

Weekly Market & Strategy Update

Week Ending October 24, 2026

John Edwards, CFA, Portfolio Manager, Infrastructure PLUS Strategy

Dear Valued Clients, Friends, and Acquaintances,

I hope this update finds you well. Below is our recap of market action for the week ended October 24, 2026, along with thoughts on strategy positioning and the outlook ahead.

Major averages finished mixed. The S&P 500 fell -0.5% to 7,624, the Nasdaq Composite dropped -0.7% to 25,955, and the Russell 2000 rose +2%. The blue-chip Dow Jones Industrial Average gained +0.4%, to 52,215, on strength in energy and defensive areas of the market even though Friday delivered a broad pullback. Breadth improved as the equal-weighted S&P500 outperformed. Technology was flat (XLK -0.13%) and semiconductors (SOX -3.3%) fell for the 3rd consecutive week lagging again.

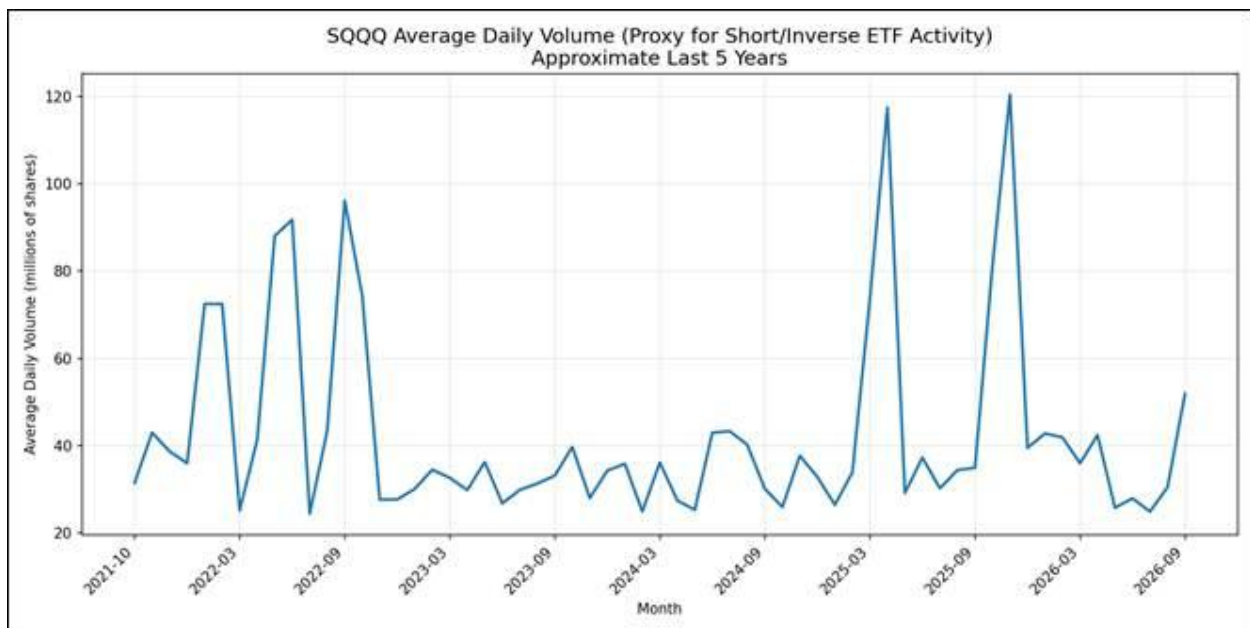
The macro backdrop was sloppy once again. Crude oil surged on more Middle East conflict (Houthi attacks and Strait of Hormuz tensions). Brent crude closed near \$112/bbl the highest price since May) after reaching \$117, its highest price of the year. WTI crude oil closed near \$103/bbl. The US-10 year traded near 4.99%, easing 9bps w/w, and now down 37bps in 12 sessions. Diesel and energy prices remain an economic headwind even as interest rates have dropped.

Equities, especially in AI infrastructure remained focused on financing and cap ex.

