Westminster

FINANCIAL COMPANIES

Economic & Market Commentary
November 2026

October Market Recap - Big Tech Hangover Dwarfs Rest of Market

The Standard & Poor's 500 finished October with a small loss on the month, masking one of the greatest disparities in returns in years between the large technology companies and the rest of the index.

On an intra-day basis, the Nasdaq 100 fell 10% from records achieved just earlier in the month - its third correction this year, technically. It ended the month 6.7% lower. By contrast, the Dow Jones Industrial Average rose 1.8%, and the equal-weight version of the S&P 500 gained about 5%.[1]

The macro backdrop pulled in two directions, as Brent crude climbed above $116 per barrel, the highest since April, following renewed Middle East escalation. Yet the 10-year Treasury yield fell below 5% down from its highest since 2002, as a weak September jobs report and the AI scare took priority over the oil shock. The Federal Reserve held rates steady on October 28th in a 10-2 vote, with Chairman Kevin Warsh attributing the AI wobble partly to September's hike, stating the Fed's "monetary medicine is starting to work some."

To summarize, the benchmark S&P 500 declined 0.9%. The tech-heavy Nasdaq Composite bared the brunt of the selling, down 5.3% as AI faced worries about capital constraints. At the sector level, Energy (+14.0%) and Consumer Staples (+11.6%) led the market in October. Communication Services (-15.1%) and Information Technology (-6.8%) lagged, as shown in Figure 1[2].

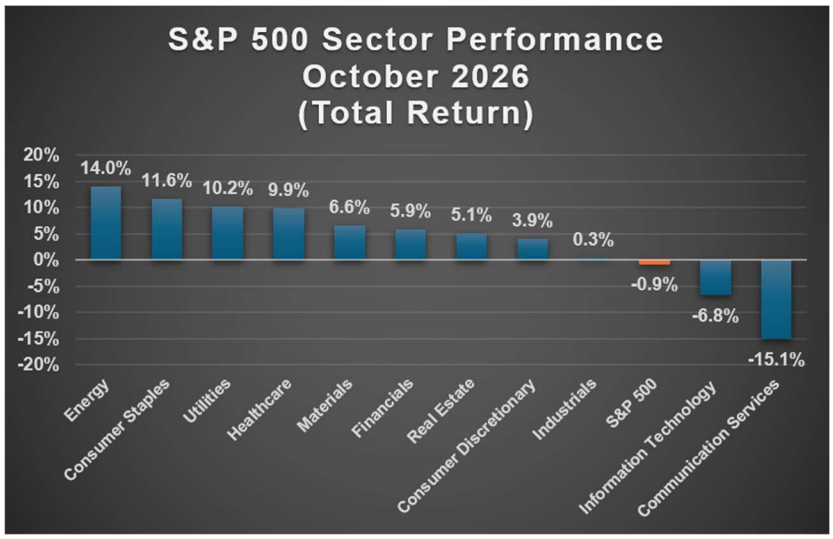


Figure 1 - S&P 500 Sector Total Returns (October 2026)

The artificial-intelligence buildout is finally having to confront the much-anticipated cash-flow problem. For instance, Alphabet declined 12.6% on October 29th, erasing roughly $500 billion of market value after revealing that its $51.4 billion of quarterly capital expenditures resulted in negative

free-cash-flow (FCF) to the tune of $9.1 billion - the company's worst such figure since going public.[3] Other major companies involved in all-things AI have joined in the selloff due to similar concerns – insufficient cash flows to cover unprecedented capital expenditures, resulting in a need for eye-watering capital raises. The latter begs the growing question – is there appetite to offer further capital, and if so, does sufficient capital even exist?

Funds leaving the technology-oriented investments seemingly flowed to the defensive and cyclical corners of the market as energy and consumer staples led the sector table (Figure-1[4]). The S&P 500 Health Care Index hit a record on October 29th as Eli Lilly, the largest sector constituent, raised its full-year forecast. Meanwhile the S&P 500 Communication Services Index, which includes Alphabet and Meta, had its worst month since April 2022.

