

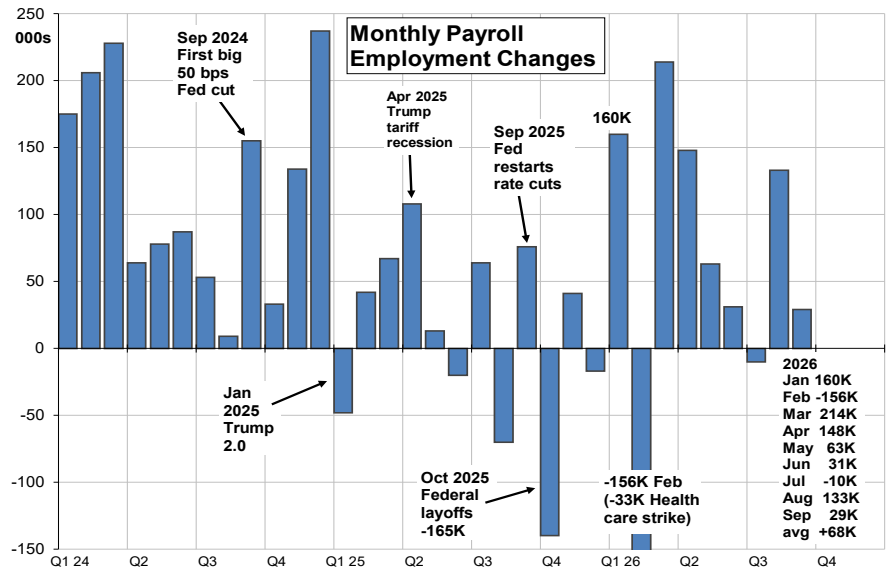
Financial Markets This Week

2 OCTOBER 2026

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JOBLESS ECONOMY

A disappointing jobs report with 29K payroll jobs in September, 60K of downward revisions to July and August which means fewer working Americans than we thought a month ago. Somehow the unemployment rate ticked up a tenth to 4.2% even as the number receiving unemployment compensation has been in decline. At least AI has made the 152 thousand more workers more productive in Q3 2026 where real GDP is running about 3.0% versus 2.2% in Q2 2026, with the Q3 GDP news release scheduled Thursday, October 29. Looking back to January 2025 the labor market trend is nothing short of chaos for almost two years now. The BLS tried to paint a good silver-lining picture noting in the release that manufacturing employment is up 72 thousand from the recent December 2025 low (factory jobs dropped every single month in 2025 by a total of 113 thousand). The September 2026 9K increase in manufacturing jobs was split: 5K in plastics and rubber products, and 5K in machinery factory jobs.



The downward revisions to the prior two months are mostly from adjustments made to temporary help jobs and to bars and restaurants. Monthly average jobs were 68K so far in 2026 after a 10K monthly average in 2025. The big change to the immigration trend is a big part of this overall slowdown and the Household Survey measure of employment based partly on the population count is especially hard to analyze. The unemployment rate is still believed to be okay as it is a ratio, and it just barely moved up to 4.18%. Quite a few dropped back into the labor force this month, but the unemployment rate did not rise. Employment rose 406K in September while those not in the labor force dropped 346K to 105.292 million, making it look like the drop-ins all got jobs.

Monthly changes (000s)	Sep	Aug	Jul	Jun	May
Payroll employment	29	133	-10	31	63
Private jobs	46	89	28	26	61
Federal govt ex-post office	1	-1	1	0	0
Bars/Restaurants	11	34	-30	-7	25
HH Employment Survey*	406	569	-87	-507	149
Unemployment rate %	4.18	4.14	4.09	4.19	4.30
Participation rate %	61.8	61.6	61.4	61.5	61.8
Not in labor force (mln)	105.292	105.638	106.189	105.808	104.976
... and Want A Job (mln)	5.790	5.747	5.920	6.045	6.187
Average hourly earnings	\$37.81	\$37.76	\$37.64	\$37.59	\$37.49
MTM % Chg	0.1	0.3	0.1	0.3	0.2
YOY % Chg	3.0	3.1	3.2	3.4	3.3

