

Warsh Is Promising Something The Fed Can't Control

*?The Committee **will** deliver price stability.?*

That promise has appeared in the FOMC statement in each of Warsh's first three FOMC meetings. It deserves scrutiny because the Fed doesn't usually make promises. Typically, the Fed Chair and FOMC describe economic and financial conditions and then state intentions. They tend to be shy about making promises because the Fed's ability to impact prices and economic activity is limited. To wit, two of today's biggest drivers of prices and economic growth are oil and AI-related capex spending.

Crude oil is over \$100, up roughly 70% over the past year and 14% this month alone, due entirely to the war with Iran. The Fed can't manage the war or reduce oil-related inflation. It said as much in July, when the FOMC statement attributed elevated inflation *?in part?* to *?supply shocks that have driven price increases in certain sectors, including energy.?* That sentence came out of the September FOMC statement.

Then there is the capital spending boom. Across Alphabet, Microsoft, and Amazon, calendar 2026 spending guidance approaches \$600 billion, with Alphabet already signaling a significant increase in 2027. This is not only keeping GDP elevated but putting upward pressure on inflation.

The Fed controls the overnight interest rate. It does not control the Strait of Hormuz, and it does not decide whether a handful of companies spend \$600 billion next year or \$400 billion. The Fed may face breaking a promise, which does not bode well for the higher level of Fed credibility Warsh is trying to restore.

The statement instead should read *?The Committee **aims to** deliver price stability.?*

Two Forces Driving Inflation. Neither Answers To The Fed.

What moved since the Iran war began on February 28, 2026, and what the Fed did about it

WHAT THE FED DOES NOT CONTROL

Oil

+51%

WTI crude, per barrel

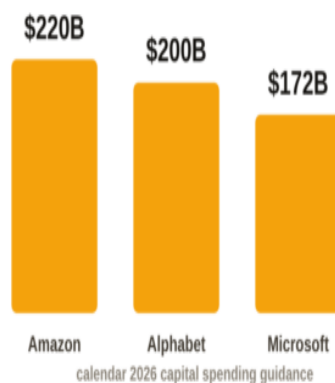


WHAT THE FED DOES NOT CONTROL

The AI build

\$592B

combined



WHAT THE FED DOES CONTROL

One interest rate: 3.50%-3.75% → 3.75%-4.00%

A single 0.25% move, on September 17,
in the eight months since the war began

WTI crude settled at \$67.02 the day before the war began and trades near \$101.50 today. Over the same stretch the Federal Reserve raised its policy rate once, by a quarter point. Meanwhile Alphabet, Microsoft and Amazon have guided to roughly \$592 billion of combined capital spending for calendar 2026, a figure that bids directly for electricity, chips, industrial materials and construction labor. The Fed has no lever that reaches either one.

Sources: WTI daily settlements; FOMC statements, July 29, September 16 and October 28, 2026; company capital expenditure guidance. Capex figures are guidance midpoints and Amazon reports October 29. Chart by Real Investment Advice.

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What To Watch Today

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EARNINGS

Friday, October 30, 2026. The oil majors close out mega-cap week.

COMPANY (TICKER)	TIMING	EPS EST.	REV. EST.
ExxonMobil (XOM)	Before open	\$4.03	\$104.4B
Chevron (CVX)	Before open	\$4.83	\$60.7B

COMPANY (TICKER)	TIMING	EPS EST.	REV. EST.
AbbVie (ABBV)	Before open	\$3.77	\$17.3B

SOURCE: YAHOO FINANCE CONSENSUS EPS. REVENUE CONSENSUS FROM TIGER BROKERS, 24/7 WALL ST. AND HUDSON LABS PREVIEWS. AS OF OCTOBER 29, 2026.

ECONOMY

Friday, October 30, 2026. Wage costs and the last session of October. All times ET.

TIME (ET)	RELEASE (PERIOD)	PRIOR	CONSENSUS	FORECAST
8:30 AM	Employment Cost Index QoQ (Q3)	0.9%	0.8%	0.7%
8:30 AM	ECI Wages QoQ (Q3)	0.9%	n/a	0.8%
9:45 AM	Chicago PMI (Oct)	58.8	56.1	56.0

Fed speakers: St. Louis Fed President Alberto Musalem speaks at 12:30 p.m. ET, the first Fed remarks since Wednesday’s decision to hold rates steady. Friday is also the last trading day of October, so expect month-end rebalancing flows into the close.

