Residual Inertia

WEEKLY REVIEW / U.S. EQUITIES

2026.10.10

Defensive conditions persist; sector strength cools

Structural pressure persists as AI hardware cools.
Long-end rates remain a valuation constraint.

Overall risk eased slightly, without confirming an all-clear.
Relative sector strength coexists with a recent pullback.

Composite state	AI hardware	SMH / 20 days
65.8	62.6	+6.1%
Defensive	Constructive	Five days: -4.3%

Taiyang Feng (Sunny)

RI-WR-2026-W41

Published 2026-10-10 · Data 2026-10-09 · ACM 10-08

English edition 2026-10-11 · Independent research, from simplicity

01 / EXECUTIVE VIEW

Risk eased; structural pressure remains

As of October 9, the composite Market Regime score was 65.8, still Defensive. In the current data vintage, the October 2 score was 66.59 and the October 9 score was 65.84, a decline of 0.75 points. The reading improved slightly without leaving the Defensive range. This does not confirm that market risk has cleared.[1]

The main constraint remains internal structure. Participation risk at 74.8 and fragility at 94.1 are substantially higher than market risk at 54.5 and financial stress at 40.0. Persistent trends in selected assets do not establish broad participation across the market. Financial conditions have not produced the same intensity of pressure, while concentration and the potential for synchronized unwinds remain concerns.[1]

Composite state	Fragility	AI hardware
65.8	94.1	62.6
10-09 · Defensive	10-09 · Stress	10-09 · Constructive

The AI hardware score declined from the previously published 91.5 to 62.6, changing from Strong to Constructive. SMH remained up 6.12% over 20 trading days but fell 4.32% over five days. Longer-window relative strength and recent cooling coexist; a positive 20-day return alone does not establish an unchanged short-term trend.[1]

The research interpretation remains selective rather than broadly aggressive. Participation, structural fragility, sector trends and rates should be considered together. The weekly model's Level 4 / 90% is a retained signal, not a completed new weekly reading. Reference exposure is not the author's or any account's actual allocation.[1]

Weekly signal: still waiting for complete credit data

Level 4 / 90% retains the complete October 2 signal; this is not a new weekly signal. High-yield observations end October 8; October 9 remains pending.[1]

Reading path: broad state → participation → sector structure → rates → verification. Input dates and model directions differ; one score cannot replace the full assessment.