Key Interest Rate Yields	10/31/26	12/31/25	10/31/25
Federal Funds Target Rate	4.00%	3.75%	4.00%
3-Month T-Bill	4.08%	3.63%	3.80%
2-Year T-Note	4.59%	3.47%	3.57%
5-Year T-Note	4.72%	3.73%	3.69%
10-Year T-Note	4.93%	4.17%	4.08%
30-Year T-Note	5.31%	4.84%	4.65%

Fixed income had a great month as Treasury yields declined all along the yield curve. However, there was some flattening of the curve as the intermediate and long-term rates declined more than short term ones. Even with elevated energy prices, interest rates fell on the month due to the weak September jobs figures and AI funding concerns. Treasuries proved to be the safety trade.

Using the SHY, IEF and TLT[5] exchange-traded-funds (ETFs) as proxies, short-, intermediate- and long-term Treasuries were up 0.9%, 3.1% and 5.6%, respectively. The 10-year U.S. Treasury yield, a proxy for the bond market and prevailing interest rates globally, declined 36 basis points in the month after peaking at a multi-decade high of 5.31%.

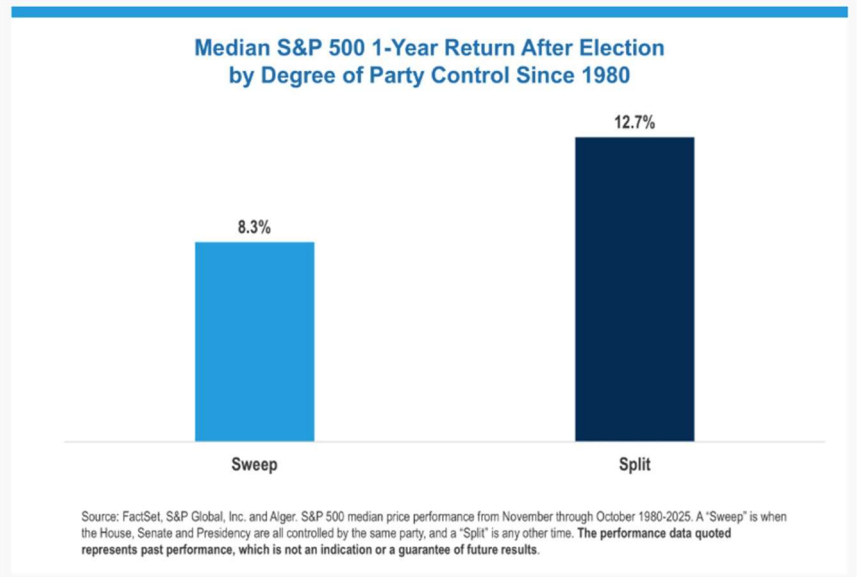
Corporate bonds also posted gains across most maturities as the fall on government yields more than offset the widening of credit spreads. Short- and intermediate-term corporate bonds returned 1.2%, while long-term corporate bonds gained 3.6%[6].

US Capital Markets

Political Gridlock Is Market Friendly

Elections giving one party control of the White House and both chambers of Congress (Sweep) have historically been followed by a median S&P 500 gain of 8.3% over the next year. On the other hand, elections producing divided government, with the opposition holding at least one chamber, have delivered a higher median gain of 12.7% over the same period (Figure-2).[7]

The superior performance largely reflects lower policy risk. Political gridlock makes sweeping legislative changes and major new industry regulations less likely – a key consideration amid the AI investment boom. Compromise tends to produce more moderate policies, reducing investor uncertainty.



Source: FactSet, S&P Global, Inc. and Alger. S&P 500 median price performance from November through October 1980-2025. A "Sweep" is when the House, Senate and Presidency are all controlled by the same party, and a "Split" is any other time. The performance data quoted represents past performance, which is not an indication or a guarantee of future results.

