GLOBAL MARKET SQUARE

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Two continents, two moods: Europe holds firm on a steady ECB as good earnings meet a higher bar and U.S. markets falter

October 29, 2026

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The U.S. and European stock markets split on Thursday. Europe closed higher after the European Central Bank held its policy rate steady and Christine Lagarde said she will leave the presidency in February, early. In New York, investors sold Alphabet and Caterpillar hard, and the Nasdaq Composite fell 1.4% while the S&P 500 gave up 0.3%, ending a three-day run. The Dow Jones Industrial Average dropped 132 points. The September inflation reading added to the caution, a day after the Federal Reserve held rates at 3.75% to 4%.

U.S. Markets

Wall Street spent Thursday digesting the results of some of its largest companies, and the verdict was harsh. The Nasdaq Composite fell 1.38%, or 365.12 points, to 26,184.72. The S&P 500 lost 0.30%, or 23.59 points, to 7,720.39, after three straight gains, and the Dow dropped 132.54 points, or 0.25%, to 52,342.56.

Alphabet was the biggest drag, falling 13% after it missed analysts' targets for third-quarter adjusted earnings per share and revenue. Free cash flow was negative $9.07 billion, and the company held its full-year capital spending plan at $195 billion to $205 billion. Investors are asking when that spending will pay off.

In the Dow, Caterpillar fell 9% even though it beat third-quarter revenue and earnings estimates. Revenue rose 17% to $20.68 billion and net income rose 43% to $3.29 billion. The shortfall came from construction industry sales, which came in slightly below estimates, enough to sour the reaction. Eli Lilly also reported third-quarter revenue up 39% to $24.39 billion, net income up 16% to $6.45 billion, and earnings per share of $7.22 [Lilly stock move].

Microsoft gave up an early gain and traded about 1% lower. Azure growth lifted fiscal first-quarter earnings and revenue above estimates, but its capital spending commitment came in lighter than expected. That hurt specialist data center providers that depend on that spending, and CoreWeave fell 3% while Nebius fell more than 5%. The AI trade took more damage. The iShares Semiconductor ETF (SOXX) fell more than 2% and the Roundhill Memory ETF (DRAM) more than 4%, after a recovery earlier in the week following a rough October.

Our own gauges split. The Birling Capital US Bank Index rose 1.17% to 9,450.04, while the Birling Capital Puerto Rico Stock Index slipped 0.17% to 4,909.85. In bonds, the 10-year Treasury note closed at 4.98% and the 2-year at 4.61%.

The macro backdrop was no help. On Wednesday, the Fed left the federal funds target at 3.75% to 4%, as widely expected after September's quarter-point increase. Policymakers said inflation remains elevated and that they want more information before the next step. The September PCE report showed accelerating price increases, with the monthly figure in line with forecasts and the annual rate just below estimates.

European Markets

European equities closed higher on Thursday. The European Central Bank held its policy rate at 2.5%, and investors took the pause as a sign of steadiness while the Federal Reserve and U.S. inflation keep

global yields under pressure. Asia ended mixed overnight, so the advance in Europe was home-grown rather than imported.
The bigger story was in Frankfurt. Christine Lagarde said she will leave the ECB presidency in February, about nine months ahead of schedule, and the bank signaled that a rate increase is possible in December. Her reason is France. She wants room to speak on matters beyond monetary policy as the country heads toward its April presidential election, and she cannot stay neutral on the strain in its public finances. French long-term borrowing costs touched 5% last week, the highest since 2002. The race for her chair is already taking shape. The Dutch back former central bank governor Klaas Knot, and Spain backs Pablo Hernández de Cos of the Bank for International Settlements. Berenberg's Holger Schmieding argues the change at the top leaves ECB policy and its handling of French risk unchanged. We would add that the timing is awkward: a central bank facing renewed inflation will spend the winter choosing a new leader.
Government bond yields eased, though the U.S. 10-year Treasury note held near 5%, a level that keeps pressure on equity valuations, especially in growth-oriented sectors. Investors appear willing to look past the leadership change for now. The DAX led, with a gain of more than 1%.
The three indexes we follow closed higher: Stoxx 600, up 5.29 points; FTSE 100, up 27.57 points; and DAX Index, up 348.73 points.

