OpenArc
CORPORATE ADVISORY

Market Brief – October Recap

MACRO

Growth: Real GDP grew at a +3.4% annualized pace in Q3, ahead of the +3.2% consensus. The labor market was strong in October, with nonfarm payrolls rising +165k versus the +70k consensus, alongside a combined +84k in upward revisions to August and September. The unemployment rate fell to 4.1%, with professional and business services (+70k) and healthcare (+42k) leading gains, and average hourly earnings rose +0.4% on the month. Initial jobless claims ended October at 189k, matching July's multi-decade low and highlighting resilience in the labor market. ISM Manufacturing rose to 55.5, while ISM Services eased slightly to 54.5.

Inflation: October CPI, released November 10th, rose +0.4% month-over-month versus +0.3% expected, with core up +0.3% versus +0.2% expected. The BLS did not publish a year-over-year rate because last year's shutdown left no October 2025 data for comparison. Separately, September PCE, released October 29th, accelerated to +3.6% year-over-year, with core PCE at +3.1%, both in line with estimates. Regular gasoline averaged $4.31 per gallon in October, a record for the month.

Monetary Policy: The Fed held rates at 3.75%-4.00% on October 28th. The vote was 10-2, with Governor Cook and President Hammack dissenting in favor of a quarter-point hike. Chair Warsh cited strong activity and a solid labor market alongside elevated inflation, signaling patience while the Committee gathers more data ahead of its December meeting. Warsh also announced that the FOMC will keep its eight meetings per year but hold rate decisions at only seven of them in 2027 and six in 2028, with the rest devoted to longer-term strategy. Markets ended October pricing a high probability of a December hike of about 73%. Abroad, the Bank of Canada hiked 25 bps to 2.50%, while the ECB and BoJ held.

MARKET

Equities: U.S. equities diverged sharply as AI-related stocks sold off. The S&P 500 fell -0.9% (+11.7% YTD), while the equal-weight index gained nearly +5%, its widest outperformance versus the cap-weighted index since April 2009. The Nasdaq 100 dropped -6.7%, its worst month since March 2025, and semiconductors (SMH) fell -14.2%. Energy (+13.9%), Consumer Staples (+10.9%), Utilities (+10.1%) and Health Care (+9.8%) led, while Communication Services (-10.0%) and Technology (-8.3%) were the only sectors to decline. The selloff was tied to scrutiny of AI funding needs, pressure on hyperscaler free cash flow, and credit stress at neocloud providers. Internationally, Emerging Markets (EEM) fell -8.6%, led lower by South Korea and Taiwan as the semiconductor weakness spread to Asia, while developed international (EAFE) slipped -0.5%. Fundamentals held up, with Q3 S&P 500 earnings growth tracking +30.2% as of October 30th.

Bonds: Treasuries performed well during the month, with the 10-year yield rallying 35 bps to 4.94%. Long Treasuries (TLT) gained +5.6%, the Aggregate (AGG) +2.3%, and investment-grade corporates (LQD) +2.5%, while high yield (JNK) lagged at +0.8%. Credit spreads widened even with the performance, with IG about 10 bps wider to 90 bps and high yield spreads about 29 bps wider to 340 bps. Municipals rallied +3.3%, their best month since November 2023.

Currencies: The U.S. dollar index rose +0.4% in October. It reached an 18-month high mid-month before pulling back. The euro weakened amid political and fiscal uncertainty in France, which pushed the French-German 10-year yield spread to its widest since the early 2010s, while the ECB held its deposit rate at 2.5%. EUR/USD ended the month near 1.12. Sterling appreciated against the dollar and climbed to its highest level against the euro since April 2025 on stronger U.K. data. The yen was little changed against the dollar, with the BoJ holding at 1.25%. USD/JPY ended the month near 157.5, with analysts flagging intervention risk as the pair approaches 160.

Commodities: Brent rose +15% and WTI +12.1% as Middle East supply fears intensified, with WTI settling at $104 per barrel. A tanker attack in the Strait of Hormuz and renewed threats to Saudi energy infrastructure added to the risk premium. Gold fell -6.6%, its worst October since 2008, and silver dropped -18.2%. Precious metals slid as rising energy costs stoked inflation concerns and expectations for higher U.S. rates.

