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## Weekly Market Guide

**We had it all over the past week- Earnings, Fed decision, and Trade. The status quo generally prevailed, supporting the continued uptrend, albeit with some technical divergences beneath the surface that indicate a pause in the momentum may be overdue.**

**Earnings:** We look to earnings season for data on *how things are going*, indications of *where things are heading*, and signs on *what's priced in* across the various industries. Results have been strong with 83% of S&P companies beating earnings estimates by an aggregate of 7%. S&P 500 earnings growth is set to grow 4.6% q/q and 12.5% y/y.

- Positively, forward estimates are trending higher and growth is broadly improving.
- Margins are holding up, though there are some pockets of tariff pressure (i.e. within consumer and industrials).
- AI spending remains immense with hyperscale capex estimates increasing to $500B for 2026 (+39% higher than estimates in June!) which is expected to amount to 1/3 of entire S&P 500 capex next year. While extraordinarily strong, the degree of spending is beginning to come with a bit more investor scrutiny. For example, credit protection has become more expensive in Tech-land and return on investment has become more closely watched. While Tech stocks are putting up the best earnings growth again, they have traded lower on average this quarter due to their high bar (elevated valuations).

**Fed:** As expected, the Fed cut rates by 25bp last week. However, there was a slightly hawkish tone in the commentary and press conference, as Fed Chair Powell a December cut is "far from a foregone conclusion." The market takeaways were ho-hum/slightly hawkish as bond yields lifted a little bit. The market-implied odds of a December cut are still 63%. With Fed policy still in restrictive territory (along with the Committee's desire to move toward neutral), a December cut is still the path of least resistance. The Fed's tone change may have been moreso to temper expectations for rate cuts next year. Nonetheless, the Fed is still in easing mode and lower rates are supportive of economic activity and equity markets.

**Trade:** Presidents Trump and Xi came to a trade truce. While light on lasting agreements, open dialogue and a lack of escalation are positives. This was also billed as a "one-year truce" which is better than the typical 90-day agreements previously. We are encouraged by the posture of managed de-coupling rather than an abrupt one. This dampens the risks of a major blow-up, but expect flare-ups to occur over time.

**In sum,** there are a lot of headlines and noise, but earnings are the ultimate driver of equities over the long-term- importantly, growth and forward estimates remain supportive of the uptrend in place. In the shorter-term, we do note some technical divergences beneath the surface that indicate a pause in the market's momentum (or potential rotation) may be overdue.

| Equity Market Indices | Price Return Year to Date | Price Return 12 Months |
|---|---|---|
| Dow Jones Industrial Avg | 12.1% | 12.5% |
| S&P 500 | 17.2% | 18.3% |
| S&P 500 (Equal-Weighted) | 8.6% | 6.3% |
| NASDAQ Composite | 23.4% | 28.3% |
| Russell 2000 | 12.4% | 11.7% |
| MSCI All-Cap World | 20.5% | 19.5% |
| MSCI Developed Markets | 25.1% | 19.5% |
| MSCI Emerging Markets | 30.4% | 23.3% |
| NYSE Alerian MLP | 0.0% | 4.2% |
| MSCI U.S. REIT | 1.2% | -4.9% |