Capital spending under the microscope
Thursday's reaction showed how the market is judging the AI buildout. Alphabet offered faster growth but still faced selling, as rising spending and negative free cash flow overshadowed top-line strength. Microsoft showed that heavy investment and positive cash generation can coexist. The lesson is that growth alone no longer earns a premium. Investors want to see how capital spending turns into cash, and companies that cannot show that link will face tougher scrutiny as 2027 budgets grower.

Energy Markets
Oil prices were little changed to slightly lower as diplomacy resumed in the Middle East. WTI crude traded near $102 a barrel and Brent near $116 [confirm settlements]. Reports said Vice President JD Vance had contacted Iranian officials, and Iran's foreign minister said Tehran remains open to talks. President Trump confirmed there was communication but was not sure it would succeed. Traders also noted reports that U.S. officials have told regional allies to prepare for possible military action after the November midterm elections, which limits how much of a relief rally the talks can support.
On the supply side, Europe plans to release 42 million barrels from its strategic reserves over the next three months, with a significant share in diesel, to ease supply pressure and energy costs. Even so, crude is up about 14% over the past month and roughly 70% from a year ago, and it remains the market's most sensitive geopolitical gauge. A durable decline would ease the inflation pressure that is keeping the Fed on guard.

Economic & Policy Outlook
The advance estimate showed third-quarter real GDP growing at a 3.4% annualized rate, above the 3.1% forecast and up from 2.2% in the second quarter. Real final sales to private domestic purchasers, which strip out volatile categories to capture underlying private demand, rose 4.9%, the fastest pace since 2017 outside the post-pandemic rebound. Consumer spending and private investment both contributed meaningfully.
The inflation figures were less welcome. Headline PCE prices rose 0.5% in September and 3.6% from a year earlier, while core PCE rose 0.3% for the month and 3.1% over twelve months. After yesterday's decision to hold rates steady, the combination of strong growth and elevated inflation reinforces expectations for another rate increase in December.

The Final Word
The economy is growing faster than expected while inflation remains too high, leaving little room for the Fed to ease and keeping December in play. For equity investors, the leadership test has shifted from who is spending the most on AI to who is earning the most from it.

Corporate Earnings Parade:

- **Caterpillar, Inc. (CAT):** reported third-quarter 2026 earnings with revenue of $20.68 billion, up 17%; net income of $3.28 billion, up 43%; and Earnings per share of $7.20. CAT has a Stock Price Objective of $926.91
- **Eli Lilly & Co. (LLY): r**eported third-quarter 2026 earnings with revenue of $24.39 billion, up 39%; net income of $6.45 billion, up 16%; and Earnings per share of $7.22. Eli Lilly has a Stock Price Objective of $1,333.32

Economic Update:

- **US Real GDP QoQ:** rose to 3.40%, compared to 2.20% last quarter.
- **US PCE Price Index YoY:** rose to 3.65%, compared to 3.44% last month.
- **US Core PCE Price Index YoY:** rose to 3.12%, compared to 3.03% last month.
- **US Initial Claims for Unemployment Insurance:** fell to 194,000, down from 195,000 last week, a change of -0.51%.
- **US 4-Week Moving Average of Initial Claims for Unemployment Insurance:** fell to 196,750, down from 198,000 last week.
- **US Personal Income MoM:** fell to 0.20%, compared to 0.30% last month.
- **US Personal Spending MoM:** fell to 0.51%, compared to 0.87% last month.
- **US Total Vehicle Sales:** fell to 16.38 million, down from 16.98 million last month, down -3.54%.
- **30 Year Mortgage Rate:** fell to 7.24%, compared to 7.32% last week.

