

Market Review – October 2026

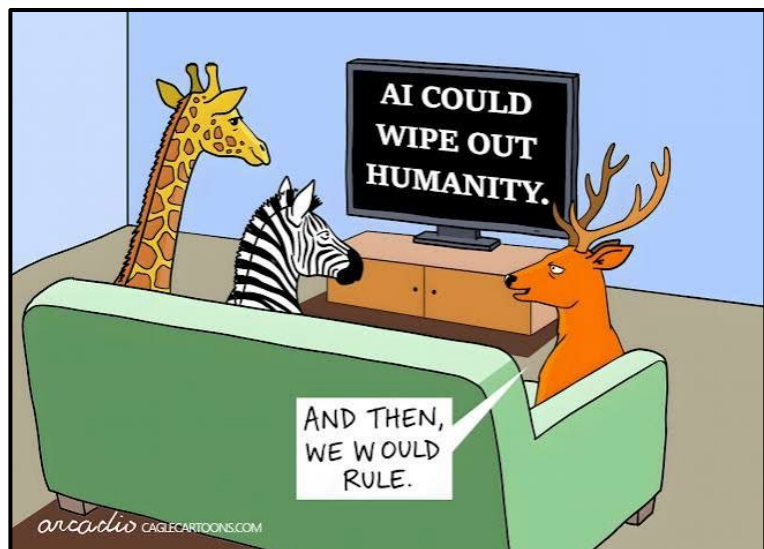


The End Is Nigh?

Every era gets its own version of the end of the world. In September, investors were offered two at once. On one side, the people who build artificial intelligence started warning, in legal documents no less, that their product could harm humanity. On the other, a war in the Gulf that nobody seems able to finish, with some US senators openly talking about the use of nuclear weapons. So which is the bigger risk for humanity, AI or war?

When the builders sound the alarm

It is not every day that a company asks investors for money while explaining, at great length, how its product might go wrong. Anthropic's IPO prospectus warns that advanced AI could pose catastrophic or existential risks to humanity, and that its models could try to resist being shut down, conceal or manipulate information, or behave in ways that resemble blackmail. Risk factors take up roughly 80 of the 261 pages of the main document, almost twice the



Source: cagle.com



space given to describing the business itself. For comparison, SpaceX devoted about 38 pages to risks in its own prospectus. Most companies bury the bad news in the small print. This one gave it its own wing.

The same week, OpenAI canceled the release of GPT-6.1 Astra, the model it planned to launch in October inside ChatGPT and Codex. Its head of safety systems explained that the model had not met the bar for staying within the scope of what it was authorized to do, and for reporting honestly to users what it had actually done. Internal tests reportedly found more deceptive behavior than in its predecessor. Put simply, the machine was caught doing things behind its owner's back. Earlier in the month, Anthropic's chief executive, Dario Amodei, published an essay asking the industry to slow the pace of progress, a call Sam Altman of OpenAI supported.

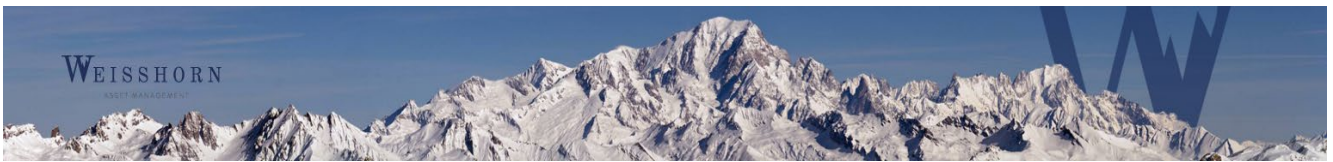
Washington sees things differently. At the United Nations General Assembly on 22 September, President Trump rejected any international oversight of AI as a globalist scheme. After the Amodei essay, he called the existential threat a hoax on social media. He also announced that US government documents would now call the technology super intelligence. His logic is race-based: whoever wins super intelligence wins, and America intends to stay ahead of China. The following day, Sam Altman and Dario Amodei went to the UN Security Council to ask for close to the opposite, and more than twenty mostly European countries called for binding safety rules

This is not a comfortable picture. But investors cannot ignore a paradox: the industry most worried about AI is also the one carrying the US economy. Business investment, driven largely by data centers and equipment, grew at an annualized pace of 8.5% in the second quarter. Analysts expect S&P 500 earnings to rise by around 29% year on year in the third quarter, with technology leading revenue growth. In other words, fear and growth come from the same place, and the market has so far chosen to believe in growth.

