadth of reasonable multiples across the index. Currently, only communications, industrials and discretionary carry multiples that are 1 standard deviation above the recent 5-year average. Conversely, staples, financials and real estate are the most discounted.



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Earnings Trends Still Make Case for Rotation, But Small Caps and the 493 Likely Have to Beat

Earnings season is now well underway with the S&P 500 on track for 28.4% EPS growth on a 13.2% revenue gain – preseason forecasts were for 24.5% and 12.2%, respectively. Likewise, small caps are on pace for 9.8% topline growth versus the forecast for 9.1%. The extremely high bar is already wrecking havoc on the mega-cap tech and related stocks with all of the mag-7 stocks that reported thus far falling in the day after they reported. That has been helping the broadening trade this month and the other 493 stocks in the S&P 500 are expected to outpace mag-7 EPS growth through 1Q27. However, both the 493 and small caps will have to back up consensus optimism with beats to keep the trade going.

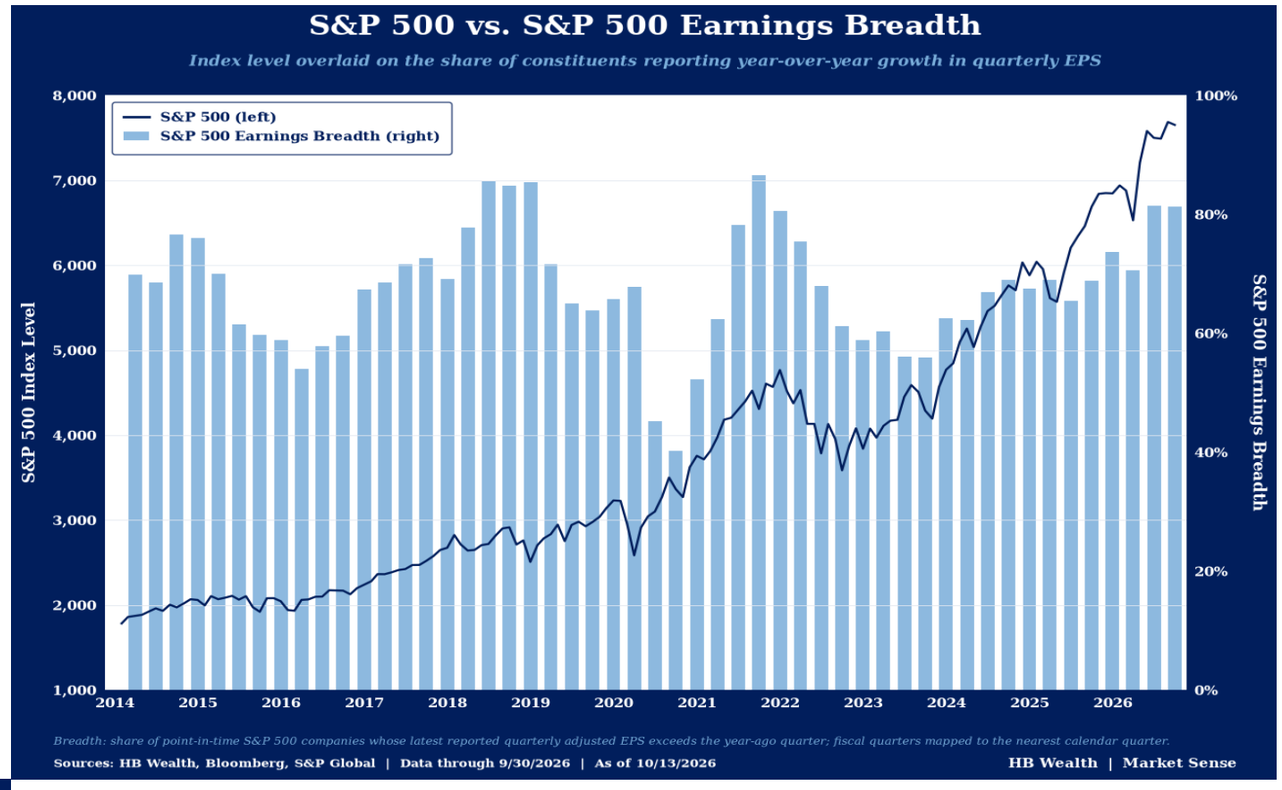


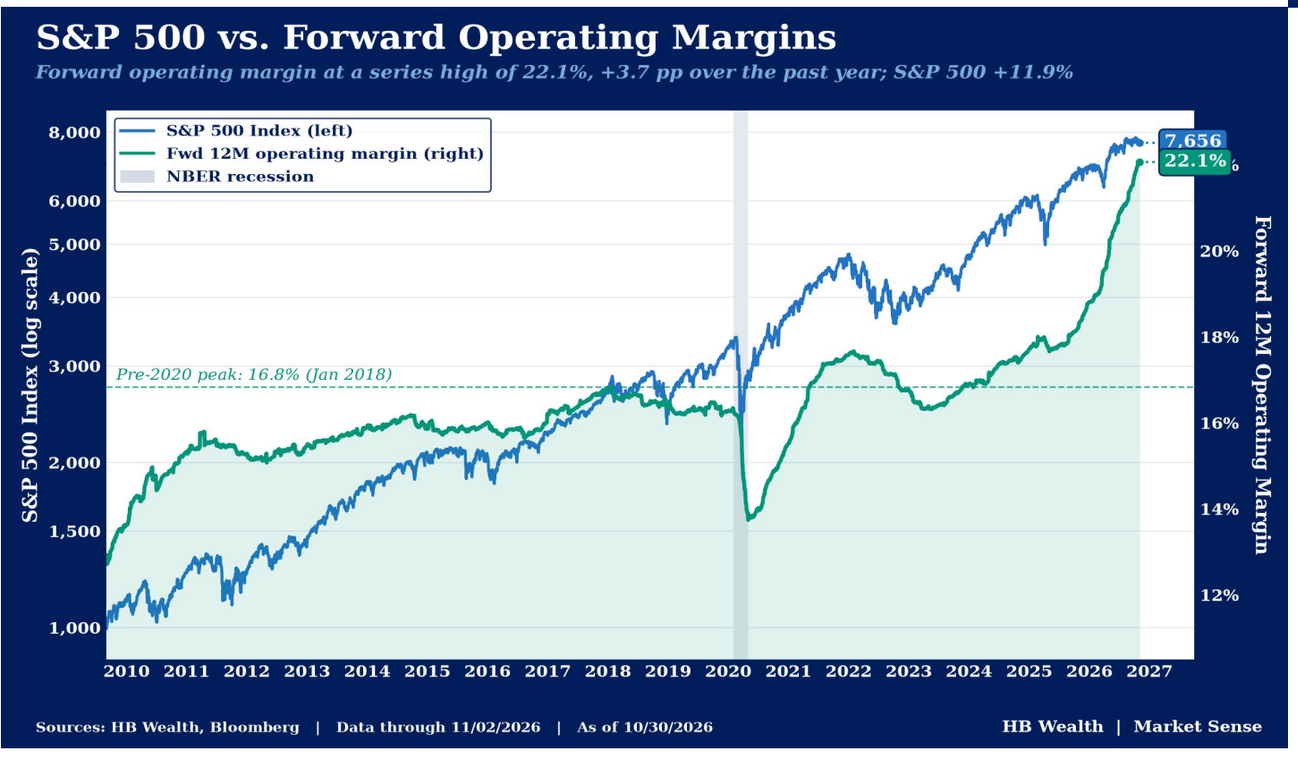
