

Summary

Economic data included continued strength in manufacturing and services PMI data, even though down from prior levels, and continued high inflation pressure readings. Housing data was weak, seen in lower housing starts and readings of homebuilder sentiment. Sentiment was little changed, although it continued to hover at multi-decade trough levels.

Equities were mixed around the world, with gains in U.S. small cap as a bright spot, offset by declines in some AI names and foreign equities. Bonds fared positively as interest rates continued to pull back from recent highs. Commodities were mixed, with higher energy along with Middle East tensions continuing.

Economic Notes

(0/+) The preliminary **S&P Global US manufacturing PMI** for October ticked up by 0.1 point to 56.0, above expectations calling for a decline to 55.5. If this holds out through the final reading, it would be the highest PMI since May 2022. The underlying data was mixed, with new orders down nearly -2 points to 54, and output down a fraction to 56; employment rose by nearly 2 points to over 56. Inflation remained robust with both input and output price measures each rising 7-8 points, to very expansionary levels of 74 and 66, respectively. The index of future output rose by 4 points to 71, also quite expansionary. Despite declines in some areas, the manufacturing picture based on this metric remained quite robust.

(0/+) The preliminary **S&P Global US services PMI** for October ticked down by -0.9 of a point to 57.9, largely in line with expectations calling for 58. The data underlying was mixed here as well, with employment down over a point, but remaining expansionary at 54, while new business rose a bit to near 59. For inflation, while output prices rose by a half-point to 59, input prices fell nearly -3 points back down to 63, from the prior month's multi-year peak level, albeit both remaining quite expansionary. Future output fell by -2 points to a still strong 64. While the total report represented a tempering in the numbers, overall services activity continues to remain strong. Anecdotal commentary from the survey sponsor mentioned pressures from high costs "remain a key concern," especially as higher oil prices make their way through a variety of goods and services. Also, bottlenecks in supply chains have "intensified," with growing order backlogs, and signs of more pass-through to end consumers.

(-) **Housing starts** fell by -5.2% in September to a seasonally-adjusted annualized rate of 1.221 mil. units, below expectations calling for a 1.9% increase, but similar to the decline of the prior month after a substantial downward revision. For Sept., single family starts fell by -5% while multi-family were down nearly -7%. Total starts were down -7.4% over the past year, led by multi-family down -25%, while single-family starts rose over 2%, and the U.S. south being the only region showing growth for the year. **Building permits** fell by -0.2% for the month to a seasonally-adjusted pace of 1.400 mil. units, slightly better than the -1.3% decline expected. Within permits, single-family fell -4%, while multi-family gained 6%. Over the trailing 12 months, permits fell by -3%. Overall, housing starts have remained volatile month-to-month this year, with a variety of factors continuing to impact output, such as housing inventory, homebuilder

margins, materials costs, immigration changes affecting worker availability, and mortgage rates, the latter being the primary force behind lower buyer demand.

(-) The **NAHB/Wells Fargo Housing Market Index** for October fell by another -3 points to 29, below the 31 level expected. For perspective's sake, a level of 50 is considered 'neutral,' so sentiment conditions remain quite negative across the board for homebuilders. By segment, current sales fell by -2 points to 33, sales expectations for the next 6 months fell -5 points to 32, and prospective buyer traffic fell -5 points to an abysmal 18 level. The monthly data showed that 43% of builders cut prices in Oct., the highest share this decade (average cut of -6%), while around two-thirds of builders used price incentives of some sort. The signs of market cooling were no doubt related to the jump in interest rates, which brought up financing costs even further, in addition to continued lack of building activity. Interestingly, **Redfin** reported earlier in the week that 14.5% homes fell out of contract for the prior month of Sept., the highest rate since the pandemic.

(0/-) The final Univ. of Michigan **index of consumer sentiment** for October showed a -0.1 of a point decline (or -0.2%) from Sept. to 48.0. Assessments of current conditions were the primary downward driver, declining by over -8%, while expectations for the future rose by over 5%. Year-over-year, the total index declined by -10%, with current conditions down -20% and future expectations somewhat more optimistic, only down -3%. Anecdotal comments from the sponsor noted that sentiment improvements were somewhat balanced by political party, and business conditions improved recently, but remain well below the levels of a year ago. The current conditions subindex was "driven entirely" by conditions in durables, down -18% due to "higher interest rates" as well as "rising concerns about the affordability of such purchases," showing that inflation remains perhaps the top consumer concern. The overall index continued to fall to all-time lows, relative to its long-term history starting in the 1950s, as the affordability conditions noted continued to weigh on the consumer mood. The positive is that consumers seem to be buying (most items) anyway to the extent they can.

