ARVADA WEALTH

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NEWSLETTER

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3 BIG THINGS

1

Artificial intelligence remains one of the biggest stories in markets, and for good reason. Roughly half of the S&P 500 is made up of AI companies between semiconductors, cloud companies, hardware, power, or software. Investors are shifting their focus from the amount of investment made to whether companies can deliver. Despite huge returns, valuations look resonable on the surface due to earnings growing so quickly. October showed how little room there is for disappointment: S&P 500 earnings are on pace to grow about 30%, yet tech stocks fell more than 8%. Continued growth and strong margins may be necessary to keep this bull market going.

2

October brought the start of third-quarter earnings season, and it may be a difficult one after the incredible growth seen during the second quarter, proving as a hard act to follow. A big piece of second-quarter earnings had nothing to do with day-to-day business operations. Alphabet booked a $99 billion gain tied largely to its stakes in Anthropic and SpaceX, while Amazon recorded $53.4 billion, primarily from Anthropic. S&P 500 earnings grew about 52% that quarter, but closer to 34% without those two companies. The catch is that paper gains aren't repeatable, and they can reverse. We didn't have to wait long to see that play out: Alphabet's earnings per share went from $9.11 in Q2 to $2.12 in Q3, including an $8.7 billion loss on equity securities. Warren Buffett has long warned that accounting rules create "truly wild and capricious swings" in reported earnings. Maybe ol' Warren does know a thing or two about AI after all!

3

Rate reprieve. After more than seven months of climbing interest rates, October finally brought some relief. The 10-year Treasury yield touched 5.31% early in the month before falling to 4.94%, and the broad bond market gained 2.3%. One silver lining of the tough stretch for bonds has been the chance to sell bonds at a loss and use those losses to offset gains that many portfolios have built up during the strong run in stocks.

Quote of the month: “Revenue is vanity, profit is sanity, but cash is king” - Pehr G. Gyllenhammar (Longtime Volvo CEO)

MARKET QUICKTAKES

EQUITY

October was one of the biggest shake-ups under the surface in years. The S&P 500 slipped 0.9%, but the equal-weight version, which weights all 500 companies the same, gained 4.9%. That 5.8-point gap was the widest since April 2009, and it came one month after the biggest companies won by 4.6 points. Tech fell about 8% and communication services nearly 10%, while energy jumped about 14% and consumer staples about 11%. More than 70% of S&P 500 stocks rose. Investors didn't leave the market so much as move around inside it, favoring value over growth and defensive companies over the big names. Emerging market stocks also struggled, hurt by their tech exposure and a surprise result in Brazil's Presidential runoff.

FIXED INCOME

Bonds had their best month in a while. After more than seven months of steady upward pressure on yields, the trend reversed in October. The 10-year Treasury yield touched 5.31% early in the month but finished at 4.94%, and because bond prices rise when yields fall, the broad bond market saw strong gains north of 2%. Municipal bonds bounced back from their difficult summer and returned 3.3% during the month. Longer-term Treasuries did even better, up 5.6%. It was also a good reminder of why we own bonds, as they helped cushion a volatile month for the largest stocks.

COMMODITIES

The gaps in commodities remained wide. Oil posted a double-digit gain as attacks on shipping near the Strait of Hormuz reached their highest level of the conflict. Precious metals went the other way. Gold fell 6.6%, its worst October since 2008, and finished below $4,000 an ounce. Silver dropped 18%, its worst month of the year, and now sits 58% below the high it reached in January. Grains also came under pressure after the U.S. Department of Agriculture raised its estimate of leftover corn, sending prices to their lowest levels since August.

ECONOMIC INSIGHTS IN A NUTSHELL

Weaker economic data gave the Federal Reserve room to hold rates steady in October. Employers added just 29,000 jobs in September, well short of the 84,000 expected*, and unemployment ticked up to 4.2%. Inflation complicates the picture. Consumer prices rose 3.7% from a year ago, with gasoline jumping 9% in a single month, while core inflation, which excludes food and energy, came in at 2.6%. Both remain above the Fed's 2% target.