CIO SNAPSHOT

We maintain a constructive stance on risk assets, though the market setup continues to shift. The AI capex debate has taken center stage again, as inflation and interest rates moved back to the back seat. Significant selling and hedge fund deleveraging around the AI ecosystem added pressure into midterms, even as earnings remained solid. The result has been a market narrative that felt less optimistic than the underlying fundamentals would suggest.

We think this shift reflects a change in market focus rather than a change in fundamentals, and our broader thesis remains intact. That said, with sentiment more cautious and the narrative more pressured, we continue to watch closely for signs that higher borrowing costs and increased capital needs begin to weigh on growth or on the AI investment cycle itself.

We continue to hold AI and power infrastructure exposure, alongside international value and broad US equity for diversification. In fixed income, we favor higher quality and securitized credit and remain slightly long duration. We continue to favor active management, as dispersion under the surface remains extremely elevated.

▲ Overweight
Neutral
▼ Underweight

	Asset Class	***CIO View***
	Equities	
Regions	US Large Cap	▼
Regions	US Mid Cap	▲
Regions	US Small Cap	
Regions	Developed International Equities	▼
Regions	EM Equities	
Factors	Growth	▲
Factors	Quality	▲
Factors	Value	▼
Sectors	Industrials	▲
Sectors	Technology	▲
Sectors	Financials	
	Fixed Income	
Factors	Credit	▲
Factors	Duration	▲

Source: Bloomberg, Strategas, BCA, Goldman Sachs, JPMorgan, Morgan Stanley, YCharts, FactSet, Bureau of Labor Statistics, University of Michigan, S&P Global, Atlanta Fed, Federal Reserve Bank of NY, Federal Reserve, Bureau of Economic Analysis, as of 11/10/2026

US Related

ETF	Description	October 2026	2026
SPY	S&P 500	-0.91%	11.69%
DIA	Dow Jones Ind	1.71%	8.81%
QQQ	Nasdaq 100	-6.66%	12.78%
IJH	S&P Midcap 400	1.92%	11.98%
RSP	S&P 500 Eq Weight	4.95%	15.32%
QQQE	Nasdaq 100 Eq Weight	-3.18%	14.19%
IWB	Russell 1000	-0.74%	11.37%
IWM	Russell 2000	0.52%	14.24%
IWV	Russell 3000	-0.63%	11.61%

Factors

ETF	Description	October 2026	2026
IVW	S&P 500 Growth	-5.48%	9.38%
IVE	S&P 500 Value	4.93%	14.26%
IJK	Midcap 400 Growth	-1.52%	11.85%
IJJ	Midcap 400 Value	5.64%	11.76%
IJT	Smallcap 600 Growth	2.50%	17.03%
IJS	Smallcap 600 Value	3.66%	17.94%
DVY	DJ Dividend	6.88%	17.93%
MTUM	Momentum	-10.47%	13.95%
USMV	Low Volatility	5.63%	10.47%
SIZE	Size	3.63%	12.60%
QUAL	Quality	0.11%	12.70%

Global

ETF	Description	October 2026	2026
EWA	Australia	4.34%	14.39%
EWZ	Brazil	-12.86%	3.15%
EWC	Canada	3.84%	12.93%
MCHI	China	-5.98%	-17.77%
EWQ	France	-0.85%	-3.88%
EWG	Germany	1.38%	0.50%
EWH	Hong Kong	1.85%	7.67%
INDA	India	2.23%	-11.71%
EWI	Italy	-4.85%	4.85%
EWJ	Japan	-4.67%	15.69%
EWW	Mexico	4.75%	8.99%
EIDO	Indonesia	-15.09%	-45.78%
EWP	Spain	-4.85%	6.15%
EIS	Israel	-5.00%	5.38%
EWU	UK	2.79%	10.32%
EFA	EAFE	-0.50%	9.34%
EEM	Emerging Mkts	-8.61%	12.13%
IOO	Global 100	-2.17%	11.79%
VT	All World	-1.60%	11.06%
CWI	All World ex US	-2.92%	10.49%