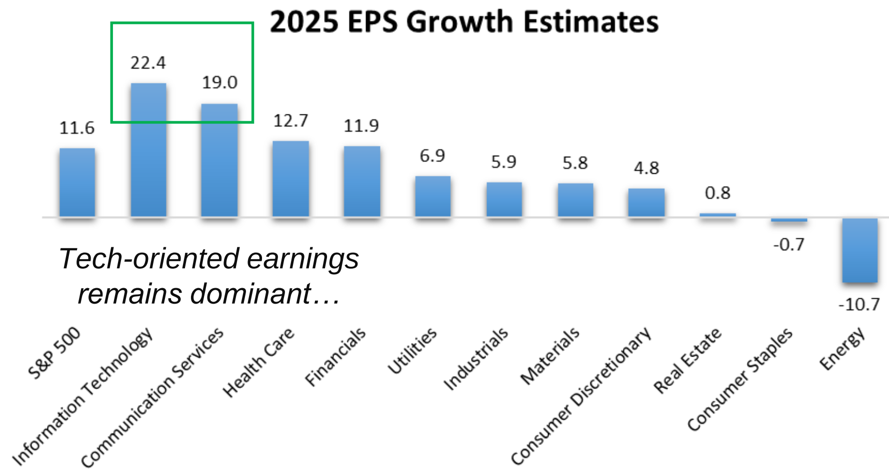
| S&P 500 Sectors | Price Return Year to Date | Sector Weighting |
|---|---|---|
| Information Technology | 30.2% | 36.1% |
| Communication Svcs. | 27.7% | 10.2% |
| Utilities | 18.9% | 2.4% |
| Industrials | 17.3% | 8.1% |
| ***S&P 500*** | ***17.2%*** | - |
| Financials | 9.5% | 12.9% |
| Consumer Discretionary | 6.2% | 10.4% |
| Materials | 6.1% | 1.7% |
| Health Care | 5.6% | 9.0% |
| Energy | 2.3% | 2.7% |
| Consumer Staples | 1.9% | 4.8% |
| Real Estate | 1.8% | 1.7% |

Source: FactSet

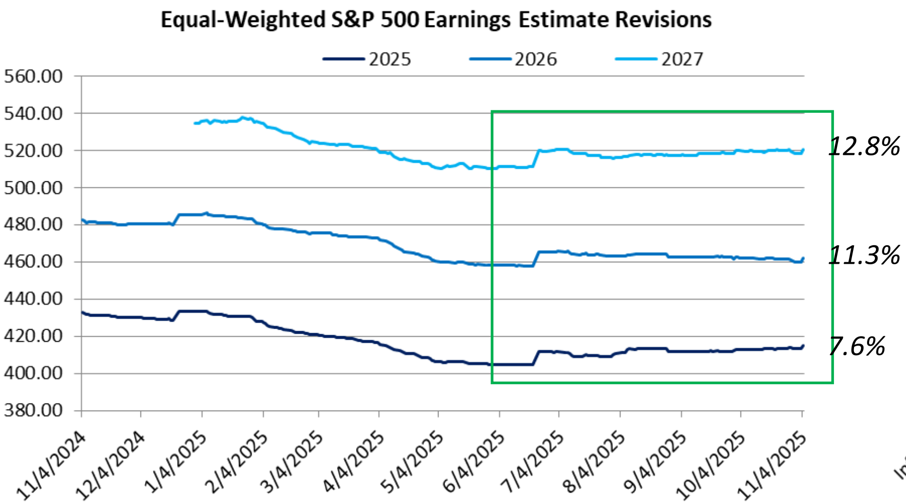
## Q3 Earnings Season

Q3 earnings results have been strong with 83% of S&P companies beating earnings estimates by an aggregate of 7%. S&P 500 earnings growth is set to grow 4.6% q/q and 12.5% y/y. 72% of S&P companies have reported, but we do get another 129 reporting this week.

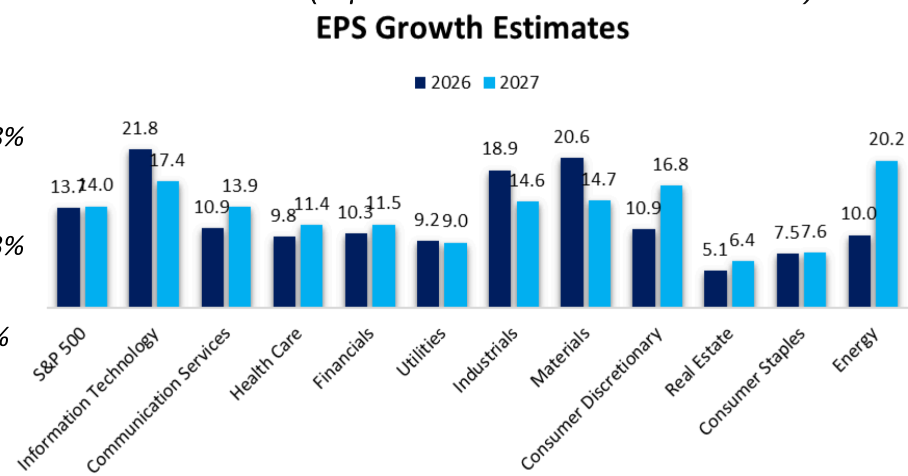
Positively, forward estimates are trending higher and growth is broadly improving. At the sector level, Technology-oriented companies still have dominant earnings growth and estimate revisions are moving higher. However, importantly, we are now seeing more stable estimate revisions on healthy earnings growth assumptions more broadly. *Continued on next page*




