NOVEMBER, 2026

Who Will Buy What China Builds?

FROM THE DESK OF OUR CIO

In the span of a single lifetime, China went from a poor agrarian society to the world's factory. It opened to foreign capital under Deng Xiaoping in 1978, joined the World Trade Organization in 2001, and climbed without pause, from textiles to electronics to today's frontier industries of electric vehicles, batteries, and solar.[1] And the world was a willing partner: Western companies got a vast new workforce, Western consumers got ever-cheaper goods, and hundreds of millions of Chinese were lifted out of poverty in what may be the fastest ascent in economic history. It worked spectacularly. But a machine built to sell to everyone else only runs while everyone else is agreeable — and lately, the world has begun to balk.

For years the surplus had an easy home: American shelves. But U.S. tariffs cut China's exports to America by roughly a fifth in 2025. Rather than vanish, the goods were rerouted to Southeast Asia, now China's single largest market, and to Europe, which together more than absorbed what America stopped taking.[2] The pattern is striking enough that economists have given it a name: "China Shock 2.0," the sequel to the wave that hollowed out Western factory towns two decades ago.[3] This time, though, the welcome is wearing thin. Europe has slapped tariffs on Chinese electric vehicles, opened a battery of trade investigations, and capped imports; even the developing world, the supposed release valve, is beginning to pull up the drawbridge.[4] The world helped build this machine. It is now, country by country, deciding it would rather not be buried by it.

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[1] How China Got Rich: A Deep Dive into China's 40-Year History of Economic Transformation, World Economic Forum, June 2025

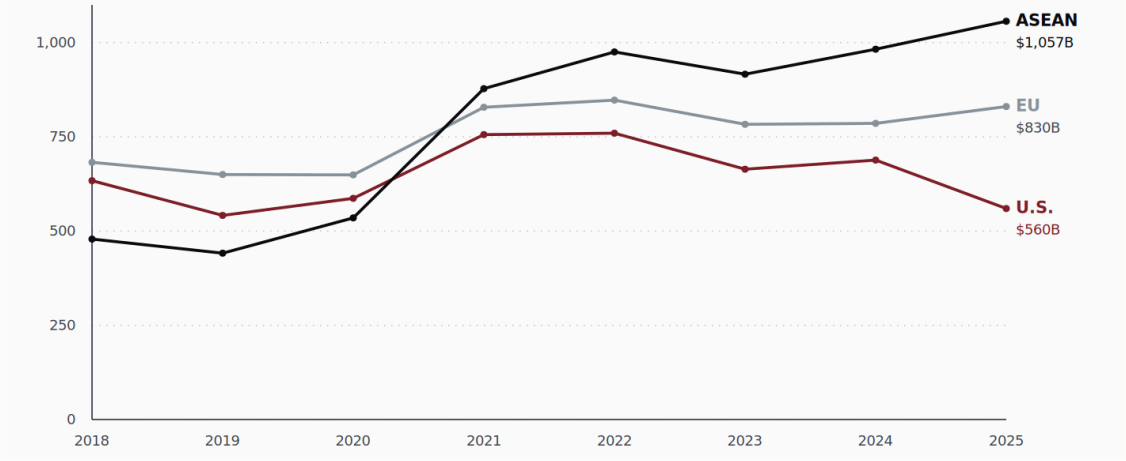
[2] How China Is Reshaping Its Export Map Beyond the US, Anadolu Agency, Oct 2026

[3] Europe's China Shock 2.0: Where Does It Go From Here?, Brookings, Sep 2026

[4] Don't Stop Me Now: Chinese Cars Are Having a Good Time in Europe, Rhodium Group, 2026

SOURCE: GENERAL ADMINISTRATION OF CUSTOMS OF CHINA (VIA CHINADATA.LIVE)

THE PIVOT, IN MOTION: CHINA'S TWO-WAY GOODS TRADE, US$ BILLION



China's total two-way goods trade with its top three markets, 2018–2025. Since its 2021 peak, China's trade with the U.S. has fallen about a quarter; ASEAN has raced past $1 trillion to lead. Africa and Latin America also rising (not shown).

None of this, to be fair, spells collapse. China is still growing faster than most of the developed world — a "slowdown" to 4.5% would be a boom almost anywhere else.[5] It remains the largest trading partner of more than 120 countries,[6] with a surplus that still buys enormous global leverage. Its grip on the industries of the next decade is real: it dominates the supply chains for solar panels, batteries, critical minerals, and increasingly the electric car, and it is closing the gap in semiconductors and artificial intelligence.[7] A nation that can out-manufacture the world does not become fragile overnight. But that very dominance is why the pressure to halt it has been building — at first to protect Western jobs, and now for a deeper reason: a world turning more dangerous has belatedly remembered that the know-how to make things is strategic, and not easily won back once it is gone.

