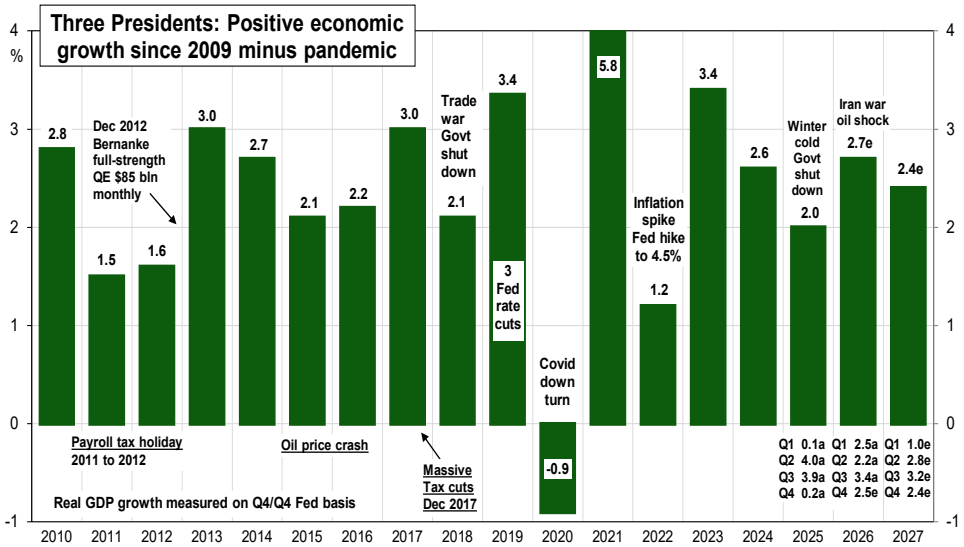
Financial Markets This Week

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

30 OCTOBER 2026

3.4% GDP



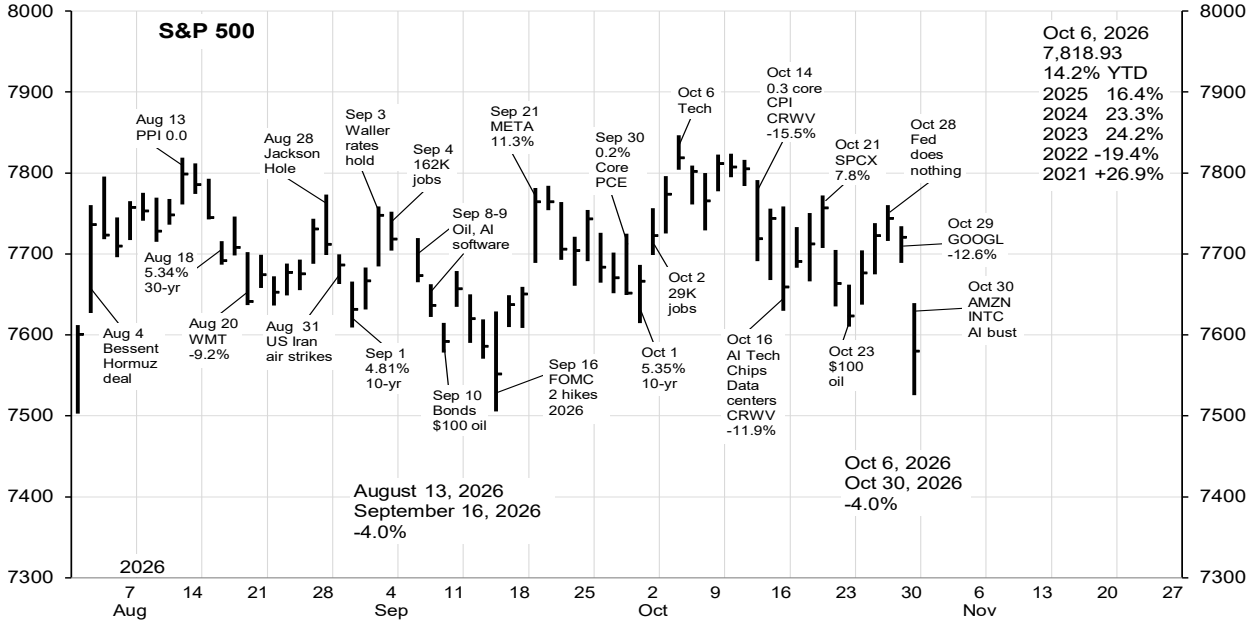
Growth is back above 3% for the first time in a year. Warsh commented at the meeting Wednesday before GDP that economic growth is higher but that doesn't tell him it is somehow causing inflation and "making our job harder." GDP was a "hot" 3.4% in 2023's rebound from the Russia/Ukraine and Fed hike growth slowdown in 2022, but despite the strong demand, inflation was on its way back down in 2023, transitory after all. As for Q3 2026 3.4% GDP, besides the understandable sectors like the consumer and business investment, there were a lot of moving parts that only an economist would try to add up and make sense of. Perhaps it didn't matter because the consumer contributed 2.5 percentage points, business investment in equipment and software added a combined 1.7 percentage points which is close enough to the picture of "strong growth." Heck, the September FOMC forecasts only thought Q4/Q4 2026 real GDP would be 2.3%. The moving parts were inventories adding 1.6 percentage points, normally related in part to more imports coming in, placed in warehouses initially, which in Q3 2026 the greater imports subtracted 2.6 percentage points because imports are always subtracted from GDP, Gross Domestic Product. Imports have been increasing all this year, a steady drag on GDP growth each quarter, as the higher tariff costs are no longer holding companies back. Finally, the Federal government is spending up a storm, so much for smaller government, with Federal defense spending adding 0.4 percentage points and even Federal nondefense spending adding 0.5 percentage points.