Eurozone Summary:

- **Stoxx 600:** Closed at 649.43, up 5.29 points, or 0.82%.
- **FTSE 100:** Closed at 10,722.07, up 27.57 points, or 0.26%.
- **DAX Index:** Closed at 26,052.75, up 348.73 points, or 1.36%

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 52,342.56, down 132.54 points, or 0.25%.
- **S&P 500:** closed at 7,720.39, down 23.59 points, or 0.30%.
- **Nasdaq Composite:** closed at 26,184.72, down 365.12 points, or 1.38%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,909.85, down 8.17 points, or 0.17%.
- **Birling Capital US Bank Index:** closed at 9,450.04, up 109.04 points, or 1.17%.
- **US Treasury 10-year note:** closed at 4.98%.
- **US Treasury 2-year note:** closed at 4.61%.

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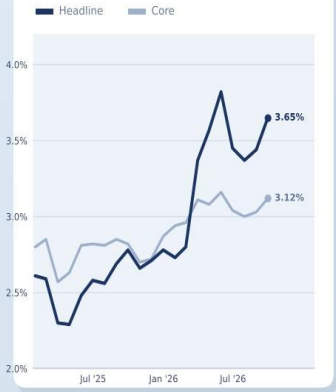
Inflation, income and consumer activity

Thursday, October 29, 2026

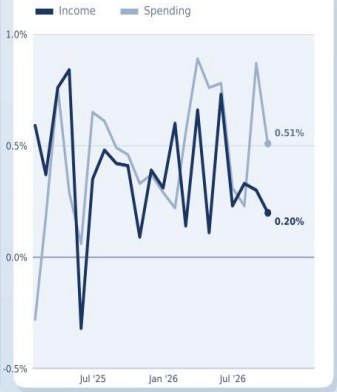
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PCE price index, YoY	Core PCE, YoY	Personal spending, MoM	Personal income, MoM	30-year mortgage rate	Total vehicle sales
3.65%	3.12%	0.51%	0.20%	7.24%	16.38M
▲ +0.21 pts	▲ +0.09 pts	▼ −0.36 pts	▼ −0.10 pts	▼ −0.08 pts	▼ −0.60M (−3.5%)
vs Aug 2026 · Sep 2026	vs Aug 2026 · Sep 2026	vs Aug 2026 · Sep 2026	vs Aug 2026 · Sep 2026	vs Oct 22 · Oct 29, 2026	vs Aug 2026 · Sep 2026

US PCE Price Index, YoY

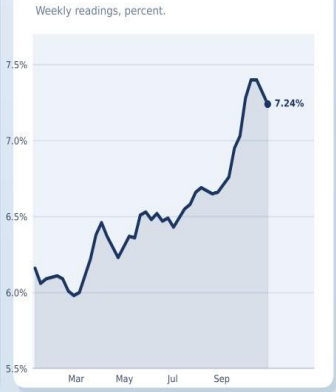


US Personal Spending And Income



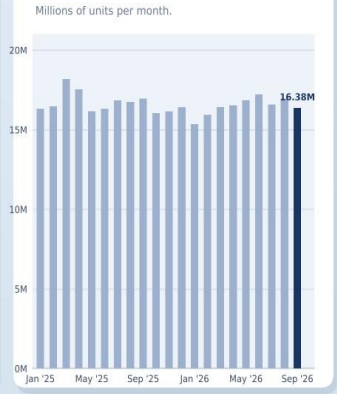
30-Year Mortgage Rate

Weekly readings, percent.



US Total Vehicle Sales

Millions of units per month.



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Growth and labor market

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Real GDP growth, annualized	Initial jobless claims	Initial claims, 4-week average
3.4%	194,000	196,750
▲ +1.2 pts	▼ −1,000 (−0.5%)	▼ −1,250 (−0.6%)
vs Q2 2026 · Q3 2026	vs Oct 17 · Week ending Oct 24, 2026	vs Oct 17 · Week ending Oct 24, 2026

US Real GDP, Quarter Over Quarter

Annualized growth rate, percent. The latest quarter is highlighted.