[5] China Signals Tolerance for Slower Growth with 4.5%–5% Target for 2026, Reuters, March 5, 2026

[6] China Is the Top Trading Partner to More Than 120 Countries, Wilson Center, January 17, 2023

[7] China to Dominate Global Markets for Solar Panels, EVs Despite EU, US Hurdles: IEA, South China Morning Post, Nov 2024

CASE STUDY

A Car Is Never Just a Car

The automobile is the whole China story in miniature. Rather than beat established automakers at a century-old technology, China leapt ahead in electric vehicles, combining acquired know-how, domestic innovation, subsidies, and extraordinary manufacturing scale. It then poured in national and local subsidies and built capacity to make roughly twice the cars it actually sells. Then it exported the glut, which is expected to be about 10 million vehicles this year, up from one million in 2020.[8] And the glut is not junk. Ford's chief called a 2025 visit to China "the most humbling thing I've ever seen"; Xiaomi's $73,000 SU7 Ultra outruns a Porsche Taycan costing several times more.[9] Europe took the brunt — Chinese brands reached roughly a tenth of the market, and Porsche's China sales fell by a third for the first nine months of 2026, contributing to a $7 billion write-down at parent Volkswagen.[10]

America largely kept them out, with tariffs near 100% and a ban on Chinese car software. Call it protectionism, but a sound reason is buried in it. The auto industry is the defense industrial base: Detroit was the "arsenal of democracy" that built the tanks and bombers of 1942, and the batteries, motors, and autonomous software inside an electric car are the same tools that build drones and missiles.[12] To cede the carmakers is to cede more than jobs.



XIAOMI SU7 ULTRA[11]

The flood of Chinese vehicles is already drowning its own makers — barely a handful turn a profit, demand at home has gone cold, and Beijing has begun pulling the very subsidies that built the industry.[13] Massive, subsidized capacity can end badly: capital torched on plants that never earn it back, borders that slam shut against the flood, and a home economy left hollow when the export valve finally closes. The cars are merely the clearest case. Build far more than you need, lean on the rest of the world to absorb the surplus, and you are fine only until the world stops taking it — and your own dwindling population is too weak, and too frightened to spend, to take its place.

[8] Can General Motors and Ford Survive the Flood of Cheap Chinese EVs?, Barron's, November 1, 2026

[9] Can General Motors and Ford Survive the Flood of Cheap Chinese EVs?, Barron's, November 1, 2026

[10] Can General Motors and Ford Survive the Flood of Cheap Chinese EVs?, Barron's, November 1, 2026

[11] Photo: Zoerides, CC0, via Wikimedia Commons

[12] Ford, GM Could Be About to Make Weapons for the First Time Since WW2, Newsweek, 2026

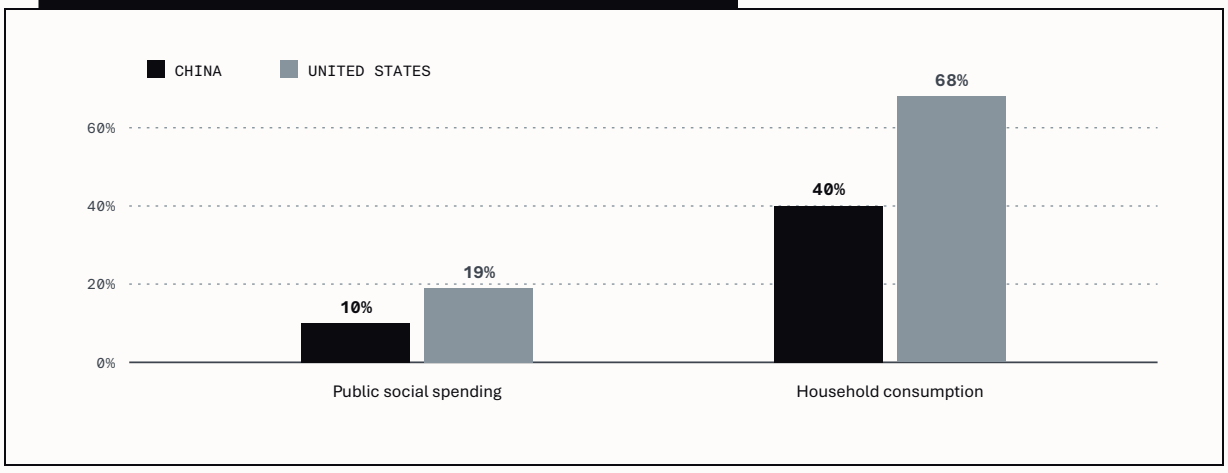
[13] Can General Motors and Ford Survive the Flood of Cheap Chinese EVs?, Barron's, November 1, 2026

The world is pushing back from the outside, and China is being forced to look inward at the same time. What it finds there is its own, far harder problem. It has almost 1.4 billion people, nearly a sixth of humanity, which ought to be the largest captive market on earth. When the rest of the world buys less, why not sell to your own? But that is precisely what China cannot do, as its focus and spend was purely to become an export powerhouse. It was engineered to produce, not to consume — households were handed only a modest slice of a fast-growing pie so the rest could be plowed into factories, infrastructure, and exports, and the safety net that might have freed people to spend was left deliberately thin. As a result, household consumption is only about 40% of China's economy, against roughly 68% in the United States and a world average near 64%.[14] That gap is not an accident of the model. Prosperity pointed outward, and now, with the outward door closing, there is too little demand at home to take its place.

