

WEEKLY MARKET COMMENTS – OCTOBER 26, 2026 – EXTERNAL

Continuing the recent pattern lately, the market closed broadly lower on Friday as oil prices climbed to their highest level in more than four years.

The S&P fell by 34 points and ended lower for the second straight week. The Dow dropped by 400 while the Nasdaq fell by 78 after having given up a modest intraday gain.

For the week, the Dow gained 213 points to end at 52,215 helped by consumer staples stocks like PG and MRK, in addition to healthcare issues like UNH. The S&P ended lower to 7623 for a one-half percent decline led by losses in most large tech stocks while the Nasdaq was down by .71% to 25,955, again hurt by the larger tech issues such as META, SNDK and GOOG.

In the meantime, the Russell 2000 gained by 2% for the week to 2776 as the continued rotation away from technology continues.

Rising oil prices continued to weigh heavily on the market, where nearly three out of every four stocks within the S&P fell as prices for brent crude oil rose to \$116.72 and it has surged from less than \$97 at the start of October and is now at its highest level since June 2022.

Stocks that have benefited from the frenzy over AI have been volatile over rising worries about their path ahead and whether their high prices are justified. Many of them have been borrowing to fund investments in AI technology and high interest rates are making those loans more expensive.

The latest round of corporate earnings is being closely watched to get a better sense of whether those investments are paying off, or might pay off. AI-related companies report their results this coming week and they are listed below.

Treasury yields edged higher on Friday after sharp drops the day before, partly over worries about governments taking on too much debt. This resulted in the Federal Reserve to raise its bench market rate at its last meeting in September. The market expects the central bank to hold rates steady on Wednesday but is leaning heavily toward another rate hike in December.

Profit reports this week are as follows: today – Dow component VZ; Tuesday – Dow components BA, KO, UPS and V; Wednesday – Dow component MSFT plus GOOG, EBAY, GEV, HON, F; Thursday – Dow components CAT, INTC, MA, MRK plus AMZN, BMY; Friday – Dow component CVX plus XOM.

Economic reports will have: Tuesday – September durable goods, September new home sales, October consumer confidence; Wednesday – F.O.M.C. interest rate decision to be left unchanged at 3.74 to 4%; Thursday – third-quarter estimate

of GDP and September personal consumption expenditures price index, at 3.6% and the core rate at 3.1%, compared with 3% previously.

Last week provided a final snapshot of the state of the economy reported by the New York Times, before people head to the polls for the November 3rd midterm elections.

The flood of government data clarified a familiar picture — and thus a questionable one for the President and incumbent Republicans.

True, much of the data pointed to strength, or at least stability. Retail sales rose at a healthy pace in September. Filings for unemployment benefits remained low. Industrial output hit a post pandemic high.

But there was no relief on the issue that matters most to many voters, inflation. Consumer prices rose last month at their fastest rate since May, outpacing wage growth for the sixth month in a row. Producer prices, too, came in stronger, as did prices for imported goods. And gasoline — the most visible price in the economy, and one that few Americans have any choice about paying — remained above \$4 a gallon, where it has been for most of the past six months.

Little wonder, then, that measures of consumer sentiment have worsened, and that polls show voters are ready to hurt the part in power for failing to keep the economic promises they made on the campaign trail two years ago.

The cost of living “is going to be the first issue on the scorecard in 2026,” said the president of the Economic Innovation Group, which last week released a survey of voter attitudes on the economy. “The results are not good on that top issue.”

Still, the state of the economy is more nuanced than the dour mood of voters might suggest. Economists point to areas of weakness and others of strength, and say the outlook — for inflation and more broadly — is highly uncertain.

Inflation, as measured by the Consumer Price Index, had fallen to about 3 percent when the president returned to office, from a peak of 9 percent in 2022. Most economists expected it to drop further.

Instead, progress stalled in 2025, partly because of tariffs, which drove up prices of many imported goods. Then, just as the tariff effect was beginning to fade, the United States got into war with Iran, which pushed energy prices and inflation back up. Consumer prices were up 3.7 percent in September from a year earlier.

