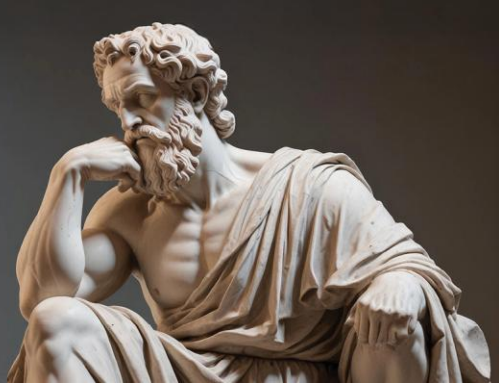
GUARDIAN CAPITAL™

Macro Musings



November 2026

The Blue Wave and the AI Hangover

(Performance data as of October 31, 2026)

The Quick-Hits

- Democratic "blue wave" delivers a stunning rebuke to the White House in the U.S. midterms
- AI infrastructure trade shows signs of strain as data centre projects stall and Tech sells off
- Broader U.S. economy remains surprisingly healthy despite weakness in mega-cap Tech
- Bank of Canada delivers first rate hike since 2023 while the Fed stays on hold
- Credit markets increasingly questioning whether AI spending boom will ultimately pay off
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- Quote of the month:

  "Markets are pricing a goldilocks combination where growth remains strong, central banks only hike a bit, supply shocks prove temporary and inflation fades. That leaves next to no room for error."

  - Henry Allen, Deutsche Bank strategist

Macro Musings

For much of the past two years, one could be forgiven for thinking the entire U.S. economy consisted of little more than AI infrastructure, hyperscaler capital expenditures and NVIDIA earnings reports. October reminded investors that reality is a little more nuanced than that. While headlines focused almost exclusively on the sharp selloff in many of the largest technology companies, the broader economy continued to exhibit surprising strength. In fact, one of the most remarkable statistics from October wasn't how badly mega-cap technology stocks performed, but rather how well everything else performed.

The equal-weighted S&P 500 Index[1] gained 4.9% during the month. Meanwhile, the traditional cap-weighted S&P 500[2], dominated by the largest technology firms, actually declined 0.9%. That 5.8% gap was the second-largest reading recorded since the data series began in 1989. It suggests that beneath the surface, economic strength remains considerably broader than many investors appreciate or than headlines would have you believe.

To be fair, Artificial Intelligence (AI) remains an important driver of growth. According to Financial Times columnist Rob Armstrong[3], roughly one-quarter of current U.S. GDP growth may be attributable to AI-related investment activity. But even that observation might be overstated. For

[1] The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.
[2] The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap U.S. equity universe.
[3] Financial Times, Unhedged Podcast, "Mortgages, diesel and the US midterms", October 13, 2026



example, if a hyperscaler builds a data centre in Ohio using chips manufactured in Taiwan and South Korea, not all of that spending ultimately shows up as U.S. economic output. The result is an economy that continues to expand at a healthy pace, even if not for the reasons that dominate headlines.

Unfortunately for AI bulls, however, October also marked one of the first meaningful cracks in what has increasingly resembled a modern-day gold rush.

For much of the last three years, investors have largely suspended disbelief. An unprecedented amount of money has flowed into data centres, chips, energy infrastructure and cloud computing. Companies raced to secure financing while investors jumped at the chance to provide it. In what has felt like a “winner takes all” arms race, the modus operandi of companies in the AI ecosystem has seemed pretty straightforward: move fast and worry about profitability later.

But markets eventually ask uncomfortable questions, and lately they’ve started asking a lot of them. According to data compiled by RegLayer[4], at least 47 large-scale data centre projects have been delayed, cancelled or blocked this year. One Bernstein analyst recently estimated that only about 35% of the announced U.S. data centre pipeline appears genuinely credible[4]. Meanwhile, more than 1,000 municipalities across the United States have introduced moratoria, restrictions or other forms of resistance aimed at slowing AI-related infrastructure development[4].

Higher interest rates haven't helped, nor has a bond market that now appears far less willing to blindly finance every AI-related ambition. And it’s within fixed income – more specifically the credit markets – where an interesting development has been unfolding using credit default swaps.

