OTHER SIDE ASSET MANAGEMENT



# The market isn't waiting...

## November 2026: the market isn't waiting

*"The data inform our expectations … the signals determine our response."* ~ *OSAM, October 28, 2026*

Last month, in *Consistently Monitoring the Waters*, we highlighted an important development in Hedgeye Risk Management's forward economic projections: **five of the first six months of 2027 were pointing toward Quad 4**, an environment characterized by the simultaneous deceleration of economic growth and inflation.

Perhaps more importantly, we addressed the timing of that transition and how we were managing risk in advance of it:

*"Markets don't have to wait until January data … for they respond to current information while continually discounting future expectations.*

*We'll stick to our process and signals. SPY remains above our decision-making levels, and we remain invested in that exposure. The QQQs are dancing on our decision-making lines, so we've reduced our risk while retaining some exposure. IWM is below our decision-making levels, which is why we've been out of that position for some time."*

~ *Other Side Asset Management, October 28, 2026*

The market isn't waiting.

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Deteriorating equity markets, widening credit spreads and mounting pressure within the AI investment complex suggest that markets are beginning to price risks we've been discussing for several months.

In August's *The Audible*, we emphasized the importance of remaining flexible as probabilities change. In September's *The Plan Meets the Signal*, we reinforced the distinction between our economic outlook and the signals that guide our investment decisions.

Our positioning has reflected that discipline.

Having exited our Russell 2000 exposure and substantially reduced our QQQ holdings, we subsequently reduced exposure across our individual-stock models, moving a meaningful portion of those portfolios into high-yielding money market instruments.

While we continue to maintain equity exposure, those adjustments have helped mitigate the impact of the recent market decline.

We didn't know precisely when markets would turn, nor do we know how far they may decline or when the next meaningful rally will arrive.

What we did recognize was that the balance of risk was changing … despite much of the economic data continuing to support the Quad 2 environment (accelerating economic growth and inflation) we anticipated heading into the fourth quarter.

**Why, then, have we been materially reducing equity exposure?**

To understand why, we need to examine not only what the economic data are telling us today … but where their rate of change suggests we may be heading.

## Inflation: accelerating today, decelerating tomorrow?

After declining from +4.25% year-over-year (YoY) in May to +3.36% in July, headline CPI reversed course, accelerating to +3.40% in August and +3.74% in September.

October extended that acceleration.

Headline CPI increased +0.35% month-over-month (MoM). While the missing October 2025 comparison associated with the government shutdown prevented the BLS from publishing an official annual reading, Hedgeye's interpolated estimate of +3.95% YoY represents a 21-basis-point acceleration from September and a 59-basis-point acceleration from July's low.

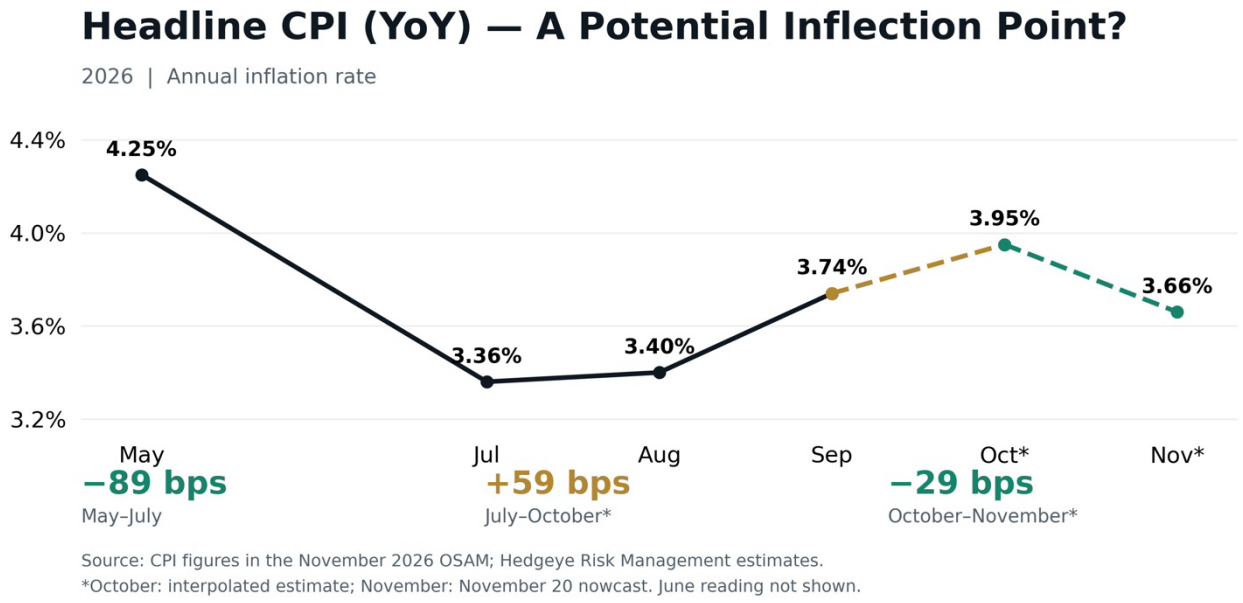
Other measures of inflation reinforced that trend:

