ACIMA PRIVATE WEALTH

ECONOMIC & INVESTMENT PERSPECTIVES

November 2, 2026

OCTOBER: TRICKS (AI SELLOFF) AND TREATS (BONDS)
KEY THEMES AND METRICS GOING FORWARD

Figure 1: 10/31/2026 Returns (source: FactSet)

Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	2.3%	-0.6%	-0.2%	-5.0%	2.7%
Investment Grade Corp Bonds	LQD	2.5%	-2.0%	-1.8%	-7.0%	3.0%
U.S. 20+ YR Treasuries	TLT	5.6%	-2.8%	-5.1%	-9.9%	7.1%
Muni Bonds	MUB	3.3%	-0.4%	0.1%	-4.4%	4.1%
US High Yield	HYG	0.7%	0.4%	1.6%	-4.7%	1.4%
Non-US Corp Bonds	IBND	-0.6%	-5.8%	-4.1%	-10.7%	0.9%
Emerging Markets Bond LC	EMLC	-0.5%	-0.3%	2.6%	-7.7%	0.4%
Global Equity						
ACWI Global Equity	ACWI	-1.7%	11.0%	12.0%	-4.2%	16.8%
ACWI Global Equity ex US	ACWX	-2.9%	10.6%	13.6%	-6.8%	14.7%
International Developed	EFA	-0.5%	9.3%	13.1%	-5.1%	13.3%
Emerging Markets	IEMG	-8.5%	11.3%	11.5%	-14.2%	14.8%
Global Equity by Region						
United States	VTI	-0.7%	11.8%	12.0%	-3.5%	19.7%
Europe	IEUR	0.9%	7.0%	12.2%	-5.7%	12.0%
Asia ex-Japan	AAXJ	-8.8%	14.4%	13.8%	-15.0%	20.7%
China	MCHI	-6.0%	-17.8%	-21.3%	-24.9%	0.9%
Japan	BBJP	-4.4%	13.9%	14.9%	-6.8%	14.2%
Latin America	ILF	-6.9%	6.9%	13.3%	-16.5%	10.5%
US Equity						
US S&P 500	IVV	-0.9%	11.7%	12.1%	-3.3%	20.1%
NASDAQ 100 QQQ	QQQ	-6.7%	12.8%	10.3%	-9.5%	24.3%
US Large Growth	IWF	-6.1%	-0.3%	-2.8%	-9.4%	15.0%
US Large Value	IWD	4.3%	24.3%	28.4%	-0.8%	29.5%
US Eqwt S&P 500	RSP	4.9%	15.3%	18.0%	-2.3%	19.9%
US Mid Cap	IJH	1.9%	12.0%	14.4%	-6.8%	17.9%
US Small Cap	IJR	3.1%	17.7%	20.6%	-6.9%	25.3%

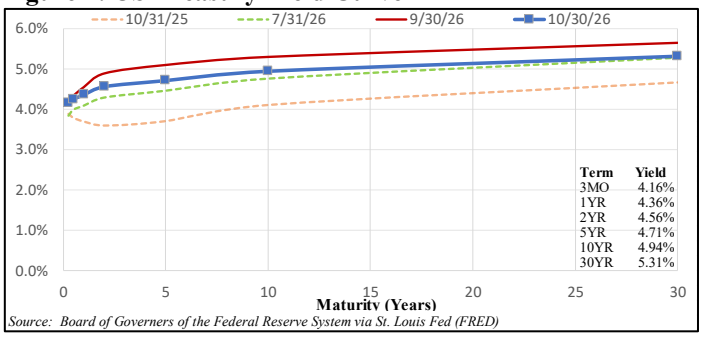
Bond returns were positive for a change in October as yields retreated from 24-year highs, but the tech / AI selloff led US and global stock markets lower. Despite this weakness, global stocks remain within roughly 4% of all-time highs. Performance highlights for the month and year-to-date (YTD) include:

- **Bonds:** The US Aggregate index (AGG) rose 2.3% this month (-0.6% YTD) as yields fell. Long-term Treasuries (TLT) are very sensitive to interest rates, rising 5.6% (-2.8% YTD). Corporate bonds (LQD) outperformed; high yield and non-US bonds underperformed as credit spreads widened.
- **Global equity:** ACWI fell 1.7% this month (+11.0% YTD).
- **US Equity:** The AI trade reversed sharply this month, leading the broad market slightly lower (VTI -0.7%, +11.8% YTD). The technology sector (XLK) was down 8.3% (+25.1% YTD) amid mixed earnings and growing concerns about the AI buildout, and the Nasdaq (QQQ) is now down almost 10% from highs. The selloff was brutal for AI-related stocks, but nine of eleven sectors were up this month, and the average S&P 500 stock (RSP) was up 4.9% (+15.3% YTD). Small and mid-cap stocks were up and have outperformed in 2026.
- **Non-US Equity:** Non-US stocks (ACWX) fell 2.9% (+10.6% YTD), led lower by weakening technology stocks in Japan (BBJP -4.4%, +13.9% YTD) and, even more so, emerging markets (IEMG -8.5%, +11.3% YTD). Asian markets were especially weak, with South Korea (EWY) down 16.4% (+57.3% YTD) and Taiwan (EWT) down 10.4% (+59.2% YTD). Separately, stocks in Brazil (EWZ) were down 12.9% (+3.1% YTD) after the surprise reelection of left-wing President Lula.

