Capitalwise

MARKET & ECONOMIC REVIEW

November

2026

MESSAGE FROM OUR TEAM

Our Mission: Provide our clients with the highest level of service and advice to help build their family's security and prosperity.

We love what we do. We are passionate about the industry and proactive in learning new strategies to deliver the best investments and solutions available in the market.

This monthly update reflects our passion and commitment to learn, share, and operate with authenticity and transparency. The commentary, data, and visuals provided are not intended to be investment advice. Please seek the advice of an independent financial advisor for your personal financial decisions.

> Diversification is the only free lunch in investing.
>
> **Harry Markowitz**
> Father of Modern Portfolio Theory

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ECONOMIC UPDATES

Economic Update: **Market Cycle**

At a Glace · Late Cycle Expansion

October tested the trend more than it changed it. Third-quarter GDP grew 3.4%, the best quarter in a year, but growth over the last four quarters still averaged a trend-like 2.1%.

Inflation is the factor that keeps moving the wrong way: CPI rose to 3.7% and has averaged about 3% a year for three years. The AI selloff sparked a sharp rotation toward the average stock, yet one month does not undo three years of mega-cap leadership, so breadth moves to Mixed rather than Broadening.

Hiring has slowed to a crawl and real incomes slipped, while the Fed held rates with two officials pushing to hike. So far the trend is holding: earnings are growing, consumers are still spending, and layoffs remain low. What October changed is the pressure on that trend, from inflation that won't cool and from investors who now demand more to own both stocks and credit.

WHERE WE ARE IN THE CYCLE



Late-Cycle Expansion

Economic Update: **Market Cycle**

The Seven Dots

Each track runs Contraction to Overheating in that factor's own vocabulary. The dot is where it sits today.

Growth

EXPANDING



Q3 GDP grew 3.4%, the best quarter in a year, but growth over the last four quarters averaged 2.1%, below the 2.5% three-year pace. The print pulls growth back to trend; it does not yet signal a new acceleration.

Q3 GDP +3.4% · 4-qtr avg +2.1% · 3-yr avg +2.5% · Final sales to private buyers +4.9%

Inflation

ELEVATED



September CPI rose 0.6% for the month and 3.7% from a year ago as gasoline jumped 9.1%. Core PCE rose to 3.1%, and both measures have averaged about 3% a year for three years.

CPI YoY 3.7% · Core CPI YoY 2.6% · Core PCE YoY 3.1% · 3-yr avg CPI 3.1%

Credit

EASY



High yield spreads closed October at 344 bps, up from 312 bps and the widest since March, as AI-linked borrowers came under pressure. Over 12 months and 3 years, spreads still average a tight 289 to 307 bps.

HY OAS 344 bps · Oct avg 322 bps · 12-mo avg 289 bps · 3-yr avg 307 bps

Consumer

WEAKENING



Real disposable income fell 0.3% in September, the biggest drop since April, and real spending was flat. Retail sales rose 0.8%, but sales excluding autos and gas gained just 0.2%.

Retail sales +0.8% · Ex autos & gas +0.2% · Real disp. income -0.3% · Saving rate 3.8%

Leadership & Breadth

MIXED



The equal-weight S&P 500 beat the cap-weighted index by 5.5 points in October and closed back above its 200-day trend, but it still trails by 11 points over three years. One strong month affirms a turn, not yet a trend.

Equal wt. vs. S&P: Oct +5.9 pts · 3-yr -11.1 pts · Dow +1.7% vs. Nasdaq -5.3% · XLE +11.7%, XLK -9.3%

Labor Market

BALANCED



September payrolls rose 29k and July and August were revised down a combined 60k, lifting unemployment to 4.2%. Hiring has averaged 41k a month over the past year versus 73k over three years.

Payrolls, Sep +29k · 12-mo avg +41k · Unemployment 4.2% · Initial claims 194kv

Monetary Policy

NEUTRAL



The Fed held at 3.75% to 4.00% in a 10-2 vote, with both dissenters favoring a hike. Over the full cycle policy sits near neutral, 145 bps below the 2023 peak, but the direction has turned tighter.

