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Wealth Advisory Market Update

November 11, 2026

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Market Update

Market Commentary

Equities

October marked a reversal from the previous month's market trends, as technology stocks experienced a notable selloff, with the NASDAQ declining 5.3%. In contrast, the S&P 500 Equal Weight Index outperformed its market-cap-weighted counterpart by nearly 600 basis points, reflecting a broader rotation away from mega-cap technology stocks. Key developments during the period included disappointing earnings results from several hyperscalers, a Federal Open Market Committee (FOMC) meeting, and, in early November, midterm election results that introduced additional uncertainty into the AI investment theme.

Investor sentiment was pressured by earnings results from several major hyperscalers. Two prominent companies reported concerning results, as their businesses outside of artificial intelligence (AI) missed expectations. We have previously expressed concern that the substantial allocation of capital toward AI infrastructure could come at the expense of other business segments. This earnings season provided some of the first indications that these concerns may be materializing.

According to Goldman Sachs, realized returns on invested capital among hyperscalers have declined from roughly 40% in 2016 to 25% currently. The unprecedented level of capital investment in AI infrastructure appears to be weighing on overall returns. Additionally, several companies are now experiencing negative free cash flow despite years of maintaining substantial balance sheets. As a result, continued investment may will require access to equity and debt capital markets. Despite these challenges, hyperscalers have shown little indication of slowing their investment in AI.

The midterm elections have concluded, with results strongly favoring Democrats. This outcome has raised concerns surrounding the AI investment theme, particularly the development of data centers in states such as Texas, which accounts for a significant portion of planned data center construction. The possibility of moratoriums on projects currently under development, along with delays to proposed facilities, could create meaningful headwinds for the sector.

Following the election, the NASDAQ declined more than 5.5%, while the S&P 500 fell approximately 4.4% over two trading days. This development adds another layer of uncertainty to our existing concerns regarding whether the substantial compute commitments being made today can ultimately be fulfilled. Goldman Sachs recently estimated that hyperscaler off-balance-sheet obligations alone include approximately $685 billion in commitments coming due in 2027. Combined with intensifying competition, declining tokenization costs, and the fact that two major large language models (LLMs) have yet to demonstrate profitability, we remain vigilant regarding the sustainability of the current AI investment cycle.

Although corporate earnings growth has remained strong, we believe much of that strength is concentrated among mega-cap technology companies benefiting from supply constraints. These shortages have allowed certain

companies to sell semiconductor products at prices two to three times higher than the previous year, potentially distorting traditional earnings-based valuation measures. Looking at price-to-revenue multiples provides another perspective on market valuations. The S&P 500 currently trades at approximately 3.4 times revenue, well above its historical average of 1.8 times since 2000 and more than two standard deviations above the long-term mean. This elevated valuation reinforces our preference for discipline and selectivity.

Geopolitics and the Fed

The situation involving Iran remains uncertain. Although discussions between the two countries are reportedly taking place through intermediaries, little substantive progress has emerged. Headlines have generally produced mixed messaging, with both sides disputing various reports. Meanwhile, military activity appears to have moderated, as reflected in the recent decline in oil prices, with investors increasingly hopeful that diplomatic efforts may ultimately prevail.

The FOMC held its scheduled meeting during the month and elected to leave interest rates unchanged. The Committee indicated that it would evaluate upcoming inflation data before making a decision at its December meeting.

In the press conference that followed, Federal Reserve Chair Warsh discussed several potential changes to the Committee's operations, including the possibility of reducing the number of scheduled rate-setting meetings in the coming years. He reiterated the Federal Reserve's commitment to its 2% inflation target and emphasized that monetary policy would remain focused on maintaining price stability.

Warsh also acknowledged that AI-related investment is contributing to increased demand within the economy, although he does not believe growth has reached excessive levels or is currently generating meaningful inflationary pressure.

Our view is somewhat more cautious. We believe the significant demand for AI infrastructure is contributing to shortages in memory and other semiconductor components, creating upward pressure on input costs. This trend was reflected in the latest Consumer Price Index (CPI) report and has also been highlighted by Apple during its recent earnings commentary. We will continue monitoring whether these cost pressures begin to broaden throughout the economy.

Strategy

Given the current level of market volatility, we remain committed to our disciplined investment approach. Our focus continues to be on companies with strong pricing power, robust balance sheets, and the ability to consistently generate free cash flow.

We maintain a preference for defensive sectors, particularly consumer staples and healthcare, given their relatively noncyclical characteristics and our expectation that economic growth may moderate. While the market has, at times, appeared to discount the importance of underlying fundamentals, history suggests that valuation, profitability, and financial strength eventually reassert themselves. We remain unwilling to chase performance or introduce unnecessary risk into portfolios in pursuit of short-term returns.

Within fixed income, interest rates have rallied from the levels observed in the previous month. From a risk-adjusted return perspective, mortgage-backed securities (MBS) continue to present attractive opportunities. We also maintain a preference for higher-quality credit as spreads have begun to widen among lower-rated borrowers.

Notably, the spread on CCC-rated bonds relative to Treasuries has reached its widest level since the 2023 banking crisis. Borrowing costs for speculative-grade issuers have climbed to 17%, the highest level since May 2020. We will continue monitoring whether this widening in credit spreads begins to move further up the ratings spectrum, which could signal broader deterioration in credit conditions.

Outlook

We remain committed to active, risk-aware portfolio management as the macroeconomic environment continues to evolve. Although uncertainty remains elevated, periods of market dislocation and increasing dispersion can create meaningful opportunities for disciplined, long-term investors.

By maintaining our focus on valuation, balance sheet strength, durable margins, and sustainable free-cash-flow generation, we believe our portfolios are positioned to navigate changing market conditions while remaining prepared to capitalize on opportunities as they emerge.

Thank you for your continued trust and partnership.

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