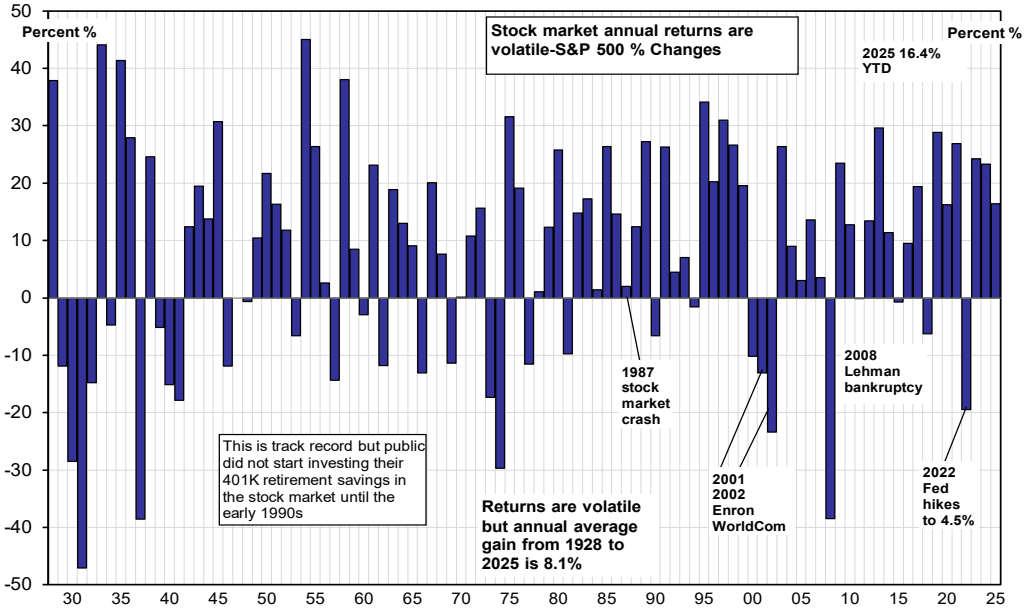
Financial Markets This Week

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

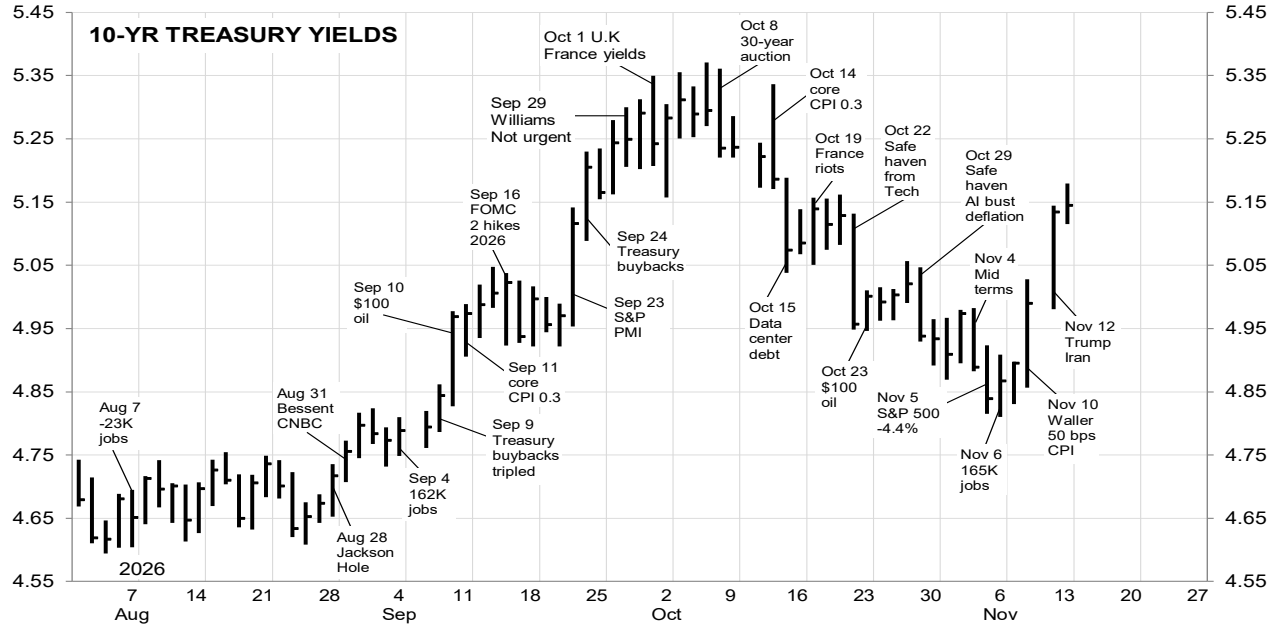
CAPITAL MARKET ASSUMPTIONS



What we mean by Capital Market Assumptions here in this week's special topic is what is your expectation for returns on stocks and bonds over the next few decades on average. We took a refresher course on Private Wealth Management recently and kept hearing about stocks increasing 10% each year on average over the long run, probably based mostly on what happened in the past. The course had many case studies featuring how to help ultra high net worth individuals with at least $30 million of investable funds, people who are probably not concerned much about the cost-of-living crisis. They probably don't care if stocks have average returns over the next ten or 20 years of 10% or 8% either.

The story we read said Vanguard's 10-year outlook suggests stocks will have an average annual return of 4.8 to 6.8 percent the next decade. Fidelity has a recent 20 year forecast with an annualized return of 5.8%. That is not going to be enough growth to retire on and we like the 10% annual S&P returns number much better. Is the track record 10 percent though? The graph here is annual changes in the S&P 500 and something that looks like the S&P 500 prior to 1957, and the average annual increase is 8.1% which does not count dividends, which is another 1.0% lately. There are some big drops however. And more importantly, long periods of nothing. If you bought during the peak of the stock market bubble in Q1 2000, you could still buy the S&P 500 at the same price 13 lucky years later in Q1 2013. There was a similar zero-out flat return period where 1969 wasn't the best days of everyone's life, buying stocks at the end of 1968 you had another chance to buy the S&P 500 at the same 1968 level 14 years later in 1982. Review and Outlook: Long-term investing, problem number 1, you probably will not create significant wealth unless you have 100% of your savings in the stock market. Problem number two, there are 13 or 14 year dry spells possible where stocks pay you nothing, and of course, there are also sudden downdrafts of a magnitude that will make you want to get out and not come back, like the 57.7% drop in the 2007-09 recession.