Inflation expectations for the coming year ticked up by 0.1% to 4.7%, as did long-run inflation expectations to 3.5%. For the latter, the survey sponsor published a special report, which noted that post-pandemic inflation expectations "echo patterns" seen in the 1960s-70s, as consumers "internalized" higher inflation expectations due to a series of supply shocks. The tendency from that earlier period was buying now to avoid higher prices down the road, although that runs the risk of higher activity via demand resulting in even higher pricing today, causing an inflation spiral to potentially become self-fulfilling. While not baked in at this point, such a scenario was acknowledged as an economic risk.

(0) **Initial jobless claims** for the Oct. 17 ending week fell by -6k to 194k, below the 200k median forecast. Continuing claims for the Oct. 10 week, on the other hand, rose by 25k to 1.728 mil., a bit above the 1.710 mil. level expected. No dramatic activity was reported, other than what appeared to be some fraudulent claims activity in OH, which adjusted earlier claims back down by a few thousand. Otherwise, MI saw a small rise, while TN and CA saw declines. Few changes in data continue to point to a benign non-layoff environment.

(0) The Conference Board's **Index of Leading Economic Indicators** was unchanged in September, which was a bit of an improvement from a -0.1% decline in August. Over the past 6 months, LEI grew by 0.6%, which was in a more favorable direction from the -1.1% drop over the prior 6 mo. period from Sep. 2025-Mar. 2026. By segment in the Leading Index for the 6 mo. period, most of the ten categories were in the positive, led by the interest rate spread (10y minus fed funds), S&P stock index, credit, and weekly hours; these were completely offset by average consumer expectations for business conditions, in line with poor sentiment elsewhere. The Coincident Index rose by 0.3%, a few tenths better than in Aug., while the Lagging Index improved by a few tenths as well, to 0.5%. The Conference Board noted that the economy is "still growing" and "will continue to grow" in their assessment, but is becoming "more dependent" on business spending and "less dependent" on consumer activity. The sponsors expect real GDP to grow by 2.2% annualized in 2026, and a bit lower to 2.0% in 2027, but still above their prior forecasts.

Market Notes

Period ending 10/23/2026	1 Week %	YTD %
DJIA	0.42	9.99
S&P 500	-0.46	12.40
NASDAQ	-0.71	12.19
Russell 2000	2.01	12.90
MSCI-EAFE	-1.52	8.57
MSCI-EM	-2.62	14.28
Bloomberg U.S. Aggregate	0.54	-1.10

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2025	3.67	3.47	3.73	4.18	4.84
10/16/2026	4.26	4.74	4.89	5.09	5.43
10/23/2026	4.22	4.69	4.82	5.00	5.33

U.S. stocks were mixed last week, with concerns over artificial intelligence spending and financing weighing on investor sentiment, higher oil prices in keeping with ongoing Middle East tensions, as well as perhaps political jitters (as usual) in the weeks prior to a midterm election. On the positive side, small caps sharply outperformed large caps. Within the S&P 500, a large drop in communications (including Meta, upon announcements of substantial spending plans) and lesser decline in industrials pulled down the index on a net basis. Though, most sectors experienced gains last week, led by energy, health care, and utilities, in keeping with the recent theme towards defensives. Real estate gained about a percent as interest rates continued to moderate. A recent theme has certainly been stronger scrutiny of AI-related firms about whether they will all continue to deliver on earnings growth at the same pace as they proceed with strong infrastructure investment. Interestingly, the fears lie on both sides of the debate, based on firms delivering potentially 'too little' versus 'too much' compute. Just as an example, yields for some of CoreWeave's debt blew out to 15%.

Earnings reports for Q3 continued, with the bulk of data yet to come, and only a quarter of firms in the S&P 500 having reported through last Friday. Per FactSet, of those, 83% have reported a positive earnings surprise, and 66% a positive revenue surprise, with the blended (reported plus expectations) year-over-year earnings growth figure steady at 29.5% so far. The more substantial weeks in terms of earnings volume are coming up.

Foreign stocks came in negatively across the board, with Europe faring worse than other regions, due to the combination of higher oil prices and domestic fiscal concerns (most notably in France, among a few others). Economic data was a bit lackluster in Europe for the recent month, in addition to earnings coming a bit underwhelming for closely-watched regional champions like luxury goods. Emerging markets came in more mixed than normal, with gains in Brazil and South Korea offsetting sharper declines in China, Turkey, South Africa, and Taiwan. Indonesian equities saw gains of 7% as officials outlined programs to improve market transparency, in response to the prior week's warning that MSCI could kick the nation out of the MSCI Emerging Market Index (where it's less than 1% of market cap). That would be a downgrade of two notches, beyond even frontier status to 'standalone,' which could create a variety of problems with future capital access.

