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WEEKLY UPDATE

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WEEKLY UPDATE

MUSINGS

“Courage is the price that life exacts for granting peace.”

AMELIA EARHART

LAST WEEK IN THE MARKETS

Name	Closing Level	Weekly Change	YTD Change
S&P 500	**7,580** ▼	-0.56% ▼	**10.73%** ▲
Nasdaq Composite	**25,437** ▼	**-2.00%** ▼	**9.44%** ▲
10Y UST Yield	**4.933** ▼	-1.32% ▼	**18.50%** ▲
Crude oil	**102.94** ▼	-0.49% ▼	**79.34%** ▲
Gold	**3,875** ▼	**-3.00%** ▼	**-10.26%** ▼
DXY	101.963 ▲	0.21% ▲	3.75% ▲
USD/INR	**94.94** ▲	0.01% ▲	**5.69%** ▲
Bitcoin	**77,176** ▼	**-4.81%** ▼	**-11.79%** ▼
Euro STOXX 50	**6,124** ▲	0.96% ▲	**5.35%** ▲
India (Nifty)	**23,053** ▲	**2.00%** ▲	**-11.77%** ▼
Japan (Nikkei)	**63,290** ▲	0.95% ▲	**25.73%** ▲
China (CSI 300)	**3,985** ▼	**-2.92%** ▼	0.66% ▲
Saudi (TASI)	**9,921** ▲	**2.33%** ▲	**-5.43%** ▼
Abu Dhabi (ADX)	**9,466** ▼	**-1.27%** ▼	**-5.27%** ▼
Dubai (DFM)	5,770 ▲	0.63% ▲	-4.58% ▼

NEWS FROM THE MARKETS

AI Spending Reality Check Hits Big Tech Hard

Investors spent much of the week testing whether the massive outlays on artificial intelligence infrastructure are starting to pay off, or simply stretching balance sheets. Alphabet, Amazon, and others reported results that showed strong cloud and AI-related growth in places, yet also delivered revenue shortfalls, negative free cash flow, and cautious commentary on capital spending. The reaction was swift and sharp. Nasdaq fell more than 1% on Thursday as Alphabet shares posted a record daily drop of roughly 13%, communication-services stocks sank, and broader AI-related names felt the pressure. Amazon shares also slid after the bell on elevated spending and cash-flow concerns, while Intel shares tumbled more than 20% on a soft outlook.

The core worry is straightforward. Hyperscalers are pouring tens or hundreds of billions into data centers, chips, and power. Alphabet kept its full-year 2026 capital-expenditure range at $195–205 billion and flagged a significant rise in 2027. Amazon reiterated roughly $220 billion in cash capital expenditures for the year. **Markets cheered cloud acceleration where it appeared, but questioned the timing of returns and the drag on free cash flow.** Alphabet reported negative free cash flow of about $9 billion for the quarter. Amazon's trailing twelve-month free cash flow was deeply negative at $42.4 billion. Intel's data-center and AI segment grew strongly, yet its overall guidance disappointed and client computing remained soft amid memory shortages.

Bond yields eased and oil prices softened at times, offering some support, but **equity markets treated the earnings as a reminder that AI enthusiasm has a price.** ServiceNow and other software names also sold off hard on related spending concerns. Europe held up better than the US on the day, helped by the European Central Bank's decision to leave rates unchanged. Still, the US tech-heavy indexes set the tone. The message from the week is that **investors now want clearer evidence that AI investments will generate returns before they fully reward the next wave of spending.** Volatility in megacap tech remains elevated, and the sector's leadership is under closer scrutiny than it was earlier in the year.

Alphabet (GOOG): Revenue rose 25% to $127.6 billion but missed estimates; adjusted EPS of $2.67 also fell short. Cloud more than doubled, yet **free cash flow turned negative by $9 billion and 2027 capex is set to jump.** Additionally, there are now questions about the impact of AI on the company's lucrative ad revenues.

