Technical View

@toglesby27

- 11/1/26
- A 2000-point pullback in NQ and market leaders selling off on EPS announcements will have all the headlines this weekend but again – there are signs of hope. Breadth improved, money is rotating within equities and key sectors look intact. Headwinds are mounting but key charts are still intact.

- Primary levels –
- ES – Immediate support at 7650 did break but essential support at 7470 is the line to watch. This breaking will change the picture. Recapturing 7650 would help.
- NQ had a technical breakdown with 28820 failing. Holding below that level opens the door for more downside towards 26900. The late afternoon bounce and view on rotation support some optimism, but recovering above support needs to happen soon.
- RTY –A bounce above key levels at 2810. Holding the level is important.

Our guest: George Cipolloni III, CFA. An income and credit investor who hunts for yield without the downside.

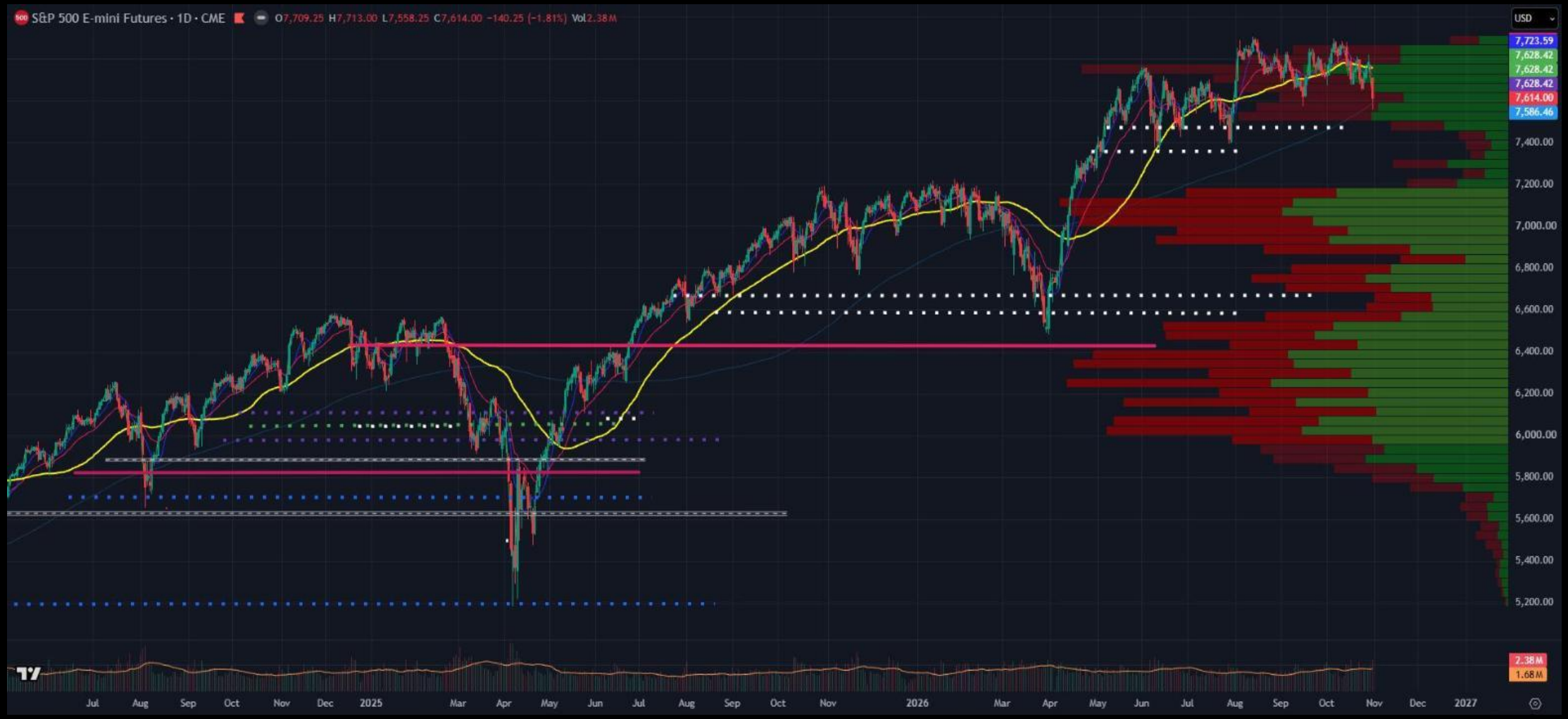
George Cipolloni III, CFA

Portfolio Manager • Penn Mutual Asset Management

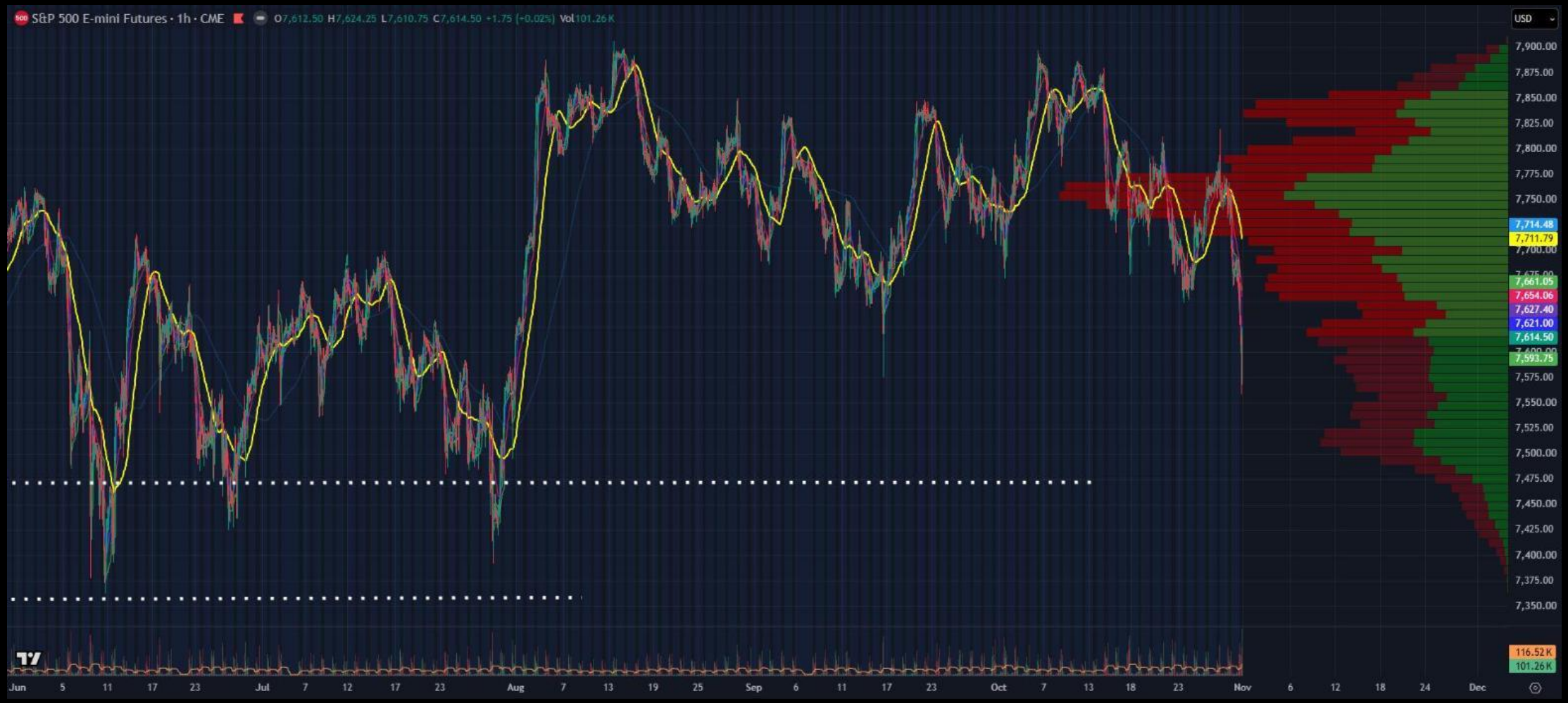
- Co-managed the Penn Mutual AM 1847 Income Fund (PMEFX): a contrarian, conservative strategy aiming for income and preservation of capital
- Previously senior portfolio manager at Chartwell Investment Partners: the Berwyn Income Fund (6-time Lipper Award winner, 2007–2015) and the Nedgroup Global Cautious Fund
- More than a decade at The Killen Group as co-portfolio manager, research analyst and investment committee member
- Bottom-up, value-driven: looks for the best mix of sustainable yield and total return against downside risk across the income universe
- Regular guest on Reuters TV “Markets Now” and Yahoo Finance

Today: what the AI build-out looks like from the credit side.

