PURDUE STUDENT MANAGED INVESTMENT FUND
FIXED INCOME & MACRO TEAM
NOVEMBER 2, 2026 | #004

THE MACRO BRIEF

THE BOTTOM LINE:

Cloud growth is accelerating, but investors are increasingly focused on the cost of the AI boom. Azure grew 48%, Google Cloud 103%, and AWS 39%, while Alphabet's shares fell 13% as rising capex and negative free cash flow raised concerns about returns. Microsoft's $25B bond sale highlights how debt is becoming a bigger part of AI financing. Meanwhile, Hong Kong tech stocks remain under pressure, with the Hang Seng Tech Index down more than 30% YTD, and the $6.3B Binance hack added another hit to risk sentiment. Markets are still betting on AI growth, but spending discipline, financing risks, and security concerns are becoming harder to ignore.

ECONOMIC OUTLOOK

Headline Fact: Q3 GDP grew at a 3.4% annualized rate, led by 3.8% consumer spending and a 12.7% jump in real nonresidential investment, with AI-related computing equipment up 67% and data center construction up 127%. However, September PCE inflation accelerated to 3.6% YoY, while consumer spending rose just 0.5% and personal income 0.2%. Federal debt also reached 100.3% of GDP, while housing starts fell 5.2% in September.

Our Read: The Fed stays alert as sticky inflation limits cuts, while slowing consumer demand clouds the outlook. The downside risks are elevated.

ECONOMIC CALENDAR

November 2: ISM manufacturing (October)
November 3: U.S. midterm elections; JOLTS (September)
November 5: Bank of England decision
November 6: Jobs report (October)
November 10: CPI (October)

FOMC MEETINGS

December 8-9 (includes updated projections)

FED AND MONETARY POLICY

Headline Fact: The Fed held rates at 3.75% to 4.00% on 10/28 in a 10-2 vote, with Cook and Hammack dissenting in favor of a 25 bp hike. The statement said activity is expanding at a strong pace and inflation remains elevated. Q3 GDP grew 3.4% vs 3.2% expected, Q3 core PCE rose at a 2.5% annualized pace, but on a year-over-year basis, September core PCE ticked up to 3.1%. Kalshi puts December hike odds at about 76%.

Our Read: The Fed hikes 25 bp to 4.00% to 4.25% on 12/9.

TREASURY MARKETS

Headline Fact: Treasury yields fell as investors sought safety after an AI-driven stock selloff. The 10-year dropped from 5.13% to 4.96% in one day, ending the period at 4.94%. The 2s10s spread narrowed to 0.29 before widening to 0.38.

Our Read: Continued market volatility could keep yields below 5%, while inflation and government borrowing remain longer-term risks.

EQUITY MARKETS

Headline Fact: Cloud growth accelerated, with Azure up 48%, Google Cloud 103%, and AWS 39%, but investors focused on rising AI capex and weaker cash flow. Microsoft raised at least $25B in bonds to help finance expansion. Hong Kong tech stocks fell, with the Hang Seng Tech Index down over 30% YTD, while Binance suffered a record $6.3B crypto theft.

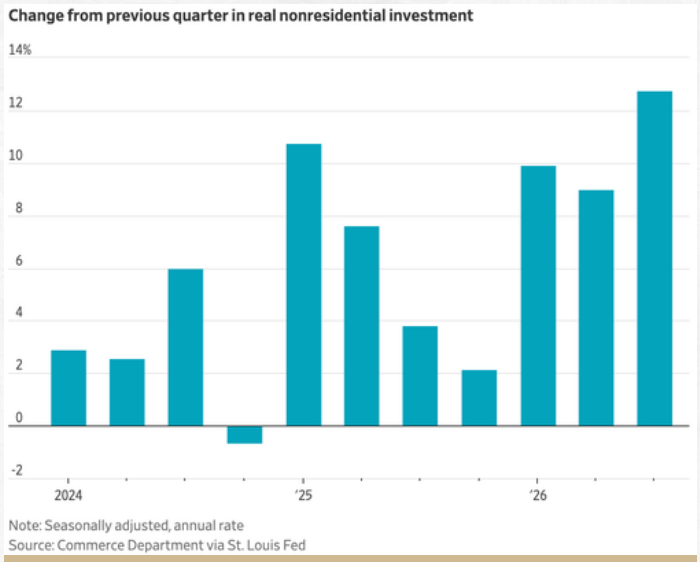
Our Read: AI growth remains strong, but rising financing costs and questions around returns are weighing on risk appetite.