* Household (telephone) Survey of employment behind unemployment rate

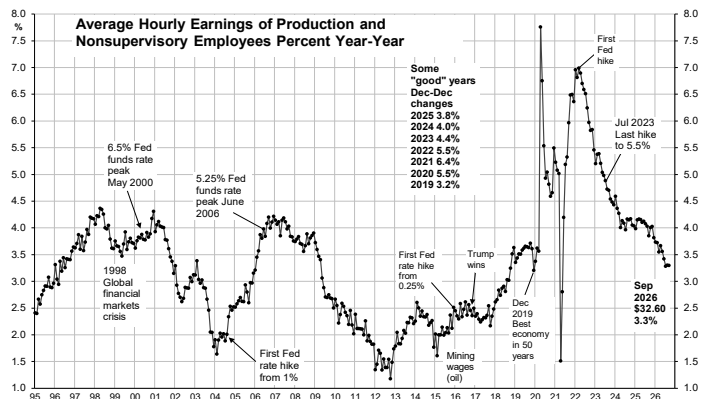
Here are our initial thoughts immediately after the 830am ET release and we were prepared for a much bigger, better number.

Net, net, the highly anticipated strength in the labor market turned out to be a great big bust with fewer Americans working than were reported just a month ago. There will be no bragging rights from Washington economic officials today as the jobs market's health turned out to be a great big hoax. Bond yields are tumbling in relief that the Fed can skip a rate hike this month and take away some of those hawkish Fed forecasts of interest rates going higher for longer. Only 29 thousand payroll jobs were created in September and July and August jobs were revised down 60 thousand. Fewer Americans working has bond and stock prices soaring as the slowing economy is just what the Fed needs to see as it steps up its battle with inflation. The labor market has literally flipped the script on the strength of the economy where the jobs market wasn't as robust as markets thought just a month ago. Buy stocks. Buy bonds. Buy it all.

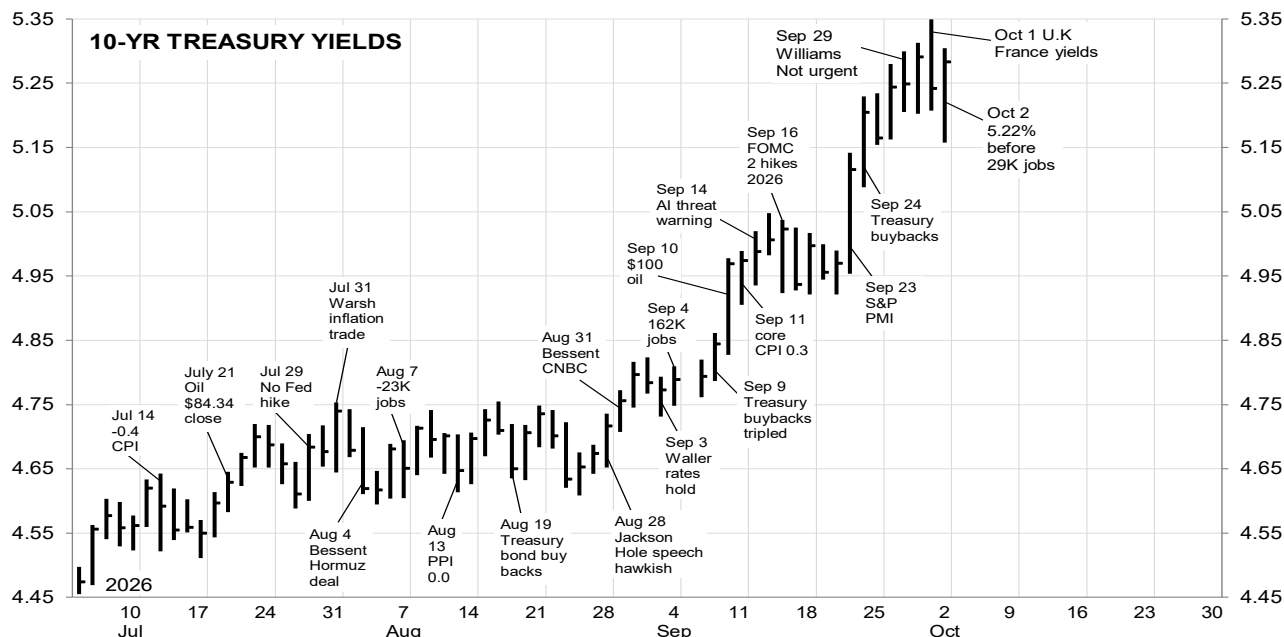
Meanwhile, wages for workers keep dropping but are still 3.3% higher than a year ago, close enough to match "inflation." \$32.60/hour=\$67.8K/year.

