

## Summary

Economic data included services PMI falling a bit, but remaining solidly in expansion. Consumer sentiment remained weak, particularly due to sensitivity to high inflation.

Equities were mixed, with U.S. stocks higher while international stocks fell back. Bonds saw a better week as Treasury yields stabilized across the yield curve. Commodities were higher in energy and metals.

## Economic Notes

(0/+) The **ISM Services/Non-Manufacturing PMI** report for September fell by -0.5 of a point to 54.9, just below the 55.0 consensus expectation. However, it remained solidly in expansion for the 27<sup>th</sup> straight month, indicated by the mid-50s reading. The composition was a little weaker, with employment gaining over 2 points back into slight expansion just over 50, while new orders and business activity fell by a few points, although they remained in the expansionary high 50s. Most segments, though, were in a growing trend. Prices paid also rose by another point 74, the highest reading in over 4 years. Of the anecdotal comments, most mentioned were “tariffs” and “fuel costs” as most impactful on respondent supply chains, with fuel “mentioned twice as often” as other issues for the month. However, it was also mentioned that demand “remains very strong,” as manufacturers have “little breathing room” to keep up. This was coupled with the final September reading of the **S&P Global US Services PMI**, which ticked up by 0.1 to 58.8, over two points higher than in August and the highest level in over 5 years. Overall, the services part of the economy (the largest component of GDP) remains quite healthy based on almost all metrics.

(-) The preliminary Univ. of Michigan **consumer sentiment index** for October fell by -1.8 points (or -3.7%) to 46.3, below the median forecast of 47.6. The drop was driven by a -12% decline in consumer assessments of economic conditions, as expectations for the future actually improved by 2%. Year-over-year, the index remains down -14%, due mostly to the -24% drop in the current conditions component. Inflation expectations for the coming year rose by a tenth of a percent to 4.7%, as did those for the next 5-10 years to 3.5%. The drop in ‘current economic conditions’ pulled the level down to an all-time low for the series, which goes back to the 1950s. The survey sponsor summed up the situation with “frustration over cost-of-living” continuing, noting that consumers “across the political spectrum” believe the economy has weakened this year. That said, year-to-date declines in sentiment were especially noted politically among Republicans and Independents, as well as those in camps of owning ‘no stock’ as well as bottom tercile of stock wealth, who have obviously not benefited via the wealth effect through strong earnings in financial markets. A special report on gasoline price impacts (in response to the 50% rise from pre-Iran war levels) noted that only 31% of respondents expect to “spend as usual” over the coming year, although that wasn’t quite as bad as the 26% reported last year following tariffs. Younger and lower income cohorts appear to be most pessimistic about look-ahead spending.

(0/+) **Initial jobless claims** for the Oct. 3 ending week fell by -2k to 197k, below the 200k expected, with a slight increase in CA offset by a decline in MI. The 4-week moving average of claims has now fallen to its

lowest level in 4 years. Continuing claims for the Sep. 26 week, on the other hand, rose by 17k to 1.716 mil., above the 1.700 mil. median estimate. Data continues to show a strong labor market not plagued by layoff activity behind the scenes, characterized by some as ‘no hire, no fire.’

(0) The **FOMC minutes** from the September meeting, when a rate hike was approved, noted that “most” participants turned more hawkish, with another hike as likely “appropriate by year end.” At the same time, it appeared members were approaching upcoming rate decisions with an “open mind.” It was also noted that progress reducing inflation had not been “sufficient,” with risks “tilted to the upside.” Labor market risks had “diminished,” and now are seen as “broadly balanced.” Overall, it appeared that “many” FOMC participants saw the hike as “prudent on risk-management grounds,” due to the fear that inflation staying so elevated for so long, while others saw it as important due to their “modal outlook” rather than risk management. Whatever the reason, the FOMC has continued to see elevated inflation as a far greater problem than any other input, which hiking rates and reducing demand being their blunt tool for attacking the problem. The remaining question is not so much their commitment, but how many hikes it’ll take for the committee to be satisfied with their progress. However, while this has been tied to “ongoing geopolitical developments,” it’s also been attributed to “surging AI-related investments,” which are more closely tied to economic growth and are less of a pass-through effect as opposed to structural. It’s obviously that forces affecting inflation on the U.S.-Iran side lie outside the Fed’s control, with keen interest on how quickly any resolution to that conflict would affect oil prices, via flow-through to official inflation readings.

