Tricorp

# Monthly Market Commentary

November 2026

## AI Euphoria Meets a Reality Check

Fasten your seat belts. Bitterly contested midterm elections are just around the corner, a bifurcated holiday shopping season led by affluent consumers is underway, wars in the Mideast and Ukraine are still raging – and keeping oil prices elevated – and Fed rate hikes as well as growing AI jitters are buffeting the financial markets. These stress-inducing influences suggest that it is time to run for the hills. But few are heeding the call. There is comfort in staying with what you know, even if the surroundings are in turmoil. The U.S. economy has been assaulted by external shocks for more than five years yet has managed to stay above water.

We suspect that this bumpy ride will prevail for the rest of the year, and possibly beyond. But we also expect that the U.S. economy will once again ride out the storms, displaying the resilience it has shown over the past five years. Indeed, the shocks themselves should start to wane or become more managable as the economy adjusts to them. Supply disruptions from tariffs and wars are prompting the U.S. to seek different trading partners; shipping routes are rearranged to avoid threats from violence; new alliances are being forged to create new trading opportunities and reshoring efforts are being ramped up to provide domestic producers with a more reliable source of inputs needed for production.

Flexibility and resilience have been hallmarks of the U.S. economy throughout its history and those pillars of strength are very much intact. That said, homegrown disruptions are, as usual, stoking uncertainty, fear and challenges as well as widespread skepticism over how things will work out. At the moment, the AI revolution is sucking all the oxygen out of the room; many pundits note that the rapidly emerging technology has the potential to both cure cancer and kill us all. That head-spinning prospect is enough to keep everyone on edge for a long time. More immediately, it is causing havoc for economic forecasters who are unsure if the potential of AI will deliver more pain than gain for the economy. Both outcomes are visible and creating turmoil on Wall Street and Main Street. This Jekyll and Hyde face of AI is also making life extremely difficult for policy makers struggling to find the correct levers to pull that would tide the economy over the rough waters ahead.

Tricorp

# Monthly Market Commentary

**AI's Hidden Costs**

The AI buildout is turning out to be one of the most contentious developments in modern history. Everyone seems to be using a chatbot, and everyone seems to be either disdaining or applauding what it can do – or both. One thing no one disputes is that AI spending is a primary force driving the U.S economy. Spending on data centers, equipment, chips and information software has made an outsized contribution to GDP growth over the past several years. Without the AI spending boom, business investment would likely be declining, dragging down the economy's growth rate.

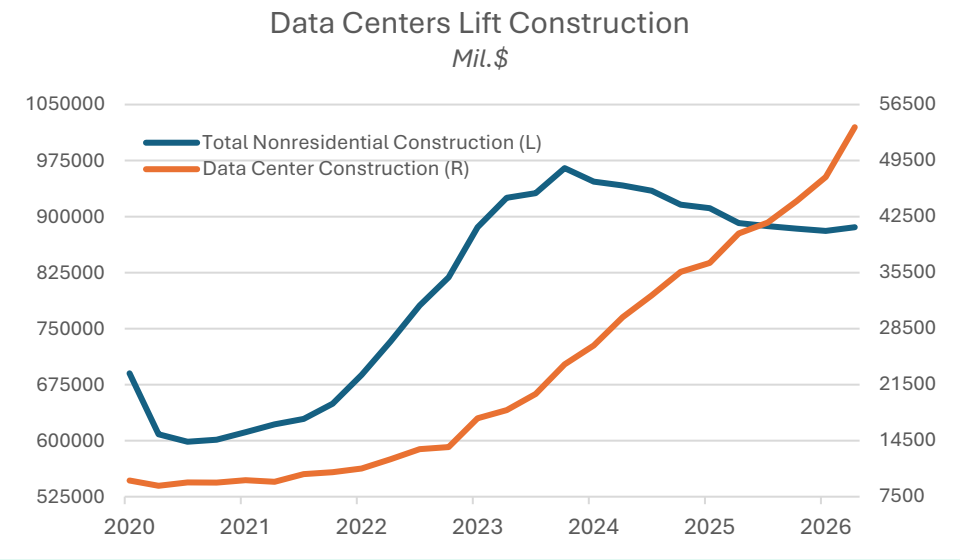
But this powerful contribution to the economy's growth is coming at a cost. Data center developers are in fierce competition for workers, and the buildout is exacerbating shortages in an already tight construction labor market. Construction wages are growing more than a percentage point faster than total private wages. Most striking is the growing wage premium for commercial building contractors, the sector that includes workers on data center projects. The wage differential between commercial builders and industrial builders – the other component of nonresidential construction – has grown from near parity before the data center buildout in 2022 to close to $4.50 per hour today,

