

Summary

Economic data included both Q1 and Q2 U.S. GDP growth data being revised upward. Personal income and spending rose, at a pace faster than inflation. Manufacturing survey data pulled back a bit, but remained solidly expansionary, as was construction spending. Home price appreciation continued to flatten, while the employment situation report showed weaker job growth than expected.

Stocks were mixed around the world, with little new geopolitical news, but continued rising interest rates weighing on sentiment. Bonds were down, along with those same yield changes. Commodities fell back, with little Middle East news, and some relief in various supply concerns.

Economic Notes

(+) The third and final **U.S. GDP** report for Q2 showed a 2.2% growth rate, revised up by 0.7% from the second estimate, but slightly below the 2.5% rate of Q1 (also revised up by 0.4%, along with a variety of annual data revisions). Both have run above the roughly ~2.0% trend-like pace. For Q2, consumer spending was revised up a bit further (by 0.4% to 3.8%), as were fixed investment (by 1.9% to 4.6%) and exports. The largest single contributors included real estate/leasing, information, durable goods manufacturing, and finance/insurance. The largest detractors were transportation/warehousing and retail trade, and non-durable goods manufacturing, some of which were affected by energy prices.

The Atlanta Fed's **GDPNow** estimate for Q3 should be reaching peak accuracy, now that the quarter has closed. It's come down a bit from the peak starting points of 5-6% early in the quarter, but now shows 3.7%, which is not bad by any measure. Consumer spending is shown to contribute the majority of growth (at 2.2%), followed by inventory rebuild (2.0%), non-residential fixed investment (1.6%), while net exports have pulled it down (-2.6%). The Blue Chip consensus survey improved from 2.0% to 2.5% during the quarter, still above trend. The theme is that consumers continue to spend in a healthy way, and AI-related infrastructure building has remained a solid contributor to growth. Net exports are a bit of a unique element, as imported tech equipment made elsewhere for the AI effort officially takes away from the net growth figures, as it overwhelms U.S. exports.

(0) **Personal income** rose 0.2% in August but fell short of the 0.5% rise expected. Personal spending rose a robust 0.9%, matching expectations. For the single month, gasoline, food/travel, and autos represented major spending categories, not surprising of summer. Over the past year, personal income was up by over 4%, with spending up 6%, showing real after-inflation growth in both groups. The personal saving rate fell by -0.5% from the prior month to 4.1%.

PCE inflation rose 0.3% on a headline level, and 0.2% for core, removing the impacts of food and energy. Year-over-year, headline and core PCE came in at 3.4% and 3.0%, respectively, each matching the pace of the prior month. However, the core component contained some methodological changes leading to downward price impacts on portfolio management (related to higher fees earned as stock prices go up) and consumer accessories/software. The August BEA report included benchmark revisions going back

five years, which showed a few adjustment themes compared to the original data, including stronger income growth, a bit weaker inflation, and higher savings. One piece of good news is that the Dallas Fed-calculated Trimmed Mean PCE inflation rate (removing outliers in both directions) over the past 12 months came in at only 2.2%.

(+/-) The **ISM Manufacturing PMI** survey for September declined by -0.1 of a point to 54.5, below expected improvement to 55.0, but stayed solidly in expansion. Components were a bit mixed, with new order and employment up further into expansion, while production fell by nearly -2 points, but also stayed solidly expansionary in the high 50's. However, prices paid rose by nearly 7 points to 78, the highest level in nearly six months, but appeared to be focused on specific metals like steel, as well as oil-based and imported tariff-applied items. Supplier deliveries ticked down slightly, but remained near 60, indicating slower deliveries being less of a problem. Electrical and computer equipment, as well as metals and minerals, remained the largest expanders for the period, which is no surprise due to AI-related building, but also defense spending and reshoring generally as a theme have been additive. Qualitative comments from the ISM described activity as "stable," with some respondents staying "cautiously optimistic" about conditions for the next few quarters. Though, others continued to comment on price and supply chain pressures, especially that fuel costs are "still affecting transportation costs" and drifting into goods prices overall. Based on the overall measure, economic activity continues to appear healthy, but not accelerating higher.

(+/-) The final **S&P Global US manufacturing PMI** for Sept. showed a revision downward by -1.1 from 57.0 to 55.9. Under the hood, output, new orders, and employment were all revised down by up to a point, but remained in the mid-50s area, showing expansion. Input and output prices also were revised downward but remained high in the 60-65 range.

