

WEEKLY ECONOMIC UPDATE OCT. 26, 2026

Markets were mixed last week, though persistent pressure on technology stocks made the week feel more challenging for some investors.

The Standard & Poor's 500 Index lost 0.47 percent, while the Nasdaq Composite Index declined 0.71 percent. The Dow Jones Industrial Average gained 0.41 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, fell 1.58 percent.^{1,2}

Tech Leads Both Ways

The week began with an AI-led rebound as investors looked ahead to a heavy slate of corporate earnings reports. On Tuesday, investors cheered the first wave of corporate results and falling oil prices, which helped boost investor sentiment.

Tech swung back into favor midweek as investors applauded reports that two of the largest megacap tech firms formed a committee to evaluate a potential merger, lifting all three averages. The Nasdaq gained more than 1 percent, while the S&P posted its third straight winning close.^{3,4}

Boomerang Effect

But the boomerang started to come back on Thursday as AI debt worries returned while oil prices rose again amid fresh geopolitical concerns. The Nasdaq slid more than 2½ percent over the session, while the S&P fell more than 1 percent, posting their steepest daily declines since June and July, respectively.⁵

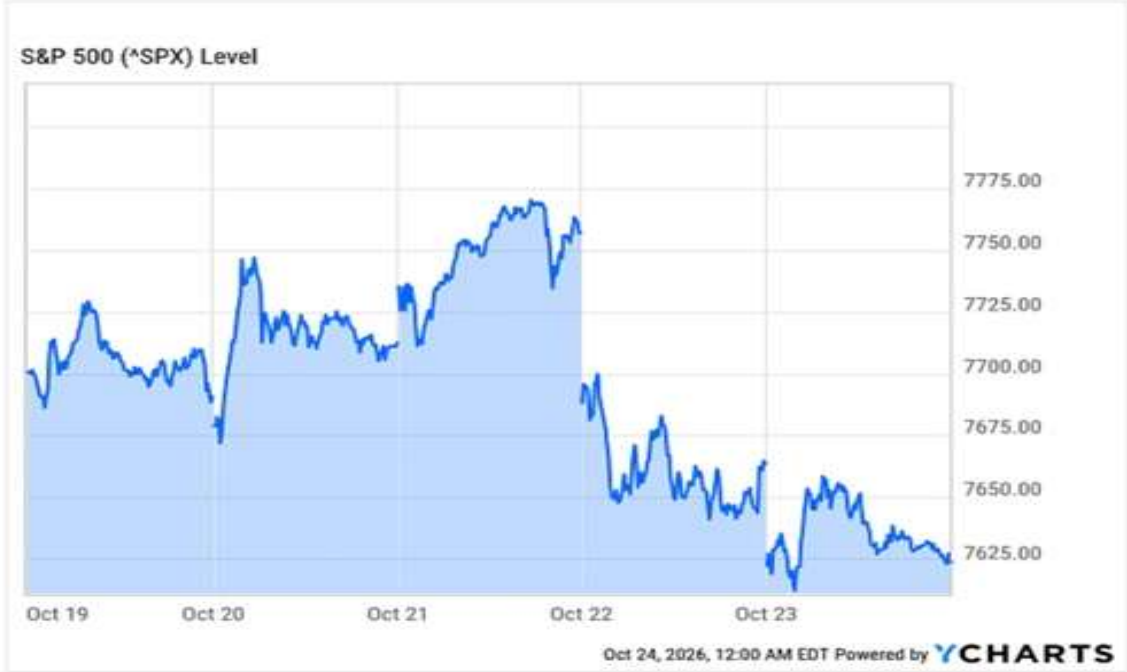
The week wrapped up with technology stocks again in the spotlight due to persistent AI-related worries. The Dow closed Friday down more than 1 percent, while the S&P 500 and Nasdaq were under pressure into the close.⁶

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	1.97%	11.36%	15.28%	62.80%
S&P 500	-1.24%	12.98%	15.72%	81.07%
MSCI EAFE	-2.37%	9.30%	13.16%	53.97%
Nasdaq Composite	-4.52%	12.42%	15.05%	78.77%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 10/23/26	5.00%	5.11% 4.71% 4.01%	-2.15% ▼ 6.16% ▲ 24.69% ▲

Housing Watch

With everything going on last week, the housing market didn't get much coverage. But there were some important housing developments.

First, housing starts fell 5.2 percent in September over the prior month, below expectations for a 2 percent rise. It was the second straight month when economists expected starts to rise, and instead they fell, and the third consecutive month of declines.⁷

Meanwhile, pending home sales fell to their lowest level on record in September in part due to an increase in mortgage rates.⁸

This Week: Key Economic Data

Tuesday: Durable Goods. S&P Cotality Case-Shiller Home Price Index. New Home Sales. Consumer Confidence (Conference Board). Federal Open Market Committee (FOMC) Meeting, Day 1.

Wednesday: Trade Balance in Goods. Wholesale Inventories. Retail Inventories. FOMC Meeting, Day 2 / Fed Interest Rate Decision.

Thursday: Gross Domestic Product (GDP). Weekly Jobless Claims. Personal Consumption Expenditures (PCE) Index.

Friday: Employment Cost Index.

Quote of the Week



“When you want to help people, you tell them the truth. When you want to help yourself, you tell them what they want to hear.”