SOURCE: TRADING ECONOMICS (PRIMARY), CONFIRMED AGAINST THE BLS RELEASE SCHEDULE. AS OF OCTOBER 29, 2026.

Market Trading Update

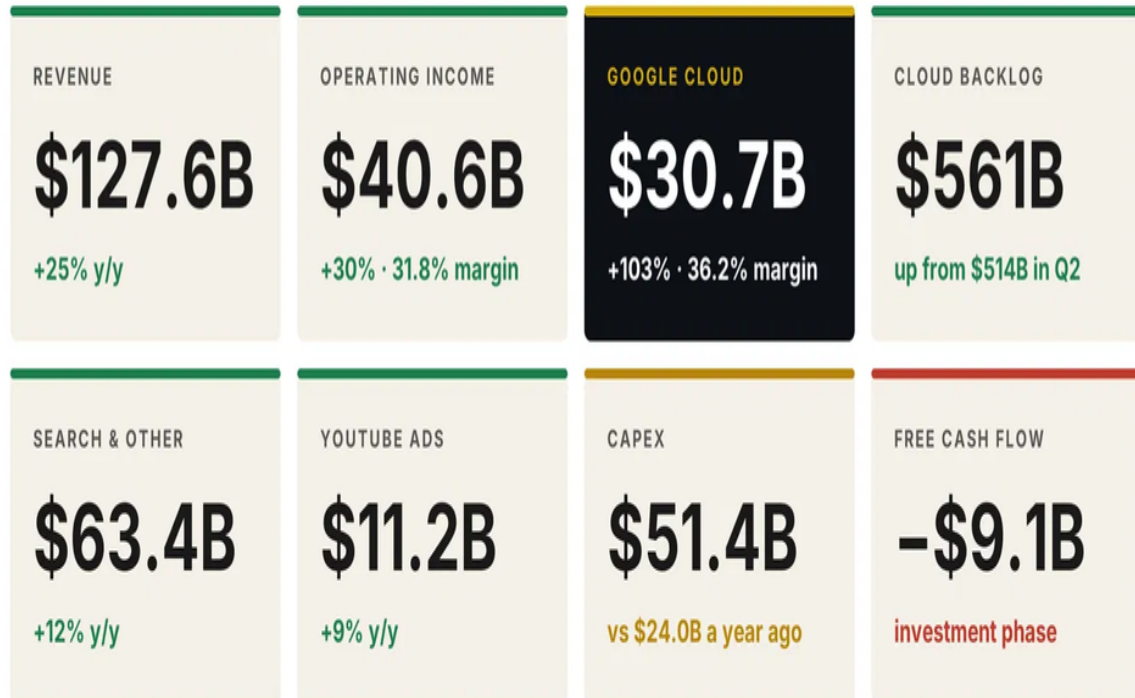
Yesterday, we argued for [trimming value and adding to beaten-down tech in thirds](#), with cash-rich platforms like Alphabet at the front of the line. The Alphabet earnings selloff on Thursday tests that view. Shares opened at \$286.88, down nearly 12% and on pace for the worst day since March 2020.

Start with what went right. Google Cloud revenue doubled to \$30.7 billion, and its operating margin jumped to 36% from 24% a year ago. The cloud backlog grew to \$561 billion. The GAAP earnings miss, \$2.12 versus \$3.01 expected, was driven largely by an \$8.7 billion paper loss on equity holdings. That’s an accounting mark, not a broken business.

Q3 2026 EARNINGS

ALPHABET (GOOGL): THE SCORECARD

The business delivered. The cash went into the AI buildout.



Source: Alphabet Q3 2026 earnings release (Oct 28, 2026). Growth rates vs Q3 2025.

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The tape agrees the selling is extreme. Notice in the chart below that the stock sits 3 standard deviations below its 20-day mean with RSI at 23. The only other reading under 25 in the past two years came at the March 30 closing low of \$273.50. From there, the stock rallied 47% into May.

ALPHABET (GOOGL): DAILY BOLLINGER BANDS

20-day Bollinger Bands (2 and 3 SD), 50- and 200-day moving averages, 14-day RSI. Final point is Oct 29 intraday (10:43 a.m. ET).



Source: RIA Advisors. Data: Massive Market Data, cross-checked vs MarketBeat. As of Oct 29, 2026, 10:43 a.m. ET (intraday).