(+) **Construction spending** for August rose by 0.9%, exceeding the median forecast calling for no change and a reversal of a slight decline in the prior month. By component, residential improvement spending rose over 2% along with private non-residential up a percent, which includes the category of data centers and infrastructure. As construction costs fell by -0.3% in the month, real spending rose by a stronger 1.1%. Higher construction spending is normally indicative of a stronger economy humming along, which it is, but is focused more on the industrial side than the residential homebuilding side, pointing to a continued mismatch.

(0/+) The **FHFA house price index** for July rose 0.3%, led by the Middle Atlantic division (NJ/NY/PA, up 1.5%) while the Mountain states saw a slight decline (MT south to AZ/NM, -0.8%). Year-over-year, the national index rose by 2.6%, still generally trailing inflation, creating a negative real return. By region, the Mid Atlantic rose 6.3%, followed by East North Central (Great Lakes states), West North Central (ND/MN south to KS/MO), and New England (CT north) all of which were up over 4%. The laggard remained Mountain with only a 0.6% rise. The sponsor doesn't provide commentary, but the data is quite comprehensive from a national urban and suburban perspective, incorporating all 50 states and over 400 cities.

(0/+) The **S&P Case-Shiller 20-city home price index** for July rose by 0.3% on a seasonally-adjusted basis, and declined by a hundredth of a percent, rounding to zero, when non-adjusted. Year-over-year, the national index rose 2.5%. Divergences by major city included sharp gains in Chicago (6.9%) and New York (5.8%), followed by Cleveland, Miami, and San Francisco, each of which was up over 3.5% at least. Laggards included Seattle, Las Vegas, and Denver, where prices fell over -1%. The sponsor noted the month was the 14th straight to show 'real' after-inflation declines; however, they dismissed recent inflation as "energy-driven" and less applicable to housing.

(-) The government **JOLTS** job openings report for August showed a decline of -256k to 7.079 mil., below the 7.228 mil. expected. The decline was relatively broad-based, with the largest being in professional/business services (-119k) and healthcare (-115k), as well as in manufacturing and construction; gains were seen in retail, information, and leisure. The hiring rate rose by 0.1% to 3.3%, while the job openings rate fell by a tenth to 4.3%. On the departure side, the layoff rate fell by -0.1% to 1.0% and the quits rate was unchanged at 1.9%. As seen in other data, it appears a variety of employers could be taking a more cautious approach to hiring, not only due to geopolitical impacts on rising energy prices and inflation, but a good deal of uncertainty around AI's impact on productivity. Both of those aspects remain cloudy, creating corporate hesitation.

(-) The Conference Board's **index of consumer confidence** for September fell by -6.7 points to 81.9, well below an expected minor rise to 89.0. This was in fact the lowest level since 2014. Assessments of the present situation declined by -9 points while future expectations fell by -6 points. The labor differential fell by just over -2 points, although the balance between those saying jobs were plentiful versus hard to get didn't change dramatically. Inflation expectations for the coming 12 months rose another 0.3% to 6.1%, in keeping with highs a few months ago pre-Iran war. The survey sponsor noted that anecdotal responses tended to reference "prices" and the "high cost of goods and services" (oil and gas specifically). They also noted comments about the U.S.-Iran conflict "eased" for the month but "remained elevated." As has been noted in a variety of pieces, a generally downbeat state of the world over the past few years has kept confidence surveys especially depressed, although spending continues, making these perhaps less of an economic indicator than they have been historically. However, more recently gasoline and diesel prices have played a more tangible role with consumers, with higher prices running the risk of indeed crowding out other purchases.

(+) **Initial jobless claims** for the Sep. 26 ending week fell by -1k to 197k, below the 200k median forecast. Continuing claims for the Sep. 19 week fell by -11k to 1.701 mil., below the expected 1.725 mil. and the lowest level in over three years. Based on this near-term metric, labor conditions continue to look quite benign with no indication of layoff stress.

(0/-) The employment situation report for September came in a bit weaker than expected. **Nonfarm payrolls** rose by 29k, well below the 90k consensus estimate, and below the 45k monthly average over the past year. Additionally, prior months were revised lower, with August reduced by -29k to 133k, and July by -31k to now a -10k contraction. By segment, gains were seen in healthcare/social assistance (23k), construction (11k), and manufacturing (9k); these were partially offset by declines in government (-17k),

information (-10k), and financial activities (-7k). Otherwise, changes by sector were minor, with some blame placed on the fact that Labor Day was later in the month than usual, which has historically created some seasonality issues. The **unemployment rate** ticked up by a tenth to 4.2%, based on labor force size changes, but remaining in good shape relative to various metrics that base recession odds on unemployment rate changes; the U-6 underemployment rate fell by a tenth to 7.6%. **Average hourly earnings** rose by 0.1% (to \$37.81), below the 0.3% expected, and representing a 3.0% increase over the past year. This has cooled down from earlier in the cycle. The **average workweek length** was unchanged at 34.4 hours. While nonfarm payroll numbers have come in lower than many have been used to, and lower than economist estimates, it's been increasingly argued that the starting breakeven growth rate is also significantly lower, due to retirements, as well as demographic and immigration changes, all keeping the unemployment rate contained. Population changes appear to be a continued problem for the BLS in terms of areas like residual seasonality month-to-month and methodological differences between surveys.

