

Summary

Economic data included both producer and consumer price inflation coming in stronger than expected, in keeping with a spike in gasoline and related petroleum pricing last month. Retail sales and existing home sales also saw gains, along with low jobless claims, all pointing to decent economic conditions.

Equities fell back globally with again rising oil prices and some concerns over AI profitability and financing weighing on buyer sentiment. Bonds fared well as yields came back down, despite reports showing continued high inflation. Commodities were mixed, with gains in energy due to geopolitics, offset by declines in metals and grains.

Economic Notes

(-) The **Consumer Price Index** for September rose by 0.6% for the month, matching expectations, but ran two-tenths higher than the prior month. Half of the headline increase for the month was driven by a 9% increase in the price of gasoline, in keeping with higher Middle East-driven oil prices generally, while food prices were flat. Core CPI rose 0.3% for the month, a tenth stronger than expected and just a few hundredths higher than the pace of the prior month. On the core side, gains included recreation (0.5%), used cars/trucks (0.7%), education, airline fares, medical care, and apparel, while communications was one of the less common declines. Shelter also rose more than expected, up 0.35% for the month, with the strongest gains in shelter rent in a few years and making a solid contribution to core CPI.

Year-over-year, headline CPI strengthened by 0.3% to a rounded 3.7%, while core CPI came in a tenth higher than the prior month, rounding to 2.6%. Services prices rose 3.2%, non-durables rose 6.6% (11.4% excluding food), while durable goods saw no net inflation for the year. In review of alternative calculations, “All items less energy” rose 2.6%, while “All items less food, shelter, and energy” again came in quite reasonable, at only 2.0%, each of which highlighting the concertation of inflation sources. As annual **Social Security COLA** adjustments are based on trailing inflation for CPI-W each September, the pending 2027 rate came in at 3.6%, the highest in four years. Following the CPI report, low odds for an October hike vacillated before settling back down, although a base case of 3 hikes through early 2027 remains the highest odds, per CME futures markets.

(-) The **Producer Price Index** rose by 1.3% in September, double the 0.6% rise expected and of the pace the prior month. Nearly half of the headline number reflected an 11% rise

in energy prices, mirroring that seen in consumer prices. Removing food and energy, core PPI rose by 0.7%. Year-over-year, headline PPI increased by 6.3%, while core PPI was up by 5.0%. That included services prices up 5% over the year, with goods prices up 10%, although private capital equipment prices up only 5%, leaving the balance due to petroleum.

(+) **Industrial production** for September rose by 0.7%, nearly double the 0.4% rise expected. Manufacturing production rose by 0.3%, as auto production fell by -3% for the month, but non-autos rose, led again by high-tech equipment, which rose 1.5% for the month. Other tech-related areas gained as well, such as primary metals, machinery, and electrical equipment. Utilities production rose 3.5% as well (with data centers hungry for power), while mining production, including petroleum extraction, was up just a few tenths. Year-over-year, total industrial production rose by 2.3%, with leading sectors being high-tech equipment (nearly 18%, no doubt related to the AI boom), utilities up 9%, as well as business equipment up 7%; these offset declines in motor vehicles and consumer goods. **Capacity utilization** rose by 0.5% to 76.9%. It's been noted that most manufacturing industries are operating well below their max potential, except for electrical equipment and machinery (again, related to AI).

(+) **Retail sales** rose 0.8% in September, exceeding the 0.3% median forecast. Gas station sales were up over 6%, unsurprisingly, along with the cost of oil and gas prices during the month. Removing the volatile sectors of autos, building materials, and gasoline, core retail sales rose 0.3%. Core sales growth included gains in furniture (over 1%), health/personal care, and electronics/appliances; weaker results originated from misc. store retailers (-3%) and sporting goods stores. Year-over-year, total retail sales rose 6.3% over the past year, with core sales up 5.1%, accounting for a few percent of real growth after removing inflation. Gasoline prices remained the primary driver for the past year, up 28%, while autos were up only a few percent, and negative in real terms.