Interest Rates and the Economy

Treasury yields fell in October, partially reversing the sharp across-the-curve increase since the onset of the Iran conflict. After hiking rates in September, the Fed paused this month, but markets still expect at least two more 0.25% hikes, eventually pushing the Fed Funds target rate toward 4.5%. Even so, investors bought bonds this month, attracted to the highest long-term yields since 2002, and possibly seeking refuge in a flight to quality as economic, market and geopolitical uncertainties linger. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries now yield 4.94%.

Figure 2: US Treasury Yield Curve

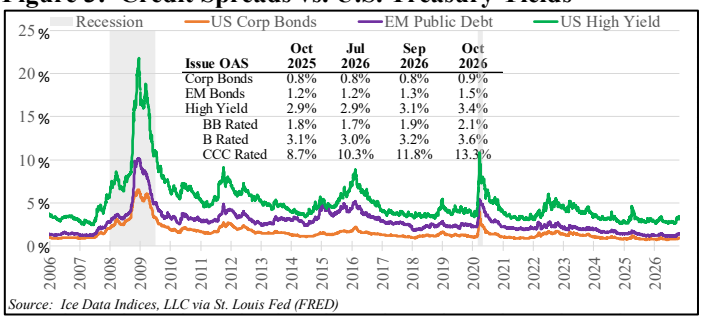


Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads have widened in recent months but remain historically low; bond investors are still cautiously optimistic about all but the riskiest bonds..

- Investment grade corporate bond spreads widened to +0.9% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads widened to +3.4%, up from 2.9% three months ago. Spreads of the riskiest bonds (rated CCC & below) widened significantly to +13.3% and are well above the +8.7% spreads one year ago.
- Emerging market spreads widened to +1.5%, wider than +1.2% a year ago, but investors still see low risk in EM debt.

Figure 3: Credit Spreads vs. U.S. Treasury Yields



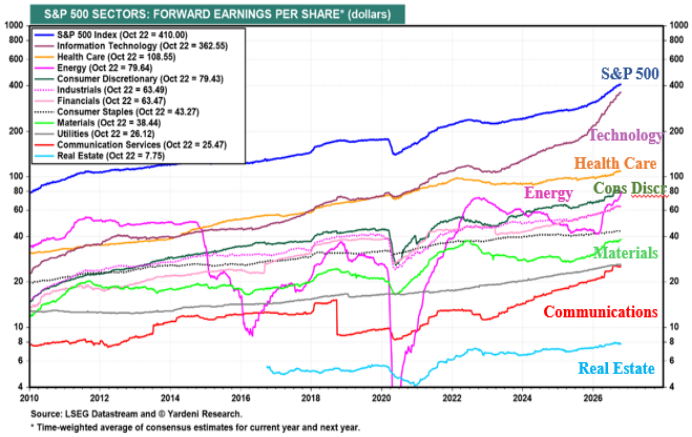
Source: Ice Data Indices, LLC via St. Louis Fed (FRED)

Key Themes for 2027 and Beyond

Investors' confidence is understandably shaky amid the selloff in AI-related investments and the myriad of uncertainties impacting sentiment (wars in the Middle East and Ukraine, spiking energy prices, inflation, debt & deficits, interest rates, elections, etc.). Even so, US and global stocks are just 3-4% below all-time highs. As another year winds down, we discuss several themes that should continue to drive markets into 2027 and beyond.