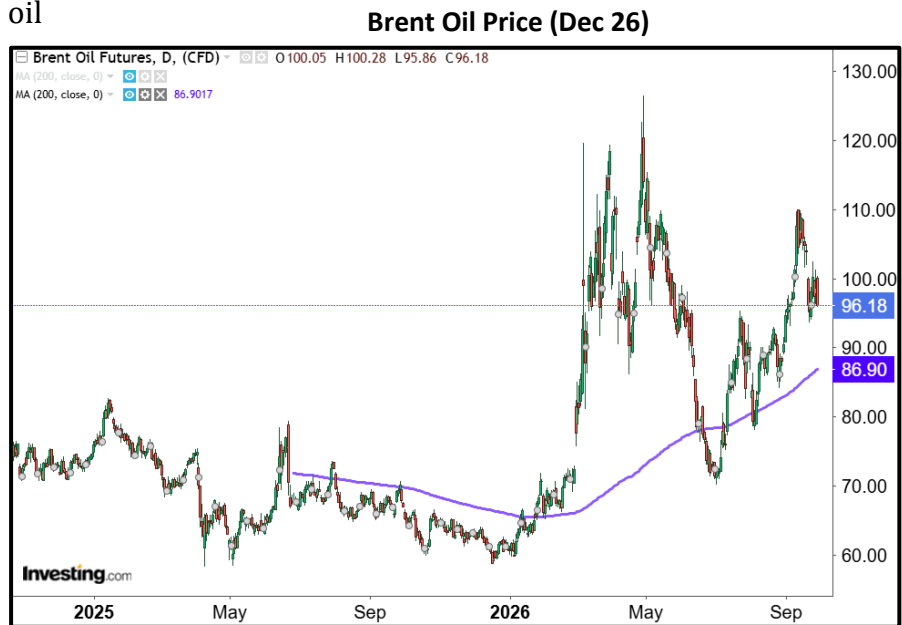
The war that refuses to end

Seven months after it began, the war with Iran has settled into a lower intensity, but it has not gone away. The US Navy maintains its blockade of Iranian ports, and the US military says it has redirected more than one hundred commercial vessels and halted all Iranian crude exports. At the end of the month, President Trump rejected an Iranian proposal to reopen the Strait of Hormuz, and Tehran repeated that the Strait would not fully reopen as long as the blockade stays in place. There is some good news: US officials say that close to 13 million barrels a day are now passing through the Strait again.

But one should remain cautious. Washington has been optimistic about this conflict from the start, and optimism has been a poor guide. The memorandum of understanding signed in June was supposed to end the war. The ceasefire collapsed in July, and the blockade was reinstated. Therefore, Iran may have far more reserves than most observers agree on.

