Earnings Trump All

Patten & Patten, Inc.

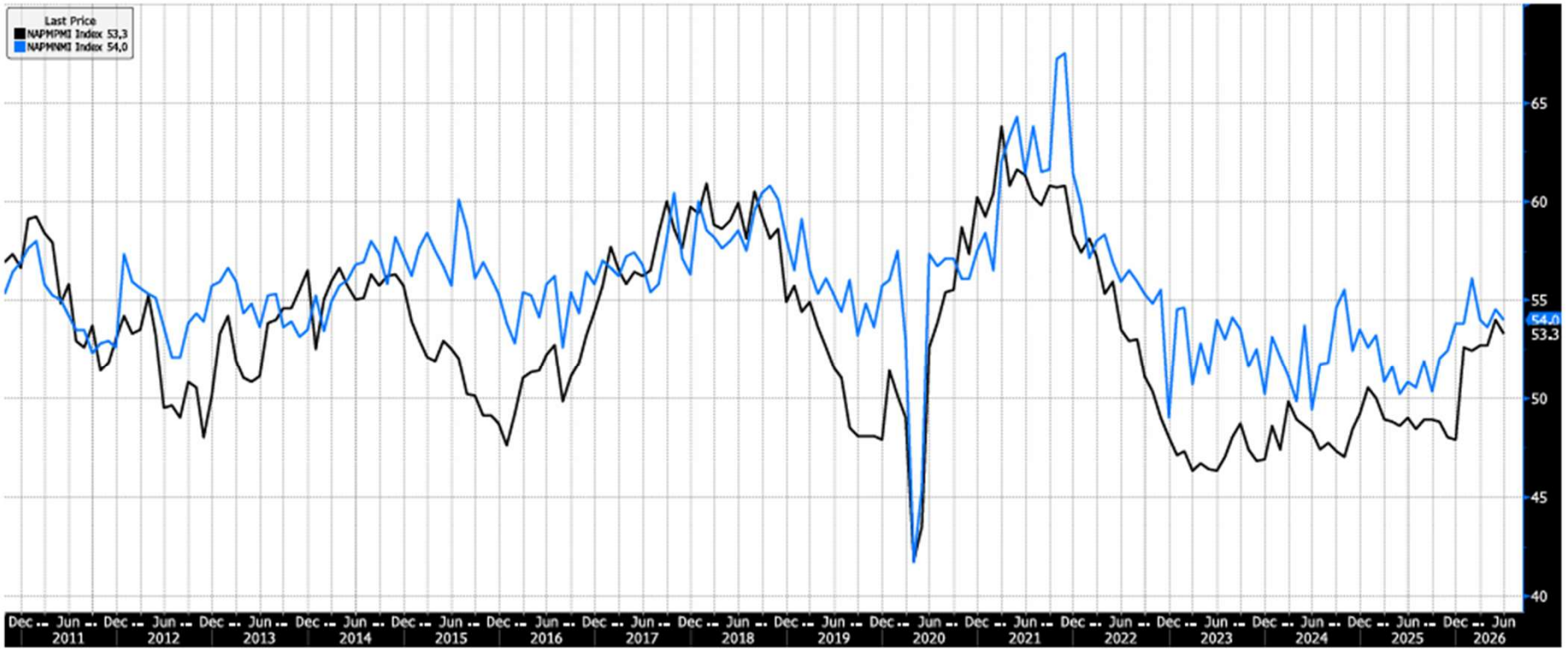
AFWA

November 12, 2026



Manufacturing and Services Still Expanding

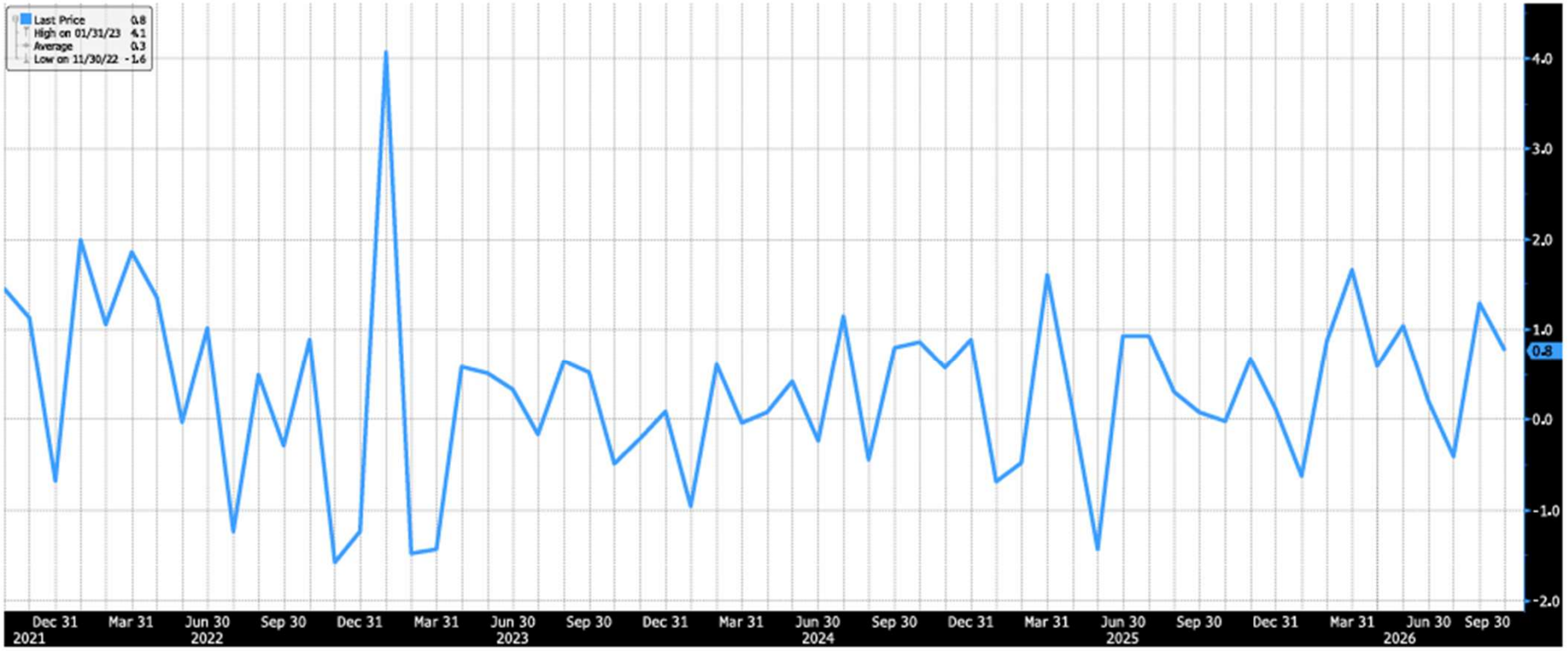
NAPMPMI Index (ISM Manufacturing PMI SA)
NAPMNMI Index (ISM Services PMI)



Source: Bloomberg

Retail Sales on Trend

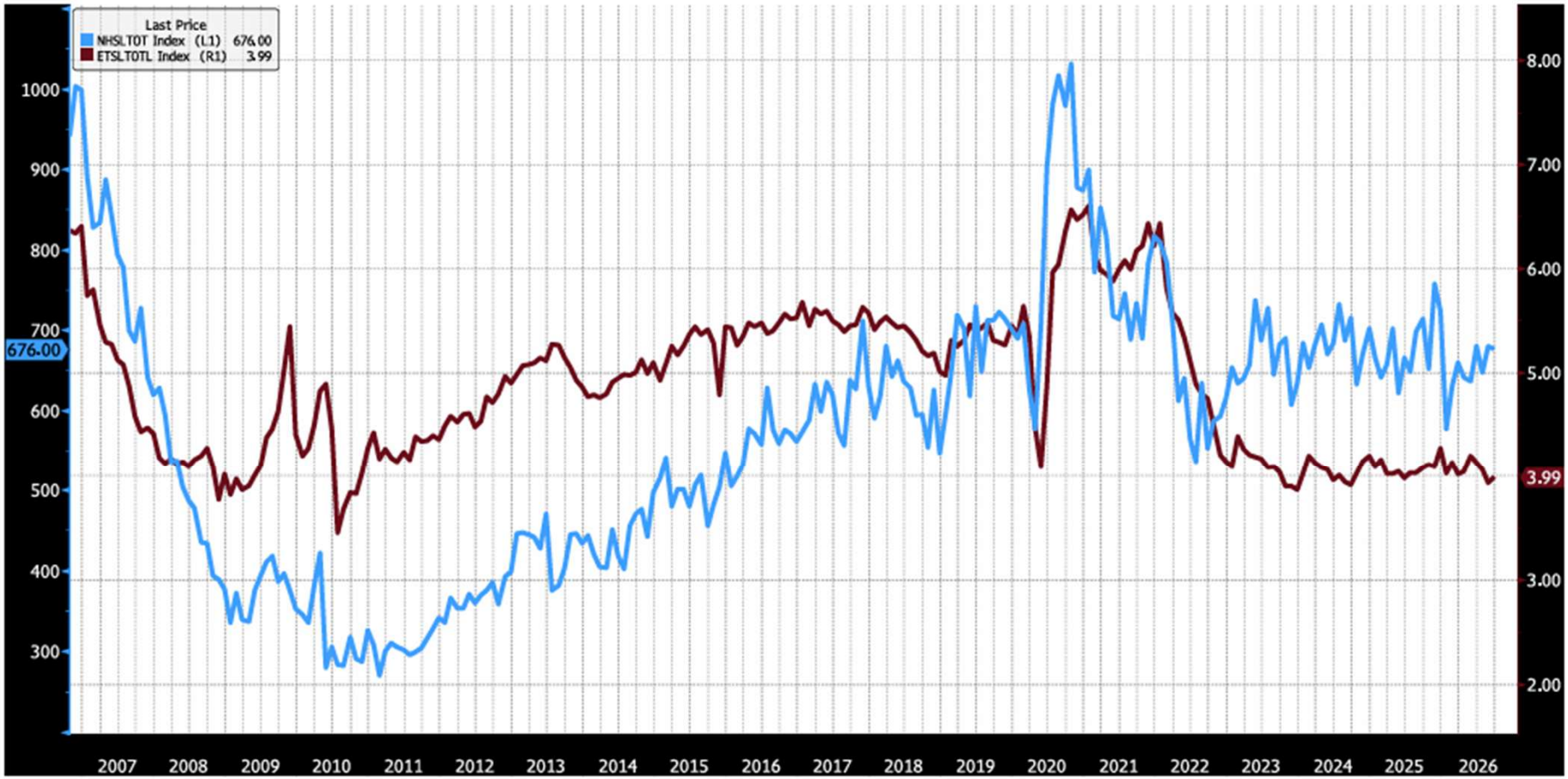
RSTAMOM Index (Adjusted Retail & Food Services Sales SA Total Monthly % Change)



Source: Bloomberg

Housing Sales Struggling with Higher Rates

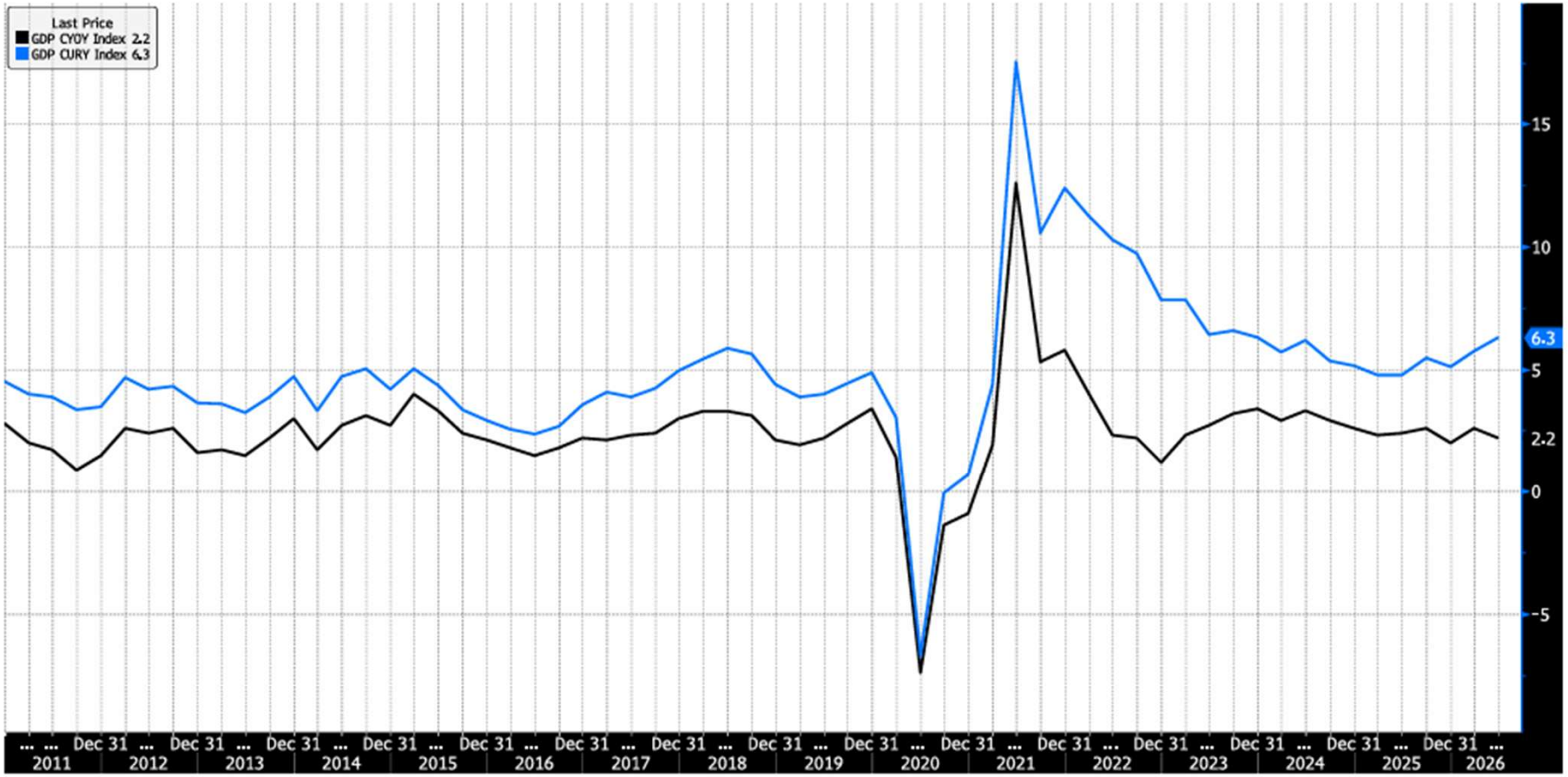
NHSLTOT Index (US New One Family Houses Sold Annual Total SAAR)
ETSLTOTL Index (US NAR Total Existing Homes Sales SAAR)



Source: Bloomberg

Stable GDP

GDP CYOY Index (GDP US Chained Dollars YoY SA)
GDP CURY Index (US GDP Nominal Dollars YoY SA)