Sectors

ETF	Description	October 2026	2026
XLY	Cons Disc	6.01%	-2.78%
XLP	Cons Stap	10.94%	17.34%
XLE	Energy	13.85%	59.71%
XLF	Financials	5.82%	4.43%
XLV	Health Care	9.77%	20.90%
XLI	Industrials	0.25%	8.77%
XLB	Materials	8.30%	17.78%
XLRE	Real Estate	5.52%	9.54%
XLK	Technology	-8.30%	25.13%
XLC	Comm Services	-9.98%	-14.37%
XLU	Utilities	10.12%	3.85%
SMH	Semis	-14.21%	45.08%

Currencies

ETF	Description	October 2026	2026
FXB	British Pound	1.17%	1.07%
FXE	Euro	-1.29%	-4.29%
FXY	Yen	-0.09%	-0.82%
DXY	Dollar	0.42%	3.62%

Fixed Income

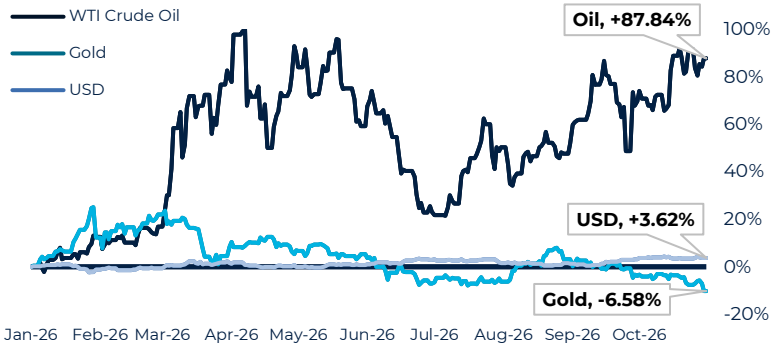
ETF	Description	October 2026	2026
SHY	1-3 Yr Treasuries	0.91%	1.30%
IEI	3-7 Yr Treasuries	2.00%	-0.63%
IEF	7-10 Yr Treasuries	3.10%	-1.68%
TLH	10-20 Yr Treasuries	4.63%	-2.26%
TLT	20+ Yr Treasuries	5.64%	-2.82%
AGG	US Aggregate Bond	2.29%	-0.56%
TIP	T.I.P.S.	2.55%	0.39%
JNK	High Yield	0.83%	0.54%
MBB	Mortgage-Backed	3.13%	-0.14%
LQD	IG Corporate	2.48%	-1.98%

Commodities

ETF	Description	October 2026	2026
DBC	Commodities	3.99%	50.31%
DBA	Agric Commod.	-4.44%	5.37%
USO	US Oil Fund	15.91%	144.12%
UNG	Nat. Gas	-12.44%	-25.94%
GLD	Gold	-6.58%	-10.23%
SLV	Silver	-18.18%	-30.77%

*Calculated as Total Returns (dividends reinvested) via Bloomberg

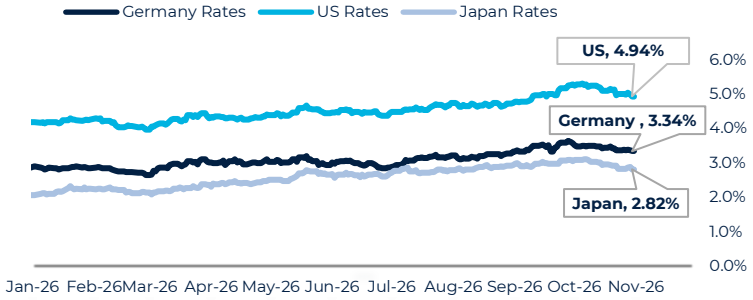
Commodity & Dollar Performance



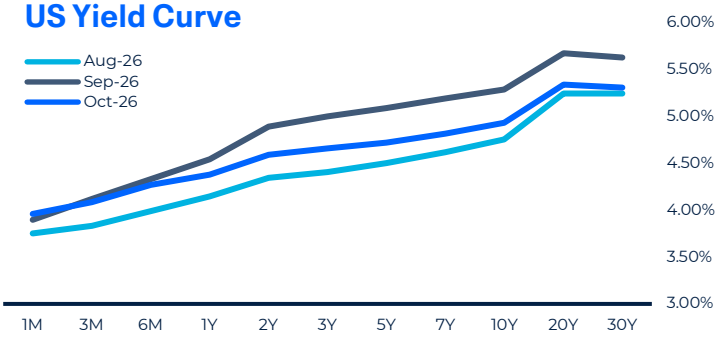
Breadth Wins as Tech Stumbles in October