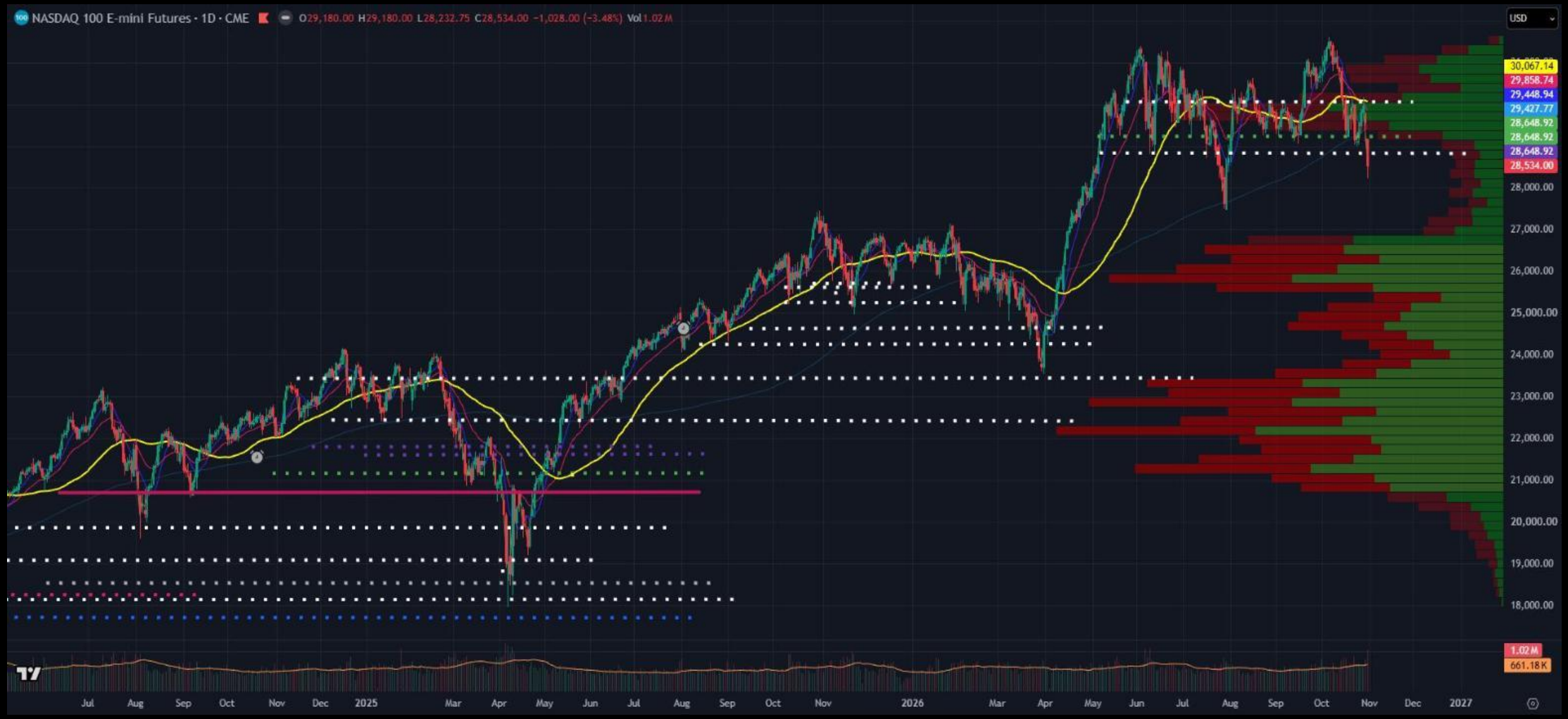
ES daily – 7650 gave way. The midweek bounce stalled near 7820, another lower high, and Friday broke through 7650 to 7558 before closing at 7614. ES is still comfortably above primary support but made a new low for October on the last trading day of the month.



ES – Short term – 60-minute –7810 has really become something of a ceiling. The ‘failed breakout setup a strong move lower that led to new lows.



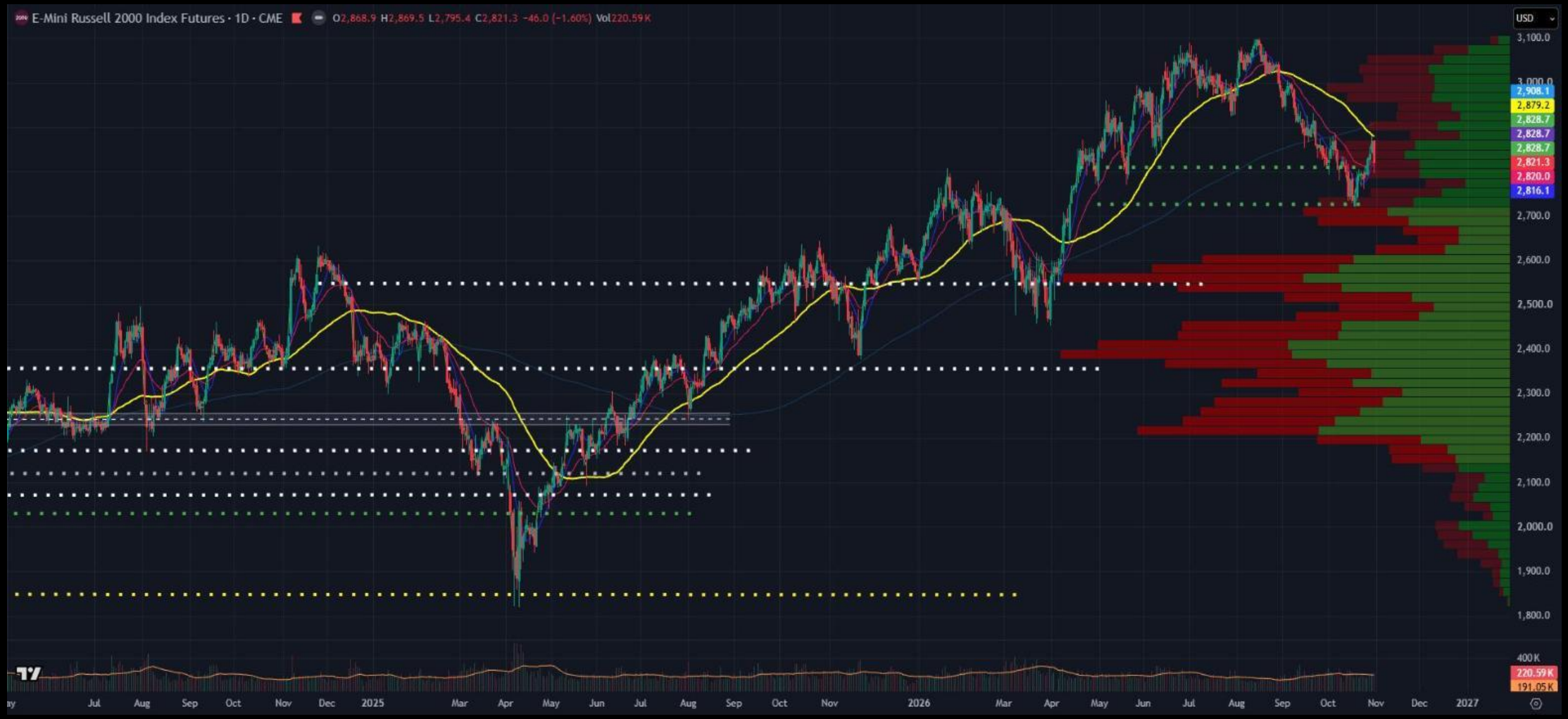
NQ Daily – A push below primary support. What now? Another failed breakout that led to an almost 2000 point selloff in a straight line. Shorts are getting paid on the downside.