Fed funds 3.75% to 4.00% · Real fed funds +0.8% · 10Y 4.94%, 2Y 4.56% · 10Y-2Y +0.38%

Economic Update: **Midterms**

Divided Government Returns

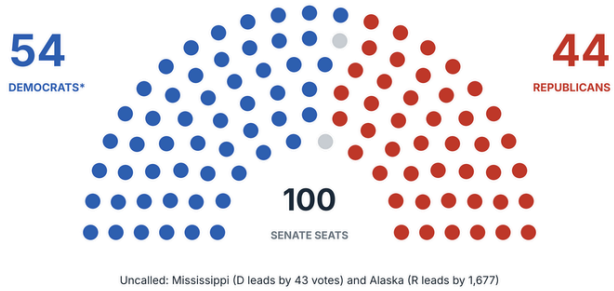
Voters delivered a split government. Democrats won control of both the House and the Senate, flipping seven Senate seats, including Texas for the first time since 1988, while the White House remains Republican through 2028.

For markets, the question is less who won than what can now pass, and divided governments usually pass fewer sweeping bills.

- **Stocks →** Sweeping tax or spending changes become less likely, reducing policy surprises. The table at left shows where the policy debate will focus.
- **Bonds →** Federal debt reached 100% of GDP for the first time since 1946, and spending and debt-limit decisions now run through an opposing Congress.
- **The Fed →** Chair Warsh will face more oversight from a Democratic Congress while the Fed debates another hike.

Balance of Power: U.S. Senate

Democrats flipped 7 seats and will control the Senate in January.



Uncalled: Mississippi (D leads by 43 votes) and Alaska (R leads by 1,677)

*Includes 2 independents who caucus with Democrats. Source: NBC News projections as of Nov 4, 2026. Confirm before publishing.

Balance of Power: U.S. House



Source: NBC News projections as of 11:20 AM, Nov 4, 2026. Confirm final AP counts before publishing.

Where the Senate Flipped

Seven Republican-held seats changed parties, including Texas for the first time since 1988.

TX Talarico def. Paxton	OH Brown def. Husted	NC Cooper def. Whatley	ME Jackson def. Collins
IA Turek def. Hinson	KS Hamilton def. Marshall	SC Andrews def. Graham	+7 net Senate seats

Source: CBS News race projections, Nov 3 to 4, 2026. Verify against final AP calls.

What Divided Government Could Mean

A Democratic Congress and Republican White House from January 2027. Areas to watch, not predictions.

Policy area	What divided government may debate	Market exposure
Tariffs & trade	Oversight; limits on tariff powers	Industrials, retail, autos
Health care costs	ACA subsidy restoration debate	Insurers, hospitals
Energy & Iran conflict	War powers votes; gasoline policy	Energy, oil prices
Federal spending & debt	Appropriations, debt limit	Treasury yields, term premium
AI & tech regulation	Chip export, data center, AI safety	Semis, hyperscalers, utilities
Fed oversight	Hearings with Chair Warsh	Rate-sensitive sectors

Victory Financial summary of policy areas in the news. Neutral framing; confirm specifics with final results and leadership statements.

