
New York, New York

WEEK OF OCTOBER 19, 2026

Market Navigator

AI concerns around spending, the ability to earn an acceptable return, and financing needs weighed on the technology sector. This led to weakness across most indices, with the exception of the Dow Jones Industrial Average. The Treasury market enjoyed its best week since February, with the 10-year declining to 5.08 percent.

Quick Hits

1. **Beyond the headlines:** Market breadth returns.
2. **Report releases:** Consumer and producer inflation remained sticky.
3. **Financial market data**:A technology sell-off weighed on markets, but breadth improved.
4. **Looking ahead:** We expect updates on the housing market and several high-profile earnings reports this week.

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Beyond the Headlines: Market Breadth Returns

Diversified portfolios have had a difficult time keeping up with the S&P 500 over the past few months as market leadership has narrowed. As yields on intermediate and longer-term Treasury bonds moved higher, investors flocked to large-cap growth companies that are most associated with the AI theme.

These developments have certainly caught the attention of investors. More than half of the companies in the S&P 500 have declined more than 20 percent from their all-time highs in that time. With this occurring alongside weakness in the bond market, it felt like we might be revisiting the environment we faced in 2022.

Short-term trends don't make a market, however, and things can change quickly.

AI Concerns Grow

When certain parts of the market sell off, there are always varying opinions about why. Last week's technology sell-off is no exception. Certainly, hotter-than-expected inflation data raised concerns about the path of interest rates and what that could mean for the parts of the market that trade at higher multiples.

At the same time, concerns have grown about whether companies can earn a return on the vast spending currently taking place to build out AI infrastructure. Those concerns would be exacerbated by any slowdown in AI revenues. The current sell-off feels like a valuation correction for a part of the market that has performed well for several years and not a fundamental change to the long-term AI outlook. But it does open a door to other parts of the investment landscape.

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Better Valuations with Improving Fundamentals

The bottom 493 stocks in the S&P 500 have traded at a lower price-to-earnings ratio than the so-called Magnificent Seven (Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla) for many years. The market divergence of the past few months caused that gap to widen. It coincided with the start of third-quarter earnings season. If analyst expectations are correct, this season will see strong breadth in earnings. Currently, 10 of 11 sectors are anticipated to report year-over-year earnings growth, with only health care expected to decline. Five of these sectors are expected to report double-digit earnings growth.

If the Magnificent Seven companies are removed from earnings growth calculations, the remaining 493 firms are expected to deliver earnings growth of more than 25 percent. Greater breadth in earnings should be welcomed by market participants. Historically, attractive valuations and improving fundamentals have drawn investor interest and attracted capital.

Diversification Has Been a Key Theme

Last week saw a rotation back into the rest of the market as the equal-weight S&P 500 outperformed the market cap–weighted index by 2.25 percent, the biggest outperformance since November 2020. This is similar to the environment that existed in the first half of the year. Through July, the Russell 1000 Value Index outperformed the Russell 1000 Growth Index by more than 20 percentage points. Over the same period, the equal-weight S&P 500 outperformed the market-cap version by more than 250 basis points (bps).

Historically, diversification has been the best way to navigate uncertainty. With several risks facing investors, diversification is doing its job.



Report Releases: October 12–16, 2026

Consumer Price Index (CPI)
September
(Wednesday)

Consumer inflation accelerated last month, with headline and core CPI rising more than expected on a year-over-year basis.

- Prior monthly CPI/core CPI growth: +0.4%/+0.3%
- Expected monthly CPI/core CPI growth: +0.6%/+0.2%
- Actual monthly CPI/core CPI growth: +0.6%/+0.3%
- Prior year-over-year CPI/core CPI growth: +3.4%/+2.4%
- Expected year-over-year CPI/core CPI growth: +3.6%/+2.5%
- Actual year-over-year CPI/core CPI growth: +3.7%/+2.6%



Retail Sales
September
(Thursday)

Retail sales continued to show signs of growth last month, with headline sales up 0.8 percent. Core sales, which strip out the impact of volatile auto and gas sales, were up a more modest 0.2 percent.

- Expected/prior month retail sales monthly change: +0.3%/+1.3%
- Actual retail sales monthly change: +0.8%



Producer Price Index (PPI)
September
(Thursday)

PPI reports last month showed higher-than-expected producer inflation at both the monthly and annual levels

- Prior monthly PPI/core PPI growth: +0.5%/+0.2%
- Expected monthly PPI/core PPI growth: +0.6%/+0.3%
- Actual monthly PPI/core PPI growth: +1.3%/+0.7%
- Prior year-over-year PPI/core PPI growth: +5.6%/+4.8%
- Expected year-over-year PPI/core PPI growth: +5.4%/+4.4%
- Actual year-over-year PPI/core PPI growth: +6.3%/+5.0%



>> The Takeaway

- Inflation data continues to come in above expectations at both the consumer and producer levels. These will be important data points as the Federal Reserve (Fed) meets at the end of the month.
- Despite the headwinds, consumers continued to spend money.

Financial Market Data

Equity

Stock indices were mostly lower, with the exception of the Dow Jones Industrial Average, which gained 0.67 percent. The technology sector, driven by a sell-off in AI-related companies, declined more than 6 percent. That led the Nasdaq Composite to decline roughly 4.5 percent. Breadth improved, however, with consumer staples and energy each rising 5 percent. The equal-weight S&P 500 had its best week of outperformance in almost six years, beating the market cap–weighted version by 2.25 percent. International markets moved higher, with developed markets up 1.44 percent, but emerging markets fell 5.14 percent.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.94%	0.15%	12.89%	16.87%
Nasdaq Composite	–4.48%	–2.68%	12.99%	16.55%
DJIA	0.67%	2.19%	9.53%	14.99%
MSCI EAFE	1.44%	–0.07%	10.83%	14.72%
MSCI Emerging Markets	–5.14%	–4.89%	17.48%	20.13%
Russell 2000	–3.04%	–2.67%	10.83%	11.82%

Source: Bloomberg, as of October 16, 2026

Fixed Income

The Treasury market had its best week since February, as yields across the curve declined. The 10-year Treasury yield dipped 17 bps to close at 5.08 percent. Given the technology sell-off, the flight to quality proved a stronger catalyst than the persistently high inflation data released during the week. Most fixed income markets rallied. Core bonds, Treasuries, and mortgages each moved close to 0.9 percent, and the municipal market gained more than 1.3 percent.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.88%	1.32%	–1.63%	–1.67%
U.S. Treasury	0.91%	1.26%	–1.54%	–1.79%
U.S. Mortgages	0.89%	1.53%	–1.82%	–1.40%
Municipal Bond	1.31%	2.02%	–2.24%	–1.65%

Source: Bloomberg, as of October 16, 2026

>> The Takeaway

- Technology came under pressure on concerns about AI spending and the ability to earn a return. Market participants rotated into the rest of the market.
- Treasury markets enjoyed their best week since February on a flight-to-quality rally.

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Looking Ahead

Economic data will take a back seat to earnings reports from corporate America this week. There will be several updates early in the week on the health of the housing market.

- The week kicks off on Monday with the National Association of Home Builders (NAHB) Housing Index for October. Home builder confidence is expected to fall modestly.
- On Tuesday, housing starts and building permits for September will be released. These measures of home construction are expected to be mixed month-over-month.
- Finally, third-quarter earnings season will ramp up with reports from Netflix, Meta Platforms, Tesla, GE Aerospace, and IBM.



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Authored by the Investment Research team at Commonwealth Financial Network®.

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