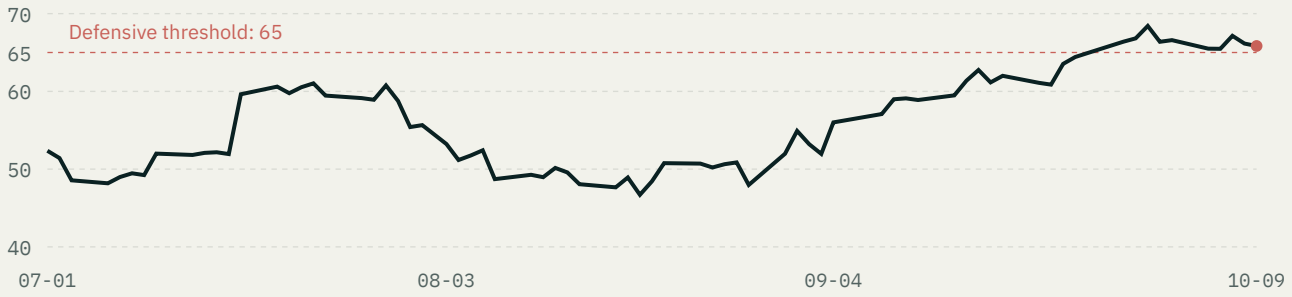
02 / MARKET STRUCTURE

Fragility remains the main constraint

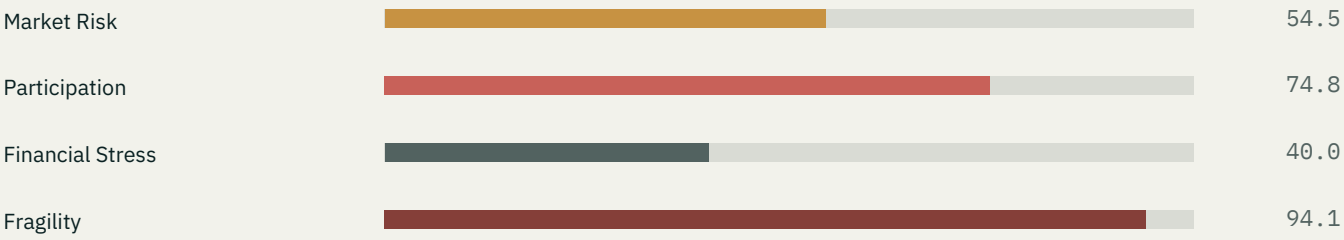
Market risk at 54.5 is Caution and financial stress at 40.0 is Neutral. Participation is still Defensive, while fragility is in Stress. This resembles internal structural pressure without a comparable amplification of financial stress, rather than simultaneous deterioration in every risk source.[1]

The composite is the equal-weighted result of four pillars. Participation at 74.8 and fragility at 94.1 keep the overall score elevated even with lower readings in the other two pillars. Strength in selected indexes or sectors therefore does not automatically invalidate the broad-market risk assessment.[1]

Three months / current-vintage regime history



Four pillars / higher scores imply greater risk



During the week, same-vintage composite readings ranged from 65.48 to 67.15 and ended at 65.84. Even the low remained above the Defensive threshold of 65. These fluctuations are not state changes. Any future decline should be assessed alongside participation and fragility, not solely a temporary threshold crossing.[1]

The previous report retains its originally published October 2 reading of 66.82; the current recalculated history reports 66.59 for that date. Weekly comparisons here use one vintage so revisions are not treated as market improvement. The legacy weighted reading of 58.4 uses a different methodology and is not interchangeable with the current official reading of 65.8.[1]

Source: frozen market_regime_history, 2026-07-01 to 2026-10-09.[1]

03 / PARTICIPATION & CONDITIONS

Read breadth and conditions separately

The dashboard's approximately 37% breadth figure is not a single 200-day moving-average ratio. It is the simple mean of two September month-end measures: 41.47% above the 200-day average and 32.60% outperforming the SPY benchmark proxy over 12 months. Their mean is 37.04%, with an observation date of September 30.[1]

The October 9 daily 200DMA estimate is 41.83%, or 2,438 of 5,828 eligible observations. Its definition, date and denominator differ from the monthly composite, so this cannot be described as breadth rising from 37% to 42%. The regime's participation pillar combines the latest daily moving-average breadth with the September month-end 12-month outperform ratio.[1]

Monthly breadth mean

37.0%

09-30 · Two-measure mean

Daily 200DMA breadth

41.8%

10-09 · 2,438 / 5,828

NFCI - ANFCI

0.010

10-02 · Not a standalone signal

NFCI and ANFCI observations dated October 2 were -0.494 and -0.504, with a difference of 0.010. NFCI indicates conditions looser than their historical average; ANFCI indicates conditions looser than expected given the current economic environment. However, their four-week changes were +0.066 and +0.086, indicating tightening relative to earlier readings. A narrower gap does not by itself establish further overall easing.[1][4]

Factor crowding is version- and date-specific. The September month-end long-short variant excluding the market factor was 0.732 / L3. The August month-end beta-adjusted long-only variant was 0.872 / L4. Elevated readings in selected variants are consistent with fragility, but they are not new October 9 daily signals and do not establish that every factor became more crowded this week.[1]

Crowding variants and dates are not interchangeable

Variant	Observation	Score / level
Long-short / ex market	2026-09-30	0.732 / L3
Long-only / beta adjusted	2026-08-31	0.872 / L4

Breadth coverage: monthly moving-average measure ~92.3%; monthly outperform measure ~91.7%; daily moving-average measure ~91.2%. Changing samples limit direct comparisons.[1]