Two forces pin that demand down, and a third is eroding the ground beneath it. The first is a safety net that barely catches anyone — and here is what surprises people: for a state still governed by a Communist Party, China's is among the thinnest of any major economy, with public social spending near 10% of GDP against roughly 19% in the United States.[15] China's pension divide is striking: recipients under its basic urban-rural resident scheme averaged just 246 yuan a month in 2024, roughly $35, while retirees under the urban employee system received more than ten times as much.[16] That is why Chinese households stash close to a third of their income rather than spend it.[17]

SOURCES: OECD (2022); WORLD BANK

THIN NET, THIN WALLET: SHARE OF GDP



China vs. the United States. Public social spending: OECD (2022); household consumption: World Bank. Figures approximate.

[14] China's Prosperous Middle Class and Consumption-led Economic Growth: Lessons from Household Survey Data, The China Quarterly, June 2024

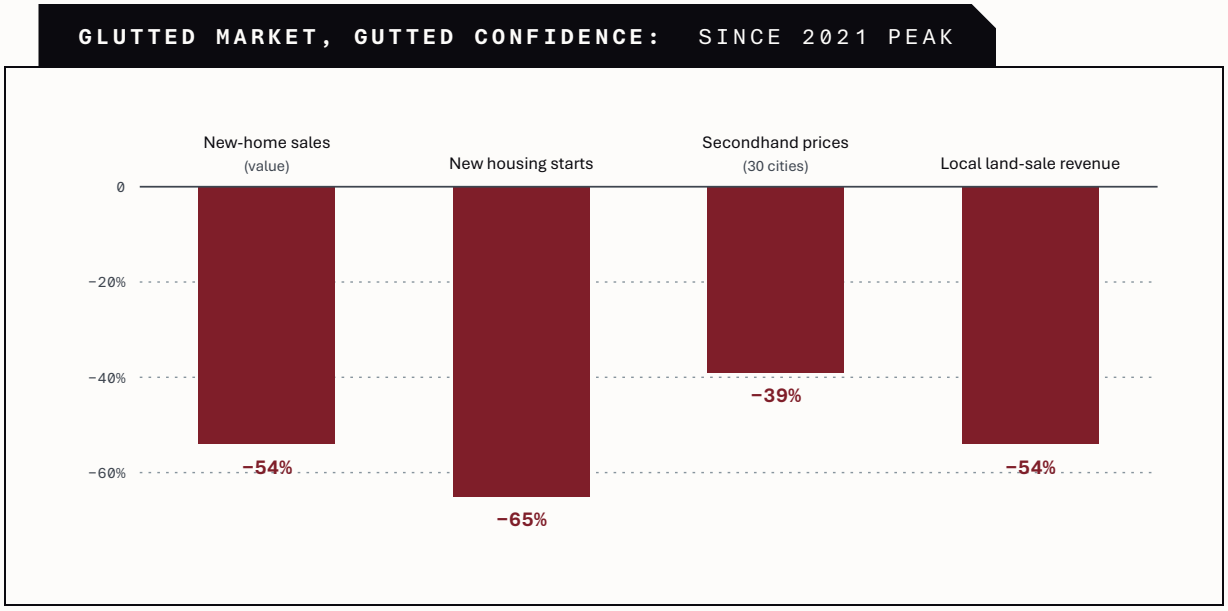
[15] Public Social Expenditure — Society at a Glance: Asia/Pacific 2025, OECD, February 18, 2025

[16] Commentary: How to Put China's Pensions on Firmer Ground, Caixin Global, August 21, 2025

[17] China's High Savings: Drivers, Prospects, and Policies, VoxChina, April 17, 2019

The second force is the collapse of the one place all that saving went: housing. Roughly 70% of Chinese household wealth is tied up in property — about double the American share — so when home values fall, the whole country feels poorer at once.[18] And fall they have. Measured from the 2021 peak, sales, construction starts, prices, and the land revenue that funds local government have all caved by double digits, erasing years of paper gains and, with them, the confidence to spend.[19] This is not a dip. It is the slow deflation of the average family's single largest asset, and it is now in its fifth year.

SOURCES: CHINA NBS; S&P GLOBAL; ASIA SOCIETY; BRUEGEL



From the 2021 peak, every pillar of China's property market has caved at once. With roughly 70% of household wealth tied up in homes, the blow lands squarely on the consumer. Peak (2020–21) to 2025; each bar measures the metric noted. Figures approximate.

And beneath both sits the force that no stimulus can reverse: a dwindling population. China's population has now fallen for four straight years, with 2025 births barely half its 2019 level — about 7.9 million arrivals against 11.3 million deaths.[20] A shrinking, aging population is not just a long-run worry; it saps demand right now. Fewer young families mean fewer first homes, fewer cribs, fewer cars, while a growing cohort of retirees leans on the savings the thin safety net forced them to hoard. A country can lift subsidies and cut interest rates to coax its people to spend; it cannot, on any useful timetable, conjure more of them.

