Summary

Economic data included no policy action by the Federal Reserve, U.S. GDP coming in strong for Q3, as well as gains in personal income/spending, durable goods orders, consumer confidence, and higher home prices. However, new home sales fell, in a continued stretch of low volume.

Equities were mixed to end the month, with the U.S. technology group pulling most indexes, as did Brazil. Bonds fared positively, as yields ticked down for the most part. Commodities declined, with little change in energy last week.

Economic Notes

(0) The **FOMC** October meeting resulted in no policy change, as expected, with dissents from two members wanting a hike. Historically, 'one and done' policy shifts are rare, so at least a few hikes appear still likely based on odds in futures markets. A small change was announced, though, in that Fed Chair Warsh re-affirmed that while holding 8 meetings per year is still a desirable schedule for the FOMC, for 2027, they'll dedicate 7 meetings for policy voting, with one solely dedicated to discussion of monetary strategy, with no policy voting or announcements taking place. For 2028, that will go to 2 meetings for strategy, and 6 for regular voting.

The post-meeting press conference by Warsh featured some cryptic messaging (a la former Chair Alan Greenspan, especially as to why rates weren't raised at that meeting) and included comments alluding to strength in the underlying economy, a stable job market, inflation remaining uncomfortably high, reiterated by "the committee will deliver price stability," noting a healthy divergence of views within the committee on a variety of topics. He highlighted economic growth being revised higher for the first half of the year, with optimism for Q3 due to "historically high" capital investment. In short, "conditions are quite positive," but acknowledged that consumers have been dealing with inflation above target for the last six years, explaining that control of that problem is a key focus of their mandate, with a commitment to price gains not broadening out to other parts of the economy. Warsh also noted the robust discussion the committee had about areas such as technology change. The five task forces are "hard at work" with no final reports close to being ready, but he's been impressed by the rigor so far, and are important intellectual arguments that take time. Do interest rate movements make a difference in the tech/AI boom? It was noted that interest rate moves do "get in the cracks" of the economy, making their way into a variety of industries, and aren't "divorced" from any particular sector. At the same time, Warsh noted that "The goal isn't to throw sand in the gears of the economy and throw people out of work." (This was taken positively by some observers that the Fed wasn't interested in hiking rates to the point of pulling the economy into recession, although that's been done in the past as a more extreme way to bring demand inflation down.)

(+) The advance first estimate of **U.S. GDP** for the third quarter showed annualized real growth of 3.4%, a touch above the 3.2% expected, and decent improvement on the 2.2% pace of Q2. Nominal current dollar GDP that includes inflation rose by 5.6%, showing a normalization from the 8.5% pace of Q2.

Within the report, personal consumption grew by 3.8% (contributing 2.5% to the total GDP figure), services spending growing a percent faster than goods, with a substantial portion of that being in healthcare. Private domestic investment was a more dramatic contributor, showing annualized growth of 19.4% (adding 3.3% to total growth, mostly in non-residential equipment, via computer and intellectual property products, pointing to strong AI-related contributions). Half of the private domestic investment gain was in inventories, which had been in drawdown for a time, and a category that tends to self-correct ultimately. Government expenditures rose by 5.3% (adding 0.9% to GDP), surprisingly more in non-defense than defense. On the negative side, net exports were a primary detractor, pulling a substantial -3.3% off of GDP growth, as exports fell by -6% (less oil leaving, and more taken out of the Strategic Petroleum Reserve) and imports rose 20% (mostly in goods, notably in tech hardware, helping the GDP of areas like Taiwan and South Korea). Residential investment and state/local government essentially added no growth to the overall GDP figure. The strong report was anticipated and continues to reiterate the AI-driven U.S. growth story. A focus in coming quarters could involve how well the specific tech driver can be sustained (i.e., how much AI buildout is ultimately needed), and will other personal consumer spending continue to plug along at a decent pace?

(0/+) **Personal income** for September rose by 0.2%, a tenth below expectations. **Personal spending** rose 0.5%, also a tenth lower than expected, with the month dominated by higher gasoline prices, followed by housing and food. Due to the inflation impact, real spending was little changed, with a rise in services offset by a decline in real goods spending. The **personal saving rate** ticked down by -0.2% to 3.8%, one of the lowest readings since the pandemic, with spending exceeding income not a tendency that typically lasts longer-term. Year-over-year, personal income rose 4%, while spending gained over 6%, with goods and services spending up similar amounts. **PCE inflation** rose by 0.5% on a headline basis, and 0.3% for core, removing food and energy. Over the trailing 12 months, headline and core PCE reaccelerated up a bit to 3.6% and 3.1%, respectively. These continue to run well above the Federal Reserve inflation target of 2.0%.