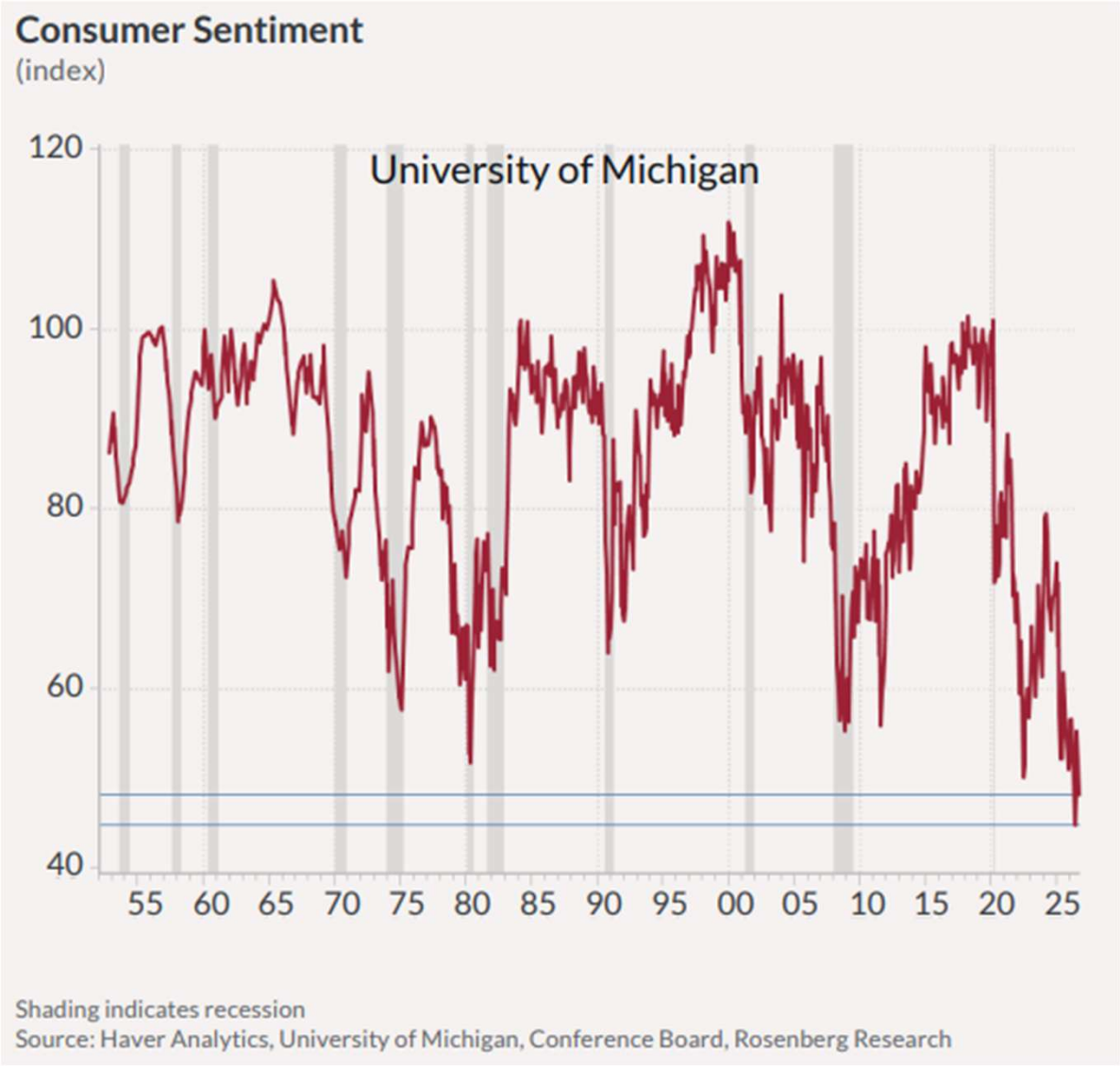


Source: Bloomberg

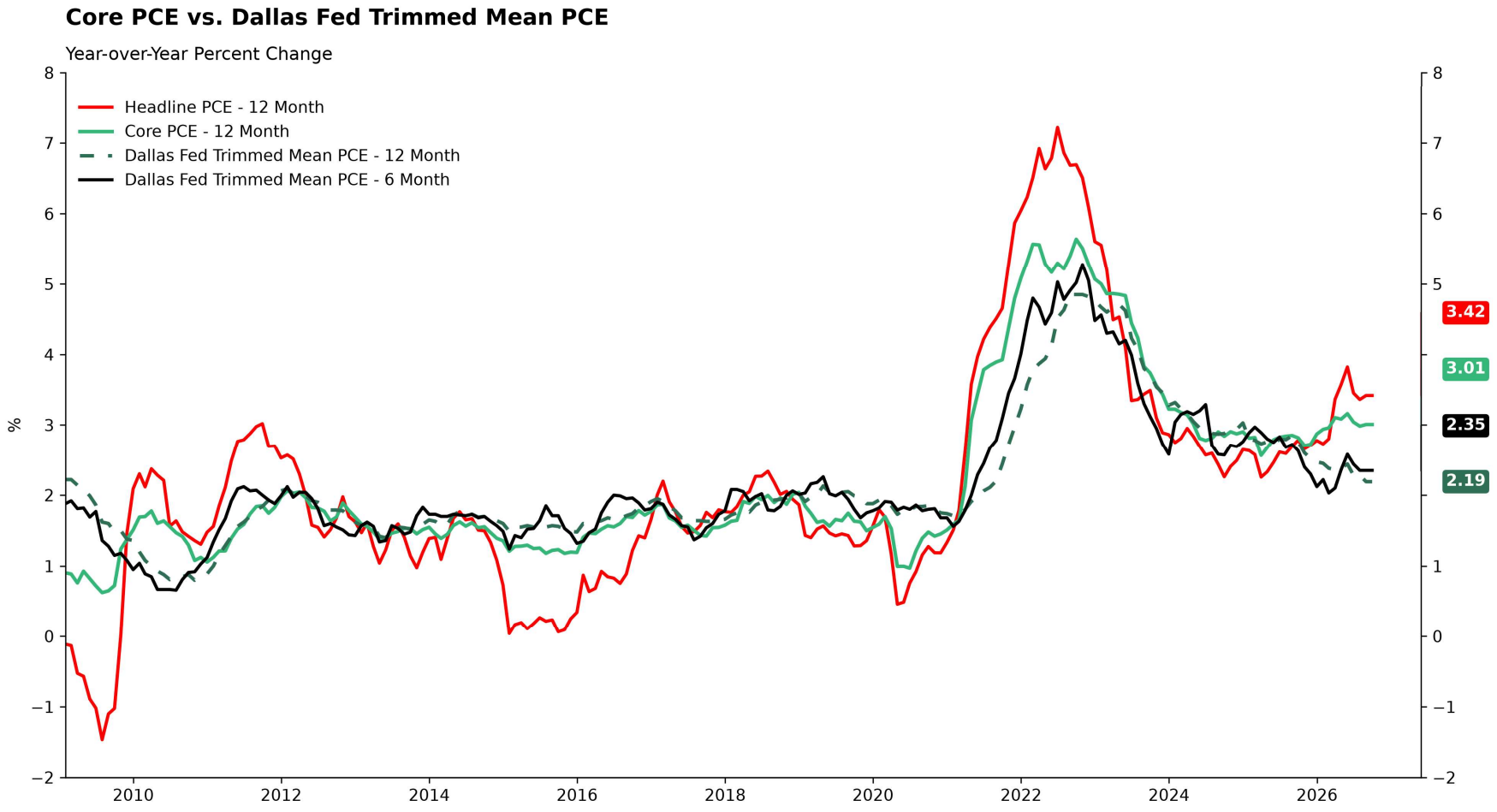


Source: Gemini

Feeling the Pinch

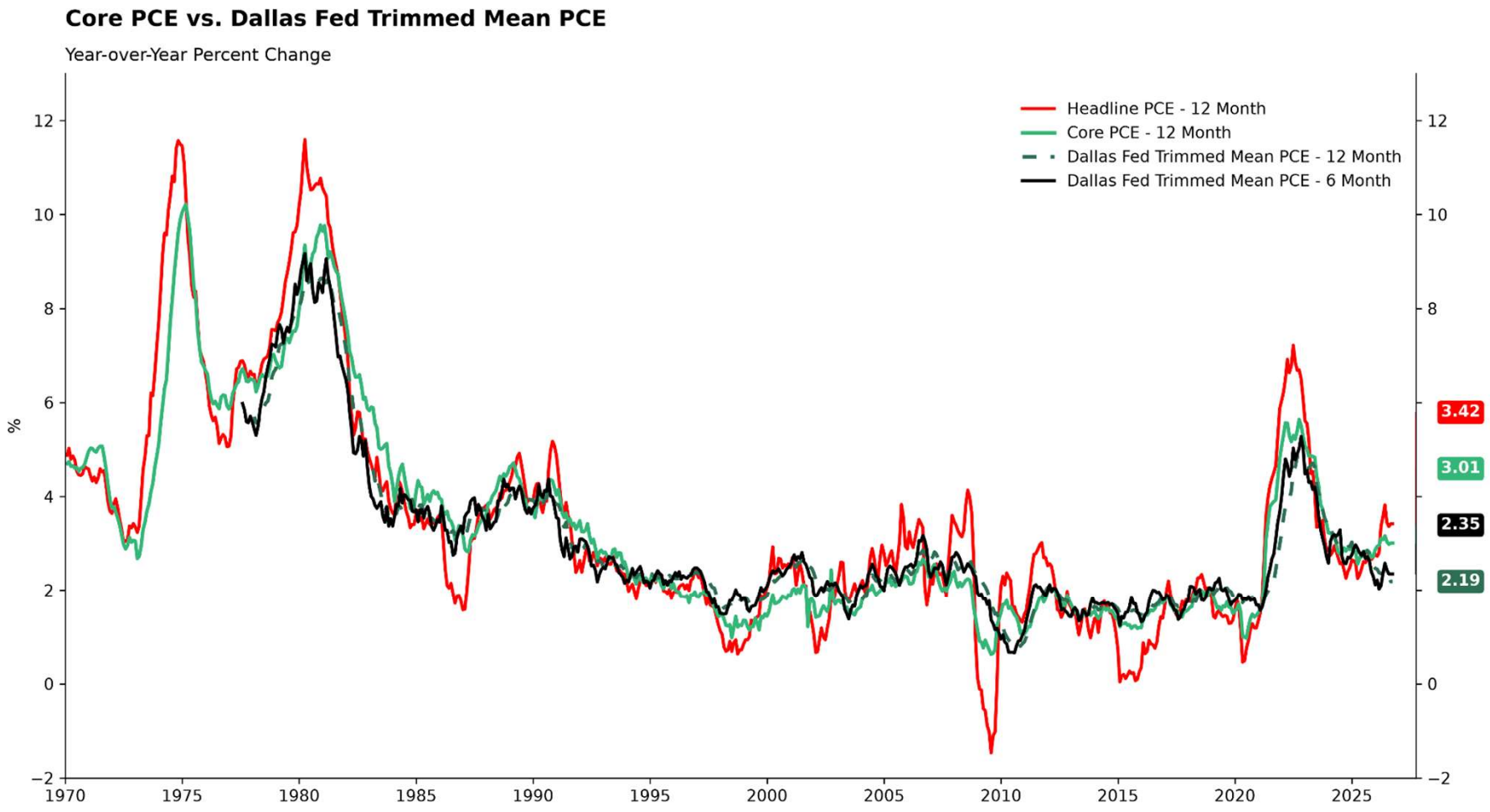


Inflation Measures



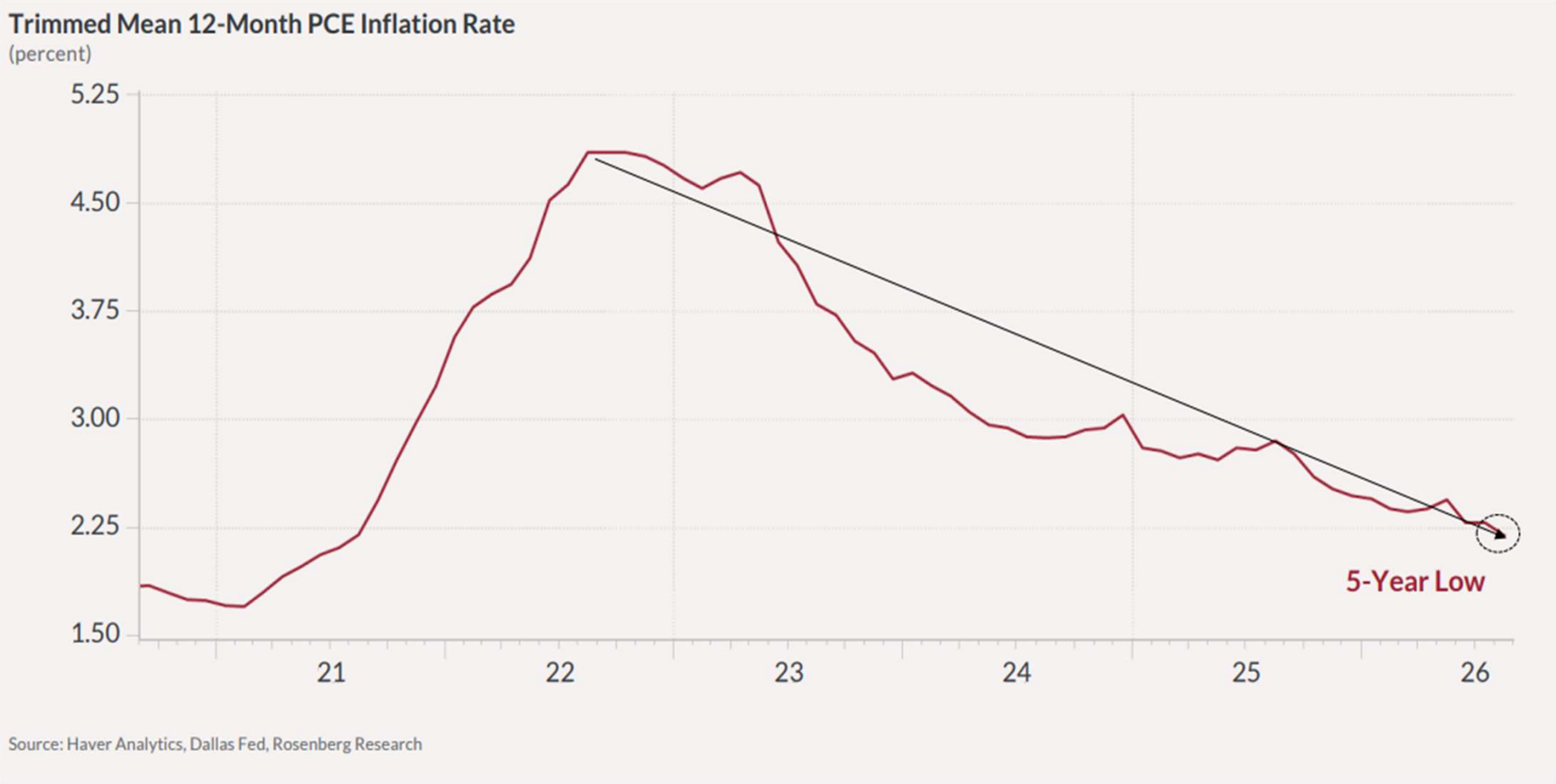
As of 10/16/2026 · Source: Bloomberg

Inflation Measures: A Different Perspective

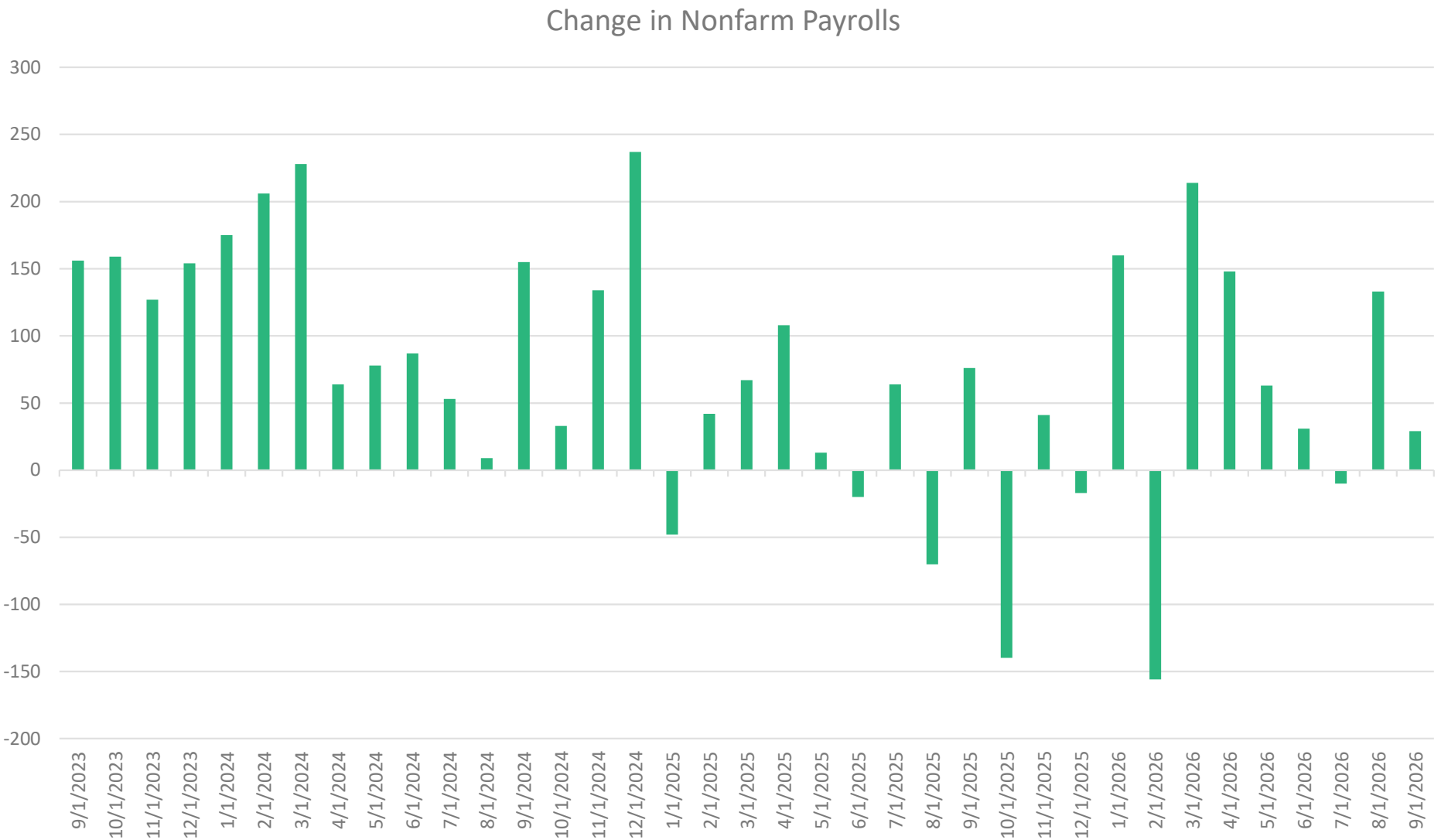


As of 10/22/2026 · Source: Bloomberg

Fed Chair Warsh's Favorite Inflation Metric

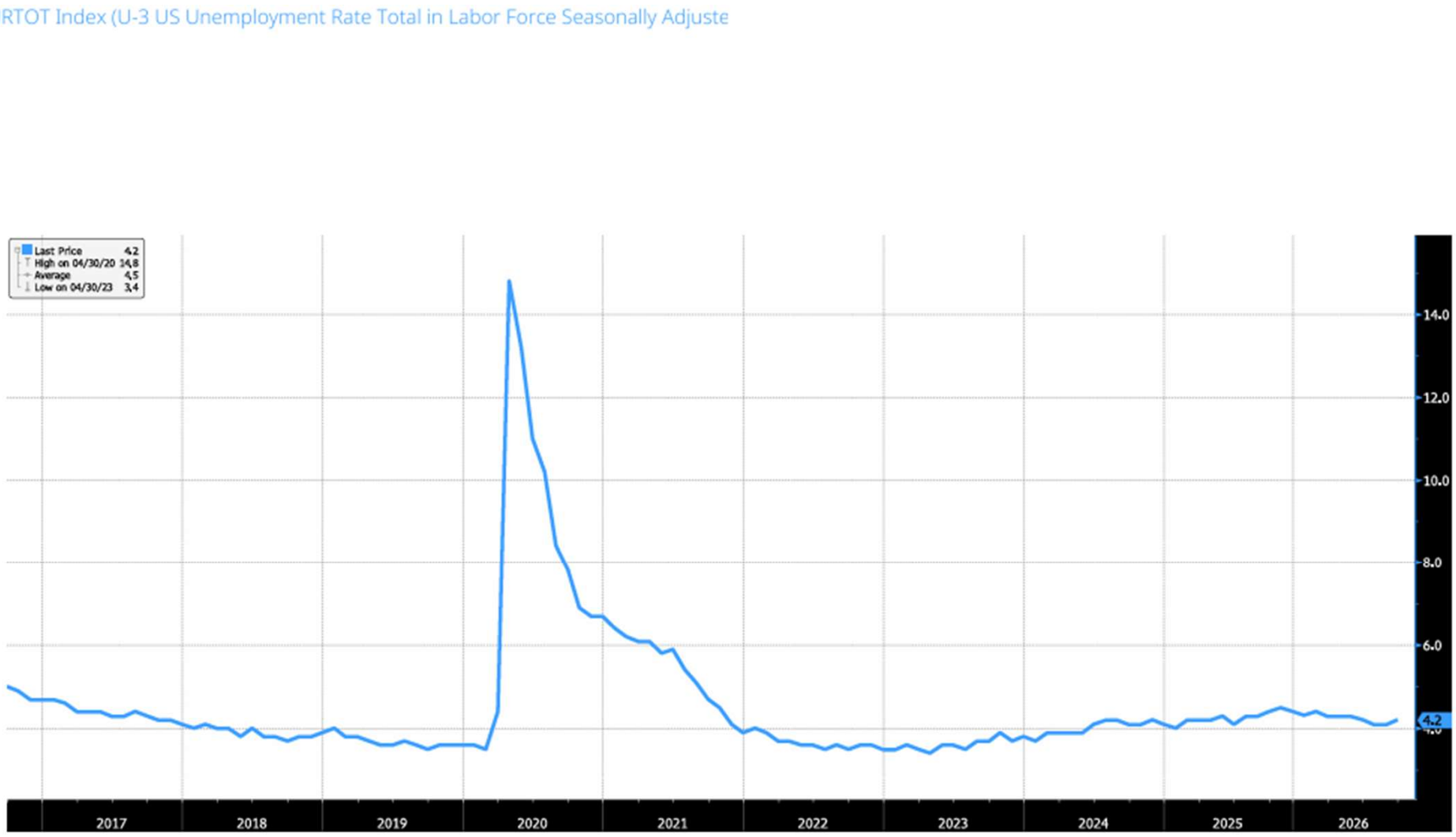


Choppy Job Creation



Source: Bloomberg

Unemployment Back to Trend



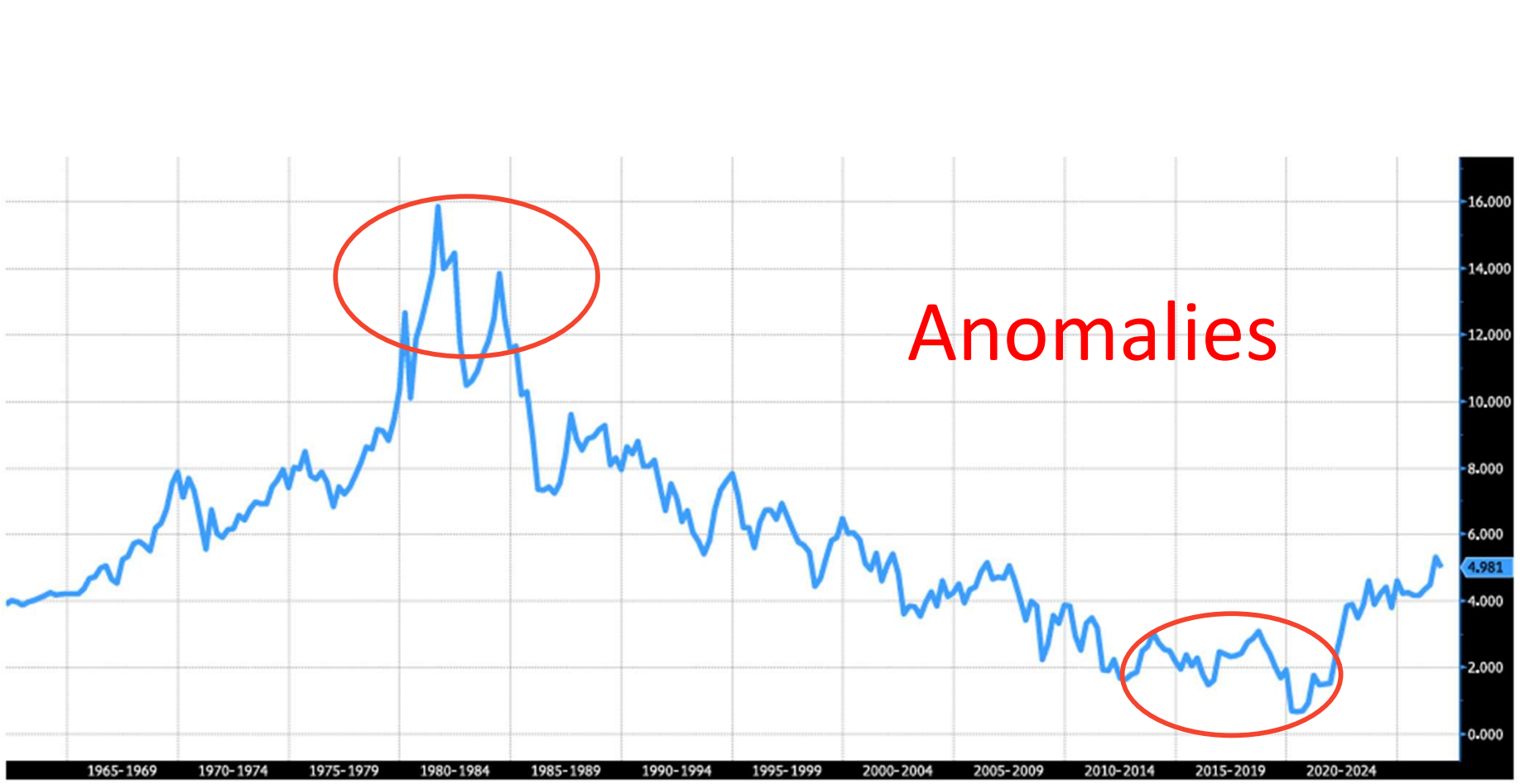
Source: Bloomberg

10yr US Treasury Yield: The Sky is Falling?



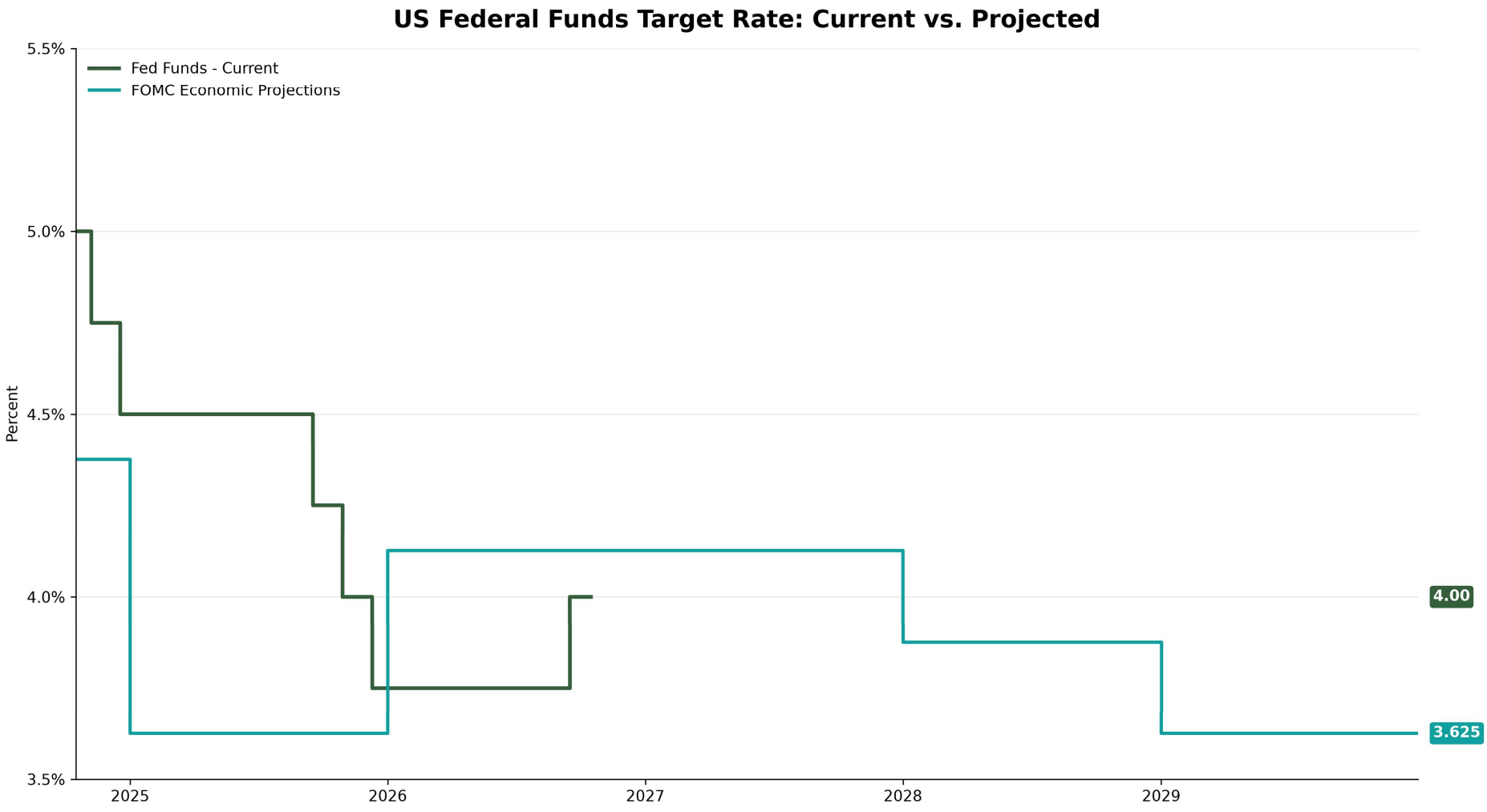
Source: Bloomberg

10yr US Treasury Yield: Normalizing?