[18] China's Property Slump Can Curb Growth for Years, Even Without a Banking Crisis, Stanford Center on China's Economy and Institutions, 2026

[19] S&P Is Already Predicting China's Property Slump Will Be Worse Than It Expected This Year, CNBC, February 9, 2026

[20] China's Population Drops for Fourth Year as Fewer Babies Born, Reuters, January 19, 2026

So where does this leave China? Boxed in, and increasingly aware of it. Beijing is not idle — it has launched subsidies to coax shoppers, an "anti-involution" campaign to curb the ruinous price wars, and its widest pro-birth push yet. And it has done all this while pouring money up the value chain into AI and advanced manufacturing.[21] But it keeps declining to take the one cure economists actually prescribe: hand real income and a real safety net to households so they feel free to spend. That fix threatens the producer-first, control-first model the whole system is built on. A regime that cannot grow its way out, and watches its own numbers shrink, may look outward for the legitimacy it can no longer manufacture at home. That's a potentially dangerous proposition.

> Prosperity pointed outward, and now, with the outward door closing, there is too little demand at home to take its place.

For the rest of us, the consequences are quieter but nearer. For a generation, China exported deflation as its cheap goods held down prices everywhere, a gift to Western consumers and central banks alike. That era is turning. In the near term the glut still spills outward, pressing prices lower as China dumps what it cannot sell; but the longer arc runs the other way, as a world rebuilding supply chains for security rather than cost rediscovers that making things at home is expensive.[22] The tailwind that helped tame inflation for thirty years is becoming a headwind. There is a second channel, closer to the bond market: for decades China recycled its export dollars into U.S. Treasuries, helping hold our borrowing costs down. As its surplus with America shrinks and the world diversifies away from the dollar, that steady bid fades — one more reason long-term rates may sit higher than we have grown used to.[23] And a China that will not buy is a drag on everyone who sold to it, from commodity exporters to the German carmakers already reeling.

[21] CEWC 2025: China Emphasizes Boosting Domestic Consumption, Proactive Fiscal Policy in 2026, China Briefing, December 2025

[22] China's Exports Are Lowering Inflation in Other Countries, Fortune, July 28, 2026

[23] Amid Geopolitical Uncertainty, China Trims US Treasury Holdings to 18-Year Low, South China Morning Post, 2026

In the end, China's story is a paradox of its own design. It built the most formidable production machine the world has ever seen — and built it by starving the very consumers who might one day have sustained it. That worked brilliantly while the world was buying and its own real estate was skyrocketing. Now the world is pushing back, the real estate bubble has burst, and the population is dwindling. None of this means collapse; China remains large, capable, and dominant in the industries that matter most. But it does mean the easy decades of growth for China are over, and the hard choices can no longer be deferred. For investors, the lesson is not to bet against China so much as to respect what its predicament reveals: that growth built on everyone else's demand is fragile, that the strongest economies are the ones whose own citizens can afford to buy what they make — and that, for all our worries, remains America's quiet advantage.

Growth built on everyone else's demand is fragile.

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Talking Points - October 2026

MONTHLY MARKET RECAP

Equity markets finished mixed in October, with the Nasdaq declining 5.06% and the S&P 500 falling 1.11%, while the Dow advanced 0.88%. Developed international markets were essentially flat, and emerging markets fell 7.88%. Treasury yields declined across the curve, particularly at intermediate and longer maturities, as investors sought safety amid selling pressure in technology stocks. AI was the largest negative contributor to performance, with concerns over debt, capital spending, and profitability outweighing several encouraging developments. The Middle East conflict remained another headwind as diplomatic optimism repeatedly gave way to renewed escalation. Inflation added to the challenging backdrop, although expectations for an October Fed hold followed by another hike in December remained largely intact.

AI sentiment weakened as the month progressed. Early enthusiasm over infrastructure deals — including Schneider Electric's planned acquisition of PTC and Google's nuclear-power agreement with Constellation Energy — provided an initial boost. That excitement faded as a Financial Times report questioned OpenAI's revenue outlook and Chinese chipmaker CXMT announced a memory-chip design breakthrough, renewing concerns about competition from China. Selling intensified mid-month as investors scrutinized the debt supporting the AI buildout, pressuring companies including Oracle, Marvell, AMD, and CoreWeave. Earnings then brought questions about spending and profitability back into focus. Investors weighed diverging investment plans from Meta and Tesla, with particular concern over what Tesla's reduced spending forecast might signal about future growth. Cash-flow disappointments from Alphabet and Amazon, followed by Intel's weak revenue outlook and production challenges, deepened the broader sell-off. Microsoft's strong cloud growth, encouraging results from SpaceX, and Anthropic's anticipated IPO still drew positive reactions, but those boosts became increasingly short-lived. Markets continued to welcome good AI news while showing less willingness to overlook financing risks and uncertain returns.

