

Weekend Alpha

Tech Earnings Disappoint, Sending Major Indexes Lower



Thomas Lee, CFA^{AC}
HEAD OF RESEARCH

- Despite growing wariness about the AI trade, we view the risk/reward as improving. That is in part due to sentiment, which has become quite bearish.
- In addition, U.S. 10-year yields are back below 5% and Fed fund futures show a dovish pivot in the markets, with odds of both an October and December hike, as priced by Fed funds futures trading, both declining.
- We still have a lot of conviction on the AI trade, for multiple reasons. Thus, we want to keep buying the dip.

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Mark L. Newton, CMT^{AC}

HEAD OF TECHNICAL STRATEGY

- Despite what the broader SPX and QQQ suggest, a sharp decline in Treasury yields has helped most sectors this week.
- Given the decrease in cross-asset volatility coupled with a stock market that's actually strengthening outside of Technology, the risk/reward for adding exposure looks favorable.
- Positioning data also shows hedge fund selling of global equities has returned to March 2026 extremes, which argues that much of the selling pressure has run its course.
- Thus, I view this weakness as a buying opportunity and expect markets to stabilize between now and early next week.

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Sean Farrell^{AC}

HEAD OF DIGITAL ASSET STRATEGY

- An important development for crypto this week broadly was the move in rate volatility. We have been waiting for MOVE to roll over for several weeks, and today we finally saw a more meaningful decline.
- Crypto has historically been sensitive to sharp moves in rate vol, as heightened uncertainty in rates can constrain leverage, tighten liquidity conditions, and weigh on risk appetite. We had been looking for a more decisive decline in MOVE, and its break below the 98–114 range that held for much of the past month is an encouraging development.
- Rate volatility is finally starting to ease, credit is trading better, and the AI/HPC complex looks like it may be finding firmer footing. If these trends continue (I think they do), I think the setup remains favorable for another move higher in crypto.

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L. Thomas Block

WASHINGTON POLICY STRATEGIST

- Midterm races are entering the home stretch, and polls continue to show a likely change in control of the House.
- President Trump hopes he can convince his base to turn out in strength to pull off a surprise win in the House, and to confound Democrats' efforts to flip the Senate.
- The Federal Open Markets Committee will meet next week, with consensus expectations of a rate-policy pause before the election.

[Read the Latest US Policy.](#)

TECH EARNINGS DISAPPOINT, SENDING MAJOR INDEXES LOWER



Kent Fung

VICE PRESIDENT, MARKET INTELLIGENCE

Key Takeaways

- The S&P 500 slipped 0.5% this week, closing at 7,623.68 points. The Nasdaq composite tumbled to 25,955.34, down 0.7% for the week. Bitcoin was at USD 81,179.89, as of Friday afternoon, down about 1.6% from Monday levels.
- Fundstrat Head of Research Tom Lee continues to remain bullish on tech, citing parallels between the tech volatility of this year to what happened with Cisco shares from 1994 to 2000.
- Head of Technical Strategy Mark Newton said it's encouraging to see a pullback in long-term Treasury yields, but it's possible yields re-test those multidecade highs in the coming weeks.

"We must always look forward, only then will we succeed in shaping the future." — Gidon Kremer

Good evening,

For those overweight on tech stocks, the week's market developments were difficult to witness. The Magnificent Seven \$MAGS fell 1.70% this week, after earnings from Tesla \$\$TSLA and Meta Platforms \$\$META. So did the tech and communication services sectors, down 0.25% and 6.22%, respectively. They dragged the S&P 500 and Nasdaq Composite lower, as well: The indices slipped 0.47% and 0.71%, respectively.

Fundstrat Head of Research Tom Lee suggested that some of what appears to be growing wariness around the AI trade is just the customary derisking that often takes place ahead of major elections. "To an extent, this makes sense. Historically, markets trade tentatively into midterms anyway," he noted.