	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26p
REAL GDP	4.0	3.9	0.2	2.5	2.2	3.4
REAL CONSUMPTION	2.1	3.7	1.9	0.7	3.8	3.8
CONSUMPTION	1.4	2.5	1.3	0.5	2.5	2.5
Durables	0.3	0.1	0.2	0.1	0.5	0.2
Nondurables	0.3	0.5	0.1	0.1	0.4	0.5
Services	0.9	1.8	1.1	0.3	1.6	1.9
INVESTMENT	-2.3	0.2	0.2	1.3	0.8	3.3
Business Plant	-0.2	-0.3	-0.3	-0.3	0.0	0.2
& Equipment and	0.4	0.5	0.4	0.8	0.7	1.2
Intellectual Property	0.8	0.3	0.2	0.8	0.5	0.5
Homes	-0.2	-0.3	-0.1	-0.3	0.1	-0.1
Inventories	-3.2	-0.1	0.0	0.2	-0.5	1.6
EXPORTS	-0.2	1.0	-0.5	1.4	0.6	-0.7
IMPORTS	4.7	0.0	0.2	-1.5	-1.7	-2.6
GOVERNMENT	0.4	0.3	-1.0	0.8	0.0	0.9
Federal defense	0.1	0.2	-0.3	0.2	0.2	0.4
Fed nondefense	-0.1	-0.2	-0.7	0.5	-0.3	0.5
State and local	0.4	0.2	0.1	0.2	0.1	0.0

Below line: Percentage point contributions to Q3 2026 3.4% real GDP
Second estimate for Q3 is Wednesday, November 25

Looking ahead, we put Q4 real GDP at 2.5%. Consumer spending in Q4 using September's level has some momentum at 0.8% despite the flat reading in September itself. Government spending and capex on equipment are likely to add less. Despite what Washington does, there hasn't been a real recession since 2008 no matter who is President; it looks like real GDP will be 2.7% this year Q4/Q4, and we will pencil in 2.4% for 2027.