INTEREST RATES

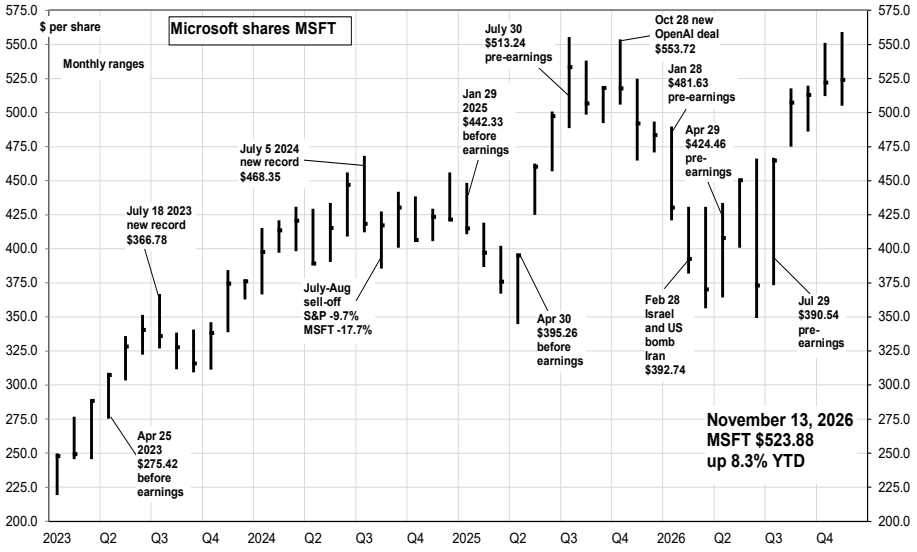


A nice setup by Fed governor Waller talking in London Tuesday saying if core CPI was more than he expected later in the morning, then a bigger 50 bps rate hike should be considered. Inflation was higher and bond yields went back above 5%. Thursday's 10-yr yield rally went into the stratosphere starting off with a Trump quote in the morning about how there was no need for an Iran deal which meant oil prices higher for longer we guess; January crude oil futures only moved up to about $88 from $85.43 on Wednesday. Mortgage-backed portfolio hedging and a 30-year auction later Thursday could have been factors. Cash bond markets were closed Wednesday for Veterans Day. 10-year yields jumped 14 bps to 5.13% on Thursday. As for stocks, index returns are 8% in the long run so pay no attention to the recent 6.3% high-low drop. The S&P 500 closed the week up 10.5% YTD.

Microsoft (MSFT) up 8.3% YTD

Earnings after the bell Wednesday, October 28 did not do much for the stock by the close the next day. MSFT closed $520.99 on November 3 with the Midterms and rallied 6.7% the next day. Recent headwinds have been a Claude Sheets to compete with Excel, and the global services outage this week. MSFT changed the number of operating segments to just two now, Agents and Infra, and Devices and Consumer, so we added Capex to the table below: $45.2 billion capex in Q3 2026. FY2026 capex was $145.3 billion up from $55.7 billion in FY2024.

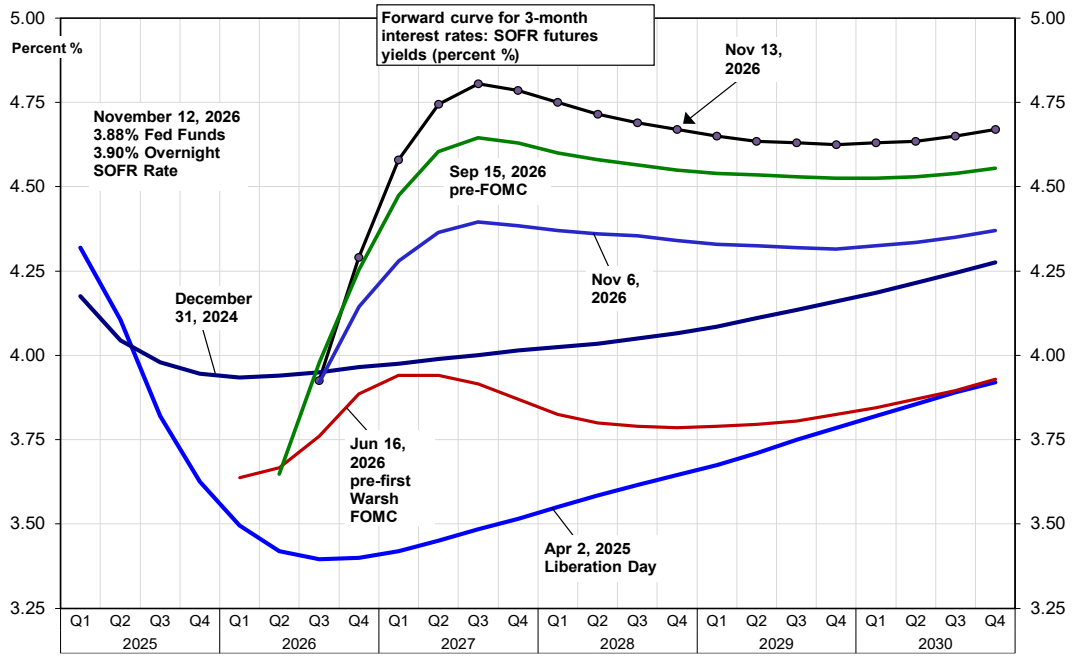
Calendar Year Mln $	Revenue	Agents Infra	Devices Consumer	Capex $bln
Q3 2026	92,279	76,795	15,484	45.2
Q2 2026	90,007	74,576	15,431	41.0
Q1 2026	82,886	67,438	15,448	31.9
Q4 2025	81,273	64,441	16,832	37.5
Q3 2025	77,673	61,672	16,001	34.9
	Income	Segment	Segment	
Q3 2026	45,915	40,558	5,357	
Q2 2026	40,603	36,732	3,871	
Q1 2026	38,398	33,748	4,650	
Q4 2025	38,275	33,167	5,108	
Q3 2025	37,961	32,718	5,243	