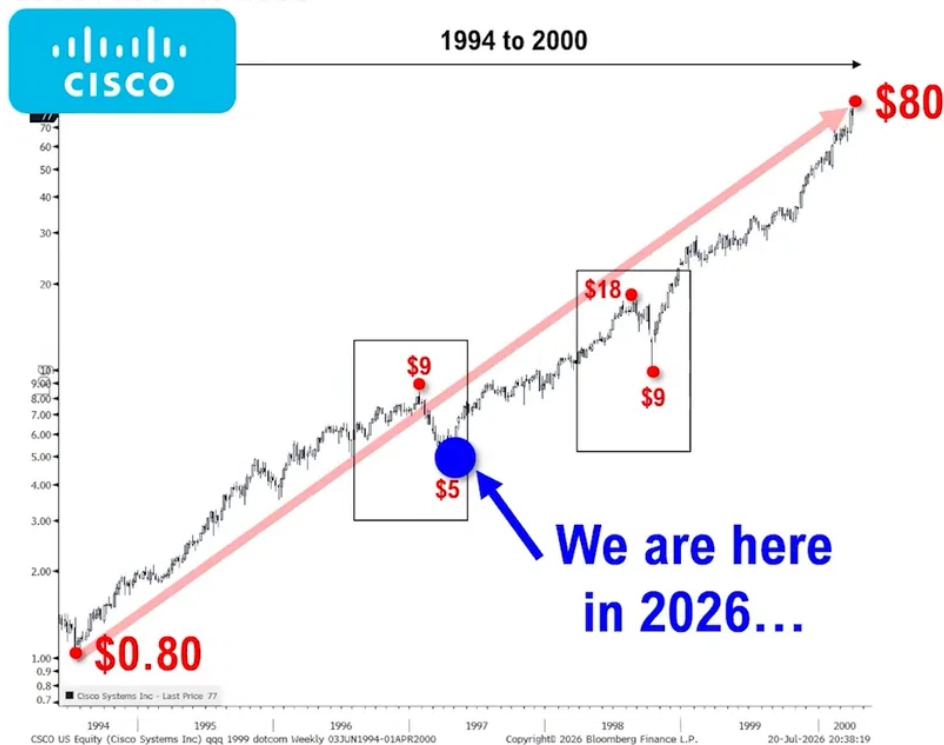
However, it's not just about the upcoming midterms. "In our conversations with clients, we see their unease with rising CDS (credit default swaps), funding costs, the sheer size of funding needs and the poor price action," Lee acknowledged. "Here's the thing," he told us. "None of this is new. We've known about the size of the AI buildout [...] and at the end of the day, the funding requirements [to satisfy lenders] have been there."

Lee continues to see parallels between the current AI wave and the early days of the Internet, highlighting how, more than once, early worries about a dotcom-bubble collapse were followed by significant gains. That can be seen by looking at Cisco $\text{\$CSCO}$ shares from 1994 to 2000. As Lee pointed out and as is shown in our Chart of the Week, on two separate occasions, a sharp decline in Cisco shares was accompanied by warnings that the dotcom bubble was collapsing. Each of those times, the stock price recovered shortly thereafter and went on to notch additional impressive gains.



Macro Research

CSCO: 1994 to 2000



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Lee views the recent pressure on the AI trade as a correction akin to the first Cisco decline back in 1997. And for those with shorter time horizons, Lee noted prime brokerage statistics showing that the volume of shorts on tech stocks has risen to the point where it has arguably become a crowded, consensus trade. For contrarians, such bearish metrics tend to be constructive signals.

That's consistent with Head of Technical Strategy Mark Newton's view. Declining sentiment has become somewhat comforting to him, as he told us during our weekly huddle: "We have about 10 percentage points more bears than bulls on AAll today – about 45% of respondents are bears, and it's very difficult for the market to have a sustainable decline when you have such an elevated level of bears," he noted. Combined with the volume of short positions being taken by hedge funds, and to Newton, "that's an extraordinary amount of negativity."



Meanwhile, yields retreated from their previously elevated levels this week, with the U.S. 10-year yield declining from a recent 5.30% to 4.99% (as of Friday's close). In fact, "we've seen a pullback in rates across the board, and I think that, combined with a robust start to earnings, is pretty encouraging," he added.

That's not to say that Newton views yields as necessarily having peaked. "That's probably the one risk for equities in November. Even though we're in a short-term downtrend and have been pulling back in both the dollar and the yields, my own analysis suggests that we're still likely to push back to minor new highs in November."

Overall, earnings for companies in the S&P 500 are expected to grow 29.5% in the third quarter from a year ago. That would mark the third straight quarter of earnings growth above 25%, an impressive feat.

Also encouraging to both Lee and Newton are improving breadth levels. Lee describes the current scenario as "tale of two markets – one of the equal-weighted S&P 500 and the other of the [capitalization]-weighted S&P 500."

"When you look at breadth over the last month, the percentage of stocks above their 20-day moving average has more than doubled, going from 20% to around the 53% level. Despite technology's decline, I think that's very, very good news in general for the market."