US Initial Claims For Unemployment Insurance



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European indexes close

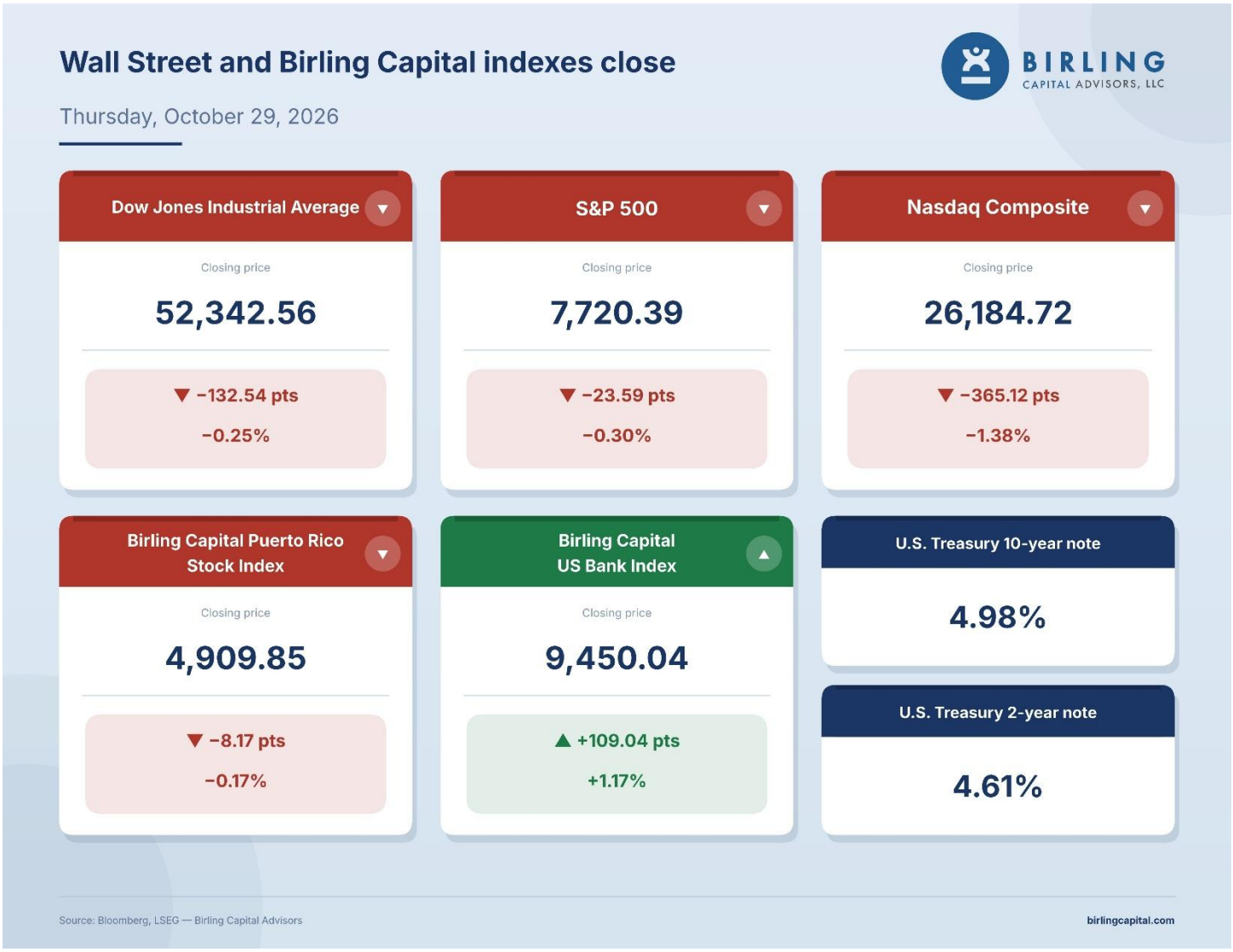
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Stoxx 600 ▲	FTSE 100 ▲	DAX Index ▲
Closing price	Closing price	Closing price
649.43	10,722.07	26,052.75
▲ +5.29 pts	▲ +27.57 pts	▲ +348.73 pts
+0.82%	+0.26%	+1.36%

Source: Bloomberg, LSEG — Birling Capital Advisors

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