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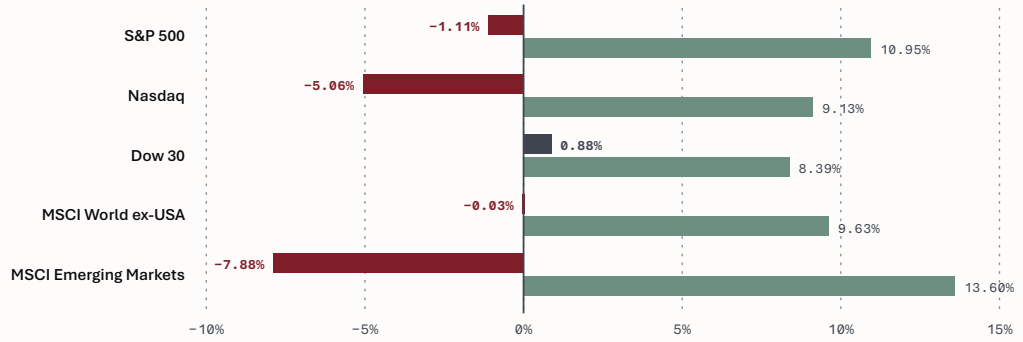
The Middle East conflict followed a familiar pattern: encouraging diplomatic headlines, then renewed threats and attacks. Markets welcomed President Trump's stated preference for diplomacy and his pledge to hold off on additional attacks against Iran until after the midterm elections. G7 releases from strategic energy reserves temporarily eased oil prices, and unconfirmed reports of a proposal to restart negotiations provided another brief lift. Iran nevertheless continued targeting ships near the Strait of Hormuz, and Iran-backed Houthi attacks in Saudi Arabia heightened concerns over energy supplies. Renewed attacks on energy infrastructure in Russia compounded those pressures. Later reports that the U.S. and Israel were considering additional strikes after the elections prompted Iranian threats to retaliate against neighboring countries. Brent crude traded around $113 per barrel late in the month, and repeated promises of diplomacy without durable progress left markets cautious.

Inflation data reinforced concerns that price pressures remained persistent. September CPI and Core CPI exceeded expectations and rose from August, while PCE and Core PCE matched forecasts but also moved higher. Strong third-quarter GDP growth and improved consumer confidence were encouraging, though much of the economic news was overshadowed by developments in AI. The weaker September jobs report, released early in October, reinforced expectations that the Fed could wait until December before raising rates again, and subsequent meeting minutes and commentary largely reconfirmed that outlook. On October 28, the Fed held benchmark rates at 3.75%–4.00% in a 10–2 vote, with two officials favoring a 25-basis-point increase — a decision that was fully expected. Warsh upgraded the Fed's assessment of economic activity from "solid" to "strong" and maintained a data-dependent stance, leaving a December hike as the market's base case. His plans to reduce annual rate decisions to seven in 2027 and six in 2028 generated greater concern, raising questions about future policy visibility given the limited forward guidance he already provides.

Treasuries provided a silver lining amid weakness elsewhere in markets. Strong demand at 10-year and 30-year auctions offered early support, and the subsequent flight to safety eased the pressure that had driven long-term yields sharply higher in September. The 10-year yield fell approximately 19 basis points in one session — its largest daily decline since March 2023 — and finished the month around 4.94%. Demand for safety outweighed the upward pressure from elevated energy prices, persistent inflation, and expectations for further Fed tightening.

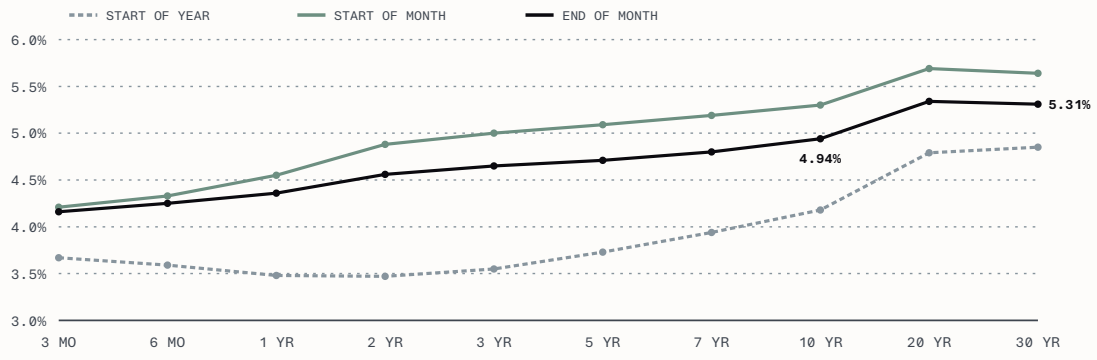
EQUITY INDICES: OCTOBER 2026 RETURNS



	S&P 500	NASDAQ	DOW 30	MSCI WORLD EX-USA	MSCI EMERGING MARKETS
October returns	-1.11%	-5.06%	0.88%	-0.03%	-7.88%
YTD returns	10.95%	9.13%	8.39%	9.63%	13.60%

Index returns through October 31, 2026. Source: Obsidian CIO, October 2026.