NQ – short term – Back to the 30,050 shelf and rejected there again. From there it went straight through 29,200 and 28,800 to 28,232. Two former supports are now resistance.



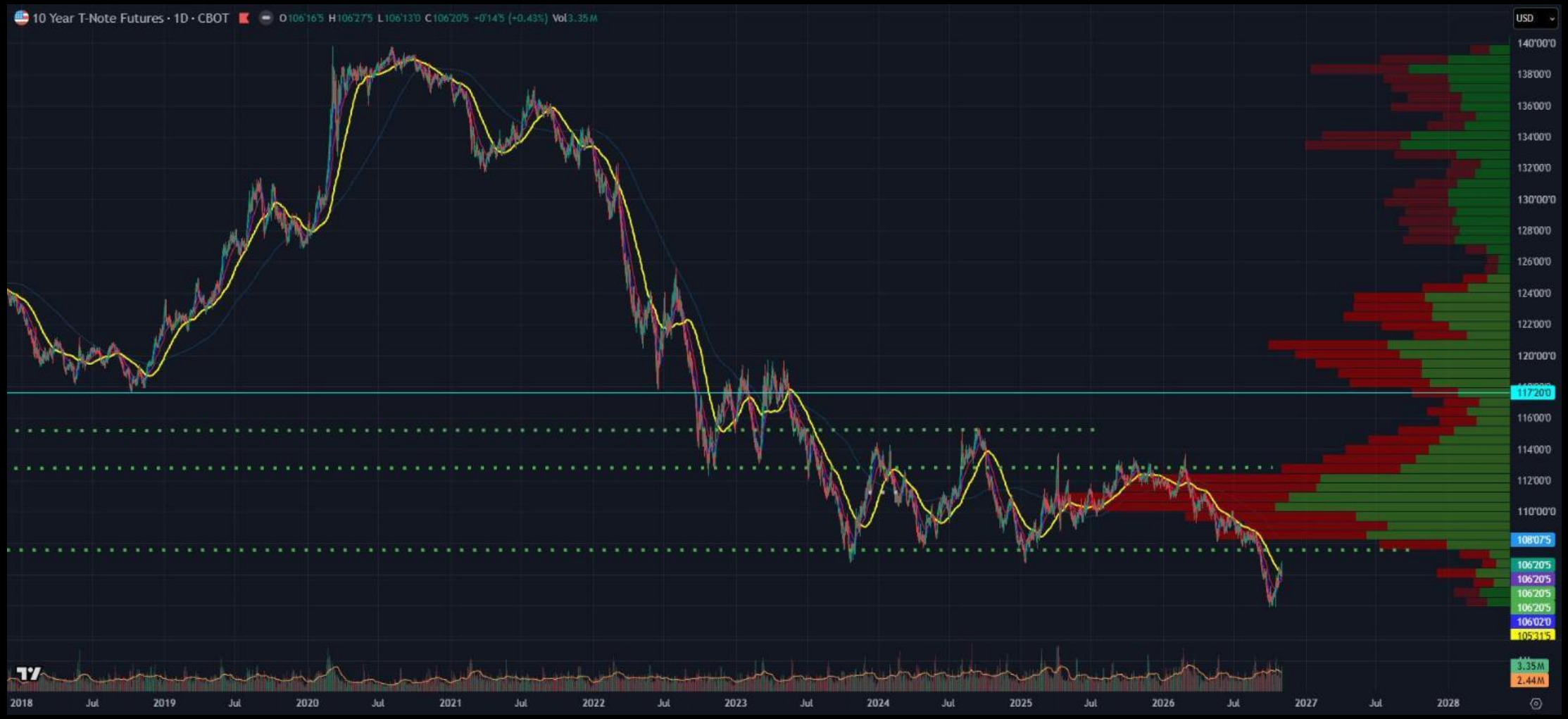
RTY – So here is the good news – rotation is still on the table. Back above 2810. The rally reached 2869 and faded, but held the 2810 line into the close.



Dollar Index – Unchanged picture. Still holding above the 100.80 breakout level and still well under 103. Inside the box for another week.



