

LANARK FINANCIAL

INVESTMENT STRATEGY STATEMENT | November 1, 2026

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Performance Review & Outlook

AI Rotation: October brought a sharp divergence, with the Nasdaq 100 falling about -7% while the equal-weight S&P 500 gained 5%. Investors moved toward defensive and quality sectors as scrutiny of AI capital spending grew.

Anthropic IPO: Anthropic's registration statement gave investors their first detailed look at the economics of a frontier AI developer. It arrived just as markets began asking harder questions about returns on AI investment.

Fed: The Fed held rates at 3.75%–4.00%. A 10-2 vote, with two dissents in favor of a hike, makes a December increase likely, and Chair Warsh announced that some meetings will be devoted to strategy starting in 2027.

Earnings: Third-quarter S&P 500 earnings are tracking close to 30% growth with a high beat rate. The size of the beats is well below average, though, and most of the growth comes from AI-related companies.

Yields: The 10-year Treasury yield peaked at 5.31% on October 5th and ended the month at 4.93%, back below 5%, as AI-driven equity selling pushed investors toward safety.

Hyperscaler Debt: AAA-rated Microsoft issued 30-year bonds at +95 bp, and analysts expect heavy future AI-related issuance. That supply could put upward pressure on longer-term yields.

Equity Market Overview

October was one of the sharpest rotations in recent years. After the largest technology companies drove index gains through late summer, the S&P 500 Equal Weight / Nasdaq 100 ratio fell to its lowest level since April 2000 on October 7. It then reversed hard. For the month, the Nasdaq 100 declined roughly -7%, while the equal-weight S&P 500 rose 5%. Consumer staples, energy, health care, and utilities led, and staples reached all-time highs in the final week. Market breadth improved even on days when the headline indexes fell. This shows the selling was concentrated in AI-related names, not a broad retreat from equities.

S&P 500 Equal Weight vs. Nasdaq 100



The market is raising a caution flag over how much capital is going into AI and when it will pay off. The hyperscalers are on pace to spend more than $750 billion on capital expenditures this year, roughly double their 2025 levels, and investors increasingly want proof that this spending is turning into profit. Alphabet fell more than 12% after its results showed slower search advertising growth and a second straight quarter of negative free cash flow. Amazon has reported $42.4 billion of negative free cash flow over the trailing twelve months, and Intel dropped sharply after warning of cash burn. Microsoft held up better on 48% Azure growth, which shows the market is separating companies by evidence of return, not punishing all AI spending equally. We have said before that the AI spending cycle will likely last as long as the market allows it. October raises the question of whether this is the start of the market telling these companies to pump the brakes. For now, we see it as the market repricing how long payback will take, not rejecting AI as a long-term driver.

Anthropic added to the debate in late October when it filed for an IPO. The developer of Claude AI plans to list on the Nasdaq under the ticker ANT, and reports suggest it could raise as much as $100 billion at a valuation approaching $1.5 trillion, which would make it one of the largest offerings in history. Growth has been extraordinary: first-half 2026 revenue reached $16.3 billion, up from $1.2 billion a year earlier. However, the company expects growth to slow, posted an operating loss for the half, and depends on a small number of customers for a meaningful share of revenue. It has also committed hundreds of billions of dollars to computing capacity, data centers and chips, and most of those obligations are long-term and largely fixed. If demand falls short of that buildout, margins and returns on capital could come under pressure.

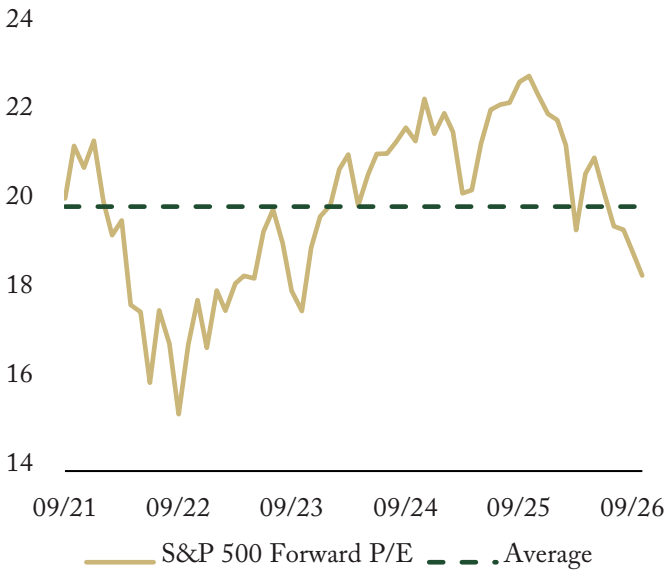
> The offering could become a key test of investor confidence in the AI investment cycle and help set valuation benchmarks for the sector.

