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Technology stocks had a rough week, but the broader market held up better than the headlines suggest. The S&P 500 dropped 1.1% on Friday and finished the week just over 2% below the record high set earlier this month. Artificial intelligence stocks had their worst week in months.

Semiconductor stocks have now fallen for nine straight trading days, and the Nasdaq 100 posted its biggest weekly loss since April 2025. The spark was a financing scare. Debt issued by cloud provider CoreWeave fell to levels usually associated with distress, and its shares dropped about 25% on the week. Many AI companies are borrowing heavily to fund their growth, leaving them vulnerable if borrowing costs rise.

Inflation is adding to the pressure. Consumer prices in September were 3.7% higher than a year ago, slightly above economists' expectations, and energy costs remain the main driver. Global oil prices touched \$110 a barrel on Friday as Iran stepped up attacks around the Strait of Hormuz and Ukraine vowed to hit Russian refineries. Because the U.S. produces more energy than it uses, it is better positioned than most to handle the shock, though higher fuel costs still hit lower-income households hardest. The risk is that the pressure spreads and forces the Federal Reserve to raise interest rates faster than investors expect. That would push short-term borrowing costs higher. Longer-term rates, like the 10-year Treasury yield, are set by the market rather than the Fed and have been rising on their own, briefly reaching 5.3% this week. A further move higher at either end could make borrowing costlier for companies already carrying a lot of debt.

Under the surface, the picture looks healthier. Over the past several days, investors have shifted toward materials, financial services, and consumer staples, while health care is pushing to new highs. Far more stocks are trending higher than at the start of the month. We have wanted to see gains spread beyond a handful of big technology names, and they are.

We continue to view AI as a long-term trend that advances in fits and starts. Adoption is still early, analysts keep revising their productivity estimates higher, and demand for computing power and electricity is real. But announced data center projects add up to far more than companies are actually spending, so we expect some bumps along the way. The key is whether the problems stay limited to a few companies. Companies with weaker credit ratings have increasingly paid more to borrow since summer, while those with stronger ratings have barely been affected. We would become more concerned if that began to change.

The bull market entered its fifth year on October 12. The S&P 500 has gained 118% since the October 2022 low, while the average stock, measured by the equal-weighted index, is up 66%. Some of that gap reflects the narrow participation we have seen for much of the year, so a broader market is a welcome development. Economic growth near 3.5% supports company profits, but the same strength

keeps inflation and interest rates elevated, which leaves less room for error. In that environment, we think the focus should remain on quality businesses with strong balance sheets.

Thanks,
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