WEST SHORE BANK

Economic & Market Commentary

Financial markets experienced a significant rotation during October as investors balanced resilient economic and corporate fundamentals against persistent inflation, elevated interest rates, and growing scrutiny surrounding the artificial intelligence investment cycle. Major equity indices produced mixed results, masking considerable strength beneath the surface, while declining Treasury yields generated some of the strongest monthly fixed-income returns of the year.

Table 1 – Equity Total Returns – as of October 30, 2026

Equity	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
S&P 600	3.18	-3.16	17.71	20.77	18.32	6.17	10.68
Russell 2000	0.58	-3.77	14.37	14.80	20.76	5.58	10.43
MSCI Emerging	-8.05	-5.49	13.45	14.05	22.28	6.92	8.14
S&P 400	1.90	-2.24	11.97	14.35	17.39	7.20	10.97
S&P 500	-0.87	1.48	11.77	12.11	23.40	12.06	15.44
NASDAQ	-5.28	0.39	9.95	7.85	26.40	11.23	18.24
MSCI Developed	-0.74	-1.85	9.52	13.51	19.75	8.63	9.21
Dow Jones Industrial	1.76	-1.00	9.08	10.60	18.19	9.70	13.38

The divergence within equity markets was particularly notable. The S&P 500 declined 0.9% during October and the technology-heavy NASDAQ fell 5.3%. However, smaller U.S. companies moved higher, with the S&P 400 Mid Cap Index gaining 1.9% and the S&P 600 Small Cap Index advancing 3.2%. The Dow Jones Industrial Average also gained 1.8%. International markets were weaker, particularly emerging markets, which declined 8.0% during the month.

Performance at the sector level provided an even clearer picture of the underlying rotation. Information Technology declined 6.8% and Communication Services fell 15.1%, while nine of the eleven S&P 500 sectors finished October higher. Energy led the advance with a 14.0% gain, followed by Consumer Staples at 11.6%, Utilities at 10.2%, and Health Care at 9.9%. Financials, Materials, Real Estate, and Consumer Discretionary also posted meaningful gains. These results suggest that October's weakness in the major capitalization-weighted indices was considerably narrower than the headline numbers implied.

Table 2 – S&P 500 Index Sector Total Returns – as of October 30, 2026

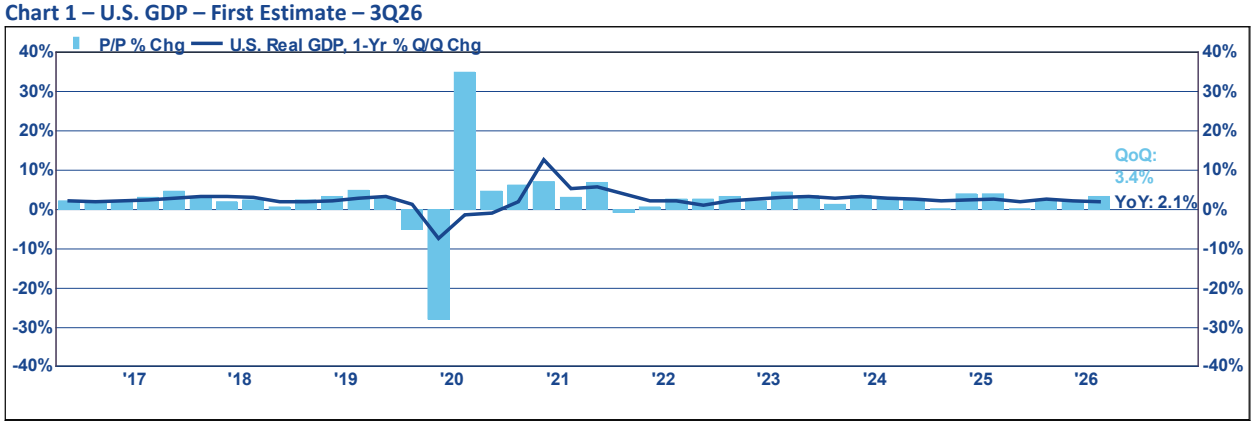
Sector	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Energy	14.00	18.69	59.92	64.22	22.06	24.07	11.93
Health Care	9.87	14.22	21.02	30.48	16.08	8.52	12.63
Information Technology	-6.80	3.45	19.65	14.23	33.44	19.91	25.08
Consumer Staples	11.62	7.24	18.29	21.11	14.69	9.00	9.28
Materials	6.57	5.31	15.97	23.49	13.23	6.25	10.59
Real Estate	5.08	-3.21	10.66	10.40	13.66	1.73	7.27
Industrials	0.30	-6.58	8.87	9.31	21.16	11.63	13.04
Financials	5.91	-0.36	4.53	9.75	22.43	8.95	13.27
Utilities	10.17	-1.28	3.94	0.38	16.86	8.66	9.29
Consumer Discretionary	3.93	-2.15	-2.11	-3.71	16.71	4.26	12.82
Communication Services	-15.11	-12.52	-11.31	-6.60	23.36	8.63	11.62