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	11-Nov	4-Nov	28-Oct	21-Oct	3/11/20*	3/11/20
Factors adding reserves						to Nov 11
U.S. Treasury securities	4586.607	4578.777	4576.582	4572.654	2523.031	2063.576
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1883.522	1883.522	1883.522	1895.177	1371.846	511.676
Repurchase agreements	0.005	0.000	0.006	0.067	242.375	-242.370
Primary credit (Discount Window)	9.268	9.219	9.538	9.169	0.011	9.257
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	0.872	0.872	0.871	0.871		
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	0.171	0.169	0.156	0.170	0.058	0.113
Federal Reserve Total Assets	6810.8	6800.1	6797.5	6805.5	4360.0	2450.733
~~3 month Libor %~~ SOFR %	3.89	3.94	3.94	3.88	1.15	2.740
Factors draining reserves						
Currency in circulation	2496.094	2490.536	2485.878	2485.182	1818.957	677.137
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	912.134	936.248	1015.632	945.153	372.337	539.797
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	0.152	0.225	0.176	0.237	1.325	-1.173
Federal Reserve Liabilities	3840.782	3837.267	3902.259	3835.994	2580.036	1260.746
Reserve Balances (Net Liquidity)	2969.977	2962.804	2895.236	2969.522	1779.990	1189.987
Treasuries within 15 days	106.197	122.548	125.377	125.279	21.427	84.770
Treasuries 16 to 90 days	427.941	411.404	404.742	398.579	221.961	205.980
Treasuries 91 days to 1 year	499.082	491.911	500.228	502.809	378.403	120.679
Treasuries over 1-yr to 5 years	1439.637	1439.406	1437.066	1436.944	915.101	524.536
Treasuries over 5-yrs to 10 years	487.346	487.303	483.123	483.100	327.906	159.440
Treasuries over 10-years	1626.404	1626.205	1626.047	1625.942	658.232	968.172
Note: QT starts June 1, 2022	Change	11/11/2026	6/1/2022			
U.S. Treasury securities	-1184.172	4586.607	5770.779			
Mortgage-backed securities (MBS)	-823.924	1883.522	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets December 8-9, 2026 to consider its monetary policy. Fed governor Waller is always good for a policy update, and did not fail, speaking Tuesday before the hot 0.3% core CPI print for October. Waller said a 50 bps hike should be considered if core CPI was higher than the 0.2% he expected. Even Trump appointee Bowman as Vice Chair for Supervision said she favored a rate hike as well later on Tuesday. On the times are changing front, the Fed website updated the list of 2027 FOMC Meetings, and said October 26-27 was now a "Monetary Policy Strategy Meeting" with all talk and no action. This means there could be a rate change at the September 14-15, 2027 meeting, but then the next potential rate change would not be until November 16-17, 2027, two long months later. That is the final meeting of the year, as the traditional December meetings are now history. The next rate change meeting is not until January 25-26, 2028; it will be a long cold winter for bond traders to wait 70 days between the November 17 and January 26 Fed action dates. The best is for last and that is maybe the dot-plot interest rate forecasts provided ever since January 2012 might be history. The Fed calendars usually put an asterisk for the March, June, September, December forecast meetings saying "* Meeting associated with a Summary of Economic Projections." But now it's gone.