2026 Payroll jobs average 68K monthly

Dec. 2025		Sep 26	Aug 26	Jul 26	9 months Dec 25 to Sep 26	12 months Dec 24 to Dec 25
Totals						
158.432	Nonfarm Payroll Employment	29	133	-10	612	116
135.083	Total Private (ex-Govt)	46	89	28	634	296
21.456	Goods-producing	18	34	35	167	-135
0.566	Mining	-2	3	-4	1	-15
12.580	Manufacturing	9	15	20	72	-113
0.951	Motor Vehicles & parts	2	-7	12	12	-37
0.990	Computer/electronics	0	3	3	11	-22
1.780	Food manufacturing	0	0	-2	-12	1
8.272	Construction	11	16	18	92	-4
5.222	Specialty trade contractors	4	9	14	58	-17
113.627	Private Service-providing	28	55	-7	467	431
28.616	Trade, transportation, utilities	18	9	23	162	-195
15.414	Retail stores	6	-5	6	66	-47
3.217	General Merchandise	-5	10	3	40	-16
3.247	Food & Beverage stores	2	-7	-3	1	3
6.555	Transportation/warehousing	8	3	10	53	-108
1.467	Truck transport	3	4	1	6	-28
0.571	Air transportation	1	-1	0	-3	8
1.051	Couriers/messengers	1	-7	13	39	-43
1.836	Warehousing and storage	-4	-3	-7	-4	-45
2.842	Information	-10	-18	4	-103	-53
0.473	Computing, data, web hosting	-2	-6	1	-19	-8
9.186	Financial	-7	-9	-10	-104	7
2.993	Insurance	-2	-5	-5	-62	-23
2.452	Real Estate	1	-2	2	-14	-4
1.371	Commercial Banking	-1	-3	-2	-24	-7
1.158	Securities/investments	0	1	1	16	34
22.372	Professional/business	-9	-5	-6	110	-160
2.451	Temp help services	-11	0	-10	35	-91
2.622	Management of companies	-1	-1	4	-2	3
1.746	Architectural/engineering	6	3	5	33	33
2.381	Computer systems/services	-4	-2	-6	-25	-51
1.231	Legal services	2	1	2	18	24
1.130	Accounting/bookkeeping	-1	-2	0	-9	5
27.627	Education and health	20	38	14	378	682
4.039	Educational services	-3	4	0	7	-5
18.295	Health care	17	24	18	258	387
9.121	Ambulatory health care	13	11	15	146	167
5.719	Hospitals	12	11	3	79	137
3.456	Nursing/residential care	-9	2	0	34	83
5.292	Social assistance	6	11	-5	113	299
16.961	Leisure and hospitality	10	37	-38	8	99
1.939	Hotel/motels	-4	7	-3	-22	-6
12.343	Eating & drinking places	11	34	-30	50	78
23.349	Government	-17	44	-38	-22	-180
2.128	Federal ex-Post Office	1	-1	1	-44	-283
5.476	State government	-3	-7	20	-4	-39
2.603	State Govt Education	-3	-12	17	-1	-42
15.151	Local government	-13	54	-59	22	146
8.232	Local Govt Education	-2	49	-52	-27	58