Earnings beats were not rewarded. We saw beat and raise earnings reports from Meta (META), SpaceX (SPCX), Lam Research (LRCX), Texas Instruments (TXN), Bloom Energy (BE), Comfort Systems (FIX), TTM Technologies (TTMI) and Western Digital (WDC). Recall over the last few weeks we also saw beat and raise reports from Broadcom (AVGO), Micron Technology (MU), ASML, Taiwan Semiconductor (TSM). We have yet to see earnings misses in the AI area. For example, despite +26% y/y revenue growth posted by META, it elevated its cap ex plans from \$130-\$145billion to \$135billion to \$145billion and a jump in future lease/contract commitments to ~\$825billion. After Meta discussed the cap ex and contract commitments the stock began trading off in the after hours and sold off 7% the next day. TTMI reported a huge beat in both results and guide including +118% y/y jump and +17% beat in earnings, sold off nearly -28% when it disclosed \$400mm in planned cap ex spending. The entire AI stock rallied the day after SpaceX reported earnings that included +161% y/y revenue growth and +637% earnings growth and guided to \$100B annualized revenue run rate by Y/E 2026 and \$500B to \$1trillion annualized revenue run rate by

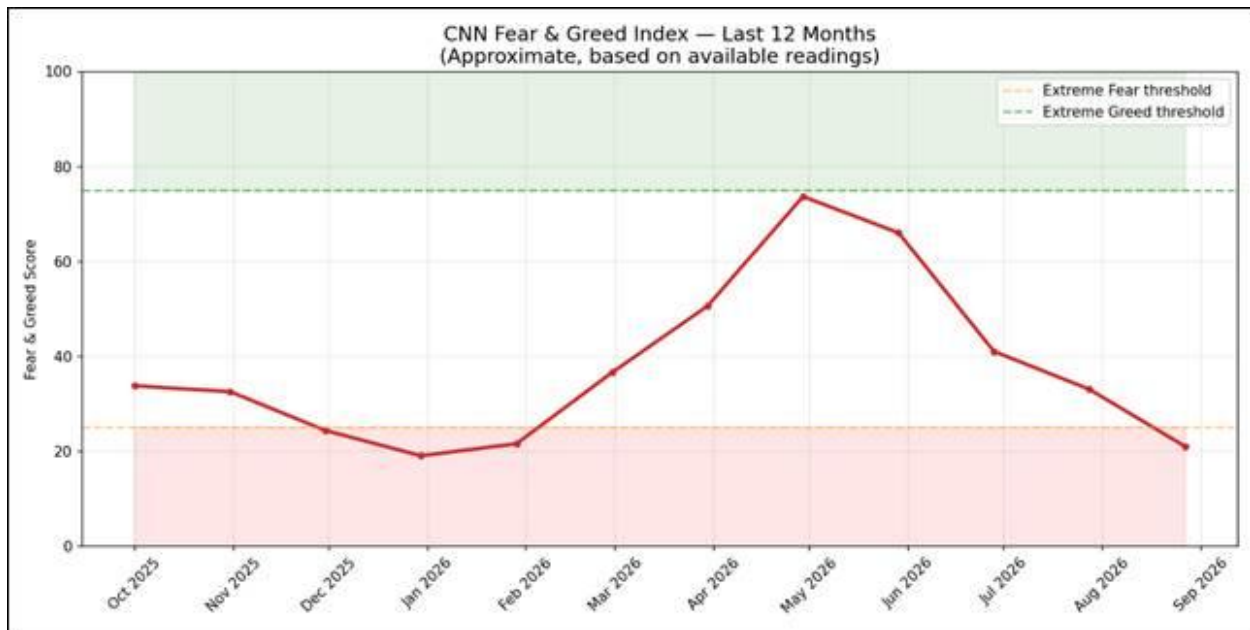
YE2027. Nonetheless, leveraged AI infrastructure and neocloud names such as CoreWeave (CRWV) remained under pressure as its unsecured bond yields remained near 15%. The financing concerns of CoreWeave which represents just single digit share of compute cap ex/investment continued to negatively impact the entire AI infrastructure stack even as 2/3 to ¾ of hyperscaler spending, which represents the majority of AI investment, continues to be funded primarily out of operating cash flow.