ANTHROPIC'S IPO

Headline Fact: Anthropic, one of the largest pure-play AI companies, filed a Form S-1 with the SEC. The extensive risks and uncertain financial outlook only add to the suspense of what may be the largest IPO in history.

Our Read: AI growth remains strong, but rising capex, debt, and security risks are making investors more cautious.

ECONOMIC OUTLOOK



AI DRIVES GROWTH AS CONSUMERS FEEL THE PRESSURE

The U.S. economy grew at a 3.4% (BEA) annual rate in Q3, its fastest pace in a year. Consumer spending rose 3.8% (BEA), while real nonresidential investment jumped 12.7% (St. Louis Fed), driven largely by AI-related spending. Investment in computing equipment surged 67% (WSJ), and data center construction rose 127% (WSJ). But the growth is concentrated in a few areas. Housing remains weak, hiring has slowed, and inflation has eaten up nearly all wage gains. Real spending grew 2.5% (BEA) over the past year, while real after-tax income rose just 1%, pushing the saving rate down to 3.8% (BEA). Strong business investment is helping keep growth elevated, but the economy is increasingly reliant on AI spending and consumers drawing on their savings. If investment slows or households pull back, that momentum could be harder to sustain.

WHAT WE'RE WATCHING:

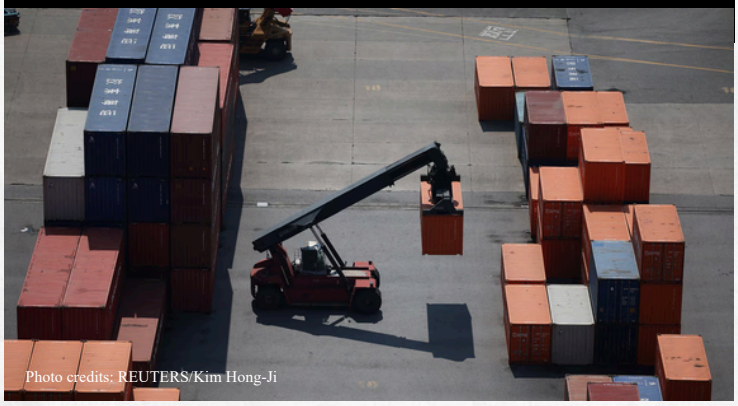
Whether inflation stays elevated as consumer spending slows. Hotter data could push Treasury yields higher and delay Fed rate cuts, while weaker demand may challenge growth beyond the AI boom. Upcoming inflation and spending data will be key to the Fed's next move.

INFLATION PICKS UP AGAIN, COMPLICATING THE FED'S NEXT MOVE

The Fed's preferred inflation gauge picked up in September, with Personal Consumption Expenditures (PCE) prices rising 0.5% (Grossman) month over month, up from 0.3% in August. Annual inflation climbed to 3.6% (Grossman), while core PCE came in at 3.1% (Grossman). At the same time, consumer spending grew just 0.5% (Grossman), and personal income rose 0.2% (Grossman), both below expectations. Our take: The Fed is stuck between inflation that won't cool and a consumer that's starting to slow. That makes the next rate decision even harder and keeps markets on edge.

SOUTH KOREA'S CHIP BOOM PUSHES EXPORTS TOWARD $1 TRILLION

South Korea's exports surged 93.7% (WSJ) year over year in October to $115.28 billion, bringing the country closer to its $1 trillion annual export target. Semiconductor exports more than tripled to $56.44 billion (WSJ), as AI infrastructure investment drove strong demand for memory chips. Total exports reached $930 billion (WSJ) in the first 10 months of the year, putting the target within reach. Imports rose 36% (WSJ) to $72.78 billion, leaving a $42.5 billion trade surplus, above market expectations. Growth extended beyond chips, with auto exports up 18% and petroleum products up 80%. Exports to the U.S. nearly tripled, while shipments to China more than doubled, showing the strength of demand across major markets.


