THE SHORT AND LONG

Weekly Bulletin

Volatility Amid Strong Fundamentals Creates Potential Entry Point

OCTOBER 27, 2026

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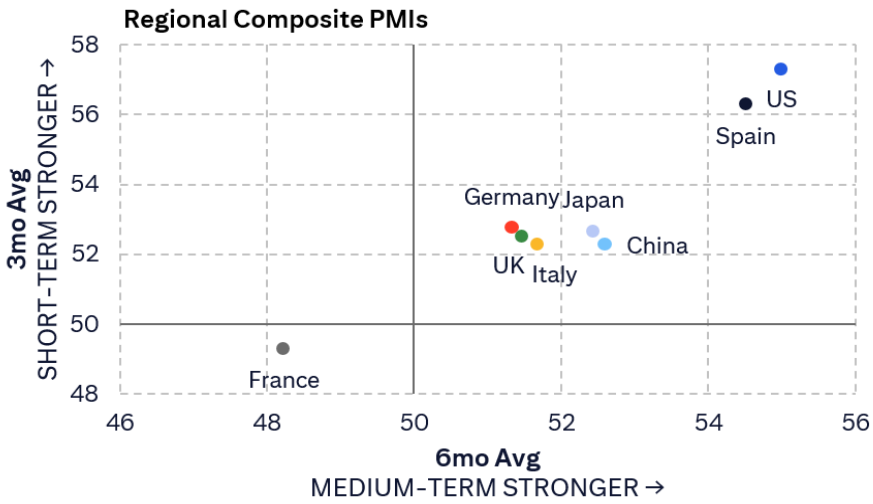
Purchasing managers' surveys and high-frequency data point to continued solid growth, particularly in the U.S. We believe the macro and fundamental economic picture is supportive of equity risk.

Forecasts of slower price growth and less policy tightening than markets price in appear to rest on hope rather than data. Despite the recent rally, we believe the fundamental backdrop for bond duration remains poor.

Positioning and sentiment, rather than fundamentals, drove recent market moves. An S&P 500 sentiment and positioning indicator we reference recorded a second consecutive weekly fear reading, a backdrop that has historically preceded strong equity returns.

THIS WEEK IN CHARTS

FIGURE 1: Most regions seeing momentum in PMI readings, U.S. at highs last seen coming out of Covid.



Source: Haver Analytics as of October 27, 2026. Purchasing Managers' Indices (PMI) are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

LOOKING CLOSER

Preliminary October Purchasing Managers' Index (PMI) readings point to growth in most major economies with the U.S. leading the pack.

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GROWTH HOLDS FIRM AS THE U.S. PULLS AWAY

Recent economic data paints a picture of solid global growth. October flash Purchasing Managers' Indices (PMIs) showed the economies of the U.S., Spain, Japan, China, Germany, the UK, and Italy in expansion territory on both a three- and six-month basis. The U.S. leads the pack, posting composite readings at levels we last saw as the economy emerged from the COVID pandemic[1].

High-frequency U.S. data reinforce the message. Jobless claims remain low, and private payroll data look healthy. Redbook same-store sales rose 9% year over year as of mid-October, a pace that suggests consumers continue to spend through inflationary pressures.

In our view, this macro backdrop remains supportive of equity risk. Earnings season has delivered strong results so far, and about 40% of the S&P 500 companies report this week, which should sharpen our read on fundamentals.

Bottom line: Purchasing managers' surveys and high-frequency data point to continued solid growth, particularly in the U.S. We believe the macro and fundamental picture continues to support our stance.

INFLATION DATA UNDERCUTS THE DISINFLATION NARRATIVE

Our view that inflation will remain sticky sits outside consensus. Many forecasters expect price growth to moderate on two assumptions: a fading tariff impulse and lower energy prices. We view both as speculative. If tariffs ease and energy prices fall, the backdrop may improve, but the incoming data align far more closely with our view that inflation remains elevated.

Business surveys show little relief. PMI output price measures remain broadly elevated across major western economies. Several regions saw modest improvement in September and October, but not the U.S., where output prices reached a four-year high.

Price pressures also run broad and deep. As of September, 44% of the Consumer Price Index (CPI) components we track rose at annualized rates of 5% or more, one of the highest readings in four years. Producer price data show pressure building in the pipeline: Unprocessed goods prices rose nearly 25% year over year, processed goods 8.5%, and finished goods 4%. We expect those upstream pressures to push finished goods prices higher.

