Weekly Market & Strategy Update

Week Ending October 31, 2026

"Anthropic S-1 and hyperscaler earnings reinforced strong AI demand but renewed free-cash-flow and capex questions. Fed held rates steady and small caps continued to outperform."

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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 30, 2026, along with thoughts on strategy positioning and the outlook ahead.

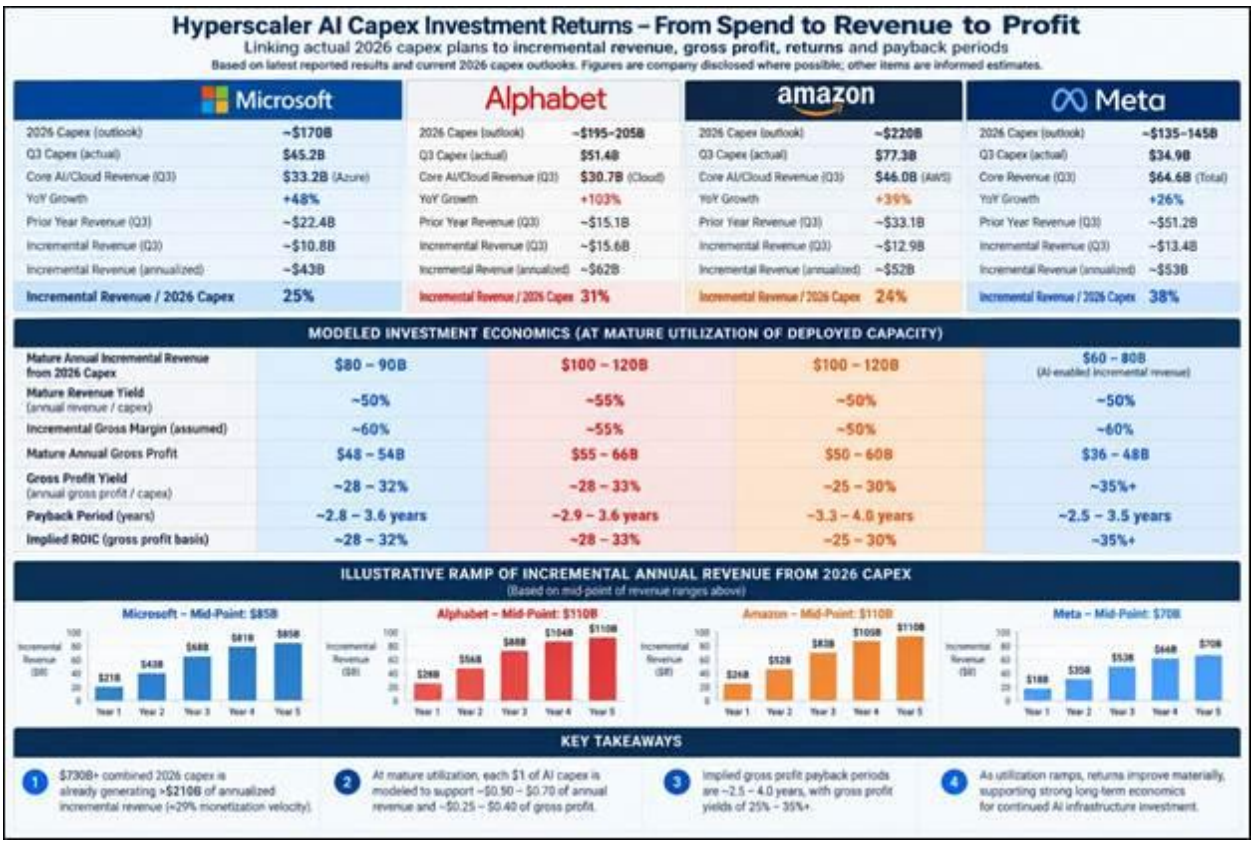
Major averages finished mixed to modestly higher through Thursday, but Friday's session brought significant pressure from tech-related selling. Through Thursday the S&P 500 was up roughly +1.3% to 7,720, the Nasdaq Composite up about +0.9% to 26,185, and the Russell 2000 up about +3%. The Dow Jones Industrial Average was roughly flat to slightly higher. Breadth remained better than the prior two weeks, with small caps and the equal-weighted index outperforming the market cap-weighted indexes.

The macro backdrop was relatively orderly. The Federal Reserve held the federal funds rate steady at 3.75%–4.00% on October 28 (10–2 vote), with two dissenters preferring a quarter-point hike. The statement noted a "strong pace" of economic activity, resilient domestic spending, and elevated inflation. Crude oil remained elevated but eased from the prior week's peaks: WTI traded near $104 and Brent near $113–$117. The US 10-year yield finished the week near 4.95%–4.98%.

