

PALOS

The Palos Perspective

Issue No. 38 | October 24, 2026

CONTENTS

It's Not Over Yet	1
Disclaimer	4

A Macro Market View by Hubert Marleau

It's Not Over Yet

Last week I wrote: "History offers a reassuring outlook. Since 1950, bull markets that made it as long as the current one tended to do well in their fifth year, delivering an average gain of nearly 19%, according to Carson Investment Research. As a matter of fact, Goldman Sachs flipped bullish on stocks for the rest of 2026, citing supportive earnings growth, which is expected to rise 29.6% in Q3, followed by an 18% increase in 2027. Potential valuation expansion for de-rating should therefore decline, even though there remain plenty of concerns over high volatility risk stemming from energy prices, credit jitters over financially weak companies in the AI chain, and uncertainty over the midterm elections.

"Nonetheless, I suspect that many sideliners, who missed the bull run, may reach out for laggards, feeling compelled to try their luck on them, realizing that, contrary to the 2000 tech bubble, brought about by forward P/E expansion, our current situation is all about earnings expansion. This big difference keeps me in the bullish camp."

The Economic Week of October 18:

Stock futures rebounded on Sunday evening, offering investors some respite, but headed into a high-stakes showdown after last week's ugly tech rout. The weekend respite was connected to lower bond yields, lower oil prices and lower probabilities of another rate hike by the Fed.

The economic docket was sparse and light. Nonetheless, all the business prints on employment, retail sales and industrial production were positive enough to keep the Atlanta Fed estimate for real growth at 3.5% in Q3. A pair of S&P 500 surveys of top business executives pointed to "the best growth spell for business since early 2015", steady consumer demand and massive investment in AI being the key drivers. The New York Fed Staff Nowcast raised its forecast for Q4 to 2.7%. Meanwhile, according to the University of Michigan consumer sentiment index, Americans were still deeply frustrated by the cost of living, but their outlook for the future had improved, with the expectations sub-index rising 2.5 points to 48.8.

A Macro Market View by Hubert Marleau

What was more important was 70 corporations reporting mostly positive earnings, notably Meta Platforms and SpaceX, which were right in the middle of an AI argument that may act more like a stress test than a victory lap, with the bulls pointing to strong earnings and bears to the rising cost of growth. The bears, wanting a cleaner and safer environment and questioning everything that brought them to the party, substantially reduced risk and won the sprint.

Thankfully, on Friday, the AI selloff eased, but the global oil complex took over the baton and steered stock prices lower because the international price for crude had risen dramatically, reflecting renewed war worries in the Middle East conflict, while inventories of oil were historically low. Interestingly, the S&P 500 registered a weekly decrease of only 0.4%, ending the week at 7,624 with more than 300 individual S&P 500 stocks finishing higher.

The Bond Market Tells:

The US Treasury market is an intriguing and gripping place because it has the ability to intimidate investors, being the primary benchmark for everything else. Government bond yields go up and down for both good and bad reasons. Since October 6 when the S&P 500 peaked at 7,819, the neutral rate, which is represented by 5-year Treasury yields, marched downward from 5.06% to 4.77%, while the shape of the yield curve narrowed substantially across the board, without any change in inflation expectations which remained at 2.4% throughout the period, thereby suggesting that real growth will moderate, and thereby in turn reducing the chance of an October rate hike by the Fed to less than 10%. Despite all the fuss about the cost of funding and availability of capital to finance the cohort of neoclouders, Baa corporate credit spreads have nudged lower, suggesting that the five major hyperscalers (Oracle, Meta, Amazon, Microsoft, and Google) will be able to fund their 2027-2030 \$3 trillion capex program.

The Stock Market Outlook:

The stock market has entered a complicated phase, as the neocloud growth model is a serious enigma for investors. However, market auto-stabilizers like lower Treasury yields, hope for softer oil prices, and monetary policy certainty might be enough for traders to absorb the risk of another burst of

A Macro Market View by Hubert Marleau

disappointment. Indeed, the tech downturn may have already ended because long positions held by momentum tech-traders and commodity-advisers, who are under tight risk limits and constituted the bulk of the market turnover, have been unwound, while high demand for computing power and tech sector's financing surplus should mitigate potential disruptions. In the view of JPMorgan, demand for compute is so high that the passing of financing costs through to end customers is very possible and the tech sector overall is running a financing surplus of around \$400 billion in 2027 because cash flows are exceeding capex.

Meanwhile, according to UBS, the equity rally will continue into 2027 in the belief that last week's sell-off does not undermine the structural AI narrative, but limits tech exposure to well-funded hyperscalers, select mega-cap tech names and high-quality semiconductor and hardware beneficiaries.

On Politics:

Peggy Noonan said: "Our political leaders will know our priorities only if we tell them, again and again, and if those priorities begin to show up in the polls."

Alexander Hamilton said: "This process of election affords a moral certainty that the office of President will seldom fall to the lot of any man who is not in eminent degree endowed with the requisite qualifications."

The Palos Perspective

Issue No. 38 | October 24, 2026

Disclosure:

This publication is the property of Palos Wealth Management Inc. ("Palos") and no part of its contents may be copied, downloaded, stored in a retrieval system, further transmitted, or otherwise reproduced, disseminated, or transferred, in any form or by any means without the prior written consent of Palos. The views and opinions expressed herein are solely those of the author(s) and do not constitute investment advice, and they should not be relied upon as such. The information presented is current as of the date of publication and is subject to change without notice.

This publication may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the offering documents before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Palos Funds are not available for non-Canadian residents.

Palos Funds and certain separately managed accounts advised by Palos may have investments in the securities discussed or referenced in this publication. These investments are made based on the funds and managed accounts' investment policies and may change over time as market conditions evolve.

L'infolettre Palos Perspective est un aperçu hebdomadaire de la situation macroéconomique disponible uniquement en anglais. Si vous avez des questions sur l'infolettre ou des demandes générales sur Palos, veuillez nous contacter à info@palos.ca