– Thomas Sowell

Of Note



Private credit provides a source of corporate lending that is extended outside of the banking system and is not subject to the same level of regulatory controls imposed on banks. Private credit funds have grown dramatically over the past decade, largely funded by institutional investors but increasingly also by individual investors. However, some private credit funds have come under stress in recent months, especially those with significant exposure to software companies, and many continue to face substantial withdrawals. This experience has raised questions about whether the boom in private credit was overextended and underlines the risks that putting money with private credit funds may pose to individual investors. It has also highlighted concerns about whether the surge in private credit in recent years may be a source of stress for the broader financial system comparable to the fallout from the collapse of the

mortgage-backed securities market before the 2008 global financial crisis.

Private credit helps to fill a particular niche in corporate finance by providing debt financing mainly to riskier middle-tier companies that have not gone public. Typically, it takes the form of medium-term floating rate loans (of 5-8 years duration) extended directly to businesses by asset management companies that are not subject to the strict capital and regulatory requirements facing commercial banks. The loans are extended at a relatively high interest rate to compensate for the greater risks involved, while also including covenants (e.g. restrictions on borrower leverage and dividend payments to other investors) to protect the lender against downside risk. For firms, private credit can provide access to debt financing that they would otherwise have difficulty obtaining, as well as a more tailored approach, including funding flexibility in times of stress to mitigate bankruptcy risk. Private credit may be particularly useful to meet borrowing needs of firms with limited physical infrastructure, heavy reliance on new but unproven ideas, and human capital that can walk out the door. In this way, such credit can support economic activity by bridging a financing gap for smaller, more innovative but riskier firms.

Private credit is typically funded by investors willing to lock up a portion of their resources for a number of years, to take advantage of higher expected returns and portfolio diversification benefits. Typically, the asset management company bundles together a package of such loans into a private credit fund that can be sold onto investors. Most funding is obtained from institutional investors such as insurance companies and pension funds, which tend to have long-term investing horizons and the capacity to exercise due diligence on the quality of the private credit fund's management and portfolio. Many funds also borrow from commercial banks

through revolving lines of credit to enhance total fund returns through leverage and protect fund liquidity in case of a surge in withdrawals.

Private credit funds have sought in recent years to attract a greater number of individual investors, including by offering greater liquidity during the lifetime of the fund. A significant share of funding for private credit in the U.S. has been channeled through business development companies (BDCs) which were authorized by Congress in the 1980s to support financing for small to mid-sized companies, including by individual investors. Before 2020, most BDCs were closed-end funds, which allowed for redemptions only at the fund's fixed end date. Individual investors can buy and sell such funds on the market, but prices are typically volatile. By contrast, much of the recent expansion of BDCs has used a non-traded perpetual structure with "gates," which is designed to offer liquidity to investors at a more stable valuation while protecting the fund from excessive withdrawals. Specifically, such funds provide a quarterly window for investors to request a share redemption at net asset value subject to an overall cap applied at the discretion of the fund manager to limit withdrawals to protect the fund since most of its assets are tied up in longer-term, non-liquid lending. Back-up bank lines of credit also offer the fund some protection from heavy investor withdrawals, but unlike commercial banks, investors in private credit funds are not protected by deposit insurance or a lender-of-last-resort facility from a central bank.

Private credit has undergone significant stress in recent months. The soundness of some private credit loans began to be questioned after a couple of high-profile bankruptcies by borrowers in the fall of 2025, while overall returns in the sector began to seem less attractive as market interest rates came down. Concerns increased in early 2026 as investors worried that

software companies, which borrowed heavily in the private credit market, were vulnerable to being eclipsed by rapid advances in artificial intelligence technology. J.P. Morgan analysts estimate that aggregate loans to software companies account for 21 percent of BDC investments and exposure rises to 40 percent including other tech and business services sectors.

The IMF, the FSB and the Group of thirty have recently issued reports highlighting vulnerabilities from the private credit sector. A common concern is that the opaqueness of the information on the sector makes it difficult to gauge the extent of leverage involved and to assess the interconnections with other parts of the financial system that could propagate local problems more widely. Nevertheless, the overall risks to the financial system seem broadly contained since private credit is still largely funded by long-term institutional investors rather than retail investors, use of leverage (especially in the form of short-term borrowing) is limited for most funds, and bank exposure is still assessed to be small relative to bank capital and limited to the fund's most senior liabilities. Consequently, the risks thus far do not seem commensurate with those from the heavily leveraged mortgage-backed securities market that triggered the 2008 global financial crisis, when U.S. and European banks had to write down more than 41 trillion in toxic assets and bad loans, and several major banks failed or needed to be restructured. Nevertheless, the financial experts cautioned that the risks related to private credit are growing and need to be carefully priced and monitored to avoid further amplification of risk exposure of the financial system.

Private credit does not seem to be a systemic threat at this point, but individual investors do need to be cautious in investing in this market. Private credit funds are still facing stress as redemption requests have continued in the second quarter. So far, the episode seems relatively contained in terms of the scale

of mark downs and withdrawals, and senior officials and market leaders (including Treasury Secretary Scott Bessent and J.P. Morgan chief Jamie Dimon) have offered reassurance that they do not anticipate systemic problems. Still, it is hard to assess whether this episode marks a temporary dip that prompts a useful correction of lending standards and heightening of investor scrutiny of assets within this class or a more permanent inflection point in the market pointing to lower future growth and returns. One particular concern is that the semiliquid gated structure has not been fully tested under stress, and that a continuing slow-motion run on private credit funds could exhaust liquidity buffers and expose investors to greater losses. Given the question marks still hovering over this sector, it will be important to consider carefully how far to open small retail investors' access to private credit investments, balancing the potentially advantageous returns from such investments against the increased risks of loss involved for less sophisticated investors with lower wealth buffers and greater need to retain liquid access to their savings to deal with adverse shocks.¹⁰

Footnotes And Sources

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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