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Weekly Market Report Week 2

October 12 - 16, 2026



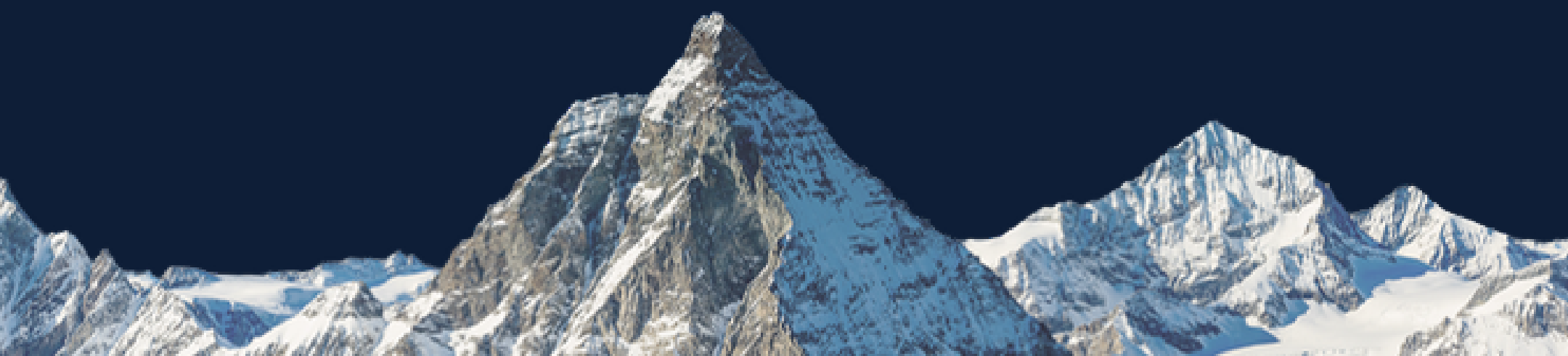
Hotter U.S. inflation data revived the case for further Fed hikes, but a sell-off in AI-related stocks drew investors into Treasuries and pushed yields lower over the week.

1) Hotter price data narrowed the Fed's room to wait

Midweek, consumer prices rose 0.6% in September from August, lifting annual inflation to 3.7% from 3.4%. Energy explains much of the gap with core CPI, which rose 0.3%, but core prices still beat the 0.2% forecast for a second consecutive month, taking the annual core rate to 2.6% from 2.4%.

The data earlier in the supply chain points in the same direction. Producer prices rose 1.3% in September, the largest monthly increase since March 2022, and import prices rose 1.1%. Higher costs for producers and importers often reach consumers with a lag, which could keep core inflation firm in the October and November reports even if oil prices stabilize.

This weakens the case that last week's softer labor data had built for a pause. Core inflation at 2.6% still gives the Fed room to wait in October, but a December hike becomes harder to rule out. Markets drew the same distinction.

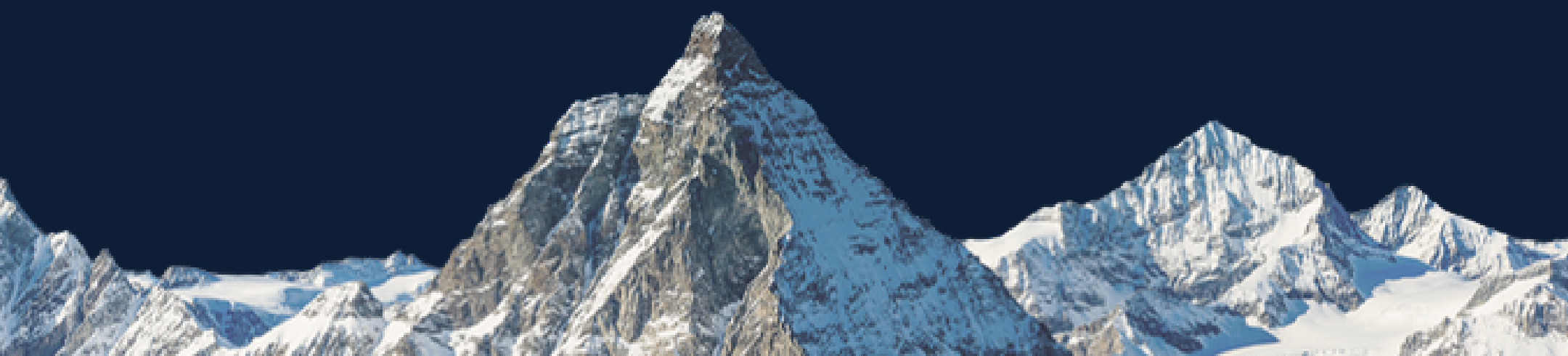


2) The tech sell-off outweighed hot inflation data in the bond market

On Friday morning, fed funds futures priced a 15% probability of a hike on October 28, while still pricing at least one more quarter-point increase by year end. With Chair Warsh avoiding forward guidance, each data release now carries more weight in that pricing.