Photo credits: REUTERS/Kim Hong-Ji

FED AND MONETARY POLICY



Photo credits: Al Drago/Bloomberg

THE FED HOLDS RATES UNCHANGED

On Wednesday, 10/28, the Federal Reserve voted to keep rates steady at 3.75% to 4.00% (CNBC). This means our read from our previous 2 Macro Briefs was correct (the Fed would hold on 10/28). The vote was 10-2, with Cook and Hammack dissenting as both wanted a 25 bp hike to combat inflation (CNBC). The Federal Reserve released a statement that says activity is "expanding at a strong pace" and "inflation remains elevated" (Federal Reserve). The statement gives no rate path for us to take away what they are thinking (CNBC). It appears that the Federal Reserve is being cautious about raising rates because inflation is being driven mostly by energy and commodities. September CPI was 3.7% headline but 2.6% core. This supports the idea that inflation is mostly energy prices, and a hike cannot fix the oil supply from Hormuz and the Houthi attacks.

The prediction market Kalshi puts the odds of a December hike at roughly 76%. During the announcement, the odds rose from 75% to 80%, but they have since cooled after the release of Q3 PCE data. Q3 core PCE rose at a 2.5% annualized pace (BEA), which Warsh could point to as a sign that policy is starting to work (CNBC), and could give the Fed a reason not to hike in December. However, September core PCE ticked up to 3.1% YoY from 3.0% (BEA), and Q3 GDP grew 3.4%, beating the 3.2% expected (BEA). With inflation still rising and the economy growing this fast, the Fed doesn't have much reason to hold off in December.

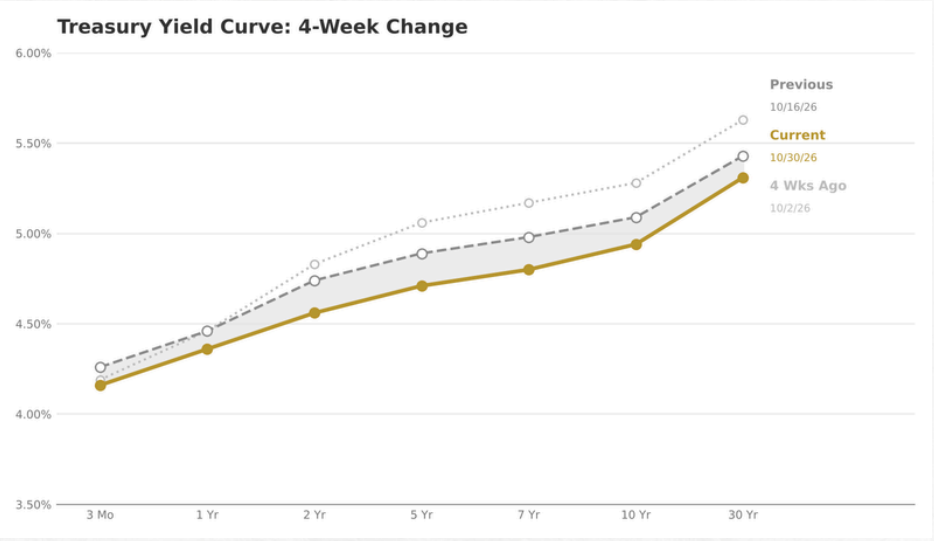


WHAT WE'RE WATCHING

The October jobs report on 11/6 and October CPI on 11/10, the last two data points before the 12/9 decision. If payrolls come in weak again and core inflation stays flat, a December hike comes into question and our read is at risk. We are also watching what Warsh and other Fed officials say before December, since he has kept markets guessing on the next move (CNBC). Our Read: The Fed hikes 25 bp to 4.00% to 4.25% on 12/9.