A 25 bps rate hike is discounted at the December meeting. 20 bps of a second hike to 4.50% in January is discounted.

Fed funds futures call Fed policy	
Current target: Nov 13 -- 4.00%	
Rate+0.12 Contract	Fed decision dates
4.295 Jan 2027	Dec 9*
4.450 Feb 2027	Adds Jan 27
4.625 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 PCE inflation Wednesday, November 25 830am ET															
Monthly	2026									2026	2025				2025
% Changes	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug
Core CPI inflation	0.3	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
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
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
Core CPI YOY	NA	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

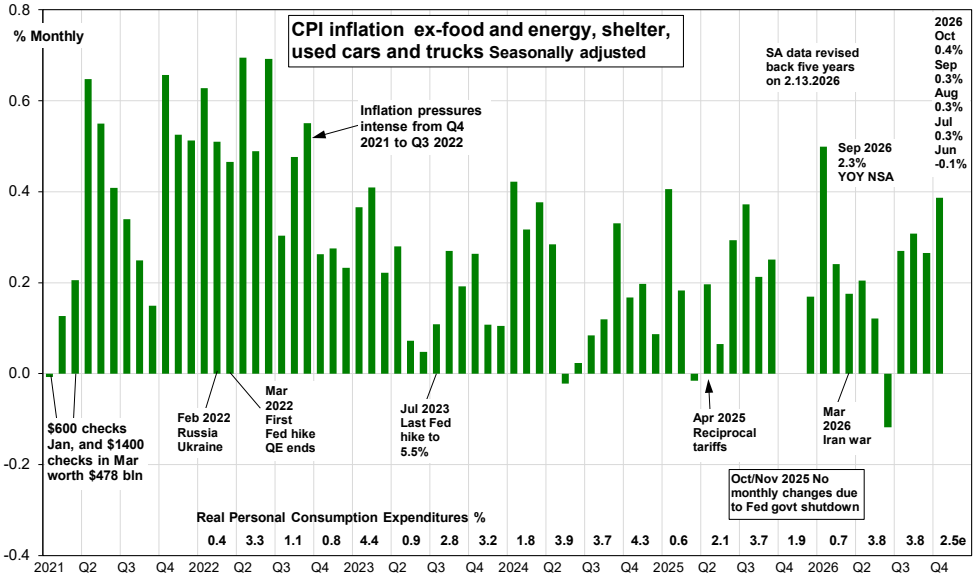
OTHER ECONOMIC NEWS

Core CPI 0.3% not the 0.2% expected (Tuesday)

Breaking economy news. Core CPI was 0.3% in October versus the 0.2% consensus forecast which was Fed governor Waller's number as well. Not for anything, but core CPI was 0.3% in August and 0.3% in September. Trend is your friend. There is no year-on-year inflation change because of the Federal government shutdown which means there was no data collection a year ago. The BLS gave some instructions on how to deal with this, but we just took the average of the index between September and November which gives a 2.8% year-on-year change for October versus 2.6% in September; the 2026 high was 2.9% in May. The YOY core CPI inflation is one thing, the three straight months of 0.3% monthly increases is something else which shows no relief for consumers. And we don't want to leave out food at grocery stores or dining out with big increases in October. New vehicle prices are rising again as well for three consecutive months. Note: the table here this month shows September YOY changes as October 2025 was not published during the Federal government shutdown.