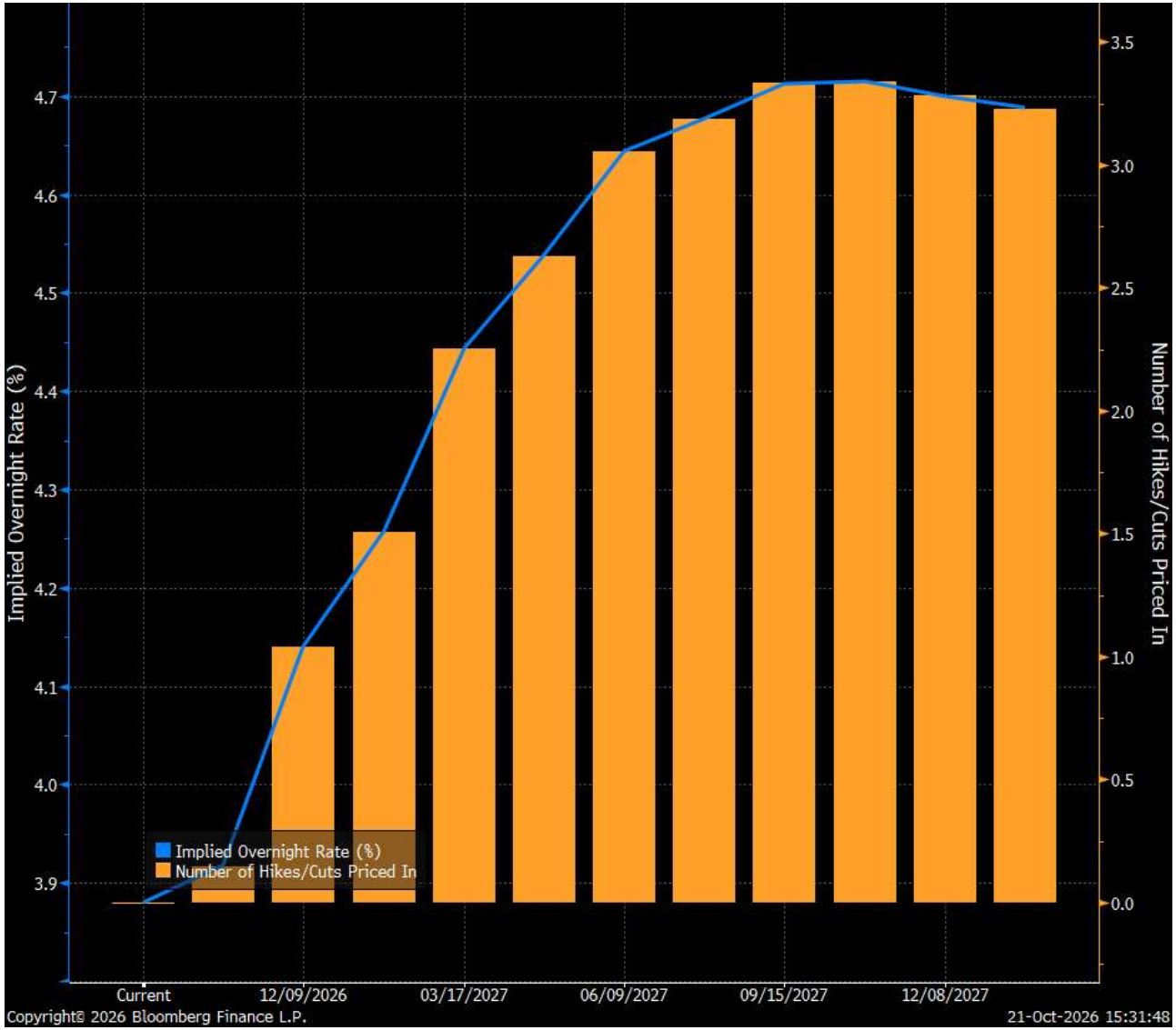
Source: Bloomberg

US Federal Funds Target Rate: Current vs. Projected

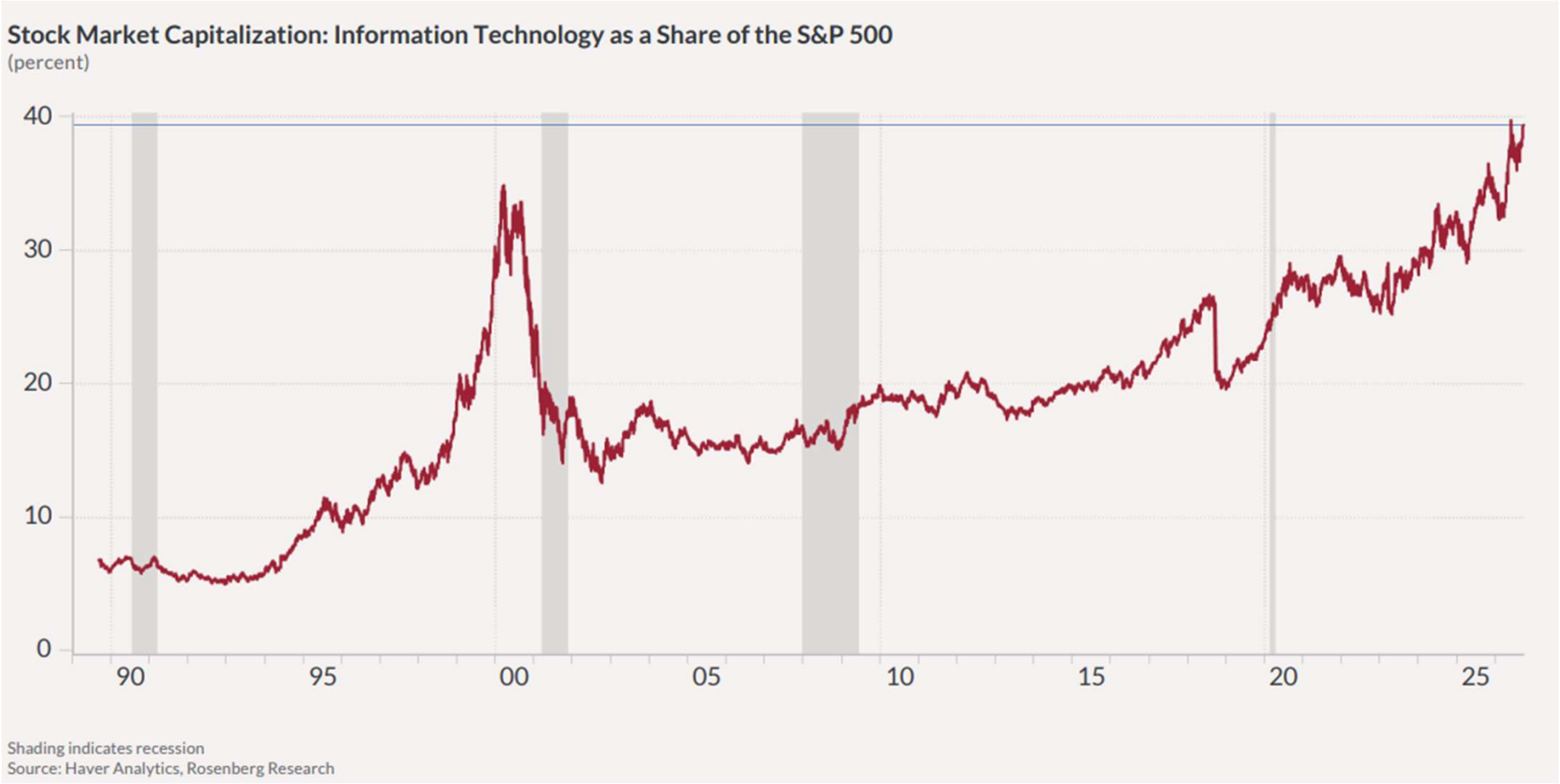


As of 10/16/2026 · Source: Bloomberg

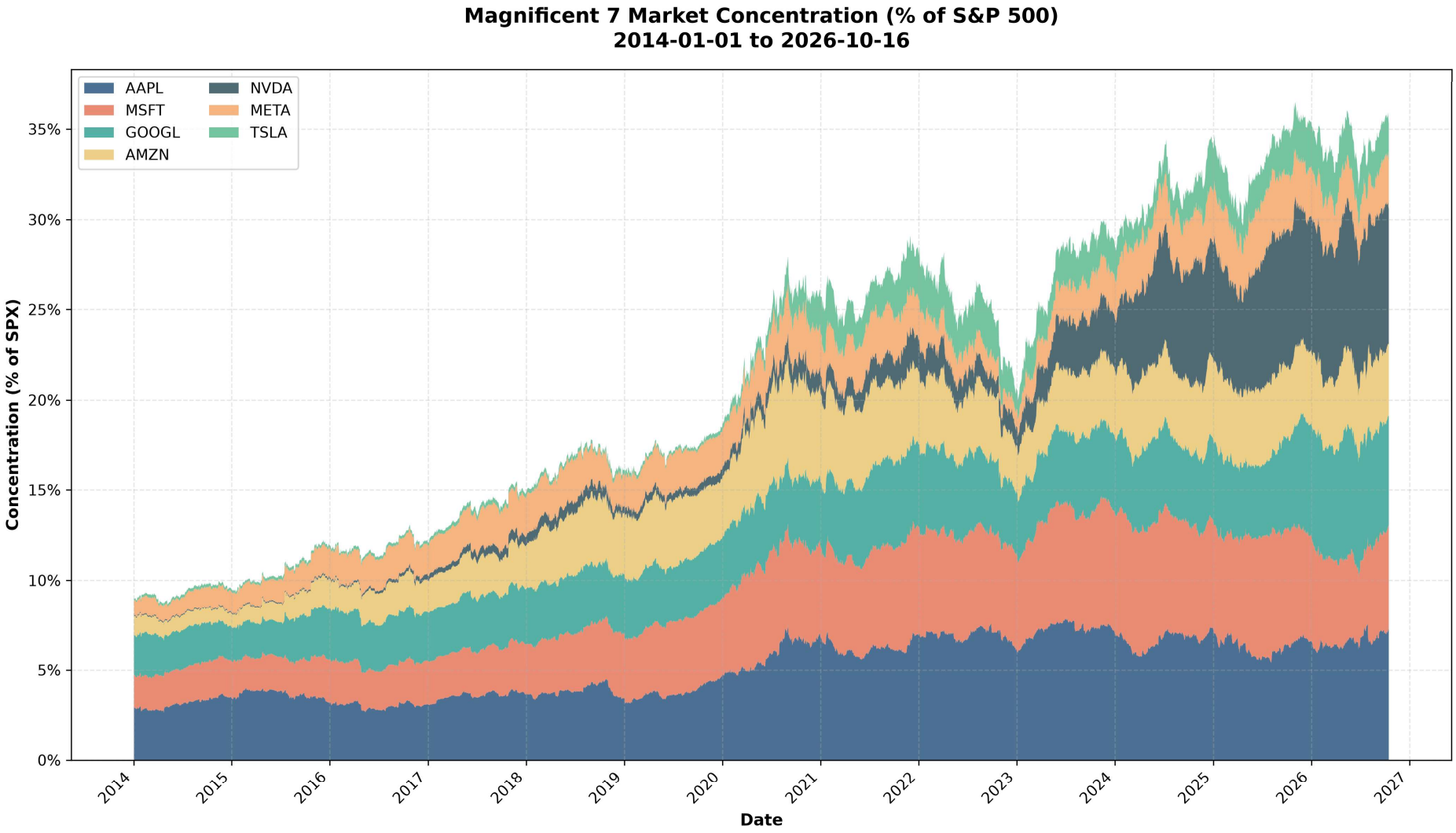
The Market Disagrees: Implied Overnight Rate



Market Concentration a Source of Worry?

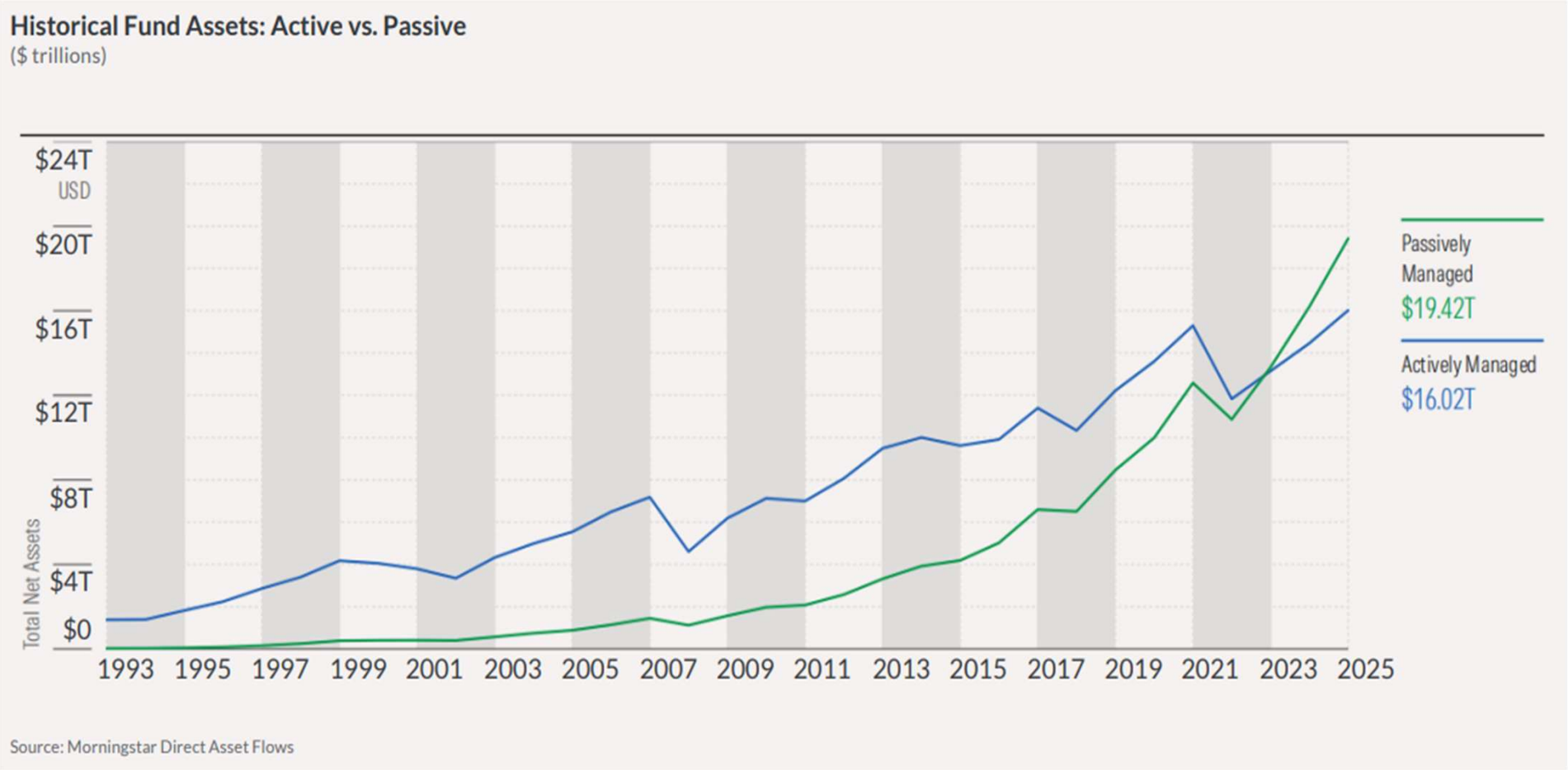


Historical Market Concentration



As of 10/16/2026 · Source: Bloomberg

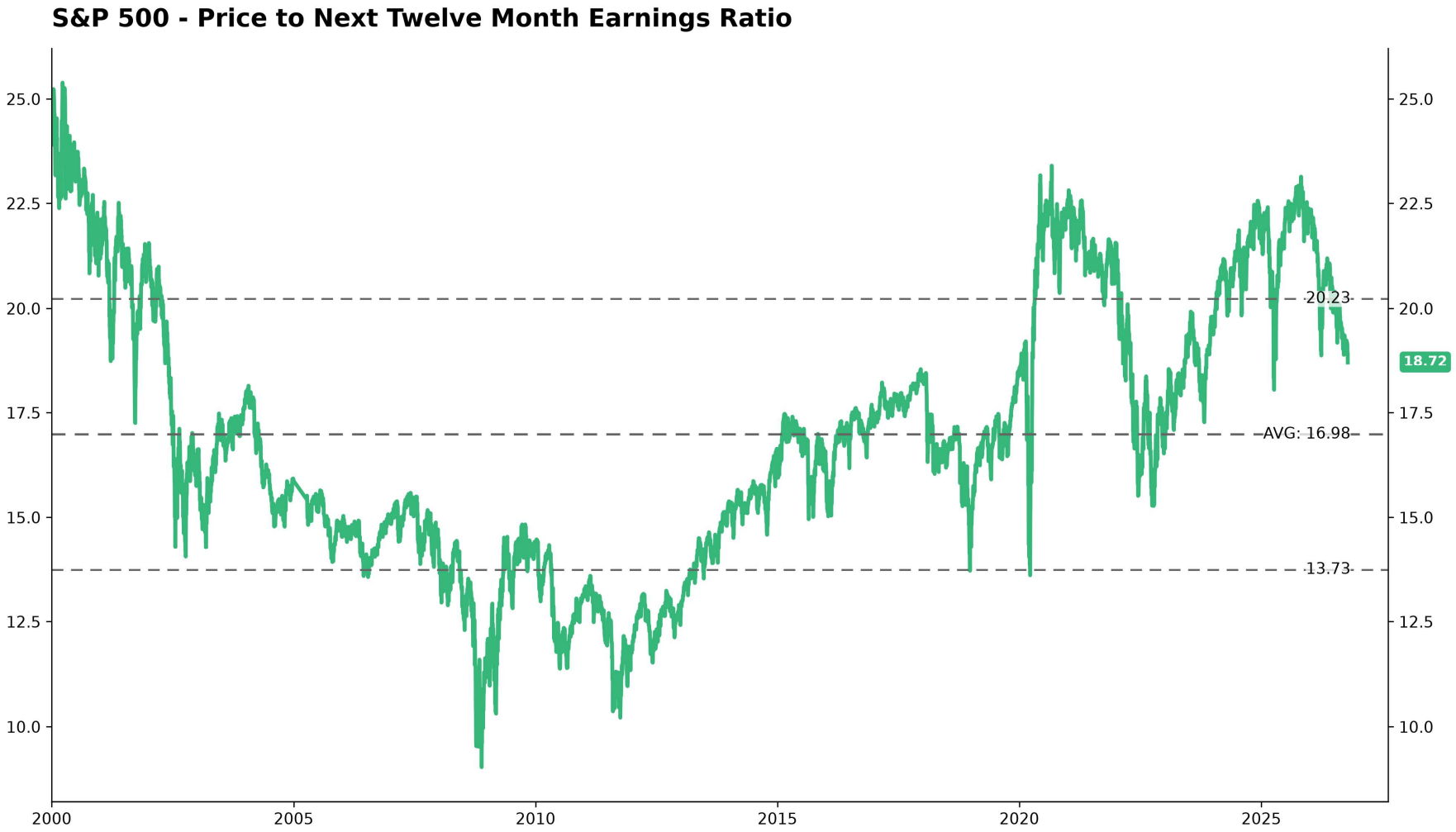
Passive Index Funds Now Exceed 50% of the Market