The S&P 500 slipped -0.9% in October, but nine of 11 sectors rose and the equal weight index gained +5.0%. That performance gap was the widest since April 2009. Tech was the drag. The Nasdaq 100 fell -6.7% as investors grew concerned about AI capex and the financing needs behind it, its worst month since March 2025. Leadership came from defensives and value, with Energy up +13.9%, Consumer Staples up +10.9%, and Health Care up +9.8%. The Dow rose +1.7% as Value rallied +4.9%. Small Caps also rose +0.5% as Treasuries rallied on the month.

10-Year Bond Yields



US Yield Curve



Economic Data	Prior Release Date	Prior Estimate	Prior Actual	Next Release Date	Upcoming Forecast Estimate
Effective Federal Funds Rate	10/28/2026	375bps–400bps	375bps–400bps	12/9/2026	400bps–425bps
US Total Nonfarm Payrolls	11/6/2026	70K	165K	12/4/2026	--
US Unemployment Rate	11/6/2026	4.2%	4.1%	12/4/2026	--
Core PCE Index YoY%	10/29/2026	3.1%	3.1%	11/25/2026	--
US CPI MoM%	11/10/2026	0.3%	0.4%	12/10/2026	--
US Real GDP QoQ%	10/29/2026	3.2%	3.4%	11/25/2026	--

Source: Bloomberg, Strategas, BCA, Goldman Sachs, JPMorgan, Morgan Stanley, YCharts, FactSet, Bureau of Labor Statistics, University of Michigan, S&P Global, Atlanta Fed, Federal Reserve Bank of NY, Federal Reserve, Bureau of Economic Analysis, as of 11/10/2026

Tactical Asset Allocation Guide

OpenArc CORPORATE ADVISORY

Legend

Very Underweight	Underweight	Slight Underweight	Neutral	Slight Overweight	Overweight	Very Overweight

Nov 2026

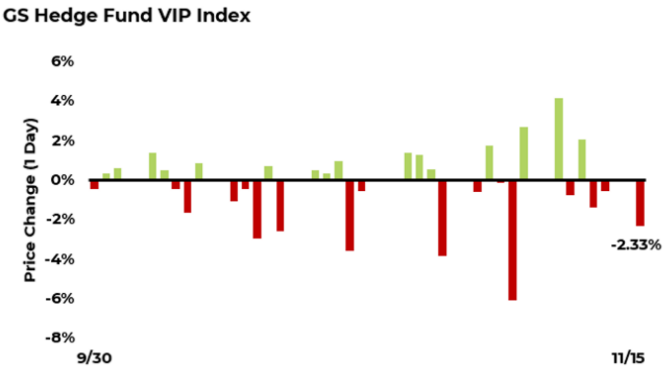
	Asset Class	View	Commentary
Equities	US Large Cap		We remain constructive on the AI theme. However, that view can't be expressed purely through US Large Caps, as the opportunity extends beyond the megacap names into semis, memory, power, and data center infrastructure across market caps and regions. As a result, we carry a structural underweight to US Large Caps.
	US Mid Cap		We remain slightly overweight on our midcap allocation to offset our reduced large-cap positioning. Midcaps offer a compelling middle ground, with greater domestic revenue exposure, less mega-cap concentration risk, and more direct exposure to the infrastructure and industrial themes driving this cycle.
	US Small Cap		Small caps navigated around a challenging macroeconomic and geopolitical backdrop, as names tied to the physical economy and the AI infrastructure buildout continued to benefit. Through select active strategies, managers have captured targeted exposure to these specific themes that remain supported by strong demand.
	Developed International		Ongoing tensions in the Middle East continue to disrupt energy supply, keeping pressure on oil and on energy importing economies like Europe and Japan. France has become the epicenter of Europe's fiscal concerns, as political gridlock over the budget has pushed French borrowing costs to levels not seen in decades and raised contagion risk across the region. Upcoming budget and election uncertainty elsewhere in Europe adds to the pressure.
	Emerging Markets		We remain neutral on Emerging Markets. EM navigated a challenging month, as concerns over how the AI buildout will be financed drove volatility across global markets. Geopolitics remains a headwind, with tensions in the Middle East keeping pressure on oil and weighing on energy importers across Asia. Still, we believe EM will continue to benefit from the AI theme through its exposure to memory chip makers in Korea and Taiwan, and valuations now sit well below historical averages.
Factors	Growth		We maintain a small overweight, reflecting continued conviction in AI infrastructure beneficiaries. The growth segment of the market includes the direct leaders in the AI-race, and should benefit as the buildout continues.
	Value		We remain slightly underweight Value in the US, while holding an overweight to Value in developed international markets. We believe that longer term Growth will outpace Value, as we remain in the earlier innings of this AI supercycle.
	Quality		Core factor exposure is expressed via a more dynamic, signal-driven approach. In an environment where factor leadership is shifting rapidly and stock dispersion remains elevated, we believe blending quality with more nimble quantitative strategies is better positioned to capture rotations in real time.
Sectors	Technology		Despite volatility this quarter driven by concerns over neocloud financing, we remain overweight Technology. AI continues to be the dominant theme in markets, supported by robust fundamentals, including record cloud backlogs and accelerating hyperscaler capex. We remain exposed through our active Technology allocation and believe we are in the middle of a larger, meaningful supercycle.
	Financials		We remain neutral on Financials, though the sector had a strong month on constructive bank earnings. Large banks posted standout trading results, loan growth held up, and net interest income guidance pointed higher into 2027. Capital markets activity is also accelerating, with a robust IPO pipeline following high profile listings like SpaceX and Anthropic, and M&A activity supporting advisory fees.
	Industrials		Industrials remain our largest sector overweight despite a pullback this quarter. Post election concerns over data center permitting weighed on power equipment names, and easing tensions with Iran cooled momentum in aerospace and defense. Still, the drivers behind the theme are intact. Record backlogs point to a multi year capex cycle tied to AI power demand and grid modernization, while defense spending continues to accelerate globally. We see the pullback as a reset in sentiment, not fundamentals.
Fixed Income	Duration		We remain slightly extended in duration, though remaining defensive in our broader fixed income posture. We favor securitized credit exposure for its incremental spread over traditional corporate bonds.
	Credit		We prefer higher-quality fixed income and select structured credit, positioning for a backdrop where tight spreads leave little room for error.