INTEREST RATES

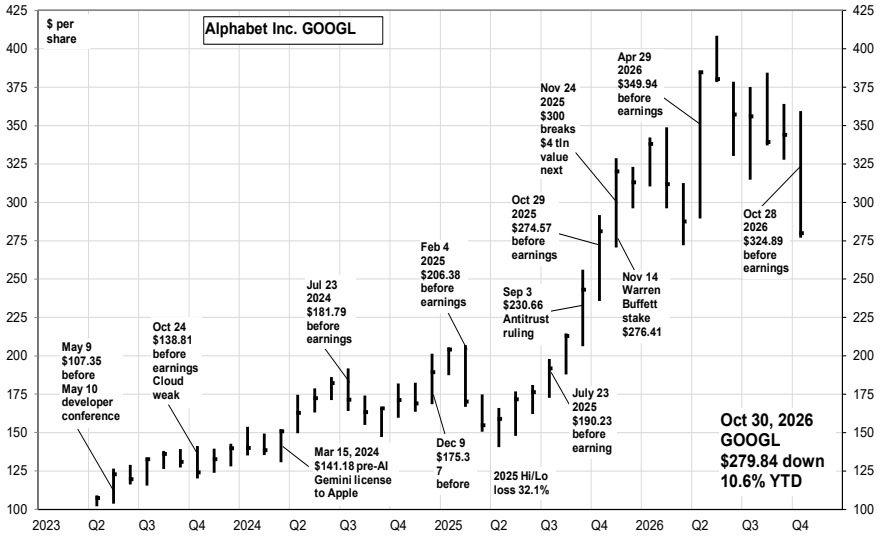


Bonds did not do much on the Fed meeting or 0.3% "expected" core PCE inflation Wednesday and Thursday, respectively. There was a late yield drop on Thursday; safe haven buys perhaps on the AI Bust deflation story with earnings from Intel and Amazon. But bonds just sat Friday out, with the S&P 500 collapse of 2.5% at one point during the afternoon. Glad to know market makers are in control with stocks down as far as 4.0% from record October highs during Friday trading, matching the same 4.0% drop from August 13 to the September 16 low. Maybe bonds are waiting for bad supply news with the Treasury quarterly refunding announcements next week: Financing estimates 3pm ET Monday, November 2, and Refunding terms, 3/10/30s at 830am Wednesday, November 4. Treasury last said they would borrow $1.234 trillion this calendar year which adds to the National Debt.

Alphabet, Inc. (GOOGL) record 12.6% drop Thursday after earnings

Alphabet fell 7.1% to $317.69 after July earnings, but MSFT and AMZN earnings a week later, along with some Iran peace talk, got the stock out of trouble. No such luck on Wednesday with a record 12.6% drop the next day. It's not just the heavy capex data center spending to record everything Americans say/type online anymore, AI might harm the company's search business. Advertising was $82.0 billion in Q3 2026, 10.6% YOY, it was 14.4% YOY in Q2, and 15.8% YOY in Q1. Capex was $51.4 billion in Q3 2026 pushing free cash flow negative for a second straight quarter.

Calendar Year Mln $	Revenue	Advertising	Cloud	Operating Income
Q3 2026	127,577	82,012	30,709	40,576
Q2 2026	119,796	81,629	24,768	40,770
Q1 2026	109,896	77,253	20,028	39,696
Q4 2025	113,828	82,284	17,664	35,934
Q3 2025	102,346	74,182	15,157	31,228
Q2 2025	96,428	71,340	13,624	31,271
Q1 2025	90,234	66,685	12,260	30,606
Q4 2024	96,469	72,461	11,955	30,972
Q3 2024	88,268	65,854	11,353	28,521