*Revision trends for the average stock have been more favorable the past two quarters*



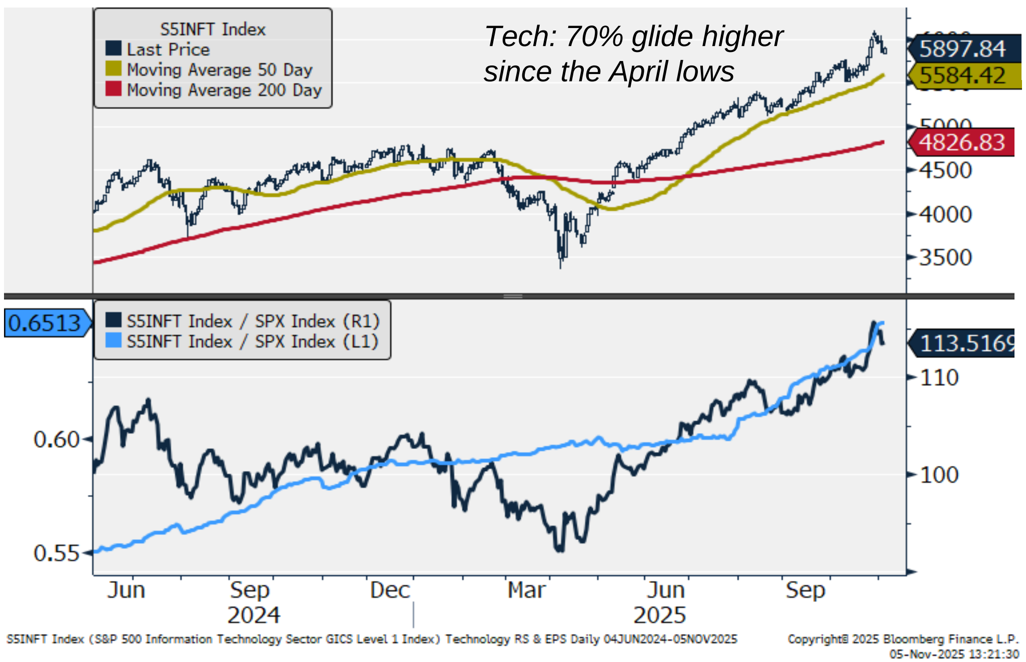

*… but the difference in expected growth is not so one-sided in 2026-2027 (important to see those estimates hold)*