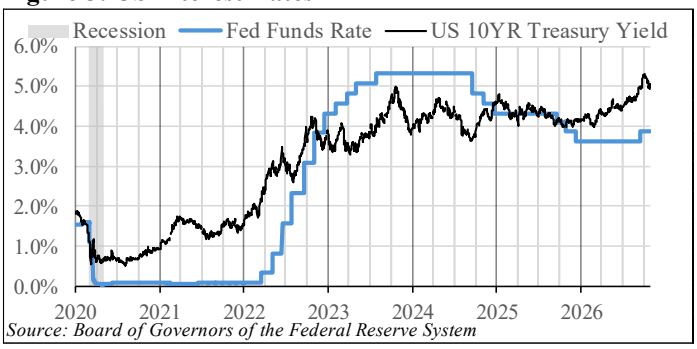
Corporate Profits: Earnings growth has been very strong in recent years, powered by the AI spending boom in the tech sector (Figure 4). Growth forecasts continue to accelerate, but high-profile earnings disappointments (e.g., Intel, Google) and bipartisan opposition to data center construction have ignited concern over the sustainability of that growth. AI hyper-scalers (huge tech and cloud companies) are spending hundreds of billions of dollars annually, but that spending is increasingly financed by issuing debt or equity (e.g., Oracle, Google, Meta) because current cash flows are no longer sufficient. While there is no question that the AI buildout remains the dominant theme, investors have entered the "show me the money" phase of the investment cycle, seeking tangible return on the massive investment spending that has powered the economy and stock market since late 2022. For now, the earnings growth cycle remains intact and has extended to other sectors, but investors will continue to demand earnings growth from the heavily weighted tech sector to justify further appreciation.

Figure 4: US Earnings Expectations by Sector



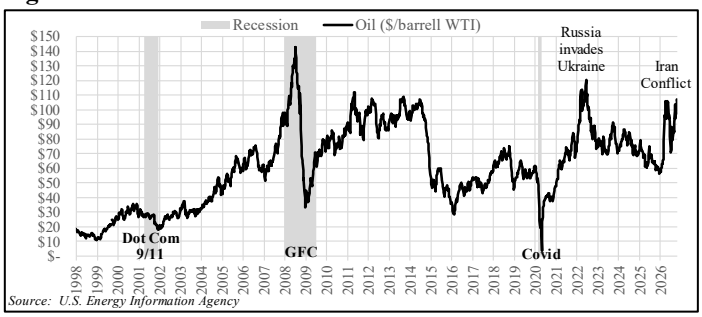
Interest Rates: Back in September, the Federal Reserve (Fed) hiked interest rates for the first time in three years. Even though the Fed held rates steady in October, investors continue to expect at least two more rate hikes (0.25% each) in the coming months as inflation remains stubbornly high. Yields on longer dated bonds have risen materially since the Iran invasion in late February (Figure 5), with the 10-year bond yield surpassing levels last seen in 2002 before retreating below 5% in recent weeks. As discussed in last month's commentary, long-term yields have risen around the world due to a confluence of factors (strong economic growth, inflation, rising fiscal debt and deficits, rising bond issuance by tech hyper-scalers, etc.). We believe that the current 10-year bond yield is appropriate given solid economic growth, but a material rise toward 6% or higher could threaten that growth and depress equity valuations as investors sell equities in favor of attractive and safer bond yields. We continue to watch inflation metrics and interest rates closely, with growing concerns about unsustainable trajectory of government debt and deficits that could eventually drive bond yields even higher if left unchecked.

Figure 5: US Interest Rates



Oil Prices: The primary driver of stubbornly elevated inflation in the US and around the world has been the global price of oil (Figure 6), which spiked this year at the onset of the Iran conflict in late February. Even though the flow of oil through the Persian Gulf has improved significantly, oil prices remain elevated amid the on-going threat of renewed hostilities and disruptions. While the Fed and global central banks try to control inflation by tightening monetary policy (raising interest rates), true and lasting inflation reduction will only come with successful resolution of conflict in the Middle East. The good news is that energy prices could decline rapidly, as we saw after the short-lived memorandum of understanding toward peace in April-May, but this is a complex problem with no clear off ramp currently. As long as the threat of war remains, oil prices will stay high, weighing on global growth and consumer spending habits.

Figure 6: WTI Crude Oil Prices



Bottom Line

Stocks posted mixed returns in October. Technology stocks in the US and around the world (especially Asia) sold off dramatically, but the rest of the stock market continues to perform well. US and global stock markets are still within 3-4% of all-time highs. Investors found respite in bonds this month, but market volatility is likely to continue for the foreseeable future due to lingering uncertainty around geopolitics, inflation, elections, etc. Diversification remains critical, but we remain fully invested with equity and bond exposures at or near long-term targets. Key themes include:

- Earnings: Corporate profits are strong and growing in the US and around the world, powered by the aggressive AI buildout. The trend is solid, but worries linger as to whether the massive spending is sustainable and accretive to earnings.
- Interest Rates: Long-term bond yields have risen, reflecting strong economic growth and concerns over inflation and debt. Current yields seem appropriate, but further material increases could hamper economic growth and market valuation.
- Inflation (oil prices): Persistently elevated energy prices could slow growth and negatively impact consumer spending.



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