(+) **Existing home sales** rose 1.5% in September to a seasonally-adjusted annualized rate of 3.99 mil., surprising on the positive relative to the -0.8% decline expected and the -3.2% drop of the prior month. Single-family units led, with gains of 2%, while condos/co-ops fell by nearly -3%. Regionally, the South and West experienced gains of 3% each, while the sales in the Northeast fell by -2%. Existing home sales were down -2.2% over the past year. The median existing home sales price declined about -2.4% for Sep. on an unadjusted basis to \$417,500, which was up only 1.3% over the past year, lagging inflation by several percent. Inventories were little-changed with months' supply steady at 4.8. The NAR noted that Aug. and Sep. were the slowest combined two months of the year so far, with higher

mortgage rates hindering affordability even further. (The Freddie Mac 30-year fixed rate ended the week at 7.4%.) The NAR warned that sellers “need to be realistic” regarding divergent local conditions, where “price discounts and other incentives” could be required to attract buyers, which is about as negative as the NAR tends to get. Inventories also remain severely affected by the mortgage ‘lock-in’ effect from years of low financing rates. Though, on the positive side, higher inventories and longer days on market “give buyers improved negotiating power.”

(0/+) **Initial jobless claims** for the Oct. 10 ending week rose by 1k to 199k, around the 200k median forecast. Continuing claims for the Oct. 3 week fell by -4k to 1.710 mil., also near the 1.709 mil. level expected. Claims rose strongest statistically in OH and TN, although the former has been plagued by some instances of fraud. Overall, low claims nationally reflect the low layoff environment.

(0/-) The Federal Reserve’s periodic **Beige Book** provided anecdotal snapshots from all 12 Fed districts for the eighth of the year ending in early October. Economic activity was considered decent, with 2 districts showing growth as “moderate” (Richmond and Dallas, with the latter led by broad manufacturing activity), 3 as “modest,” 4 as “slight,” and the remaining 3 with no significant change (the latter being Chicago, Kansas City, and San Francisco). Interestingly, roughly half of districts showed modest-moderate growth in manufacturing, while the other half showed little growth. Additionally, most districts reported little change in consumer spending, with lower auto sales in the half that reported, including a drop-off in Canadian tourists in several districts with the largest exposure to Northern border states. Notably, spending appeared driven by “high-income” households, while lower income customers were being “more cautious,” as echoed in other surveys. Labor conditions were little-changed overall, with a balance between demand and supply, although there appeared to be shortages in certain skilled trades (noted for quite a while in Beige Book reports), and some delays in hiring with expectations for AI productivity improvement (again pointing to a ‘no-hire-no-fire’ scenario). Inflation conditions were seen as “moderate” to “robust” in most districts, notably from diesel fuel costs, along with uncertainty about future contract levels. The general read showed continued expected concern over inflation. and perhaps less excitement about growth in mainstream industries relative to what one might expect seeing the headline U.S. GDP growth numbers (which contain a significant AI infrastructure build component).

Market Notes

Period ending 10/16/2026	1 Week %	YTD %
DJIA	0.67	9.53
S&P 500	-1.94	12.91
NASDAQ	-4.48	12.98
Russell 2000	-3.04	10.67
MSCI-EAFE	1.43	10.25
MSCI-EM	-5.15	17.35
Bloomberg U.S. Aggregate	0.88	-1.63

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2025	3.67	3.47	3.73	4.18	4.84
10/9/2026	4.25	4.80	5.02	5.24	5.60
10/16/2026	4.26	4.74	4.89	5.09	5.43

U.S. stocks fell back last week with higher consumer and producer inflation than expected, and even more so by concerns over AI-related investment financing needs and potential returns on capex spending. By sector, gains were focused energy (due to higher oil prices), as well as defensives consumer staples and health care, up several percent each.

Technology was the primary decliner, down over -6% for the week, as semiconductors again tested prior technical support levels. Fed Chair Warsh's comments at the IMF annual meeting didn't provide any hints about the October meeting, other than that the world "has broadly conformed to our expectations," with other FOMC members showing a lack of "urgency" for taking action right now. Concerns over rising AI debt were seen with firms such as CoreWeave, where investors have been weighing capex-related debt relative to actual earnings versus sales backlogs. Lower-rated borrowers appear especially under scrutiny in a perceived higher-for-longer interest rate environment.