The Second Most Expensive Stock Market of all Time



S&P 500 Valuation



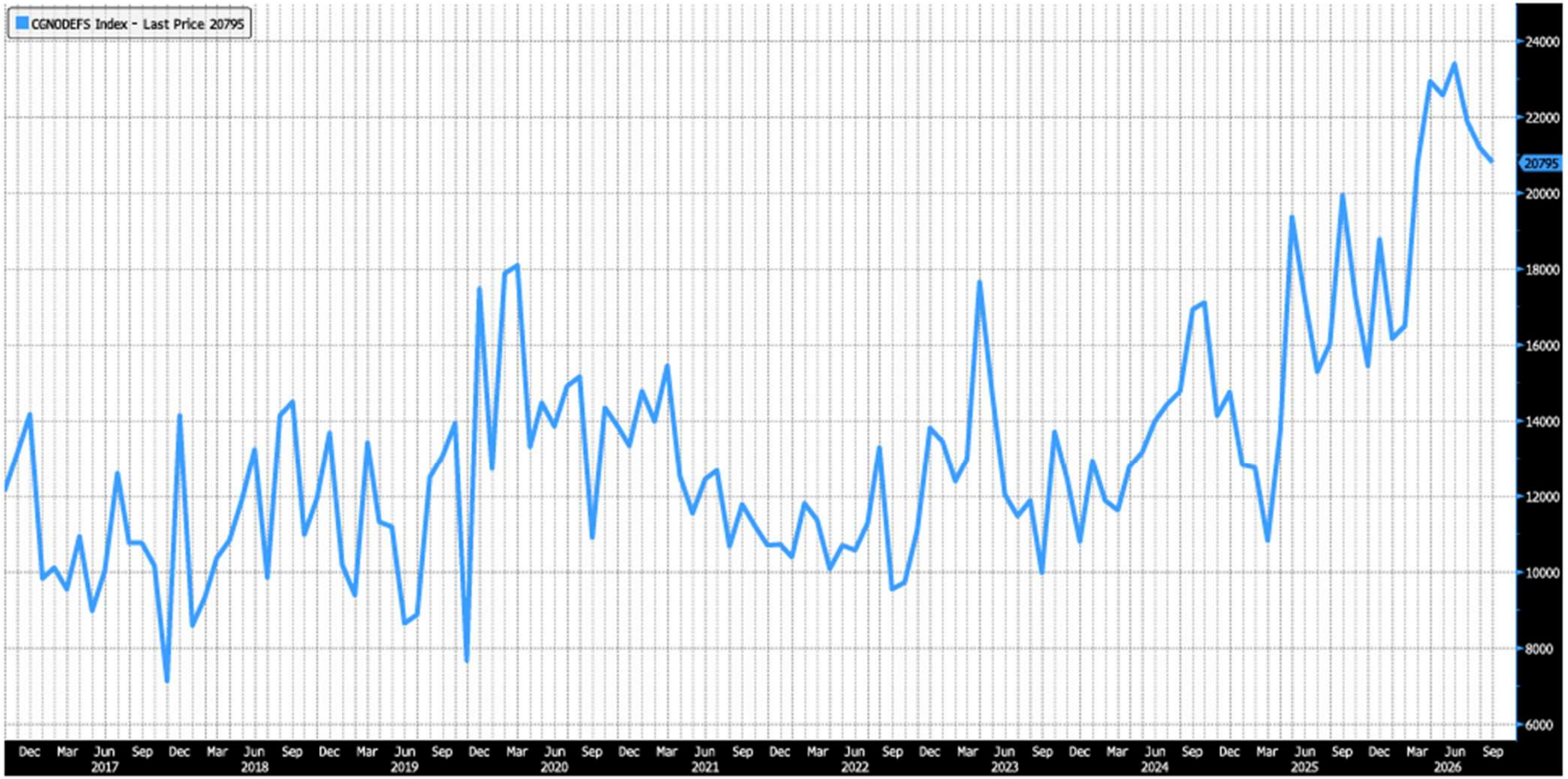
As of 10/16/2026 · Source: Bloomberg

Current Economic Drivers Thought to be Non-cyclical

1. OBBBA Tax Refunds/Cuts
2. Defense Stockpile Replenishment
3. AI Buildout

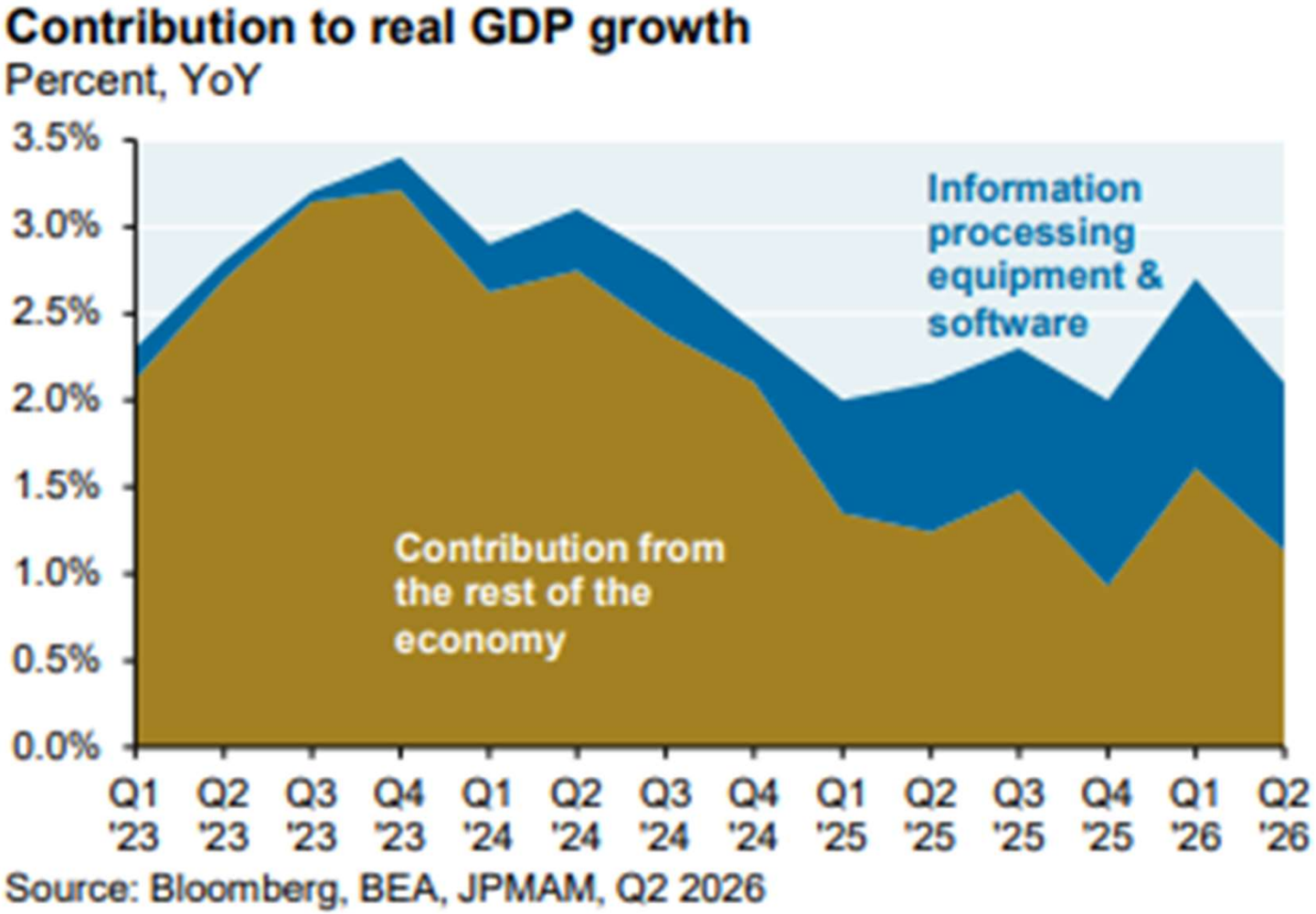
Defense Re-stocking

CGNODEFS Index (Capital Goods New Orders Defense SA)

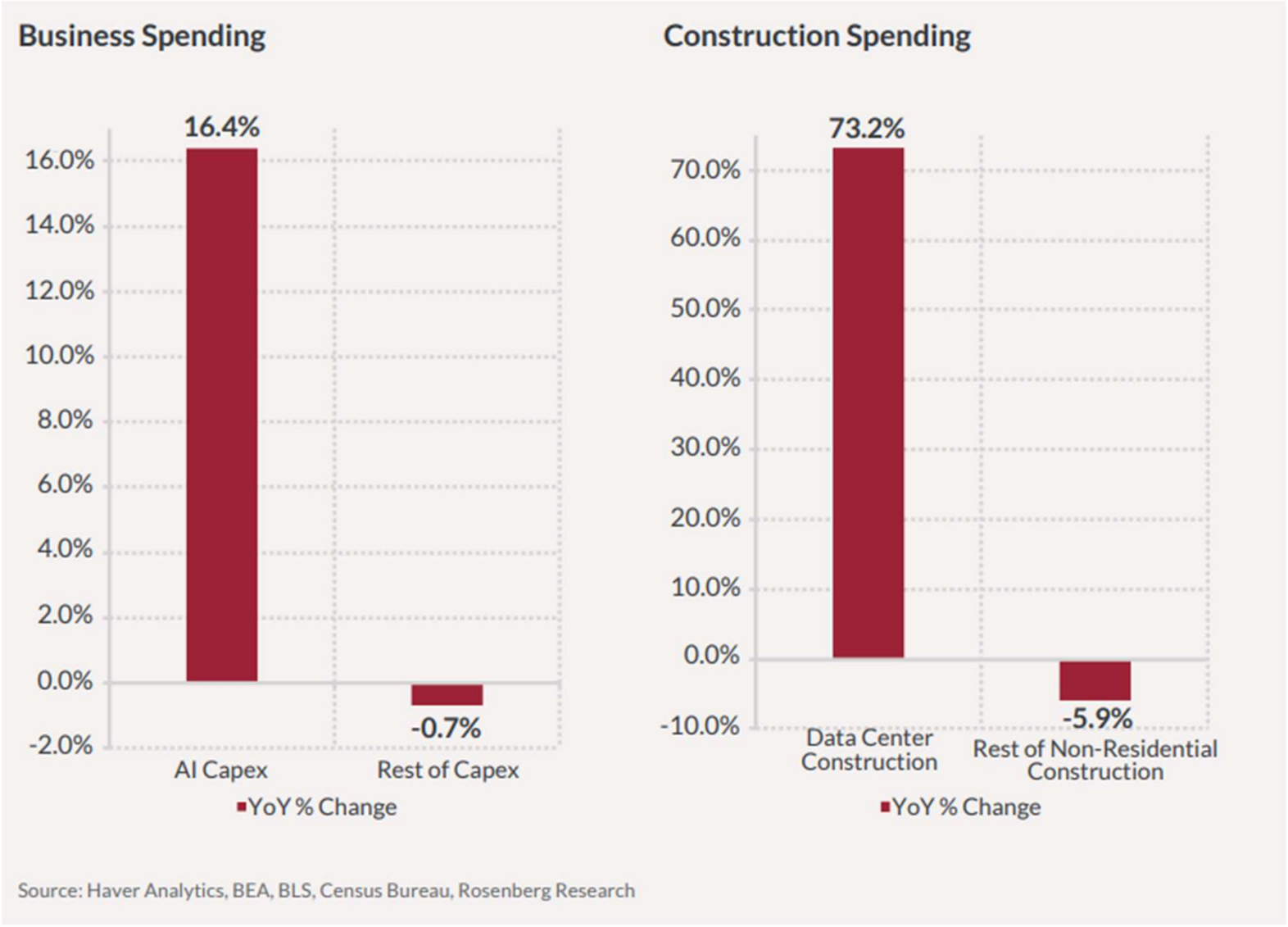


Source: Bloomberg

GDP Growth Dependent on AI Spend



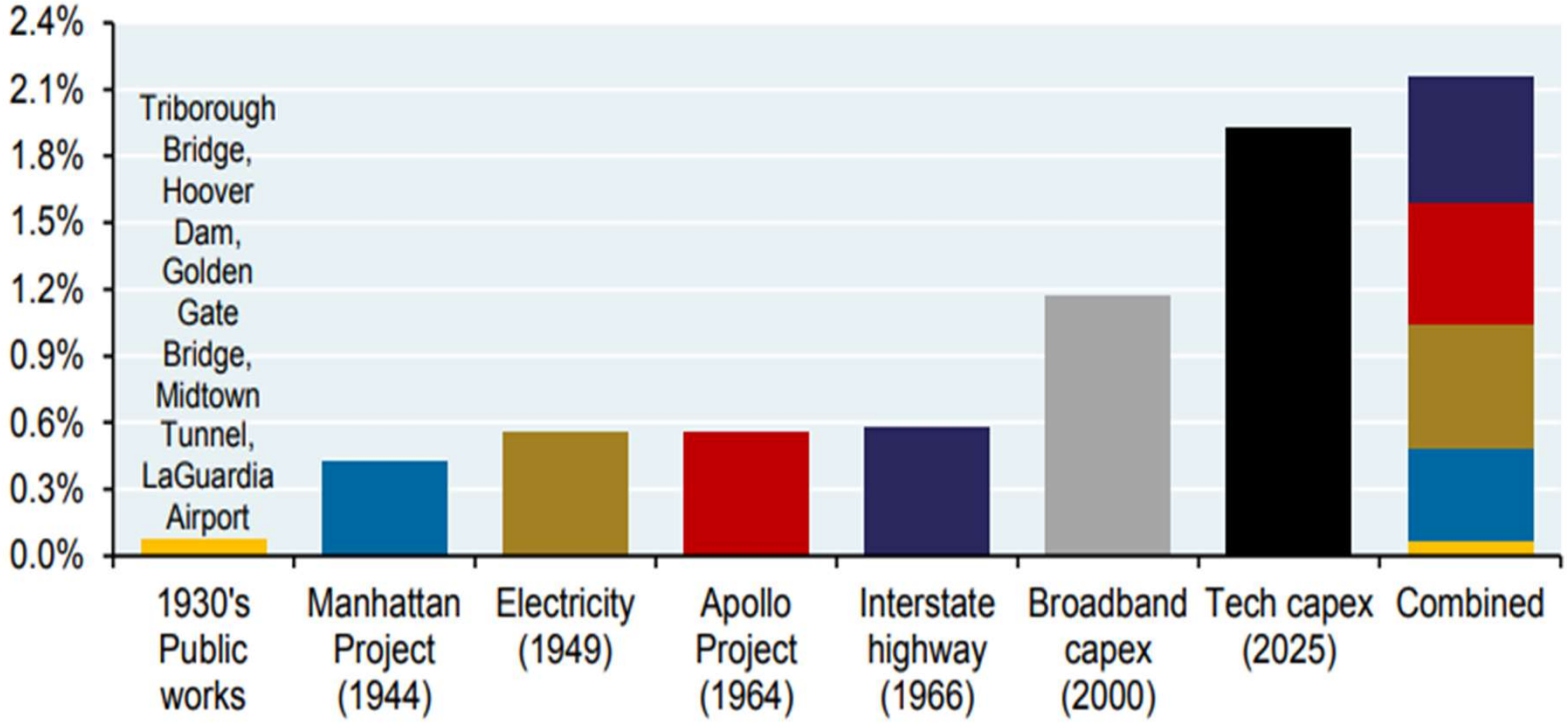
Economic Growth Driven by AI



Largest in History

Tech capital spending in 2025 vs spending on major US infrastructure projects

Peak annual project percent of GDP

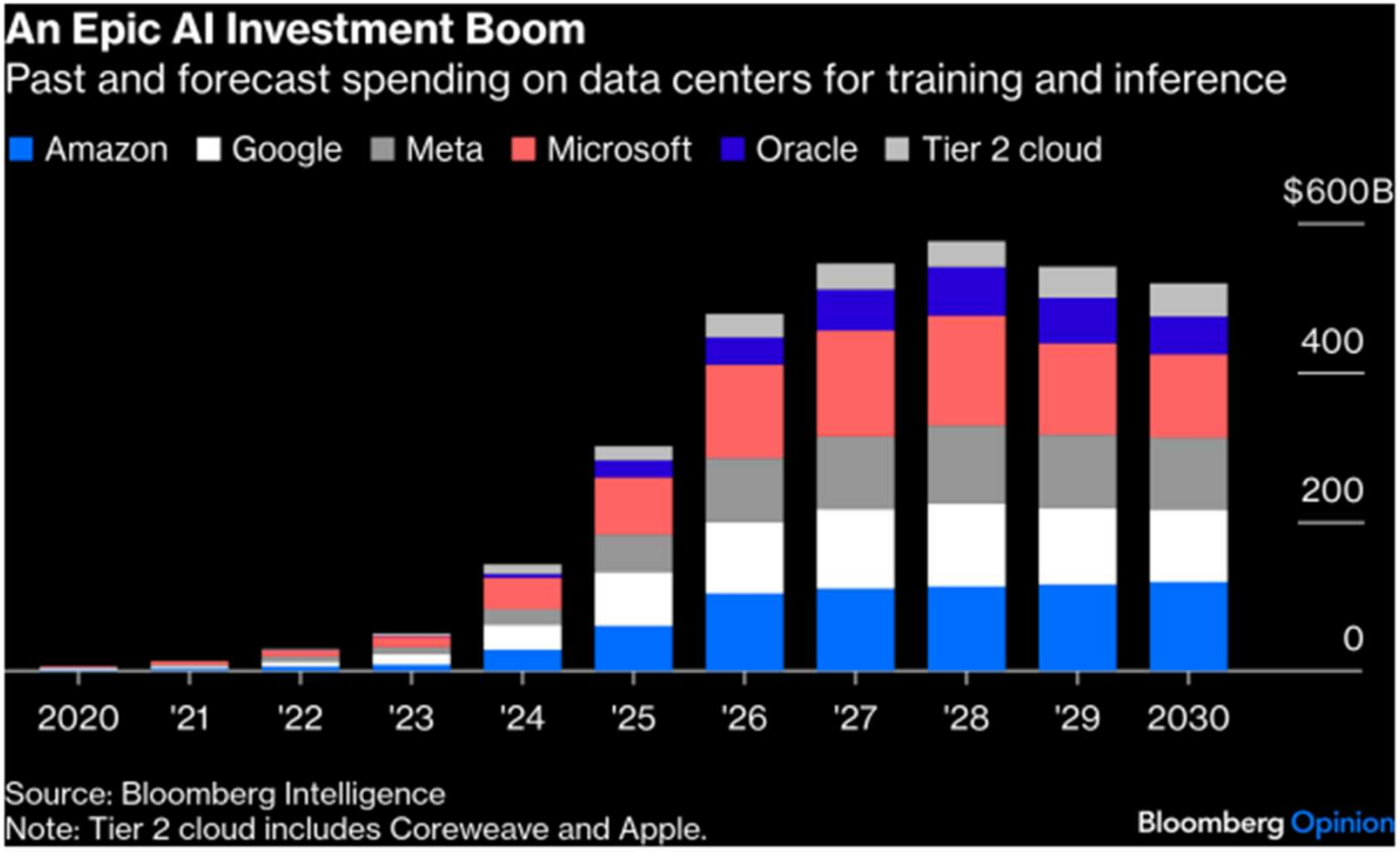


Source: Manhattan District History, BEA, Planetary Society, Eno Center for Transportation, San Francisco Fed, Hoover archives, Baruch, GoldenGate.org, New York Times, JPMAM, 2025

Still in the Early Innings

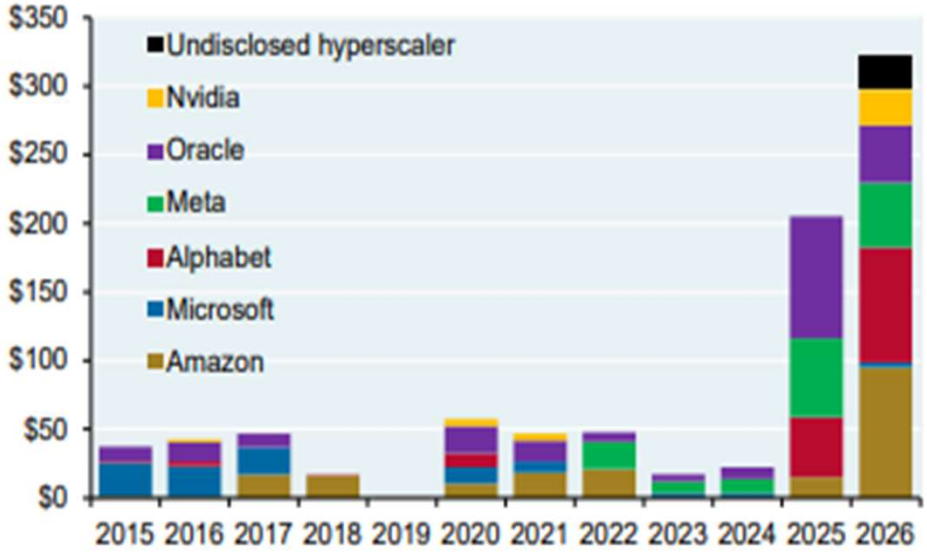
Hyperscaler capital expenditures on data center capacity.