Economic Update: **Midterms**

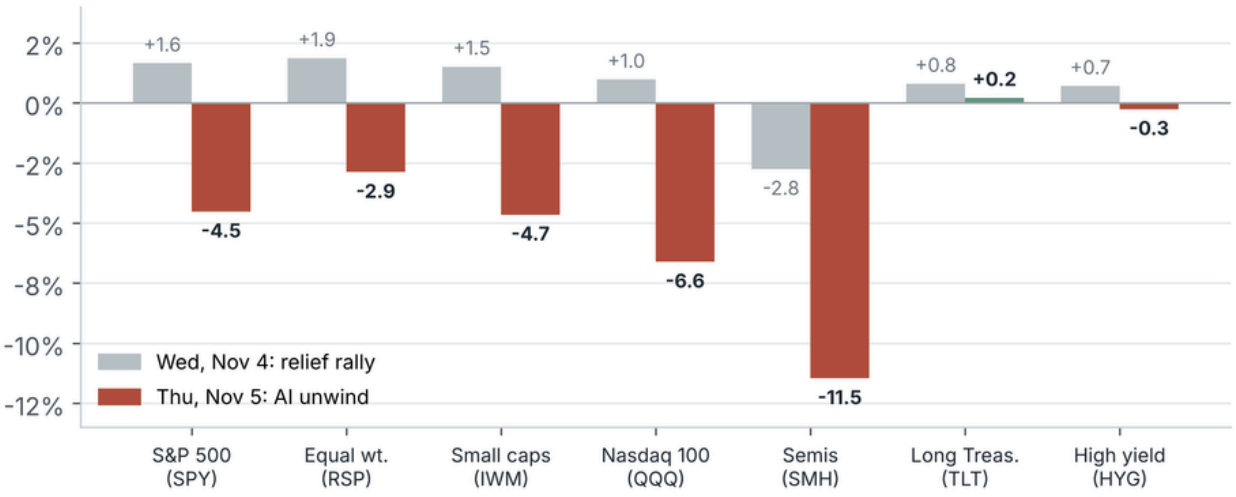
AI Meets the Ballot Box

The biggest market story was not on the national ballot. Rising electricity bills made data centers a local campaign issue, and in 40 of 41 local votes across 10 states, the outcome favored more limits on development. UBS estimates about 30% of planned 2028 U.S. data center capacity could be at risk if pauses spread.

Stocks rallied November 4 as uncertainty lifted, led by the equal-weight S&P 500 (+1.9%). On November 5, the AI trade unwound: semiconductors fell 11.5%, and the Nasdaq entered a correction, while the equal-weight index fell less than half as much as the Nasdaq 100 and long Treasuries edged higher.

Two Days After the Election

Markets rallied on certainty, then repriced the AI build-out as data center limits passed.



Source: YCharts ETF prices. Daily closing prices, Nov 3 to Nov 5, 2026.

Our take: elections create headlines, but portfolios are built on fundamentals. The post-election selloff continued October's repricing of AI, and diversified portfolios held up far better than crowded trades. We are not making portfolio changes based on the election.

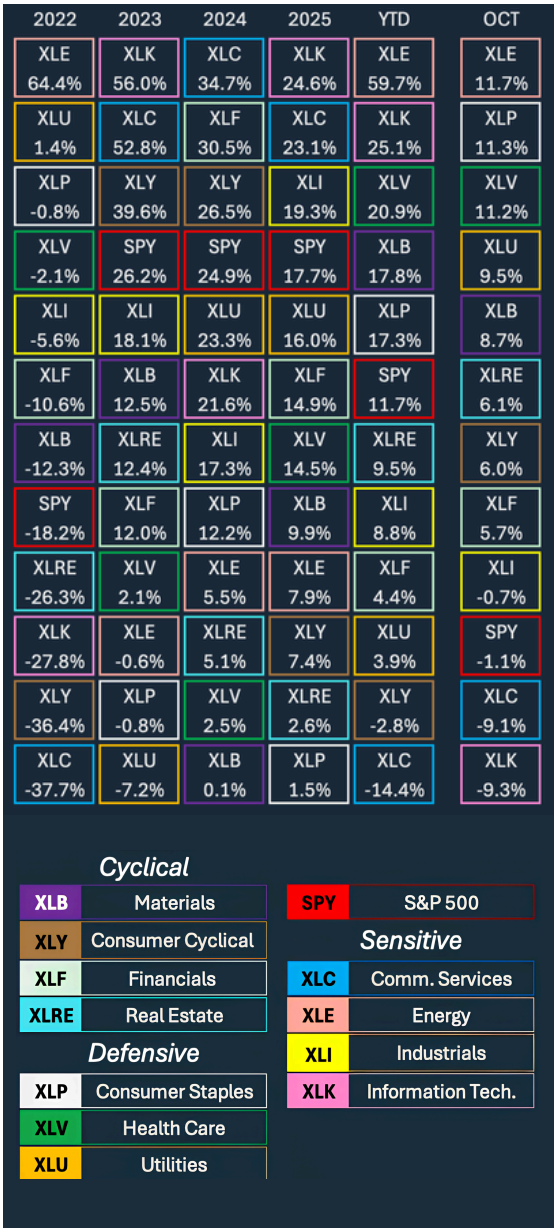
Sources: NBC News and CBS News projections (Nov 4, 2026; confirm final AP counts); Ballotpedia; Al Jazeera citing UBS (Nov 5); YCharts closing prices.

