Market Commentary Blog

Cash Flow *and Carey*



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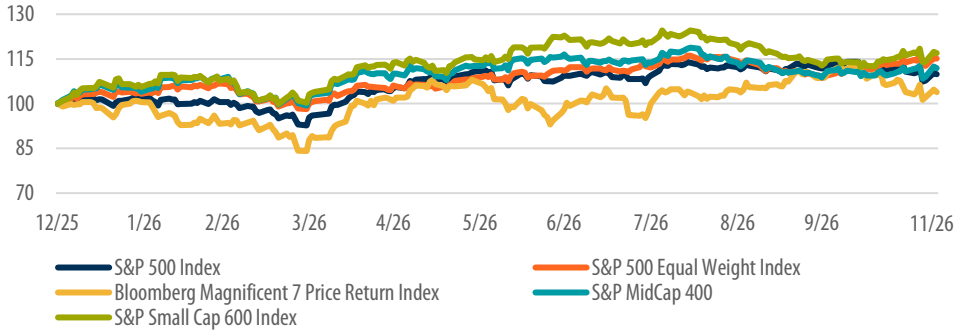
11/12/26

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The S&P 500 Equal Weighted Index is the equal-weight version of the S&P 500 Index. The Bloomberg Magnificent 7 Price Return Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies in the U.S. The S&P MidCap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The S&P SmallCap 600 Index is an unmanaged index of 600 companies used to measure small-cap U.S. stock market performance.

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Worth the Weight?

Daily Price Returns Since 12/31/25



Source: Bloomberg. Daily observations from 12/31/25 – 11/10/26, normalized to a factor of 100.

Past Performance is no guarantee of future results.

View from the Observation Deck

In today's discussion, we investigate the catalysts behind the year-to-date (YTD) price returns of five major U.S. equity indices through November 10, 2026. As the chart reveals, equity prices continue to march upward, despite a tenuous geopolitical landscape, elevated inflation, and increasingly hawkish monetary policy expectations.

Small- and mid-sized companies outperformed their peers over the period, with the largest stocks, as represented by the Bloomberg Magnificent 7 Index, lagging furthest behind.

Of all the factors that could explain this performance differential, debt stands out to us as perhaps the most meaningful. U.S. corporations have been adding debt as they race to finance continued AI infrastructure projects. Asset growth and capital expenditure (capex) among the five major hyperscalers reveal this fact. In an October 2026 report, J.P. Morgan Global Research projected that these hyperscalers will spend $900 billion on capex in 2026, up from the firm's previous estimate of $736 billion earlier this year, with total AI-related capex forecast to reach $5 trillion by 2030.

Financing costs are increasing.

The yield on the 10-year Treasury note ("T-note") tells the tale, surging 82 basis points YTD through November 10 to 4.99%. For comparison, the 10-year T-note's yield averaged 2.89% over the prior 20-year period.

Earnings growth rate estimates for non-tech companies increased substantially as the year progressed.

For the S&P 500 Index (Ex-Technology), estimated earnings growth nearly doubled this year, increasing from 9.7% on January 2 to 18.3% on November 6. For comparison, estimated earnings growth for the broader S&P 500 Index increased from 14.6% to 29.9% over the period.

For reference, YTD price returns for the five indices in today's chart were as follows:

S&P SmallCap 600 Index: 18.5%

S&P 500 Index: 10.9%

S&P 500 Equal Weighted Index: 16.9%

Bloomberg Magnificent 7 Index: 4.1%

S&P MidCap 400 Index: 13.2%

Takeaway

While each of the indices in today's chart exhibits positive YTD price returns, the S&P SmallCap 600 and Bloomberg Magnificent 7 Indices reveal that a notable performance disparity has developed across market capitalizations. Small-cap stocks have outperformed their peers in 2026, increasing by 18.5% on a price-return basis YTD through November 10. Larger companies have not fared as well, with the Bloomberg Magnificent 7 Index increasing 4.1% over the same time frame. As discussed above, rising bond yields and AI's seemingly insatiable appetite for capital may have coaxed investors into smaller market segments, as they weigh strong earnings expectations against the impact of surging debt service costs on free cash flows. Additionally, earnings growth expectations outside the technology sector are improving. Estimated earnings growth for the S&P 500 Index (Ex-Technology) stood at 18.3% in early November, up from 9.7% at the start of the year. As we approach year-end, we feel a good question to ask might be: "What investments are worth the weight they've been assigned in my portfolio?"