INTEREST RATES



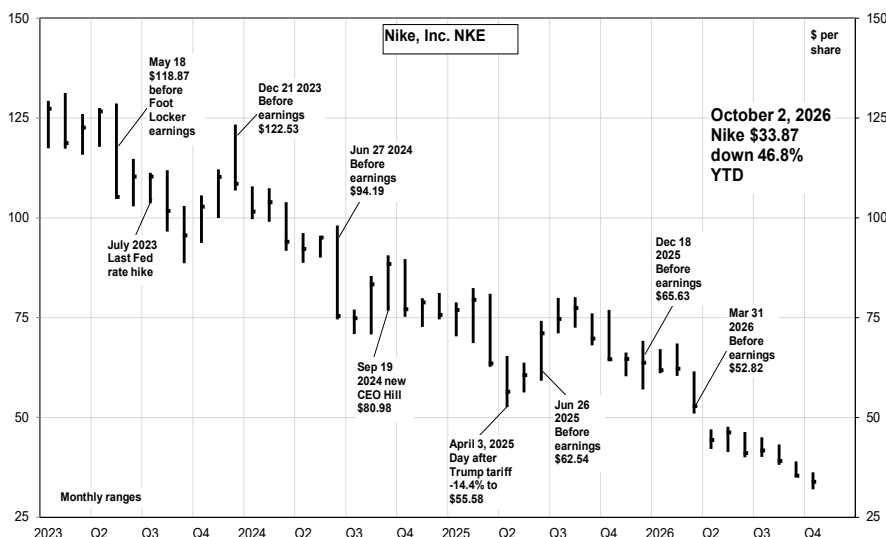
Quite a day for 10-yr yields on Thursday with new 5.35% highs in Europe at 3am ET following events for UK and France debt especially. Bond yields fell and then revisited the high yield around 10am ET, hopefully the reason wasn't the spurious report of purchasing managers seeing more inflation again. Treasury did do \$6 billion 10-20s buybacks as promised, starting 140pm ET. There were some Fed officials saying yes, they saw the PCE inflation, but it is still too high, yet they did not seem in a hurry. Fed funds futures took away more chances of an October meeting rate hike to 4.25%. The last cycle peak of Fed funds in July 2023 was 5.5%, and unless you think the Fed needs to push tightening even higher, there has to be some value here for long-term 10-yr Treasury investors if there are any. Friday close 5.28% after soft 29K jobs sent yield down to 5.16% low before rebounding. Not behaving well.

Nike, Inc. (NKE) down 46.8% YTD

Nike earnings after the bell Thursday, October 1, 2026 where the stock had closed \$35.15. Trading off 9.7% the next day at the worst point. We used to think Nike was a good read on the consumer, in this case through the August 31 quarter, but real consumer expenditures in the GDP accounts have been very strong in Q2 and so far in Q3 this year. Footwear sales up 1.2% in North America, the only region with a year-year increase. The billions in cost savings program will take a few years, and staff reductions are expected in 2027.

Nike Footwear Sales (\$millions)

Fiscal Quarter	Quarter	North America	Europe (EMEA)	Greater China	Asia Pac LatAm
Q1 2027	8.31.2026	3259	1798	866	1028
Q4 2026	5.31.2026	3230	1821	938	1114
Q3 2026	2.28.2026	3326	1789	1187	1051
Q2 2026	11.30.2025	3542	2012	954	1151
Q1 2026	8.31.2025	3219	2021	1109	1061
Q4 2025	5.31.2025	3104	1893	1074	1114
Q3 2025	2.28.2025	3132	1742	1282	1052
Q2 2025	11.30.2024	3236	1982	1203	1234
Q1 2025	8.31.2024	3212	1952	1246	1052