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MARKET UPDATES

Market Update: **Equity**

Equity Breakdown



October Winners

- **Energy** (+11.7%) led every sector and has climbed 59.7% this year. Brent crude hit $117 per barrel on the 23rd as Iran stepped up attacks in the Strait of Hormuz.

- **Defensive sectors** came roaring back → Consumer Staples (+11.3%), Health Care (+11.2%) and Utilities (+9.5%) surged as investors rotated out of the AI trade and into stability.

- **The average stock** beat the index in October → The equal-weight S&P 500 gained 4.9% while the S&P declined 1.1%. Despite the decline in the S&P 500, 72% of its constituents had a positive month, led by names like Accenture (+42%), Hasbro (+35.8%), and Equifax (+34.5%).

October Losers

Technology faced its worst month since 2022, with XLK losing 9.3% and XLC declining 9.1% for the month. October earnings releases showed slowing search activity (not revenue) in Google search, softer e-commerce growth from Amazon, and negative free cash flow from Meta. As the Hyperscalers shift their focus from core business to the AI buildout, the market is nervous that spending is outrunning future revenue as the AI trade enters the "show me" phase, where investors want to see AI-related revenue, not spending.

- Semiconductors (SMH) fell 14.2%, with AMD and Micron down about 17% and Nvidia down 10%. Their customers' budgets came under scrutiny for the first time.

- Neocloud providers faced pressure as CoreWeave's (-38.1%) bonds hit distressed levels and Roundhill's new Neocloud ETF NCLD lost 35.1% in October

- However, companies deploying, not building, AI rallied in the month, led by Accenture (+42%) and IBM (+14.3%)

Market Update: **Equity**

Equity Breakdown

2022	2023	2024	2025	YTD	OCT
XLE 64.4%	XLK 56.0%	XLC 34.7%	XLK 24.6%	XLE 59.7%	XLE 11.7%
XLU 1.4%	XLC 52.8%	XLF 30.5%	XLC 23.1%	XLK 25.1%	XLP 11.3%
XLP -0.8%	XLY 39.6%	XLY 26.5%	XLI 19.3%	XLV 20.9%	XLV 11.2%
XLV -2.1%	SPY 26.2%	SPY 24.9%	SPY 17.7%	XLB 17.8%	XLU 9.5%
XLI -5.6%	XLI 18.1%	XLU 23.3%	XLU 16.0%	XLP 17.3%	XLB 8.7%
XLF -10.6%	XLB 12.5%	XLK 21.6%	XLF 14.9%	SPY 11.7%	XLRE 6.1%
XLB -12.3%	XLRE 12.4%	XLI 17.3%	XLV 14.5%	XLRE 9.5%	XLY 6.0%
SPY -18.2%	XLF 12.0%	XLP 12.2%	XLB 9.9%	XLI 8.8%	XLF 5.7%
XLRE -26.3%	XLV 2.1%	XLE 5.5%	XLE 7.9%	XLF 4.4%	XLI -0.7%
XLK -27.8%	XLE -0.6%	XLRE 5.1%	XLY 7.4%	XLU 3.9%	SPY -1.1%
XLY -36.4%	XLP -0.8%	XLV 2.5%	XLRE 2.6%	XLY -2.8%	XLC -9.1%
XLC -37.7%	XLU -7.2%	XLB 0.1%	XLP 1.5%	XLC -14.4%	XLK -9.3%

Cyclical			
XLB	Materials	SPY	S&P 500
XLY	Consumer Cyclical	*Sensitive*	
XLF	Financials	XLC	Comm. Services
XLRE	Real Estate	XLE	Energy
Defensive		XLI	Industrials
XLP	Consumer Staples	XLK	Information Tech.
XLV	Health Care		
XLU	Utilities		

In summary, October was a month of rotation, not retreat.