A key driver of the rotation was a reassessment of the artificial intelligence theme that has been a major source of market leadership and business investment. Investor attention increasingly shifted from AI's potential productivity benefits toward the scale, financing, and eventual profitability of the capital expenditures required to build the necessary infrastructure. Technology shares came under meaningful pressure as investors questioned whether future revenue and earnings growth would justify the magnitude of current spending commitments. Rather than signaling a broad deterioration in risk appetite, however, October's performance was characterized by capital moving into other areas of the market.

This reassessment occurred against a generally supportive corporate and economic backdrop. Third-quarter earnings season began on a constructive note, with earnings and revenue trends broadly exceeding expectations through late October. At the same time, companies increasingly cited higher energy, freight, and other input costs as potential pressures on profit margins, reinforcing the connection between persistent inflation and the outlook for corporate profitability.

Economic data continued to portray an economy with considerable underlying momentum. September retail sales increased 0.8% during the month and 6.3% from a year earlier, providing further evidence of resilient consumer demand. Third-quarter real GDP expanded at a 3.4% annualized rate, accelerating from 2.2% during the second quarter. Consumer spending, investment, and government spending contributed positively to growth, reinforcing the economy's resilience entering the fourth quarter.

Chart 1 – U.S. GDP – First Estimate – 3Q26



Inflation, however, remained an important counterweight to the favorable growth backdrop. September inflation reports continued to indicate elevated price pressures, with energy costs contributing to some of the acceleration. Core inflation also remained above the Federal Reserve's long-term objective, leaving policymakers to balance continued economic strength against incomplete progress toward price stability.

The Federal Reserve left the federal funds target range unchanged at 3.75%-4.00% at its October meeting and continued to characterize economic activity as strong while acknowledging that inflation remained elevated. Despite persistent inflation concerns, Treasury yields declined in the latter part of October, producing a meaningful rebound across investment-grade fixed income. The decline in yields

coincided with disappointing third-quarter results from several large technology companies, including earnings misses in key business segments, underwhelming guidance, and expectations for even higher AI-related capital spending. These developments raised questions about the near-term return on AI investment and suggested that higher borrowing costs may be beginning to exert greater influence on corporate investment and growth expectations. Against this backdrop, investors reduced expectations for additional monetary policy tightening, with fed funds futures shifting from approximately three additional rate increases to two.

Bond returns were among the month's strongest developments. The Bloomberg U.S. Aggregate Bond Index gained 2.4%, while the Bloomberg Intermediate Government/Credit Index returned 1.6%. Municipal bonds performed even better, with the Bloomberg Municipal Index advancing 3.9% and the Michigan Municipal Index gaining 3.9%. High-yield bonds increased a more modest 0.3%. The strength in high-quality bonds provided an important source of diversification during a period when several of the equity market's previous leaders came under pressure.

Table 3 – Fixed Income Total Returns – as of October 30, 2026

Fixed Income	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Bloomberg High Yield	0.30	-1.28	0.40	1.56	8.56	3.70	5.04
Bloomberg Inter Gov't/Credit	1.62	0.14	0.11	0.88	5.03	1.27	1.92
Barclays Michigan Muni	3.93	-0.90	-0.38	0.05	4.68	0.64	2.15
Bloomberg Municipal	3.85	-0.90	-0.48	-0.17	4.49	0.61	2.00
Bloomberg U.S. Aggregate	2.44	0.15	-0.54	-0.07	5.45	-0.15	1.46

October ultimately illustrated why headline index performance can provide an incomplete picture of underlying market conditions. The S&P 500 and NASDAQ declined, but smaller U.S. companies advanced, nine of eleven equity sectors posted positive returns, and high-quality fixed income rallied sharply. At the same time, economic growth and corporate earnings remained generally supportive even as inflation and elevated borrowing costs continued to present challenges. Rather than representing a broad retreat from risk, October was characterized by a meaningful redistribution of market leadership, as investors reassessed the valuation and profitability assumptions surrounding AI-related investments and market participation broadened across other asset classes.

Prepared by Perry Adams – SVP & Director – West Shore Bank Wealth Management – November 1, 2026
Sources: FactSet, Federal Reserve, U.S. Bureau of Economic Analysis, FactSet Earnings Insight, WSB Weekly