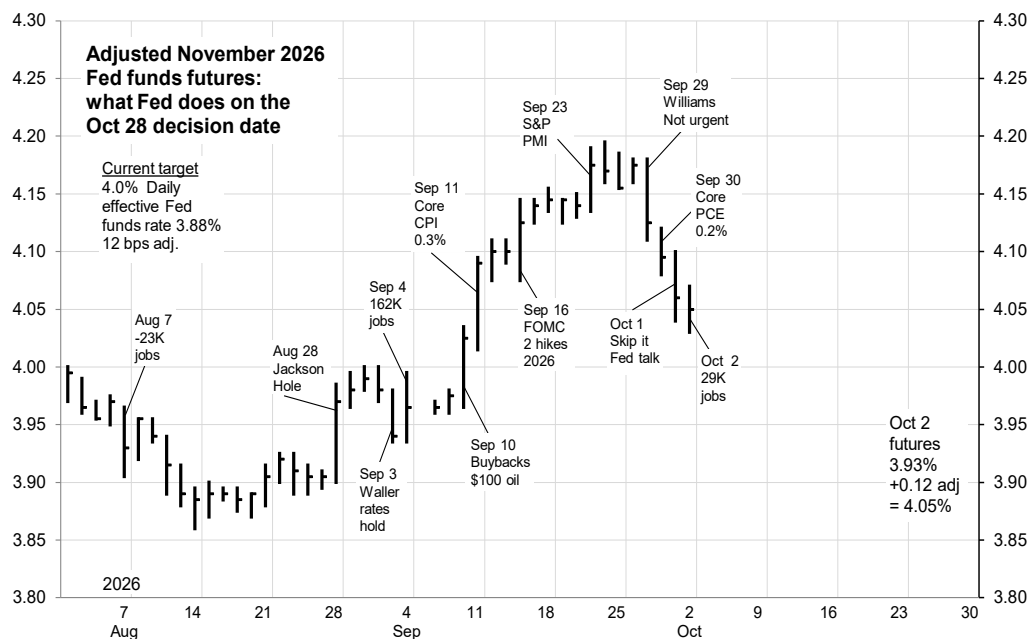


FEDERAL RESERVE POLICY

The Fed meets October 27-28, 2026 to consider its monetary policy. Fed officials sticking to their guns saying inflation has been too high for too long reminds us of when Fed officials said in the mid-2010s inflation had been too low for too long. After Bernanke started to taper the QE stimulus in January 2014, monetary policy did not do much to boost too-low inflation, unless you think keeping rates at zero until December 2015 did something. There is some randomness when it comes to the movement in the inflation indexes CPI and PCE, and luck is involved in getting it to go where you want through policy measures. [Dallas Fed President Logan](#) speaking Thursday before the jobs report, does not believe in luck, and wants to undo the Fed's three "risk management" rate cuts from the fall of 2025. She does not see signs that monetary policy is restrictive. Inflation is trending towards 2.5% as transitory factors subside, but will not go all the way down to 2.0% without the Fed's help, she said. 2.5 or 2.0 does not look that different to us.

Selected Fed assets and liabilities						Change from 3/11/20 to Sep 30
Fed H.4.1 statistical release	30-Sep	23-Sep	16-Sep	9-Sep	3/11/20*	
billions, Wednesday data						
Factors adding reserves						
U.S. Treasury securities	4564.161	4558.332	4554.450	4552.337	2523.031	2041.130
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1898.089	1910.409	1913.523	1913.585	1371.846	526.243
Repurchase agreements	1.200	0.001	0.255	0.006	242.375	-241.175
Primary credit (Discount Window)	8.738	6.235	6.879	5.838	0.011	8.727
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.007	0.015	0.016	0.016		
Main Street Lending Program	0.872	0.872	0.871	0.895		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.207	0.072	0.094	0.101	0.058	0.149
Federal Reserve Total Assets	6794.9	6799.5	6798.3	6792.4	4360.0	2434.860
3-month Libor-% SOFR %	3.90	3.87	3.62	3.64	1.15	2.750
Factors draining reserves						
Currency in circulation	2482.756	2482.383	2483.040	2486.422	1818.957	663.799
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	984.046	947.317	991.708	843.705	372.337	611.709
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	11.539	0.461	5.375	0.432	1.325	10.214
Federal Reserve Liabilities	3913.200	3829.614	3876.772	3755.886	2580.036	1333.164
Reserve Balances (Net Liquidity)	2881.686	2969.922	2921.536	3036.508	1779.990	1101.696
Treasuries within 15 days	107.411	131.913	140.626	97.839	21.427	85.984
Treasuries 16 to 90 days	372.603	368.918	360.938	398.609	221.961	150.642
Treasuries 91 days to 1 year	540.933	531.946	527.324	529.763	378.403	162.530
Treasuries over 1-yr to 5 years	1436.000	1426.912	1426.916	1427.474	915.101	520.899
Treasuries over 5-yrs to 10 years	482.108	473.532	473.533	473.534	327.906	154.202
Treasuries over 10-years	1625.107	1625.110	1625.114	1625.117	658.232	966.875
Note: QT starts June 1, 2022	Change	Change	Change	Change		
U.S. Treasury securities	1218.432	0.000	-1218.432	-1218.432		
Mortgage-backed securities (MBS)	793.861	0.000	-793.861	-793.861		
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					Long Term
	2026	2027	2028	2029	
Fed funds	4.1	4.1	3.9	3.6	3.2
PCE inflation	3.7	2.3	2.1	2.0	2.0
Core inflation	3.4	2.5	2.2	2.0	
Unemployed	4.1	4.1	4.1	4.1	4.2
GDP	2.3	2.4	2.2	2.1	2.0
September 2026 median Fed forecasts					



Just 5 bps of a 25 bps rate hike is discounted at the October meeting.