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Watching Earnings Breadth, Margin Forecasts for Continuation of the Bull

Strong earnings breadth remains key to 2026's broadening trade. Though every sector is expected to post EPS growth in 2H, growth is expected to decelerate sequentially for 7 of 11 GICS groups in 3Q making waning breadth a key risk to watch this season.

Peaks and troughs in earnings breadth have been especially meaningful to stocks' direction over the past decade. Breadth hit an all-time high in 2Q18 (at 88%) and began to fade over the subsequent quarters, contributing to the 19.8% peak-to-trough correction in the S&P 500 that year. Likewise, breadth hit another high in 2Q21 (at 86.4%), leading stocks into their 2022 bear market.





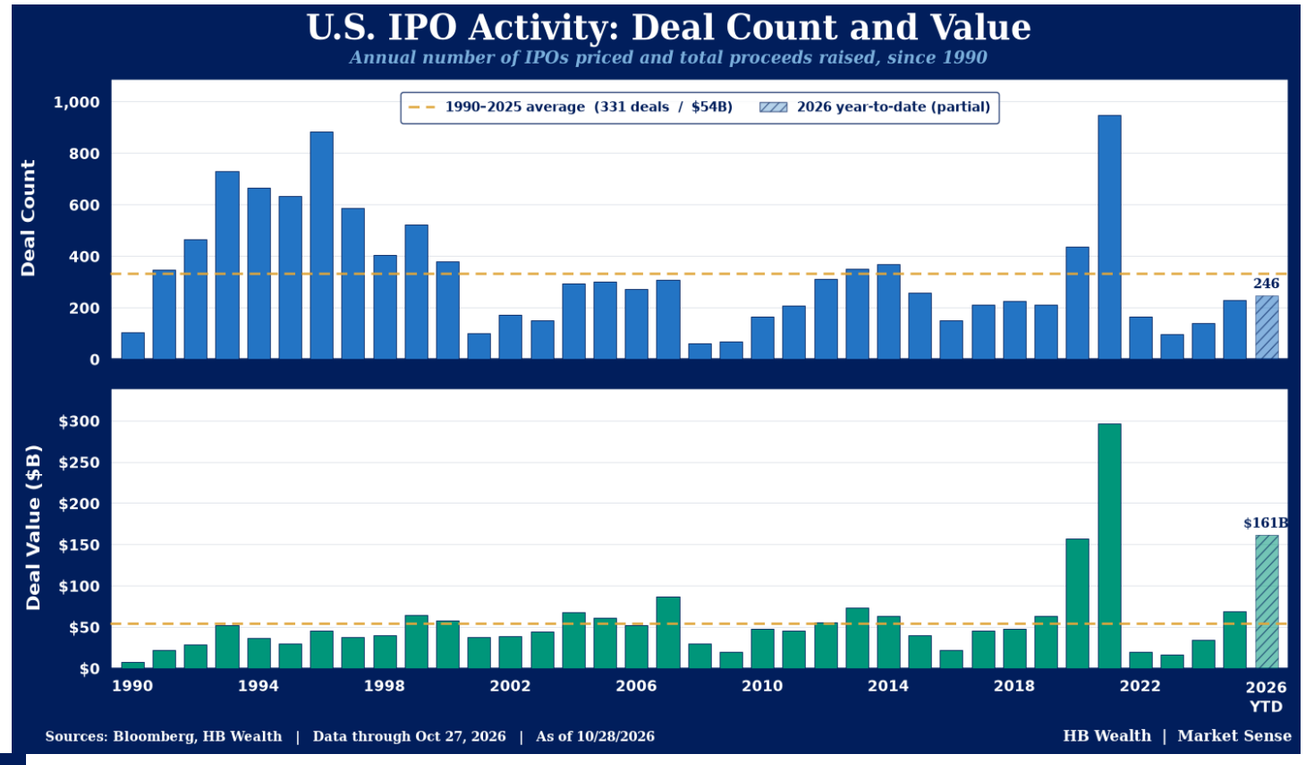
Margin trends are similarly a strong indicator of impending market tops, and the consensus outlook is showing little sign of margin growth slowing down or contracting just yet. Estimates just keep climbing – at the start of 2026, consensus pegged the S&P 500 for 18.8% forward 12-month operating margins, but that has climbed to 22.1% currently.