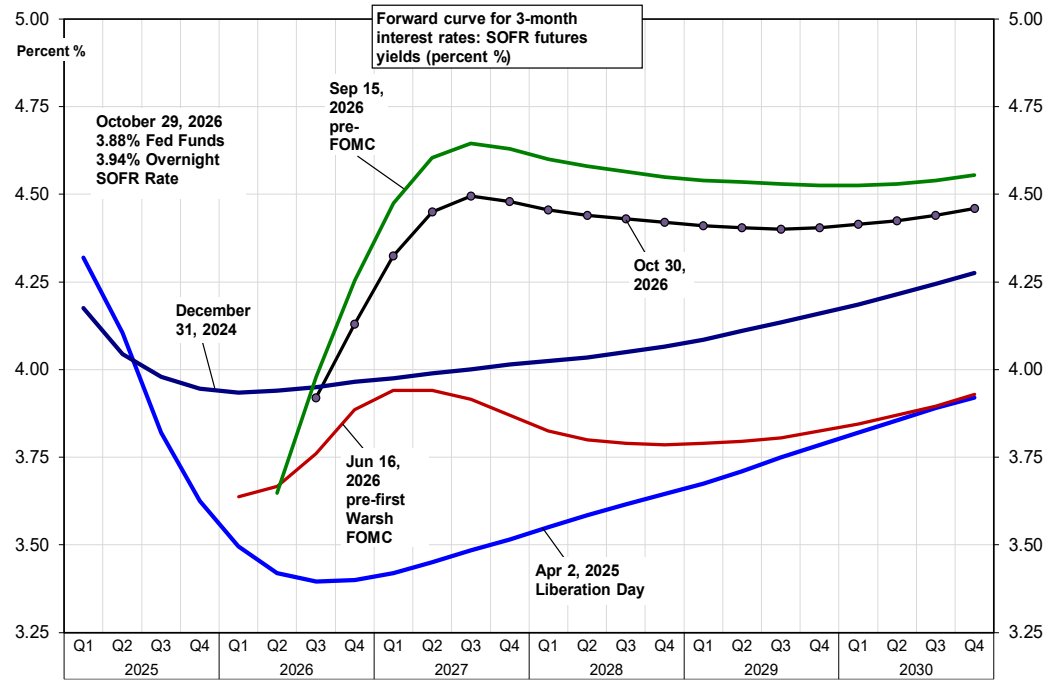


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	28-Oct	21-Oct	14-Oct	7-Oct	3/11/20*	3/11/20
Factors adding reserves						to Oct 28
U.S. Treasury securities	4576.582	4572.654	4570.552	4566.384	2523.031	2053.551
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1883.522	1895.177	1898.160	1898.089	1371.846	511.676
Repurchase agreements	0.006	0.067	0.001	0.002	242.375	-242.369
Primary credit (Discount Window)	9.538	9.169	11.044	9.965	0.011	9.527
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	0.007	0.007	0.007		
Main Street Lending Program	0.871	0.871	0.873	0.873		
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	0.156	0.170	0.205	0.207	0.058	0.098
Federal Reserve Total Assets	6797.5	6805.5	6807.5	6799.4	4360.0	2437.469
~~3 month Libor %~~ SOFR %	3.94	3.88	3.88	3.88	1.15	2.790
Factors draining reserves						
Currency in circulation	2485.878	2485.182	2488.818	2486.120	1818.957	666.921
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	1015.632	945.153	885.823	885.783	372.337	643.295
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	0.176	0.237	0.201	2.338	1.325	-1.149
Federal Reserve Liabilities	3902.259	3835.994	3776.599	3777.324	2580.036	1322.223
Reserve Balances (Net Liquidity)	2895.236	2969.522	3030.854	3022.066	1779.990	1115.246
Treasuries within 15 days	125.377	125.279	106.926	102.162	21.427	103.950
Treasuries 16 to 90 days	404.742	398.579	390.845	394.160	221.961	182.781
Treasuries 91 days to 1 year	500.228	502.809	529.071	526.600	378.403	121.825
Treasuries over 1-yr to 5 years	1437.066	1436.944	1436.242	1436.121	915.101	521.965
Treasuries over 5-yrs to 10 years	483.123	483.100	482.152	482.130	327.906	155.217
Treasuries over 10-years	1626.047	1625.942	1625.316	1625.211	658.232	967.815
Note: QT starts June 1, 2022	Change	10/28/2026	6/1/2022			
U.S. Treasury securities	-1194.197	4576.582	5770.779			
Mortgage-backed securities (MBS)	-823.924	1883.522	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed met October 27-28, 2026 to consider its monetary policy. The radical Warsh changes are still coming, maybe big changes to how the Fed operates, but we won't know about all the exact details of the policy reorg for a while. (Oh, we forgot, no change in rates this week, they looked out the window and saw nothing.) In his opening remarks he did say the number of policy meetings would be cut, eventually, from 8 "live" meetings where rate changes could happen to 6 meetings. Starting next fall, one meeting will focus on "broad monetary strategy," but there would be no rate change. Strategy. Right. An offsite. A corporate retreat. We've been to those before. Very valuable. In response to another question, Warsh offered no forward guidance on whether the Committee was still in favor, based on the September interest rate forecasts, of a second rate hike by the final December meeting of the year. Warsh said the blackout was ending, and the other members "might indulge you in that discussion." On Friday, Dallas Fed President Logan obliged and said the Fed needed to do at least two more 25 bps rate hikes before pausing and looking out the window. Thanks!