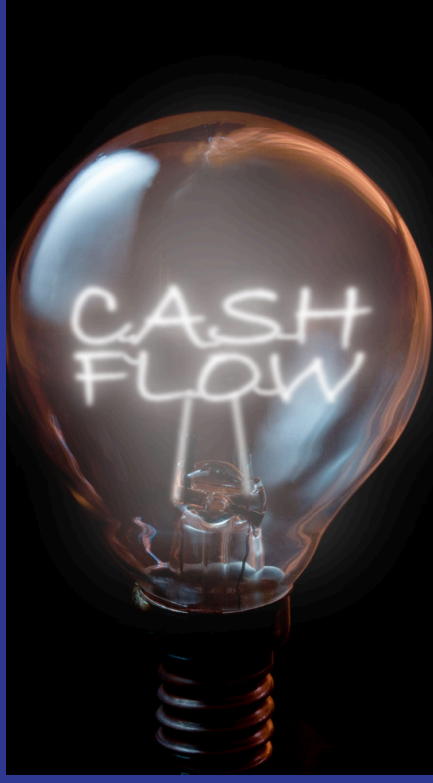
The Fed's decision wasn't unanimous, and markets are pricing in roughly an 80% chance of a hike in December. Some market pundits are even hinting at the chanceof a half-point hike in December, but market pricing still points to a quarter point.

Housing remains a weak spot, with mortgage rates above 7%. Existing home sales rose 1.5% in September, while new home sales slipped 0.6%. The median existing home price fell from August but is still up 1.3% from a year ago.

*Data pulled from YCharts Monthly Market Wrap October 2026

A VIEW FROM MARKET STRATEGISTS

Those with a positive outlook for stocks have begun pointing to valuations, arguing that stocks look reasonably priced. After a year of blockbuster earnings, the S&P 500's forward price-to-earnings ratio, which compares today's price with expected profits over the next 12 months, has fallen about 20%, from 23 to 18.5, even as stock prices climbed. Expected earnings simply grew faster than prices. We think that argument deserves a closer look.