Hyperscaler = cloud computing service provider.



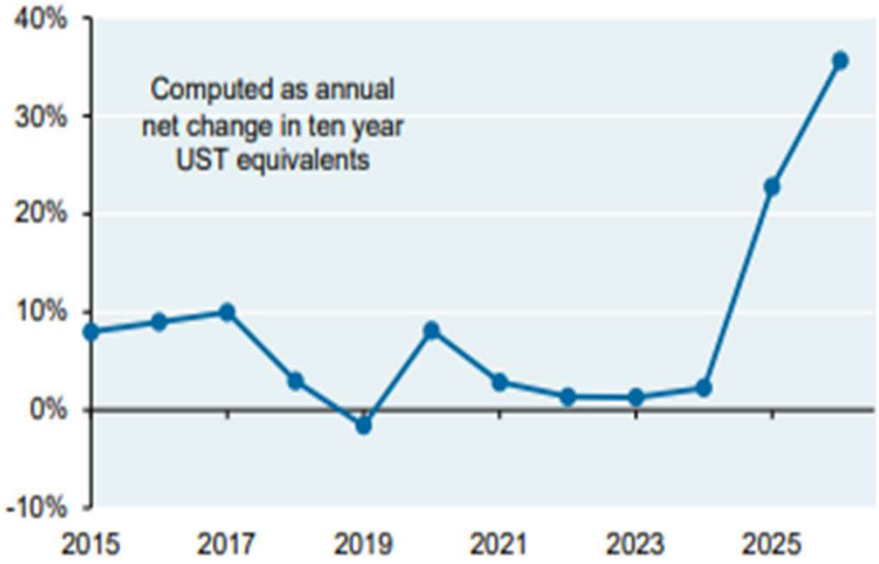
More of that Growth Being Funded by Debt

5 hyperscalers + NVDA new investment grade debt + SPVs
Billion US$



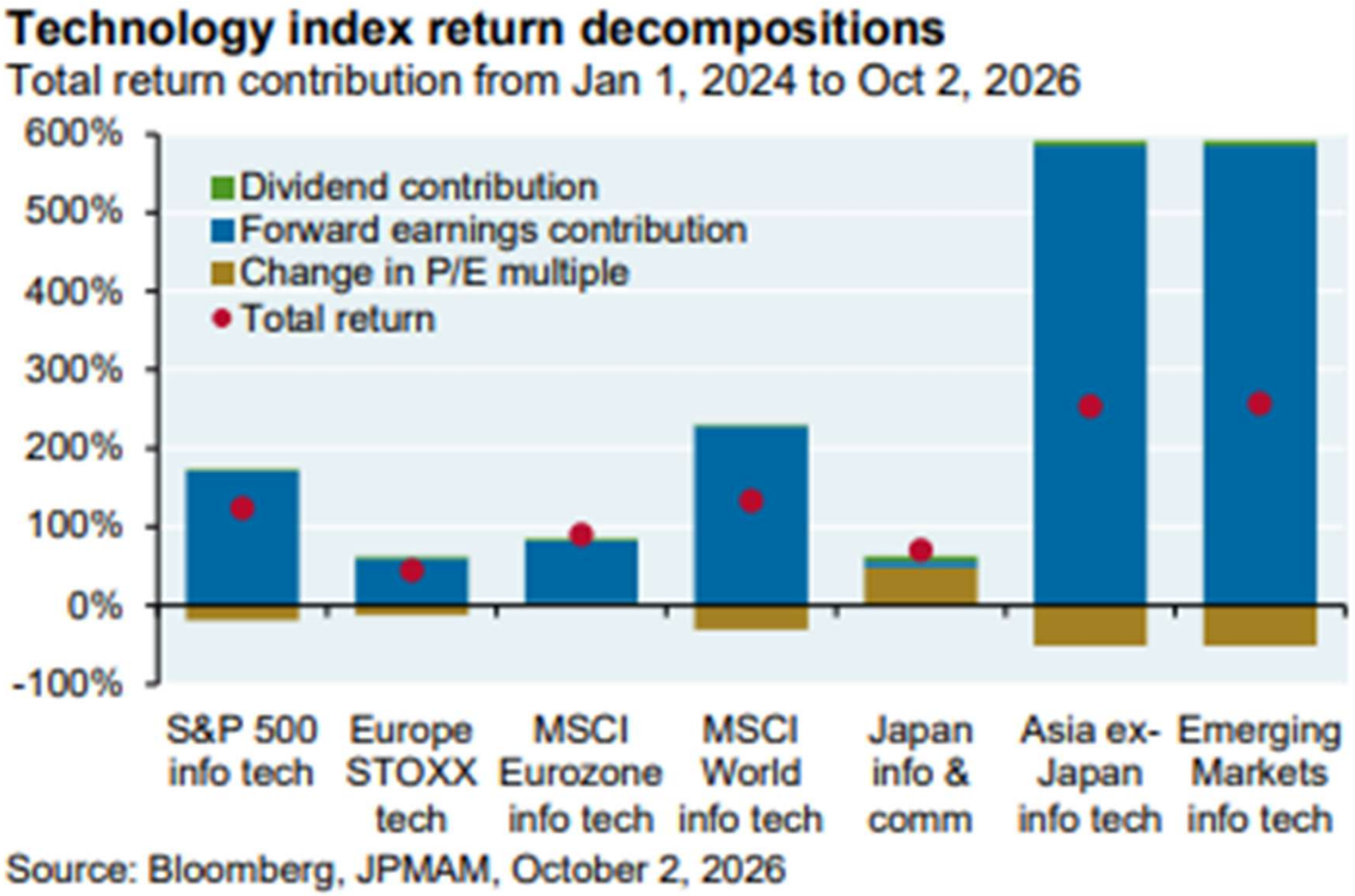
Source: Bloomberg, JPMAM, August 31, 2026

Hyperscaler + NVIDIA 10 yr + debt issuance (incl. SPVs) as a percent of Treasury bond issuance, Percent

