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October 2026 Market Update: Navigating AI Uncertainty, a Hawkish Fed, and Robust GDP



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November 3, 2026

October proved to be a volatile month for equities, even as year-to-date performance remained strong. Major indices posted mixed results, with technology stocks weighing on overall performance. Meanwhile, the bond market saw gains in several categories as long-term interest rates retreated from recent peaks. Broadly speaking, these market movements reflected investors reassessing the outlook for artificial intelligence, interest rate trajectories, Federal Reserve policy, and other key drivers.

Markets were particularly focused on whether AI investments will produce meaningful financial returns, how energy-driven inflation is influencing Fed policy, and whether consumer and business spending can continue to underpin the broader economy.

These concerns are not entirely new. Many of these themes have both propelled markets higher and periodically introduced turbulence throughout the year. For this reason, maintaining a long-term perspective and avoiding overreactions to short-term fluctuations remains as critical as ever.

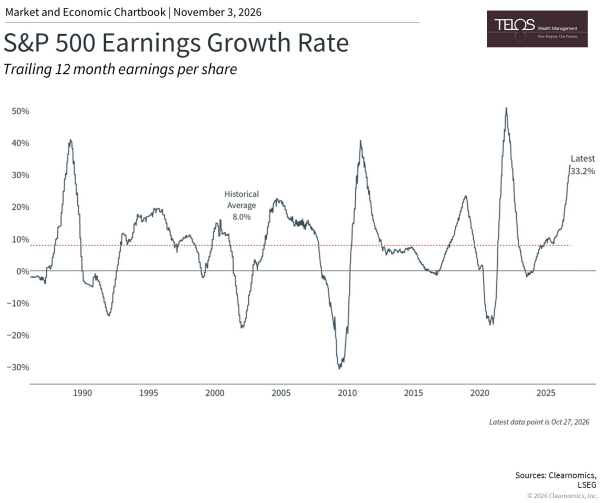
What were the primary forces behind October's market activity, and what key considerations should investors keep in mind looking ahead?

Key Market and Economic Drivers in October

• The S&P 500 and Nasdaq fell -0.9% and -5.3%, respectively, while the Dow Jones Industrial Average rose 1.7% in October. Year-to-date, they have gained 10.7%, 9.4%, and 7.7%, respectively.
• Volatility, as measured by the CBOE VIX index, ended the month at 19.4, after falling as low as 14.2 in September.
• International developed markets returned -0.8% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets returned -8.1% based on the MSCI EM Index.
• The 30-year Treasury yield fell from its recent highs, closing the month at 5.31%. The 10-year Treasury yield ended the month at 4.93%, falling below 5%. The Bloomberg U.S. Aggregate Bond Index returned 2.4% for the month.
• Oil prices rose significantly in October, driven by renewed geopolitical tensions in the Middle East. Brent crude closed the month at $118 per barrel and WTI just below $103.
• The U.S. Dollar Index fell to 101.9 at the end of October. Gold ended the month at $3,873 per ounce, a recent low.

• The Fed held rates within the range of 3.75% to 4.00% at its October meeting, with two officials favoring a 25-basis point increase.

Investors are weighing AI spending against a backdrop of solid earnings growth



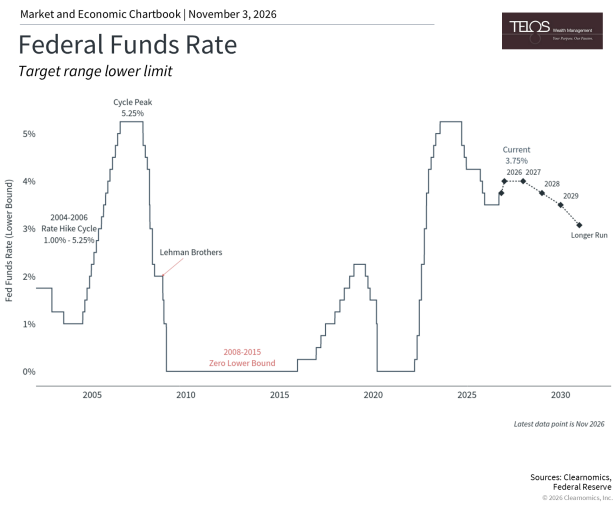
AI has been a defining theme for financial markets in recent years, and that remains true today. These trends are currently supporting both business investment and market returns, though not primarily through greater productivity or token usage within companies. Rather, growth is being driven by the buildout of AI infrastructure, which requires substantial outlays on data centers, semiconductors, and the power systems needed to support them. While this spending has contributed to broad economic growth, it also means that free cash flows for companies making these investments may fall short of investor expectations.

This dynamic contributed to market swings throughout October, as several large technology companies reported negative free cash flow tied to infrastructure spending. The reports once again raised the question of whether investments of this scale will ultimately deliver a sufficient return on investment.