The opening hour shows where buyers and sellers are meeting. Sellers pushed the stock to \$280.36 in the first ten minutes. Buyers absorbed it there, and by 10:40 a.m. ET shares were back near \$286, above the session's volume-weighted average price of about \$284. Roughly 40 million shares traded in the first 70 minutes, already more than a typical full day. That's capitulation volume, and so far the dip is being bought.

So what spooked the market? Cash. Capex hit \$51.4 billion in the quarter, and management expects spending to rise *significantly* in 2027. Free cash flow turned negative, at \$9.1 billion. Buybacks went to zero, while Alphabet raised \$29 billion of debt and issued \$12.4 billion of new stock.

ALPHABET Q3 2026: THE BUSINESS VS. THE BUILDOUT

Operations held up. The cash is going into future capacity.

METRIC	Q3 2026 RESULT	STATUS
Revenue	\$127.6B, up 25% y/y, in line with the \$127.9B estimate	SOLID
Google Cloud	\$30.7B, up 103%. Operating margin 36.2% vs 23.7% a year ago	STRONG
Cloud backlog	\$561B, more than half expected within 24 months	STRONG
Operating income	\$40.6B, up 30%. Operating margin 31.8%	SOLID
Search / YouTube	Search up 12% to \$63.4B. YouTube ads up 9% to \$11.2B	WATCH
GAAP EPS	\$2.12 vs \$3.01 est. An \$8.7B equity-securities loss cost \$0.55	NOISE
Capex	\$51.4B in Q3. Management sees a significant increase in 2027	INVESTING
Free cash flow	Negative \$9.1B. \$42.3B of operating cash covered 82% of capex	TEMPORARY
Buybacks	\$0 repurchased in the quarter. Cash and securities of \$265B	PAUSED
Outside funding	\$29.0B of new debt and \$12.4B of stock issued	WATCH

Source: RIA Advisors. Data: Alphabet Q3 2026 release, cross-checked vs Yahoo Finance. As of Oct 28, 2026.

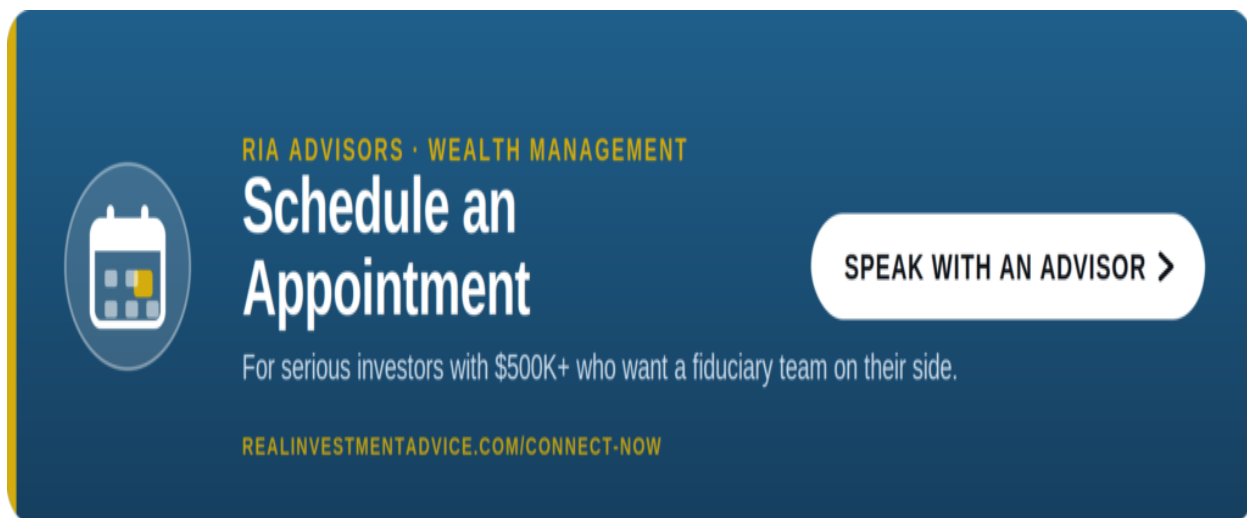
That's an investment phase, not an operating problem. As we wrote in [AI Capex Depreciation Risk Is The Catch To Record Earnings](#), negative free cash flow is the temporary cost of building future capacity. Alphabet's \$42.3 billion of operating cash flow still covered 82% of the quarter's capex. It holds \$265 billion in cash and securities. That's a world apart from the neoclouds borrowing just to stay in the race. The real catch comes later, when depreciation on all that equipment starts flowing through reported earnings.