The equity-specific story remained the market's discrimination on AI capital spending and free-cash-flow conversion

The week started out with very strong rallies in the AI and AI infrastructure trade after Anthropic released its S-1 that disclosed revenue growth rates and outlook that exceeded expectations. Combined with the very strong results and guide posted by SpaceX the previous week in which management said it expected to achieve a revenue run rate by the end of 2026 of $100B and to achieve a revenue run rate by the end of 2027 of 5x-10x that figure or $500B to $1trillion, the AI trade rallied strongly. Last week, Microsoft (MSFT) stood out positively with Azure growth of ~48% and solid free cash flow generation, and while the stock still fell -1.5% on Friday that was still far better than the tech pullback (SMH and SOX both fell -7% and the XLK fell -5%). Alphabet (GOOGL) reported strong Google Cloud growth but missed on overall revenue and earnings (by -30%) and missed on its most

important business (Search, up +12% y/y missing views), reported negative free cash flow of roughly -$9 billion, maintained high capex guidance ($195–$205B range) for 2026 and did not provide capex guidance for 2027. GOOGL stock fell sharply (roughly -13% on Thursday, its worst day on record, and -1.4% Friday). Amazon (AMZN) missed on earnings, affirmed 2026 cash capex (~$220B) with negative free cash flow in the quarter despite strong AWS growth, pressuring the shares which fell -4% Thursday and -1.4% Friday. What was notable in the releases of MSFT, GOOGL, and AMZN is in the areas of their business where they made AI investments, revenue accelerated. The strong returns on capital investment in terms of revenue growth rate related to such capex is shown in the graphic below:



Source: Company Filings, Capital Ideas' research

Amazon's earnings report included +39% growth in revenues in its AWS division, which was the fastest growth rate over the last five years and the company guided to a growth rate of at least 40%+ over the next two years which is the result of its strong investment in AI. Microsoft's Azure division reported revenue growth of +48% y/y. The implied ROIC from AI investments in 2026 is estimated to run between +28% and +35%. We believe SpaceX returns are far stronger as they have indicated payback on compute investments of less than 1 year and expect that to shrink in 2027 to as little as 6 months.

While the hyperscalers Amazon and Google missed estimates, the miss that really seemed to turn sentiment much more negative was the earnings guide provided by Intel (INTC). While Intel's 3Q earnings were solid and beat, the guide for the 4Q was far below estimates on both top and bottom line. The main source of the disappointment is it is guiding its PC division down -20% sequentially (from $8.1B to 6.5B) as industry PC units are expected to decline ~12% in 2026 and another ~10% in 2027. The decline is due to the memory crunch caused by the seemingly insatiable demand for memory chips by AI datacenters, especially DRAM pushing prices higher which in turn hurts PC demand and IT budgets. Ironically Intel's AI-related division is guiding up mid-teens% sequentially from $7.3B to mid $8B range and it would be even more if not for certain supply constraints. On the disappointing guidance, Intel stock collapsed, falling -28% on Friday, its worst single day price performance in over 50 years.

Although the majority of Intel's miss on the guide was CPUs for PCs and not AI, Intel's troubles seemed to be the catalyst which ultimately spread to the entire AI infrastructure trade including areas such as data center infrastructure, the electric grid, power generation, photonics/optical components. This sell off occurred despite the fact that we saw recent beat and raise earnings reports from companies such as Lam Research (LRCX), Texas Instruments (TXN), Bloom Energy (BE), Comfort Systems (FIX), TTM Technologies (TTMI), Broadcom (AVGO), ASML, Micron Technology (MU), Taiwan Semiconductor, Flex (FLEX), Flow Serve (FLS), Vertiv (VRT), Quanta Services (PWR), Sterling Infrastructure (STRL), MYR Group (MYRG), GE Vernova (GEV), Celestica (CLS), Sandisk (SNDK), SK Hynix (SKHY), SpaceX (SPCX), NVIDIA (NVDA), among others. Even MU stock dropped approximately -5% on each of Thursday and Friday even though it is the memory chips that are in short supply and from which such short supply benefits them. On top of that the share repurchase restriction expires Dec 9, just six weeks away and they are generating enough cash flow that will enable the company to buy back 30% of the company in just two years and over half the company by the end 2030.

Looking forward, the headwinds remain familiar: a 10-year near 5%, elevated oil and diesel, and a market that is increasingly focused on whether elevated AI capital spending converts into sustained free-cash-flow growth rather than simply higher revenue. The positive offsets continue: hyperscaler and related AI capital spending is still largely cashflow funded for the highest-quality names, cloud growth remains strong, earnings estimates for high-quality companies are 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 tests include further earnings from the complex, additional economic data, and the approach of the midterms.