### **Market Notes**

| <b>Period ending 10/9/2026</b> | <b>1 Week %</b> | <b>YTD %</b> |
|--------------------------------|-----------------|--------------|
| DJIA                           | 0.96            | 8.80         |
| S&P 500                        | 1.17            | 15.14        |
| NASDAQ                         | 0.65            | 18.28        |
| Russell 2000                   | -0.90           | 14.14        |
| MSCI-EAFE                      | -0.54           | 8.69         |
| MSCI-EM                        | 0.03            | 23.71        |
| Bloomberg U.S. Aggregate       | 0.39            | -2.48        |

| <b>U.S. Treasury Yields</b> | <b>3 Mo.</b> | <b>2 Yr.</b> | <b>5 Yr.</b> | <b>10 Yr.</b> | <b>30 Yr.</b> |
|-----------------------------|--------------|--------------|--------------|---------------|---------------|
| 12/31/2025                  | 3.67         | 3.47         | 3.73         | 4.18          | 4.84          |
| 10/2/2026                   | 4.19         | 4.83         | 5.06         | 5.28          | 5.63          |
| 10/9/2026                   | 4.25         | 4.80         | 5.02         | 5.24          | 5.60          |

U.S. stocks were mixed last week, with large caps higher, while small caps fell back by nearly a percent. The U.S. administration pulled back on comments about military action toward Iran, at least prior to the mid-term elections in early Nov., while Fed Governor Waller suggested that two additional rate hikes

might be appropriate, but alluded to 'flexibility' about timing, which pointed to perhaps a pause at the late Oct. meeting.

Sector results were led by energy, up 4%, but also by defensive groups utilities, consumer staples, and health care, a few aided by lower interest rates for the week. Real estate also gained a few percent. Technology and industrials were the sole declining sector groups for the week.

Earnings reporting season begins this week, with FactSet estimating Q3 year-over-year growth of 29.6% for the S&P 500, which would represent the third straight 25+% quarter. Sectors expected to lead the way are energy, technology, and communications. At the lower end, financials, consumer staples, and consumer discretionary are expected to trail the pack with year-over-year growth of just above 3% each. The trends have been in line with what Q2 provided, though at a more tempered pace. Revenue growth is estimated to be over 12%, which also remains well above average. It's worth noting that, based on these estimates, the S&P's price/earnings ratio has been falling to 19.1x, simply due to the underlying math of price movements not keeping up with strong earnings growth, and perhaps pointing to some market cautiousness about the AI buildout pace. Earnings growth for the past few quarters has been nothing short of exceptional, led by the AI boom no doubt, but also rising strength in other areas, and even a slight deceleration remains far stronger than the multi-decade earnings growth average of 6-7% or so. It's been noted that growth in the 50% range (as in Q2) has tended to occur only in periods of rebounding sharply from the growth deficits happening during recessions.

Foreign stocks fell back largely, partially due to a stronger U.S. dollar for the week, with the U.K. being the sole gainer. Within EM, Brazil led the way, up 15% for the week in USD terms, as a seemingly market-friendly Bolsonaro strong showing in the first election round gave investors optimism. South Korea fell by over -5%, in line with weaker tech sentiment for the week.

Bonds saw gains last week, reversing trend, as it appeared the 10-year and 30-year U.S. Treasury auctions resolved positively, with strong demand. Investment-grade and high yield corporates outperformed slightly, while bank loans lagged, as would be expected. Foreign bonds were mixed, due to a stronger dollar, with emerging market bonds outperforming.

Commodities generally gained ground, with energy, precious metals, and industrial metals offsetting a drop in agriculture. West Texas crude oil bounced around by only a few dollars last week, ending largely flattish at \$92/barrel, while Brent crude rose a few percent to \$104, despite the negative headlines of Strait of Hormuz attacks and a looming U.S. Gulf Coast storm. Also announced was the agreement with Russia to release over 2 mil. barrels of diesel, which has been under unique pressure as of late, with more direct economic consequences. Within ag, supply gluts in some products, such as sugar, have been increasingly impacted by El Niño, in addition to Black Sea tensions between Ukraine and Russia that threaten wheat and corn exports.