04 / SEMICONDUCTOR & AI

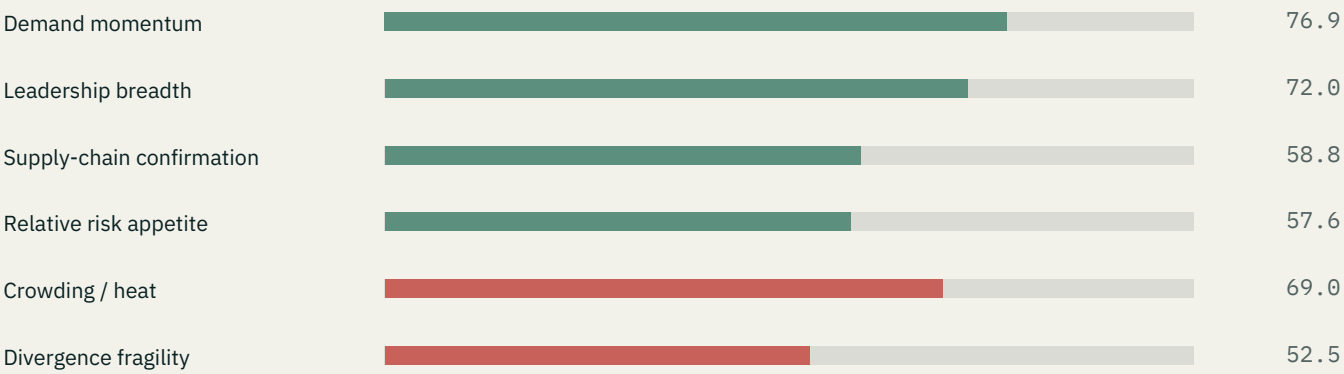
Constructive, with a recent pullback

AI hardware	Sample 20DMA breadth	SMH / five days
62.6	71.4%	-4.32%
Constructive · 10-09	20 / 28 monitored stocks	Twenty days: +6.12%

AI hardware scored 62.6, Constructive. Demand momentum at 76.9 and leadership breadth at 72.0 still provide support. Supply-chain confirmation at 58.8 and relative risk appetite at 57.6 do not show the same degree of broad reinforcement as the prior report. Constructive describes the model state, not a guarantee of subsequent gains.[1]

Of 28 monitored stocks, 20 were above their 20-day moving averages (71.4%) and 22 above their 50-day averages (78.6%). These measure short- and medium-term participation in the sector sample, with a different universe and horizon from broad-market 200DMA breadth.[1]

Six pillars / trend support and risk are distinct



Higher green = stronger; higher red = greater risk. The scores do not share one direction.[1]

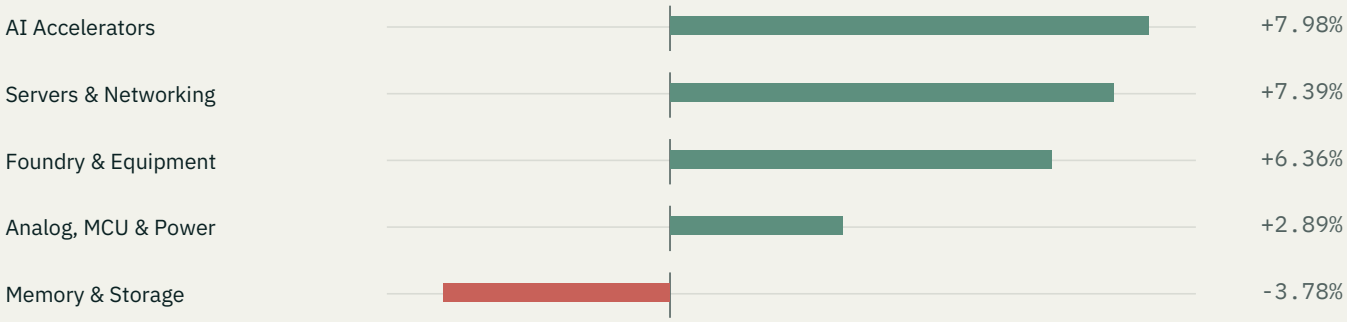
SMH's 20-day return exceeded SPY's by 4.25 percentage points and QQQ's by 1.03 percentage points. Relative advantage remained, but semiconductor ETFs generally declined over five days while SPY gained 1.16% and QQQ gained 0.23%. The recent week's relative performance therefore differs from the longer window.[1][2]

Crowding/heat was 69.0, Elevated, below the prior published 81.5 but not back to a low-risk state. Divergence fragility was 52.5, Contained. Weaker trend support, cooler heat and residual elevated risks can coexist. Sector cooling should not be equated with the disappearance of every risk.[1]