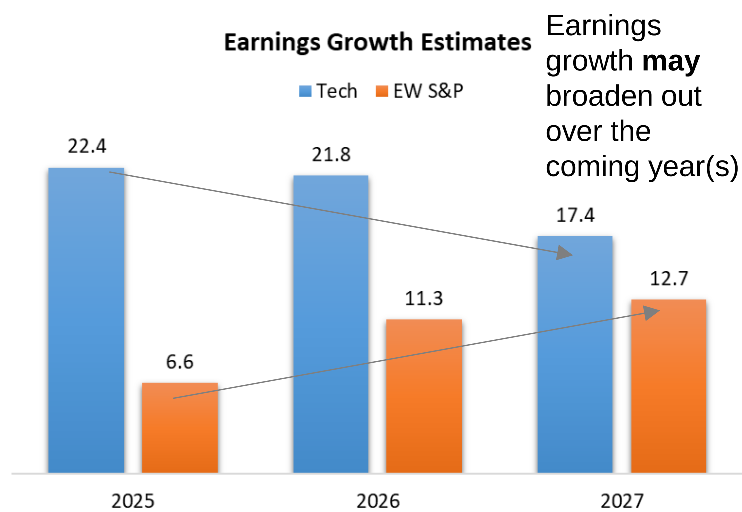


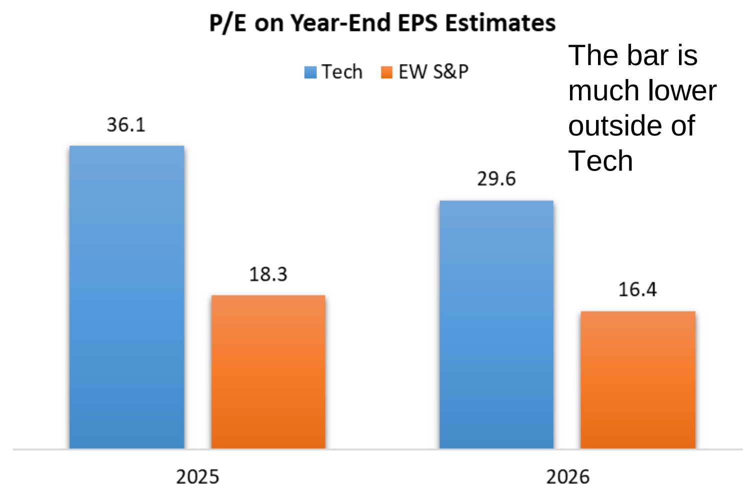

Source: Bloomberg, FactSet

## Tech Concentration

The market has gotten very narrow and concentrated in AI/Tech-oriented stocks again. While the long-term potential from AI is undeniable, the market's concentration in these names does come with risk. Because of very strong earnings and a lack of market volatility, investor focus on this group has snowballed in recent months- but it's important to remember that volatility does occur and these names can carry high betas. It's also important to not lose sight of the many good companies across other areas of the market with an improving growth outlook over the next couple years and trading at much lower valuations. As/if investors gain confidence that the relative gap in earnings growth between Tech and others will narrow, we believe the market may show increasingly more signs of broadening out its performance.