Markets lean strongly toward a U.S. Federal Reserve (Fed) hold this week, pricing roughly 10% odds of a hike. We do not predict a hike, but we believe the case for one is strong. More broadly, we expect central banks to keep raising rates while inflation remains above target.

Bonds have rallied, but we believe the fundamental backdrop for duration remains poor. Strong growth, high inflation, and fiscal concerns all weigh on the case for longer-dated bonds.

Bottom line: Forecasts of slower price growth and less policy tightening than markets price appear to rest on hope rather than data. Despite the recent rally, we believe the fundamental backdrop for bond duration remains poor.

FEAR READINGS SET A CONSTRUCTIVE STAGE FOR EQUITIES

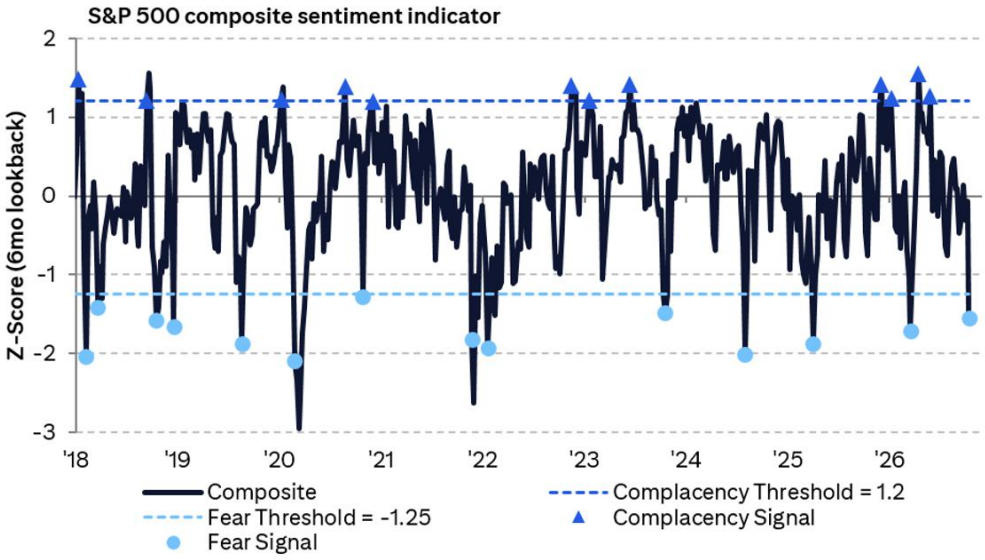
Our investment framework rests on four pillars: macroeconomic, fundamentals, positioning and sentiment, and valuation. While macro and fundamentals look solid, positioning and sentiment have driven much of the recent market action.

The Treasury rally offers a clear example. As equities moved into risk-off mode, the traditional stock-bond correlation reasserted itself, and yields fell. Speculative positioning in 10-year Treasury futures and options sat at bearish extremes, so short covering likely exaggerated the move.

On the equity side, an S&P 500 sentiment and positioning indicator we reference recorded a second consecutive weekly fear reading on October 23 (Figure 2). These readings have historically identified entry points for the S&P 500. The signal has proven most compelling 18-to-20 weeks out; and at 19 weeks, stocks have risen more than 90% of the time with an average return of 10%.

[1] The COVID-19 pandemic began in late 2019 and officially transitioned out of the global emergency phase in May 2023.

FIGURE 2: Another fear reading historically identifies compelling entry points for the S&P 500



This shows the z-score of the S&P 500 composite sentiment indicator since 2018. A z-score measures how many standard deviations a data point is from the mean and is commonly used to assess financial health.

Source: Bloomberg as of October 23, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

Seasonality adds context. Four of nine episodes of consecutive fear readings occurred in October, and three of those four October episodes came in midterm election years.

Despite some skittishness in markets, we believe the data backs our current stance. In our view, that skittishness has created a sentiment backdrop that has historically been followed by strong returns.

Bottom line: Positioning and sentiment, rather than fundamentals, drove recent market moves. A sentiment indicator we reference recorded a second consecutive weekly fear reading, a backdrop that has historically preceded strong equity returns.

