

Monthly Market Outlook

TUESDAY 27 OCTOBER 2026 · LONDON 16:00

FOR PROFESSIONAL INVESTORS ONLY

GLOBAL MACRO / MONTHLY OUTLOOK

Inflation, rates and credit set the path to year-end

The macro backdrop remains supportive. Our view for the near-term outlook (3 months) is an uneven equity recovery: the S&P 500 can remain within Libella's implied range of 7,400–7,950, but inflation, high real yields, wider credit spreads and geopolitical risk limit upside and favour narrow market leadership.

Libella Insights • 3-minute read • Full report: 3 pages

THE MONTH IN NUMBERS · DATA TO 26 OCTOBER

+2

Libella Macro Score,
Supportive

19

Libella Fear/Greed,
extreme fear

\$101

WTI crude, +77% YTD
High 113 · Low 56

7,400–7,950

Libella S&P 500
central range, 3 months

85%

December hike
probability, futures

KEY TAKEAWAYS

The macro backdrop remains supportive. Libella Macro Score +2 · Supportive (expansion) and Macroeconomic Conditions +86. Financial conditions and credit are supportive, while growth and the yield curve weigh on the score.

Inflation is the hinge. US CPI rose 3.7% year on year in September, with core inflation at 2.6%, and WTI is near \$101; the Iran conflict, the 3 November midterms and today's Israeli election are the main event risks.

A December hike is largely priced. Futures imply an approximately 85% probability of a December hike and about 10% for the 28 October meeting; the real ten-year yield is 2.66%, 95bp higher than a year earlier.

Credit and downside pricing suggest greater caution than equity prices. High-yield spreads are 338bp and SPY 25-delta skew is –5.1 volatility points (puts over calls), with at-the-money (ATM) implied volatility at 14.3%; the Libella Fear/Greed score is 19 (extreme fear).

Libella view: an uneven recovery inside 7,400–7,950. Lower oil, narrower credit spreads and AI cash conversion open the upside; higher inflation, a ten-year yield above 5.3% or wider credit spreads put 7,400 at risk.

Energy and politics are the swing factors for inflation

WTI is about \$101, up 69% in a year. Press reports suggest that the Iran conflict is escalating, with Iran-linked oil the biggest inflation risk. Ahead of the 3 November midterms, Democrats are modestly favoured to win the House, while Republicans are considered most likely to retain a narrow Senate majority. The main risks are renewed escalation involving Iran after the US vote and the outcome of today's Israeli election.

The Fed is expected to hold on Wednesday and hike in December

Fed-funds futures put about a 10% probability on a hike at Wednesday's meeting and about 85% on a hike at the 9 December meeting, with about 68bp of tightening priced over twelve months (pricing can move quickly). The ten-year Treasury yield is around 5.00%, including a real yield of 2.66%, which keeps the cost of financing elevated. With a December hike largely priced in, equities will also respond to guidance on the policy path beyond year-end.

Credit is signalling more caution than equities

High-yield spreads are 338bp, 65bp wider in a month. Further widening would increase the risk of an equity drawdown; narrower credit spreads and CDS would reduce it.

LIBELLA FEAR/GREED MONITOR • 0–100

19 today (extreme fear), 16.5 on Friday, 43.6 a month ago and 57.4 a year ago



Source: Libella calculation; EODHD, YFDP, FRED, Cboe. Percentile of each of seven indicators within its trailing 252 sessions; descriptive, not a signal · Libella

Demand for Downside Protection Has Risen as Markets Soften

Options indicate a range, not a direction

SPY implied volatility of 14.9% translates into an illustrative movement of about $\pm 7.5\%$ to late January (7,097–8,256) under the stated assumptions. For the 20 November expiry, the largest SPY open-interest concentrations are in puts at 750 and calls at 770–780. These correspond to S&P 500-equivalent reference levels of about 7,521 and 7,721–7,822.

Skew has moved from a call bias to a put bias

The Cboe SKEW Index rose from 126 in August to 151.8 on 23 October, having reached 168.6 on 16 October. On 26 October, SPY's 30-day 25-delta skew (call implied volatility minus put implied volatility) was -5.1 volatility points, compared with a range of -6.0 to -4.0 over the week, while at-the-money (ATM) implied volatility was 14.3%. QQQ's skew was -6.5 , within a weekly range of -8.2 to -6.0 . In both cases, downside puts traded at higher implied volatility than comparable upside calls.

Retail participation has cooled from the summer

Citadel Securities (1 October) reported retail cash-equity turnover at 0.94 times its one-year average in September, the lowest of 2026 and about 26% below June. Retail options premium was 0.94 times, down from 1.41 times in June. Our own data do not measure retail flows.

What this means for the coming months

If SPY 25-delta skew moves from -5.1 towards -4.0 (the least negative reading in last week's range) while ATM implied volatility stays near 14%, that would indicate softer relative downside pricing. Alongside improving breadth (9) and credit conditions, it would strengthen the case for a more durable recovery. A move below -6.0 with rising ATM implied volatility would suggest continued caution. These reference levels are drawn from the 20–26 October sample and are not validated triggers.

