



Wealth Advisory Market Update

October 7, 2026



Market Update

Market Commentary

Equities

The equity markets, as measured by the S&P 500, declined approximately 50 basis points in September. However, that headline figure masks a significant divergence beneath the surface, as a narrow group of large technology companies continues to drive the market higher. This narrow leadership has persisted despite soaring global bond yields, heightened geopolitical tensions with no clear resolution in sight, and increasing pressure on the consumer.

Market breadth has continued to deteriorate. Fewer than 25% of S&P 500 constituents are currently trading above their 50-day moving averages, while the equal-weight S&P 500 has just recorded its seventh consecutive weekly decline. The last time we saw a streak of this length was in 2022 and 2002. Equities continue to be pulled higher by a small number of companies, even as the majority of sectors struggle.

We are also seeing an unusual divergence in the direction of individual stocks. According to Goldman Sachs, 45% of S&P 500 constituents have a negative three-month beta, meaning they tend to move in the opposite direction of the broader market. This divergence is occurring as the index is at new highs. In fact, the last time the S&P 500 gained at least 1% while trading within 1% of a new 52-week high, despite new lows outnumbering new highs, was in December 1999—just before the dot-com bubble burst.

As we have discussed previously, the market and broader economy have become increasingly dependent on artificial intelligence. Investors have effectively concentrated their bets on two leading large language model companies, Anthropic and OpenAI. Hyperscalers, semiconductor companies, and the broader AI infrastructure ecosystem have committed trillions of dollars to supporting the growth of these companies. Because neither Anthropic nor OpenAI is publicly traded, however, investors have limited visibility into their financials.

Anthropic's recent financial figures raise several concerns. Last year, the company generated approximately \$4.6 billion in revenue while reporting an operating loss of \$8 billion and a net loss of \$42 billion. Based on its second-quarter revenue, the company is currently operating at an annualized revenue run rate of approximately \$46 billion. At the same time, Anthropic has approximately \$518 billion in future committed obligations. Meeting these obligations assumes substantial increases in both revenue growth and sustained fundraising.

These assumptions are becoming increasingly difficult to justify. Open-source models have demonstrated comparable performance at significantly lower costs, contributing to a substantial decline in model pricing. Model costs are estimated to have fallen approximately 41% from their March peak. If these companies are unable to maintain pricing power, achieving the growth rates embedded in their financial commitments becomes considerably more challenging and can slow down fundraising.

Revenue concentration is another area of concern. According to Ramp, approximately 80% of enterprise revenue at OpenAI and Anthropic comes from just 1% of their customers. Anthropic's recent prospectus also indicated that many of its largest customers are not locked into long-term contracts.

This concentration creates additional risk at a time when many hyperscalers are becoming free-cash-flow negative and increasingly relying on debt to fund continued AI investment. Rising borrowing costs, higher Treasury yields, and growing scrutiny around the return on AI investment could ultimately lead to a slowdown in capital expenditures. Such a shift would put additional pressure on Anthropic's revenue growth, fundraising and ultimately its ability to meet its substantial financial commitments. This goes for OpenAI as well.

At the end of the day, there has been trillions of dollars committed to the AI buildout. There has yet to be a ROIC for any of these projects. The only companies making money are the semiconductors and the cloud providers. However, those profits will also come to an end when the spending is cut back which is not an IF but a when. We do believe this is the largest misallocation of capital in history. It is not that we think the technology is worthless, we actually believe the exact opposite. We think it is very helpful, just not trillions in capital spending helpful and we do not believe these companies will ever generate enough revenue to justify this spend. Because of this we have positioned our equity portfolios accordingly.

Geopolitics, Economy, and the Fed

Energy markets continue to be pressured by the conflict in Iran and the ongoing Russia-Ukraine war. Oil supplies remain constrained, as disruptions in the Strait of Hormuz make it increasingly difficult to move crude, while additional Russian refineries have come under attack. The G7 countries have released approximately 100 million barrels of emergency oil and diesel supplies in an effort to alleviate some of the disruption. Despite these measures, diesel crack spreads remain well above historical averages.