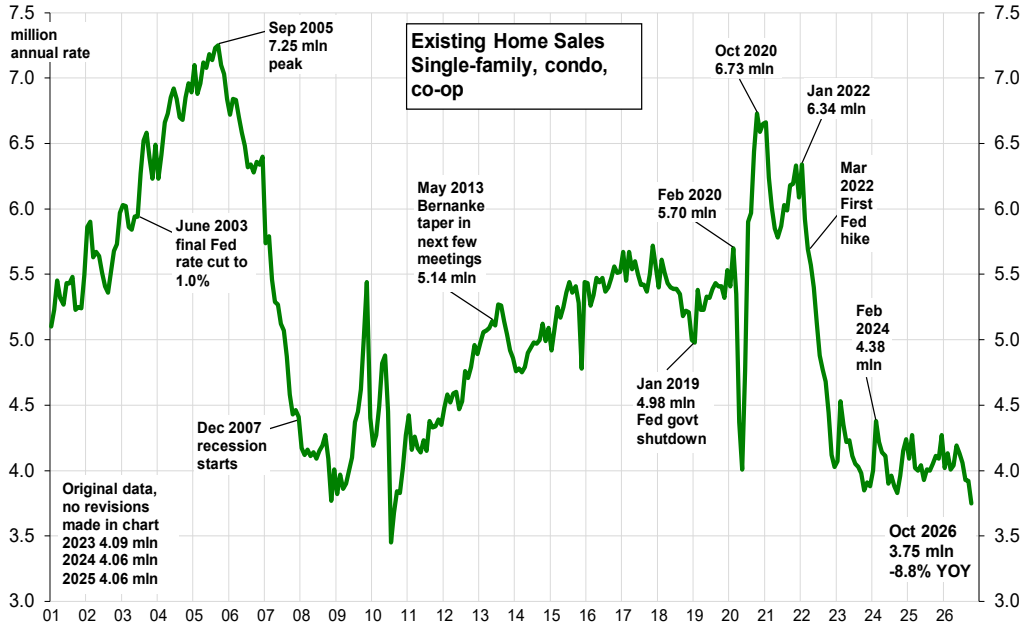
Dec 25		Monthly Percent Changes			YOY %
Weight	CPI inflation	Aug 2026	Sep 2026	Oct 2026	Sep 2026
100.0	Total	0.4	0.6	0.4	3.7
13.698	Food	0.1	0.0	0.5	2.5
8.325	Food at home	0.0	-0.1	0.4	1.8
5.373	Food away from home	0.3	0.2	0.5	3.5
6.383	Energy	2.1	5.2	0.7	20.4
2.895	Gasoline	3.9	9.1	1.0	34.2
79.919	Ex-food & energy	0.3	0.3	0.3	2.6
3.838	New vehicles	0.3	0.2	0.2	0.6
2.759	Used cars/trucks	0.4	0.7	-1.2	-1.5
2.368	Clothing	0.0	0.3	0.1	3.4
1.489	Medical care goods	-0.2	-0.7	0.5	-3.3
35.625	Shelter	0.3	0.4	0.3	3.1
26.204	Owner equiv. rent	0.2	0.3	0.3	3.3
6.315	Transportation	0.5	0.6	0.8	2.7
6.935	Medical care services	-0.2	0.3	0.3	2.5
	Special: Where inflation might come back down to				
60.744	Services ex-energy	0.3	0.4	0.3	3.1
19.176	Commodities (core)	0.1	0.3	0.2	0.7

Net, net, the consumer's inflation nightmare continues on at the start of the fourth quarter with no relief in sight where this month's grocery bills have jumped and the cost of dining out is sky-high. 10-yr yields are soaring, having just been given a warning by Fed governor Waller earlier this morning that a 50 bps rate hike might be necessary to restore the central bank's credibility if the CPI data were hot. Core CPI was worse than expected with a monthly change of 0.3% (0.296), and CPI less food, shelter, energy and used cars and trucks jumped 0.4% in October, the most since 0.5% in January, the worst 4-month run yet for Trump 2.0. Inflation is not rolling over and playing dead and Fed officials are going to need to bring a bigger hose if they have any hope of putting the inflation fire out. There was just a huge political shift and change of control in Congress during the Midterms and the reason couldn't be any more plain. Inflation isn't dead, it is very much alive and the cost of living crisis rages on.