05 / SECTOR INTERNALS

Leadership and supply-chain returns differ

Sub-industries / average 20-trading-day price change



Over 20 trading days, monitored AI accelerators gained an average 7.98%, servers and networking gained 7.39%, foundry and equipment gained 6.36%, and analog/MCU/power gained 2.89%. Memory and storage fell 3.78%. Strength exists across multiple parts of the chain, but participation is uneven.[1]

Over five days, servers and networking still gained 0.64% on average; all four other groups declined. AI accelerators fell 3.31%, foundry and equipment 6.11%, analog/MCU/power 6.19%, and memory/storage 5.46%. Cooling is more evident in this short window than in cumulative 20-day returns.[1]

ETF adjusted-price changes / through October 9

ETF	Five days	Twenty days
SPY	+1.16%	+1.87%
QQQ	+0.23%	+5.09%
SMH	-4.32%	+6.12%
SOXQ	-4.33%	+6.26%
SOXX	-5.01%	+6.13%
XSD	-4.91%	+4.42%

HPE, AMD and MRVL led the monitored universe over 20 days, gaining approximately 18.3%, 17.8% and 16.6%. This is a ranking of observed price changes, not a buy list. The difference between leaders and other stocks should be considered with breadth, supply-chain confirmation and risk heat.[1]

If relative returns stay positive while breadth contracts and supply-chain confirmation weakens, sector strength may depend increasingly on a few leaders. Renewed participation across more groups, with controlled heat, would provide broader support for a Constructive reading. These are observation conditions, not predictions for next week.[1]

06 / RATES & VALUATION

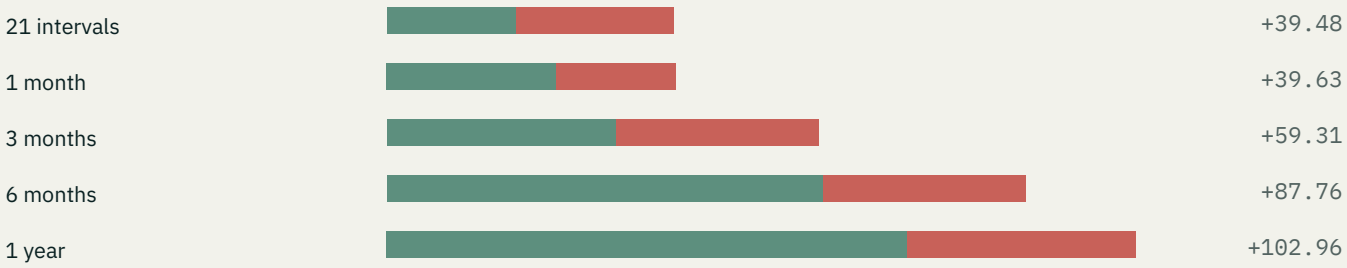
The start date changes the dominant driver

10Y ACM fitted yield	Expected short rate	Term premium
5.217%	4.297%	0.920%
Latest observation 10-08	Fitted-yield component	Fitted-yield component

The New York Fed ACM source is available through October 8. The 10-year fitted yield was 5.217%, comprising an expected-average-short-rate component of 4.297% and a term premium of 0.920%. The components sum to the fitted yield. This is a model decomposition, not a traded Treasury yield quote.[1][3]

Across 21 observation intervals, September 9 to October 8, the fitted yield rose 39.48 basis points: 17.84 bp from expected rates and 21.64 bp from the term premium. In that window, rising term compensation contributed more, so long-end pressure cannot be attributed exclusively to policy-rate expectations.[1][3]

Cumulative changes by window / basis points



Green: expected short rate; red: term premium; labels: total yield change.[1][3]

Start / end 10-08	Expected bp	Premium bp	Total bp
2026-09-09	+17.84	+21.64	+39.48
2026-09-08	+23.23	+16.40	+39.63
2026-07-08	+31.55	+27.77	+59.31
2026-04-08	+59.89	+27.87	+87.76
2025-10-08	+71.51	+31.46	+102.96

The calendar-month window starts September 8: the total increase was 39.63 bp, comprising 23.23 bp from expected rates and 16.40 bp from the premium. Moving the start date back one observation changes the dominant component. Short-window term compensation pressure cannot be generalized to the calendar month or every horizon; comparisons must preserve their dates.[1][3]

Over three months, six months and one year, expected-rate contributions were 31.55, 59.89 and 71.51 bp, respectively, exceeding the corresponding premium contributions. Rising long-end rates remain a valuation constraint, with window-dependent drivers. This decomposition is neither a forecast of the next FOMC decision nor a standalone explanation of equity prices.[1][3]

1 bp = 0.01 percentage points. Rounded component sums may differ from totals by 0.01 bp.