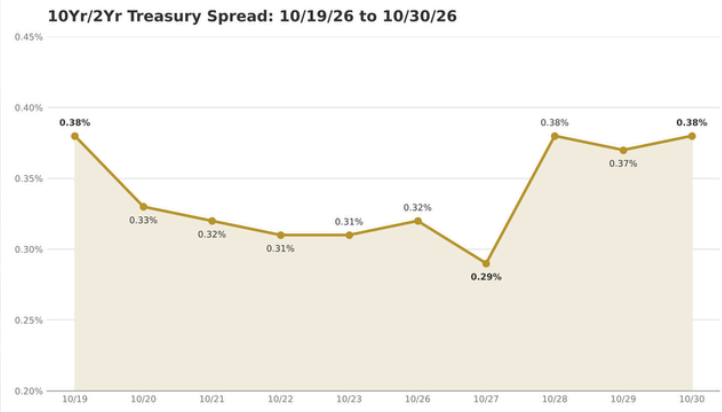
TREASURY MARKETS

INVESTORS RUN TO SAFETY



Treasury yields fell over the past two weeks, and the reason had more to do with fear than with the economy. The biggest move came midway through the period, when a selloff in AI-related stocks sent investors looking for a safer place to put their money. Many of them turned to Treasuries, and that extra buying pushed the 10-year yield down from 5.13% to 4.96% in a single day (CNBC, FRED). It was the first time in about a month that the 10-year closed below 5%. Tensions in the Middle East added to the nervousness, but the drop in tech stocks was the main trigger (CNBC).

The rally didn't fully hold. The 10-year drifted back toward 5% in the days that followed and finished the period at 4.94%. Ongoing worries about AI spending kept investors interested in bonds (CNBC). This is different from what happened in early October. Then, concerns about inflation and government borrowing pushed yields to their highs. This time those concerns didn't really change; investors simply wanted safety.



The decline was spread evenly across short-term and long-term Treasuries, with most yields falling between 0.10 and 0.18 percentage points. As a result, the gap between the 10-year and 2-year yields stayed narrow. It dipped to 0.29 percentage points, well below our 0.45 threshold, before widening back to 0.38 by the end of the period (FRED).

Where yields go next depends on a couple different factors. Whether the nervousness in the stock market lasts. If AI-related stocks keep falling, investors may keep buying Treasuries for safety, which could push the 10-year back below 5% and keep it there. If stocks steady, that safety buying could fade, and the 10-year would likely drift back above 5%. Over the longer run, the bigger factors are still inflation and government borrowing, the same concerns that drove yields to their highs in early October.

EQUITY MARKETS

CLOUD GROWTH IN MAJOR PLAYERS LEADS TO MIXED OUTCOMES

Microsoft, Alphabet and Amazon all reported intentions to accelerate cloud growth this week. Microsoft's Azure revenue rose 48% to $33.2b and the company guided to nearly 50% growth next quarter ("Microsoft Azure Revenue Surges 48%"). Its quarterly capex of $45.2b also came in below the $50 billion forecast, and the stock rose about 4.5% ("Microsoft Azure Revenue Surges 48%"; "Microsoft Earnings"). Alphabet's Google Cloud revenue grew even faster, up 103% to $30.7b. But $51.4b of quarterly capex pushed free cash flow to negative $9.1b, and management forecasts a significant rise in capex in 2027. Alphabet's stock fell 13%, its worst day since Alphabet's IPO in 2004, wiping out $500b in market value ("Alphabet Stock Eyes Worst Day"). Amazon's story reflects Alphabet's; AWS grew 39%, its fastest in nearly 5 years; however, earnings missed, and shares subsequently fell 7% after hours (Cabili). All in all, this shows a trend towards growth no longer being enough for the market, and pricing now relies more on capex discipline and free cash flow.

TECH SLIDES IN HONG KONG

Chinese tech stocks extended their October slump this week, as doubts about returns from AI investment spread from Wall Street to Hong Kong. The Hang Seng Tech Index fell 2.84% on Thursday to 3,744, below the lows of the week prior ("Hang Seng Closes below 23,000"). Chip stocks led the decrease: Biren Technology fell more than 10%, and Hua Hong Semiconductor fell 7% ("HK Stocks Close"). The Index fell as much as 4.6% on Oct. 22 alone and is now down more than 30% YTD ("Hang Seng Tech Index Breaks below 3,830"). CATL's weak quarterly results and Tencent's decrease below HK$400 have contributed to the pressure ("Hang Seng Drops 216 Points"). It's more of a rotation than a run; financial and energy stocks gained, cushioning the broader Hang Seng ("Hang Seng Closes below 23,000"). Chinese policymakers are also on their toes: their central bank set up a swap facility to provide emergency liquidity to non-bank financial institutions facing large-scale redemptions ("China Launches Swap Facility").