Fed funds futures call Fed policy

Current target: Oct 2 -- 4.00%

Rate+0.12	Contract	Fed decision dates
4.050	Nov 2026	Oct 28
4.265	Jan 2027	Adds Dec 9*
4.350	Feb 2027	Adds Jan 27
4.540	Apr 2027	Adds Mar 17*
*Jan 2027 could be 4 days at a new rate		
*Apr 2027 could be 2 days at a new rate		

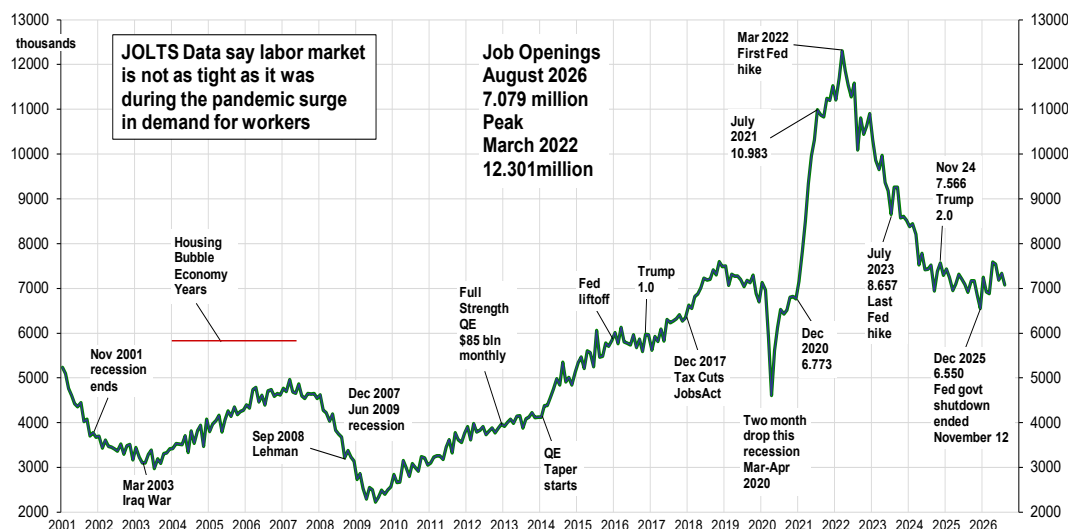
Next up: September CPI inflation Wednesday, October 14 830am ET

Monthly	2026					2025									
% Changes	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
Core CPI inflation	0.3	0.2	0.0	0.2	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2
Core PCE inflation	0.2	0.1	0.1	0.3	0.3	0.3	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Core PCE YOY	3.0	3.0	3.0	3.2	3.1	3.1	3.0	2.9	2.9	2.7	2.7	2.8	2.9	2.8	2.8
Core CPI YOY	2.4	2.5	2.6	2.8	2.7	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9