	WHAT HAPPENED	WHAT'S AHEAD
ECONOMIC DATA	**U.S.** U.S. Flash PMI data for October was released, results indicate continued expansion. Housing Starts and Pending Home Sales data on Tuesday gave weak readings on the U.S. housing market. The indicators were down Y/Y by –7.4% and –12.6%, respectively, with continued elevated mortgage rates as a key factor weighing on construction and home-buying.	**U.S.** U.S. GDP Annualized Q/Q for Q3 PCE Price Index for September Conference Board Consumer Confidence for October
	Global Japanese headline CPI increased 2.1% Y/Y in September led by hotel, water, and food prices and exceeding the BoJ target of 2%. This compares to a 1.9% Y/Y increase in August. Chinese growth accelerated to 4.5% in Q3 driven by strong exports, particularly in goods related to the AI investment cycle. The government is targeting 4.5-5% growth for 2026. UK headline CPI hit an 11-month high of 3.5% Y/Y driven by energy costs, exceeding consensus estimates by 10bp.	**Global** Taiwan Q3 GDP advance estimate Japan Tokyo CPI for October China PMI for October Eurozone Q3 GDP advance estimate
POLICY	**U.S.** President Trump indicated openness to a joint meeting with Chinese Premier Xi Jinping and Russian leader Vladimir Putin to discuss ending Russia's war in Ukraine. Early voting data shows Democratic turnout running ahead of its 2022 pace by more than Republican turnout in key states.	**U.S.** FOMC Meeting (Oct. 27-28)
	Global U.S. Special Envoy Steve Witkoff met with Vladimir Putin on 10/21; Putin reportedly agreed to resume peace talks with the U.S. and Ukraine. ECB Governing Council member Kazaks commented more policy tightening may be needed but remains cautious. BoE policymaker Megan Greene expressed that energy price-driven inflation risks are higher than previously estimated by the BoE.	**Global** Israel election EU and Canada to cement plans for Canada to associate EU membership at a gathering on October 29-30. ECB meeting BoJ meeting UK budget release China's 5th Plenum of the 20th CPC Central Committee
MARKETS	**U.S.** An S&P 500 sentiment and positioning indicator registered "Fear" on October 16. Analysis shows that average and median returns for the S&P 500 exceed normal outcomes across every horizon.	**U.S.** Week of 10/26 will have the highest volume of S&P 500 company earnings, with ~40% of S&P 500 reporting.
	Global French bond yields continue to climb amid political and social turmoil, reaching levels not seen since 2002. Nvidia's Jensen Huang's Berlin speech touted expanded partnerships with European manufacturers and startups.	**Global** We continue to monitor a rotation in markets out of AI and into defensive sectors (Healthcare, Consumer Staples). A majority of S&P 500 names made new 20-day highs this week, while the broader index lagged.

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RELATED READING

RSVP: CIO U.S. Midterm Election Webcast | November 5, 2026

Join the Chief Investment Office (CIO) for a conversation on how the U.S. midterm elections could shape the economy and markets. Head of Government Affairs **Candi Wolff** will join our team at 11:00 a.m. ET on November 5 to discuss what comes next.

Click here to register.

October 20, 2026 | Strong Earnings and High Yields Support a Balanced Approach

In last week's Bulletin, we looked at why yields across much of fixed income sit near 15-year highs, offering compelling carry and a larger buffer against rising rates. We also detailed how early Q3 earnings point to another quarter of strong profit growth, supported by AI-related demand and resilient consumers.

October 7, 2026 | The Short and Long: Q4 Macro Investment View

Citi Wealth's quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report delivers a breakdown of inflation, AI investment cycle, role of gold, natural resources, and portfolio resilience, and lessons from our key investment calls throughout 2026.

September 24, 2026 | Global Investment Council

The Citi Wealth Global Investment Council met September 24, 2026, and increased allocations to U.S. equities, Japanese equities, and the cybersecurity theme, funded by a reduction in the overweight to U.S. securitized fixed income. The Council also reviewed and endorsed the portfolio's drift, remaining comfortable with the market-driven increase in equity exposure relative to fixed income.

September 24, 2026 | The Short and Long Podcast

In the fourth episode, "Semiconductors: Navigating the AI Supercycle," host and Chief Investment Officer of Citi Wealth Kate Moore speaks with Adam Parker, Founder of Trivariate Research, and Ankur Crawford, Portfolio Manager at Alger, on why we may be only three-to-four years into a ten-year AI investment cycle, how "AI touch" is reshaping the way investors think about sector exposure and key risks that could slow the buildout. Watch on **YouTube**, **Apple**, or **Spotify** and subscribe for future episodes.

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High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
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Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
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Weekly Bulletin