“Voters had the sense that President Biden’s policies were leading to higher prices, and voters have the sense that President Trump’s policies are leading to higher prices now,” said Michael Strain, an economist at the American Enterprise Institute, a conservative think tank. “In both cases, I think voters made the right judgment.”

Gas prices are just the most visible piece of a broader affordability challenge. Record prices for diesel fuel are threatening to ripple through to food and other goods. The artificial intelligence boom has led to a surge in demand for computer chips and related equipment, which has raised costs for smartphones, tablets and other consumer electronics. And some economists say they believe companies are still waiting to pass along some of the cost of tariffs to customers.

Higher inflation has also forced the Federal Reserve to reverse course with an increase of interest rates again, which is making it more expensive to borrow money as many Americans are relying on debt to make ends meet. Mortgage rates have jumped this year, dashing hopes

of a rebound in the housing market and making home ownership further out of reach for many families.

Then there is the other side of the affordability equation: income. Wage growth slowed to just 3 percent in September, down from nearly 4 percent a year earlier. The combination of higher prices and weaker earnings growth means that, at least by one measure, the average worker has experienced no wage growth, adjusted for inflation.

American households, at least in the aggregate, have weathered higher prices better than many economists predicted. That is partly because the job market has held steady — workers may not be getting big raises, but at least most of them have jobs.

The unemployment rate, at 4.2 percent in September, remains low, and has been at or below 4.5 percent for five years — a record. Layoffs, despite fears of job losses from A.I., remain low by historical standards. Nearly 81 percent of adults of prime working age, 25 to 54, were employed in September, close to a 25-year high.

But while the labor market is solid, it is hardly robust. Companies are not cutting jobs, but they are not adding many, either — a “low-hire, low-fire” stasis that makes it hard for anyone who needs a job to find one. The average unemployed worker has been looking for a job for nearly six months.

The slow pace of hiring also makes it harder for people to change jobs, or threaten to, in search of higher pay. The rapid rate of job-switching after the pandemic helped many workers keep up with higher prices. The slower pace of turnover now may be part of the reason wage growth has slowed. It is difficult for younger people who typically change jobs frequently as they seek a foothold on the career ladder.

Strong retail sales data last week was the latest evidence that Americans are spending despite their dour mood. Consumer spending, adjusted for inflation, grew at a 3.8 percent annual rate in the second quarter, and most forecasters expect strong numbers for the third quarter as well.

Business investment, too, has been robust, with companies pouring money into equipment and software. Corporate profits continue to set records, which helped push the stock market to fresh highs in the past couple of weeks.

But much of that strength stems from sectors connected to A.I., and the trillions of dollars in infrastructure needed to enable it.

Seemingly insatiable demand for microchips, data centers and the electricity to power them is responsible for much of the increase in investment. The companies that benefit from that demand, like NVDA, the chipmaker, are helping to fuel the surge in corporate profits. And the market's gains are helping to prop up consumer spending, especially among the wealthy households that own most stocks.

That could leave the economy vulnerable if investors lose confidence in the A.I. boom. There are hints that could already be happening. Shares of CRWV and other data center operators have tumbled amid questions about whether their enormous spending will ever pay off. Then there is the warning that a pullback in investor enthusiasm for A.I. could expose a slower environment in which growth slows even as price pressures persist.

At the same time, a growing number of economists and technologists, including leaders of the A.I. companies themselves, are warning the technology could lead to widespread job losses. To many workers, that has created the impression that A.I. portends something of a Catch-22 for their well-being: If A.I. achieves its promise, it could put them out of

work. If it falls short, the bursting bubble could wipe out their retirement portfolios and cause a recession.

That is adding to a more general sense of economic uncertainty that is eroding voters' confidence. And it has been a long time since most Americans felt stable.

"The thing that people want more than anything, more than economic opportunity or economic growth, they want economic stability," which is how some leaders in this field felt.

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