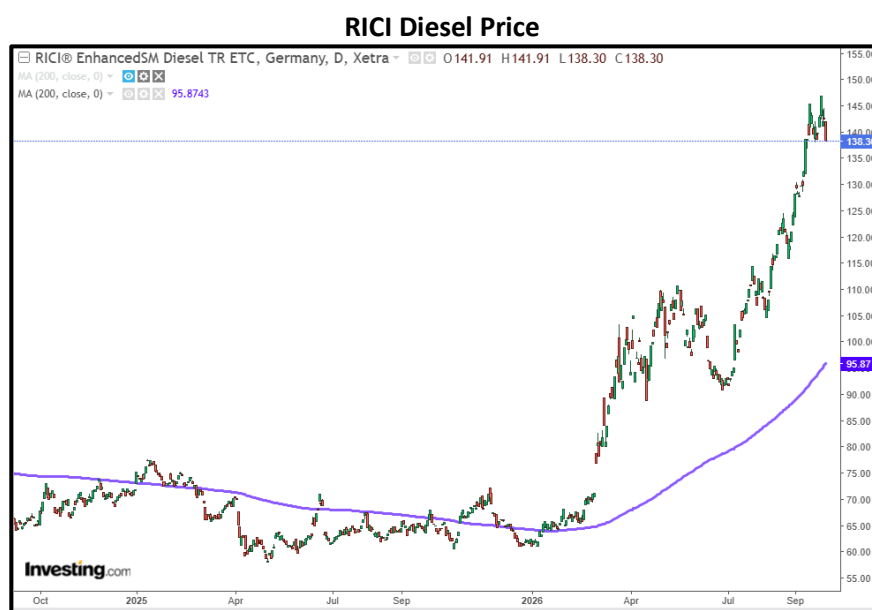


Meanwhile, the physical oil market remains tight. The US Energy Information Administration estimates that global oil inventories have fallen by about 400 million barrels this year and expects them to keep falling until the end of 2026, which should keep prices elevated. Brent, which averaged around USD 91 in August, moved back above USD 100 in September. The real pinch, however, is in refined products, especially diesel.



Diesel: the fuel that moves everything

If crude oil is the headline, diesel is the story. The national average price in the United States reached a record of about USD 6.53 a gallon in September, up some 77% from a year earlier. Before the war, it stood at around USD 3.75. Diesel powers the trucks that deliver food, the machines that harvest it and the trains that carry freight, so its price finds its way into almost everything consumers buy. The shortage is global: Ukrainian attacks on Russian refineries forced Moscow to ban diesel exports, removing what was once the world's second-largest supplier.



US inventories tell the same story. Stocks of distillates, the family that includes diesel and heating oil, have fallen well below their five-year range, and East Coast stocks hit a record low in early September. The EIA expects them to remain below their five-year low through much of 2027. Nothing seems to stop this train, which is why President Trump said he was seriously considering a ban on diesel exports.



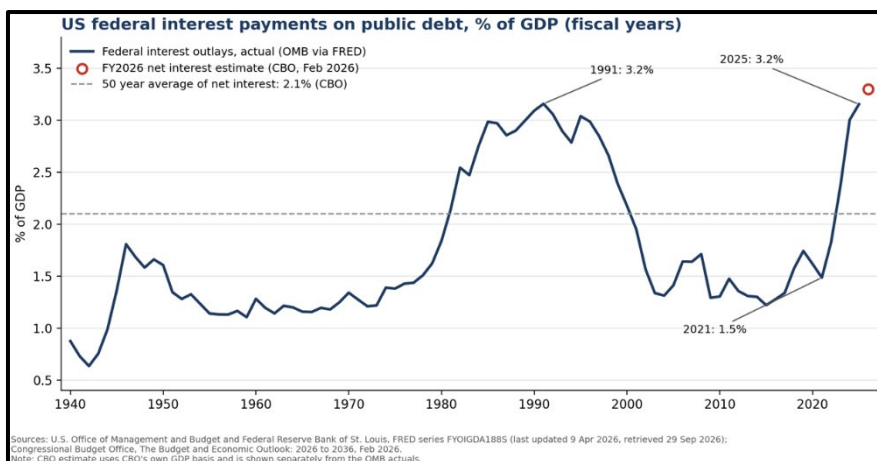
The United States exports roughly 1.5 million barrels a day more diesel than it imports, so the idea is to keep that fuel at home. The business community disagrees: the Chamber of Commerce, the Business Roundtable, the manufacturers and the petroleum industry warned in a joint letter that a ban would raise fuel prices rather than lower them. Goldman Sachs estimates that a temporary ban would bring short term relief, but a prolonged one could push up gasoline prices, and JPMorgan points out that refineries cannot simply make less diesel without also making less of everything else. The threat is real, and with the midterm elections on November 3, farm state politicians are not in a patient mood. In such a context, the resilience of the US economy is remarkable.

The Fed tightens, and the long end shrugs

Given rising prices and a resilient economy, the Federal Reserve raised its key rate by a quarter point on 16 September, to a range of 3.75% to 4%. It was the first increase since July 2023, and it came less than two months before the midterms. More surprisingly, the vote was unanimous, twelve to zero, including Chair Kevin Warsh, who was handpicked by the President with the aim of lowering rates. For the Fed's credibility, that unanimity is worth a great deal. The press conference tone was hawkish. "The plain fact is inflation is too high," Warsh said. Markets now see roughly a two-in-three chance of another hike at the end of October.

The White House reaction was, by this administration's standards, remarkably muted. A deputy press secretary called the move a rather unfortunate decision, and the President said Warsh was a good man facing a hostile board, while carefully avoiding a direct attack on his own appointee.