The losses were concentrated in a handful of the market's largest companies, and leadership is quietly changing hands. For the first time since 2022, the other 493 companies in the S&P 500 are growing earnings faster than the Magnificent 7, 32.6% versus 22.6% in the third quarter.

The market is starting to price in that shift. Rotation, rather than momentum in a single theme, has become the defining feature of this market.

The foundation underneath remains solid. Third-quarter earnings are on pace to grow about 30%, and the economy expanded 3.4% last quarter. The bigger risk today is valuations, not profits. With the 10-year Treasury near 5% and oil above $100, investors have less patience for stories that have not yet produced cash flow.

Higher rates are separating companies that can fund their own growth from those that must borrow for it. That process is uncomfortable, but it lowers the odds of a true bubble rather than raising them.

Sentiment shows plenty of doubt but little panic, a healthy setup for patient investors. The post-election reaction confirms valuation repricing, not fundamental breakdowns.



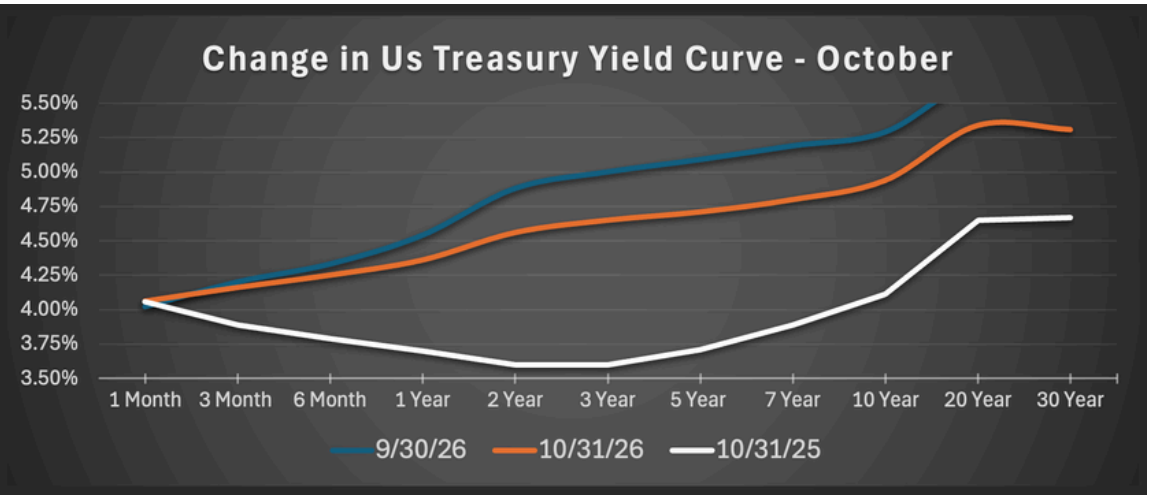
S&P 500		
October	YTD	1 Year
-1.1%	11.8%	12.1%
Dow Jones		
October	YTD	1 Year
1.7%	9.1%	10.6%
Nasdaq Composite		
October	YTD	1 Year
-5.3%	10.0%	12.1%

All graphs generated internally with data from YCharts, see footnotes for data disclosure.

Market Update: **Bonds**

Fixed Income Breakdown

US Treasury Yield			
	31-Oct	Change in Yield	
	Yield	MoM	YoY
SWVXX	3.77%	6 bps	-55 bps
1 Month	4.06%	4 bps	bps
3 Month	4.16%	-4 bps	27 bps
6 Month	4.25%	-8 bps	46 bps
1 year	4.36%	-18 bps	66 bps
2 Year	4.56%	-32 bps	96 bps
3 Year	4.65%	-35 bps	105 bps
5 Year	4.71%	-38 bps	100 bps
7 Year	4.80%	-39 bps	91 bps
10 Year	4.94%	-35 bps	83 bps
30 Year	5.31%	-33 bps	64 bps



State of the Bond Market

After yields spiked in September, bonds staged a relief rally in October. The 10-year Treasury yield fell 35 bps, retracing about two-thirds of September's jump, and Treasury bonds gained 2.1%.

The rally was driven by rates, not credit: investors bought duration as the Fed paused and the AI selloff sent money looking for safety, while the riskiest borrowers were left behind. CCC-rated spreads, the lowest rung of the high-yield market, widened about 150 bps to close the month at 13.27%, the widest spread since July 2020.