Treasuries moved the other way. The 10-year yield fell 10 basis points between the CPI release on October 14 and Friday's close, to 5.09%, with most of the decline on October 15 as investors moved into government bonds during the technology sell-off. Over the week, the 10-year yield fell 15 basis points and the 2-year yield 6 basis points, to 4.74%.

The rally came from demand for safety, while the data argued for higher yields. If equities stabilize and the next releases stay firm, yields could move back toward last week's levels. Bank of England Deputy Governor Sarah Breen said on October 15 that the larger role of leveraged hedge funds in government bond markets raises the risk of shocks spreading, which could make such a reversal sharper.



3) Concerns over AI financing weighed on credit and chip stocks

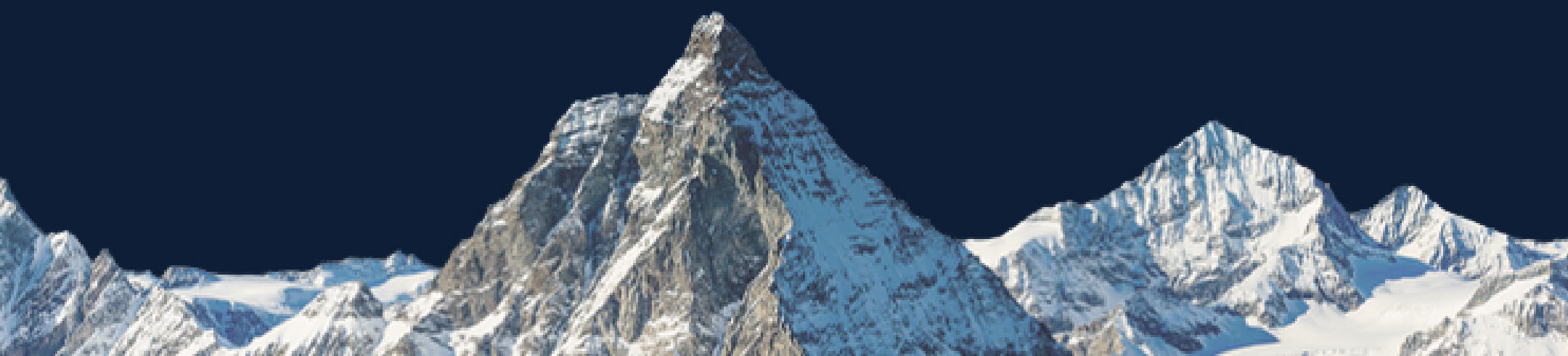
Last week, SpaceX's debt plans brought closer scrutiny to how the AI build-out is financed. This week, that scrutiny reached bond prices. CoreWeave's unsecured bonds due 2032, issued in June at a 9.675% yield, fell to 79.5 cents on the dollar on October 14, lifting their yield to 15.06%.

The link to chip stocks runs through orders. Companies such as CoreWeave rent out AI computing capacity and borrow heavily to buy chips, so a higher cost of debt can slow their purchases. The Philadelphia Semiconductor index declined for eight consecutive sessions to October 16, and the Nasdaq 100 fell 5.49% over the week.

Demand for chips held up, with TSMC reporting record quarterly profit on October 15. The strain is concentrated among smaller, debt-funded buyers, while the largest technology companies fund most of their spending from operating cash flow. Their capital spending plans, due with results in the coming weeks, will show whether that strain stays contained.

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4) Earnings growth stayed strong, while bank results split

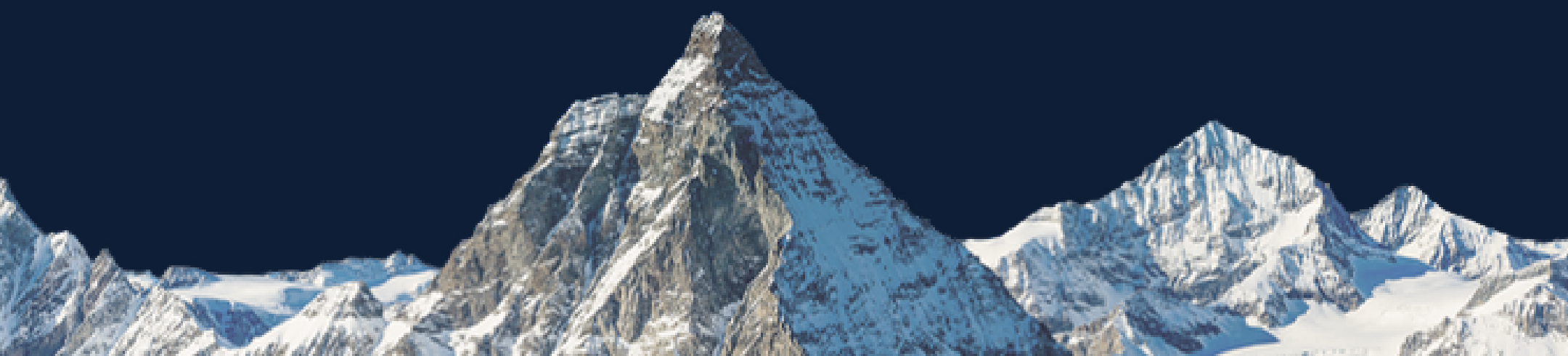
Third-quarter earnings season opened with the large U.S. banks on October 13, and trading made the difference. Goldman Sachs reported earnings per share of USD 17.01, against a FactSet estimate of USD 12.86, as equities trading revenue rose 72%. JPMorgan's earnings per share of USD 5.57 fell short of the USD 5.90 estimate, with markets revenue of USD 10.3 billion below the USD 10.5 billion expected.