Seasonally we remain in a historically stronger window, though 2026 continues to diverge from the classic path. 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.

Restoring Investor Confidence

Coming back to the items that can help to restore investor confidence in AI, we note earnings reports are overwhelmingly positive. Positive cash flow guidance is one of the factors that would encourage investor confidence. In that area MSFT was strongly positive. Positive FCF from MSFT was +$18.6B well above expectations though down $-1B Q/Q. MSFT guided to positive FCF throughout 2027 despite accelerating capex. But GOOGL was FCF negative -$9.07 vs -$5.86 the prior Q. No FCF outlook provided, a negative. Amazon FCF was TTM -$42.4B vs +$14.8B TTM a year earlier and -$35B FCF for 3Q. AMZN to boost cap ex "meaningfully" in 2027 from the $220B expected for 2026.

- MSFT: Positive ~$18.6B (slightly lower QoQ, still strong and guided to stay positive in FY27).
- GOOGL: Negative –$9.1B (deficit widened from –$5.9B).
- AMZN: TTM negative –$42.4B (deficit widened sharply from –$7.6B); quarterly burn was large.

Last week we also discussed issues such as relieving the power bottlenecks, broader monetization of capital spend and ROIC (which we covered in the table above), financing success. Adding to this narrative would be seeing some settling down in oil prices. So far we believe the outsized negative reaction to Amazon and Google when the areas where AI investments are involved there has been solid evidence of rising revenue and/or cash flow. Last week we noted the successful $3.5B financing raise by Nebius (NBIS). The negative reaction to Intel's miss also seems overdone as it was primarily in the ***non-AI areas***.

Index Performance:

- **S&P 500:** Roughly -0.6% | Recovered some ground earlier in the week before Friday pressure.
- **S&P 500 Equal Weight:** +0.82% | Broader participation/rotation continued.
- **Nasdaq Composite:** -2.00% | Tech lagged on Friday on INTC, AMZN, GOOGL earnings.

- **Dow Jones Industrial Average:** Roughly flat to +0.2% | Supported by non-tech areas.
- **Russell 2000:** +1.3% | Continued relative strength.
- **US 10 year:** ~4.91% | Fell 9 bps w/w and up 2bp to 4.93% Sunday night
- **Crude Oil:** ~$103/bbl WTI (little changed) and $113/bbl Brent (+1.5% w/w).

Market Technicals

The major averages rally is under pressure, with both the S&P500 and Nasdaq Composite trading under the 21-ema and 50-dma with the Nasdaq suffering a -5.3% loss in October and sits less than +2% above its 200dma. Decliners outnumbered advancers by ~ 2-1 on Friday on the NYSE. But on the Nasdaq the A/D ratio was 0.33 (3-1 to the downside) which is not that far removed from extreme washout/capitulation conditions which usually occur when the ratio is at 4-1 or 5-1 to the downside.

Research on the historical track record for the Nasdaq Composite breadth being this weak shows that a rebound is likely especially over the next few weeks:

Key data from Nasdaq A/D issues studies (since ~2008)

A detailed analysis of Nasdaq advancing-minus-declining issues (using $ADQD data) classifies sessions by how one-sided the breadth was. Friday, October 30, 2026, was explicitly labeled a “washout” day (session bias of about –2,224 net advancers, z-score –1.7 vs. the trailing year, with many extreme negative prints).

Forward QQQ returns after washout sessions (369 cases since 2008):

Horizon	Average return	% of time higher	vs. Baseline (all days)
Next 5 sessions	+0.60%	61%	Baseline ~+0.34%
Next 10 sessions	+1.15%	67%	Baseline ~+0.69%
Next 21 sessions	+2.08%	70%	Baseline +1.48%

Washout sessions (4 to 1 or worse to the downside) produced the best average returns of any breadth state in the study (+2.1% over the next ~month vs. +1.5% baseline). Heavy washout-print days (multiple extreme negative bars) showed similar or slightly better short-term tendencies. (Source: The Trading).

As far as the Fear and Greed index we have the following update:

- Friday close (Oct 30): 26 — Fear

- Previous day: ~35 (still Fear)
- 1 week ago: ~17 (Extreme Fear)
- 1 month ago: ~30 (Fear)

The index spent much of mid-to-late October in Extreme Fear (readings in the low-to-mid 20s or lower, including a trough near 17–18 around October 16). It improved somewhat into the mid-30s mid-week before the Friday tech/AI-driven sell-off (Nasdaq –2.86%, S&P 500 –1.82%) pulled it back down to 26.