Reflecting some of the negative sentiment, there has been a spike in short ETFs. Goldman Sachs noted that hedge funds loaded up on shorts in October with short sales exceeding long positions by approximately 5:1 with short positioning in the 99th percentile over the past 5 years. As a proxy for the drop off in sentiment the SQQQ positioning is at the highest levels for 2026. That said, from a copyrighted source, the overall short ETF positioning is at much more extreme levels than what the SQQQ partial proxy shows.

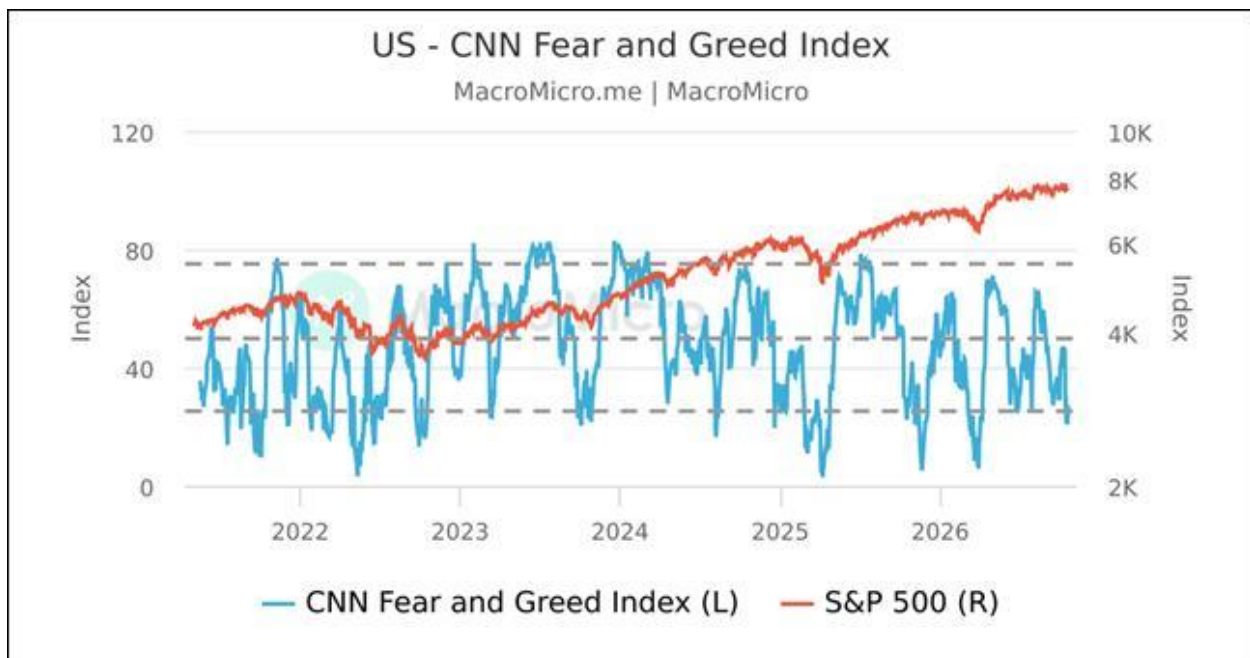


Source: GrokAI

Extreme levels of fear are showing up in the market based on a look at the CNN Fear & Greed Index over a 1 year as well as 5 year period. The current reading is 21 as of October 23 which indicates extreme fear.



Source: GrokAI



Source: GrokAI

What will it take to stoke an upside reversal in recent sentiment?

