

Beacon Weekly Investment Insights

The past week was chock full of data from the escalation of mid-east tensions, inflationary economic data, persistent AI related concerns and the beginning of the third quarter earnings season; all of which will be highlighted later. The real story of the week however was the volatility in the fixed income market. At the beginning of the week the US Treasury 10 year was at 5.24%, moving to 5.31%, eventually settling at 5.09%. Though on the face of things that do not seem like much, this kind of bond market weekly trajectory and velocity is rare. Was this a response to the reported data, an oversold condition, a flight to safety or a bit of each? Equity investors responded by selling most things AI related as concern increases on the ever-increasing capital spend needed to support growth, the capital markets appetite to support the required growth, margin contraction as costs rise and the political backlash on data center build as well as need for regulation. The semiconductor etf (SMH) is down 9 straight days and 10% in the last week alone. Investors opted for more defensive areas of the market such as healthcare, staples, energy and utilities resulting in the Dow rising 0.67%, the S&P 500 down 1.95% and the NASDAQ declining 4.48% for the week.

Without question the focus was on the inflationary data that, though expected to increase, came in much hotter than anticipated at both the consumer and producer levels. September CPI was reported Wednesday at 0.6% in line with estimates. Core was 0.3% a bit higher than thought. For the year, CPI was 3.7% significantly higher than the Fed's 2% target. There are some non-official inflation surveys that account for "must buys" or considered essential such as food, energy, shelter, insurance and clothing, that have the rate running at 3.9%. This is in the face of real average hourly wages and the savings rate declining. This dynamic is making it harder for businesses to pass along price increases. Many companies have been reluctant to pass along the promised tariff rebates opting to hold on to them. Recently, Walmart, under pressure, agreed to pass those along in reduced pricing during the holidays; expect competitors to follow suit. At the producer level, PPI, came in at 1.3% vs. 0.6% expected, ex food and energy was 0.7% vs 0.3% and 6.3 vs 5.5% Y/Y. It's safe to say this is directly related to higher energy prices putting pressure on input costs.

By all measures the consumer seems to be hanging in there but many are struggling. Retail sales were again strong at 0.8% vs. an estimate of 0.4%. One must wonder how long this can persist as war, higher energy and inflation do not appear to be abating anytime soon, keeping interest rates elevated, impacting shelter costs too. The median home sales price rose 1.3% y/y to \$417,500; this is the 39th straight months of gains. Inventory sits at 4.8 months and homes are on the market for 33 days.

Spooking the tech sector was CoreWeave (the inventor of the Neocloud business model). The company has built a cycle of debt, capex, and rapid sales growth. Investors are concerned about whether the momentum can continue to support 9% debt payments and, if not, the ultimate ramifications. Another item was calling into question Open AI's revenue accuracy; is the annual run rate \$70 or \$50B. Then Anthropic released quarterly numbers at a private event that were underwhelming. Recall these two companies are two of the most anticipated IPO's and now their lofty valuations are being scrutinized.

Corporate earnings commenced this week with the banks leading the way with mixed results. JPMorgan, Goldman Sachs and Morgan Stanley beat but Bank of America and Wells Fargo missed. Areas of strength were wealth management, equity trading and investment banking but most struggled in fixed income. The first take in the semi space was results out of Taiwan Semi with strong top and bottom-line results raising their 2026 revenue outlook to 44% on positive AI chip demand. Despite that, the stock has been weak in management's comments on contract margins due to input costs. In the coming weeks we will get more color as a number of tech companies report. In our opinion, this rotation away from parts of tech will result in lower valuations coupled with decent earnings outlooks that will bring investors back to the group. We have seen this numerous times in the past.

Roughly 70 companies report this week including GM, Netflix, Meta, Tesla, Lockheed Martin, P&G, Amex, and SLB (formally Schlumberger) to name a few. We also get some housing and construction data as well as manufacturing and services readings on Friday.

Market Scorecard:	10/16/2026	2026 Price Change
Dow Jones Industrial Average	52,002.41	8.20%
S&P 500 Index	7,659.44	11.89%
NASDAQ Composite	26,140.03	12.47%
Russell 1000 Growth Index	4,892.23	2.68%
Russell 1000 Value Index	2,514.45	21.38%
Russell 2000 Small Cap Index	2,721.37	9.65%
MSCI EAFE Index	3,122.04	7.06%
US 10 Year Treasury Yield	5.09%	+92 basis points
WTI Crude Oil	\$101.40	71.16%
Gold \$/Oz.	\$4,159.50	-0.73%

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