> Warsh October 28, 2026
> At each policy meeting, my colleagues and I assess the economy by looking out the window—it's what we call "interrogating reality"—to gauge what's really going on.



Just 18.5 bps of a 25 bps rate hike is discounted at the December meeting. Odds drop with crashing stocks. 74% chance.

Fed funds futures call Fed policy	
Current target: Oct 30 -- 4.00%	
Rate+0.12 Contract	Fed decision dates
4.185 Jan 2027	Dec 9*
4.240 Feb 2027	Adds Jan 27
4.375 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	

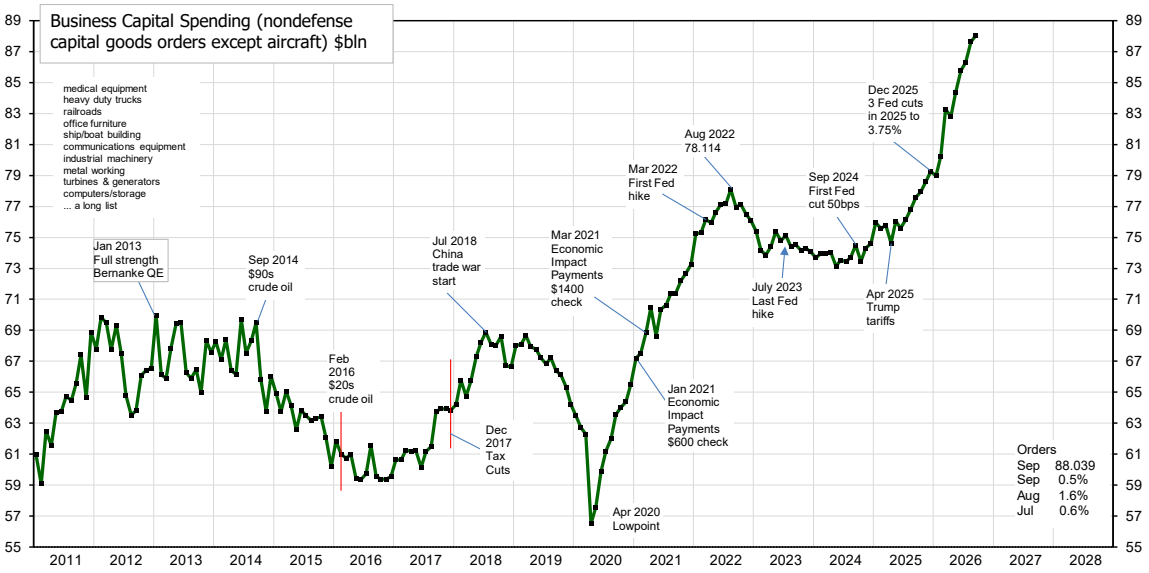
Next up: October CPI inflation Tuesday, November 10 830am ET