OTHER ECONOMIC NEWS

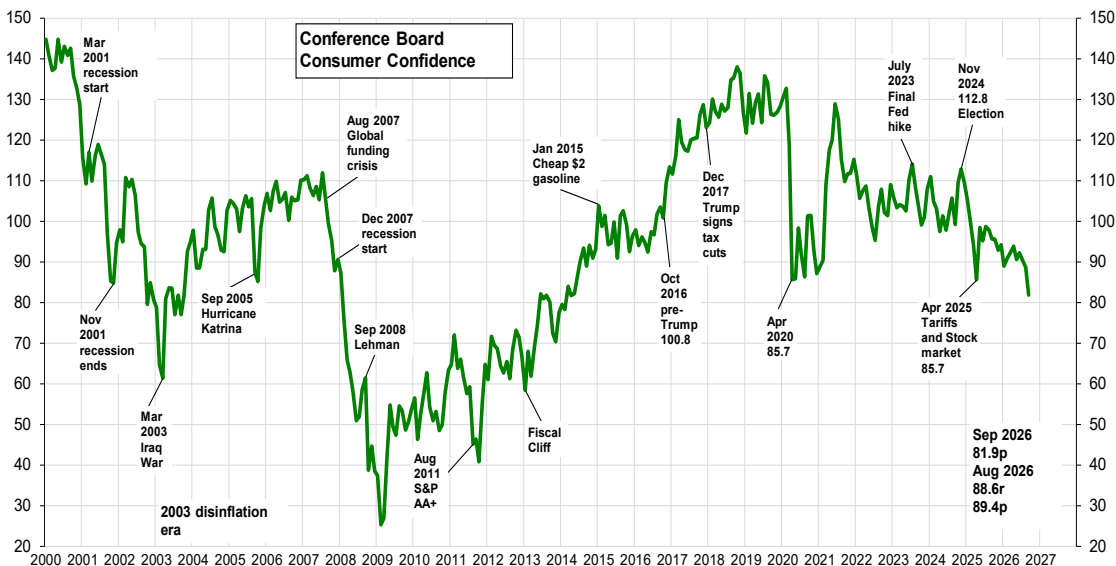
Job layoffs and consumer confidence are lower (Tuesday)

Breaking economy news. Job openings data for the end of August fell 256K to 7.079 million, and while the magnitude of the change is not small, it is hard to see any real difference in the graph here. Indeed, not too much has happened since



the November 2024 7.566 million level when Trump was elected. Other data at 10am ET today showed a deterioration in consumer confidence, falling 6.7 points to 81.9 in September. Consumer spending looks strong in the third quarter despite a bad attitude on the part of consumers which is probably related to the rebound in energy prices. There is not a lot of spending data for September yet, but on Friday it was reported that car and light truck sales fell 3.6% to 16.0 million at an annual rate from the 16.6 million level in August.

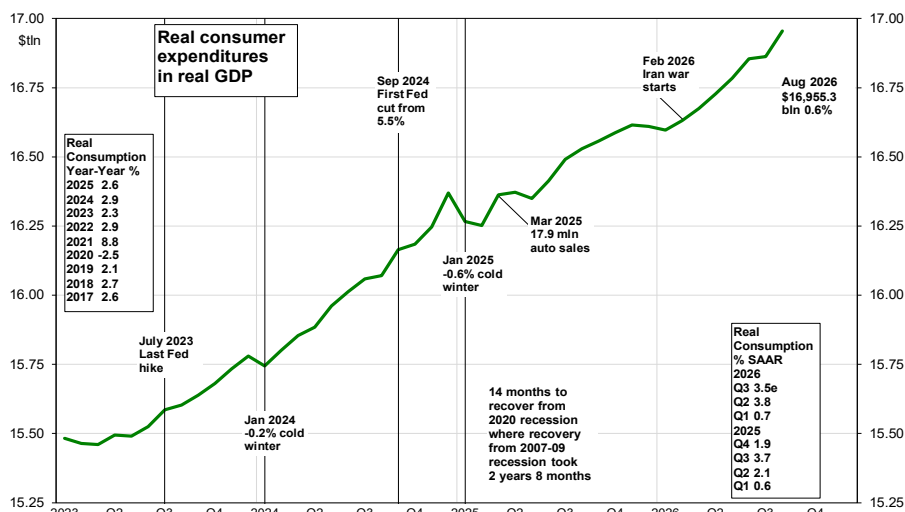
Net, net, the sharp drop in job openings at the end of August is a two-edged sword result for the labor markets where it looks like there is less opportunity and work out there for the jobless, but it can also mean that those openings



were taken down because the positions advertised were filled and that the upcoming September payroll employment report could be much stronger than markets expect. Consumer confidence in the labor market deteriorated sharply in September, but this could reflect the gloomy outlook reinforced by a return of gasoline prices to the highs earlier this year as the Middle East war drags on. Consumer expectations aside, our bet is the jobs market will be better than anticipated this Friday. The economy is not out of the woods when it comes to risks, but the outlook for the rest of the year is not the dark picture that is being forecast by some. The outlook for the economy remains half-full in our view, and not running on empty. The Fed's forward rates outlook will not send the economy off the rails.