- **Headline PPI:** +0.35% MoM, accelerating from +6.29% to +6.52% YoY (+23 bps), its highest annual reading since November 2022.
- **Core PPI:** Accelerated from +5.01% to +5.05% YoY (+4 bps).
- **PPI goods inflation:** Accelerated from +9.47% to +10.24% YoY (+77 bps).
- **Import prices:** Increased +1.1% MoM, with core import prices excluding food and fuel rising +0.9%.

Persistent inflationary pressures continue to complicate the Federal Reserve's ability to respond to any emerging weakness in economic growth.

But here's where the forward rate of change gets interesting …

Hedgeye's November 20 inflation nowcast projects headline CPI decelerating to **+3.66% YoY in November … a 29-basis-point deceleration** from October's estimated +3.95%.




Driven substantially by lower energy prices and year-over-year comparisons … that projected deceleration doesn't necessarily imply widespread relief from inflationary pressures. It does, however, suggest a potential reversal in the rate of change.

Recall what we wrote in September's *The Plan Meets the Signal*:

*"When the signals change, we have to be willing to adjust with them … signals > quads!"*

The latest CPI and PPI data, coupled with the relative resilience in economic growth, largely validate the Quad 2 (reflation) environment we anticipated heading into the fourth quarter.

Sharply lower energy prices coupled with today's elevated readings suggest we may be approaching … or may already have seen … cyclical peaks in several of these metrics.

The directional shifts across financial markets, coupled with increasing volatility, suggest that markets may already be anticipating the economic deceleration reflected in November's inflation nowcast and our forward outlook.

Had we waited for the economic data to confirm the transition into Quad 4, we would have maintained maximum long equity exposure throughout the recent market deterioration.

Instead, as the rate of change in price, volume and volatility deteriorated, we adjusted our positioning.

**Signals > Quads.**

Should the anticipated deceleration in inflation be accompanied by a deceleration in economic growth, the Quad changes.

## Growth: resilient headlines, changing momentum

October retail sales increased +0.21% MoM, with annual growth modestly decelerating from +7.10% to +6.91% (-19 bps). Underneath the headline, however, several measures continued to accelerate:

- **Retail sales excluding automobiles:** +8.26% YoY versus +8.17% previously (+9 bps).
- **Retail control group:** +5.74% YoY versus +5.60% previously (+14 bps).

Remember, these figures reflect nominal spending, not inflation-adjusted growth … an important distinction given the recent acceleration in inflation.

Meanwhile, October industrial production and capacity utilization weakened, suggesting that the resilience in consumer spending isn't uniformly reflected across the production side of the economy.

The question isn't whether economic activity remains positive today or whether growth data have been revised higher. It's whether the rate of growth can continue accelerating against increasingly difficult comparisons heading into 2027 … upward revisions to historical data only make those comparisons more challenging.