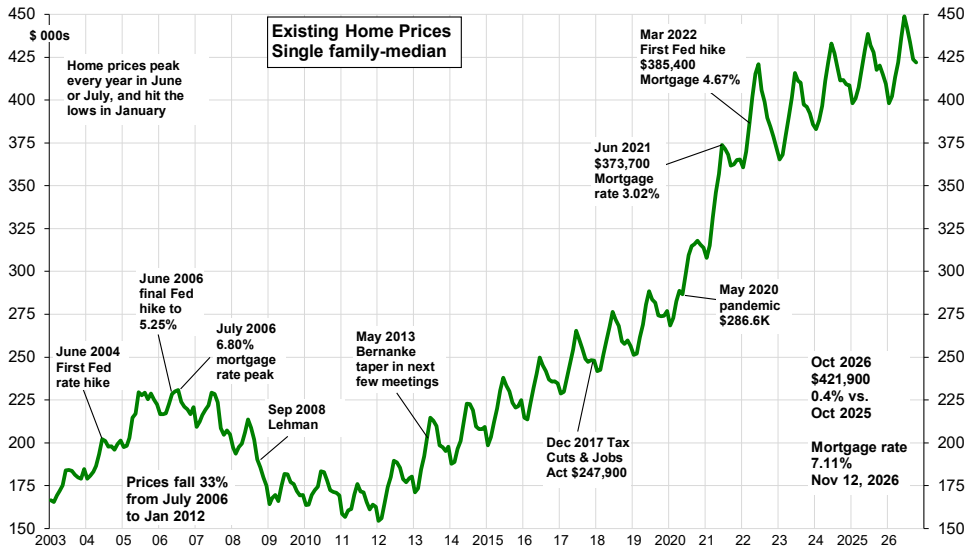


Housing depression (Thursday)

Breaking economy news. Existing home sales fell 5.5% in October and are 8.8% below the year ago level. The steepest year-year decline was 9.7% out West and 6.5% in the South. We don't change the sales graph with the new seasonal factors each year, the annual amounts sold for the full year doesn't change and the sales in 2025 were 4.06 million. Doesn't sound like much turnover in a country with a population of 343 million. Mortgage rates are down to 7.11% in the latest November 12, 2026 week.



Net, net, it shouldn't come as any surprise to see the turnover sales rate of existing homes at new lows for the year after falling 5.5% in October. Mortgage rates hit a high of 7.4% in the middle of October as rates are under upward pressure after the Fed's rate hike in September. Home prices are down 6.0% since June, but the price relief isn't fooling anyone and homebuyers realize this is just a normal seasonal downtick from the busy summer sales season. Homes are just as unaffordable as they have been despite the current administration's attempts to bolster the housing market through legislation and executive proclamations, but the current policy measures are plainly not working and a permanent fix has yet to be found to alleviate the housing crisis. Fed officials want to push rates even higher to fight inflation, but all this is doing is pushing the housing correction down into the depths of depression. Stay tuned. It's dark out there with no homebuyers anywhere to be found.