Figure 2- Historically, Divided Governments Are Good for Stocks

Figure 3[8] highlights the value of staying invested through political cycles. A $10,000 investment in the S&P 500 in 1949 grew to approximately $5 million by September 2026 when held through both Republican and Democratic presidencies. Investing only when one party occupied the White House produced substantially smaller balances, reflecting less time in the market and fewer opportunities for compounding. Elections can influence policy and create short-term volatility, but this history reinforces our preference for maintaining a disciplined investment strategy grounded in company fundamentals, valuations and clients' long-term goals.

We believe fears that tighter AI and data-center regulation will derail the investment cycle are overstated. Newly elected officials must balance campaign promises against construction jobs, recurring tax revenue and funding for local services. Nevertheless, federal gridlock would leave meaningful state and local restrictions in play, including permitting delays and moratoriums. Our expectation is that policy will increasingly require developers to cover infrastructure costs, protect household electricity bills and demonstrate community benefits. These requirements could raise costs and slow some projects, but the economic incentives favor a path for continued investment. Regulation may ultimately reshape the pace and location of the buildout more than its long-term direction.

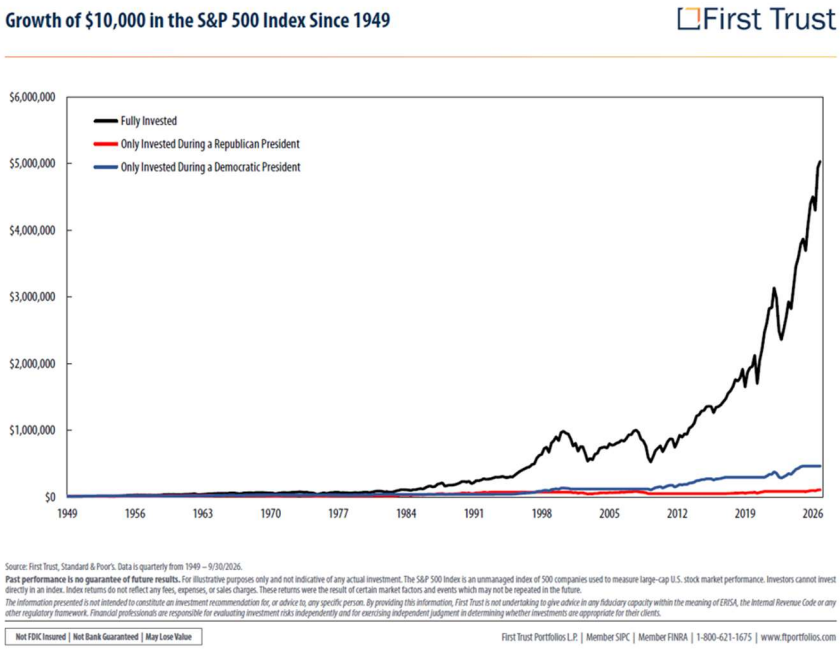


Figure 3 - highlights the value of staying invested through political cycles.

CAPITAL RAISING IS THE NEW BOTTLENECK FOR THE AI BUILDOUT

The AI boom is entering a more precarious phase. Capital spending is surging, free cash flow is deteriorating, and debt issuance is setting records. Rising credit volatility and increasingly fragile equities are adding to the strain, while the rush into defensive assets is creating pockets of crowding and excess. The AI investment cycle remains intact, but investors continue to question how its expansion will be financed. With positioning growing more defensive, the next sharp market move could be a bullish reversal.

Specifically, the AI Hyperscalers' (Amazon, Alphabet (Google), Meta Platforms, Microsoft, and Oracle) cash generation has deteriorated sharply, with combined quarterly free cash flow falling to negative $31.4 billion (Figure-4) [9]. Microsoft is now the only major hyperscaler still generating positive free cash flow. Once prolific cash generators, these companies are becoming heavy cash spending machines. AI demand remains strong; the challenge is the mounting cost of meeting it.