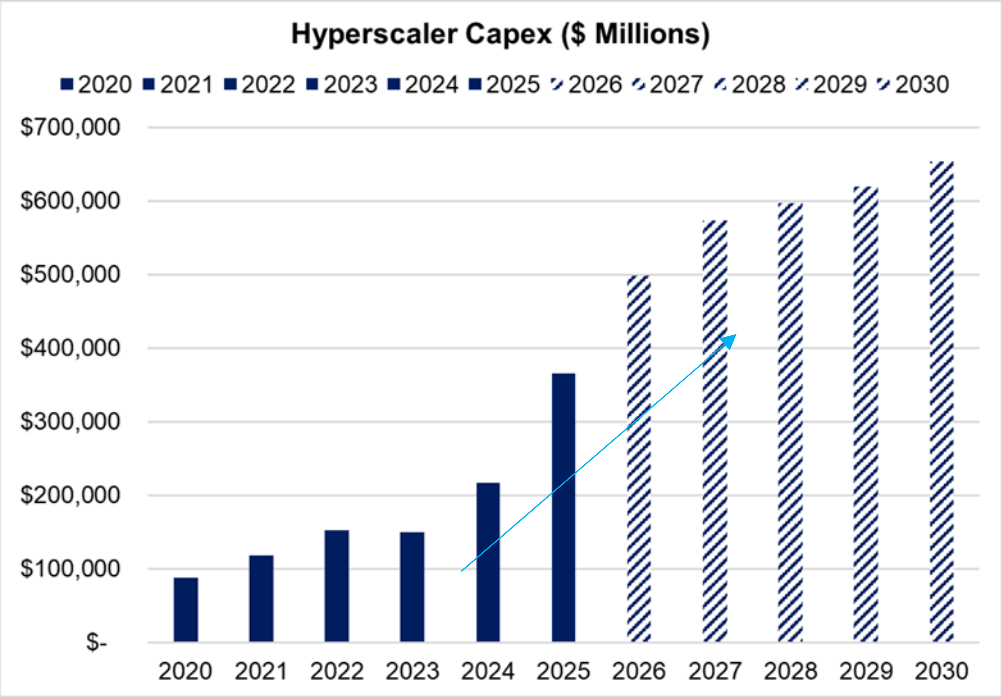

Source: Bloomberg, FactSet

## Tech Capex Is Enormous

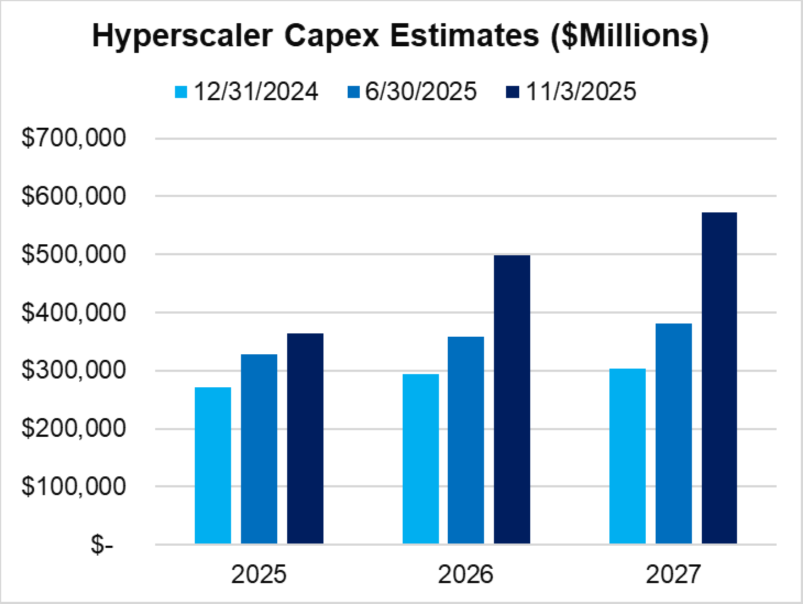
AI spending remains immense with hyperscale capex estimates increasing to $500B for 2026 (+39% higher than estimates in June!) which is expected to amount to 1/3 of entire S&P 500 capex next year.  While extraordinarily strong (and a big deal for economic growth potential), the degree of spending is beginning to come with a bit more investor scrutiny.  For example, credit protection has become more expensive in Tech-land and return on investment has become more closely watched.

*Annual estimates over time*

| Capex in $Millions | 2025 | 2026 | 2027 |
|---|---|---|---|
| 12/31/2023 | $ 191,482 | $ 198,058 | $ 205,279 |
| 6/30/2024 | $ 224,581 | $ 232,787 | $ 248,754 |
| 12/31/2024 | $ 271,282 | $ 293,760 | $ 302,832 |
| 6/30/2025 | $ 327,904 | $ 357,547 | $ 380,149 |
| 11/3/2025 | $ 364,847 | $ 498,276 | $ 572,579 |