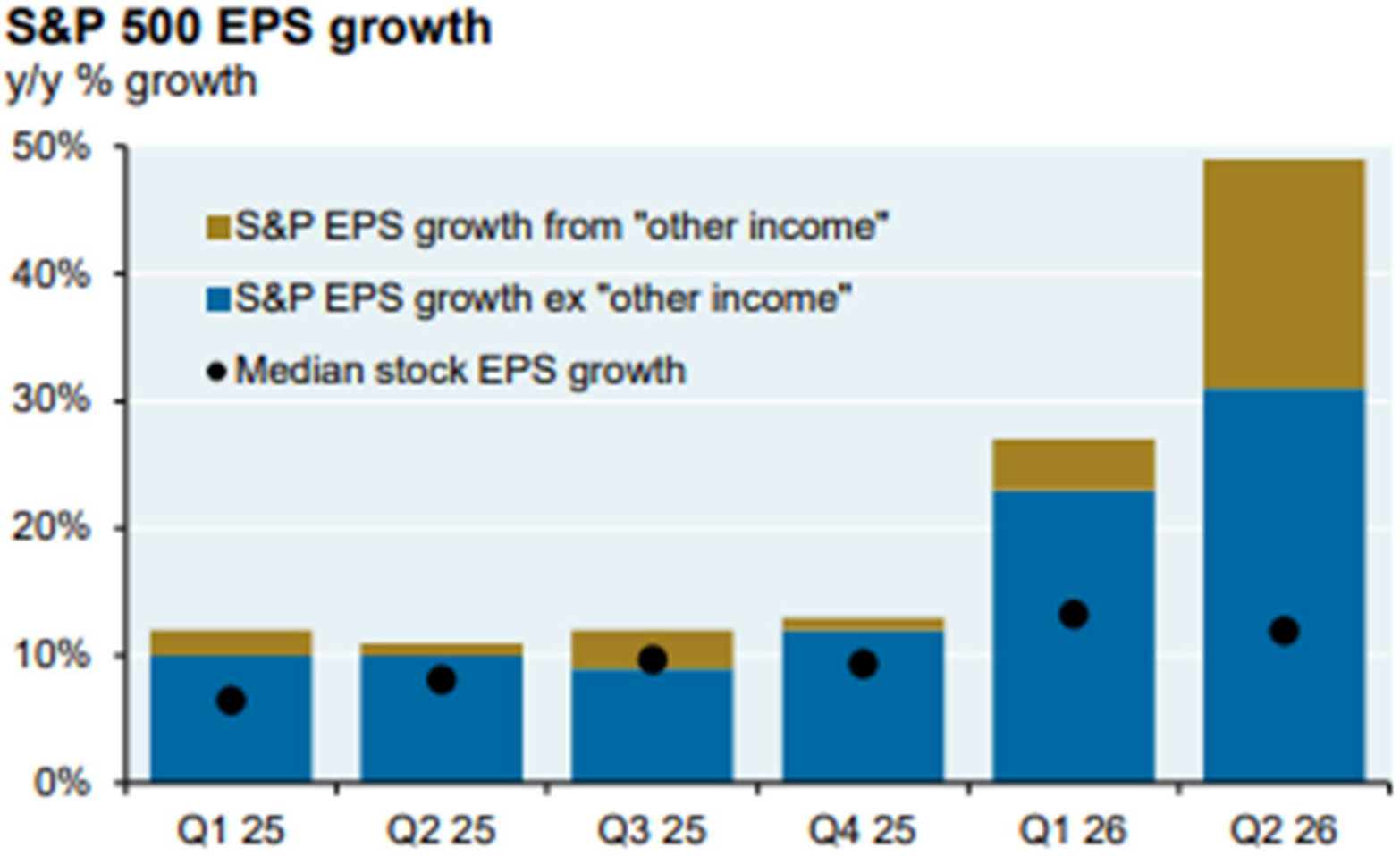


Source: Bloomberg, JPMAM, September 28, 2026

Betting on the Future

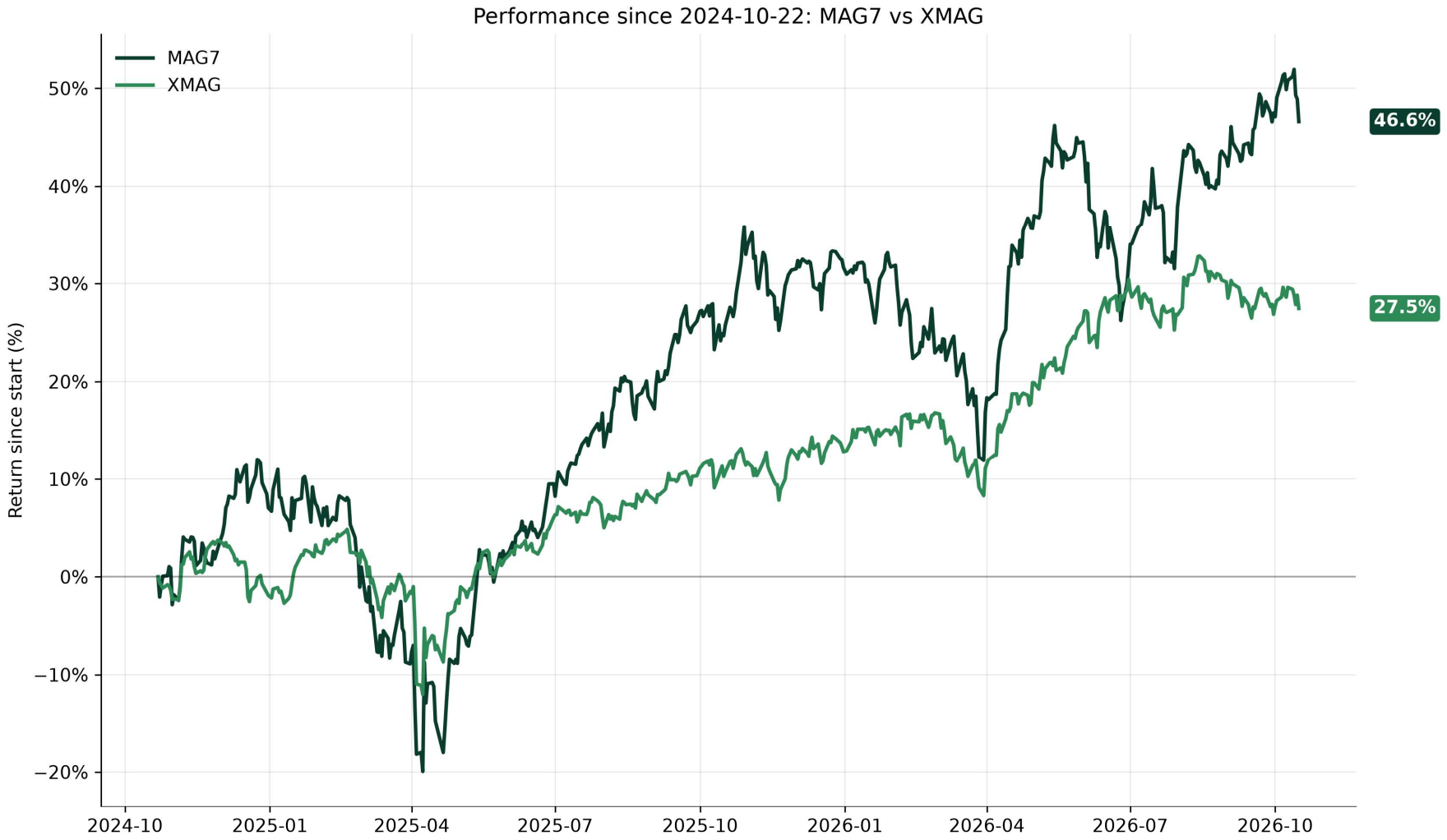


Strong Growth but “Other Income” not Sustainable



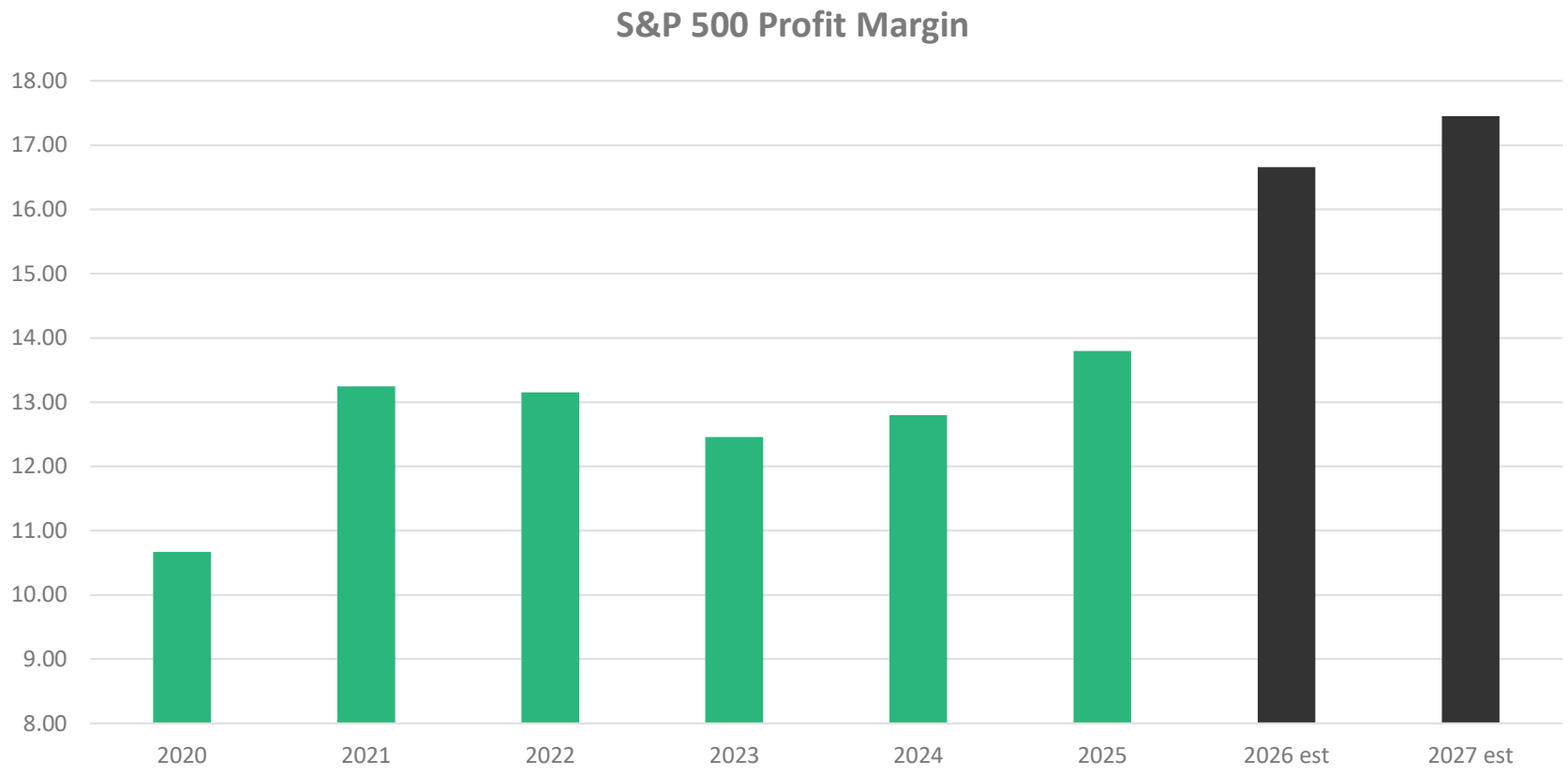
Source: Goldman Sachs Q2 2026 mid-season earnings update, Q2 2026