For those unfamiliar, credit default swaps (CDS) function somewhat like insurance policies against a borrower defaulting on its debt. During September, the average weekly trading volume of CDS contracts linked to bonds issued by AI-related giants including Oracle, Alphabet, Amazon, Meta, Nvidia and SpaceX climbed above US$9 billion, more than quadrupling levels seen just a few months earlier. What's particularly noteworthy is that investors have not simply been targeting weaker companies. CDS spreads have widened significantly across the AI ecosystem, including for firms widely regarded as financially sound. Even Alphabet and Amazon saw the cost of default protection reach record highs during October, while Oracle's CDS spread more than doubled this year. CoreWeave, one of the more leveraged beneficiaries of the AI boom, saw CDS spreads climb to 1,090 bps. In other words, if a CoreWeave bond investor held, and wanted to protect, a US$10 million position, they’d need to pay US$1.82 million up front for the CDS contract[5].

Politics also stole the spotlight during October and into the early days of November. As at the time of writing, the majority of votes in the U.S. midterm elections had been counted and the heavily discussed and anticipated "blue wave" proved to be very real. Democrats reclaimed control of both chambers of Congress and did so by margins that exceeded many forecasts. From a purely political standpoint, it represents one of the most consequential election results in recent memory. Many commentators are characterizing the outcome as a referendum on President Trump. There's likely some truth to that, as well as some truth to the potential demise of the MAGA movement, but it’s worth cautioning against making that the entirety of the story.

Voters around the world have become increasingly unforgiving toward incumbents regardless of ideology when confronted with rising living costs, and we’ve seen inflation continue to outpace wage growth. The latest inflation report marked the sixth consecutive month in which prices rose faster

[4] Financial Times, “Investor anxiety and public backlash threaten to scupper $10tn AI boom”, October 19, 2026
[5] Financial Times, “AI debt nerves trigger race for default insurance in case boom turns to bust”, October 21, 2026



than wages. Meanwhile, inflation-adjusted wage growth has effectively gone nowhere since the start of 2025 despite strong corporate earnings growth[6]. The disconnect between Wall Street and Main Street remains significant. It turns out people generally don't love hearing about record corporate earnings while their own purchasing power goes sideways. Who knew?

One statistic I found interesting recently was that since 2022, Americans aged 75 and older have seen their wealth increase by 37%, while wealth among those aged 35 and under has declined by 23%. At the same time, the personal savings rate has fallen to just 4.1%, its lowest level in four years[7].

Markets initially reacted negatively to the election outcome based on the assumption that a Democrat-controlled Congress could mean greater regulatory scrutiny of AI and increased resistance to the Administration's broader agenda, but that reaction quickly reversed. Investors now appear to be embracing the idea that Congressional oversight could moderate some of the market's biggest fears, including aggressive spending initiatives, escalating trade tensions and policy uncertainty.

From both a Canadian and international perspective, the potential for a less confrontational relationship on trade may prove especially important over the coming years. Whether that actually materializes remains to be seen, but markets have clearly warmed to the possibility.

From a political standpoint here at home, October saw Albertans decisively reject separation in the recent referendum, while British Columbia elected its first Conservative government in nearly a century. New B.C. Premier Lorne Doerkson has already pledged measures designed to accelerate resource development, LNG exports and pipeline construction in B.C. For investors, this could make Canada's energy and infrastructure sectors increasingly relevant themes over the coming decade, particularly as the AI buildout continues and its associated power requirements lead to spiking energy demand.

Does AI's recent stumble mark the beginning of something more serious in markets? Perhaps. Or perhaps we're simply witnessing the market remind us that even transformational technologies need to generate profits eventually. The question is now whether “eventually” can come soon enough to keep some of the riskier participants solvent.

Equities

October brought with it mixed results across equity markets. This was a month of winners and losers, as opposed to a rising tide lifting all boats. With particular strength seen in the Energy sector, the S&P/TSX Composite Index[8] topped our charts, despite Materials getting hammered to the tune of -15%. Every other sector here at home was positive though and pushed our benchmark index to post a 1.2% return. It’s now in a dead heat with the Russell 2000 Index[9] of small-cap stocks in the U.S. for claiming the top position for year-to-date returns on our index leaderboard.