TREASURY YIELDS: OCTOBER 2026



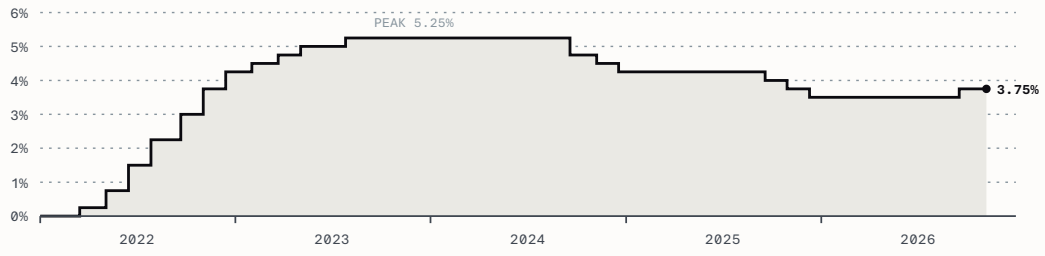
Start-of-year, start-of-month, and end-of-month yields. Source: Obsidian CIO, October 2026. Values read from the source chart (±0.02%); 10-yr end-of-month 4.94% as stated in the recap.

FED INTEREST RATE DECISIONS: SINCE START OF HIKING CYCLE

MEETING	HIKE/CUT	TARGET RANGE
Start of 2022	–	0.00% – 0.25%
3/16/2022	+0.25%	0.25% – 0.50%
5/4/2022	+0.50%	0.75% – 1.00%
6/15/2022	+0.75%	1.50% – 1.75%
7/27/2022	+0.75%	2.25% – 2.50%
9/21/2022	+0.75%	3.00% – 3.25%
11/2/2022	+0.75%	3.75% – 4.00%
12/14/2022	+0.50%	4.25% – 4.50%
2/1/2023	+0.25%	4.50% – 4.75%
3/22/2023	+0.25%	4.75% – 5.00%
5/3/2023	+0.25%	5.00% – 5.25%
6/14/2023	0.00%	5.00% – 5.25%
7/26/2023	+0.25%	5.25% – 5.50%
9/20/2023	0.00%	5.25% – 5.50%
11/1/2023	0.00%	5.25% – 5.50%
12/13/2023	0.00%	5.25% – 5.50%
1/31/2024	0.00%	5.25% – 5.50%
3/20/2024	0.00%	5.25% – 5.50%
5/1/2024	0.00%	5.25% – 5.50%
6/12/2024	0.00%	5.25% – 5.50%
7/31/2024	0.00%	5.25% – 5.50%
9/18/2024	−0.50%	4.75% – 5.00%
11/7/2024	−0.25%	4.50% – 4.75%
12/18/2024	−0.25%	4.25% – 4.50%
1/29/2025	0.00%	4.25% – 4.50%
3/19/2025	0.00%	4.25% – 4.50%
5/7/2025	0.00%	4.25% – 4.50%
6/18/2025	0.00%	4.25% – 4.50%
7/30/2025	0.00%	4.25% – 4.50%
9/18/2025	−0.25%	4.00% – 4.25%
10/29/2025	−0.25%	3.75% – 4.00%
12/10/2025	−0.25%	3.50% – 3.75%
1/28/2026	0.00%	3.50% – 3.75%
3/18/2026	0.00%	3.50% – 3.75%
4/29/2026	0.00%	3.50% – 3.75%
6/17/2026	0.00%	3.50% – 3.75%
7/29/2026	0.00%	3.50% – 3.75%
9/16/2026	+0.25%	3.75% – 4.00%
10/28/2026	0.00%	3.75% – 4.00%

Hikes shown with a plus sign, cuts in the negative color. Source: Federal Reserve (FOMC statements); compiled by Obsidian CIO.

TARGET FED FUNDS RATE: LOWER BOUND



Lower bound of the target range, 2022–2026. Source: Federal Reserve; compiled by Obsidian CIO.

FED RATE PROBABILITIES: OCTOBER 2026

AS OF	HIKE	HOLD	CUT	HIKE 50BPS	HIKE 25BPS	CUT 25BPS	CUT 50BPS
10/30/2026	**72.40%**	27.60%	0.00%	0.00%	**72.40%**	0.00%	0.00%

2026 INTEREST RATE FORECAST — NEXT MEETING: DECEMBER 8



AT LEAST 1 HIKE · 1 HIKE — HOLD

MORE THAN 2 HIKES: 0.0% · 2 HIKES: 0.0% · AT LEAST 1 CUT: 0.0% (1 CUT 0.0% · 2 CUTS 0.0% · MORE THAN 2 CUTS 0.0%)

Market-implied probabilities for the December 8 FOMC meeting as of 10/30/2026, and the full-year 2026 path. Source: Obsidian CIO, October 2026.

SEPTEMBER INFLATION: CPI AND PCE, YEAR OVER YEAR

CPI (Y/Y)	SEPTEMBER	VS. EXPECTED	VS. AUGUST
CPI	**3.7%**	3.6%	3.4%
Core CPI	**2.6%**	2.5%	2.4%

PCE (Y/Y)	SEPTEMBER	VS. EXPECTED	VS. AUGUST
PCE	**3.6%**	3.6%	3.4%
Core PCE	**3.1%**	3.1%	3.0%

September readings against consensus expectations and the August print, as printed in the source exhibit. Source: Obsidian CIO, October 2026.

Obsidian Sentiment Summary 2026

HIGHLIGHT Performance in equity and fixed income markets was mainly driven by negative sentiment and concerns related to AI in October.