Unsurprisingly, the wage premium and ongoing strong demand for labor in the AI space are drawing workers away from the residential sector, forcing homebuilders to pay higher wages to retain workers. Some builders can't afford to do so and abandon projects, exacerbating a housing shortage that is driving up home prices. This "crowding out" of a weaker sector by a stronger one is reminiscent of the days when huge Federal government borrowing displaced private borrowers from a finite savings pool. In this instance, the competition is for workers in a finite labor pool that is also being constrained by tighter immigration policies. Foreign-born workers have a larger presence in construction than in most other industries.

**AI's Inflationary Bite**

So far, the wage premium paid by AI-related firms is not spreading to the broader labor market. Indeed, overall wage growth is slowing as the strong demand for construction workers is being offset by weak demand elsewhere. Recent college graduates, for example, are facing a tougher job market because of AI. Studies show that companies are automating or reallocating routine research, coding, customer service, and writing tasks which are typically entry-level positions carried out by new graduates. According to the Federal Reserve Bank of New York, the unemployment rate for recent college grads age 22-

27 is 5.6 percent compared to 4.2 percent for all workers and 2.6 percent for all college graduates.




Hence, it would be a mistake to say that AI is a source of wage-induced inflationary pressures. However, its inflationary influence in other ways is undeniable. Insatiable AI demand is driving up consumer prices for information processing equipment, which includes personal computers, along with computer software and accessories. Inflation in this consumer price category is on track to hit an all-time high of 16 percent in the fourth quarter of this year. For perspective, computer-related prices declined by an average of 7 percent a year in quality-adjusted terms over the 60 years before the pandemic. For a variety of reasons, some related to trade issues, supply is not keeping up with demand. Unfortunately, the shortage of memory chips alone, a key driver of AI-linked inflation, will not be resolved any time soon.

Meanwhile, the huge increase in data center construction is creating a corresponding surge in the demand for power and water and straining electric grids in general, driving up energy costs and utility bills for residents in regions where they are being built. This inflationary impact was not widely anticipated when the construction projects were initially proposed, as local officials may have been more attracted to the revenues and jobs they promised to generate. But the public backlash has become more virulent as these costs became more apparent. Local governments are increasingly rejecting or forcing AI developers to cover the increased cost associated with data center construction.

**A Growing Backlash**

The growing public backlash against data centers is one hurdle that may slow the AI buildout. Another is the recent turmoil in the financial markets, where investors are having second thoughts over whether the outsized spending by these companies will be justified by the potential returns. Several of the second tier AI-related firms have seen their stock prices take it on the chin recently, and the so-called hyperscalers are increasingly being challenged to defend their high valuations. The tech-laden Nasdaq composite index fell by 6 percent over a three-week period in October, its worst stretch in nearly two years.

Importantly, a good deal of skepticism is building in the bond market, which many consider a better arbiter of a company's worth than the stock market. Until recently the hyperscalers have been able to finance their expansion plans through internal cash flows, thanks to surging revenues and profits as AI-linked products were enthusiastically embraced by businesses and consumers. However, that very same enthusiasm has stoked an escalation of expansion plans among these companies, which are outpacing revenue growth. The shortfall is driving them to borrow heavily from a wide variety of sources, including the bond market, where they are competing with another behemoth with a voracious appetite for funds – the Federal Government.