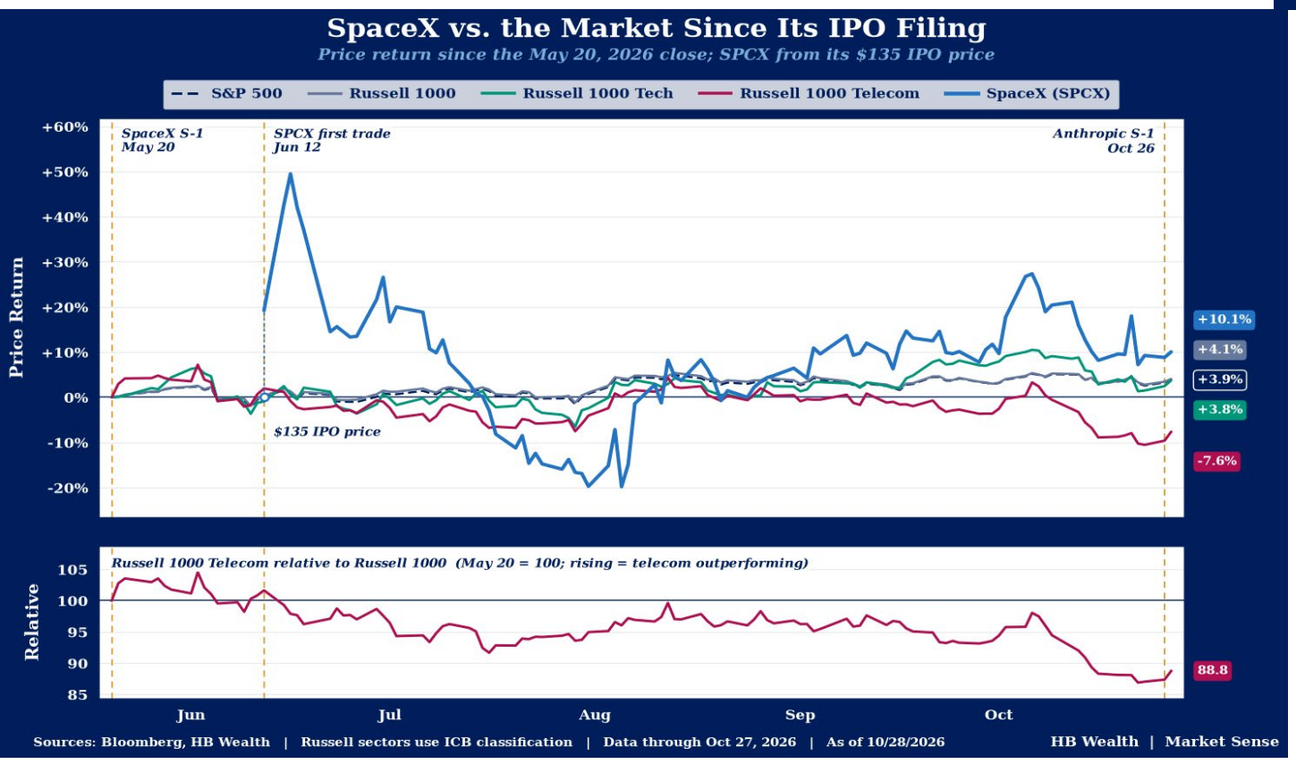
Ahead of the S&P 500's declines in 2011, 2015, 2018 and 2020, reduced margin projections ultimately weighed on prices.

IPO Issuance is Surging, Anthropic Could Cause Waves in Tech

HB

The IPO calendar has cooled a touch recently but is still on track to be the second-best year on record, with Anthropic set to IPO sometime before Thanksgiving as the second $1+ trillion company to issue in the U.S. this year. Initial rumors are that the company could seek up to $100 billion from the filing at a valuation that could push $2 trillion. A few high-profile stocks have pushed their filings out to 2027 with Oura and OpenAI at the forefront, likely leaving this year just shy of the record, but offering a spark to 2027's issuance. Whether those companies will IPO sooner or later could come down to how Anthropic is received by the market.





There's a popular narrative in the market that Anthropic's IPO could bring an oversupply of shares that forces selling across other tech stocks. One doesn't have to look far for a good historical comparison – SpaceX's IPO in June. SpaceX did little to derail the rally in stocks at large, but it was disruptive to its sector. The SpaceX issuance coincides with some loss of momentum for communications stocks, as the company spelled trouble for its sector recently, with that group slipping 9.3% since mid-October on competitive pressures. Thus, presuming Anthropic will issue as a tech company in the Russell 1000, it could pressure fellow tech names, especially if it disrupts competition.

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Plenty of Sector Discounts Still Available

It’s too early to give up on year-to-date sector winners in large caps, according to our sector model, which suggests an overweight position in energy, tech and materials. Meanwhile, we suggest steering relatively clear of weaker and interest-rate-sensitive groups like real estate and financials, as the renewed rate-hike cycle and difficult year-over-year comparisons weigh on estimates. Communications rounds out our suggested underweights, as early AI winners remain concentrated in tech’s semiconductor industry rather than communications’ heavyweights (Alphabet and Meta).

