01, November , 2026

1) I began last Sunday by stating that the paramount concept for investors in which fear eclipses greed is uncertainty. Following the reaction to this week's earnings from marquee names GOOGL and AMZN, the plethora of uncertainties enveloping the entire AI ecosystem has only increased. The "fear" has been exacerbated by the ugly combination of greater capital commitments and lesser cash flows. I believe it is almost impossible for these stocks and several related names to make any upside move, aside from a technical bounce from oversold conditions, until the CDS reverse themselves or at least stop accelerating. AMZN's CDS pierced the 100 level this week with GOOGL closely behind. NVDA's are markedly higher reflecting the systemic opacity in AI circular financing which makes it almost impossible to glean and separate what exactly is on a company's balance sheet or hidden in a clever financial engineering off-balance sheet vehicle. There has also been an inchoate concern about the introduction of usage caps by a broad range of companies including WMT and UBER leading to direct cost sensitive requests being transported to open-source models while retaining frontier modes for higher value workloads.

2) Investors were certainly unpleasantly surprised by Blackstone's very public announcement that Anthropic is likely to receive a junk credit rating, specifically in the "BB/BB+ range, following the IPO, a complete reversal from the investment grade stamp to which BX has previously guided. Clearly, this would make any post-IPO financing significantly more expensive and, equally importantly, eliminate a huge swarth of institutional investors who are prohibited from buying junk rated debt. The public announcement is even more surprising in that BX is the anchor investor in Anthropic's $63BB Project North Star chip financing holding approximately $9BB in subordinated debt now yielding over 10%. Moreover, the S-1 filing shows detailed plans for upwards of $800BB of long-term infrastructure and computing commitments. One suspects the well-known credit rating agencies are scrutinizing these massive structural commitments juxtaposed bycash burn profiles in evaluating post-listing debt-ratings.

3) Technically, it is disconcerting to note that within technology, many of the subgroups are now declining in tandem, ending the somewhat satisfying back-and-forth rotation dynamic between the semis and the hyperscalers which served

to limit destruction to the averages with strength in one group offsetting declines in another. To the delight of the technically-oriented bears, GOOGL and AMAZON have broken below their 200 day moving averages with GOOGL displaying a "death cross" (the 50 day crossing below the 200 day with both averages downward sloping) and AMZN experiencing a compelling negative MACD cross. Both stocks would need to close above their prices before last week's earnings report to begin to reverse this damage. Note, however, GOOGL is becoming quite oversold on its RSI chart, NVDA rallied from the psychologically important $200 level, and, while SPCX "kissed" its $135 IPO price, it rallied above that number in after-hours trading. Part of the overall sell-off on Friday was directly related to the S+P (cash) breaking below its 100 day moving average (still upward sloping) leading to machine selling as well as a negative weekly MACD cross.

4) Returning to the junk market and its impact on equities, long term readers know the importance I put on the performance of HYG and its direct correlation to the movement in equities up and down. Equity bulls should focus on the fact that the low tick in HYG this week did not eradicate the previous week's close and the etf traded above the highs of the previous two weeks. As HYG trades ex-dividend the first business day of each month, there will be initial price distortion this week.

5) Continuing with the theme of the influence of the fixed-income market on equities, Paul Shea, the Miller Tabak Economist, essayed a piece this week entitled "The Fed's Next Mistake will have to Wait Until December" (your inbox late Wednesday US/early Thursday UK-EU). He continues to pound Warsh for what he believes was a true "blunder" in raising rates in September. If rates are raised in December as is the consensus, this will "threaten a labor market that is more vulnerable than the Fed believes." As an example, Shea sites the "underrated" aspect of the ongoing low hire/low fire market being the rising long-term unemployment defined as 27 weeks or longer. This data point is "especially predictive" of rising household credit delinquencies. This is the first time this statistic has risen during an economic expansion since 1972. One cannot blame AI for this but rather it reflects the complete lack of job growth outside of private education and healthcare. Shea also remains optimistic about inflation falling to 2% or lower (clearly non-consensus) in that he cannot identify any source of sustained inflation. Significantly, and to Shea's point, the Atlanta Fed's Survey of businesses found that one-year ahead expected inflation fell from 2.4% to 2.3% in October. Shea asserts it will take the Fed until 2Q2027 to pivot and expects a 350 bps 10-year yield by mid-2028.

6) On a more positive stance, the 3rd quarter earnings season has been solid with almost two-thirds of companies that have reported exceeding their earnings estimates and three-quarters beating revenue estimates. Consensus earnings estimates for 2027 now exceed $400 and are rising. Consumer discretionary

stocks have been acting well certainly bolstered this week by the Conference Board's consumer confidence figure which unexpectedly rose from 24.3% to 26.7%. I have been tracking retail stocks across the economic spectrum as a harbinger of the Holiday Shopping Season which have been bullish. WSM hit an all-time high this week and WMT has risen a shade over 20% since its mid-August lows. Provocatively, WSM, over multiple long-term time horizons, has significantly outperformed broad technology stock benchmarks as well as many individual megacap tech names.

7) Small cap investors have been rewarded with the shift out of megatech with the Russell actually rising this week and with the low tick on the week not eradicating the prior week's close. While the Russell is approximately 9% below its early August highs, it is still outperforming the S+P 500 y/t/d. The fall in the yield of the 10 year this week was crucial to the performance as these equities carry a higher proportion of short-term or variable rate debt. Note that the Russell closed Friday almost exactly at its upward sloping 200 day moving average which must now be keenly observed.

8) Physical gold/digital gold: Both had truly dreadful weeks. GLD has now displayed 9 weeks in a row of a lower high, and, in 4 of those weeks, the high did not exceed the previous week's close. The price performance this week is truly counter-intuitive as GLD should trade positively as yields in the government market decline and as the US$ retreats. Indeed, the DXY closed this week again below the mid-month high. As for digital gold, the massive cyber attack on Binance and the banner headline about it in the FT rightfully produced worries about security and reliability of crypto exchanges and lessened fragile institutional confidence about the entire crypto world. The fact that virtually all of the funds are being "made whole" eludes the point. How will institutional investors who have begun to allocate small percentages to crypto, be reassured that their digital assets are secure on these platforms? The only bright note of this whole incident is that CRCL was able to "trap" $825mm as CRCL immediately froze or destroyed those coins given increased confidence to stablecoins.

Jeff

Have a productive week

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