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

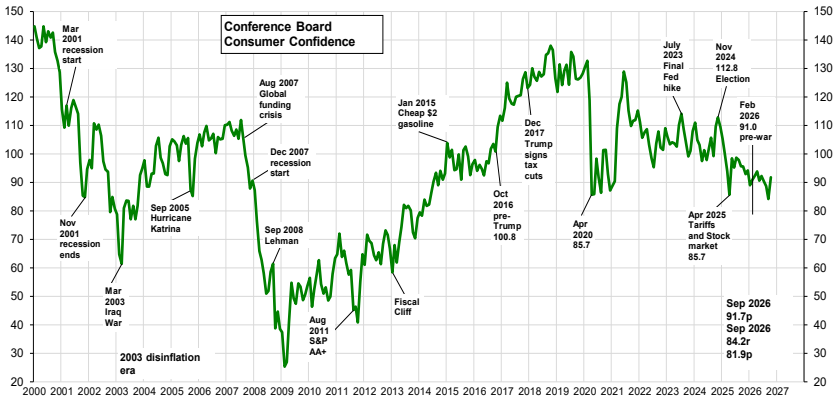
OTHER ECONOMIC NEWS

Equipment investment boom (Tuesday)

Breaking economy news. Durable goods orders in September. Our proxy for monthly business investment is nondefense capital goods orders ex-aircraft and these rose 0.5% in September after jumping 1.6% in August. On a year-to-date basis versus a year ago these core capital goods are 10.9% higher and some of the components are computers and related products up 14.9%, communications equipment up 34.3%, and machinery increasing 13.4%.



Net, net, the factory boom continues at least when it comes to the measure of how much capital goods equipment manufacturers are ordering up. Nondefense capital goods orders ex-aircraft set another record rising 0.5% to $88.0 billion in September. The investment surge described by Warsh continued in September even if Fed officials are unlikely to raise interest rates to slow things down as they meet over the next two days. Orders for computers and electronic products increased 14.9% to $31.3 billion in September from last year; and even if communications equipment within this broader category has fallen 1.3% in each of the last two months, communication equipment orders of $5.1 billion in September are still 34.3% higher than a year earlier. The AI spending boom for investment continues at a rapid pace and shows no sign of a material backup yet as capex plans for big Tech are expected to continue into 2027. Stay tuned. Factory equipment orders and investment is surging and Fed officials are doing nothing to stop it for now. Higher interest rates on the margin, a 25 bps rate hike, is unlikely to slow the pace of investment down. Bet on it. There is an investment boom and not everyone in America is participating in it, but the equipment expenditures will continue and economic growth will likely have a 3 percent handle on it for the foreseeable future.