Source: Bloomberg, Strategas, BCA, Goldman Sachs, JPMorgan, Morgan Stanley, YCharts, FactSet, Bureau of Labor Statistics, University of Michigan, S&P Global, Atlanta Fed, Federal Reserve Bank of NY, Federal Reserve, Bureau of Economic Analysis, as of 11/10/2026

CIO Spotlight: When the Crowd Heads for the Exit

How the unwind unfolded

The S&P 500 and Nasdaq closed at record highs on October 6th, and for much of the six weeks that followed, the market's direction was set less by earnings or economic data than by hedge funds working their way out of their leveraged bet on AI. The unwind began in earnest in mid-October, when, according to Goldman Sachs Prime Brokerage, hedge funds sold AI stocks for five straight days and in the process reversed all of the AI buying they had done since the start of 2025. Importantly, most of that selling came from funds closing out existing positions rather than adding new bets against AI, a sign that managers were focused on reducing risk.



Rather than easing, the pressure built through the back half of the month. Goldman's basket of hedge funds' favorite stocks had its worst day since 2011 on October 22nd, and by month-end both stock-picking and systematic hedge funds had lost more than -3%, the first time both groups had done so in the same month since the data started being tracked in 2016. Morgan Stanley's data points to the same conclusion, showing that funds have cut their stock exposure since the end of June by the most in at least a decade.

All of this came to a head in the first week of November. In the week through November 5th, US stock-picking hedge funds cut their total market exposure by the most since March 2020, while their net exposure fell to its lowest level in five years, meaning funds are now carrying fewer longs relative to their shorts than at almost any point over that stretch. For an industry that spent much of 2025 adding exposure, it is a sharp reversal, as funds have now unwound about half of last year's buildup.

The pain followed the positioning

If there is one piece of evidence that this was a positioning event rather than a broad reassessment of the market, it is where the damage landed. Through October, losses clustered in AI, semiconductors, and the largest growth stocks, the very areas where hedge funds were most heavily invested. So while the Nasdaq 100 fell nearly -7% for the month, the Dow gained over +1% and the average S&P 500 stock beat the index by its widest margin since 2009. For most of October, the selling stayed largely contained within the crowded trade.