Elsewhere

IT and cybersecurity teams around the world worked overtime this week to respond to critical security flaws discovered by AI. The flaws, in the PHP programming language, had existed for years without detection. PHP is used on roughly 70% of web sites globally. Among the prominent sites that went offline as IT teams patched the flaws were government sites in the Netherlands, Australia, Denmark, Germany and the UK. Private-sector sites like those operated by the All Nippon Airways (ANA) and 4Chan also went offline temporarily as patches were applied.

Meta opened a new potential front for the funding of AI capex, announcing plans to create a new class of shares that will convey ownership without voting rights. The new Class C shares will initially be issued as a stock dividend to existing shareholders. However, Meta's decision was motivated more by founder Mark Zuckerberg's threat to move out of California, a move the board feared would impede his ability to lead the company in-person and negatively impact employee morale and PR. Zuckerberg wants to avoid the billionaire wealth tax being considered by voters in California's November election, and the Class C shares will enable him to raise funds to pay the tax – if the referendum passes – without diluting his control of the company.

Residents of Alberta overwhelmingly signalled rejection on the possibility of seceding from Canada, with roughly 76% of voters voicing the opinion that the oil-rich province should cease consideration of that route. While those supporting independence remain a minority, the fact such a vote took place at all indicates the extent of the dissatisfaction with the federal government in Ottawa, driven by frustration over environmental protections and over the province's lack of population and thus, voting power.

Brent crude prices hit a seven-month high on Friday on rising fears of an escalation in the Iran war. The surge came despite the fact that oil shipments through the Strait of Hormuz have returned to – and even exceeded – pre-war levels despite Iran's best efforts, according to Kpler data. Nevertheless, despite damage to Iranian infrastructure, Iran's direct and proxy attacks have broadened in the region, targeting Saudi Arabia in particular.

The White House and Elon Musk pointed fingers at each other this week over the temporary limits on Ukraine's access to vital Starlink connectivity access, which the embattled country relies upon to fend off Russian drone and missile assaults. Musk had claimed that control over the military-grade version of Starlink, dubbed Starshield, rested with the

White House, while Trump officials in turn claimed the order had come from Musk himself. In either case, Ukraine on Friday said that full access had yet to be restored.

A rally on Moderna \$MRNA shares reversed on Thursday after data leaked over its proposed melanoma vaccine. The Phase III trial data, which had been slated to be revealed at a meeting in Madrid of the European Society for Medical Oncology this Sunday, apparently showed positive results – just not as promising as the market had hoped. Jointly developed by Moderna and Merck, the proposed personalized cancer vaccine – possibly applicable to cancers beyond melanoma – reduced the risk of recurrence or death by 42%, according to the leaked data.

Major Paris tourist venues closed for the weekend as a precautionary measure as France's capital braced for a repeat of protests that last week descended into rioting and arson. What began peacefully as student-led demonstration weeks ago has expanded and intensified, and along the way, become less than peaceful. Among the venues closing in Paris include the Louvre, Eiffel Tower, and Grand Palais. All three Apple stores in Paris also opted to close tomorrow. Other major French cities including Marseille and Lyon are also bracing for unrest.

And finally: An iconic staple of New York City tourism will come to an end, with the New York City Council overwhelmingly voting to approve a ban on horse-drawn carriages and Mayor Zohran Mamdani widely expected to sign it. The ban would take effect on June 1, 2028, and the horses that currently pull carriages through Central Park will be barred from being sold to other carriage companies elsewhere or for slaughter. The carriage trade in New York currently consists of 68 licensed carriages, along with roughly 150 drivers and 180 horses. Animal-rights activists had advocated for such a ban on multiple occasions in the past, but a recent carriage-related death of an 18-year-old tourist appears to have added the necessary momentum.

Important Events

S&P Cotality CS 20-City MoM seasonally adjusted, Tue, Oct 27 9:00 AM
August ET
Est.: 0.30% Prev.: 0.32%

Conference Board Consumer Confidence, Tue, Oct 27 10:00 AM
October ET
Est.: 80.4 Prev.: 81.9

FOMC Decision, October Wed, Oct 28 2:00 PM ET
Est.: 3.75% – 4.00% Prev.: 3.75% – 4.00%

Core PCE MoM, September Thu, Oct 29 8:30 AM ET
Est.: 0.3% Prev.: 0.2%

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