MAG7 vs S&P 500 XMAG7



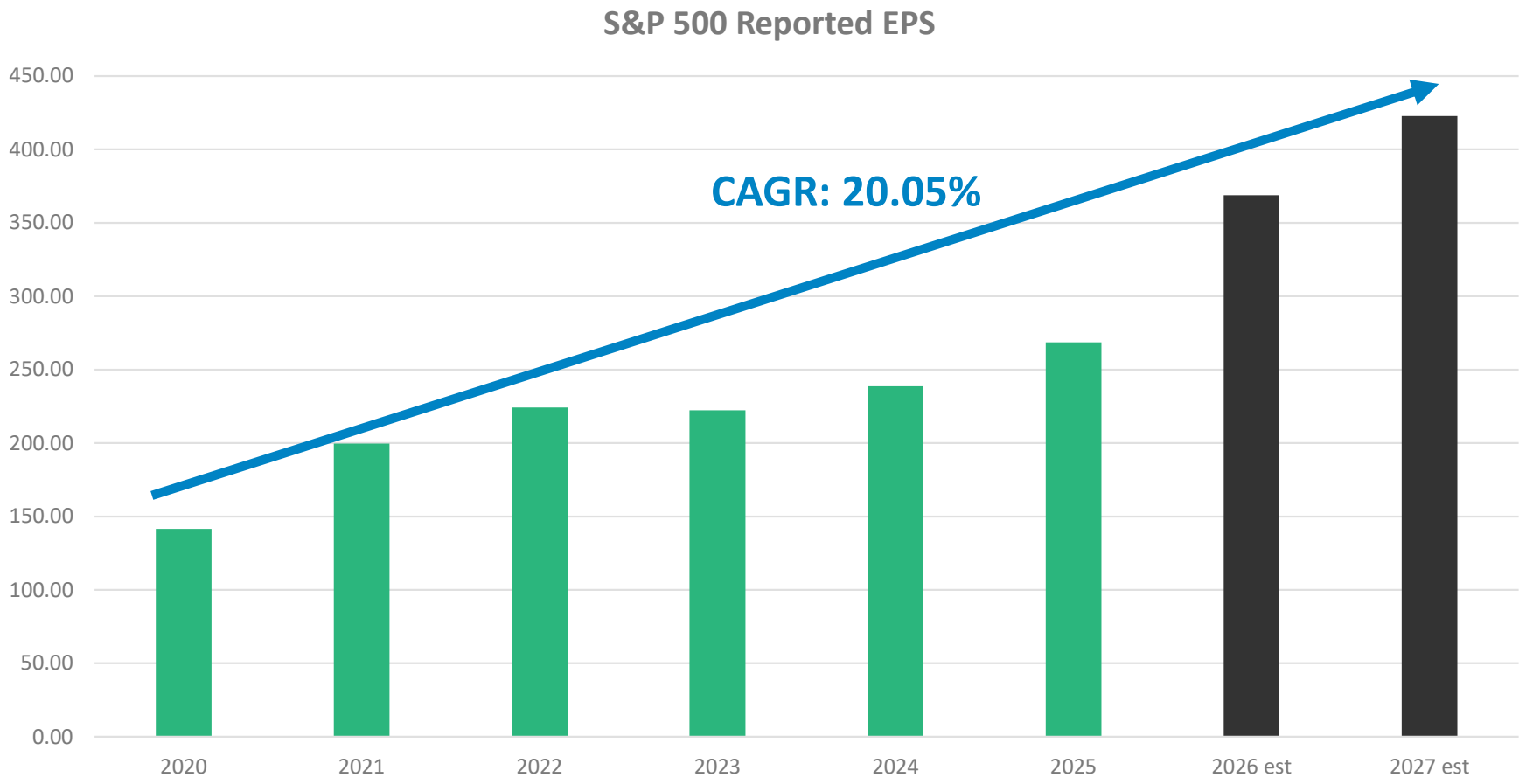
As of 10/16/2026 · Source: Bloomberg

Inflation's Silver Lining



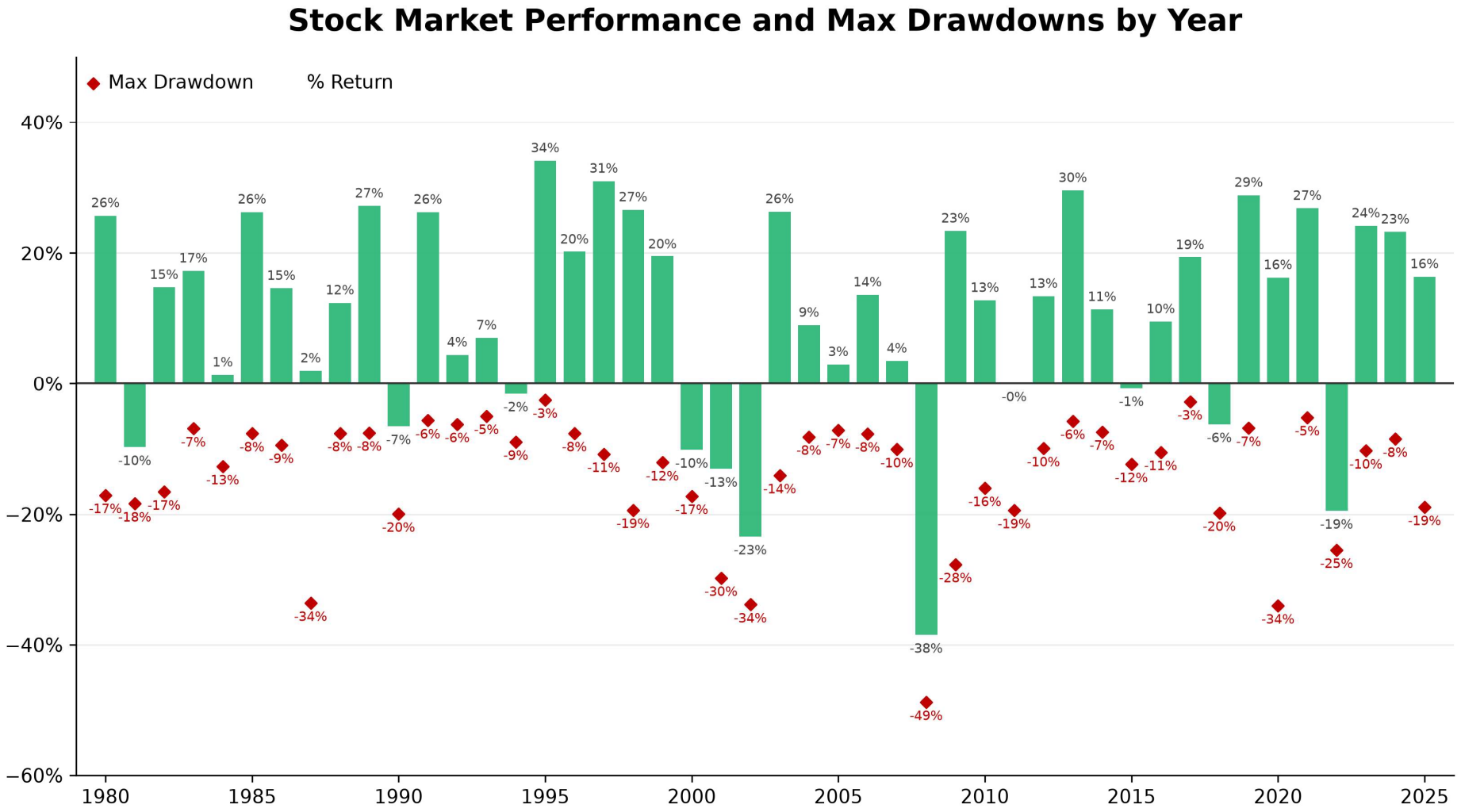
Source: Bloomberg

Earnings Trump All



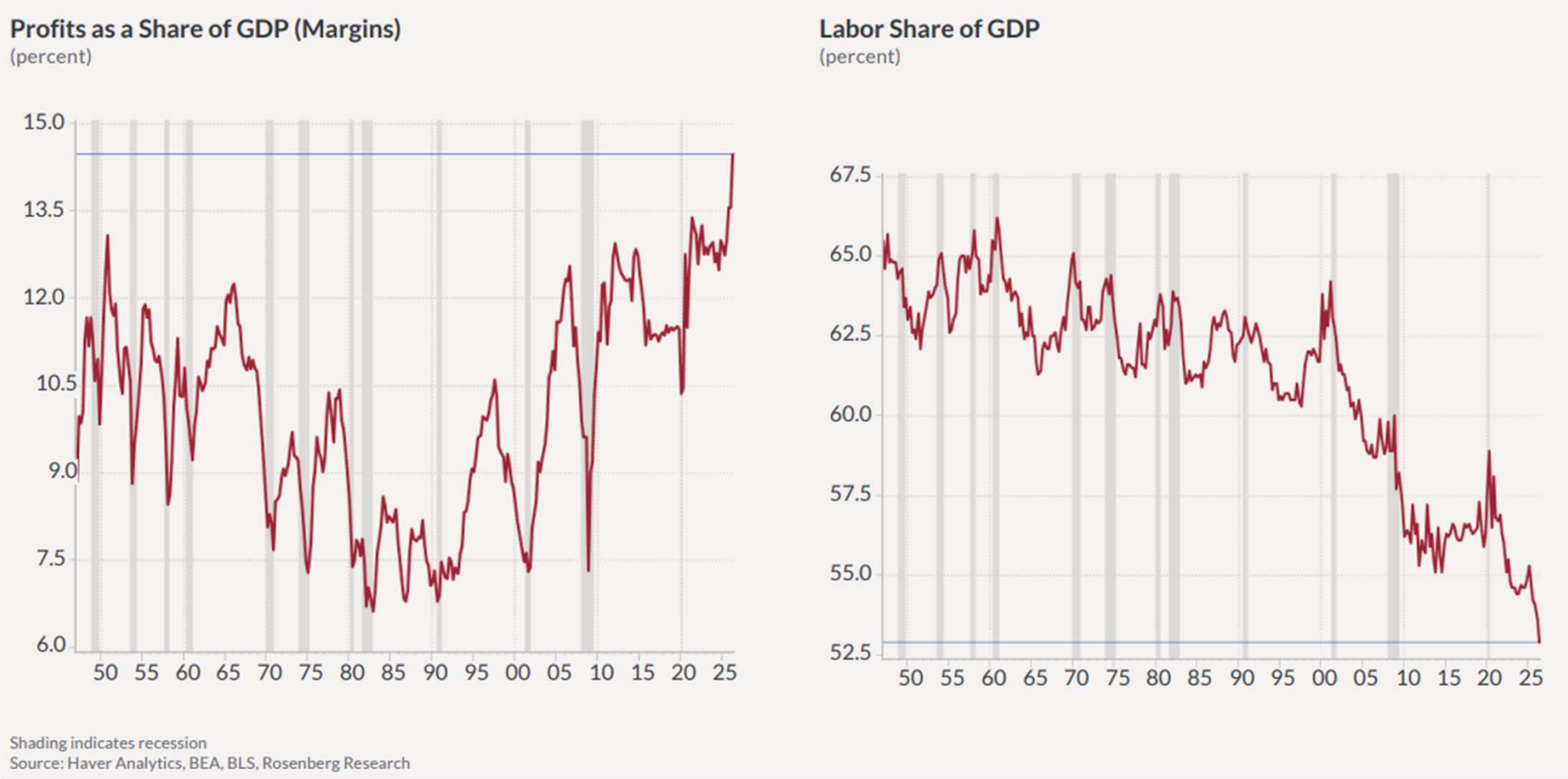
Source: Bloomberg

Stock Market Performance and Max Drawdowns by Year



As of 10/16/2026 · Source: Bloomberg

Investors Gain at Labor's Expense

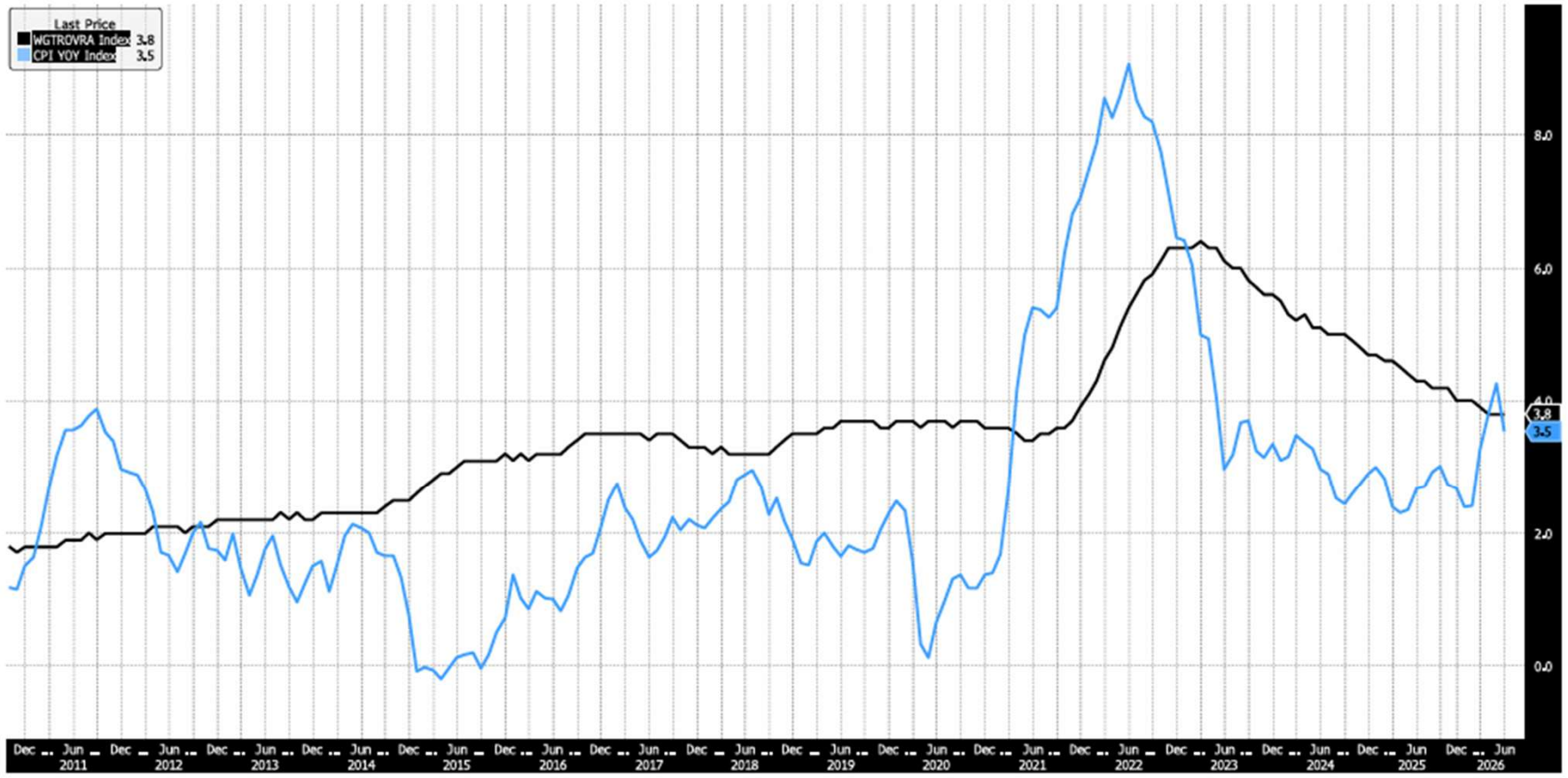


Wage Growth in Decline



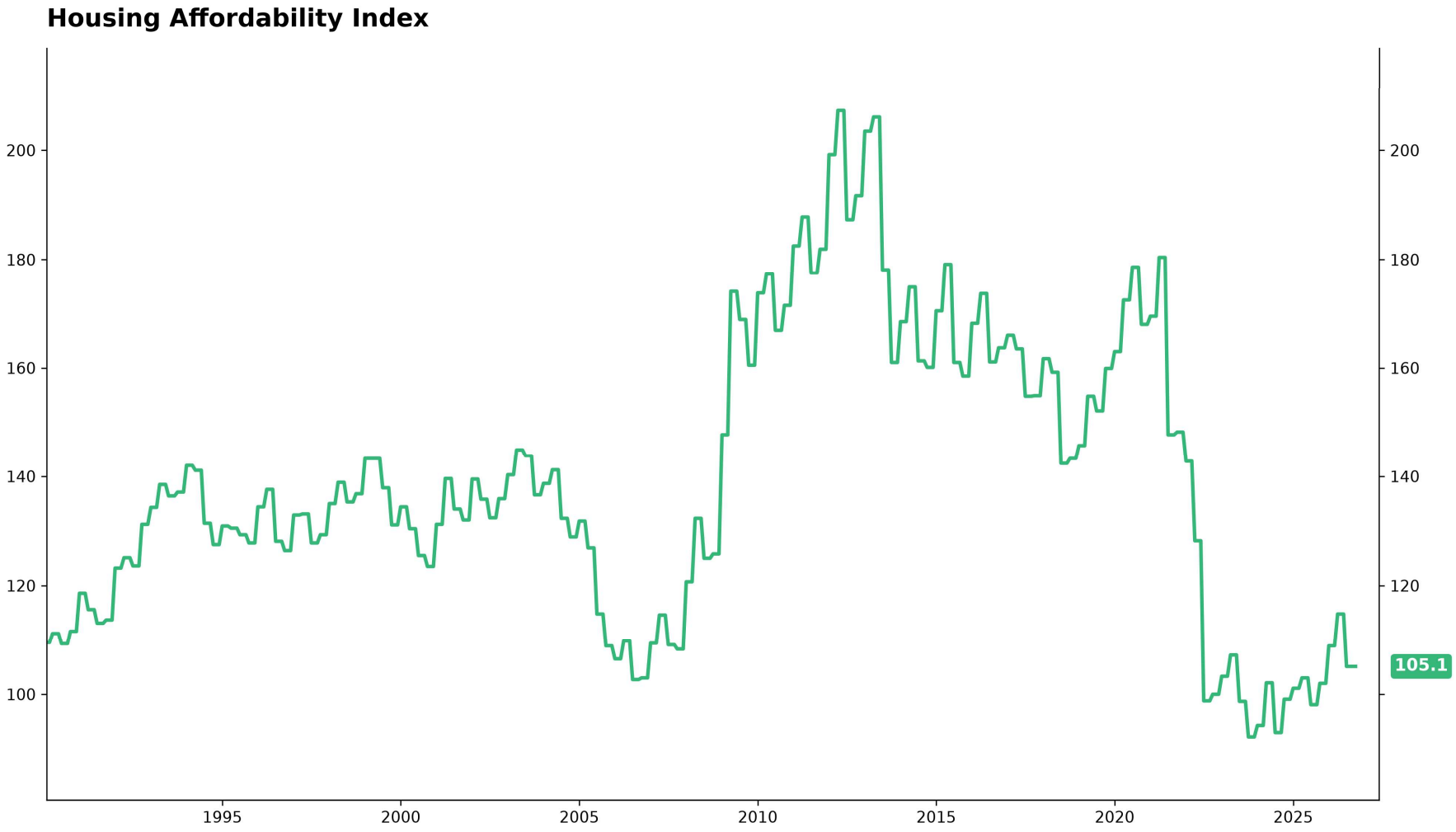
Nominal Wage Growth Pressuring Affordability

WGTROVRA Index (US Atlanta Fed Wage Growth Tracker Overall)
CPI YOY Index (US CPI Urban Consumers YoY NSA)



Source: Bloomberg

Housing Affordability Remains Low



As of 10/16/2026 · Source: Bloomberg

Amara's Law

"People overestimate the impact of a new technology in the short run but underestimate the impact in the long run."



"There is no reason anyone would want a computer in their home."
– Ken Olsen, President and CEO of Digital Equipment Corporation, 1977.



"By 2005 or so, it will become clear that the internet's impact on economy has been no greater than the fax machine's."
- The Nobel prize-winning economist Paul Krugman, 1998.



"Home delivered groceries? Never."
-John Deighton, Harvard Business School Professor, 1999.



"There is 'no chance' the iPhone will get a significant share of the market. 'No chance.'"
– Microsoft CEO, Steve Ballmer, 2007.