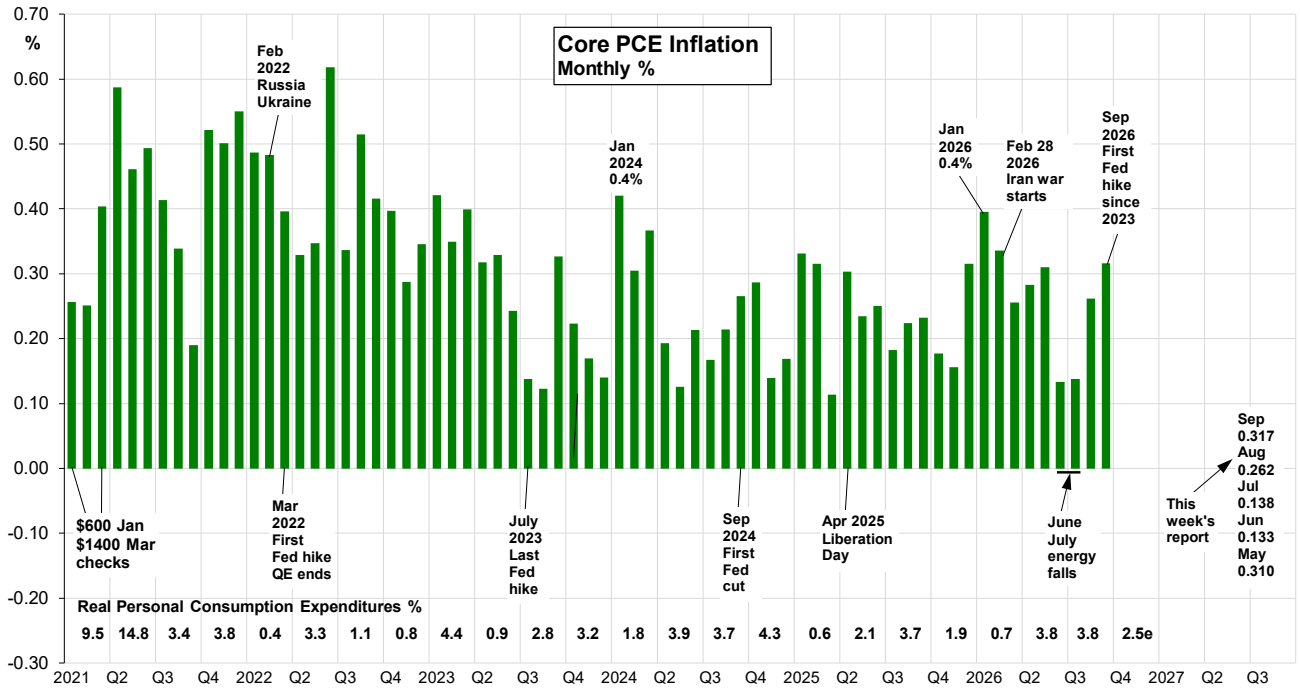


**Note: at 10am ET the sharp energy-related? drop in confidence to 81.9 in September was revised higher.

Personal income and Q3 3.4% real GDP (Thursday)

Breaking economy news. Real consumer spending was unchanged in September after a big 0.5% monthly increase in August, so it evens out unless 0.0% is the way forward. Given the momentum, Q4 2026 is rising 0.8% already without any data for October, November, December. It is quite a shock to see real consumer spending so strong after the start of the Iran bombing on February 28. Q2 2026 3.8%, and Q3 2026 is also 3.8%. For goods consumption they are buying a lot of drugs, some furnishings and durable household equipment despite the slow turnover in homes sold. They are buying less gasoline and computers/software the last two quarters. Services spending was considerable and in the third quarter it was electricity bills, health care, and dining out. Where did they get the money? Personal saving as a percentage of disposable personal income was as high as 5.8% in Q2 2025, 5.3% Q1 2026, 4.4% Q2 2026, 4.1% Q3 2026 but we would not take this as consumers are on their last legs and dipping into their piggy-bank savings. This savings rate number floats around a lot.

Monthly core PCE inflation has heated up this year, long after the April 2025 tariff Liberation Day. A couple of cool 0.1% months in June and July this year for whatever reason, maybe a coincidence, but it matches up with gasoline prices at the pump falling 9.2% and 2.7% June/July, respectively. The Fed addressed the inflation threat in September with the first rate hike to 4.0% since their previous tightening cycle to 5.5% finished up in July 2023.