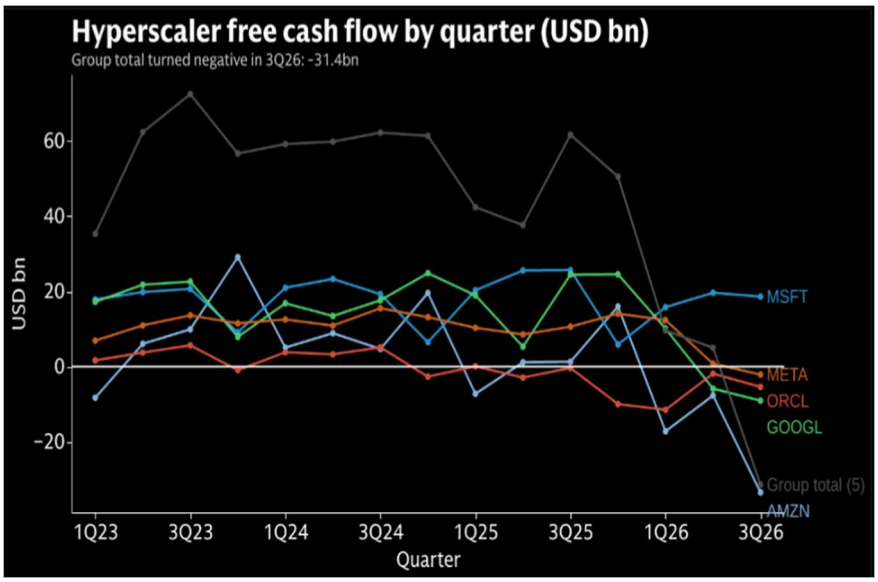


Figure 4 - The Cashflow Collapse

As AI's financing needs continue to mount (Figure-5)[10], global hyperscaler bond issuance has reached $254 billion, already exceeding the Street's $250 billion full-year forecast. Microsoft alone issued $25 billion last week, helping lift year-to-date U.S. investment-grade issuance above $2 trillion – an annual record with two months remaining. Meanwhile, Amazon's long-term debt has jumped from $66 billion to $173 billion in just nine months[11]. The AI revolution is increasingly becoming a capital markets story.

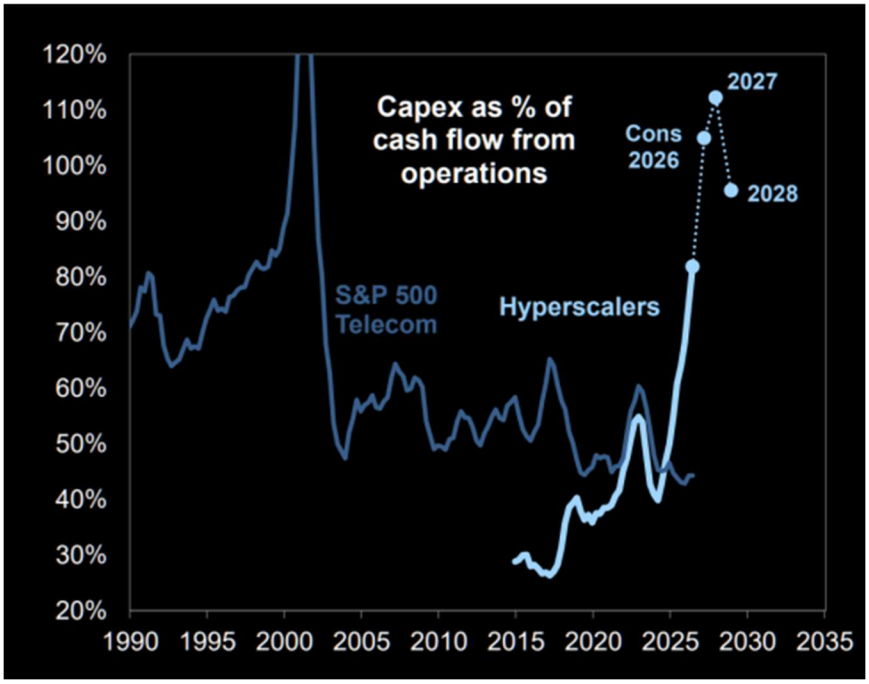


Figure 5 – AI Hyperscaler CAPEX Needs Are Rivaling the Dot-Com Fiber Buildout

US-Iran Deal: A Reescalation or A Peace Deal Ahead?