In a related piece of possible good news for employees, Anthropic published a paper last week, sharing an opinion that **robots** will only be able to replace up to 300,000 jobs in the U.S. (out of 160,000,000), as the hardest physical labor is harder to automate than consensus currently assumes, as are nuanced tasks, so displacing physical labor on a widespread basis would likely take decades.

Market Notes

Period ending 10/2/2026	1 Week %	YTD %
DJIA	-1.25	7.76
S&P 500	-0.25	13.81
NASDAQ	0.46	17.52
Russell 2000	-0.11	15.18
MSCI-EAFE	-1.51	9.27
MSCI-EM	-1.23	23.68
Bloomberg U.S. Aggregate	-0.60	-2.86

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
9/25/2026	4.24	4.81	4.98	5.17	5.49
10/2/2026	4.19	4.83	5.06	5.28	5.63

U.S. stocks were mixed to lower last week, with little breaking news of a geopolitical nature, but continued rising yields continued to weigh on risk sentiment. By sector, technology (Nvidia-led, along with Oracle), energy and utilities saw gains, while health care, financials, and consumer staples saw the largest declines of a few percent. Real estate also fell back along with the higher interest rate pressures.

Early Monday, the U.S. administration's rejection of the Iran deal to open the Strait of Hormuz raised concerns again in energy markets especially. Markets were somewhat boosted Wed. by PCE inflation not coming in worse than it did, merely matching the 12-month pace of the prior month. Additionally, some comments from New York Fed President John Williams noted "no need for urgency," and "we have time" to see more information, alluding to perhaps no October rate hike, and perhaps a slower pace than markets first assumed. Similar comments from Fed Vice Chair Philip Jefferson with analysis that "may take more time" were also taken well. Financial markets cheered the weak payroll report on Fri., most directly as it appears to lower the likelihood of an October rate hike.

Foreign stocks were mixed, with gains in Japan offset by sharp declines in Europe and the U.K. The former was helped by a central bank less convinced of rate hikes, while the latter two were affected by troublesome inflation readings pointing to more central bank tightening, as well as fiscal concerns in France. Emerging markets were down marginally, as gains in Brazil (with pre-election volatility), and technology-oriented South Korea and Taiwan, offset declines in other more commodity-oriented nations. Chinese stocks also declined, as new government fiscal measures to encourage consumer lending were underwhelming.

Bonds pulled back again as yields continued to rise. It's been relatively rapid, with the 10-year U.S. Treasury note seeing a yield increase of 0.85% in Q3, from 4.44% on Jun. 30 to 5.29% on Sept. 30. Investment-grade and high yield corporates fared a bit worse for the week, as spreads also widened out, and bank loans faring slightly better with their floating rate structure. Foreign bonds were mixed, with unhedged down due to a stronger dollar. The spike in yields has been playing out globally, not only in the U.S. Interestingly, in Europe a common risk spread comparison of French OAT yields over German Bunds has reached 1.4%, last seen during the eurozone's sovereign debt crisis 15 years ago. While a debt crisis doesn't appear to be the base case today, continued budget deficits are, as is election uncertainty. In another example, in the U.K., the new prime minister noted he would give up the "triple lock" formula that boosted yearly pension increases potentially beyond the pace of inflation.

Commodities fell back last week, along with a stronger dollar, with declines in agriculture and metals of several percent each, and energy roughly flat. Crude oil fell about -1% last week to \$91/barrel, with little major news, although China potentially halting fuel exports and U.S. military personnel heading to the Middle East raised some concerns. Interestingly, while Democrats are already assumed to be in good position to take the House in November, charts this year that track polling odds of winning the Senate as well have been closely tied to diesel prices. Interestingly, Persian Gulf oil exports seemed to have recovered back to their 2025 average levels, not all of which is being measured by official sources and perhaps accounts for a lack of further price spikes in raw crude anyway (distillates aside).

Have a good week.

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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.

- **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.