Bob Farrell's Rule #8 reminds us that sharp declines usually bring a reflexive rebound first, and a 3-sigma flush is where those rebounds start. The risk is a retest of the lows before the 'buildout' story wins back the benefit of the doubt. With the 50-day average now rolling under the 200-day, the trend argues for patience.

If you put the first third to work this week, hold it. Do NOT add the second third yet. Today's \$280 low is the first line buyers must defend. **We want a close back above \$317, the**

October 26 low that held before earnings, before committing more. A close below \$273.50 ends the trade.

Such is the nature of an investment phase. The business can be fine for months before the stock agrees.

A dark blue banner with a yellow vertical bar on the left. On the left is a white calendar icon with a yellow square. To its right, the text "RIA ADVISORS · WEALTH MANAGEMENT" is in yellow. Below that, "Schedule an Appointment" is in large white font. Underneath is the text "For serious investors with \$500K+ who want a fiduciary team on their side." in white. At the bottom is the URL "REALINVESTMENTADVICE.COM/CONNECT-NOW" in yellow. On the right is a white rounded rectangle containing the text "SPEAK WITH AN ADVISOR >" in dark blue.

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Alphabet Ad Revenue In Question

For two years, one of the biggest bear cases on Alphabet has been that chat assistants, like its Gemini, would pull users away from its traditional Google search engine, possibly reducing advertising revenue. Wednesday's earnings give that thesis nothing to work with.

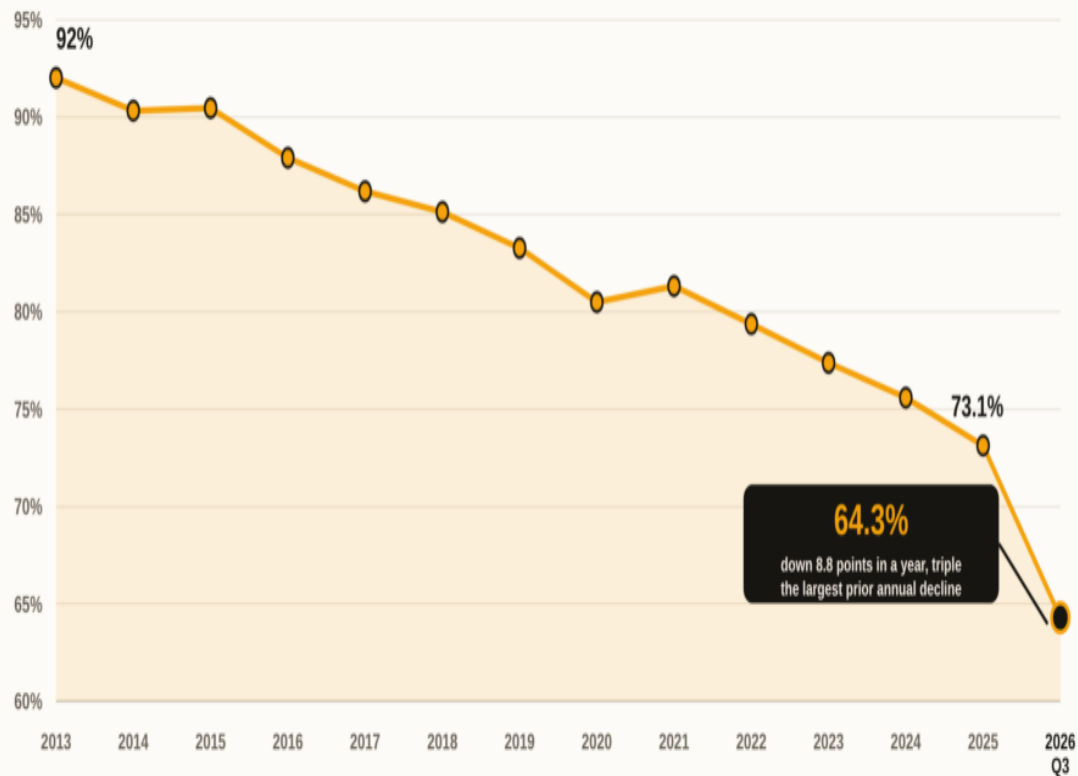
Google Search and other revenue rose 12% to \$63.35 billion. YouTube ads grew 9% to \$11.21 billion. Google Network, its third-party publisher business, grew 1% to \$7.46 billion. Total advertising came to \$82.0 billion, up 10.5% from a year ago.