From earnings reports posted since late September, demand and economics look real and are strengthening. Sentiment drag is mostly about timing and financing of returns. The SpaceX call was a good example of strengthening returns as they indicated investment in compute features paybacks of less than one year and management expected payback to

shorten into 2027 where six months is “not impossible” as they are expected to add roughly 30% of the total compute capacity expected for next year. The market has visible and repeated proof of rising demand and strong returns on invested capital. What more does the market need:

1. Positive or improving cash flow guidance from the big spenders to effectively monetize the capital spending;
2. Relieving the power bottleneck with accelerating deliveries of on-site generation including fuel cells, nuclear coming on line more quickly, behind the meter gas turbine generation start up, grid connections to utilities with capacity;
3. Broader monetization beyond the builders towards the AI adopters (software, software development/deployment, cyber security, enterprises, services, etc.) and use cases such as full self-driving, warehouse productivity gains, administrative productivity gains, robotics, agentic AI. Major investment banks such as Morgan Stanley have noted early signs of broadening. More would help investors gain confidence.
4. Financing successes – NBIS \$3.5B financing with Citi announced last week a step in the right direction and SpaceX announced a \$40B off balance sheet financing tonight.
5. Repeated transparency on ROIC such as that disclosed by SpaceX along with backlog conversion, ROIC disclosures from the other hyperscalers and more transparent information from the AI labs would also be helpful.

In short if the sustainable cash flows are ramping faster than the financing and power constraints. Any acceleration in power delivery would be a significant catalyst along with cash flow increases that outpace the growth in capital spending over the next few quarters. We are in the early innings still so it could take a few quarters but with the kind of rocketing revenues from some of the major players such as SpaceX could broaden out then the market likely will be convinced that indeed the earnings growth is strong and sustainable and the sector should rally back.

Looking forward, the headwinds remain familiar: US 10-year near 5%, elevated oil and diesel, and a market that is discriminating on how AI capital spending is financed and whether it converts into sustained free-cash-flow growth. The positive offsets continue: hyperscaler and related AI capital spending is still largely cashflow funded for the core names, earnings estimates for high-quality companies remain elevated, and optical/interconnect portions of the stack continue to reflect tight supply and multi-year commitments. Semiconductors and AI infrastructure remain the leadership complex over

longer horizons. The next real tests are a heavy earnings week featuring Microsoft, Alphabet, and Amazon (alongside the October 28 FOMC meeting) plus further clarity on physical-buildout funding.

Seasonally we remain in a historically stronger window, though 2026 continues to diverge from the classic midterm-year path and the index is off its early October highs. I continue to expect choppiness into the midterms while remaining constructive on high-quality companies that can convert sustained AI and infrastructure capital spending into revenue without relying on aggressive leverage.

Sunday night futures are higher, with the S&P 500 up roughly +0.2%, Nasdaq futures up +0.2%, Dow futures up +0.3%, the Russell 2000 up +0.4%, and crude oil futures down -1.9%. The US 10-year is little changed near 4.99%.

Index Performance:

- **S&P 500:** -0.5% | Worst week since late June but only -2.35% off high but has dropped below the 50dma, a yellow flag.
- **S&P 500 Equal Weight:** +1.14% | O/P amid rotation to non-tech, non-Mag 7 areas.
- **Nasdaq Composite:** -0.7% | Tech and semi's lagged; stabilized Friday after sharp drop Thur.
- **Dow Jones Industrial Average:** +0.4% | 3rd straight weekly gain on energy and defensives strength.
- **Russell 2000:** +2.0% | Clear leading index on rotation.
- **US 10 year:** ~4.99%, -11bps w/w | Lower for 2nd straight week on flight to safety.

Market Technicals

The major averages remain in a broader rally structure but have pulled back from recent highs with the S&P 500 and Nasdaq either testing or breaking below near-term support. Technology lagged again while more defensive sectors such as Energy and Health Care led. Software (IGV) was exceptional, surging +6.0% with notable strength in cyber-security names. The equal-weighted S&P has now surpassed the cap-weighted index. Bottom line: the LT uptrend is intact, yet the tape remains reactive to headlines on financing cap ex, and oil. Stocks can still move positively where earnings and cap ex and being converted into results.

AI Infrastructure Capex Update

AI infrastructure capital-spending estimates continue to vary, but the direction remains higher. Hyperscaler figures, broader global estimates, and full physical-buildout numbers point to large, rising commitments that are being funded primarily from operating cash flow by the highest-quality names. Meta's commentary and cap ex not only confirmed that ongoing investment commitments but also revealed the market's current focus on FCF conversion and leverage.