MARKET SENTIMENT: JANUARY–OCTOBER 2026

2026	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
Fed	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Bearish	Bearish	Mildly Bearish	Neutral
Interest Rate Decisions	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Commentary	Mildly Bearish	Neutral	Mildly Bearish	Mildly Bearish	Neutral	Bearish	Bearish	Bearish	Bearish	Mildly Bearish
Fed Independence	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Neutral
Economic Data	Mildly Bullish	Mildly Bullish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bullish	Mildly Bearish	Mildly Bullish
Inflation	Bullish	Mildly Bullish	Neutral	Mildly Bearish	Bearish	Mildly Bearish	Bullish	Mildly Bullish	Mildly Bearish	Mildly Bearish
Employment/Labor Market	Neutral	Mildly Bullish	Bearish	Neutral	Bullish	Bearish	Mildly Bearish	Bullish	Neutral	Bullish
GDP	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Bearish	Neutral	Neutral	Neutral	Mildly Bullish
Consumer Spending	Neutral	Mildly Bearish	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral
Consumer Sentiment	Neutral	Neutral	Mildly Bearish	Bearish	Bearish	Mildly Bearish	Neutral	Neutral	Neutral	Mildly Bullish
Housing/Real Estate	Neutral	Mildly Bullish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bearish	Neutral
Global Events/News	Mildly Bearish	Mildly Bearish	Bearish	Bullish	Mildly Bullish	Neutral	Bearish	Bearish	Mildly Bearish	Bearish
China	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bullish	Neutral	Bearish	Mildly Bearish	Mildly Bullish	Bearish
Middle East	Bearish	Bearish	Bearish	Bullish	Bullish	Mildly Bullish	Bearish	Bearish	Bearish	Bearish
Russia	Neutral	Neutral	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Bearish
South America	Mildly Bullish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Europe	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Neutral
Japan	Neutral	Neutral	Neutral	Neutral	Neutral	Mildly Bearish	Mildly Bearish	Neutral	Neutral	Neutral
US Politics/Government	Mildly Bearish	Mildly Bullish	Neutral	Neutral	Neutral	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral
Tariffs	Mildly Bearish	Bullish	Mildly Bearish	Neutral	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral
Economic Policy	Mildly Bearish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Market Trends	Mildly Bearish	Bearish	Mildly Bearish	Neutral	Mildly Bullish	Mildly Bearish	Mildly Bearish	Mildly Bullish	Mildly Bullish	Bearish
Earnings	Mildly Bearish	Neutral	Neutral	Mildly Bullish	Bullish	Mildly Bearish	Mildly Bullish	Mildly Bullish	Mildly Bullish	Mildly Bearish
AI/Chips	Mildly Bearish	Bearish	Neutral	Mildly Bullish	Bullish	Mildly Bearish	Bearish	Bullish	Mildly Bullish	Bearish
Private Credit	Bearish	Bearish	Bearish	Mildly Bearish	Neutral	Bearish	Neutral	Mildly Bearish	Mildly Bearish	Neutral
Energy Prices	Mildly Bearish	Bearish	Bearish	Mildly Bearish	Mildly Bearish	Mildly Bullish	Bearish	Bearish	Bearish	Bearish
Metals/Critical Minerals	Mildly Bullish	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Crypto	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Neutral	Bearish	Neutral	Bullish	Bullish	Neutral

BEARISH MILDLY BEARISH NEUTRAL MILDLY BULLISH BULLISH

Monthly read of the drivers behind market sentiment, January through October 2026. Source: Obsidian CIO, October 2026.

Key Topics/Items for October

BEARISH

- Iran continuing to target ships navigating near the Strait of Hormuz, pushing oil prices higher despite renewed commentary about a potential diplomatic resolution
- Chinese chipmaker CXMT announcing a memory-chip design breakthrough, pressuring semiconductor stocks including Micron and highlighting continued competition from China
- Concerns over the debt supporting the AI buildout triggering a broad sell-off in technology stocks, with Oracle, Marvell, and AMD declining sharply and CoreWeave falling more than 15%
- Russia striking Ukrainian energy facilities shortly after President Trump announced an "energy ceasefire," while Ukraine vowed to continue targeting Russian refineries (adding to concerns over disruptions to global energy supplies)
- Iran-backed Houthi attacks in Saudi Arabia and intensified Iranian attacks in the Strait of Hormuz pushing oil prices higher and raising concerns over energy supplies
- Tesla reducing its spending forecast, raising concerns over what the pullback could signal about future growth and contributing to renewed selling pressure across AI/chip companies
- Reports suggesting that the U.S. and Israel were considering additional strikes on Iran after the midterm elections, followed by Iranian threats to retaliate against neighboring countries if attacks resumed (pushing oil prices higher)
- Alphabet shares falling 13% after the company reported slowing search-ad growth, revenue below expectations, and negative free cash flow of $9.07 billion, renewing concerns over the profitability of elevated AI spending
- Intel shares falling 30% after the company issued revenue guidance more than $1 billion below expectations, cited production bottlenecks, and warned that it would exhaust its cash this year (accelerating the broader semiconductor sell-off)
- Amazon shares declining approximately 5% in after-hours trading after free cash flow fell short of expectations, adding to scrutiny over whether elevated capital spending was translating into sufficient cash generation
- Warsh announcing plans to reduce annual rate decisions to seven in 2027 and six in 2028, reserving the remaining meetings for broader strategic discussions
- Attacks on a tanker in the Strait of Hormuz and a Russian refinery pushing oil prices higher late in the month, with Brent trading around $113 per barrel