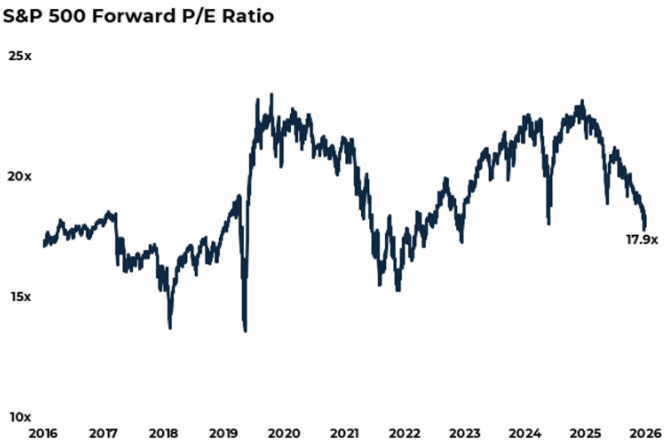
That changed on November 5th, when the unwind spilled into the broader market. Semiconductor stocks fell over -12% in a single session, their worst day since March 2020, while the Nasdaq 100 dropped over -6% and the S&P 500 fell over -4%, its worst day since April 2025, as the VIX jumped nearly +70%. A move of that size has less to do with new information than with how forced selling works once a trade becomes this crowded. As losses mount, funds that hit their risk limits sell their biggest winners, rules-based strategies cut exposure in response to rising volatility, and leveraged ETFs have to sell into falling prices to rebalance, with each round of selling deepening the losses that trigger the next. On November 5th alone, Morgan Stanley estimated that leveraged ETFs had to sell roughly $57 billion of US stocks, the most in data going back to 2007.

That said, even the most crowded trade needs a reason to unwind, and in this case the reason was a gradual change in the story rather than any single event. Over the course of October, questions about how much companies are spending on AI, what it costs, and how that spending is being financed moved from the background to the center of the debate, and uncertainty about data center policy after the midterm elections added to those concerns in early November. Leverage was the engine that turned that shift in sentiment into a far larger move than the news alone would have justified.

The fundamentals have not followed

What makes this episode worth paying attention to is how little of it shows up in the fundamentals. According to FactSet, S&P 500 earnings are on track to grow +31.4% from a year ago in the third quarter, with 88% of companies reported, and that growth rate has actually risen since the end of September, even as the index's forward P/E fell from 19.0 to 17.9 and slipped below both its five- and ten-year averages. In other words, investors are paying less for each dollar of earnings even as those earnings keep growing.

Source: Bloomberg, Strategas, BCA, Goldman Sachs, JPMorgan, Morgan Stanley, YCharts, FactSet, Bureau of Labor Statistics, University of Michigan, S&P Global, Atlanta Fed, Federal Reserve Bank of NY, Federal Reserve, Bureau of Economic Analysis, as of 11/10/2026



There is also a case that episodes like this keep the AI cycle healthier for longer. Investors have rarely been comfortable owning this trade in 2026, and while that discomfort has made for a bumpy ride, it has also served a purpose, with each wave of doubt pushing crowded positions out of the market before borrowing could build to the kind of extremes that usually mark the end of a cycle.

Bottom Line

In our view, deleveraging was the defining force behind the weakness of the past six weeks, as hedge funds unwound nearly two years of AI buying in a matter of weeks and the selling hit the most crowded parts of the market hardest, all while earnings kept rising underneath it. With hedge fund positioning now at its most cautious in five years, and with a number of panic gauges reaching levels that historically come before stronger returns over the medium term, the setup looks much cleaner today than it did in early October. That said, these unwinds rarely end neatly, and we expect volatility to stay elevated in the near term. For long-term investors, however, periods when forced sellers are setting prices have tended to reward patience.

Source: Bloomberg, Strategas, BCA, Goldman Sachs, JPMorgan, Morgan Stanley, YCharts, FactSet, Bureau of Labor Statistics, University of Michigan, S&P Global, Atlanta Fed, Federal Reserve Bank of NY, Federal Reserve, Bureau of Economic Analysis, as of 11/10/2026

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