Within the S&P/TSX Composite Index, nine of the top fifteen stocks were in Energy, but each of the top five performers came from outside the sector. Bausch Health Companies Inc. (+38%, Health

[6] Vox Media, Prof G Markets Podcast, “Why the stock market is booming but your paycheck isn’t”, October 19, 2026
[7] Vox Media, Prof G Markets Podcast, “Why the stock market is booming but your paycheck isn’t”, October 19, 2026
[8] The S&P/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange (TSX) with about 250 companies included in it.
[9] The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index.



Care), Aritzia Inc. (+30%, Consumer Discretionary) and Methanex Corp. (+20%, Materials) were the top three performers, while the biggest decliners were Allied Properties REIT (-42%, Real Estate), Americas Gold and Silver Corp. (-36%, Materials) and Energy Fuels Inc. (- 32%, Energy).

Within the S&P 500 Index, Information Technology (Tech) and Communication Services were the only two sectors in the red, but with Tech constituting about 35% of the index and having declined by 7% in October, the overall index fell by just shy of 1%. Interestingly, despite the overall Tech sector being down, three of the top five performers in the index were Tech names, which speaks to the divergence and broadening out of performance. The top-performing stocks were Accenture PLC (+42%, Tech), PTC Inc. (+40%, Tech) and Hasbro Inc. (36%, Consumer Discretionary), while the worst performers were Intel Corp. (-45%, Tech), Reddit (-36%, Communication Services) and SanDisk (-34%, Tech). Eight of the ten worst performers were Tech companies.

Meanwhile, from an international standpoint, the MSCI EAFE Index[10] outperformed the MSCI World[11] and S&P 500 indexes thanks to less reliance on Tech, while the broader global sell-off in that particular sector hurt Chinese companies especially hard. The MSCI China[12] and MSCI Emerging Markets[13] Indexes were both down over 7% in October as investors rotated out of higher-growth tech names. Analysts cut profit forecasts across a wide swath of Chinese companies, and concerns over margin pressure amongst Chinese companies added to downward momentum. The concern for Chinese AI companies now is that it appears some of these companies are struggling to convert revenue growth into profit growth as competition is intense, and LLMs seem to be becoming more commoditized, fueling a price war.

From an equity factor standpoint, investors flocked to the relative safety of dividend payers, a segment of the market that dramatically outperformed others, particularly Growth and Momentum companies that were hit hardest.

On the currency side, the U.S. dollar depreciated by 1.7% vs. the Canadian dollar but was up 0.4% vs. a basket of global currencies.

Fixed Income

Bond investors finally received some relief after what has felt like a never-ending rise in yields. 10-year U.S. Treasury yields hit 5.4% during October before falling sharply and ending the month closer to 4.9%. Investors rotated back toward the relative safety of government bonds as technology stocks weakened, growth concerns around AI infrastructure spending intensified, and credit spreads widened, all of which led to the underperformance of investment-grade corporate and high-yield bonds in both Canada and the U.S. relative to their government bond counterparts.

The Bank of Canada raised interest rates by 0.25% in October, its first hike since 2023, bringing the overnight rate to 2.50%. Policymakers cited persistent inflation risks, elevated energy prices and better-than-expected economic resilience. Importantly, they also indicated additional hikes remain possible. Meanwhile, south of the border, the U.S. Federal Reserve held rates steady at 3.75%-4.00%.

[10] The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.
[11] The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.
[12] The MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).
[13] The MSCI Emerging Markets Index captures mid- and large-cap representation across 27 Emerging Markets countries.

Despite the Bank of Canada's more hawkish posture, our fixed income team sees increasing opportunity within core duration bonds. Earlier this year, the prevailing narrative was that investors were operating in a "coupon-clipping" environment, where bond returns would be driven primarily by income generation. That's still part of the story, but duration is becoming more relevant again.

Markets are currently pricing roughly four additional Canadian rate hikes over the next year. Guardian Capital's Fixed Income Team view is that those expectations appear overly aggressive. Unless economic growth unexpectedly accelerates or inflation re-ignites meaningfully, our view is that we'll see fewer than four hikes. If that occurs, duration should provide a boon to portfolios as yields fall and bond prices rise.

The two dominant themes in October were yields in the medium- and longer-term segments in Canada and the U.S. coming down meaningfully, while credit spreads jumped back up to their 52-week highs. Again, this stemmed from risk-off sentiment based on AI hyperscaler concerns, leading people back into relatively safer asset classes.

As always, thank you for your attention and best of luck navigating what looks set to be an interesting end to 2026.



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Published: November 10, 2026