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Making Sense

Basis Points | November 10, 2026

Priced for results

1. Down-ballot swings

Election results at the state level caught markets off guard last week. Democratic gains in several state governments could bring tighter regulatory restrictions on the margin for data centers and AI infrastructure, but it's unclear how much. Companies most exposed to the data center buildout, including chipmakers, were among the hardest hit during last week's selloff. Hyperscalers held up better, as firms with existing capacity and established infrastructure could benefit if new development becomes more constrained. A slower pace of AI investment could also prove healthy at the margin, encouraging greater capital discipline and reducing the risk of substantial overbuilding. Even so, the subsequent rebound in semiconductor and technology stocks reinforces our view that politics and elections are only one of many factors that shape the path of asset prices.

2. Still hiring

The US labor market remains remarkably resilient in the aggregate. Last week's October employment report showed solid job creation and just 4.1% of the labor force unemployed. Weekly jobless claims are at their lowest level since 1969. In short, the data show few Americans who want a job are unable to find one. That said, the picture looks less pristine beneath the surface. While the composition of job growth across sectors has improved, it remains less balanced than during periods of similarly low unemployment. Quit rates, a useful gauge of worker confidence, remain subdued across many office and knowledge-based professions. And across the board, wage gains remain lackluster compared to inflation. In our view, those dynamics help explain persistently weak consumer sentiment despite strong economic growth, low unemployment, and near-record equity prices.

3. Sticky prices

On the other side of the economy, inflation is running above target and affordability remains strained by high prices. This morning's CPI inflation report showed inflation still moving in the wrong direction, with stronger-than-desired price gains across much of the consumer basket, not just in energy-related categories. Lower oil prices should ease headline inflation in coming months, but investors and policymakers tend to focus on the so-called "core" metrics that exclude food and energy. Those measures suggest inflation pressures are becoming more widespread rather than less. If inflation remains stuck above the 2% target while labor market momentum continues to improve, the risk is that the Federal Reserve concludes that policy is not restrictive enough, leading to additional rate hikes or higher market interest rates.

4. Show me

Artificial intelligence has become the most important investment theme of this year, if not this decade. By some estimates, AI-related investment has accounted for roughly one-third of US

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economic growth this year and about half of corporate earnings growth. Large US hyperscalers are poised to spend $800 billion on AI-related capital expenditures this year alone, while a recent academic study projects more than $10 trillion of cumulative AI investment through 2032. At 3.6% of GDP per year, this would be the largest investment buildout relative to the size of the economy in modern history. We think the conversation – and investment decisions – are shifting to focus on actual revenues, not just spending plans. Estimates of incremental AI-related revenue required to earn an adequate return on today's investment vary wildly, with two well-cited studies ranging from about $2 trillion to $4 trillion annually, highlighting the considerable uncertainty surrounding the technology's long-term economics. The arrival of new AI-focused companies to public markets should help shed light on that question as investors gain greater visibility into revenues, margins, and customer adoption.

5. Good news, priced

Interest rates have retreated, with the 10-year Treasury yield averaging 4.90% this month, versus 5.05% over the last two months. Some of this may reflect demand for safe-haven assets. A more important driver, however, may be the precipitous decline in oil prices. Crude oil has plunged 23% this month, marking one of the steepest seven-day declines on record and the fastest drop since the outbreak of hostilities with Iran. Lower energy prices should help ease inflation pressures and thus support moderately lower interest rates. That said, current prices appear to reflect substantial optimism about the geopolitical outlook. With so much good news already reflected in prices, financial markets - not just energy markets - are likely awaiting concrete geopolitical developments that validate those expectations.

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