Sector Signals Dashboard

Composite tilt with underlying factor signals — live book as of 6/30/2026

Rank 1-3 | Rank 4-8 | Rank 9-11

Sector	Price Momentum	Earnings Trend	Relative Valuation	Overall Signal
Energy	Rank 1-3	Rank 1-3	Rank 4-8	OVERWEIGHT
Technology	Rank 1-3	Rank 1-3	Rank 4-8	OVERWEIGHT
Materials	Rank 4-8	Rank 1-3	Rank 4-8	OVERWEIGHT
Staples	Rank 4-8	Rank 4-8	Rank 1-3	NEUTRAL
Health Care	Rank 4-8	Rank 4-8	Rank 1-3	NEUTRAL
Industrials	Rank 1-3	Rank 4-8	Rank 9-11	NEUTRAL
Discretionary	Rank 9-11	Rank 4-8	Rank 4-8	NEUTRAL
Utilities	Rank 4-8	Rank 4-8	Rank 9-11	NEUTRAL
Financials	Rank 9-11	Rank 9-11	Rank 1-3	UNDERWEIGHT
Real Estate	Rank 4-8	Rank 9-11	Rank 4-8	UNDERWEIGHT
Communications	Rank 9-11	Rank 9-11	Rank 9-11	UNDERWEIGHT

Sources: HB Wealth, Bloomberg | As of 6/30/2026 | Generated 7/24/2026

HB Wealth | Market Sense

Value Remains Firmly in the Driver's Seat in 2026

Growth stocks suffered from investor fears around the AI trade and a spate of volatility around earnings for the mega-caps in October while value enjoyed a relief rally as yields paused. For the year, value is up more than 8x as much as growth, as a clear penchant for cheaper stocks emerged this year. The renewed rate-hike cycle could mark some turbulence, however – value stocks generally fared well when we studied hike cycles, but that playbook repeating will likely rely on earnings forecasts remaining robust for the style and continued calm in longer-term interest rates.



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Fixed Income Summary

Base Rates Remain High While Spreads Remain Tight. The “higher for longer” mantra is proving true, with one Fed hike behind and as many as three more are priced in through the end of 2027. This has boosted the attractiveness of yield on intermediate-duration bonds, without the need to stretch on longer credit as well.

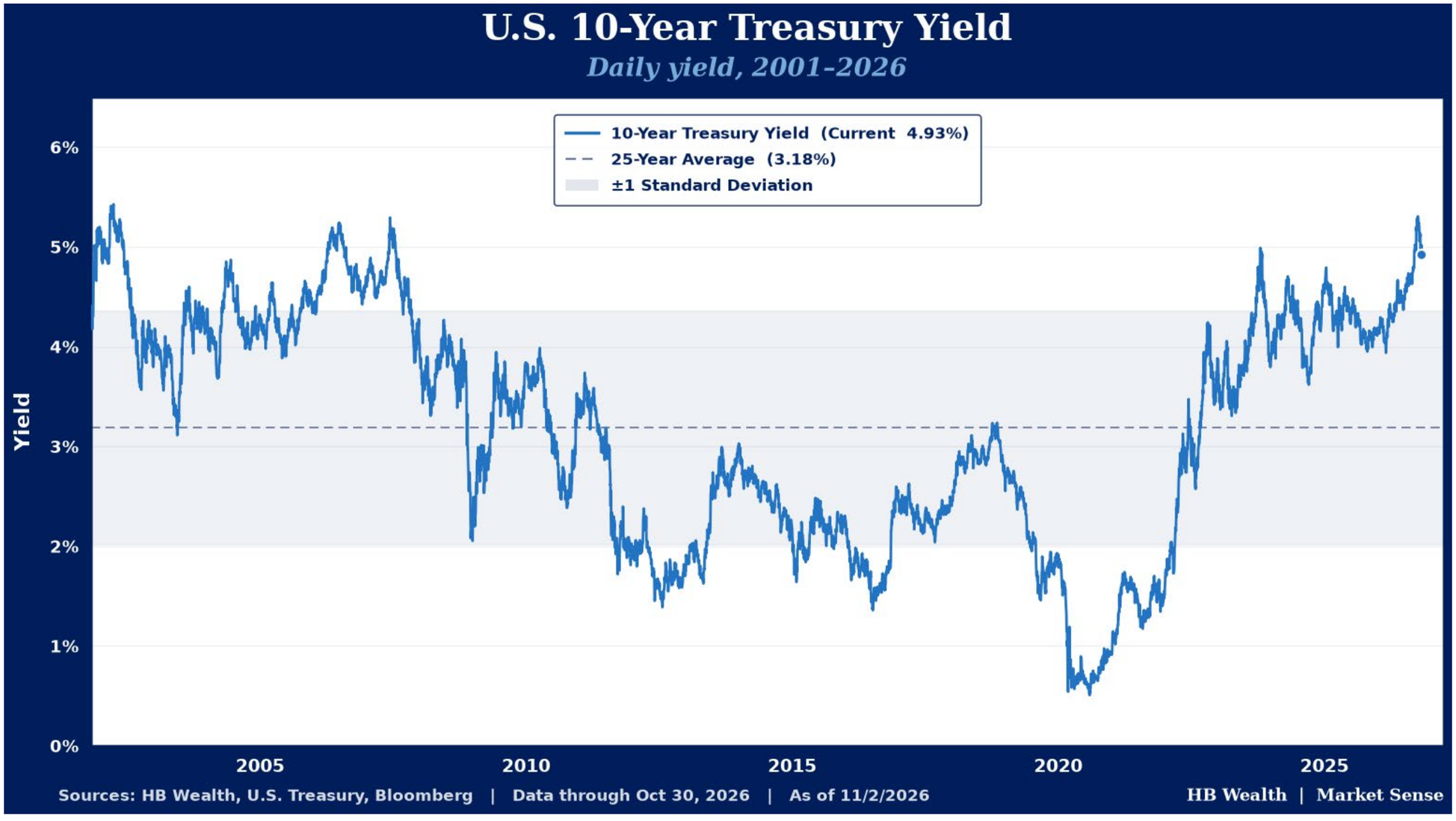
Credit Spreads Widen Slightly But Remain Tight. Credit spreads continued their widening trend from September, albeit at a slower pace. Compared to historical norms however, the broad High Yield and Investment Grade indices are in their relative 23rd and 24th long-term percentiles, respectively. This, paired with elevated base yields, gives reason to keep notable credit risk on the shortest part of the curve.