TSMC reported its sixth consecutive record quarterly profit on October 15, with net income up 68.7% year on year. By October 16, with 9% of S&P 500 companies reported, blended third-quarter earnings growth stood at 29.0% year on year according to FactSet, down from 29.4% a week earlier.

Earnings rose while prices fell, so valuations moved lower over the week. The sell-off therefore pointed to concerns about how AI spending is financed more than about current profits. If those concerns ease, earnings at this pace leave room for a recovery, although gains so far have come from a small group of companies.

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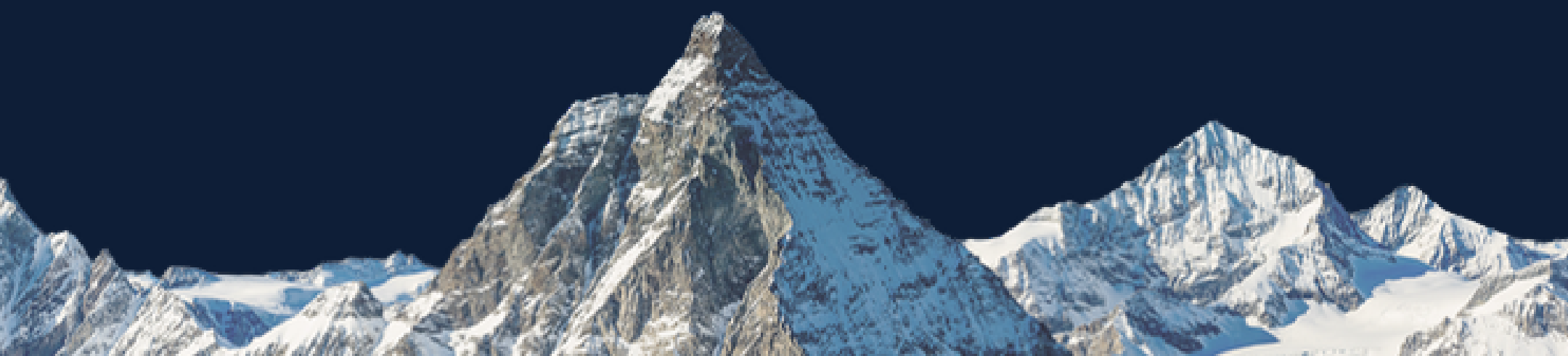


5) Oil rose to its highest level since May, while European equities gained

Brent crude rose 4.91% over the week to settle at USD 109.86 per barrel on October 16, its highest settlement since May 19. Reports cited Middle East supply concerns and a Ukrainian drone strike that shut a unit at a major Russian refinery, which raised concerns about diesel supply.

Higher oil feeds directly into the headline inflation that rose in the U.S. this week, and it weighs more on Europe as a net energy importer. Before the move, 64 of 73 economists in a Reuters poll on October 8 already expected the ECB to raise rates in December.

European equities still gained. The Euro Stoxx 600 rose 2.09% over the week, as bank shares and company results offset the global technology sell-off, according to Reuters. The index holds far fewer AI-related companies than the Nasdaq 100, which limited its exposure this week. Brent's path into the ECB meeting on October 29 will show whether that advantage lasts.



Weekly Performance | Major Indices

Sources: BLS, Federal Reserve, Bank of England, FactSet, company reports, S3 Partners, Reuters, Bloomberg, CNBC, AP, Barron's, The Japan Times, TD Economics, FRED, Investing.com

Index	Weekly Change	Observation
S&P 500	-1.95%	Declined over the week, its weakest week since June, as chip stocks fell on concerns about AI financing.
Nasdaq 100	-5.49%	Declined sharply as semiconductor and AI infrastructure shares sold off.
Euro Stoxx 600	+2.09%	Advanced, as bank shares and company results offset the global technology sell-off.
Nikkei 225	-5.37%	Declined sharply in a holiday-shortened week, including a 4.90% fall on October 15.