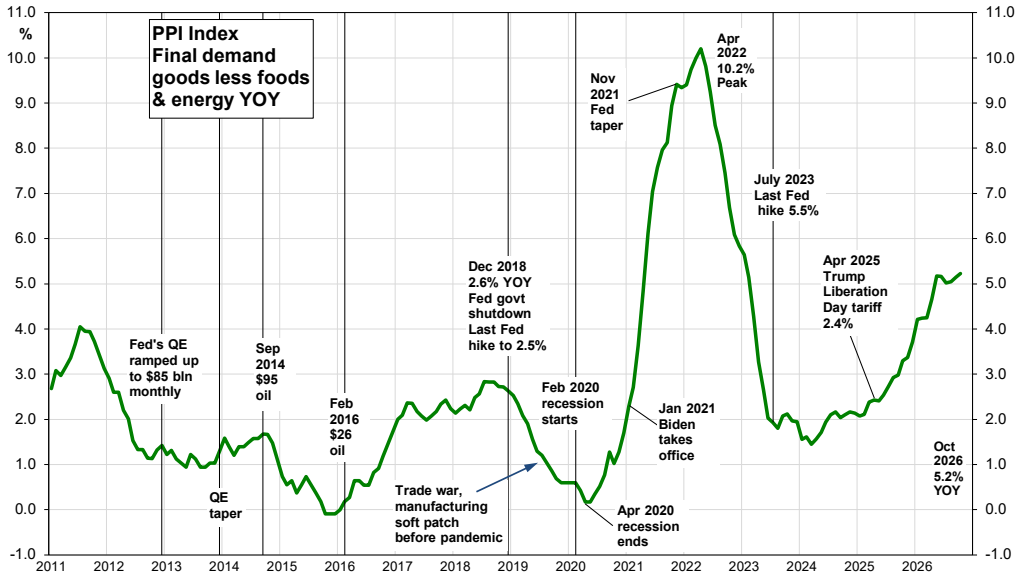


PPI silver lining (Friday)

Breaking economy news. PPI was just 0.3% in October, less than 0.4% the market expected, with energy prices a slight 0.1% drag after jumping 10.0% in September. Old-fashioned PPI, commodities before they bolted on services, rose 0.5% in October, and as graphed below it has moved up to a 5.2% year-on-year rate. Among services, diesel prices are higher and transportation and warehousing jumped 2.0% in October which is the result of truck freight pricing. The BLS said 80% of final demand services was truck transportation.

		Final demand goods				Final demand services			
Monthly % SA 2026	Total final demand	Total	Foods	Energy	**Less foods and energy	Total	Trade	Transportation and warehousing	Other
Jan	0.6	-0.1	-1.3	-1.7	0.7	0.9	2.0	1.0	0.3
Feb	0.5	1.0	2.3	2.0	0.4	0.3	-0.3	0.8	0.5
Mar	0.8	2.0	-0.6	10.5	0.4	0.3	0.5	2.2	0.0
Apr	1.1	1.9	0.3	7.1	0.7	0.8	1.5	3.7	0.1
May	0.5	2.2	0.6	8.2	0.7	-0.2	-2.7	2.1	0.7
Jun	-0.1	-1.5	-0.5	-7.2	0.2	0.5	1.3	-0.3	0.3
Jul	0.1	-0.4	-1.0	-1.5	0.2	0.2	-0.2	-1.1	0.6
Aug	0.4	1.1	-0.2	4.2	0.4	0.1	-0.2	2.4	0.0
Sep	1.4	2.5	1.1	10.0	0.3	1.0	2.1	3.4	0.2
Oct	0.3	0.5	1.3	-0.1	0.5	0.2	-0.2	2.0	0.2
		**Final demand goods, less foods and energy is old-fashioned PPI							

Net, net, there is no silver lining in the producer prices inflation report which was held back by energy because food prices are exploding for a second straight month and core final demand goods prices jumped 0.5% which is the most since May. It is economics 101 that producer prices lead consumer prices and right now it looks like consumers will be on the hook for a fresh burst of factory inflation. Everywhere you look inflation is pushing forward and making the affordability crisis for Americans that much harder. Bond yields are dropping on the better than expected headline number, but pull back the tarp and you can see the inflated PPI components of goods prices will be spilling over to the retail shops and stores shortly. There was no silver lining in today's PPI inflation report. No relief for traders. Bet on it.



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