Unlike the crowding out of homebuilding, the AI borrowing spree is not about to force the Treasury to leave the room, abandoning its efforts to finance a $2 trillion deficit. The question is whether their appetite for funds will find an equal appetite by investors for their securities at a price acceptable for all. As it is, the energy-induced surge in inflation and a more hawkish Federal Reserve have driven up interest rates, making this a more expensive financial environment for borrowers. That will not deter the government, but it could stifle the ability of AI companies to raise funds. If so, the breakneck pace of the AI buildout would slow, if not stall.

**Wealth, Risk and Resilience**

It would be premature to judge whether the recent turmoil in AI-related stocks marks a turning point for the rally they enjoyed in recent years. Unlike the dot-com boom around the turn of the century, the rally this time has been powered by real profit gains in the AI space; most of the companies have also been around for a while, in contrast to the myriad startups that emerged – and later went bust – during the dot.com era. Despite the recent setback, these AI gains juiced a yearslong stock market rally that has greatly enriched the

wealth of upper-income households, who have been the primary drivers of consumer spending since the pandemic.

The wealth boost from appreciated portfolios has more than offset the spending drag from lower income families who are struggling with high prices and borrowing costs to make ends meet. This bifurcated household behavior continues to headline consumer spending and will be a key feature during the holiday shopping season as well. The top 10 percent of households by income account for almost 50 percent of total consumer spending, a concentration that has sharpened with rising portfolio values. But this bifurcation also exposes the economy's vulnerability to the potential wealth destruction that might come from a severe market correction, should the AI boom not deliver the expected returns and fizzle out.

While that fear understandably ripples through the financial markets, it does not pose an immediate threat to the economy. Even if the looming restrictions on data center construction are realized, the rapid growth that has already taken place has knock-on effects that will feed the economy's growth engine well into next year. Keep in mind that most economic value comes from the computing equipment that fills a data center, and equipment spending lags construction by six to eight quarters. The data center buildout is driving demand for an array of industrial machinery, from chipmaking equipment to turbines and power transmission equipment. The second leg of the AI buildout is just getting underway and should cushion the economy from the turbulence linked to the myriad external shocks that, hopefully, will soon subside.



Tricorp

# Monthly Market Commentary

## Key Economic and Financial Indicators

**Financial Indicators ***

| | September | August | July | June | May | April | March | 12-Month Range High | 12-Month Range Low |
|---|---|---|---|---|---|---|---|---|---|
| Prime Rate | 6.87 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 7.23 | 6.75 |
| 3-Month Treasury Bill Rate | 3.94 | 3.72 | 3.73 | 3.66 | 3.6 | 3.61 | 3.61 | 3.94 | 3.57 |
| 5-Year Treasury Note Rate | 4.8 | 4.38 | 4.33 | 4.21 | 4.15 | 3.94 | 3.85 | 4.8 | 3.65 |
| 10-Year Treasury Note Rate | 4.99 | 4.68 | 4.6 | 4.47 | 4.48 | 4.32 | 4.25 | 4.99 | 4.06 |
| 30-Year Treasury Bond Rate | 5.37 | 5.22 | 5.1 | 4.95 | 5.03 | 4.91 | 4.85 | 5.37 | 4.64 |
| Tax-Exempt Bond Yield | 5.07 | 4.77 | 4.71 | 4.7 | 4.78 | 4.74 | 4.84 | 5.07 | 4.7 |
| Corporate Bond Yield (AAA) | 6.03 | 5.88 | 5.76 | 5.52 | 5.56 | 5.42 | 5.48 | 6.03 | 5.13 |
| Conventional 30-Year Mortgage Rate | 6.86 | 6.67 | 6.54 | 6.49 | 6.44 | 6.33 | 6.18 | 6.86 | 6.1 |
| | | | | | | | | | |
| Dow Jones Industrial average | 52119.54 | 53605.82 | 52373.19 | 51399.31 | 49916.81 | 48429.9 | 46859.67 | 53605.8 | 46709.7 |
| S&P 500 Index | 7669.41 | 7711.32 | 7481.34 | 7450.03 | 7412.55 | 6957.01 | 6654.42 | 7711.32 | 6654.42 |
| Dividend Yield (S&P) | 1.08 | 1.07 | 1.1 | 1.1 | 1.09 | 1.16 | 1.21 | 1.21 | 1.07 |
| P/E Ratio (S&P) | 26.2 | 26.3 | 27.8 | 27.9 | 28.1 | 28.2 | 25.6 | 28.4 | 25.6 |
| | | | | | | | | | |
| Dollar Exchange Rate (vs. Major Currencies) | 119.2152 | 118.8512 | 120.597 | 118.7792 | 118.7792 | 119.0363 | 119.9199 | 121.804 | 118.779 |