10 year treasury (prices) – Holding the bounce at 106, but still under the old breakdown level near 107. The retest is happening.



10-year yields – 4.93%. Stayed under 5% all week. The 2023 high zone is now acting as a ceiling instead of a floor.



VXX – 60 minute. Divergence was setting up early Friday but resolved as the selloff worsened. But there is information in how it sold off as we bounced near the close.



Overall view – SPY – The bid that appeared near the close and the rotation we are seeing keeps optimism alive. The number of reasons to be concerned is growing but rules are rules for a reason, and above 731, and particularly above 750, the bull hat stays on.



QQQ – By far, the biggest concern in the markets. Tech/AI has been the horse since 5/23/23 and it is starting to look tired. Credit markets are always important and looking increasingly difficult.



Russell 1000 Value – BUT – Value is making new highs. Still at the top of the chart.



Russell 1000 Growth – Lost the support near 119. Closed at 117.61, and the bounce never got started.



IWD/IWF Mean reversion coming?



China (FXI) – Held the 31–32 floor area and bounced to 33. Still under the declining averages.



EEM – No bounce. Slid further toward the August lows near 60, and the breakdown level is well overhead. A new low could be a problem.



Breadth - % of stocks above 200 MA – 45%. But – another area of hope. This says rotation.



SPX 1 Week Performance – Another case for rotation.



Crude – Making new highs.



Brent Crude (BNO) – Starting to look like a runaway train.



Natural Gas – Still below the floor of the summer range. The bounce did not get back inside. This is a good thing for the global economy



Gold (GLD) – New lows. Into the gap.



Bitcoin – Not much to say here.



Energy equities – Generally energy looks great, though some technicians are calling for a pullback in refiners. Crack spreads have broken.



Technology ETFs – Lower highs and lower lows. SMH and XLK rallies were rejected, and closed at new lows for the window. Never a good thing.



Key Sectors. Other sectors look ok. Health Care and financials made new highs before modest pullbacks. Discretionary is intact. Even Industrials look ok.



Long term - ES – Another lower high under 7820 and a close near the week's lows. Still inside the channel off the 09 low and still in the upper half.



Long term – NQ – Back inside the channel, under the top rail. The move back to 30,178 was rejected, and the close was the lowest since August.



Small caps – (IWM) Poked above the channel midline at 285 and closed back on it at 279. Still testing it.