Crowding

Libella's consensus-long basket (the most widely held US stocks) fell 4.9% over the month but is up 41.0% year to date, while the Libella consensus-short basket (FINRA short interest) rose 2.7% over the month. The gap points to short covering by hedge funds and a reduction in leverage in the most popular longs (Libella view), not a signal on its own.

The post-midterm window

Back-test analysis (Schwab, 18 August) shows the S&P 500 averaging $+5.7\%$ over the three months after midterms (up in 11 of 13 since 1974) and $+12.4\%$ over six months (up in all 13). Applied mechanically to the 26 October close, that implies about 8,114 and 8,629; the first is inside our options-implied range to 27 January (7,097–8,256).

CBOE SKEW AND RISK REVERSALS • CBOE SKEW

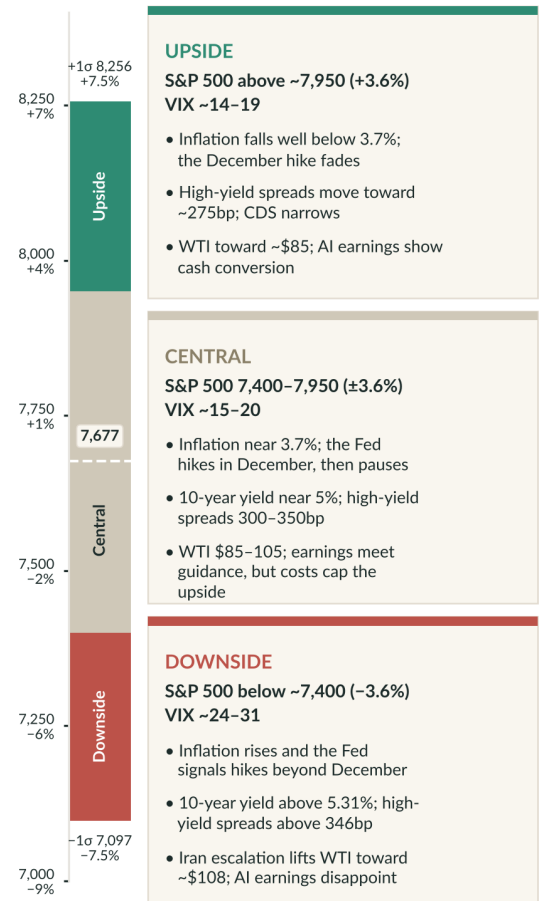
SKEW rose from 126 in August to a 169 peak on 16 Oct and 152 on 23 Oct; SPY's 30-day risk reversal is -5.1 vol points



Source: Cboe SKEW via EODHD, daily since April 2026; SPY risk reversal: Libella calculation from option chains, 26 Oct (history from 20 Oct only) • Libella

LIBELLA OPTIONS MONITOR: S&P 500 • ILLUSTRATIVE

Options price $\pm 7.5\%$ by 27 January (7,097–8,256). VIX3M, the price for volatility to late January, is 19.9. Conditions shown are consistent with each outcome, not necessary or sufficient



Source: Libella calculation. Range: SPY 90-day implied volatility $\times$ square root of time, one standard deviation, around the 26 Oct close. VIX bands: Libella judgement from how VIX behaved over the past 12 months when the S&P 500 sat near its 3-month high or well below it (small samples). Not a forecast; no Libella probabilities (Fed odds are market-implied, futures, 26 Oct) • Libella

CROWDING MONITOR • 12M AGO = 100

Most-shorted US stocks are $+2.7\%$ over a month and the most widely held are -4.9% ; the shorts are ahead by 7.6 points



Source: SEC 13F (30 Jun), FINRA short interest (30 Sep), YFDP closes; Libella calculation. Equal weight, daily rebalanced, current baskets held through history (not point in time) • Libella

Outlook and Forecasts: Earnings, Funding and 2027

LIBELLA VIEW

Libella view: an uneven recovery. The three-month S&P 500 central range is **7,400–7,950**. AI and semiconductor leadership stays vulnerable until AI earnings updates show returns on investment, financing conditions stabilise and CDS spreads narrow. Lower real yields and narrower credit spreads would improve the backdrop for small caps, which our base case does not have before December.

AI earnings are the support; financing is the constraint

Reactions are mixed: Meta, Lam Research, IBM and Texas Instruments mostly beat expectations but traded lower, ASML and TSMC sold off, and SpaceX rose 7.8% on its first operating profit. Hyperscaler capex was 96% of operating cash flow in Q2, so we prefer recurring software and security cash flows to equipment suppliers until the financing of the build-out is clearer. We need guidance that supports 2027 estimates and cloud revenue growing faster than capex, funded without wider credit spreads (Microsoft, Alphabet, Amazon and Apple report by 2 November).