Have a good week.

Sources: Advisory Solutions Group, LLC, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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- **What caused the market to move this week?**

Market movement is often driven by a combination of economic data, interest rate expectations, corporate earnings, investor sentiment, and geopolitical developments. A single week's movement should usually be viewed in the context of longer-term trends rather than as a stand-alone signal.

- **Why do interest rates affect stock and bond prices?**

Interest rates influence borrowing costs, consumer spending, corporate profits, and the relative attractiveness of different investments. When rates move meaningfully, both stocks and bonds can reprice as investors reassess risk, income, and future growth expectations.

- **How does inflation impact investment portfolios?**

Inflation can reduce purchasing power and influence interest rate policy, bond yields, consumer behavior, and company margins. Investors should evaluate inflation in relation to their income needs, time horizon, and overall asset allocation.

- **Why do bond yields matter to investors?**

Bond yields can affect income expectations, borrowing costs, and how investors compare the value of stocks, bonds, and cash. Changes in yields may also influence the price of existing bonds and broader market sentiment.

- **What does economic data mean for investors?**

Economic reports can influence expectations for growth, inflation, employment, and interest rates. Investors should consider economic data as one input in a broader planning and investment process rather than a reason to make reactive decisions.

- **Why does the Federal Reserve matter to the markets?**

The Federal Reserve influences short-term interest rates and monetary policy. Markets often respond to Fed commentary because it can affect borrowing costs, inflation expectations, and investor assumptions about future economic growth.

- **Should investors react to short-term market news?**

Short-term news can be important, but it should not automatically drive major portfolio decisions. Investors are generally better served by reviewing market developments within the context of their goals, risk tolerance, liquidity needs, and time horizon.

- **How can investors stay disciplined during market volatility?**

A written investment plan can help investors avoid making emotional decisions during volatile periods. Discipline often comes from understanding why a portfolio is positioned the way it is and how it supports long-term objectives.

- **When should investors revisit their financial plan?**

Investors may want to revisit their plan after major life changes, meaningful market moves, tax-law changes, changes in income, or shifts in retirement goals. Regular reviews can help confirm whether the plan remains aligned with current priorities.

- **Why is diversification important during uncertain markets?**

Diversification helps spread risk across different asset classes, sectors, and investment types. It does not eliminate risk or guarantee results, but it can help reduce overreliance on any single area of the market.

- **Should investors change their strategy based on one week of market news?**

In most cases, one week of market movement is not enough information to justify a major strategy change. Any adjustment should be considered in light of the investor's broader financial plan, risk tolerance, and long-term objectives.

- **What should investors take away from this week's market update?**

The key takeaway is to evaluate short-term market movement through the lens of long-term planning. Market updates can provide context, but individual decisions should be grounded in a disciplined plan.

- **How does Redstone Capital Management approach market uncertainty?**

Redstone Capital Management helps clients view market uncertainty through the lens of their broader financial plan. The focus is on aligning investment decisions with goals, risk tolerance, time horizon, and long-term priorities.

- **How does Redstone help clients evaluate investment risk?**

Redstone helps clients consider investment risk in relation to their full financial picture, including planning needs, income goals, liquidity, taxes, and long-term objectives. The goal is to make investment decisions with context rather than reaction.

- **Why does financial planning matter during volatile markets?**

Financial planning can help investors understand whether market volatility changes the long-term plan or simply creates short-term noise. A plan provides a framework for evaluating decisions with discipline.

- **How does Redstone connect investment strategy with long-term goals?**

Redstone's approach connects portfolio decisions with each client's broader planning needs, including cash flow, retirement objectives, risk tolerance, and time horizon. Investments are considered as part of a larger financial picture.

- **What makes a planning-based investment approach different?**

A planning-based approach begins with the investor's goals and constraints before determining how a portfolio should be positioned. It considers both market opportunities and the investor's personal financial needs.