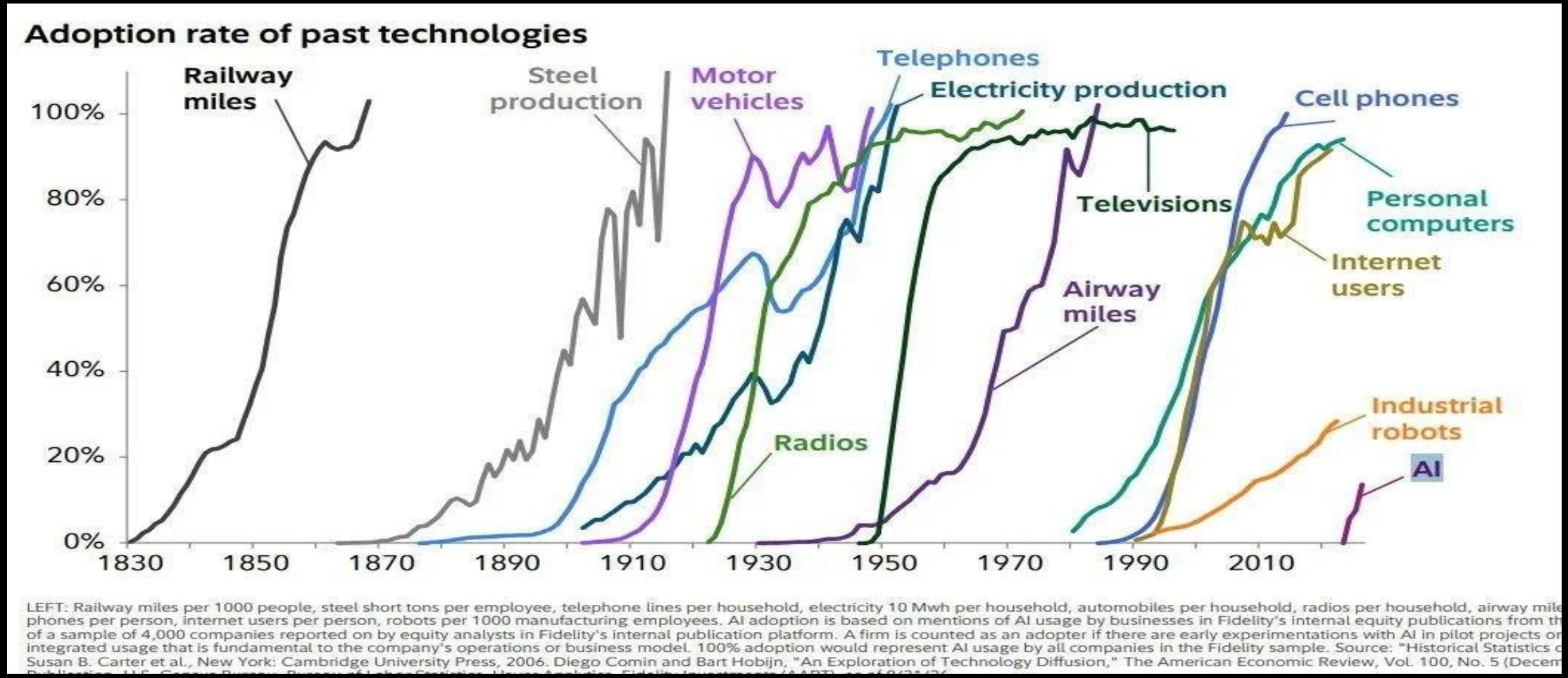


Summary

- Friday hurt and was a technical breakdown in any sense of the word. The rotation theme is still viable, but headwinds are mounting.
- Market leaders getting tagged is never a good thing.
- The VIX divergence resolved negatively and the VXX chart looks constructive.
- In the face of the selloff, R1V held in well, breadth improved, and small caps bounced.

“Under the hood”



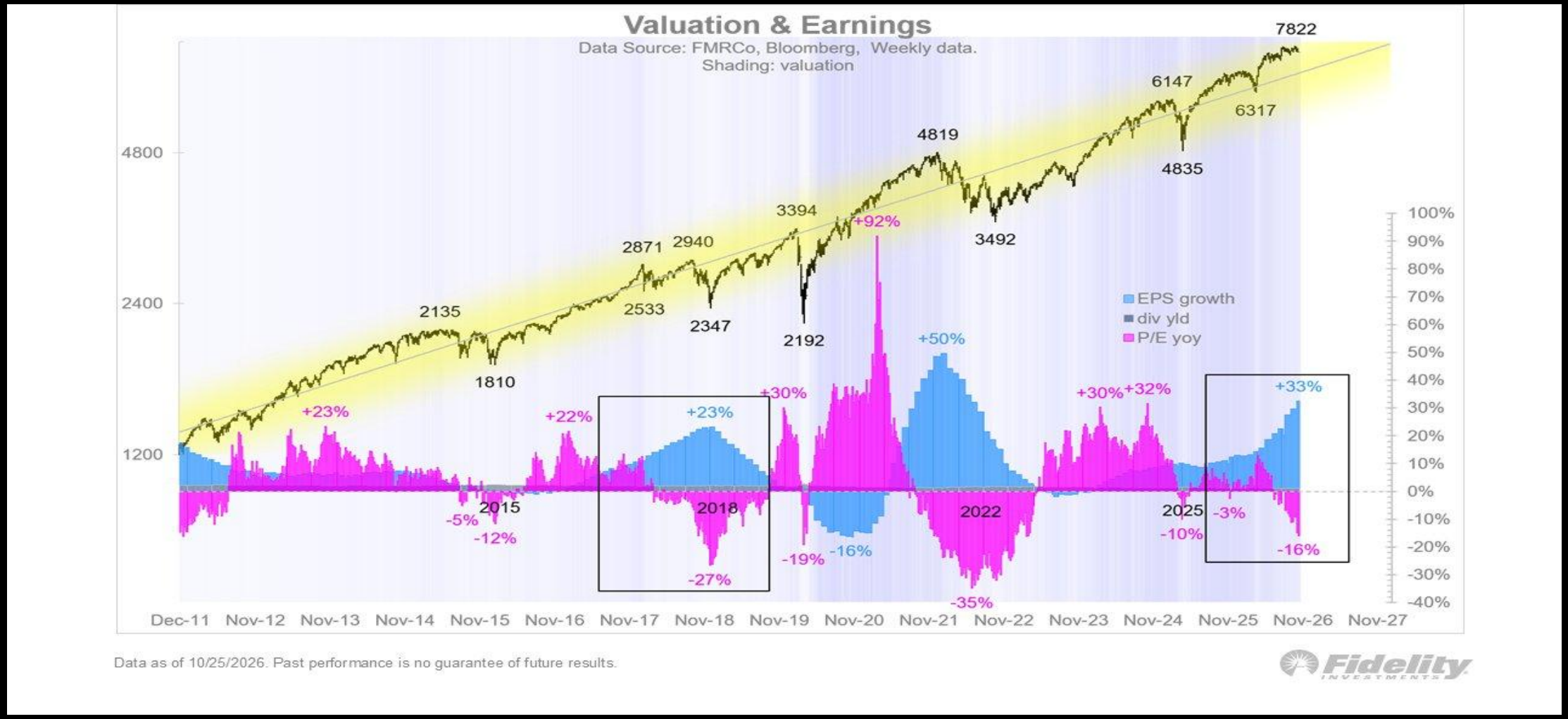


LEFT: Railway miles per 1000 people, steel short tons per employee, telephone lines per household, electricity 10 Mwh per household, automobiles per household, radios per household, airway mile
phones per person, internet users per person, robots per 1000 manufacturing employees. AI adoption is based on mentions of AI usage by businesses in Fidelity's internal equity publications from th
of a sample of 4,000 companies reported on by equity analysts in Fidelity's internal publication platform. A firm is counted as an adopter if there are early experimentations with AI in pilot projects or
integrated usage that is fundamental to the company's operations or business model. 100% adoption would represent AI usage by all companies in the Fidelity sample. Source: "Historical Statistics o
Susan B. Carter et al., New York: Cambridge University Press, 2006. Diego Comin and Bart Hobijn, "An Exploration of Technology Diffusion," The American Economic Review, Vol. 100, No. 5 (Decem

A ‘Stealth Bear Market’ – “60% of the S&P 500’s components are down ~20% or more from record highs”



@TimmerFidelity This earnings season – 122 companies have reported so far, with 80% beating earnings by an average of 560 BPS.