At the same time, this level of capital deployment provides support to many sectors of the economy, including construction firms, electricity providers, equipment suppliers, and semiconductor hardware manufacturers. This is one reason corporate earnings growth has accelerated in recent quarters, as illustrated in the chart above. Beyond supporting broad market returns and GDP growth, this trend has also helped moderate stock market valuations. The forward price-to-earnings ratio for the S&P 500, for instance, has improved from a high of 23.3 a year ago to 18.9 today.[1]

It is worth remembering, however, that AI is only one of many factors influencing markets. Technology stocks also tend to be sensitive to interest rates, given that their cash flows are projected to extend far into the future. As a result, movements in long-term interest rates, Fed policy decisions, and other macroeconomic factors can affect these sectors and the broader market. As investors continue to assess the long-term economic impact of AI, maintaining a balanced allocation across sectors, styles, and geographies remains an important component of achieving financial goals.

The Fed signals a hawkish stance while holding rates steady



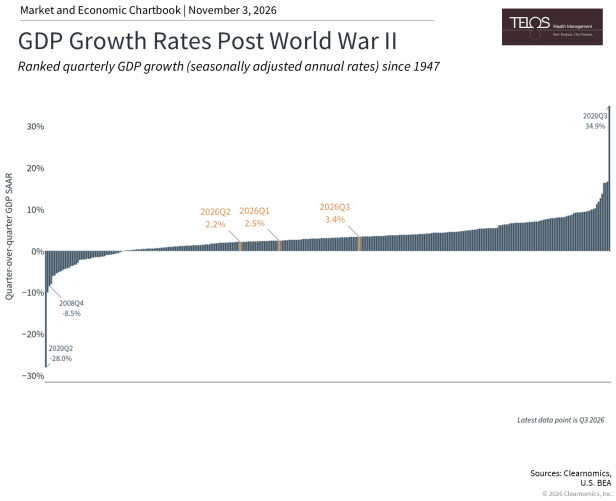
Elevated energy prices continued to weigh on the economic environment in October as tensions in the Middle East escalated. According to the International Maritime Organization, October recorded the highest number of commercial shipping attacks on record in the Strait of Hormuz and surrounding waterways, even as more shipments passed through these routes.[2] Continued attacks on Saudi Arabian energy infrastructure further added to supply concerns. In response, Brent crude, the global benchmark, climbed to a six-month high near $118 per barrel, while WTI reached approximately $103.

Against this backdrop, inflation has stayed higher than economists and policymakers would prefer. The Personal Consumption Expenditures (PCE) price index rose 0.5% in September and 3.6% from a year earlier. Core PCE, which excludes volatile food and energy prices, increased 0.3% for the month and 3.1% from a year earlier.[3] Inflation has now remained above the Fed's 2% target for 67 months and is near a three-year high.

This context helps explain why the Fed's decision in October to keep its policy rate unchanged at 3.75% to 4.00% has been characterized as a "hawkish hold." Although the federal funds rate was not adjusted, the Fed is expected to raise rates at its final FOMC meeting of the year, and potentially once more in 2027.[4] The decision to hold was reached by a 10 to 2 vote, with two FOMC officials preferring an immediate quarter-point increase.[5] The official statement characterized economic activity as expanding at a strong pace, while noting that additional data would inform future policy decisions.

Fed Chair Kevin Warsh also announced an adjustment to the Fed's meeting schedule. The Fed will continue to meet eight times in 2027, but one of those meetings will be devoted exclusively to broader monetary policy strategy, without a rate vote or official statement. For investors, there is no immediate impact, though it does mean there will be fewer market-moving announcements to react to in the coming year.

Economic growth accelerated even as consumer confidence stayed subdued



A key economic release in October revealed that the economy expanded more rapidly in the third quarter than anticipated. According to the Bureau of Economic Analysis, real GDP grew at a 3.4% annualized rate in the third quarter.[6] This marked the strongest quarterly growth since the third quarter of last year and, as the chart above illustrates, represents a healthy figure relative to historical growth rates.

The expansion was driven primarily by strong consumer spending growth of 2.5% and business investment growth of 3.3%. Government spending increased by only 0.9%, while net exports declined by -3.3%. The drag from net exports reflects the fact that imports exceeded exports over this period,

which reduces the GDP calculation.[7]

Consumer spending has held up well in recent quarters despite persistently weak sentiment. Households continue to express concern about inflation and the job market, pushing their confidence in the economy to historically low levels. At the same time, spending has remained resilient, likely supported by favorable financial market trends and low unemployment rates.

Business investment rose sharply in part due to the AI data center buildout. This also helps explain the decline in net exports, as data centers and other AI infrastructure require semiconductor hardware imported from abroad. Together, these dynamics produced a notable positive contribution to economic growth.

Collectively, these factors point to a healthy economy characterized by low unemployment, even as energy prices keep inflation somewhat elevated. No economic environment is without its challenges, and investors must always navigate evolving uncertainties. The current environment is supporting strong earnings growth, which is a positive development for financial markets and portfolios over the long run. It is therefore important for investors to maintain a longer-term perspective rather than overreacting to individual headlines or earnings reports.

The bottom line? October brought volatility due to questions around AI spending, energy-driven inflation, and Fed policy. Staying balanced and focused on long-term goals, rather than reacting to monthly headlines, remains the most important principle for investors navigating today's environment.

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Index Descriptions

S&P 500

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90.

Dow Jones

The Dow Jones Industrial Average consists of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

NASDAQ

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

MSCI Emerging Markets Index

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia,

Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

MSCI EAFE Index
The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

Bloomberg US Aggregate Bond Index
The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

DXY
The DXY is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

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