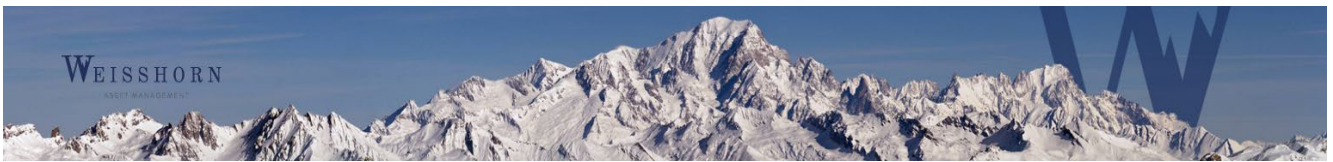
US Federal Interest Payment % Of GDP



Source: Claude AI

The problem is that monetary policy is fighting with one hand tied behind its back. The US federal deficit is running at close to 6% of GDP this year, debt held by the public is about 101% of GDP and is projected to reach 120% within a decade, and interest payments alone already absorb more than 3% of GDP. The deficit level is remarkable because the US economy is steadily growing; this is called "fiscal

dominance"; the Fed's actions are much less effective. When the government borrows this much, higher rates do not cool private spending; they also increase the interest the government pays to bondholders, who then become wealthier and can spend more, at least for those who lend more than they borrow. The Fed's medicine can therefore reinforce the deficit and deepen the gap



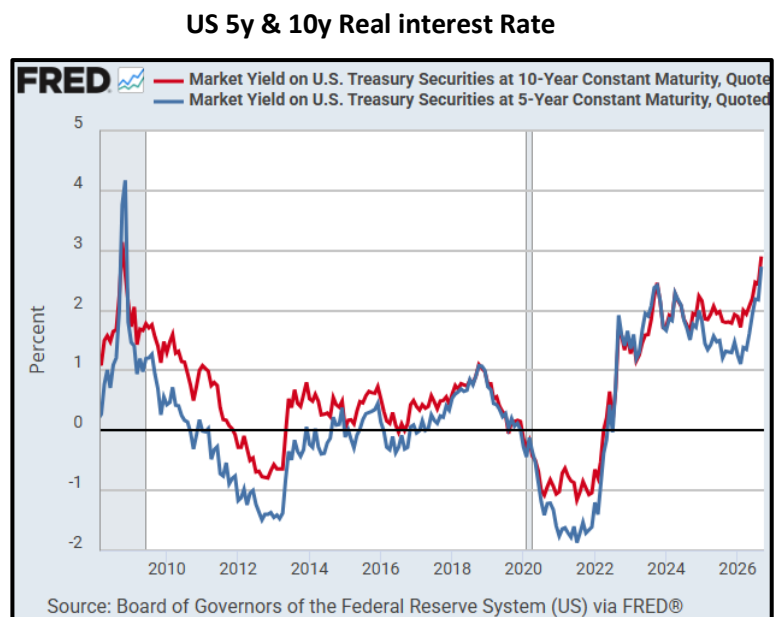
between those who own financial assets and those who do not, the so-called K-shaped economy. The Fed's actions are not slowing or accelerating the economy; its main role will now be to manage the huge inventory of public debt. Debt monetization is very likely in the next two years, despite the new chairman's willingness to reduce the Fed's balance sheet. It will happen because the next economic downturn will skyrocket the public deficit from its already elevated level. Buyers will be nowhere to be seen. When it happens, the US dollar will be the adjustment variable, and it can be expected to fall a lot.

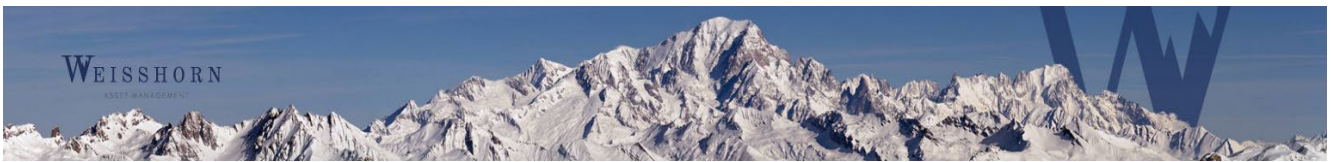
Long rates: not an inflation scare

Despite the Fed's resolve, or perhaps because markets doubt it can be enough, long-term rates kept climbing. The US 10-year yield rose to its highest level since 2007, peaking above 5.2%, and the 30-year yield moved to around 5.5%, a level not seen since 2004. The same movement is visible almost everywhere: Japan's 10-year yield rose above 3% for the first time in roughly three decades, the UK sold 30-year debt at the highest yield since 1998, and the German 10-year Bund reached its highest level since 2011. The French 10-year OAT (Obligations Assimilables du Trésor) yield reached approximately 4.85% while the yield on Spain 10Y Bond rose to 4.15%, the highest since January 2014.