**Labor — Continued Resilience**

Despite September's relatively weak payroll growth of +29,000 jobs and downward revisions to prior months, more timely labor indicators continue to demonstrate resilience:

- **Initial unemployment claims:** Declined to approximately 189,000 earlier in November.
- **Announced layoffs:** Down nearly 44% YTD, according to Challenger, Gray & Christmas.
- **Payroll tax receipts:** Remained firm through November 17, suggesting continued resilience in aggregate employment income.

For now, the labor market remains supportive of consumer spending. We'll continue monitoring whether emerging weakness elsewhere in the economy begins translating into broader employment deterioration.

**Housing — The Deterioration Continues**

Housing remains one of the clearest examples of economic weakness. Consider the October data:

- **Pending home sales:** -4.7% MoM, pushing the index to a record low of 63.0 (data dating back to 2001). Annual growth deteriorated from -12.5% to -17.1% (-460 bps).
- **Housing starts:** Rebounded +9.9% MoM, accelerating from -9.7% to +2.8% YoY (+1,250 bps).
- **Building permits:** Declined -7.4% MoM and -8.7% YoY.
- **Single-family permits:** Deteriorated from -4.7% to -12.9% YoY (-820 bps).

The divergence between housing starts and permits is particularly telling. While current construction activity rebounded, the pipeline of future construction deteriorated considerably … suggesting that the improvement may prove difficult to sustain.

**What Are Markets Telling Us?**

Last month, we highlighted several developments across financial markets that appeared increasingly at odds with the reported economic data … widening credit spreads, declining Treasury yields, defensive sector leadership and deteriorating international equity markets.

Those developments warrant revisiting.

**Credit …**

In October, we noted that high-yield option-adjusted spreads (OAS) had widened +63 basis points over the preceding month.

More recently, credit markets have experienced some relief. Per Hedgeye's November 19 research, the rolling 30-day change in investment-grade credit spreads (CDX IG) improved from +1 to -2 basis points, while high-yield credit spreads (CDX HY) improved from +14 to +4 basis points over the preceding week.

While encouraging, the distinction between declining Treasury yields and declining corporate borrowing costs remains important. Widening credit spreads can offset the benefit of falling Treasury yields, particularly for companies dependent upon external financing.

Given the magnitude of capital expenditures supporting the AI investment cycle, the cost and availability of that financing warrant continued attention.

**Treasury yields …**

Despite persistent inflationary pressures and the prospect of additional monetary tightening, longer-duration Treasury yields have demonstrated meaningful weakness:

- The 10-year Treasury yield declined from above 5.30% in early October to below 4.90% in early November … a decline of more than 40 basis points.
- The 30-year Treasury yield shifted into a bearish TREND in Hedgeye's modeling during the first half of November.
- Longer-duration yields initially declined faster than shorter-duration yields, flattening the yield curve.
- Following an intervening rebound, the 10-year yield was back below 5% on November 20, declining approximately 16 basis points on the week.

While these movements haven't occurred in a straight line, the weakness in longer-duration yields amid accelerating inflation raises the question …

*What might the bond market be anticipating that hasn't yet been reflected in the reported economic data?*

**The U.S. dollar …**

Meanwhile, the U.S. dollar has continued to exhibit strength. Relative interest rates, deteriorating global growth expectations and increased demand for dollar-denominated liquidity can support the dollar despite declining longer-duration Treasury yields.

A strengthening dollar can further tighten financial conditions for global borrowers with dollar-denominated debt.

These market dynamics are consistent with a Quad 4 (disinflation/deflation) investing environment … as is the elevated volatility we're currently experiencing.

**Volatility … this is NOT a healthy market.**

Recent market action has been characterized by violent swings in both directions … some reaching 5–6% intraday or from one session to the next, with the VIX trading well above 20 and the VXN (Nasdaq-100 volatility index) reaching the mid-30s.

Historically, some of the most powerful equity market rallies have occurred during Quad 4 economic environments. Elevated volatility, coupled with negative dealer gamma (where hedging activity can amplify price movements), can produce extraordinary swings in both directions.

