US Macro Summary

The U.S. economy remains robust, supported by strong consumer spending and significant investment in artificial intelligence, with annualized GDP growth accelerating to 3.4% in the third quarter of 2026, its strongest pace in a year and above market expectations. However, the economic backdrop remains challenging for households as inflation continues to run above the Federal Reserve's target, with price growth holding around 3.6%–3.7%. Elevated costs for essentials such as energy and groceries, combined with high interest rates, are continuing to pressure household budgets despite the economy's overall strength.

Weekly Market Performance

US equities finished the week lower, with the S&P 500 closing at 7,580.07 (-0.6% for the week), the Nasdaq Composite at 25,437.00 (-2.0%), and the Dow Jones Industrial Average at 51,770.31 (-0.9%), as investors reduced exposure to large-cap technology stocks following a series of earnings disappointments and growing concerns over the near-term returns from elevated AI infrastructure spending. Market breadth weakened materially into the close, with selling concentrated across technology and growth sectors while defensive areas such as healthcare and energy displayed relative resilience

Technical Structure & Market Leadership

Market leadership remained increasingly narrow and concentrated around a small group of mega-cap technology and AI beneficiaries. However, this week's earnings season exposed growing investor sensitivity to capital intensity and monetisation risks associated with AI infrastructure spending. While defensive sectors including healthcare and energy held up relatively well, technology and communication services underperformed as investors reassessed valuation premiums. The key technical development is the loss of momentum across several former market leaders, creating greater dispersion beneath the index level. Near-term market direction will depend on whether upcoming earnings results can restore confidence in AI revenue conversion and free cash flow generation.

Macro & Monetary Policy Context

The US economy remains fundamentally resilient. Third-quarter GDP expanded at an annualised 3.4%, the strongest growth rate in a year and comfortably above expectations, supported by business investment, AI infrastructure spending, equipment upgrades, and steady consumer demand. At the same time, inflation remains problematic. Core and headline PCE accelerated during September, with headline PCE rising to 3.6% annually and core PCE reaching 3.1%, reinforcing concerns that inflation remains above the Federal Reserve's target despite strong growth.

Bond markets responded by reassessing the pace of future policy easing, while investors increasingly focus on the balance between economic resilience and inflation persistence. Treasury yields moderated late in the week as risk aversion increased following the technology sell-off. Key catalysts for the week ahead include additional earnings reports, labour market data, inflation releases, and further commentary from Federal Reserve officials regarding the path of interest rates.

Fiscal or Domestic Economic Factors

Domestic sentiment was influenced primarily by strong private-sector investment and continued AI-related capital expenditure across corporate America. Government spending and inventory accumulation also contributed positively to economic growth. However, higher borrowing costs continue to weigh on residential investment, while trade dynamics remain a drag as imports outpace exports. The combination of robust activity and stubborn inflation has complicated expectations for imminent Federal Reserve easing.

Notable Stock-Specific Movements

Amazon (AMZN) declined 1.41% to US$240.35 after reporting third-quarter EPS below consensus expectations despite strong revenue growth and continued AWS momentum. Investor concern centred on more than US$77 billion of AI and data-centre investment and increasingly negative free cash flow. This is primarily a **structural** debate around AI monetisation, capital allocation, and long-term returns on infrastructure spending.

Intel (INTC) fell 28.58% to US$65.76 following weaker-than-expected fourth-quarter guidance and warnings that soft PC demand may persist into next year. Although AI and data-centre revenues remained strong, the reaction reflected a **cyclical** slowdown in end-market demand combined with operational and supply-chain challenges.

Merck (MRK) gained support after delivering stronger-than-expected earnings, raising guidance, and reporting robust oncology and cardiovascular drug growth. The move reflects a predominantly **structural** growth story supported by product innovation, pricing power, and expanding healthcare demand.

ServiceNow (NOW) fell 4.16% after investors focused on softer forward growth expectations despite continued adoption of AI-enabled software solutions. The weakness reflects a largely **cyclical** repricing of software valuations as investors become more selective regarding AI-related earnings expectations.

Structural vs Cyclical Drivers of Market Performance

The week's market action highlighted a clear distinction between structural and cyclical themes. Structurally, AI investment remains the dominant driver of corporate capital expenditure, supporting long-term demand across data centres, semiconductors, cloud computing, and digital infrastructure. However, cyclical concerns around

earnings delivery, cash flow generation, inflation persistence, and policy uncertainty drove near-term performance.

Healthcare and energy outperformed due to defensive earnings profiles and rising oil prices, while technology and communication services lagged as investors questioned the timing and magnitude of returns on AI investments. Small-cap performance remained relatively resilient, suggesting some rotation away from crowded mega-cap growth positions.

Geopolitical Risk Assessment

Structural Risk: Ongoing Middle East tensions continue to threaten global energy supply chains and could sustain higher oil prices if disruptions emerge.

Cyclical Risk: Elevated oil prices may feed through into inflation expectations, increasing market volatility and delaying monetary easing expectations.

Key Catalyst: The duration of regional tensions and whether military escalation materially disrupts oil production or shipping routes.

Specific Event: Markets closely monitored continuing diplomatic discussions involving Qatar and Iran aimed at reducing tensions surrounding the US-Israel-Iran conflict. Investor attention remains focused on whether negotiations progress sufficiently to avoid further military escalation ahead of the US midterm elections.

Investor Positioning Rationale

Investor positioning shifted moderately toward a risk-off stance during the week. Capital rotated out of high-multiple growth and technology stocks into healthcare, energy, and selected defensive sectors. Bond demand improved late in the week as investors sought safety amid heightened equity volatility, while energy exposure remained supported by elevated crude prices. Positioning reflects a combination of technical deterioration across large-cap technology, persistent inflation concerns, and

Market Outlook for next Week

The US market enters the coming week at an important inflection point. Economic growth remains supportive, corporate earnings remain broadly healthy, and AI-related investment continues to underpin long-term productivity expectations. However, elevated inflation, increasingly demanding earnings expectations, and rising scrutiny of AI spending discipline are creating greater volatility beneath the surface. Investors will focus on labour market data, inflation indicators, additional earnings releases, oil price movements, corporate guidance, and Middle East developments. **The expected tone for the week ahead is cautiously defensive with elevated volatility.**