Bonds saw another positive week as U.S. Treasury yields stabilized, down from recent peaks. Governments outperformed investment-grade and high yield corporates, while bank loans lost ground, in keeping with the rate drop. Foreign bonds saw positive results as well, with little change in the U.S. dollar for the week, and developed markets outperforming emerging. French sovereign bonds suffered strong spread widening early in the week, in the wake of ongoing riots that started the prior weekend. Yields reached just short of 5%, but the spread over German bunds hit 1.5%, the widest since the 2012 European credit troubles. The situation hasn't been helped by the far-left presidential candidate floating the idea of reneging on debt repayment (even if off-the-cuff, such comments are never well-received in bond markets).

Commodities saw mixed results last week, with gains in energy and industrial metals offset by declines in precious metals and agriculture. After falling early in the week, crude oil prices rose another 2% to \$103/barrel, due late Wed. news that the U.S. had ordered non-emergency personnel to leave Saudi Arabia, which was taken as an ominous sign of potential military escalation. However, the U.S. midterm elections continue to be seen as an important date in the conflict, with high petroleum prices already a political negative, and promises of no action prior to it.

Have a good week.

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Sources: Advisory Solutions Group, LLC, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust,

Goldman Sachs, Invesco, JPMorgan Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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- **What caused the market to move this week?**

Market movement is often driven by a combination of economic data, interest rate expectations, corporate earnings, investor sentiment, and geopolitical developments. A single week's movement should usually be viewed in the context of longer-term trends rather than as a stand-alone signal.

- **Why do interest rates affect stock and bond prices?**

Interest rates influence borrowing costs, consumer spending, corporate profits, and the relative attractiveness of different investments. When rates move meaningfully, both stocks and bonds can reprice as investors reassess risk, income, and future growth expectations.

- **How does inflation impact investment portfolios?**

Inflation can reduce purchasing power and influence interest rate policy, bond yields, consumer behavior, and company margins. Investors should evaluate inflation in relation to their income needs, time horizon, and overall asset allocation.

- **Why do bond yields matter to investors?**

Bond yields can affect income expectations, borrowing costs, and how investors compare the value of stocks, bonds, and cash. Changes in yields may also influence the price of existing bonds and broader market sentiment.

- **What does economic data mean for investors?**

Economic reports can influence expectations for growth, inflation, employment, and interest rates. Investors should consider economic data as one input in a broader planning and investment process rather than a reason to make reactive decisions.

- **Why does the Federal Reserve matter to the markets?**

The Federal Reserve influences short-term interest rates and monetary policy. Markets often respond to Fed commentary because it can affect borrowing costs, inflation expectations, and investor assumptions about future economic growth.

- **Should investors react to short-term market news?**

Short-term news can be important, but it should not automatically drive major portfolio decisions. Investors are generally better served by reviewing market developments within the context of their goals, risk tolerance, liquidity needs, and time horizon.

- **How can investors stay disciplined during market volatility?**

A written investment plan can help investors avoid making emotional decisions during volatile periods. Discipline often comes from understanding why a portfolio is positioned the way it is and how it supports long-term objectives.

- **When should investors revisit their financial plan?**

Investors may want to revisit their plan after major life changes, meaningful market moves, tax-law changes, changes in income, or shifts in retirement goals. Regular reviews can help confirm whether the plan remains aligned with current priorities.

- **Why is diversification important during uncertain markets?**

Diversification helps spread risk across different asset classes, sectors, and investment types. It does not eliminate risk or guarantee results, but it can help reduce overreliance on any single area of the market.

- **Should investors change their strategy based on one week of market news?**

In most cases, one week of market movement is not enough information to justify a major strategy change. Any adjustment should be considered in light of the investor's broader financial plan, risk tolerance, and long-term objectives.

- **What should investors take away from this week's market update?**

The key takeaway is to evaluate short-term market movement through the lens of long-term planning. Market updates can provide context, but individual decisions should be grounded in a disciplined plan.

- **How should investors evaluate investment risk?**

Investment risk should be evaluated in relation to goals, time horizon, income needs, liquidity, taxes, and personal comfort with volatility. Risk is not only about market movement; it is also about whether the portfolio supports the investor's broader plan.

- **What is asset allocation?**

Asset allocation is the way a portfolio is divided among different types of investments, such as stocks, bonds, cash, and other asset classes. The right allocation depends on an investor's objectives, risk tolerance, and time horizon.

- **Why can concentration risk be a concern?**

Concentration risk occurs when too much of a portfolio depends on one company, sector, asset class, or strategy. A concentrated position may increase the impact of a single event on the overall portfolio.

- **How does due diligence fit into investment decisions?**

Due diligence is the process of reviewing an investment's structure, risks, costs, assumptions, and fit within a broader plan. It is especially important when evaluating strategies that may be complex, illiquid, or difficult to compare.

- **What does risk management mean in a portfolio?**

Risk management means building and monitoring a portfolio with attention to the investor's goals, time horizon, liquidity needs, and tolerance for volatility. It does not remove risk, but it can help align investment decisions with the overall plan.