Earnings season began for Q3, with just under 10% of companies reporting through Friday, but FactSet calling for year-over-year earnings growth of 29%, similar to the quarter-end estimate. The estimated growth rate of the 'Magnificent 7' group is higher at 33%, although that group is being led by NVIDIA and Meta, without which the growth rate expectation drops to 7%. However, the 'other 493' is close at just under 28% year-over-year growth, which is expected to surpass the Mag 7 group by Q4 this year.

Foreign stocks were mixed, with gains in the U.K. offset by sharper declines in Japan and emerging markets. Aside from Middle East tensions again raising oil prices as a general headwind in several regions, declines were also tied in with the declines in U.S. technology, with South Korea and Taiwan again pulling down EM indexes, due to their strong concentration in memory and semiconductor shares, while India benefited from relative strength in software, and commodity-oriented Mexico and South Africa saw gains.

Bonds fared well as investors sought out the safety of the asset class and compelling higher yields, with U.S. Treasuries and investment-grade corporates up nearly a percent for the week. High yield and floating rate bank loans, on the other hand, declined a bit. Foreign bonds were also helped by a weaker dollar, and French credit spreads had ironically stabilized as street protests and damage raised political uncertainty. As global interest rates have reached their highest points in 20 years (2007 being that ominous point pre-GFC), questions continue to be at what point these yields begin to weigh on growth and equity sentiment. At the same time, bonds have become increasingly attractive to many allocation investors as all-in-yields have moved to the 5-6% range, compelling from a multi-year total return basis, and perhaps drawing interest away from more speculative equity segments.

Commodities were mixed, with energy prices up several percent, while industrial metals, precious metals, and agriculture all lost a bit of ground. Crude oil rose 10% last week to \$102/barrel, at least partially due to an escalation of Iranian Hormuz attacks and renewed Ukrainian attacks on Russian oil infrastructure. This was in addition to generally low supplies, with an announcement of another tapping of the U.S. Strategic Petroleum Reserve, which is getting on the low side of its historical capacity. A base case remains an escalation by the U.S. administration towards Iran after the Nov. 3 mid-term elections, which it appears Iran has been preparing for.

Have a good week.

Ryan M. Long, CFA

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.

- **How should investors evaluate investment risk?**

Investment risk should be evaluated in relation to goals, time horizon, income needs, liquidity, taxes, and personal comfort with volatility. Risk is not only about market movement; it is also about whether the portfolio supports the investor's broader plan.

- **What is asset allocation?**

Asset allocation is the way a portfolio is divided among different types of investments, such as stocks, bonds, cash, and other asset classes. The right allocation depends on an investor's objectives, risk tolerance, and time horizon.

- **Why can concentration risk be a concern?**

Concentration risk occurs when too much of a portfolio depends on one company, sector, asset class, or strategy. A concentrated position may increase the impact of a single event on the overall portfolio.

- **How does due diligence fit into investment decisions?**

Due diligence is the process of reviewing an investment's structure, risks, costs, assumptions, and fit within a broader plan. It is especially important when evaluating strategies that may be complex, illiquid, or difficult to compare.

- **What does risk management mean in a portfolio?**

Risk management means building and monitoring a portfolio with attention to the investor's goals, time horizon, liquidity needs, and tolerance for volatility. It does not remove risk, but it can help align investment decisions with the overall plan.

- **Who is Kevin Canterbury?**

Kevin Canterbury is Managing Director and Founder of Redstone Capital Management in Scottsdale, Arizona. His work focuses on helping clients evaluate financial planning and investment decisions in the context of long-term goals, risk tolerance, and changing market conditions.

- **What is Kevin Canterbury's role at Redstone Capital Management?**

Kevin Canterbury serves as Managing Director and Founder of Redstone Capital Management. In that role, he helps guide the firm's planning and investment approach for clients seeking structured financial guidance.

- **What does Redstone Capital Management do?**

Redstone Capital Management provides financial planning and investment management guidance for clients who want a thoughtful, planning-based approach to their financial decisions. The firm focuses on aligning investment strategy with each client's goals, risk tolerance, and time horizon.