Munis Rebound After Historic Selloff. After the worst calendar-month performance in nearly 40 years, the broader muni market staged a decent comeback in October as liquidity normalized and treasuries rallied in a flight-to-quality move from AI equity fears. Munis still remain a compelling opportunity on a taxable equivalent basis compared to historical averages.

The Belly of the Curve Offers the Most Stability in this Environment. The short end of the Treasury curve faces binary Fed-driven outcomes, and the long end risks continued repricing to provide adequate compensation for fiscal and supply risk.

10-year Yield is Holding “Higher for Longer”

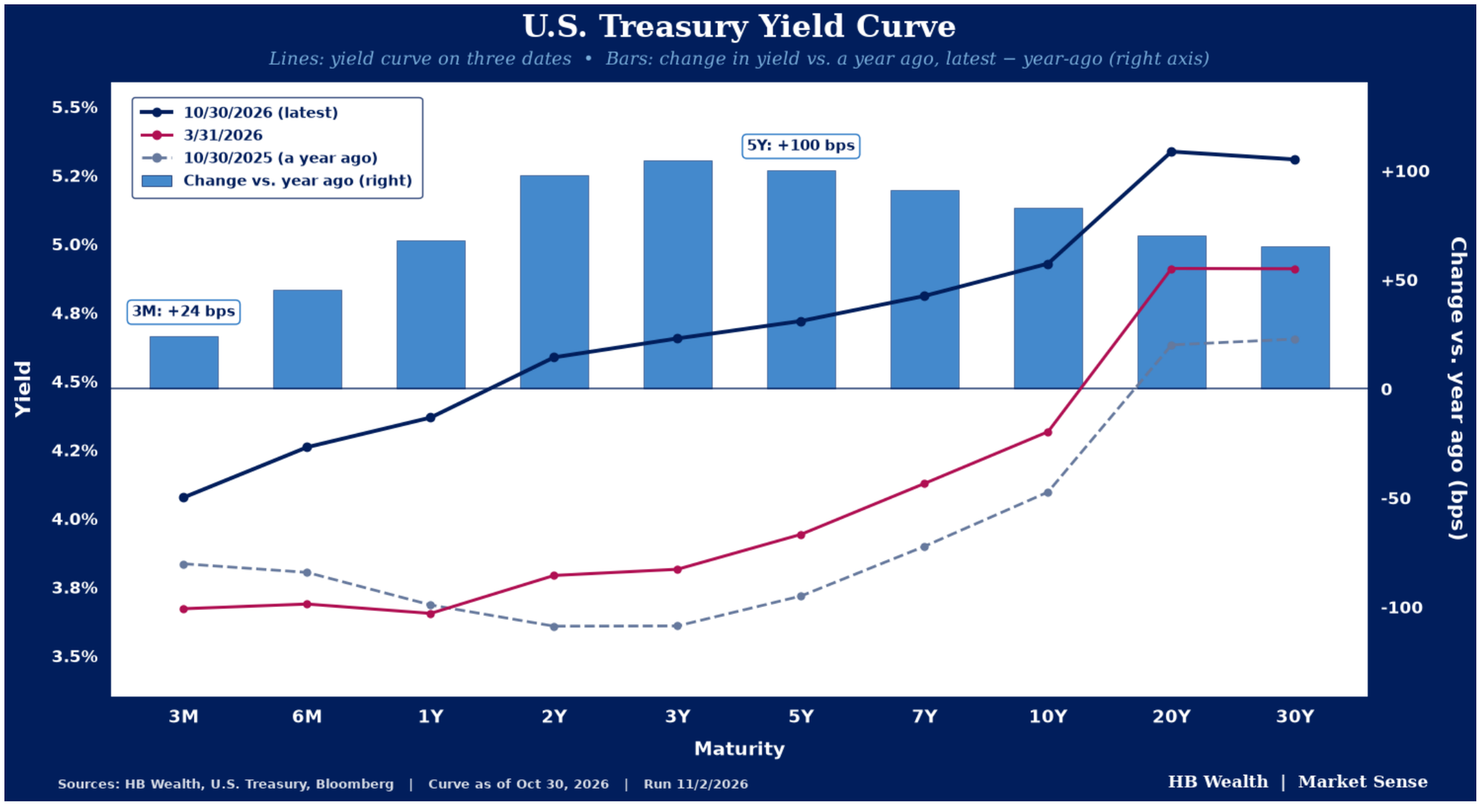
The “higher for longer” mantra is proving true, with one Fed hike behind and as many as three more are priced in through the end of 2027. This has boosted the attractiveness of yield on intermediate-duration bonds, without the need to stretch on longer credit as well. After hitting a multi-year high of 5.36% in early October, rates rallied to close the month wit the benchmark yield just below 5%.