In total, Alphabet grew 25% in the quarter. Advertising accounted for 10.5% of that. Of the \$25.3 billion of additional revenue the company produced versus last year, advertising contributed nearly a third. The rest came from Cloud services.

Alphabet is no longer primarily an advertising company and has diversified its revenue significantly. Diversification is good. Going forward, the question for bulls and bears is not how the revenue will be split between advertising and other services, but what the total bottom line will look like in a few years, when AI is much more developed.

Alphabet Is Becoming Something Other Than An Ad Company

Advertising revenue as a share of total revenue, 2013 through the third quarter of 2026



Advertising was 92% of revenue in 2013 and slid about two points a year for the next decade as Cloud, subscriptions and devices grew. In the third quarter of 2026 it fell to 64.3%, an 8.8 point drop from the 2025 full year and roughly three times the steepest annual decline in the prior record. Google Cloud revenue doubled in the quarter.

Note: the final point is the third quarter of 2026 alone, not a full year. Advertising is the sum of Google Search & other, YouTube ads and Google Network. Sources: compiled annual figures for 2013–2022, reported segment data for 2023–2025 and Alphabet's third quarter 2026 release. Shares calculated by Real Investment Advice.

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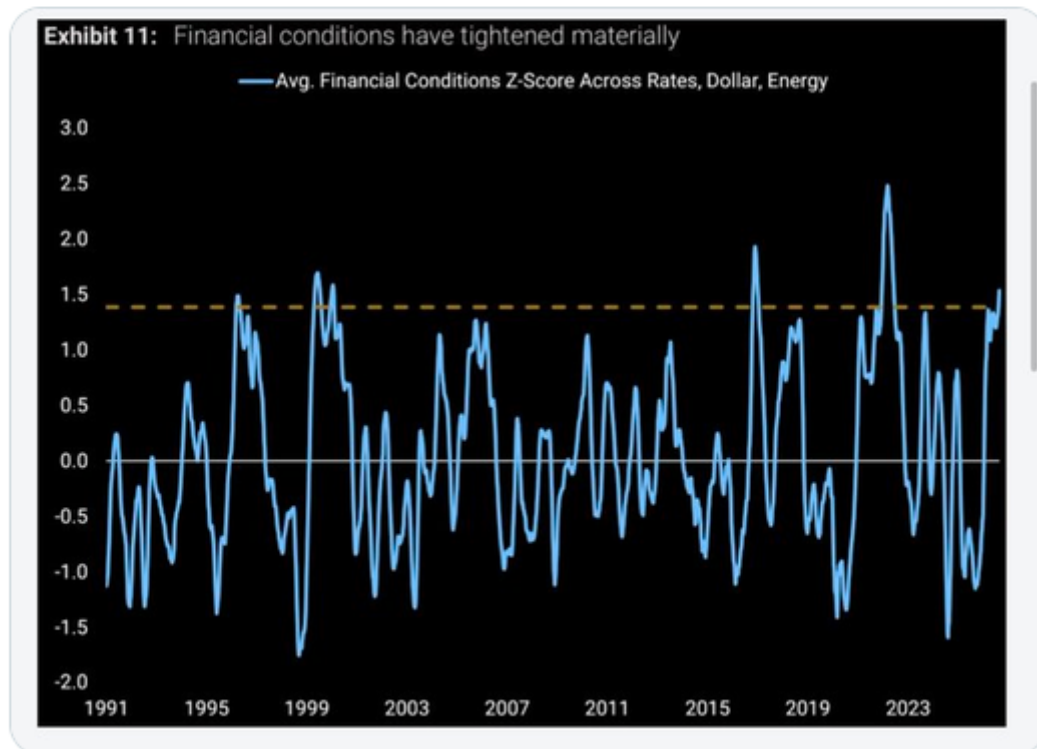
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According to Warsh, he's unable to call financial conditions "tight."
According to Mike Wilson @MorganStanley "Financial conditions have tightened materially," which is plain in his chart.

Perhaps Warsh should subscribe to Wilson's data set. The @federalreserve does, after all, have a fat research budget.

ht @BenBrey



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