The U.S.–Iran standoff leaves room for a negotiated agreement, but the path remains unknown. Both sides have incentives to avoid renewed fighting: Iran would face further economic and military damage, while Washington has an interest in containing energy prices and the geopolitical costs of a prolonged conflict. U.S. military pressure could encourage Iranian concessions, while regional mediation and China's diplomatic efforts provide an opening for cooperation. However, continued negotiations alongside the latest U.S. strikes on Qeshm Island show how easily and quickly diplomacy can cede to escalation.

The midterm elections may alter political pressure on the administration, but they do not guarantee a swift end to hostilities. The 2007 Iraq funding confrontation, when President Bush vetoed legislation containing withdrawal deadlines, illustrates the limits of congressional pressure in forcing immediate disengagement. In our assessment, a limited negotiated de-escalation remains a plausible outcome, while a durable peace requires substantially more agreement. The clearest evidence of progress would be sustained commercial shipping, recovering energy exports and verified implementation of commitments.

Conclusion – Still Constructive on the Stock Market 6-12 Months Out

We remain constructive on stocks over the next six to 12 months, while recognizing that near-term volatility could remain elevated. Corporate earnings continue to provide support, and October's gains across many areas outside the largest technology companies show that investment opportunities extend beyond the AI trade. Recent declines have also improved valuations in parts of the market. Together, these developments support staying invested, with more measured return expectations as earnings growth slows.

The AI investment cycle remains an important source of long-term growth, but investors are demanding clearer evidence that extraordinary spending will translate into sustainable profits and cash flow. Rising financing needs make balance-sheet strength and access to capital increasingly important. This calls for greater selectivity, with an emphasis on companies that can fund their growth responsibly and earn attractive returns on their investments.

The near-term outlook will depend heavily on energy prices, inflation and interest rates. A credible agreement with Iran could reduce oil's geopolitical premium, ease pressure on households and businesses, and support financial markets, although disrupted supplies would take time to recover. Renewed hostilities would increase inflation risks and weigh on growth. The midterm elections may resolve some political uncertainty, but their outcome alone will determine neither the course of the conflict nor the direction of markets.

For portfolios, we favor diversification across industries and investment styles, with an emphasis on durable earnings, healthy cash flow and reasonable valuations. High-quality bonds could provide a more effective cushion if inflation moderates and interest rates stabilize, while appropriate liquidity provides flexibility during periods of uncertainty. Staying invested at a level consistent with each client's goals and risk tolerance, rebalancing when appropriate, and using market weakness selectively remain central to our approach. These disciplines can help investors participate in future growth while managing the risks along the way.

As always, please contact us with any questions or to discuss how these views may apply to your portfolio.

Sincerely,

The Westminster Financial Investment Policy Committee

Resources:

[1] Figures are total return. Source: Bloomberg
[2] Total Return S&P 500 Sector Figures. Source: Bloomberg
[3] Company Filings, and Bloomberg
[4] Total Return S&P 500 Sector Figures. Source: Bloomberg
[5] Source: Bloomberg. ETF proxies include SHY (1-3-year U.S. Treasuries), IEI (3-7-year U.S. Treasuries), TLT (20+ year U.S. Treasuries).
[6] Source: Bloomberg, and iShares. ETF proxies include IGSB (short-term investment-grade corporate bonds) and IGLB (long-term investment-grade corporate bonds).
[7] FactSet, S&P Global, Inc. and Alger
[8] First Trust, and Standard & Poor's. Data is quarterly from 1949 - 9/30/2026.
[9] Bank of America Global Research and Market Insights
[10] Goldman Sachs Investment Research
[11] Bloomberg

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