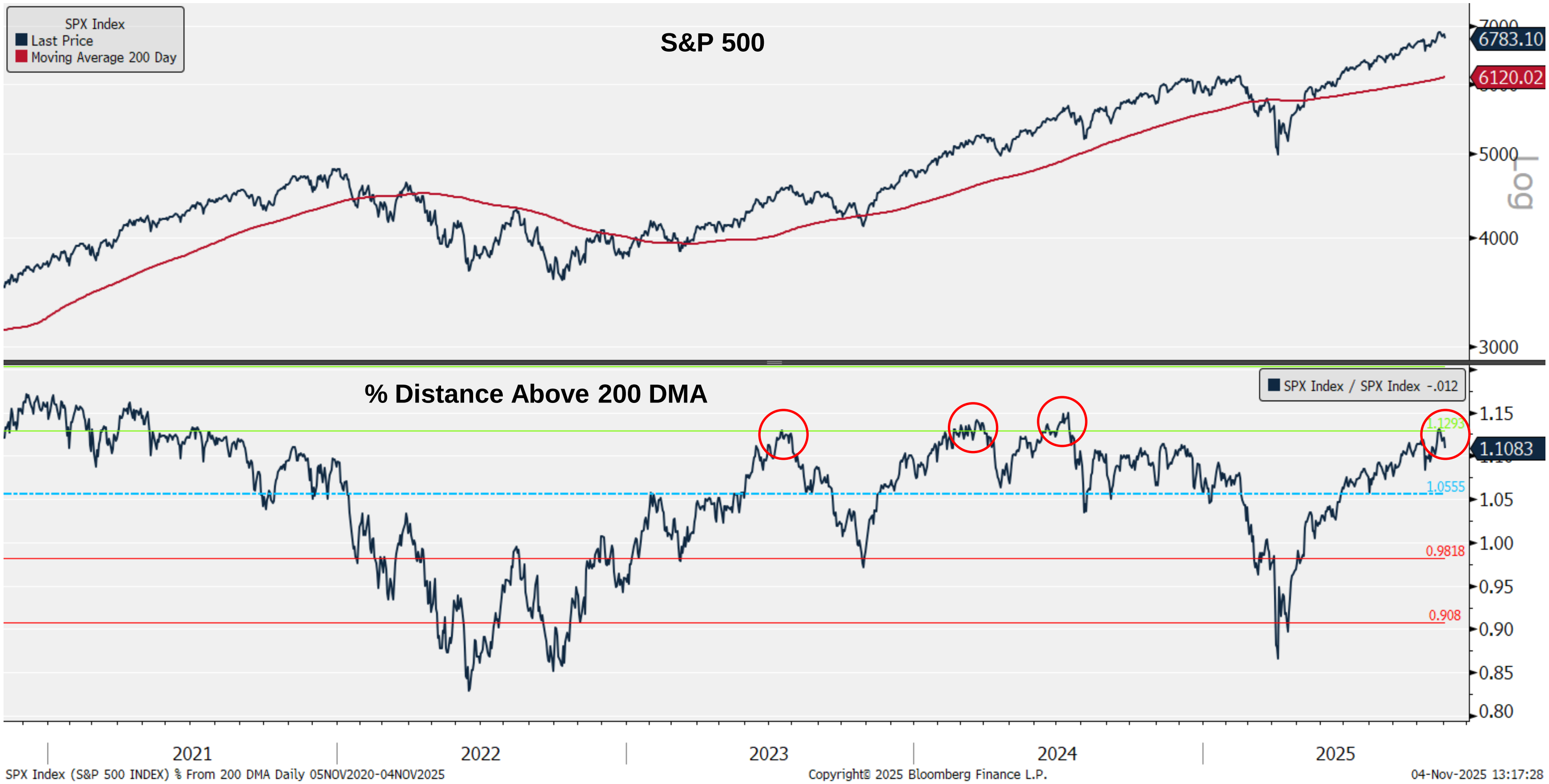

*Estimates are high and still going up*




Source: Bloomberg, FactSet

## S&P Extended Above 200 DMA

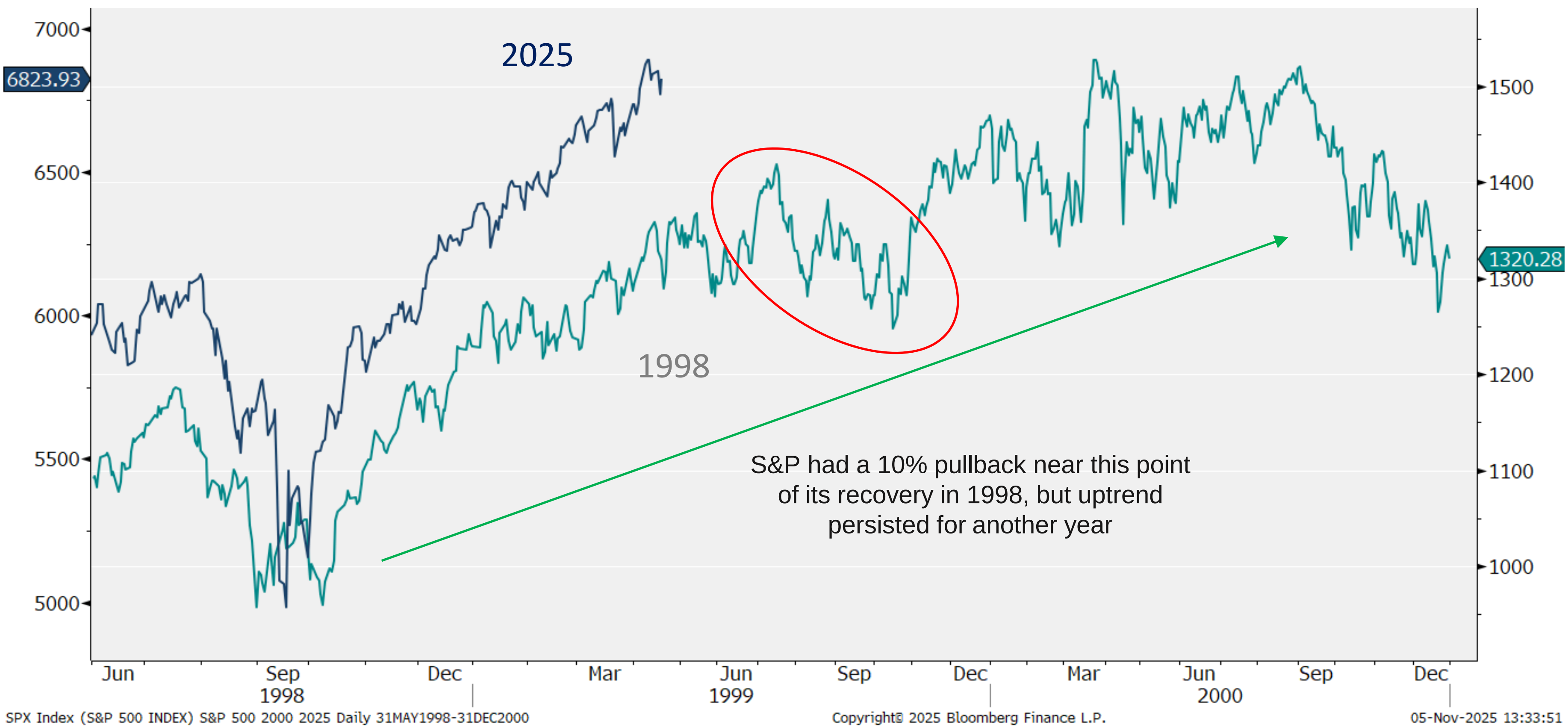
The S&P 500 is currently trading 11% above its 200 DMA. This is two standard deviations above its 5-year average, and we have seen a few pullbacks occur after reaching similar levels. For example, in 2023 and 2024, we had pullbacks of 11% (over 65 days), 6% (over 15 days), and 9.7% over 14 days. Additionally, the S&P 500 has gone 6 months without a 3% pullback on a closing basis. In conjunction with some divergences occurring beneath the surface, the odds are raised for a minor pullback or stall in momentum soon.