As we write on November 27, markets have been negative in nine of the past eleven trading sessions, with today's typically light-volume, post-Thanksgiving session representing one of the two positive days thus far.

While these rallies can provide temporary relief, their magnitude alone should not be confused with improving market health. From a price, volume and volatility perspective, we've yet to see a meaningful improvement in the underlying signals that guide our investment decisions.

It's not simply the direction of price that matters … it's the rate of change in price, volume and volatility.

**International markets**

Given their importance to the global semiconductor industry and AI investment cycle, the deterioration across several Asian equity markets deserves attention:

- South Korea's KOSPI had declined approximately -45% from its June peak by November 9, versus approximately 40% when we discussed it last month.
- During the week ending November 20, Taiwan's equity market declined approximately -17.5%, its worst week since 1991.
- Japan's Nikkei and South Korea's KOSPI experienced additional single-session declines of -5.1% and -5.2%, respectively, heading into November 20.

Collectively, the recent pressure in credit markets, weakness in longer-duration Treasury yields, dollar strength, elevated volatility and deteriorating global equity markets suggest an increasingly unfavorable financial market environment.

The question is whether markets are simply anticipating the economic deceleration projected for early 2027 … or whether the deterioration within financial markets could itself become a catalyst for that deceleration. Which brings us back to artificial intelligence.

More specifically … the financing behind it.

## The AI Bubble: when financing becomes the risk

The transformative potential of artificial intelligence and the financial viability of the investments supporting its development are two very different things.

The internet fundamentally changed the way the world operates … that didn't prevent the collapse of the technology bubble in the early 2000s.

Our concerns aren't predicated upon artificial intelligence failing. Rather, they center around the magnitude of capital being deployed, the returns that capital must ultimately generate, and the increasingly interconnected financing supporting its expansion.

**Follow the money …**

Per Hedgeye's November 19 research, eight companies central to the AI infrastructure buildout collectively accounted for approximately $863 billion in adjusted capital expenditures over the trailing twelve months, up from $856 billion in its November 11 report.

More importantly, the portion of those expenditures not covered by the individual companies' operating cash flows increased from $153 billion to $160 billion (+4.6%).

| Company | Adj. CapEx | Adj. Operating Cash Flow | Funding Gap |
|---|---|---|---|
| Alphabet | $172B | $183B | — |
| Meta | $115B | $137B | — |
| Microsoft | $166B | $202B | — |
| Amazon | $242B | $184B | $58B |
| Oracle | $99B | $50B | $50B |
| Nebius | $21B | $6B | $15B |
| IREN | $5B | $2B | $3B |
| CoreWeave | $41B | $8B | $34B |
| **Total** | **$863B** | **$772B** | **$160B** |

*Source: Hedgeye Risk Management, Bloomberg and company SEC filings, November 19, 2026. Trailing twelve-month, lease-adjusted company-wide figures, rounded. Funding gaps are calculated individually without offsetting another company's surplus and do not necessarily represent new borrowing requirements.*

Oracle, CoreWeave, Nebius and IREN account for approximately 19% of capital expenditures, yet represent 64% of the funding shortfall.

Even among the largest hyperscalers (Amazon, Alphabet, Meta and Microsoft), forward capital expenditure plans represent approximately 127% of their combined trailing operating cash flow, versus 99% over the trailing twelve months.

**The interconnected nature of the financing …**

Hedgeye estimates that approximately 36% of the $2.6 trillion in contracted revenue backlog across seven major cloud infrastructure providers is associated with just two companies … OpenAI and Anthropic.

OpenAI alone accounts for an estimated $710 billion (27%), with approximately $175 billion in annual commitments against an annualized revenue run rate of $50 billion.

*Source: Hedgeye Risk Management, November 19, 2026. Estimated gross contract values and reported remaining performance obligations are not always directly comparable.*

Complicating matters is that several of the companies providing the infrastructure are also investing in the companies purchasing it. Those investments help finance computing commitments, which support the infrastructure providers' revenue expectations and justify further capital expenditures.