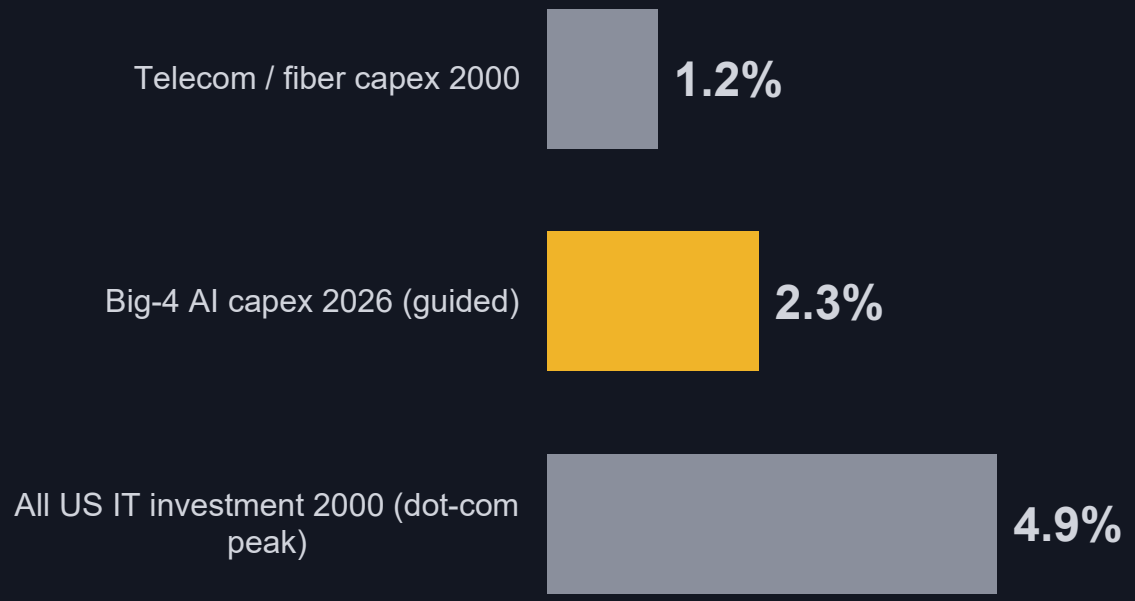


Data as of 10/25/2026. Past performance is no guarantee of future results.

Fidelity INVESTMENTS

PS – Beyond the Charts. The AI build-out vs. history. At about 2.3% of GDP this year, it is already twice the telecom peak. Only the railways were clearly bigger.

Annual spend as % of US GDP



The bigger ones

UK railway mania, 1840s

Cumulative investment ≈ half of GDP by 1850. Shares −85% by 1850; record bankruptcies. But ~90% of today's UK network was built then.

US railroads, 1870s–1900

Several % of GDP a year at the peaks. Waves of receiverships; the track survived.

Electrification, late 1920s

Low single digits of GDP. The Depression forced consolidation and regulation.

Big-4 = Amazon, Alphabet, Microsoft, Meta: $720–745B guided for 2026 (vs ~$380B in 2025). Global spend over US GDP, so a slight overstatement.

PS – How the last big build-outs played out. The assets survived and got used. The money that built them at peak prices usually did not.

How the last big build-outs played out

Telecom & fiber, 1996–2001

- ~$1 trillion raised, much of it high-yield debt
- Built on "traffic doubling every 100 days"
- Bandwidth prices collapsed; debt service didn't
- Global Crossing (Jan 2002) and WorldCom (Jul 2002) went bankrupt
- ~$500B of market value destroyed
- Fiber bought for cents on the dollar, later carried cloud, streaming and mobile