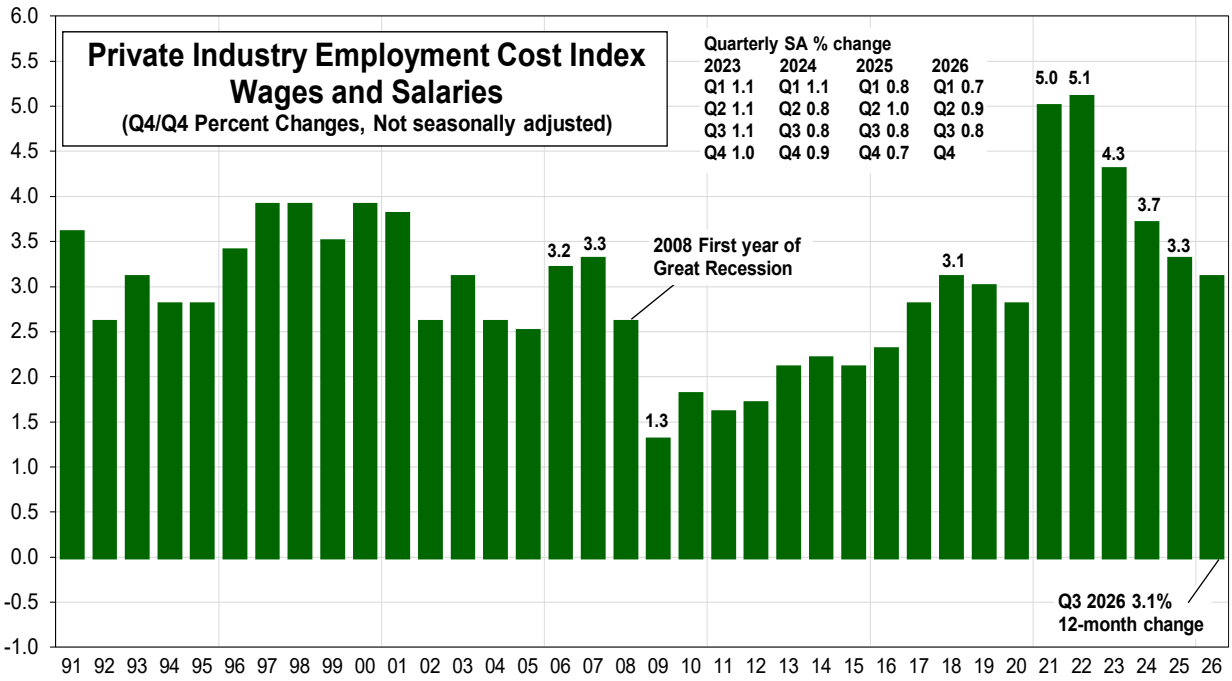


Not enough wages (Friday)

Breaking economy news. Third quarter employment cost index (ECI). We focus on the private industry results. In the 12-months ending September, compensation was 3.4% with wages 3.1% and benefits 3.9% (health benefits 6.4%). Three-month changes for private industry wages and salaries were 0.8% versus 0.9% in the "second quarter."

Net, net, higher wages continue to keep a fire under inflation as wage costs are an important component behind the prices of many goods sitting on store shelves. 3% inflation will remain impossible for Fed officials to bring down if wages keep costs at 3%. In the 12-months ending September 2026, private industry wages and salaries are 3.1% higher than a year ago which matches September 3.1% year-on-year core PCE inflation released yesterday.

Paychecks are barely able to keep workers' heads above water, trying to scratch out a living. Bringing home a real paycheck that matches inflation is next to impossible for most Americans. No wonder consumer confidence remains on the low side of life. The employment cost index isn't high enough for most workers especially when you add in the higher inflation costs of food and energy. PCE inflation released yesterday show inflation including food and energy rose 3.6% in September 2026 relative to a year ago.



Analyst Certification

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by FWDBONDS LLC should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by FWDBONDS LLC. FWDBONDS LLC hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While FWDBONDS LLC believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, FWDBONDS LLC makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that FWDBONDS LLC may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and FWDBONDS LLC is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2026 FWDBONDS LLC All Rights Reserved

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor FWDBONDS LLC vouch for its accuracy, and such information may be incomplete or condensed. Neither the authors nor FWDBONDS LLC shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

Opinions, estimates, forecasts, and other views contained in this document are those of the FWDBONDS LLC research group, and does not necessarily represent the views of FWDBONDS LLC or its management. Although the Financial Markets This Week newsletter attempts to provide reliable, useful information, it does not guarantee that the information or other content in this document is accurate, current or suitable for any particular purpose. All content is subject to change without notice. All content is provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document or its content is strictly prohibited. ©2026 by FWDBONDS LLC.

By the way, in the way of the usual disclaimers, this is a final legal reminder that there is no investment advice offered or given anywhere in this newsletter or on the fwdbonds.com website. These are just the things we would like to see before we save, invest, spend, and otherwise plan for the future, which of course is always uncertain.