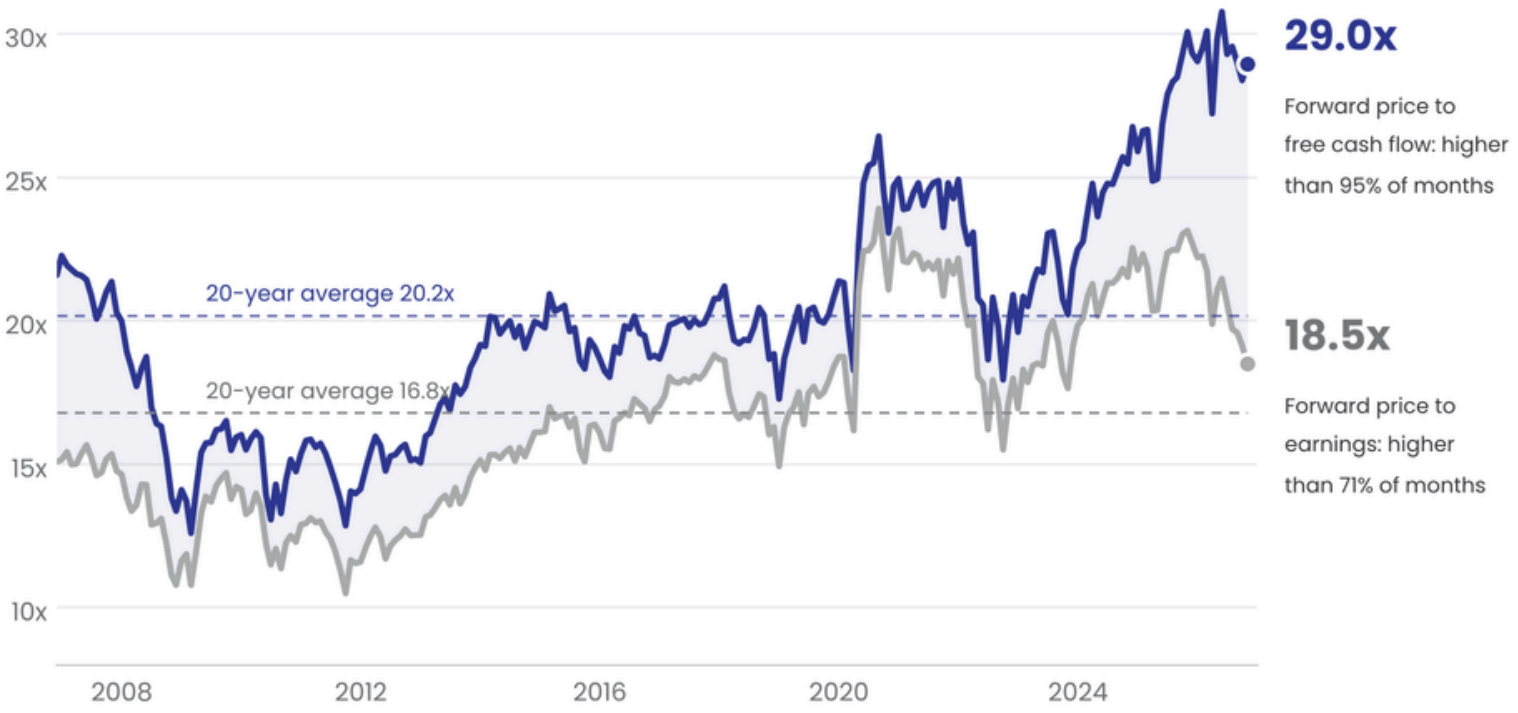
First, 18.5 is only cheap compared with the last few years. It's still above the 20-year average of 16.8. Second, earnings aren't the only yardstick. Free cash flow measures what a company has left after paying for its operations and its big investments, and on that measure, the picture looks very different. The S&P 500 trades at 29 times expected free cash flow, higher than 95% of the months in the past 20 years. Over the same year that forward P/E fell 20%, this measure fell just 4%.

What gives? The largest companies have gone from needing relatively few physical assets to spending heavily on data centers and chips. Morgan Stanley estimates the free cash flow of the five largest AI spenders fell from more than $170 billion in early 2024 to about $35 billion by mid-2026.

That spending may well pay off, and this isn't a call that stocks are headed lower. Valuations are a poor timing tool. Our point is simply that valuations alone may not be a reason to be bullish.

Earnings Say Cheaper. Cash Flow Disagrees.

S&P 500 price compared with expected earnings and free cash flow (next 12 months), 2006 to 2026