- **The Fed Paused →** On October 28, the Fed held rates at 3.75% to 4.00% in a 10-2 vote, with both dissenters favoring a quarter-point hike. The dissent from Cleveland Fed President Beth Hammack, a consistent hawk, was expected. The surprise was Governor Lisa Cook, who has generally been seen as one of the Fed's more dovish members.

- **Flight to Safety →** As AI stocks sold off and the Nasdaq fell nearly 10% from its peak, investors moved toward safety in defensive sectors and Treasury bonds. With the 10-year yield above 5% for most of the month, Treasuries offered both safety and an attractive yield.

- **Debt Backdrop →** Federal debt reached 100% of GDP in the fiscal year that ended in September, the first time since 1946. Heavy Treasury supply, on top of heavy corporate borrowing to fund the AI build-out, is a big reason long-term yields remain elevated even after October's rally. With Democrats set to control both chambers of Congress in January, spending and debt-limit negotiations will shape how much more supply is coming.

Market Update: **Bonds**

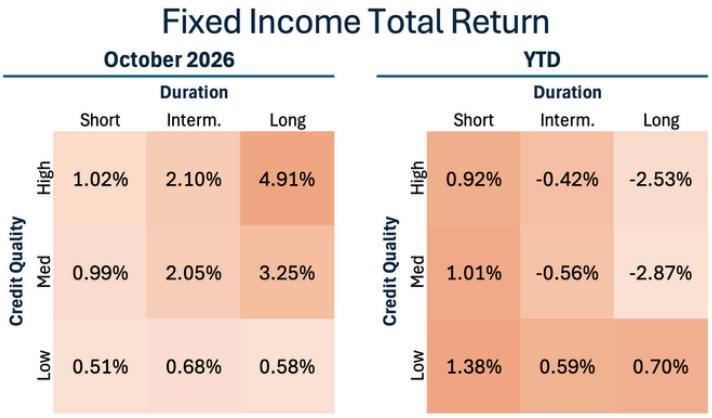
Fixed Income Breakdown

Municipal Bonds went from worst to first, gaining 3.3% in October, as the supply and demand setup we highlighted last month turned in munis' favor. Supply slowed as issuers held back ahead of the election.

Meanwhile, demand picked up as investors who harvested tax losses in September bought back in at yields near their highest in more than 15 years. As we head into the new year, supply should pick back up, so we don't expect October's pace of gains to repeat.

That doesn't change the case for owning munis. Returns over time come mostly from income, and tax-free yields still start near multi-decade highs. For a top-bracket investor, a 4% tax-free yield is worth about 6.4% on a taxable bond.

We continue to see munis as a core holding for high-income clients and would use any supply-driven weakness as an opportunity to add.



Fixed Income Sector Total Returns

Sector	October	YTD
Treasury Bond	2.1%	-0.5%
TIPS	2.3%	0.4%
Corporate Bond	0.5%	-1.0%
Corporate High Yield	0.5%	0.4%
Floating Rate	0.3%	3.5%
MBS	2.8%	-0.1%
CMBS	0.9%	-0.2%
CLO AAA	0.5%	4.0%
Municipal Bond	3.3%	-0.5%
Emerging Market Bond	1.6%	-0.3%

All graphs generated by FRED or generated internally with data from YCharts, see footnotes for data disclosure.

In summary, bonds did their job in October. When stocks wobbled, high-quality bonds rallied, and most sectors recovered the bulk of September's losses. Yields are still near their highest levels in almost two decades, so the income cushion remains in place.

In fixed income, the focus now is credit. Spreads widened for their second straight month, and if they continue moving from historically tight levels back toward normal, lower-rated, higher-yielding bonds will feel the most pressure. That is why we continue to favor quality over reaching for yield.