* Monthly Averages

**Economic Indicators**

| | September | August | July | June | May | April | March | 12-Month Range High | 12-Month Range Low |
|---|---|---|---|---|---|---|---|---|---|
| Housing Starts (Thousands of Units) | 1221 | 1288 | 1369 | 1439 | 1182 | 1414 | 1522 | 1522 | 1182 |
| New Home Sales (Thousands of Units) | 676 | 680 | 647 | 680 | 636 | 641 | 659 | 757 | 576 |
| New Home Prices (Thousands of Dollars) | 400 | 385 | 394 | 410 | 414 | 416 | 399 | 429 | 385 |
| | | | | | | | | | |
| Retail Sales (% Change Year Ago) | 6.3 | 5.6 | 4.5 | 5.9 | 6.7 | 4.1 | 3.6 | 6.7 | 2.1 |
| Industrial Production (% Change Year Ago) | 2.2 | 1.6 | 1.3 | 1.5 | 1.7 | 1.4 | 0.7 | 2.2 | 0.7 |
| Operating Rate (% of Capacity) | 76.9 | 76.4 | 76.4 | 76.3 | 76.2 | 76.2 | 75.6 | 76.9 | 75.2 |
| Inventory Sales Ratio (Months) | | 1.33 | 1.34 | 1.33 | 1.31 | 1.34 | 1.35 | 1.38 | 1.31 |
| Real Gross Domestic Product (Annual % Change) | | | | 2.2 | | | 2.5 | 3.9 | 0.2 |
| | | | | | | | | | |
| Unemployment Rate (Percent) | 4.2 | 4.1 | 4.1 | 4.2 | 4.3 | 4.3 | 4.3 | 4.5 | 4.1 |
| Payroll Employment (Change in Thousands) | 29 | 133 | -10 | 31 | 63 | 148 | 214 | 214 | -156 |
| Hourly Earnings (% Change Year Ago) | 3 | 3.1 | 3.2 | 3.4 | 3.3 | 3.6 | 3.4 | 3.9 | 3 |
| Personal Income (% Change Year Ago) | | 4.3 | 4.5 | 4.7 | 4.8 | 3.7 | 4.4 | 5.4 | 3.7 |
| Savings Rate (Percent of Disposable Income) | | 4.1 | 4.6 | 4.4 | 4.4 | 4.4 | 5.1 | 5.6 | 4.1 |
| Consumer Credit (Change in Blns. Of Dollars) | | 8.3 | 17.7 | 15.3 | 2.9 | 21 | 21 | 21 | 2.9 |
| | | | | | | | | | |
| Consumer Prices (% Change Year Ago) | 3.7 | 3.4 | 3.4 | 3.5 | 4.2 | 3.8 | 3.3 | 4.2 | 2.4 |
| CPI Less Food & Energy (% Change Year Ago) | 2.6 | 2.4 | 2.5 | 2.6 | 2.9 | 2.8 | 2.6 | 2.9 | 2.4 |
| Wholesale Prices (% Change Year Ago) | 6.3 | 5.6 | 4.9 | 5.6 | 5.9 | 5.7 | 4.3 | 6.3 | 2.8 |