(+) **Durable goods orders** for September rose by 1.8%, one of the strongest monthly rises this year, and just short of the 1.9% median forecast. The primary driver was a large increase in lumpy commercial aircraft orders, as well as industrial machinery and computers/related products, in keeping with AI infrastructure demand. Removing transportation trimmed the gain to 0.5%, which matched the rise in core capital goods orders. Over the past year, total durable goods orders rose 10%, while removing transportation boosted that slightly to 11%, led by gains in primary metals. Core capital goods shipments rose by 1.2%, exceeding the expected 0.8%, as an additive to GDP calculations, with year-over-year shipments up over 11%, being one of the stronger showings over the past 15 years. The relationship between physical AI buildout and inputs to GDP remains quite clear here, as in other data.

(0) The **S&P/Case-Shiller 20-city home price index** for August showed a 0.3% increase on a seasonally-adjusted basis, but a -0.4% decline when unadjusted. Late summer seasonal effects resulted in a wide disparity by city for the month. But, year-over-year, the 20-city index rose by 2.7%, lagging most inflation measures as it has for over a year now. By city, gains were led by Chicago (7%), followed by New York and Cleveland, while laggards included Seattle (-2%), Las Vegas, and Denver, all continuing the trend away

from the Sun Belt and towards the classic Rust Belt, which has come to pass since the pandemic. To no surprise, “affordability” was noted by the survey sponsor as a key challenge, with other high costs, such as crude oil, eating into consumer budgets and affecting sensitivity to housing costs.

(0) The **FHFA** house price index rose by a seasonally-adjusted 0.3% in August, which included a downward revision by a tenth for the prior month. By region, East South Central (KY/TN/MS/AL) led with a 2.1% rise, while New England (CT eastward) saw a decline of -0.8%. Year-over-year, national prices rose by 2.4%, which also lagged inflation, and down from the 2.7% gain of the prior year ended Aug. 2025, regularly shown in the FHFA report as a common comparative. The recent 12-mo. data ranged from the largest gain in East North Central (4.4%, including Great Lakes states, and related to the strength in Chicago and Cleveland) and smallest in Mountain (MT south to AZ, up 0.5%). Although the FHFA data is more all-encompassing than the Case-Shiller, the national and regional trends have been largely similar as of late, with home prices having a hard time keeping up with inflation lately, bucking their long-term trend of earning at least some degree of real return over time.

(-/0) **New home sales** declined by -0.6% in September to a seasonally-adjusted annualized pace of 676k units, but above the 651k level expected and below the prior month’s 5% gain. That remains similar to the pre-pandemic pace. Regionally, declines in the South and Midwest of around -7% appeared to normalize the especially large gains of the prior month, and offset gains in the Northeast (28%) and West (21%). Year-over-year, new home sales remained down by -5%. The median new home sales price rose by 3.9% for the month to $400,400 but stayed -4% below the price of a year ago. Inventory fell slightly to 8.4 months’ supply, but stayed above the 8.2 of 12 months ago, and remains above the range indicating a ‘normal’ market. New home building remains well below the pace needed to keep up with housing demand, especially with existing home sales having slowed considerably due to mortgage low-rate ‘lock-in’ effects, as about half of outstanding mortgages are at rates under 4%.

(+) The Conference Board’s **consumer confidence index** for October rose by 7.5 points to 91.7, better than the expected decline to 81.0, and back to levels seen earlier in the year, pre-war. Assessments of present conditions rose by 8.6 points, while expectations for the future rose by 6.9, the latter partially reversing 3 consecutive monthly declines. The labor differential, which measures jobs being “plentiful” versus “hard to get,” saw an improved reading in the former. Inflation expectations for the coming 12 months fell by -0.4% to 4.7% but remained two-tenths above the pre-war levels from Feb. this year. Per the Conference Board, it appeared that the gain was due to “improved perceptions” of business conditions, in line with retail gasoline prices “easing” during the weeks of the survey period. However, consumer confidence “remained on the long-term downward trend” of the past few years, with consumers planning less spending on services (except for food/entertainment) and durable goods (mostly electronic equipment) over the next 6 months. Anecdotal responses from consumers continued to note “frustration with rising costs,” especially the “high cost of food and groceries” and “oil and diesel prices.” Interestingly, Gen Z and Millennials showed the strongest levels of optimism compared to other generations, as they have over the past two years, while perhaps predictably, Gen X came in most pessimistic.