MILDLY BEARISH

- A Financial Times report questioning OpenAI's revenue outlook, tempering some of the early-month enthusiasm surrounding AI
- September CPI rising to 3.7% year over year, above expectations of 3.6% and August's 3.4% reading, reinforcing concerns over persistent inflation
- Consumers' expectations for inflation over both the next year and the longer term rising for a second consecutive month, highlighting continued concerns over purchasing power

NEUTRAL

- Minutes from the Fed's September meeting reinforcing expectations for at least one additional 25-basis-point hike in 2026, while suggesting policymakers were comfortable waiting before raising rates again (i.e., hike in December and not October)
- September PPI rising 1.3% month over month versus expectations of 0.6% and August's 0.4% increase, with annual producer-price inflation reaching 6.3%
- Fed Chairman Kevin Warsh declining to signal an October rate decision, reinforcing expectations that the Fed would hold rates steady despite hotter-than-expected inflation data
- Meta raising its spending forecast while reporting negative quarterly free cash flow, intensifying concerns over how the company would fund its AI investments and whether those investments would generate sufficient returns
- Preliminary business activity data showing that the U.S. economy continued to expand at a solid pace in October, although growth slowed from September
- September headline PCE inflation rising to 3.6% year over year from 3.4% in August, reinforcing concerns that inflation remained persistent despite restrictive interest rates
- The Fed holding benchmark interest rates steady at 3.75%–4.00% at its October meeting, in line with market expectations
- The Fed's decision receiving a 10–2 vote, with Lisa Cook and Beth Hammack dissenting in favor of a 25-basis-point increase
- Fed Chairman Kevin Warsh upgrading the Fed's assessment of economic activity from "solid" to "strong" while emphasizing that future decisions would depend on incoming data, keeping a December rate hike on the table

MILDLY BULLISH

- Schneider Electric announcing plans to acquire U.S. industrial-software maker PTC, lifting equities and adding to excitement surrounding investment in AI infrastructure
- Google and Constellation Energy announcing a nuclear-power agreement for AI data centers, providing another boost to AI/chip stocks
- G7 nations announcing the release of additional crude oil and diesel from strategic reserves, initially helping push energy prices lower
- Auctions for 10-year and 30-year Treasuries attracting stronger-than-expected demand, helping push long-term yields lower
- Brazilian equities rallying after Flávio Bolsonaro finished ahead of incumbent President Luiz Inácio Lula da Silva in first-round presidential voting, with investors welcoming Bolsonaro's pledge to address the country's growing public debt
- CoreWeave rebounding 5.9% following supportive commentary from Nvidia CEO Jensen Huang, providing a brief offset to concerns surrounding highly indebted AI companies
- Energy stocks benefiting from rising oil prices, with several reaching record or near-record highs despite weakness across technology stocks
- The 10-year Treasury yield reversing an initial rise after the CPI report and falling below 5.1% later in the week as investors sought safety amid the technology sell-off
- SpaceX reporting better-than-expected revenue, including from its AI business, while bullish commentary from Nvidia CEO Jensen Huang provided an additional boost to AI-related stocks
- Unconfirmed reports suggesting that mediators had presented a proposal to restart negotiations between the U.S. and Iran, briefly lifting equities and pushing oil prices lower
- The University of Michigan's final October consumer sentiment reading coming in better than expected and nearly unchanged from the month prior

MILDLY BULLISH (CONT.)

- The 10-year Treasury yield falling approximately 19 basis points in a single session and moving below 5%, its largest daily decline since March 2023, as investors sought safety amid the AI/chip sell-off
- Microsoft reporting better-than-expected quarterly revenue, supported by 48% growth in its Azure cloud business
- Anthropic reportedly targeting an IPO as early as the week before Thanksgiving, briefly lifting technology stocks and renewing excitement surrounding AI-related public offerings
- Broadcom securing a financing agreement supporting Anthropic's access to its custom AI chips, providing an additional boost to AI-related stocks early in the week
- Third-quarter GDP growing at a 3.4% annualized pace, above expectations of 3.1% and marking the fastest growth in a year
- The Consumer Confidence Index rising to 91.7 from 84.2 in September, well above expectations of 81

BULLISH

- September's jobs report showing fewer jobs added than expected and a slight increase in unemployment, helping shift expectations for the Fed's next rate hike from October to December
- President Trump stating that both sides remained open to a diplomatic resolution and that the U.S. would hold off on additional attacks against Iran until at least after the midterm elections

IMPORTANT DISCLOSURE: The information contained in this report is informational and intended solely to provide educational content that we find relevant and interesting to clients of Obsidian. All shared thoughts represent our opinions and are based on sources we believe to be reliable, including AI-generated content that we then review and refine. Therefore, nothing in this letter should be construed as investment advice; we provide advice on an individualized basis only after understanding your circumstances and needs.



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