Intel (INTC): Revenue climbed 21% to $16.5 billion on strong data-center and AI demand, but client computing slipped and Q4 guidance of $15–16 billion disappointed, amid concerns that **continued PC weakness and factory issues in Israel may delay the recovery investors had hoped for.**

Amazon (AMZN): Sales grew 12% to $202 billion with AWS accelerating to nearly 40% growth and record operating margins. **Yet free cash flow was deeply negative and Q4 sales guidance came in soft.** Investors worried that sustained high capital spending could weigh on cash generation even as cloud thrives.

Fed Holds Steady as Growth Surprises to the Upside

The Federal Reserve kept its policy rate in the 3.75–4.00% range, as widely expected, but the decision and the accompanying comments still moved markets. Chair Kevin Warsh described a strong economy and solid job gains, yet offered limited guidance on the path ahead. Two policymakers dissented in favor of a hike, and the yield curve steepened as investors adjusted expectations. Markets had been pricing a high chance of a December increase; after the meeting those odds moderated somewhat.

Economic data provided a supportive backdrop. **Third-quarter GDP grew at a 3.4% annualized rate**, the fastest in a year, powered by consumer spending and AI-related business investment. That strength helped offset higher oil prices linked to Middle East tensions. **Personal consumption expenditures inflation data also came in firm, with the headline rising 0.5% in September.** The combination left the Fed in a familiar spot: growth is robust enough to keep inflation risks alive, yet the committee chose patience while waiting for more information.

Other central banks added to the global picture. The European Central Bank held rates at 2.5% and kept a December hike on the table amid energy-price worries. Christine Lagarde's resignation announcement, effective early next year, introduced a new element of uncertainty for euro-zone policy. The Bank of Canada raised rates, New Zealand delivered a surprise, and the Bank of Japan left rates unchanged while raising inflation forecasts. **US Treasury yields fell on the week, with the 10-year note around 4.94%.** Equity indexes ended mixed, with smaller and value stocks outperforming megacaps as AI jitters dominated.

The takeaway is that the Fed remains data-dependent and in no hurry to declare victory on inflation. Strong growth reduces recession fears but keeps the door open for further tightening if price pressures reaccelerate. Bond markets reflected that tension through curve steepening, while stocks digested the mixed signals from both policy and earnings.

Oil, Energy Costs, and Geopolitical Undercurrents Keep Markets on Edge

Energy markets and geopolitical developments provided a steady undercurrent of caution throughout the week. Oil prices retreated from recent six-month highs at times but remained elevated, with Brent around $115 and WTI near $102–104. Higher energy costs fed into inflation readings and complicated the outlook for central banks in Europe and elsewhere. Reports of diplomatic efforts involving Qatar and Iran offered occasional relief, yet the risk of renewed tensions after US midterms kept traders alert.

In Europe, energy prices and the potential for second-round inflation effects featured in the ECB's discussions. The bank noted tighter financial conditions and the energy shock as reasons for caution. **In the United States, AI-driven investment helped power GDP, but the broader cost of power for data centers is becoming a practical constraint that companies themselves are flagging. Shipping costs also hit multi-year highs in some measures**, adding another layer of expense pressure.

The week underscored that energy and geopolitics remain important swing factors for both inflation and growth, even as domestic US data look solid.

Important Events in the Upcoming Week

The week of November 2–6 brings a dense calendar that could shift rate expectations and risk appetite. **US midterm elections on Tuesday will dominate headlines** and may influence fiscal and regulatory outlooks, though markets typically stay open. Friday's October employment report will be closely watched for clues on labor-market strength after the Fed's recent hold. Earlier in the week, ISM manufacturing and services surveys, JOLTS job openings, and ADP private payrolls will fill in the picture of current activity.

The Bank of England is widely expected to raise rates on Thursday. Other central-bank decisions are due in Australia, Sweden, Norway, and elsewhere. Global manufacturing and services PMIs will offer timely reads on growth momentum. OPEC+ meets early in the period, keeping oil in focus. Earnings continue with names such as Apple and others. Taken together, the data and events will test whether the recent combination of solid US growth and AI-spending caution persists or gives way to a clearer directional move in rates and equities.