(0/+) **Initial jobless claims** for the Oct. 24 ending week declined by -1k to 194k, below the 198k expected. Continuing claims for the Oct. 17 week fell by -21k to 1.701 mil., below the less dramatic change to 1.720 mil. expected. The initial claims number was actually the lowest reported figure since 1969, which, considering the population growth in the U.S. since then, is even more remarkable. Per the DOL, the advance unadjusted insured unemployment rate was 1.0% during the week ending Oct. 17, just a shade lower than the 1.1% a year prior, reiterating the consistent lack of layoff activity. As mentioned by Chair Warsh during his press conference, this remains a strong indicator of a decent labor market.

Market Notes

Period ending 10/30/2026	**1 Week %**	**YTD %**
DJIA	-0.83	9.08
S&P 500	-0.56	11.77
NASDAQ	-1.99	9.95
Russell 2000	1.30	14.37
MSCI-EAFE	0.87	9.52
MSCI-EM	-0.72	13.45
Bloomberg U.S. Aggregate	0.56	-0.54

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
10/23/2026	4.22	4.69	4.82	5.00	5.33
10/30/2026	4.16	4.56	4.71	4.94	5.31

U.S. stocks started the week decently, but turned downward Friday along with technology sentiment around AI generally, assumptions of rising interest rates, as well as perhaps some last pre-midterm election jitters. U.S. small caps bucked the trend, coming in positive for the week. Interestingly, the sectors of communications (-8%) and technology (-2%) were the only two with negative returns (especially in the former), while health care, utilities, and materials led the rest, with gains of 2% or more. For the week, crypto-related segments were taken down as well, upon news of the largest crypto exchange being hacked and losing $6 bil., presumably by North Korean operatives. In keeping with history, October saw a mixed bag of results, with the S&P 500 down just under a percent, while the Nasdaq fell -5%, the poorest month in a year and a half. Speaking of AI, as has been expected for weeks, Anthropic officially filed for their highly anticipated IPO.

In a review of Q3 earnings results, it's worth noting that almost one-half of the S&P 500 index weight and about one-third of expected earnings growth scheduled for reporting during the 5 market days of Oct. 28-Nov. 3, which has set the stage for potential volatility. Per FactSet, 60% of S&P 500 firms have now reported, with the year-over-year blended earnings growth having bumped up a bit to 30.2%, revenue growth to 13.4%, each up a percent from the end of the quarter. The largest growth continues to be in energy, technology, and materials. Most interestingly, earnings growth for the Mag 7 of 23% has been now

dwarfed by 33% for the 'other 493.' The forward 12-mo. P/E ratio for the index has fallen to 18.7 (now below the 10-year average of 19.1), as price movement has not kept up with these strong earnings growth numbers.

Last week included high-profile reports from closely-watched mega-caps Alphabet, Amazon, and Microsoft. Microsoft and Alphabet and spent less on capex than the market expected, although the latter came in weaker on earnings (although largely a paper loss on other businesses, including SpaceX), with a -12% price drop and the largest market value dollar drop history (at $500 bil., which happens when the companies are this large by market cap). It's apparent that markets are continuing to focus on AI spending. Intel fared especially poorly, down -30% for a time on Friday as robust year-to-date gains gave way to a forecast short of expectations.

Foreign stocks were mixed, with gains in the Europe and U.K., while Japan and emerging markets fell back. While the European Central Bank and Bank of Japan remained on hold along with the U.S. Fed, although guidance pointed to eventual tightening, while the Bank of Canada hiked their policy interest rate by 0.25% to 2.50%. Europe saw quarterly GDP come in at 0.4% (1.6% when annualized like the U.S.), roughly twice expectations. Emerging markets were mixed by country, with South Korea in particular highlighted by a strong profit jump by major index constituent SK Hynix seeing profits up over 600%, and noting high-end memory sold out through 2029. The most dramatic results were in Brazil, where Lula retained the presidency, a shock to markets, which reacted with a -20% drop on Monday alone (in USD terms, part of which was currency impact), its second-worst session in over 25 years. Expectations called for a victory by the opponent Bolsonaro (son of the former president of the same name), seen as more apt to deliver a path towards tighter fiscal policy, while Lula had moved in the opposite direction by promising a substantial boost in social welfare payments. Bolsonaro contested the result, although he also fled to the U.S. in light of pending criminal charges in different matter.

Bonds moved positively last week, as yields fell across the intermediate part of the curve, with the Fed staying put despite higher inflation readings coming out later in the week. Floating rate bank loans performed best, despite the decline in rates. Foreign developed market bonds also saw gains, while local emerging debt was the outlier with a sharp decline.

Commodities fell across the board for the most part, with more dramatic declines in precious metals and agriculture, which fell by a few percent each. Crude oil was minimally-changed, remaining near $103/barrel, with little news from the Middle East, at least relative to some prior weeks. Precious metals such as gold have historically tended to fare poorly in periods where Treasury interest rates are expected to rise, essentially in a competition for most attractive 'safe' asset.

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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