Equity supply is a downside risk

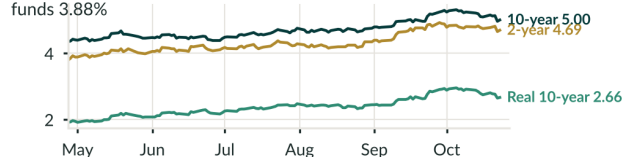
Anthropic filed publicly on 26 October and, per Reuters, seeks up to \$100bn (SpaceX raised a record \$75bn in June); we estimate pricing at about 17–20 November. Around SpaceX's listing the Nasdaq-100 fell 7% in the week to 10 June and the Magnificent 7 a further 6% by the 25 June bond sale, before the S&P 500 recovered to a new high.

The outlook for 2027

The IMF projects world growth of 3.1% in 2026 and 3.4% in 2027. We expect 2027 returns to depend more on earnings delivery than valuation expansion, with more selective leadership. Street estimates forecast 8,600–8,800 for the S&P 500 at year-end 2027 (+12% to +15% from the 26 October close); most banks publish targets from mid-November.

YIELDS AND REAL YIELDS • % YIELD

10-year 5.00% and real 10-year 2.66% (+95bp on the year); 2-year 4.69% v fed funds 3.88%



Source: US Treasury and TIPS yields, FRED via Libella Market Monitor, to 23 Oct 2026 • Libella

US HIGH-YIELD SPREAD • BASIS POINTS

338bp, 65bp wider in a month and 8bp below the one-year high



Source: ICE BofA US high-yield option-adjusted spread, FRED via Libella Market Monitor, to 23 Oct 2026 • Libella

WHEN	EVENTS THAT COULD CHANGE THE OUTLOOK
Now	Tue 27 Oct Israeli election • Wed 28 Oct FOMC; Microsoft, Alphabet results after the US close • Thu 29 Oct ECB; Amazon results • Mon 2 Nov Apple results
November	Tue 3 Nov US midterms • Anthropic IPO (est. 17–20 Nov) • about 18 Nov Nvidia results (expected) • Fri 20 Nov monthly options expiry
Dec–Jan	Wed 9 Dec FOMC • Thu 17 Dec ECB • Fri 18 Dec quarterly options expiry • Q4 earnings season in January • Wed 27 Jan FOMC (tentative schedule)

INDEX (LOCAL)	LAST	1M	YTD	52-WEEK RANGE	LEVELS WE MONITOR (SOURCE)
S&P 500	7,677	-0.9%	+12.1%	6,344–7,819	Support 7,600–7,620 (Schwab, 23 Oct); resistance at the 7,819 high; 50-day average ~7,697 and 200-day ~7,294. A sustained break below ~7,400 is our downside case.
FTSE 100	10,767	+0.7%	+8.4%	9,507–10,911	Support 10,730 then 10,542; resistance 10,890 then 10,990 (Investing Cube, 19–21 Oct).
Euro Stoxx 50	6,116	-3.0%	+5.5%	5,501–6,551	Mid-range; weakest of the US and European indices shown over the month. Levels we monitor: 6,000 and the 5,501 low.
Nikkei 225	63,143	-4.8%	+25.4%	48,538–72,366	Mid-range after +25% YTD. Level we monitor: 60,000. Additional level monitored: 66,000.
Hang Seng	23,076	-5.8%	-10.0%	22,672–27,968	Near the bottom of its range. We monitor the 22,672 low and approximately 24,000 on the upside.

Notes. Libella Macro Score v2.1: five pillars, 19 US indicators, back-tested 1972–2026. Macroeconomic Conditions: a simplified measure based on eight FRED indicators and scoring rules. Fear/Greed and crowding methods are on the Libella Monitor; crowding baskets are not point in time. SKEW: Cboe via EODHD (since 1 April 2026); risk reversals: Libella calculation, SPY and QQQ chains nearest 30 days, 20–26 Oct. Option ranges are one standard deviation from SPY 90-day implied volatility (14.9%) and are not forecasts; open-interest levels are SPY 20 Nov strikes scaled by the S&P 500/SPY ratio. Post-midterm averages: Schwab, S&P 500 price returns since 1974, from election day. Scenario levels, VIX bands, sector calls and levels marked Libella are Libella judgement. Sources: Libella Market Monitor, EODHD, FRED, YFDP, FINRA; Citadel Securities, 1 Oct 2026 (retail turnover); Reuters, 26 Oct (Anthropic IPO); Libella AI Themes, 24 Oct; Schwab Weekly Trader's Outlook (23 Oct) and midterms note (18 Aug); Investing.com and FXStreet, 26 Oct (futures-implied Fed odds; may have moved); Investing Cube (FTSE 100); BLS CPI via investingLive; Federal Reserve projections, 16 Sep; ECB staff projections, 10 Sep; IMF WEO, October 2026; Goldman Sachs, Ben Snider (19 Oct); BlackRock Q4 2026 equity outlook; Street year-end 2027 S&P 500 targets: Wells Fargo Investment Institute (8,600–8,800), Barclays (8,800); press reports, 2026.

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