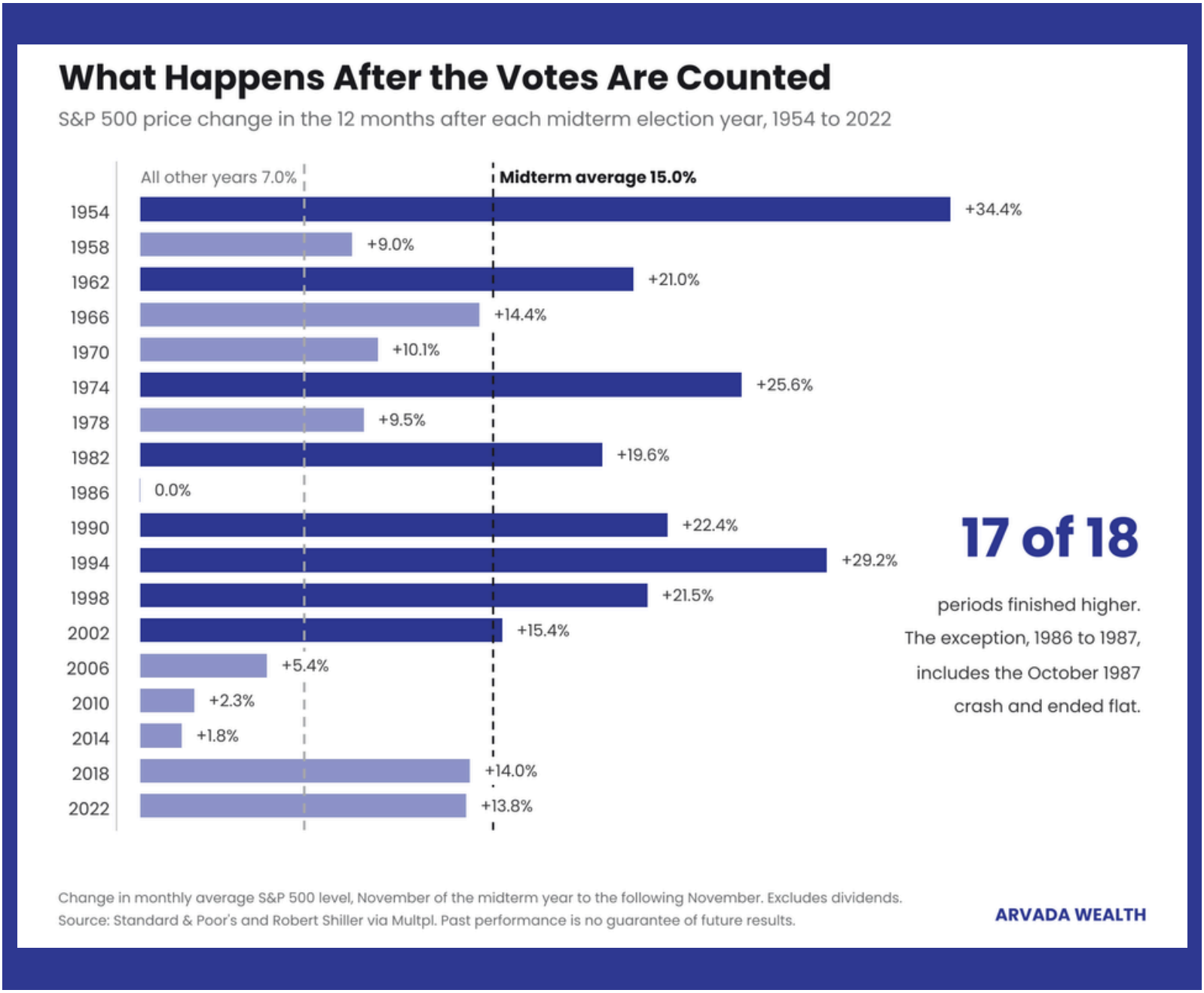


Source: FactSet. Monthly data, November 2006 through October 30, 2026. Past performance is no guarantee of future results.

ARVADA WEALTH

EVERGREEN REMINDERS

Sick of election ads? I know I am. The good news is that by the time you read this, Election Day will be behind us. The better news may be the strength we've seen after midterm elections. Since 1954, the S&P 500 has gained an average of 15% in the year following a midterm election, about double the 7% from all other years. It finished higher in 17 of 18 periods, and the lone exception ended flat despite the 1987 crash. That's a small sample and not a promise, but it's another reminder not to let election headlines drive a long-term plan. A common explanation for this strength is that the president's party has often lost ground in midterm elections. As is expected to play out this year, if democrats are able to win one or both of the House and Senate we will have gridlock in Washington. A divided government makes major legislation harder to pass, and markets have historically welcomed that predictability.



BEYOND THE MARKET

LIFESTYLE HACK

Hosting Thanksgiving this year? I retired from the duty after my one and only attempt two years ago. For those that are, check out these 10 tips for a seamless day.

https://www.bfreefoods.com/top-tips/10-tips-for-hosting-thanksgiving/

PLANNING CORNER

Don't leave year-end deadlines until the last minute. Charitable donations directly to a cause or to a donor advised fund can be knocked out this month. If you have IRAs held outside of Arvada, make sure you've met your required minimum distribution (RMD) for the year. If you haven't taken your RMD from accounts with us, our team will be reaching out in the coming weeks. We'll aslo be reaching out to clients with Roth conversions planned for 2026.

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Disclosures

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