Bond Update: **Rates & Credit**

Interest Rates Get in the Cracks

> **Interest rates get in the cracks. Interest rates affect, directly or indirectly, almost everything.**
>
> Fed Chair Kevin Warsh, asked whether AI investment is sensitive to interest rates
>
> FOMC press conference, October 28, 2026 (Federal Reserve transcript)

Where the Cracks Show

After the Fed's September hike, a popular view held that AI would not care: expected returns are so large that a point of interest could not matter. Asked about it on October 28, Fed Chair Kevin Warsh disagreed, pointing to more selective investors and credit spreads "gapping out" for certain assets. October showed exactly where to look: the bottom rung of the credit market.

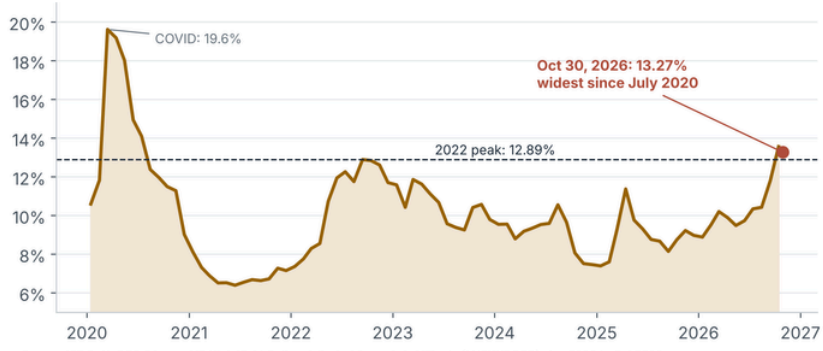
- **The weaker the borrower, the bigger the move →** High yield spreads widened 32 bps to 344 bps, the widest since March, while CCC spreads widened nearly five times as much, to 13.27%, above their 2022 peak.

- **The marginal AI dollar is now borrowed →** The build-out has shifted from cash flow to chip-backed loans, leases and supply contracts, and lenders price the downside, not the dream. Equity investors are willing to look past the blemishes and focus on growth. Lenders only get "interest and principal" back, as Apollo's Marc Rowan put it, so they fixate on any blemish that could lead to non-payment.

- **From credit to the real economy →** When the next data center is harder to finance, fewer chips get ordered. Chip stocks fell 15% in October, and since AI investment drove about a third of third-quarter GDP growth, a slower build-out would reach the broader economy.

The Lowest Rung Is Under Pressure

Spread on CCC-rated and lower high yield bonds over Treasuries, monthly high.



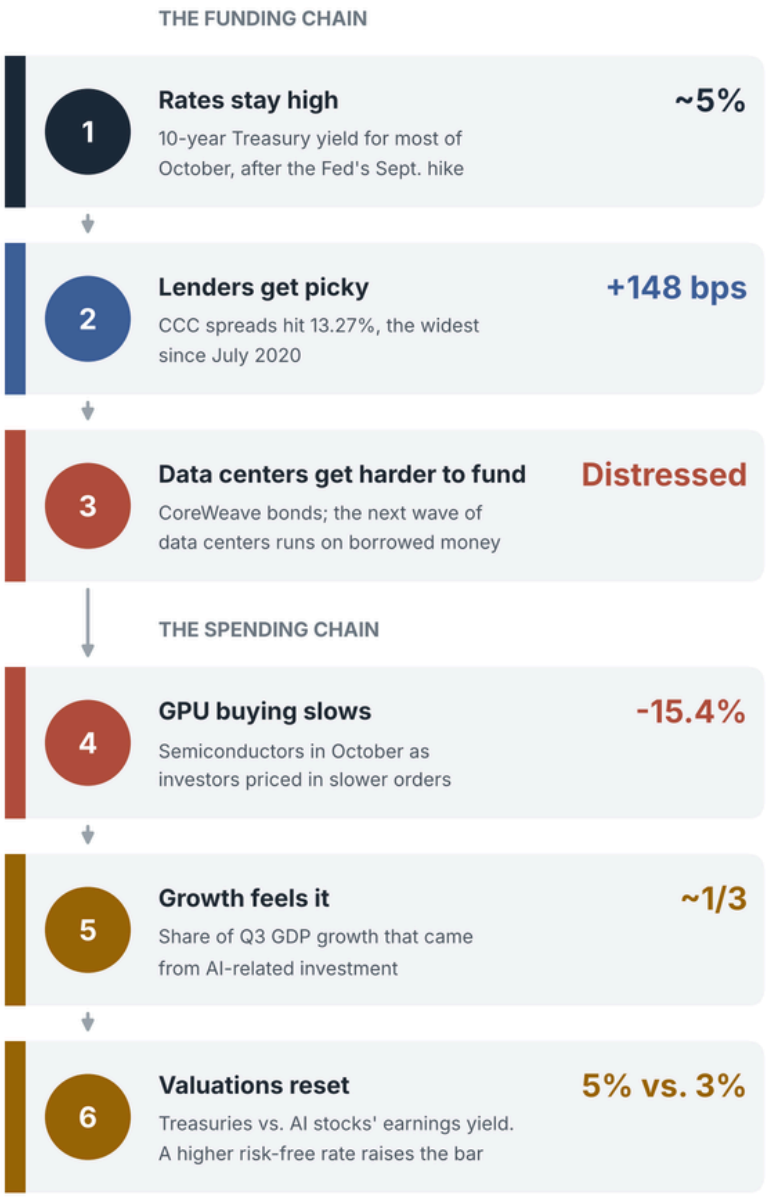
Source: ICE BofA CCC & Lower US High Yield Option-Adjusted Spread via YCharts (I:USHYCCCB), Jan 2020 to Oct 2026.