LARGEST CRYPTO HEIST EVER

On October 29, hackers linked to North Korea stole more than $6.3 billion in crypto from Binance, the largest exchange on record, nearly all within 20 minutes. The breach stemmed from an engineer's compromised laptop, prompting Binance to pause withdrawals and promise to cover losses. More than $3 billion in assets have since been frozen, but markets still fell, with Bitcoin dropping 4-5%. What stands out is that hackers bypassed the blockchains themselves and targeted the exchange instead.



Photo credits: Reuters

MICROSOFT JOINS THE AI BORROWING TREND

Microsoft is raising at least $25b through its first US investment-grade bond sale in nearly a decade, a day after its earnings were released. The deal spans 10 tranches with maturities from 2 to 40 years and has drawn more than $115b in orders so far, over four times the amount offered ("Microsoft Taps Bond Market"). CFO Amy Hood had informed investors that the company would seek additional funds to preserve cash flow and flexibility ("Microsoft Stock Jumps 4%"). Total hyperscalers' investment-grade bond sales have totaled $313B this year, nearly triple last year's total ("Microsoft Taps Bond Market"). What stands out is that Microsoft has until now been the only major hyperscaler to stay out of the bond market, and reneging on the decision to stay out points to debt truly having become a core part of how AI buildout is financed, not a crutch for players with less financial means.

ANTHROPIC'S IPO

ANTHROPIC FILES S-1 WITH SEC



Photo credits: Getty Images

Anthropic, the company behind the Claude family of LLMs, recently filed Form S-1 with the SEC (CNBC). The S-1 is the initial registration form that private companies file in order to go public through an IPO and includes a plethora of information. Anthropic's S-1 is notably significant due to the company's $1 to $2 trillion potential valuation, possibly making it the largest IPO in history. The company intends to list itself on the Nasdaq with the ticker "ANT" (WSJ). Anthropic going public will likely be a defining moment for the AI boom. Being one of the largest pure-play AI companies, the success of its IPO will reveal a lot about how much investors are willing to pay for future growth in artificial intelligence.

Anthropic's revenue increased twelvefold from $386M in 2024 to $4.5B in 2025. And in the first half of 2026, it reported $16.2B. Despite this growth, the company has been reporting operating losses each year, including $2.9B in 2024, $8.06B in 2025, and $693M so far in 2026 (EDGAR). These losses reflect Anthropic's enormous investments in infrastructure, personnel, and marketing. And interestingly, Anthropic's net loss so far in 2026 is $80.7B, but that is largely due to a $72.3B non-cash expense caused by an increase in the fair value of its convertible notes, derivative liabilities, and SAFEs (EDGAR). The company has actually reported a net increase in cash of $97.5B in the first half of 2026, largely driven by proceeds from issuing preferred stock. Overall, Anthropic has had exceptional revenue growth in recent years, and its operating profitability has been getting closer to breakeven. But with enormous capital commitments in the future, we will see if Anthropic can justify its infrastructure spending and record-setting valuation.

Furthermore, Anthropic's S-1 contains 93 pages of risk factors. Comparatively, SpaceX had 37, Microsoft had 40, and Coinbase had 60. The two largest risk categories were the business & industry section and the privacy/cybersecurity section. Some of the more notable risks include: a substantial amount of their revenue comes from a limited number of customers, intense competition exists, high amounts of debt have been incurred, data breaches could occur, and models could behave in unintended ways and cause harm. Considering these extensive risks, the uncertain financials, and the possibility of this being the largest IPO in history, it will be fascinating to see how things unfold for Anthropic. The next step in the process will be the SEC's review of the S-1 filing, which may require Anthropic to make additional disclosures or corrections.

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