

Weekly Market & Strategy Update

Week Ending October 17, 2026

“AI financing/cost of capital worries, a hotter than expected CPI drove a sharp tech pullback, while the US 10-year eased and oil surged on Mideast tensions.”

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 10, 2026, along with thoughts on strategy positioning and the outlook ahead.

Major averages finished lower. The S&P 500 fell -1.95% to 7,659, the Nasdaq Composite dropped -4.48%, to 26140 (its worst week since June), and the Russell 2000 declined -3%. The blue-chip Dow Jones Industrial Average gained +0.67%, to 52002, on strength in health care and energy. Breadth remained uneven: energy, staples led (each up approximately +5%) while technology (XLK -7.7%) and semiconductors (SOX -11.4%) lagged sharply. Infrastructure PLUS had its worst week since inception, interconnect and optical bore the brunt of the weakness even as energy infrastructure advanced. The last time we saw declines of this magnitude in technology was due to external shocks such as April 2025 (tariffs), October 2008 (financial crisis), March 2000 (tech bubble), 2000 to 2002 dotcom bust.

The macro backdrop was noisier. September CPI came in hotter than expected: headline CPI rose +0.6% m/m and +3.7% y/y (vs +3.6% expected) while core CPI rose +0.3% m/m and +2.6% y/y (vs +2.5% expected). Gasoline, which rose +9.1% m/m, accounted for more than half the headline gain. The US 10-year eased to 5.1% Friday vs 5.24% at the beginning of the week, the largest w/w decline since February. Crude oil surged on renewed Middle East tensions (Houthi attacks on Saudi broader Strait of Hormuz issues): WTI closed near \$101 and Brent near \$110. Diesel prices remain a real economy headwind as prices eased only modestly and remain in the low to mid \$6's/gallon range.

The equity-specific story was the sudden focus on AI financing

Leveraged AI infrastructure and “neocloud” names came under heavy pressure after CoreWeave (CRWV) bond yields spiked toward 15%, prompting a sharp equity sell-off (the stock fell roughly 25% on the week) and wider spreads on AI-related high-yield debt. The move raised questions about the sustainability of debt-funded data-center buildouts even as hyperscaler spending continues to be funded primarily from operating cash flow (about 2/3 to 3/4). Optical and interconnect names that had been strong the prior week

(Lumentum – LITE and Coherent among them) sold off hard in the broader technology and semiconductor retreat as both fell ~25%. Recall LITE hit a new all-time high just 9 days ago on news that its capacity was essentially sold out until 2029 for key products and unmet demand extending even further. Taiwan Semiconductor (TSM) strong third-quarter results and raised 2026 growth outlook on robust AI demand, along with solid bank earnings (Goldman Sachs a clear standout on equities trading; JPMorgan a rare miss), were not enough to offset the financing narrative and the hotter inflation print. Recall Micron Technology (MU) reported at the end of September with record earnings and guide and is generating so much cash flow that after the stock buyback restrictions are lifted on December 9, respected analysts estimate that it will buy back \$40B of stock per quarter. Consider that the market capitalization of MU is roughly \$1T which means that MU will be buying back 15% of the shares per year at current prices and could retire half of the shares outstanding by 2030 and yet the shares trade at just 4.1x consensus 2027E EPS and dropped -14% last week.

Looking forward, the headwinds are familiar but have a new accent: the US 10-year still near 5.10%, elevated diesel and oil, and a market that is now more discriminating regarding how AI capital spending is financed. The positive offsets remain: hyperscaler and related AI capital spending continues to be funded largely from cash flow rather than leverage, earnings estimates for high-quality names remain elevated, and the optical and the interconnect portion of the stack continues to show tight supply and multi-year customer commitments. Semiconductors and AI infrastructure remain the leadership complex over longer horizons, and the next real tests are a heavy earnings week (Meta, Tesla, Netflix, Lam Research, and others) plus the October 28 FOMC meeting.

Seasonally we remain in a historically stronger window, though 2026 has already diverged from the classic midterm-year path and the index is off its recent 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 projecting a bounce tomorrow with the S&P 500 up +0.5% to +0.6%, Nasdaq up +1.0%, crude is lower, and the US 10-year is little changed near 5.10%. (Keep in mind overnight action will not necessarily be reflected in market trading).

Index Performance:

- **S&P 500:** -1.95% | 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:** +0.49% | O/P the cap-weighted index as some 70% of S&P500 constituents rose amid tech and AI-related selling.
- **Nasdaq Composite:** -4.48% | Worst week since June: tech and semis led the decline. Dropped below the 50dma, a yellow flag.
- **Dow Jones Industrial Average:** +0.67% | Health care and energy supported the average.
- **Russell 2000:** -3.05% | Continued to lag large caps.
- **US 10 year:** ~5.10%, -14bps w/w | Biggest drop despite hotter than forecast CPI.

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 sharply while more defensive sectors such as Consumer Staples and Energy led. The equal-weighted S&P has caught up to the cap-weighted index. Bottom line: the uptrend is intact, yet the tape remains reactive to headlines, yet selective and dependent on where earnings and capital spending are still converted into results.

AI Infrastructure Capex Update

AI infrastructure capital-spending estimates continue to vary, but the direction remains higher. Narrow listed-hyperscaler figures, broader global estimates that include private labs, and full physical-buildout numbers (compute + halls + power) all point to large, rising commitments that are being funded primarily from operating cash flow.

Year	Narrow: US listed hyperscalers	Wide-but-clean: Goldman global AI investment	Kitchen-sink physical (GSGI / 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 GSGI baseline
2027	~\$0.92–\$1.14T GS	~\$1.3–\$1.5T scaled	~\$1.0–\$1.2T GSGI baseline
2028	not a stable consensus	GS: US AI capex rising further as % of GDP	GSGI 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 features a heavy earnings calendar, with reports from Meta, Tesla, Netflix, SpaceX, Lam Research, Texas Instruments, Procter & Gamble, and others. Key economic

releases include housing starts, building permits, pending home sales, and weekly jobless claims. The Federal Reserve also begins its blackout period ahead of the October 28 FOMC meeting.

Near-term focus will be whether commentary from major AI and technology reporters can ease financing concerns and stabilize the complex without raising fresh questions about the pace or funding of AI-related spending

Key items:

- 10/20: Netflix, SpaceX, GE Aerospace, RTX, Northrup Grumman, UAL, GM, VMI; Housing starts and permits
- 10/21: Meta, Tesla, Lam Research, Texas Instruments, IBM, CSX, Kinder Morgan, AT&T, Wabtec, Waste Connections
- 10/22: FIX, HUBG, Procter & Gamble, Dow Inc, Lockheed Martin, Western Digital; Norfolk Southern, PG&E, TTM Technologies, Weekly jobless claims
- 10/23: American Express, nVent Electric (NVT), Rogers Comm, XOM

Last week's decline was selective and driven by financing concerns in leveraged AI infrastructure plus hotter inflation. 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. The headwinds remain a 10-year near 5.10%, elevated diesel and oil, and a market that can fade even strong fundamental updates when financing 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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