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U.S. Treasury Yield Curve

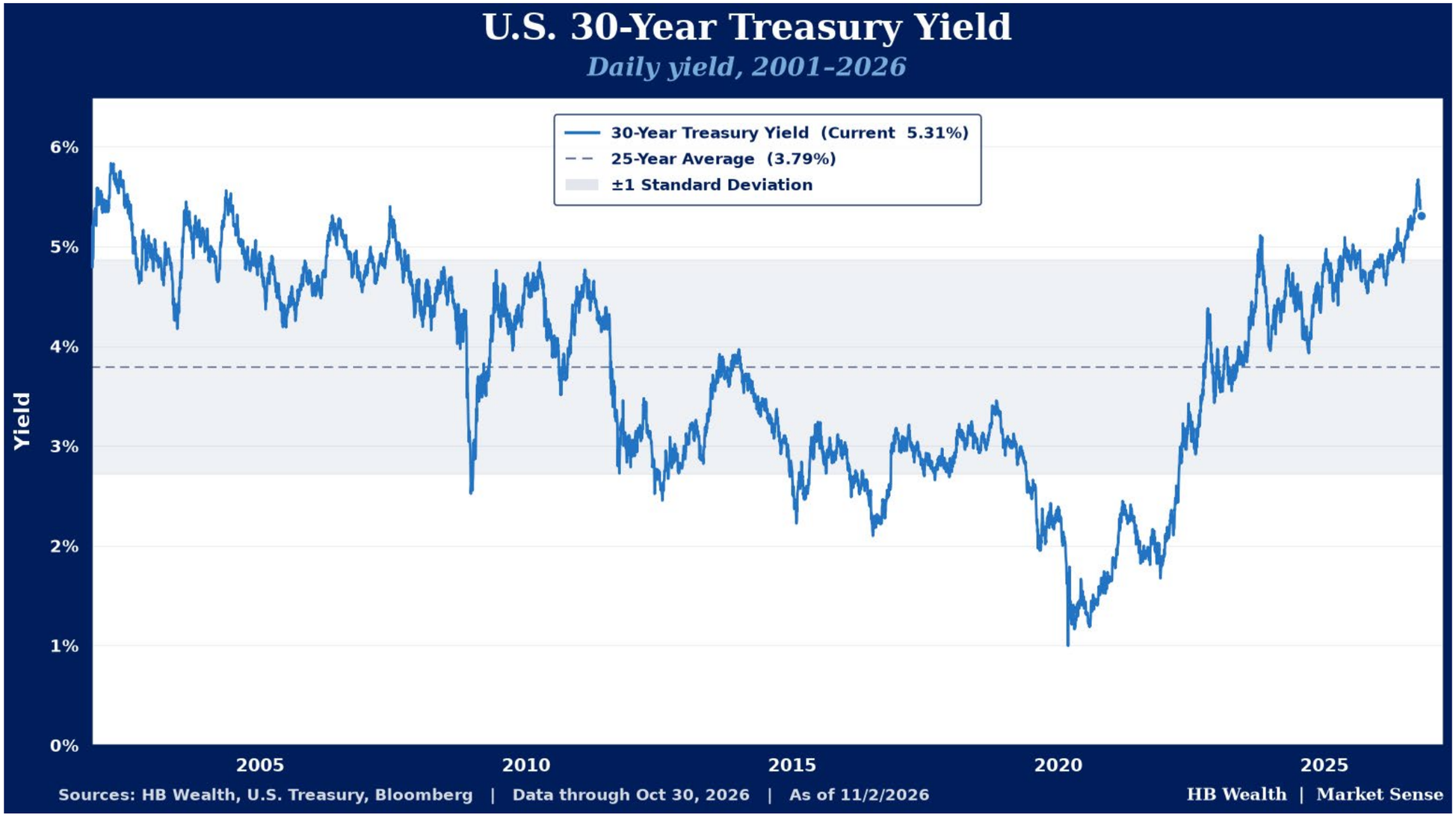
The 5-year tenor has seen much of the action over the past year. Fed cut expectations have turned to hike expectations on the back of the war in Iran, as well as pricing in a higher, sustained PCE. This pushed the front end higher, while the longer end has been elevated by deficit concerns and crowding by long IG Corporate issuance.



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30-Year Yields Nearing 20-Year Highs