Scale

- 0–24: Extreme Fear
- 25–44: Fear
- 45–55: Neutral
- 56–74: Greed
- 75–100: Extreme Greed

26 sits in Fear — cautious but not at the deepest panic levels seen earlier in the month. This lines up with the negative breadth (especially on the Nasdaq) and the tech-led selling. Note that some alternative composites (e.g., broader multi-factor gauges) were reading closer to Neutral over the same period, as they weigh credit, liquidity, and cross-asset factors differently.

AI Infrastructure Capex Update

Last week's hyperscaler reports (Microsoft, Alphabet, Amazon) reinforced large ongoing commitments, with free cash flow turned negative for some. Figures to keep in mind is that the broad definition of hyperscalers showing cap ex in the $800B-$828B for the top 6 rising to $1.1T to $1.3T in 2027 rising to $1.6T to $2.1T by 2031 and a cumulative figure of $7.6T for 2026-2031. All these figures are above prior estimates.

Hyperscaler CapEx Projections (US$ billions):

Company	2025A / Est.	2026E (latest guide / consensus)	2027E	2028E	2029E	2030E	2031E (indicative)
Amazon	~132	~220	~250–310	~300–350	~320–380	~340–400	~350–420
Alphabet	~91	195–205	~250–290	~280–340	~300–360	~320–380	~330–400
Microsoft	~80–90 (FY)	~170 (calendar; trimmed 5 on timing)	~200–230	~220–270	~240–290	~260–310	~270–330
Meta	~40–50	135–145 (mid ~140)	~180–225	~200–260	~220–280	~240–300	~250–320
Oracle	~20–30	~50–70	~80–120	~100–150	~120–180	~140–200	~150–220

Company	2025A / Est.	2026E (latest guide / consensus)	2027E	2028E	2029E	2030E	2031E (indicative)
SpaceX	~20–25	~70–90 (ramping; Q4 alone guided $35–40B)	~150–300+	~200–400	~250–450	~300–500	~350–550
Core 4 total (AMZN/GOOGL/MSFT/META)	~340–360	~720–740	~880–1,050	~1,000–1,220	~1,080–1,310	~1,160–1,390	~1,200–1,470
5–6 name total (incl. ORCL ± SpaceX)	~400–470	~800–828	~1.1–1.3T	~1.3–1.5T	~1.4–1.7T	~1.5–1.9T	~1.6–2.1T

Source: Company Reports & Commentary, Grok AI

Week Ahead

The week features a continued earnings calendar along with key economic data and uncertainty regarding mid-term elections on Tuesday. Near-term focus will be whether additional commentary can ease CapEx and free-cash-flow concerns in the AI complex and whether broader participation continues.

Key items:

- Midterm elections
- Additional earnings from remaining large names and AI-related companies with AMD, ANET, ETN, SMCI, COHR, ARB, NET in focus. On the energy side focus on TRGP, WES, MPC, MPLX, TLN.
- Economic data releases (including employment-related figures)
- Ongoing monitoring of oil, yields

11/2 BWXT Technologies, Calix, Entergy, Fabrinet, Diamondback Energy, California Resources, Capital Southwest Corp, Williams Cos

11/3 midterm elections, Astera Labs, Advanced Micro Devices, Arista Networks, CVR Energy, Energy Transfer, Eaton Corp, Modine Manufacturing, Marathon Petroleum, MPLX, Omega Health, Pfizer, Primoris, Super Micro Computer, Talen Energy, Sixth Street Spc Lending, Varonis Systems, Waters Corp,

11/4 Albemarle, AMSC, ArcBest, Arm Holdings, Coherent Corp, Curtis Wright Corp, Eagle Materials, Global Foundries, Warrior Met Coal (HCC), HubSpot, KNTK, LPG, MKSI, Martin Marietta, Motorola, Mueller Water, OBDC, Solaris Energy Infra, Southwest Gas Holdings, Viavi, Western Midstream, Watts Water Tech,

11/5 Applied Optoelectronics, Arrow Electronics, Cummins Inc, MP Materials, Cloudflare, Southern Co, Targa Resources,

11/6 Brookfield Renewable, Brookfield Infrastructure, DK, DKL, ENB, OKLO, VST,

Last week's action was selective and driven by the Anthropic S-1 confirming rapid revenue growth and scaling, strong earnings from key infrastructure players such as VRT, GEV, MSFT, CLS, offset by misses from AMZN, GOOGL, INTC with the themes focused on capex and free-cash-flow questions in the hyperscaler complex plus elevated oil. 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 cloud demand. 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,

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