AI Value Chain



Bubble Progression

Introduction of New Paradigm/Innovation
-- True believers, early adopters and venture capitalists

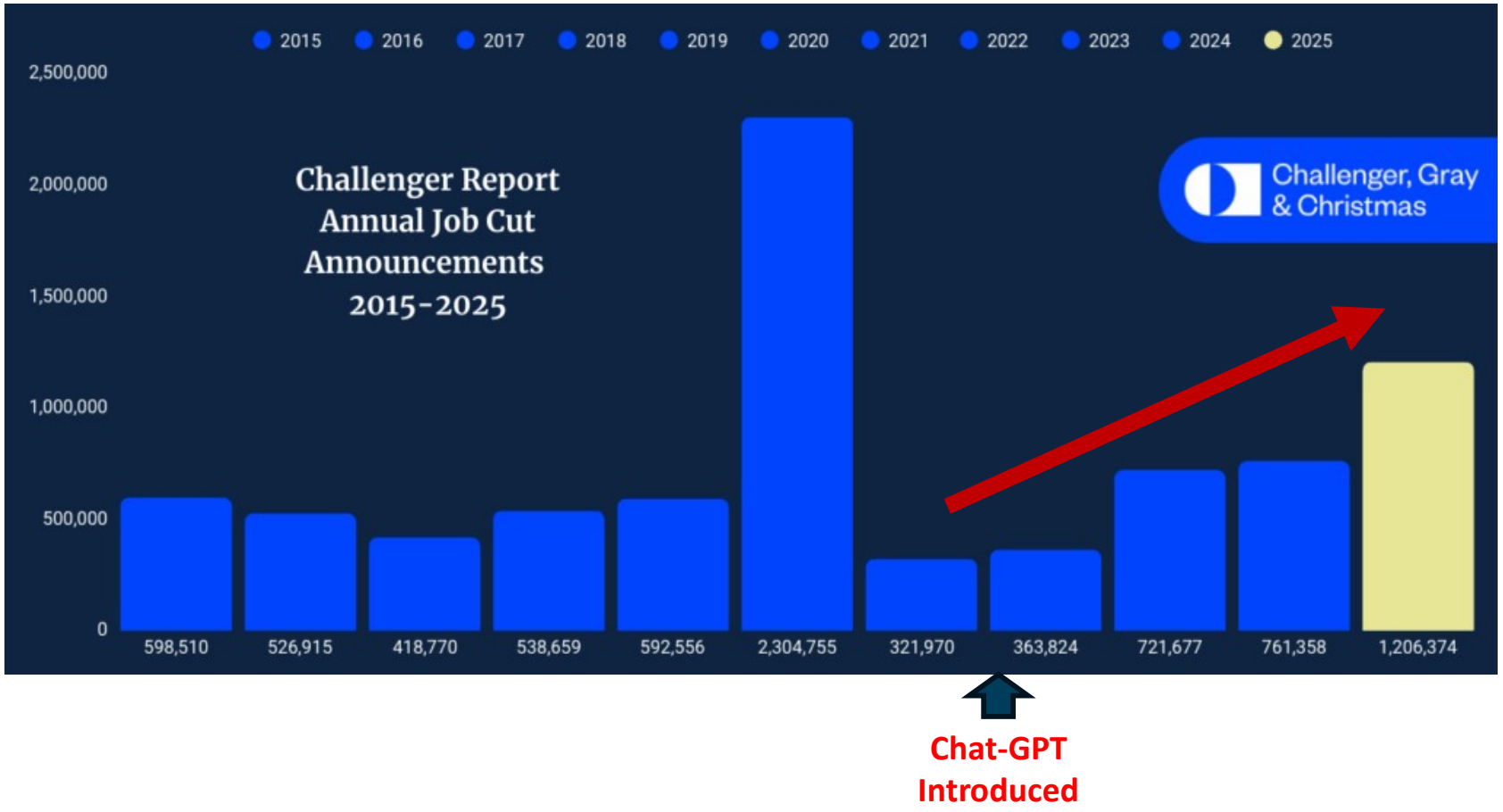
Capital Investment and Build-out
-- Virtuous Cycle of Capital Investment and Production

Push the Boundaries
-- **FOMO**; lower standards to extend growth; excess capacity

Realization and Fallout
-- Virtuous Cycle turns Vicious; "*what were we thinking*?"



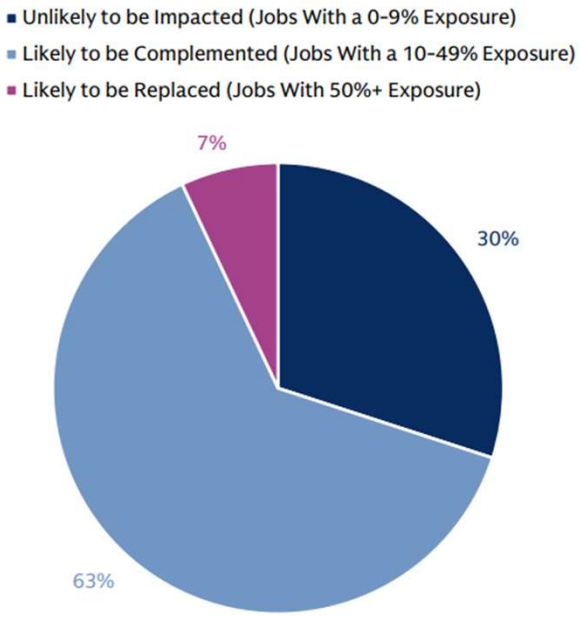
Disruption


2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
Challenger Report
Annual Job Cut
Announcements
2015-2025
Challenger, Gray
& Christmas
598,510
526,915
418,770
538,659
592,556
2,304,755
321,970
363,824
721,677
761,358
1,206,374
Chat-GPT
Introduced

No Need to Panic

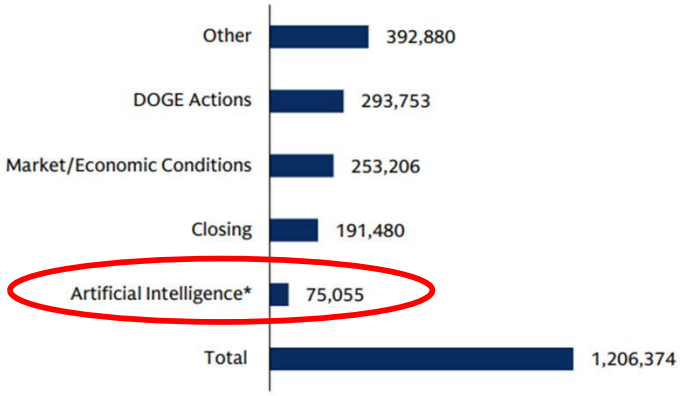
AI's Labor Market Impact Broken Down

Breakdown of GIR's Projected Impact of AI on the US Labor Market



Still Little Evidence Of AI Related Job Losses

Reason Cited For Job Cuts By US Employers In 2025



AI Has The Potential To Create More Jobs Than It Replaces

60%

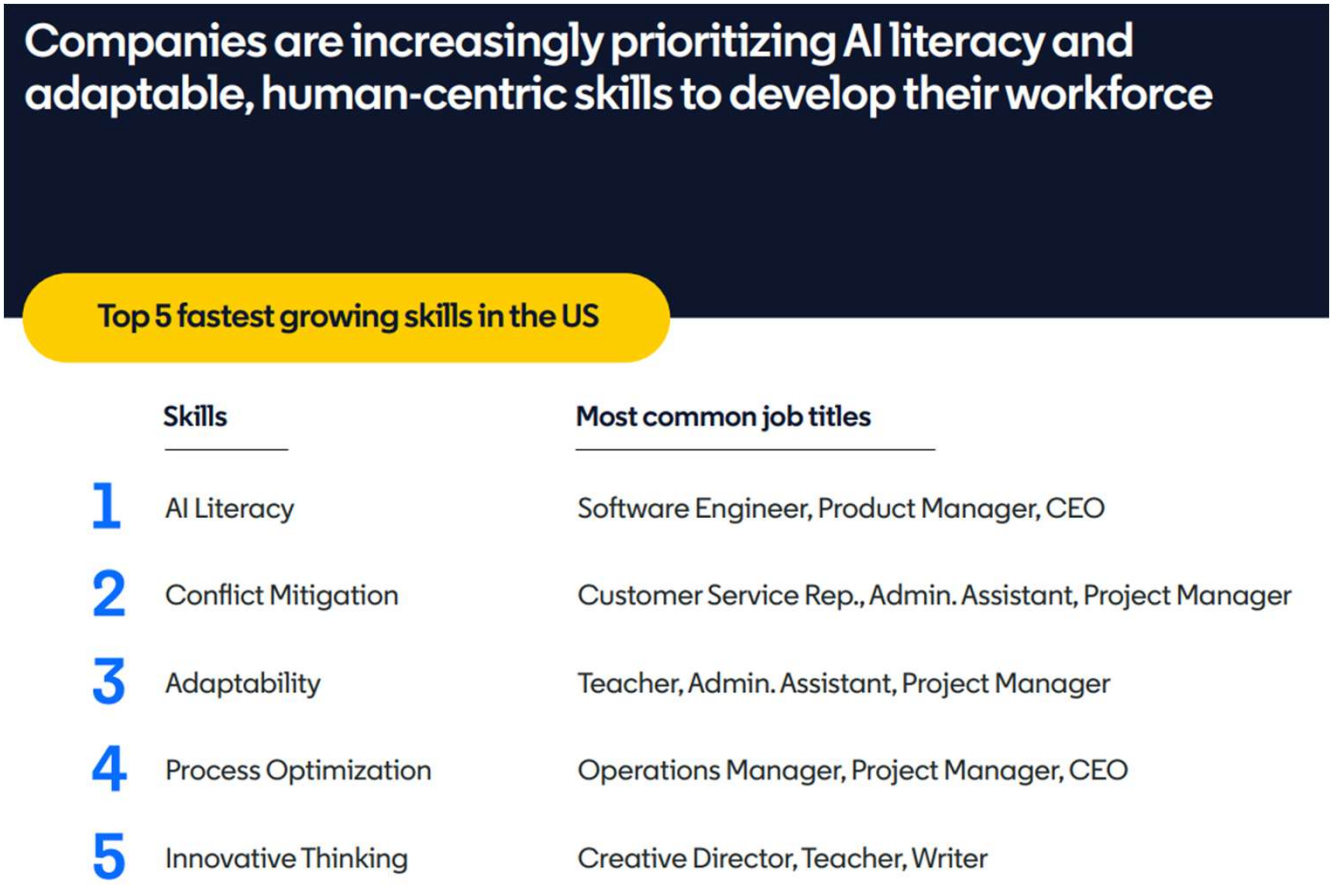
of workers today are employed in occupations that did not exist in 1940[1].

85%

of employment growth over the last 80 years is explained by tech-driven creation of new positions[2].

Source: Goldman Sachs

Job Security: AI Literate



Source: Linked-In

Better Together



Source: Gemini

Thank You

Questions?