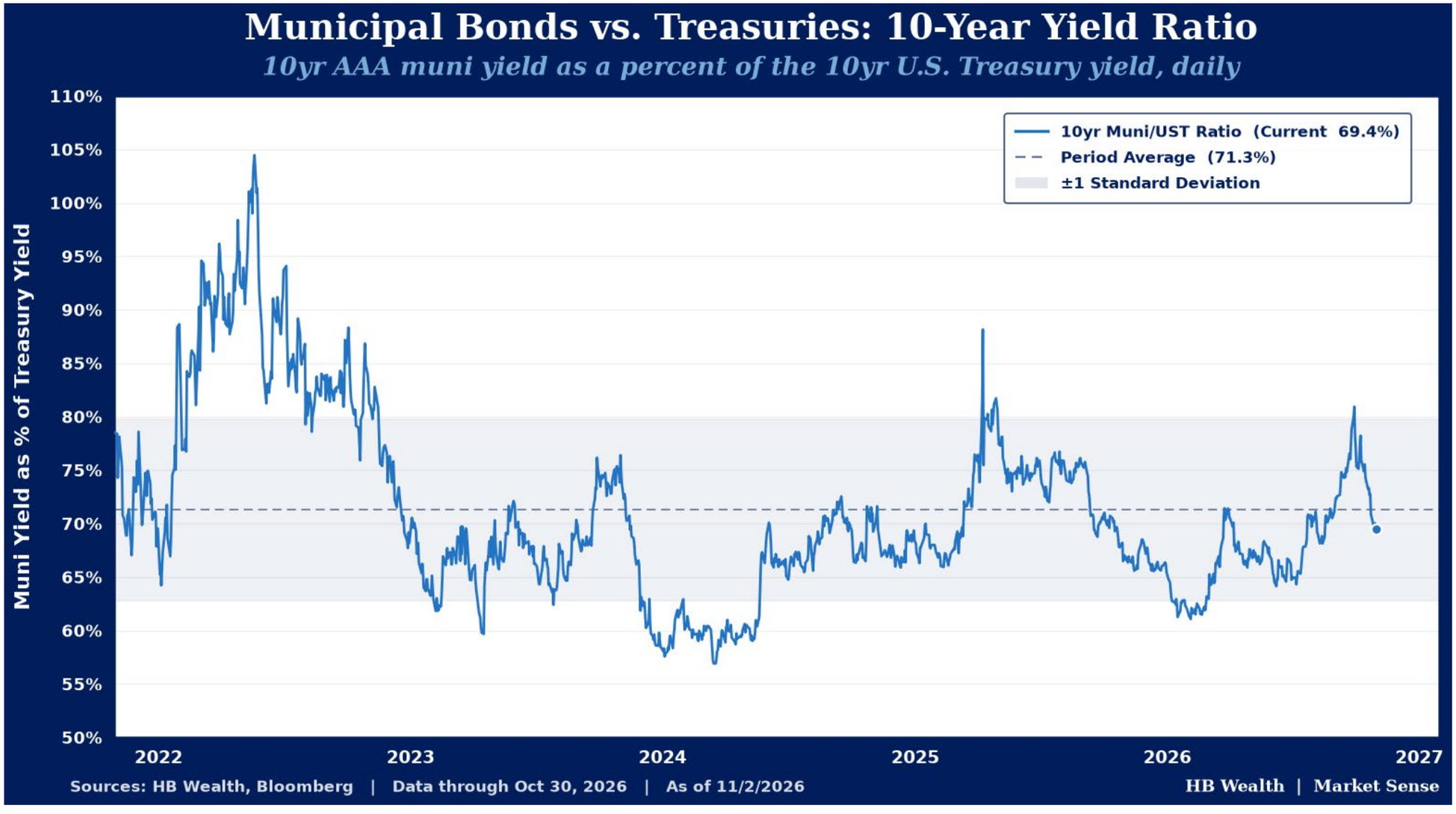
The start of the month saw longer bonds continue to fall on a continuation of the growth and inflation concerns that plagued the fixed income markets during the previous month. By mid-month, concerns around some AI stocks saw money shift to treasury markets, in enough size to pull rates down from their cycle highs. The rate on the long bond fell 36bps from the high to finish the month at 5.308%.



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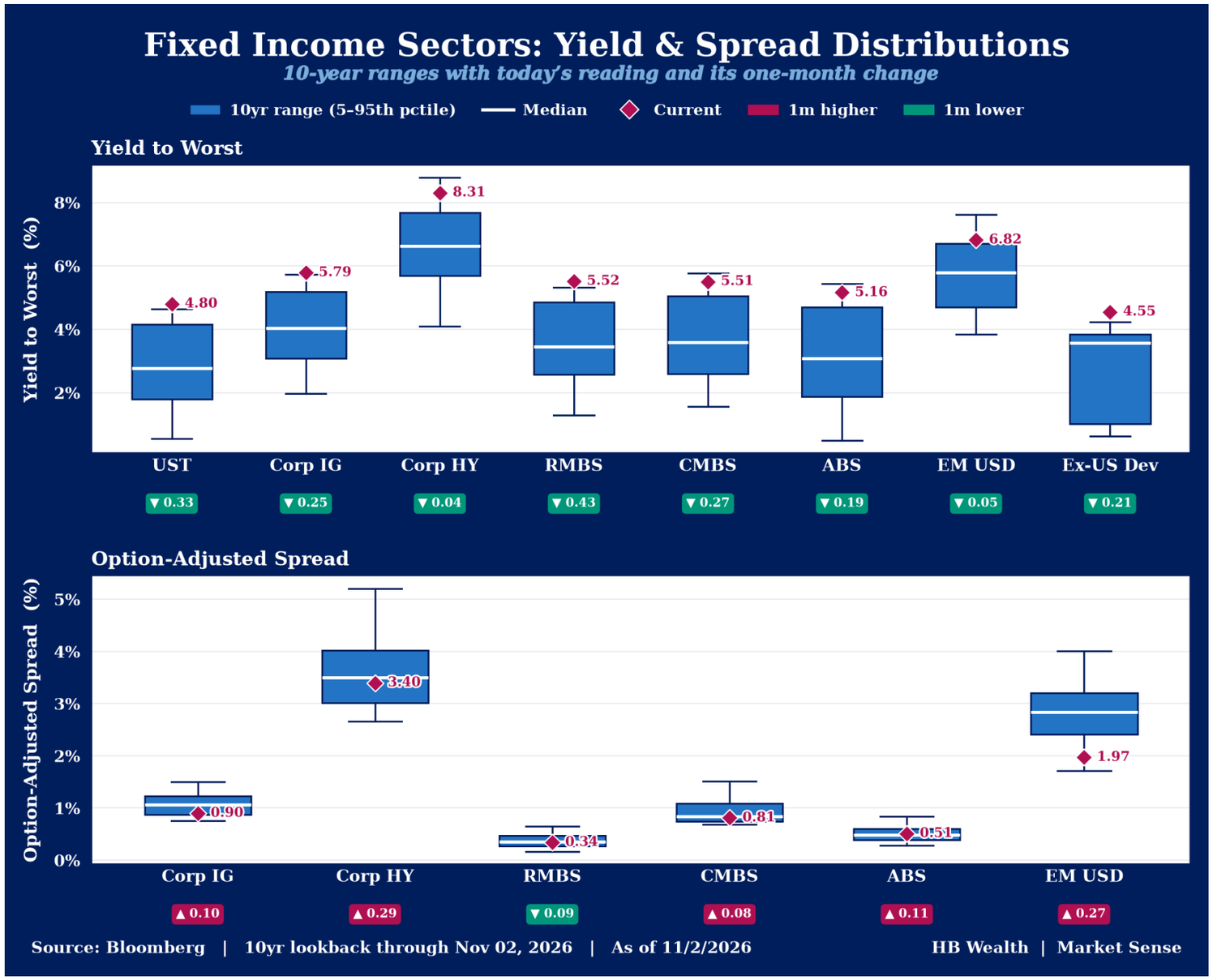
Muni Market Moves