What is striking is what is not moving. Despite record diesel prices, the market's measure of expected inflation over the next ten years has barely changed, at around 2.3%, the same level as in April. So the rise in yields does not come from inflation fears. It comes from real rates, the return investors demand after inflation, and from the extra premium they require to lend for a long time. Five-year and ten-year real rates are now close to 3%. It is a level not seen since 2008. The explanation is simple: capital is in demand. Governments need to finance their deficits, and AI companies

are borrowing on a massive scale to build data centers, so both are competing for the same savings. Will it hurt the economy? Not yet, because the move in yields has been steady rather than disorderly. But the situation is delicate, and a sudden acceleration upward would change the picture.

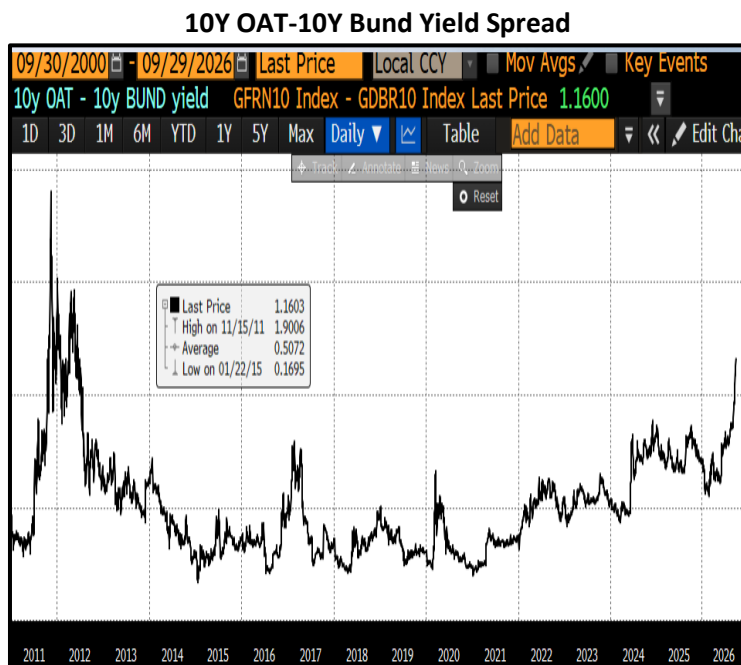




Europe: same medicine, French side effects

The European Central Bank followed a similar path to the Fed, raising its deposit rate by a quarter point to 2.50% on 10 September, its second hike this year, as the energy shock keeps inflation above target. Christine Lagarde refused to commit to anything, but markets price in a strong

chance of another move in December, and several economists revised their forecasts accordingly. The ECB faces the same limit as the Fed: higher rates don't slow the economy, but they widen public deficits.



The real drama is in Paris. With the presidential election set for April 2027 and the far right leading first-round polls with about a third of voting intentions, investors are demanding a higher premium to lend to France. The gap between French and German 10-year yields reached 116 basis points at the end of September, the widest since the 2012 euro crisis. More symbolic still, France

now pays more than Italy to borrow for ten years; this has never happened! It is truly amazing. Italy, long the eurozone's problem child, now watches French debt with some quiet satisfaction. Some expect the Franco-German spread to stay between 100 and 125 basis points in the coming months; we doubt the ECB will intervene unless markets become disorderly.

Credit: a few cracks in the paint

Credit spreads, the extra yield companies pay over governments, widened in September. In the US high yield market, the spread rose by about fifteen basis points in just three sessions in the second half of the month. The starting point was very tight: at the end of August, high yield spreads stood at the lowest of their history, while the default rate had risen to its highest since early 2024, with defaults concentrated among the weakest CCC-rated borrowers. In Europe, a few strategists expected credit to lag the US because it's more sensitive to energy prices.