The resilience of the U.S. consumer is also becoming increasingly difficult to overlook. While consumers have continued to spend, questions remain about how much longer this pace can be sustained. Inflation has exceeded wage growth for five consecutive months, while credit card balances have reached record levels. At the same time, the personal savings rate declined another 50 basis points to 4.1%, well below the historical average of 8.4% dating back to 1959.

Taken together, these trends suggest that consumers are increasingly relying on credit to fund spending and meet everyday expenses. Higher borrowing costs following the Federal Reserve's recent rate hike add another layer of pressure on household finances.

As expected, the Federal Open Market Committee (FOMC) proceeded with a 25-basis-point rate hike, which some characterized as a "credibility" hike. The FOMC also released its updated Summary of Economic Projections (SEP), which calls for another 25-basis-point increase this year followed by unchanged rates next year. The Fed now expects core Personal Consumption Expenditures (PCE) inflation to reach 3.4%, 10 basis points higher than projected in its previous SEP.

Chairman Warsh delivered notably hawkish comments during the subsequent press conference. He emphasized that restoring price stability remains the Federal Reserve's primary objective and noted that too many categories of inflation remain above 3%.

When discussing Treasury yields, he expressed a view similar to ours: the recent rise in the 10-year Treasury yield is being driven in part by increased debt issuance from hyperscalers competing with Treasury supply, as well as higher oil prices. Hyperscaler and Nvidia 10-year debt issuance now represents nearly 70% of Treasury bond issuance,

compared with less than 10% in 2024. This significant increase in highly rated corporate debt issuance is directly competing with Treasuries for investor capital, putting additional upward pressure on yields.

Strategy

Given the increasingly narrow leadership of the equity market and the significant rise in borrowing costs over the past month, we are maintaining a cautious approach. We continue to prioritize companies whose valuations have not become excessively stretched relative to their underlying fundamentals.

Our focus remains on businesses with strong free-cash-flow growth, healthy and durable margins, and robust balance sheets. In an environment characterized by elevated uncertainty and rising financing costs, we believe these characteristics provide an important margin of safety.

Fixed income has experienced a sharp increase in yields over the past month. The 10-year Treasury yield has risen approximately 55 basis points to levels not seen since 2002. With yields now at levels rarely seen in recent decades, we have continued to extend duration.

With the equity risk premium now negative, investors may increasingly favor the relative attractiveness of Treasuries. Additionally, the significant amount of short positioning in Treasury securities, combined with our expectation for a slowing economy, could create the potential for a Treasury rally and a corresponding decline in interest rates.

Within fixed income, current spreads continue to favor mortgage-backed securities (MBS). For taxable accounts, tax-exempt municipal bonds have also become increasingly attractive. AAA-rated municipal bonds are currently offering tax-equivalent yields that have not been available in 15 to 20 years.

We continue to favor the middle portion of the yield curve. Moving significantly further out in maturity introduces greater exposure to inflation and economic growth risks, while the intermediate portion of the curve offers an attractive balance between yield and duration.

Outlook

We remain committed to active, risk-aware portfolio management as the macroeconomic environment continues to evolve. While 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 portfolios are well positioned to navigate changing market conditions while taking advantage of opportunities as they arise.

Thank you for your continued trust and partnership.

Matthew J. Roach, CFA®
Chief Investment Strategist

Mike Servetas
Assistant Portfolio Manager

The information contained in this market update has been prepared for informational purposes only. Unless otherwise noted, all data, commentary, and market observations are derived from widely available public sources that we believe to be reliable. AMB does not represent that the information is accurate, complete, or current, and it should not be construed as a recommendation or investment advice. Any opinions expressed reflect the judgment

of the author as of the date of publication and are subject to change without notice. The decision to review or consider the purchase or sell of any security should not be undertaken without consideration of your personal financial information, investment objectives, and risk tolerance with your financial professional.

Forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice. Any market indexes discussed are unmanaged and are generally considered to be representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indices do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indices. The S&P 500 Composite Index is an unmanaged group of securities that are generally considered to be representative of the stock market in general. Past performance does not guarantee future results.

Securities Offered through Allen, Mooney & Barnes Brokerage Services, LLC. Investment advice offered through Allen, Mooney & Barnes Investment Advisors LLC DBA AMB Wealth, a registered investment adviser.