After the worst calendar-month performance in nearly 40 years, the broader muni market staged a decent comeback in October as liquidity normalized and treasuries rallied in a flight-to-quality move from AI equity fears. Munis still remain a compelling opportunity on a taxable equivalent basis compared to historical averages, even as their relationship with treasuries has largely normalized after the amplified volatility in September.



Fixed Income Spreads

Credit spreads continued their widening trend from September, albeit at a slower pace. Compared to historical norms however, the broad High Yield and Investment Grade indices are in their relative 23rd and 24th long-term percentiles, respectively. This, paired with elevated base yields, gives reason to keep notable credit risk on the shortest part of the curve. Some idiosyncratic value can also still be found in more off-the-run areas of the securitized market.

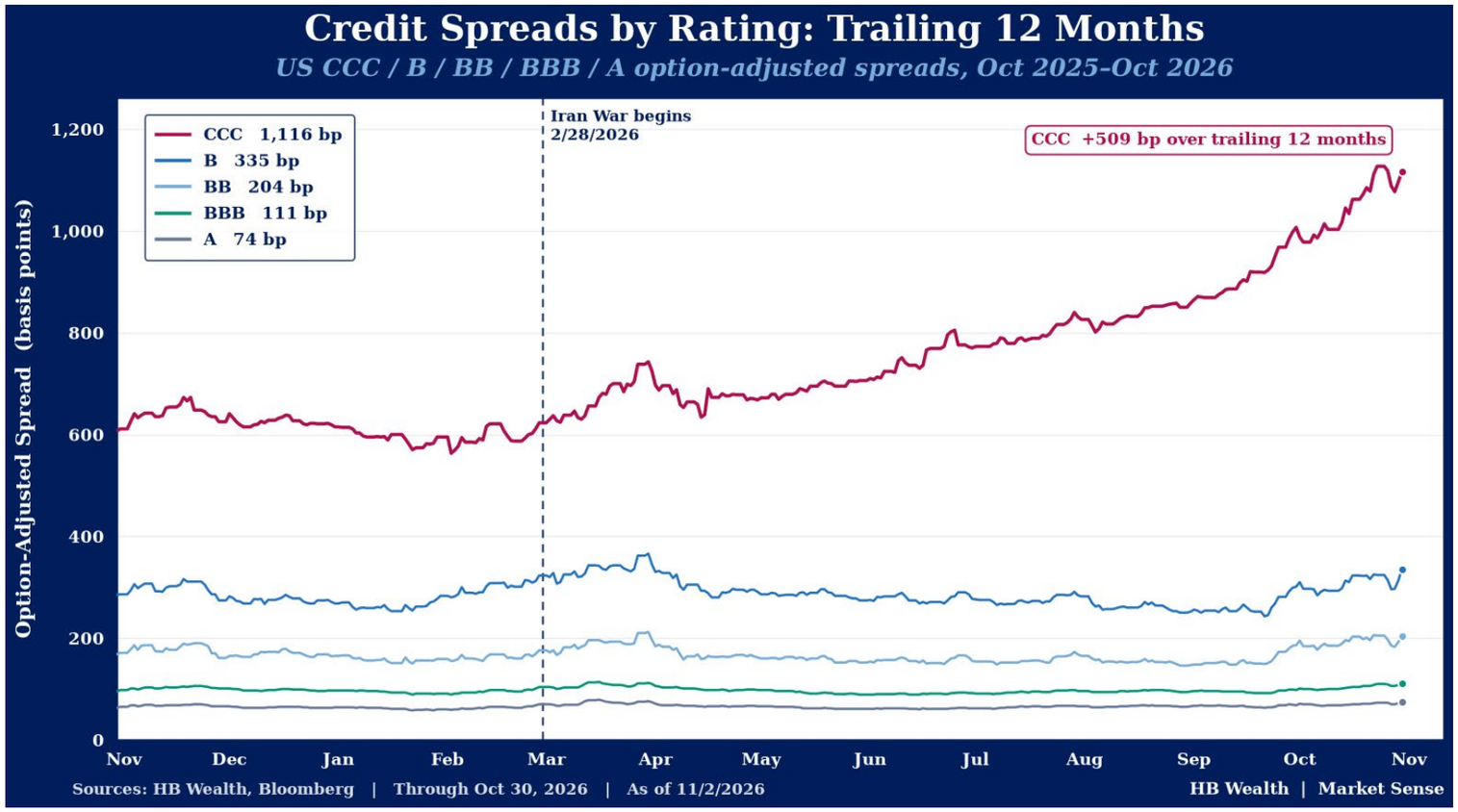


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CCC Credit Trades Wider Than Broad HY

Spreads remain near historic tights across the credit spectrum. Even with the recent volatility, BB is near its 15th percentile, and the broader HY index is near its 23rd. CCC is pricing substantially more risk than the others near its 80th percentile. Part of the difference is structural, as many stronger lower-rated borrowers have moved to private credit, so the remaining issuers are more concentrated in stressed areas.

In addition to the longer-term market structure shift, the widening of the CCC this year reflects deterioration at the bottom of the credit stack. Our existing HY exposure is not only very short, but also actively avoids the CCC cohort, which we expect to persist for the foreseeable future.



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