Portfolio Implications

The week's themes point to a more selective environment. Heavy AI spending has delivered impressive cloud growth but also cash-flow pressure and valuation sensitivity; **portfolios overweight pure megacap tech may want to review concentration and consider broader participation or quality names with clearer returns on capital.** The Fed's hold and strong GDP reduce near-term recession risk yet keep inflation and rate volatility alive, favoring **a balanced approach to duration** and some insulation against higher-for-longer rates. Energy and geopolitical risks remain live variables. Overall, diversification across sectors, attention to free-cash-flow quality, and readiness for event-driven moves around midterms and jobs data look prudent.

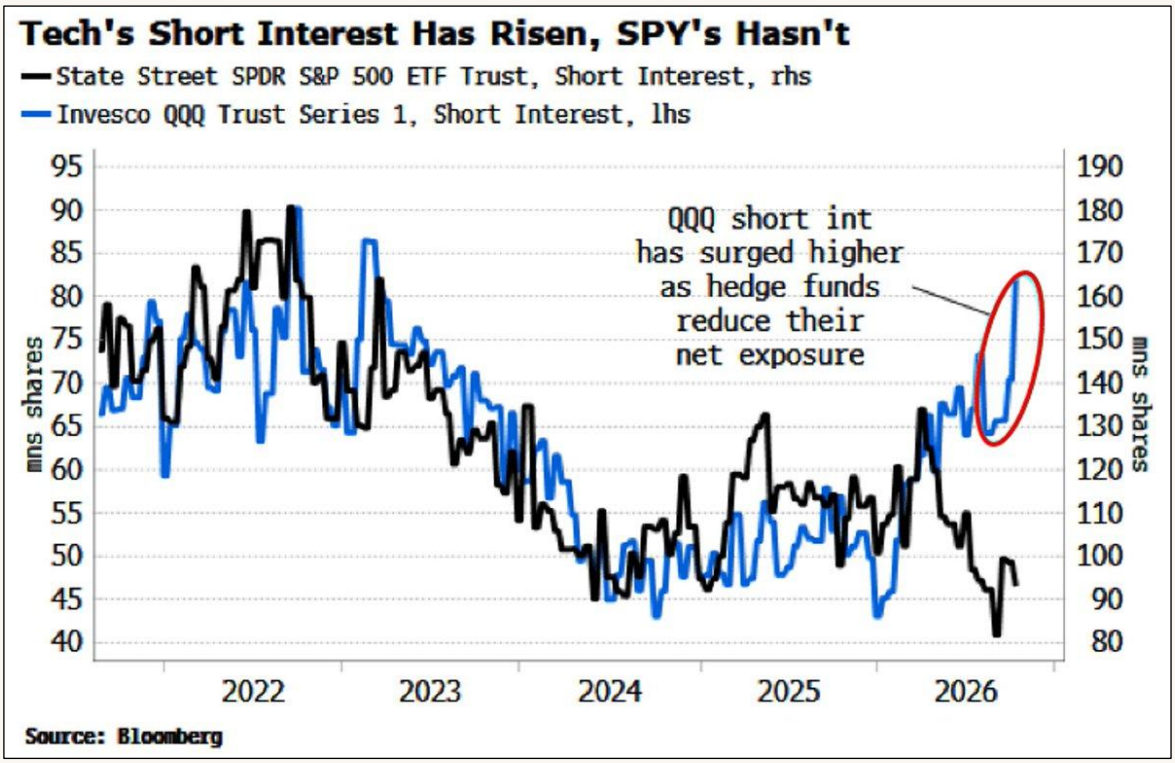


COMING THIS WEEK

Key Economic Events

November 2nd	• US Manufacturing PMI Data (Oct) • China Manufacturing PMI Data (Oct) • Apple, Palantir, Onsemi earnings
November 3rd	• US Midterm Elections • US JOLTs Job Openings (Sep) • AMD, Pfizer earnings
November 4th	• Euro Area Inflation Data (Oct) • US Services PMI Data (Oct) • China Services PMI Data (Oct) • Qualcomm, Novo Nordisk, Uber earnings
November 5th	• UK BoE Interest Rate Decision • US Initial Jobless Claims • Cloudflare earnings
November 6th	• US Unemployment Rate (Oct) • US Michigan Consumer Sentiment • Moderna earnings

CHART OF THE WEEK



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