Source: Bloomberg, FactSet

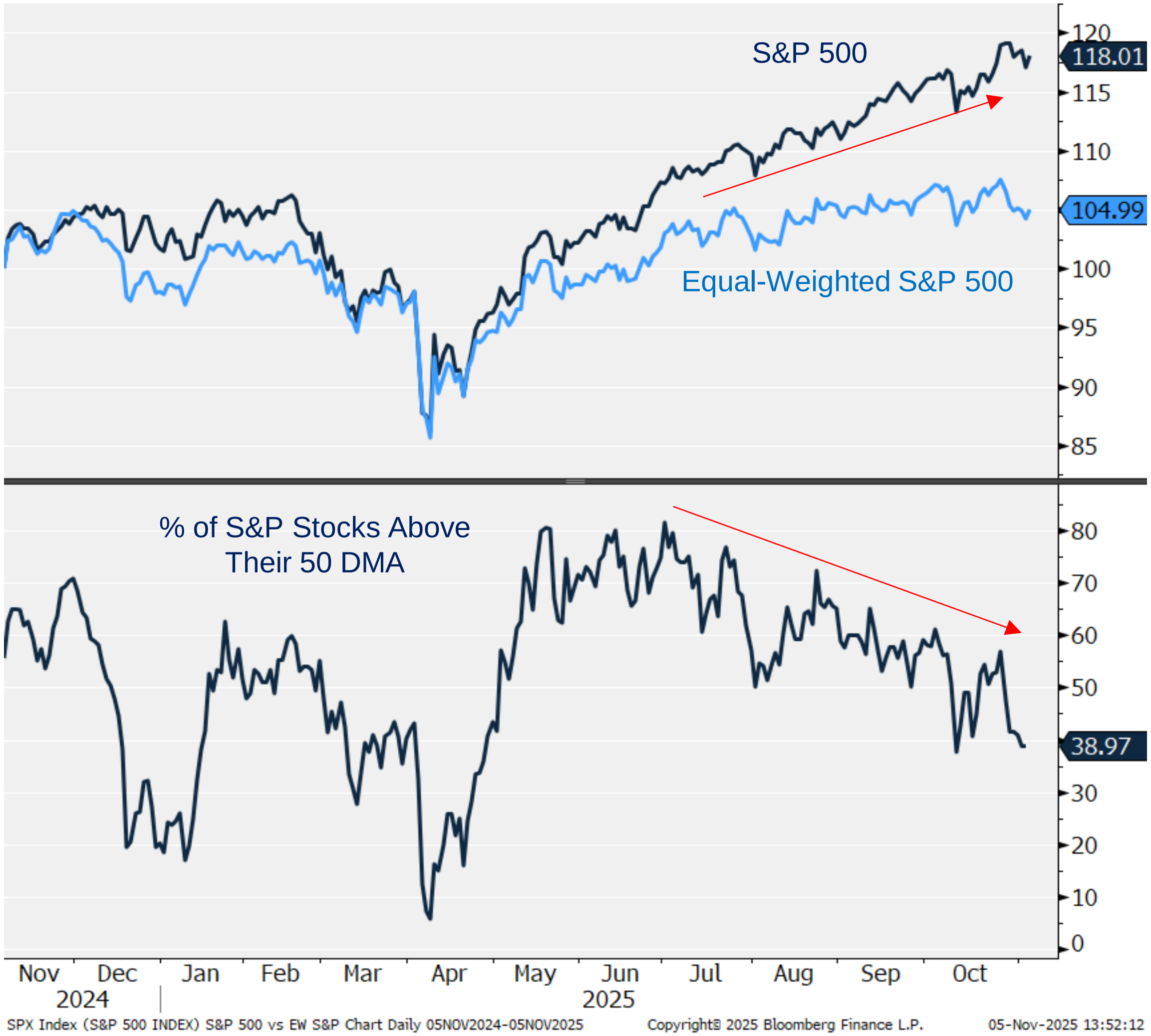
## Parallels to 1998 Bear Market

There have only been two V-bottom bear markets that did not have a normal digestion phase after getting back to prior highs- 1998 and 2025. The obvious parallel of these two timeframes is Tech exuberance. With Tech valuations back to peak levels (31x), we remind you that drawdowns do occur. After the run-up experienced in equities, a consolidation period would be normal and healthy. Interestingly, the S&P 500 experienced a 10% pullback near this point of its recovery in 1998, but within an uptrend that persisted for another year.




Source: Bloomberg, FactSet

## Narrow Participation




A technical divergence we have been monitoring for months now is the narrowing participation within the market's upside. Since June, the S&P 500 index's higher price highs have corresponded with lower highs for the % of stocks above their 50 DMA.

For example, though the S&P 500 index is up 17% year-to-date and near highs, ~2/3 of its constituents are down over 10% from their price highs, and 1/3 are in a bear market (down over 20% from highs).

Moreover, 40% of S&P stocks are actually down this year; while the biggest 20 stocks (which make up 50% of the index's market cap) are all up on the year by an average of 30%.

In other words, strength in a narrow sleeve of mega-caps is masking the weakness beneath the surface.

Is it time for the biggest to come in too, will we see some rotation from the leaders to the laggards? This indicator is not a great timing mechanism; but unless this trend can resolve itself soon, the underlying weakness becomes a bigger headwind for the index.

Source: Bloomberg, FactSet

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**Index Definitions**

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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