Earnings season has been strong on the surface. As of late October, 83% of reporting S&P 500 companies had beaten estimates, above the five-year average of 78%, and blended earnings growth stood at 29.5%, which would be the third straight quarter above 25%. Underneath, the beats have been small, averaging 2.1% against a five-year average of 7.5%, and more than half of the index's earnings growth is coming from AI infrastructure. The market has given little credit for beats and punished misses harshly. The forward P/E of 18.4 is now below its five- and ten-year averages, so valuations have reset even as earnings keep growing.

S&P 500 Price Index



S&P 500 Forward P/E Ratio vs. Historical Average



October reinforces the value of balanced positioning. AI remains a powerful structural theme, but the concentration that built up in the largest names left many portfolios more exposed than they appeared. Broader participation across sectors, supported by solid earnings growth, is a constructive development, and we continue to favor diversified exposure over concentrated bets on any single theme.

October Index and Sector Performance

-0.9%	S&P 500
+1.7%	Dow Jones Industrial Avg.
-5.3%	Nasdaq Composite

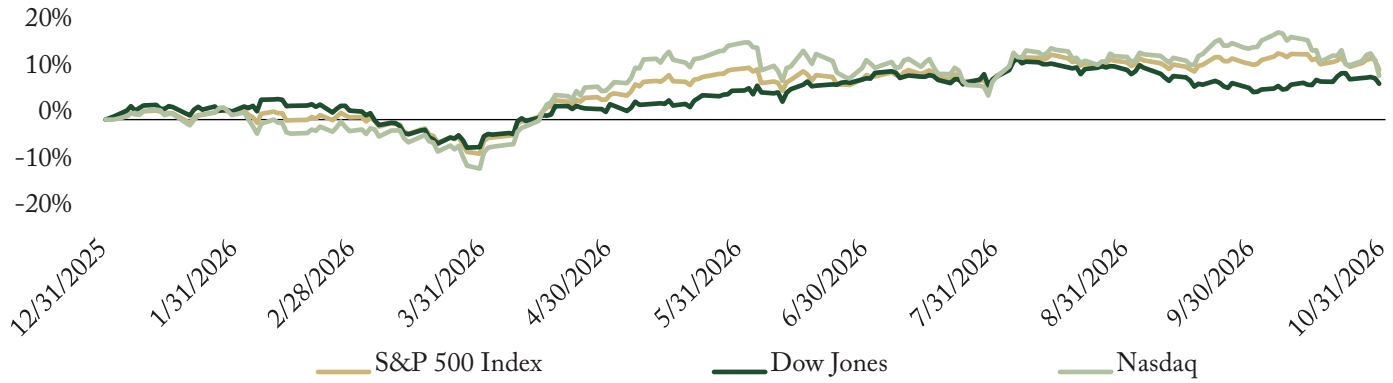
Outperforming Sectors

+14.0%	Energy
+11.4%	Consumer Staples
+10.1%	Utilities

Underperforming Sectors

-15.2%	Communication Services
-6.8%	Technology

Index Returns YTD



Fixed Income Market Overview

October proved to be a volatile month for U.S. bond markets. Yields started the month near multi-decade highs but finished near their monthly lows. The 10-year U.S. Treasury note closed at a monthly high of 5.31% on October 5th before ending the month at 4.93%, once again below the key 5% level. The 30-year bond followed a similar path, peaking at 5.67% on October 7th and closing the month near 5.30%. A hotter-than-expected September CPI report mid-month, with headline inflation at 3.7%, raised expectations for further Federal Reserve rate hikes. Yields quickly reversed the following day, however, as a sell-off in technology and AI stocks drove a flight to safety, a theme that resurfaced again later in the month.

The Federal Reserve held its October meeting with the target rate unchanged at 3.75%–4.00%, following a quarter-point hike in September. While a hold was widely expected, the vote was split 10-2, with Governor Lisa Cook and Cleveland Fed President Beth Hammack dissenting in favor of an immediate hike. Coming just six weeks after a unanimous 12-0 vote in September, the split marks a noticeable shift among policymakers. Heading into the final FOMC meeting of 2026 in December, many analysts expect one more hike to close out the year, absent any major shift in the inflation data. In his post-FOMC press conference, Fed Chair Kevin Warsh also announced a notable change to the Committee's meeting structure: beginning in 2027, one of the Fed's eight annual meetings will be dedicated solely to strategy, leaving seven policy-setting meetings. Warsh expects that to move to six policy meetings and two strategy meetings in 2028, a meaningful departure from how the Fed has operated for many years.