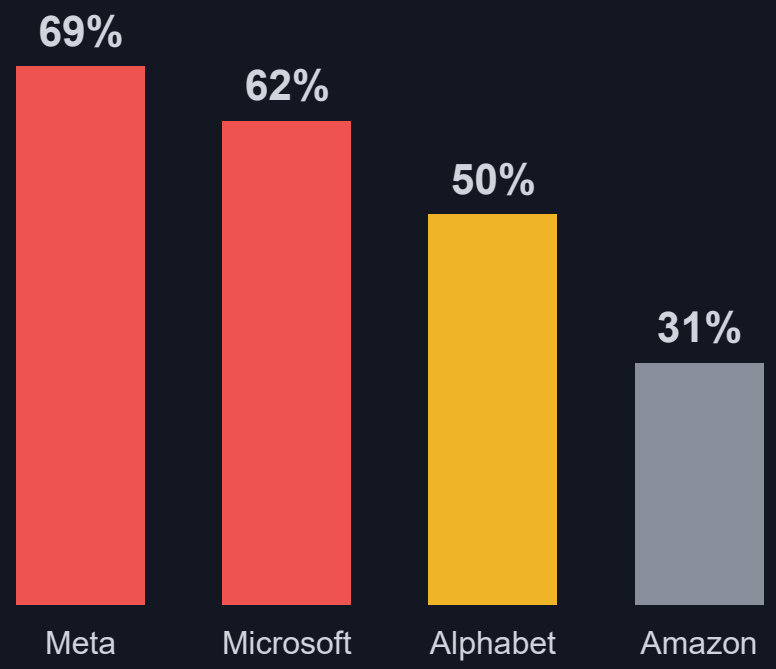
The pattern

- The assets survive and get used
- Society captures the value
- The capital structure built at peak prices usually does not
- Distressed buyers, not original investors, earn the return
- Railways, electricity, fiber: same arc

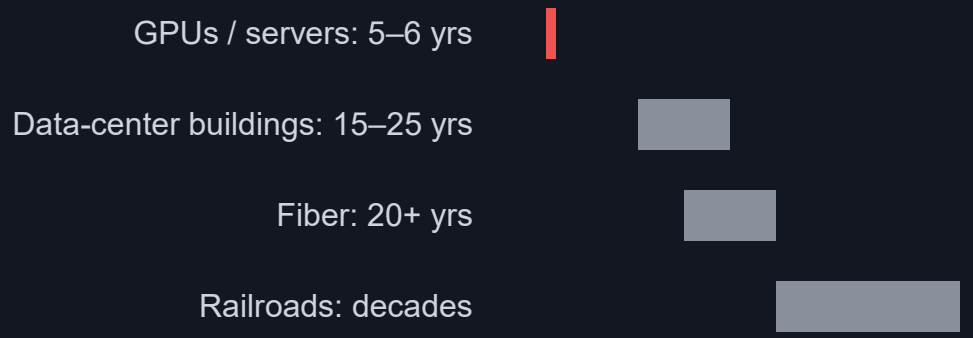
The question for this cycle: who is holding the capital structure this time?

PS – Why the economics are different. These assets wear out in 5–6 years, not decades, and capex is now eating most of the cash flow.

2026 capex as % of 2025 revenue



Useful life of the asset



- Top-5 hyperscaler free cash flow: ~$61B a quarter (2024) → under $5B (mid-2026)
- ~$733B over 5 years ≈ $145B a year of depreciation, from one year of spending, before any return

Microsoft lengthened data-center building lives from 15 to 25 years in July 2026: lower reported depreciation, same physical assets.

PS – The funding is moving into credit markets. This is where our guest comes in.

The funding is moving into credit markets

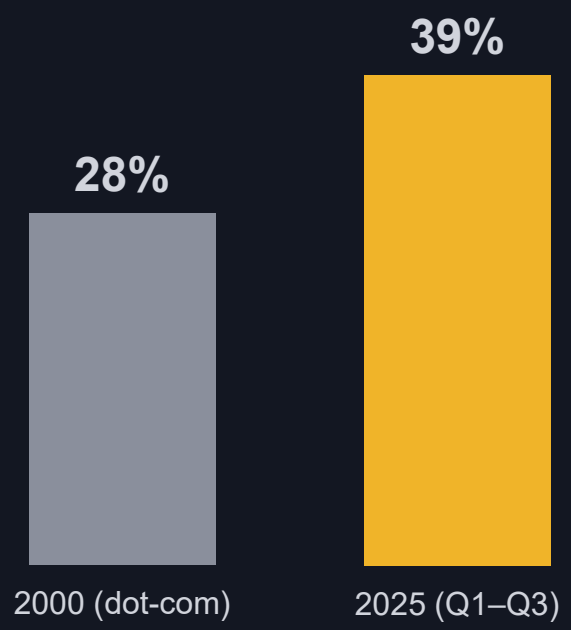
$141B	AI-linked corporate debt issued in 2025
$27B	Meta–Blue Owl Hyperion JV: the debt sits in an off-balance-sheet vehicle
$662B	Signed, not-yet-started data-center leases at the top 5: 113% of their adjusted debt (Moody's)
~$300B	Oracle's OpenAI contract, larger than Oracle's annual revenue; banks straining to syndicate its loans
~$1.4T	OpenAI infrastructure commitments over ~8 years: concentration on one customer

Questions for our credit guest

1. Is this 2000-style telecom debt, or different?
2. Where would stress show up first?
3. What is priced in today?

PS – What it means for growth, and what we will watch. AI investment has been carrying GDP growth, but much of it is imported, and only rising spend adds to growth.

Tech/AI investment share of US GDP growth (St. Louis Fed)



The catch

- Imports are now ~35% of AI investment (from ~20%). Net of imports, it peaked in Q3 2025 (First Trust).
- Goldman: net contribution in 2025 "basically zero".
- Growth comes from capex rising, not staying high: flat at $730B adds roughly nothing to GDP growth.

What we'll watch

Capex still accelerating? • Hyperscaler free cash flow • Backlog → revenue
Depreciation charges • Data-center debt and Oracle spreads
Power: 4.4% of US electricity (2023) → ~12% projected by 2030
On our charts: NQ at 30,050 and the SMH lows