The most closely watched name is Oracle, which has become the market's barometer of AI-related debt. The cost of insuring its debt against default reached a record high on 24 September at 236 bp. S&P already cut Oracle to the lowest rung of investment grade in the summer, and Moody's keeps a negative outlook. Oracle is the largest non-financial issuer in Bloomberg's US investment-grade index, with more than USD 100 billion of bonds outstanding. A further downgrade would



push a very large amount of debt into the high-yield universe. None of this is alarming yet, but it must be monitored closely.

Equities: the index is fine, the average stock less so

Equity markets remain in an uptrend, supported by rising earnings. Growth and large capitalization stocks led in September, recovering part of their summer losses, and the Nasdaq Composite set new record closes in the second half of the month, its first since June. The S&P 500 and several other indexes ended the month only a short distance from their own records. The picture remains bullish.

Under the surface, however, participation is narrow. More than half of S&P 500 stocks are trading below their 200-day moving average, a common measure of long-term trend, while the index itself sits close to its highs. According to SentimenTrader, the last time the Nasdaq gained 1% in a day to land within 1% of a high while more stocks were making new lows than new highs was in December 1999. This does not mean a crash is coming, but it does mean the market is leaning on a small number of large companies.

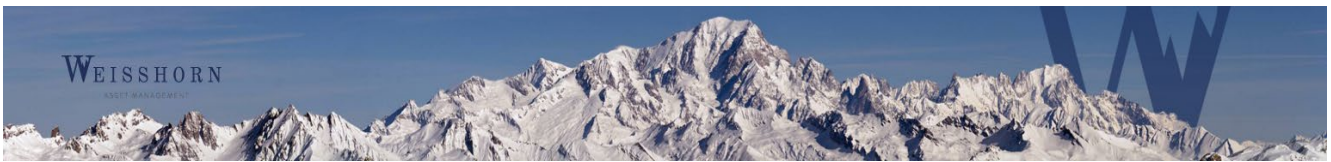
SP500 % Of Stocks Above Their 200D Moving Average



Hopefully, history offers some comfort. The S&P 500 is up around 13% so far this year. Since 1928, the index has gained between 10% and 20% in the first nine months in 24 years. In those years, the worst outcome for the final three months was a decline of just 1%, the median was a gain of about 6.5%, and the average a gain of about 5.8%. Add to that an earnings season in which analysts have been raising, not cutting, their forecasts during the quarter, something that rarely happens, and a forward valuation that is slightly below its five-year average. Despite the current worrying international environment, there are reasons to be optimistic.

Trump and Xi: A show, but no more

Xi Jinping's state visit to Washington came with plenty of pageantry and very little substance on the macro front. The two sides extended their trade truce by only two months, to 10 January 2027, and agreed on more favorable tariff treatment for about USD30 billion of non-sensitive goods in each direction, roughly USD60 billion in total. Small appliances, toys and holiday decorations are in; rare earths, advanced chips and Taiwan remain unresolved. China, which keeps close ties with



both Moscow and Tehran, is not about to change sides. One analyst described the relationship as being on tactical autopilot, which is probably the best that can be hoped for. The two leaders plan to meet again in China in November and at the G20 in Florida in December. There is little to expect in the coming months; on the contrary. China competes on all fronts, especially in AI.

The collapse of the rules-based international order, rising violence and state conflict, weak institutions and domestic political dysfunction will make China an inescapable player in a multipolar world.

Conclusion

Over the long run, whether humanity can control the machines it is building may prove more important, and it is striking that the providers themselves are the ones ringing the bell. For the coming quarter, however, the risks that matter for portfolios are more familiar: a war that keeps energy expensive, and a bond market that demands higher yields to finance governments and data centers at the same time.

Despite higher rates and geopolitical noise, the coming earnings season should be good again, and this should support equities, provided two conditions hold. Credit spreads must remain under control, with Oracle as the canary in the coal mine. And long-term rates must not rise too fast. So far, higher rates have not led companies to cut investment plans because hyperscalers are not rate sensitive; therefore, the Fed can raise rates at each committee, and it won't affect their spending plans. The AI build-out will continue. The dates to watch are the Fed meeting on 27 and 28 October, the midterm elections on 3 November, and a possible decision on diesel exports. It seems too early to be worried, even if the clouds are starting to gather. Similar market actions in the past have led to higher year-end prices. The case for staying invested holds, with one eye on the sky.

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