10-Year Treasury Yield is Back Near its Long-Term Average



AI hyperscalers remain a key theme for U.S. bond markets. Even as Treasury yields fell, hyperscalers continued to issue debt at notably wide spreads. Most notably, Microsoft, which carries an AAA/Aaa rating (higher than the U.S. government's own rating), issued 30-year bonds with a 6.25% coupon, +95 bp over Treasuries, and 40-year bonds at 6.35%, +105 bp. For perspective, lower-rated Procter & Gamble issued 30-year debt the same week at just +60 bp. Spreads have also widened in the secondary market, with Meta's 40-year bonds trading near a 7.28% yield and Oracle's 40-year debt near a staggering 8.05%. Looking ahead, Goldman Sachs projects hyperscaler bond issuance of roughly $400 billion in 2027 and estimates the largest hyperscalers may need approximately $1.3 trillion in additional capex financing from 2028 to 2030. The competition for that capital, against a backdrop of higher rates and "sweetener yields" (new-issue concessions) on AI-related debt, is a topic we will continue to monitor closely. We believe it could add upward pressure to the broader interest rate market, particularly on the longer end of the curve.

U.S. bond markets continue to show notable patterns in the final quarter of 2026, but amid the headlines, yields remain attractive for investors. With recent volatility in equity markets, particularly in the tech sector, we saw investors favor quality this month as many returned to fixed income. Lanark Asset Management continues to view fixed income as an important part of any balanced portfolio, and particularly attractive today, with yields across investment-grade debt near multi-decade highs.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	October	YTD	12-Month
S&P 500	7,580.07	-0.9%	11.7%	12.1%
Dow Industrials (DJIA)	51,770.31	1.8%	9.1%	10.6%
Nasdaq	25437	-5.3%	10.0%	7.9%
Russell 2000	2,811.844	0.6%	14.5%	15.0%
U.S. 2yr Treasury	4.5876	-6.1%	32.1%	28.4%
U.S. 10yr Treasury	4.9289	-6.7%	18.3%	20.9%
Gold (NY Spot $/oz)	3,874.62	-6.8%	-10.3%	-3.2%
Silver (NY Spot $/oz)	49.1001	-18.7%	-31.5%	0.8%
Copper ($/lb)	648.2	-2.1%	9.7%	22.8%
Oil (WTI Spot/bbl)	104.12	15.2%	81.3%	70.7%
Oil (Brent Spot/bbl)	117.64	13.6%	93.3%	80.8%
Natural Gas ($/mmBtu)	2.898	-4.2%	-21.4%	-29.7%

Data as of October 31, 2026. Price returns. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators



JOB MARKET

Employment Report
Nonfarm payrolls rose 29,000 in September, well below the 84,000 consensus, and the unemployment rate rose to 4.2% from 4.1%. July and August were revised down a combined 60,000 jobs. Average hourly earnings rose 3.0% over the year, below the 3.7% rise in consumer prices.

Initial Jobless Claims
Initial claims fell 1,000 to 194,000 for the week ending October 24, below the 199,000 expected and the lowest level since mid-July. Layoffs remain rare even as hiring has slowed.

HOUSING MARKET

House Prices
The S&P Cotality Case-Shiller U.S. National Home Price NSA Index rose 2.1% from a year earlier in August, up from 1.9% in July. With consumer prices up 3.4%, home prices fell in real terms for the 15th consecutive month.





PERSONAL INCOME & SPENDING

Personal Income & Spending
Personal spending rose 0.5% in September while personal income rose 0.2%. Adjusted for inflation, spending was flat, and the personal saving rate slipped to 3.8%.

Economic Overview

Key Economic Indicators



CONSUMER SENTIMENT

University of Michigan Consumer Sentiment
The final October reading was 48.0, nearly unchanged from 48.1 in September and 10.4% below a year ago. Year-ahead inflation expectations rose to 4.7% and long-run expectations to 3.5%.

ECONOMIC GROWTH

GDP Growth
The advance estimate put third-quarter GDP growth at a 3.4% annual rate, up from 2.2% in the second quarter. Real final sales to private domestic purchasers rose 4.9%, and business equipment investment rose 20.9%, led by information processing equipment tied to the AI build-out.





INFLATION

Consumer Price Index (CPI)
The CPI rose 0.6% in September, lifting the annual rate to 3.7% from 3.4%, with gasoline accounting for over half of the monthly increase. Core CPI rose 0.3% on the month and 2.6% year over year, up from 2.4%.

Personal Consumption Expenditures (PCE) Price Index
The headline PCE price index rose 0.5% in September and 3.6% from a year earlier. Core PCE rose 0.3% on the month and 3.1% over the year. Both remain well above the Fed's 2% target.

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