Bond Update: **Rates & Credit**

Interest Rates Get in the Cracks

How Rates Get in the Cracks

From the cost of money to the price of AI stocks



Sources: U.S. Treasury; ICE BofA via YCharts; Bloomberg; YCharts (SMH); BofA Global Research and BEA (Q3 GDP); Morgan Stanley (~32x forward P/E).

Sources: Federal Reserve transcript (Oct 28, 2026); ICE BofA OAS via FRED and YCharts; U.S. Treasury; YCharts; Apollo Q3 call; BofA; BEA; Morgan Stanley.

Valuations reset, even without slower growth

Stock prices are anchored to what investors can earn risk-free. With the 10-year near 5%, a Treasury pays more than the roughly 3% earnings yield on core AI stocks, so investors demand cheaper prices to own the growth story. That is why AI stocks fell even as their earnings kept growing.

Ed Yardeni sees the repricing of weak borrowers as healthy because it lowers bubble risk, and high yield spreads overall remain below their 3-year average.

What it means for portfolios: when the gap between strong and weak borrowers widens, the extra yield on low-quality bonds stops paying for the risk. With high-quality bonds yielding near their best levels in almost two decades, we don't need to reach down in credit for income. We continue to favor quality and are watching whether stress at the bottom spreads up the ladder.

SUMMARY

Key Takeaways from our Centralized Investment Committee

01

Rotation, not Retreat

The S&P 500 fell 1.1%, but the average stock gained as investors moved away from the AI leaders.

02

Bonds Did Their Job

The 10-year yield fell 35 bps, and Treasuries gained 2.1% as investors sought safety from a volatile stock market.

03

Blue Wave

Democrats won both chambers of Congress, and a post-election AI selloff pushed the Nasdaq into a correction.

DISCLOSURES

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(4) All data used in charts and graphs on a publicly traded security was collected from public sources such as Google Finance – google.com/finance, Yahoo Finance – finance.yahoo, Morningstar.com, Bureau of Economic Analysis (1), Bureau of Labor Statistics (2).
(5) The securities listed in this chart are securities used to create Victory Financial Group portfolio strategies. Securities in blue are equities. Securities in yellow and orange are fixed income.
(6) Ycharts owns all of its data for the purpose of investment research not investment advice, please see further disclosure at ycharts.com/disclosure
(7) Chart and Data credit to Trading Economics and their data compilation from National Statistics and the World Bank

Benchmarks: All portfolio performance returns are collected via composite analytics of actual client accounts provided by yCharts. Associated benchmarks are built on a combination of the Russell 3000, MSCI ACWI ex US, Bloomberg Aggregate Bond, and Bloomberg Muni Bond. The international to equity weight is tiered off an 80% domestic weight and a 20% international weight. Asset allocation starts with 100% equity and reduces by 20% with each subsequent risk model.

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