The sustainability of that cycle becomes increasingly dependent upon continued access to capital and the eventual generation of sufficient end-customer revenue.

**What are the signals telling us?**

Hedgeye's November 19 AI Bubble Tracker revealed some particularly interesting week-over-week developments:

- **Leveraged AI relative credit spreads:** Rolling 30-day widening moderated from +108.5 bps to +23.6 bps.
- **SoftBank relative credit spreads:** Widening moderated from +71.2 bps to +22.7 bps.
- **Nvidia receivables relative to quarterly revenue:** Increased from 65.5% to 70%, triggering Hedgeye's warning threshold.
- **AI-related securities in bearish TRENDs:** Increased from 29 to 33 of the 36 securities monitored (81% to 92%).

Despite considerable improvement in relative credit spreads, equity market deterioration has broadened. Hedgeye's overall classification remains at Stage 4 … Breaking.

Importantly, GPU rental prices, AI token consumption and the Asian hardware pipeline have yet to trigger warnings within Hedgeye's framework.

**The emerging stress remains more evident in the financing and market performance of the AI investment complex than in the underlying demand for its products.**

That distinction matters.

Should deteriorating financial conditions make capital more expensive or less accessible, companies could be forced to reduce capital expenditures. That, in turn, could negatively impact revenue and earnings expectations throughout the semiconductor, manufacturing, construction and electrical infrastructure industries … potentially putting further pressure on equity valuations and financing conditions.

And the cycle repeats.

Longtime readers may recall our Q1 2023 note, The oldest allegorical symbol in alchemy…, in which we discussed the ouroboros … the ancient symbol depicting a serpent consuming its own tail.

At the time, we used the analogy to illustrate the reflexive nature of tightening bank lending conditions, whereby each successive deterioration in economic activity perpetuated further tightening of financial conditions.

Today's underlying economic dynamic is remarkably similar … each successive iteration of the cycle has the potential to exacerbate the next.

What initially manifests itself as a financial market event has the potential to become an economic event.

The economic deceleration projected for early 2027 doesn't require the AI investment cycle to break.

However, should financing pressures begin translating into actual reductions in capital expenditures, they could amplify the magnitude of that anticipated deceleration.

It's not a predetermined outcome … but it is a risk we believe warrants considerable attention.

## Final thoughts

Much of the economic data has played out as anticipated heading into the fourth quarter. Financial markets, however, appear to be looking ahead … and we have yet to enter the period in which five of the first six months of 2027 are projected to fall into Quad 4.

Should the anticipated economic deceleration materialize, particularly if accompanied by further deterioration in the financing behind the AI investment complex, investors should be prepared for the possibility of considerably more volatility … in both directions.

Just as we weren't willing to maintain maximum equity exposure simply because the economic data supported our Quad 2 outlook, we won't remain defensively positioned simply because the forward projections suggest Quad 4.

Should the signals improve, we need to be equally willing to increase our exposure as we were to reduce it.

Our objective isn't to be perpetually bullish or bearish … nor is it to prove our economic expectations correct.

It's to continually evaluate the balance of risk and opportunity and position portfolios accordingly.

For those approaching or already in retirement, where the sequence of investment returns can profoundly impact the sustainability of a retirement plan, managing risk deserves every bit as much attention as pursuing returns.

As we wrote in August … remain flexible as the probabilities change.

As we wrote in September … signals > quads.

And as we wrote in October …

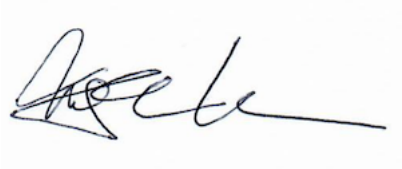
*"The data inform our expectations … the signals determine our response."*

November has served as yet another reminder of why that distinction matters.

**The market isn't waiting … neither should your risk-management process.**

If you're approaching retirement, already drawing income from your investments, or questioning whether your portfolio is appropriately positioned for the risks ahead, it may be worth revisiting your plan … schedule a conversation today!

As always … Good investing!



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