Inflation cool, spending hot in August (Wednesday)

Breaking economy news. The third look at real GDP for any quarter, in this case Q2 2026 is more interesting this time of year because of the annual benchmark revision; in today's report the numbers are changed/adjusted back to Q1 2021. Real GDP was revised up this year, Q1 2026 from 2.1% to 2.5%, Q2 from 1.5% to 2.2%, and just for good measure we know the Commerce



Department is independent as they revised up real GDP in the final 2024 Biden year from 2.8% to 3.0%, a tenth more added by business construction and a tenth added by state and local spending. Looking at the monthly data, real consumer spending looks like 3.5% in Q3 with data through August, after a strong 3.8% in Q2. So much for consumer uncertainty and low confidence after the February 28 start to the Iran war.

Core PCE inflation is now 3.0% year-year in August, same as July and in June, the worst was 3.2% year-year in May. Core CPI was 2.4% year-year in August. The technical

	2024	2025	July 2026	Aug 2026
<u>Inflation technical changes</u>				
Port management/invest advice	19.8	13.5	14.7	na
As revised this month	14.4	10.6	4.1	0.6
Computer software/accessories	1.3	4.4	21.2	na
As revised this month	-0.8	2.5	13.1	-1.5
Year-to-year % changes except for Aug 2026 one-month chg				

changes this month brought the July 2026 year-to-date change for portfolio management and investment advice down to 4.1% where they had risen 14.7% before the technical change. A different technical change for computer software and accessories brought the 21.2% July 2026 YTD change down to 13.1%, and they threw in a one-month 1.5% decline in August for the heck of it. We hope the changes are worth it, and now core PCE inflation of 3.0% year-on-year for August 2026 is closer to the Fed's target.

Net, net, the inflation fire is not burning as hot as markets expected in August, and bond yields are adjusting their sails as investors rethink exactly how many Fed rate hikes might be needed to keep inflation moving back down to target. It is unambiguously good news that year-on-year core PCE inflation is running 3.0% in August where it was 3.3% as reported a month ago for July for whatever the reason. Consumers hit it out of the park in August; real spending surged 0.6%, although spending had been tepid in July with just a slight 0.1% increase. Strong growth and lower inflation is just the information policymakers need on whether they need to hike rates a second time this year as early as October's meeting. The data today say the economy is not overheating, and that inflation was cooler than expected. There is no need to hurry with additional rate hikes and policymakers can sit and wait for how the geopolitical risks play out.

U.S. Economy: Real GDP sector contribution							
	Annual			Quarterly			
	2023	2024	2025	Q3 25	Q4 25	Q1 26	Q2 26
Real GDP growth %	2.9	3.0	2.3	3.9	0.2	2.5	2.2
Consumer spending %	2.3	2.9	2.6	3.7	1.9	0.7	3.8
Consumer Spending	1.6	2.0	1.8	2.5	1.3	0.5	2.5
Durables	0.3	0.3	0.3	0.1	0.2	0.1	0.5
Nondurables	0.1	0.3	0.4	0.5	0.1	0.1	0.4
Services	1.2	1.4	1.2	1.8	1.1	0.3	1.6
Investment							
Business construction	0.5	0.1	-0.1	-0.3	-0.3	-0.3	0.0
Business Equipment	0.3	0.2	0.5	0.5	0.4	0.8	0.7
Intellectual Property	0.3	0.3	0.4	0.3	0.2	0.8	0.5
Residential construction	-0.4	0.1	-0.1	-0.3	-0.1	-0.3	0.1
Inventories	-0.5	0.0	-0.1	-0.1	0.0	0.2	-0.5
Net exports	0.4	-0.4	-0.3	1.0	-0.3	0.0	-1.1
Exports	0.3	0.4	0.2	1.0	-0.5	1.4	0.6
Imports	0.1	-0.8	-0.5	0.0	0.2	-1.5	-1.7
Government	0.8	0.8	0.3	0.3	-1.0	0.8	0.0
Federal defense	0.1	0.1	0.0	0.2	-0.3	0.2	0.2
Federal Nondefense	0.1	0.1	-0.1	-0.2	-0.7	0.5	-0.3
State and local	0.6	0.5	0.4	0.2	0.1	0.2	0.1

Percentage point contributions to GDP growth are below dark solid line

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