07 / NEXT OBSERVATIONS

Wait for a complete signal and joint confirmation

This week: high-yield credit data remains incomplete

The required October 9 observation is missing; the source ends October 8. Retained complete signal: October 2, Level 4 / 90%, effective October 5.

The October 9 weekly risk signal remains PENDING_DATA. The high-yield spread input BAMLH0A0HYM2 currently ends October 8, short of the required Friday observation. A successful refresh request does not mean the week's inputs are complete. No additional assessment of missing October 9 credit-market changes is made here.[1][5]

Displayed Level 4 / 90% retains the complete October 2 signal, effective October 5. Whether the new October 9 week maintains or changes that level cannot be established until credit data is complete and calculations are finished. Higher reference exposure coexisting with a Defensive composite reflects different model emphases and requires cross-checking participation and fragility.[1]

Verification path / conditions, not forecasts

01 **Broad participation**
Risk, participation and fragility ease together, with stable breadth coverage.

02 **Sector diffusion**
Relative strength extends across more AI hardware groups, with controlled heat.

03 **Rates and credit**
Compare consistent rate windows and cross-check credit once the missing input arrives.

A more positive research assessment requires joint confirmation: lower composite risk alongside easing participation risk and fragility, improved daily moving-average breadth with stable coverage, and AI hardware relative strength supported by more groups. Renewed composite increases, narrower breadth or a wider sector pullback would support retaining the Defensive assessment.[1]

Rates and credit provide separate checks. Track which component drives long-end yield changes using consistent windows, and wait for the missing high-yield observation before assessing alignment with other stress indicators. A single score, strong stock or threshold crossing does not substitute for these checks.

08 / METHODS & SOURCES

Data, versions and research boundaries

Input	Observation / effective date
Equities / composite / AI hardware	2026-10-09
ACM / high-yield credit	2026-10-08
NFCI / ANFCI	2026-10-02
Retained weekly signal	Signal 10-02 / effective 10-05
Monthly breadth / long-short crowding	2026-09-30
Beta-adjusted long-only crowding	2026-08-31

Published October 10, 2026. Equity and composite observations mainly run through October 9. ACM and high-yield spread observations end October 8; NFCI/ANFCI and the retained weekly signal end October 2; monthly breadth and long-short crowding end September 30; beta-adjusted long-only crowding ends August 31.[1]

The existing composite model uses four equally weighted pillars based on prior-only five-year rolling percentiles after sufficient history. Ranges are below 35 Constructive, 35 to below 50 Neutral, 50 to below 65 Caution, 65 to below 80 Defensive, and 80 or above Stress. These are not crisis probabilities. AI hardware uses a separate model, so its score is not the same risk scale.[1]

Price changes use dashboard adjusted-price inputs; dividend-reinvestment returns were not independently reconstructed, and results are not strategy performance. Breadth uses the Massive extension with historical ticker seeds, not official current CRSP coverage; eligible samples and denominators vary. The AI universe contains 28 monitored stocks, not the entire sector. Crowding variants are not interchangeable.[1][2]

The standalone WQS card labeled October 31 is not treated as a realized current observation. The exported composite is retained without re-estimation. Revisions, pending data and different windows are identified separately. Cover mountains are brand imagery; report charts use frozen inputs.[1]

Sources

[1] Public frozen report inputs

[2] Massive adjusted-price methodology

[3] New York Fed ACM Treasury Term Premia

[4] Chicago Fed NFCI/ANFCI methodology

[5] FRED high-yield spread input

Disclosure

Prepared by Residual Inertia, author Taiyang Feng (Sunny), for independent research and information sharing. This is not investment or securities-trading advice. Model reference exposure is not actual holdings; the report does not provide the author's holdings or conflicts of interest. Historical results and model states do not guarantee future outcomes.