Year	Narrow: US listed hyperscalers	Wide-but-clean: Goldman global AI investment	Kitchen-sink physical (GSGL / McKinsey-style)
2025	~\$400-\$470B	~\$0.55-\$0.65T	n/a as a clean annual
2026	~\$750-\$800B consensus	~\$1.0T global; ~\$580B US	~\$0.75-\$1.0T GSGL baseline
2027	~\$0.92-\$1.14T GS	~\$1.3-\$1.5T scaled	~\$1.0-\$1.2T GSGL baseline
2028	not a stable consensus	GS: US AI capex rising further as % of GDP	GSGL baseline ~\$1.22T
2025-30 cumulative	S&P: \$3-4T for top US CSPs	—	McKinsey: \$5.2T AI data centers central case

Source: Company Reports & Commentary, Grok AI

Week Ahead

The week ahead features a heavy earnings calendar focused on the remaining hyperscalers and other large names, with reports from Microsoft, Alphabet, Amazon, Eli Lilly, ExxonMobil, Chevron, Caterpillar, GE Vernova, Quanta Services, Vertiv, and many others. The Federal Reserve holds its October 28 FOMC meeting (blackout period has begun). Key economic releases include the advance Q3 GDP estimate and other data.

Near-term focus will be whether commentary from the major AI and technology reporters continue the narrative regarding robust demand, strong ROIC, which should ease financing and spending concerns and stabilize the complex without raising fresh questions about the pace or funding of AI-related capital expenditures.

Key items:

- 10.26 Cadence Design Systems, Celestica, Cemex,
- 10/27: Visa, Coca-Cola, Boeing, American Tower, CenterPoint Energy, CMS Energy, Freeport-McMoRan, Hubbell, Lincoln Electric, NXP Semiconductors, ONEOK, Rogers Corp, Seagate Technology, Teradyne, Waste Management, Xylem, and others
- 10/28: FOMC rate decision; Microsoft, Alphabet (after close), Antero Midstream, Clean Harbors, Flex, Flowserve, Fortinet, GE Vernova, Generac, Hess Midstream, Kirby Corp, KLA Corp, MYR Group, NiSource, NWPX Infrastructure, Old Dominion, Otis, Parsons, SK Hynix, Sterling Infrastructure, T-Mobile US, Vertiv Holdings,

- 10/29: Amazon (after close), Caterpillar, CRH, DTM, Eli Lilly, EMCOR Group, Entegris, FTAI Aviation, Granite Construction, Howmet, Intel, Mastercard, Monolithic Power Systems, NPK International, Plains GP Holdings, Quanta Services, Republic Services, Saia, SPXC, Teekay, Trane Tech, Vale, and Q3 GDP
- 10/30: ExxonMobil, Chevron, and others

Last week's action was selective and driven by financing/spending concerns in leveraged AI infrastructure plus elevated oil. The tailwind remains contracted capital spending on AI and the physical infrastructure that supports it, reinforced by continued tight-supply commentary from optical and interconnect leaders and strong underlying demand and strong returns on capital. The headwinds remain a 10-year near 5%, elevated diesel and oil, and a market that can fade even strong fundamental updates when financing or free-cash-flow questions arise. I expect choppy conditions to continue into the midterms while the underlying AI infrastructure thesis stays intact.

As always, this letter is for informational purposes only and does not constitute investment advice. Please reach out with any questions.

Best regards,

John D. Edwards, CFA

Sr. Portfolio Manager – Infrastructure PLUS Equity Strategy

Disclaimer

The information presented is for educational purposes only and is believed to be factual and up-to-date. All expressions of opinion reflect the judgment of the author(s) as of the date of publication and are subject to change. Nothing in this commentary should be construed as investment advice and does not take into consideration your specific situation. All investments involve risk. Past performance does not guarantee future results. Advisory services offered through Capital Ideas, an investment adviser registered with the U.S. Securities and Exchange Commission.