



Market Review & Outlook

3Q 2026

As of September 30th, 2026



Executive Summary

Financial markets experienced increased volatility in Q3 amid a Fed rate hike and a significant rise in interest rates, and a stock market that saw index gains mask broad based weakness below the surface.

Inflation concerns stemming from the war induced rise in energy prices forced the Fed to hike rates, and markets priced in significant additional hikes through the end of 2027, perhaps an excessive amount that pushed rates up to new levels not seen in decades, but back to averages over the longer term.

Interest rates rose across maturities generating rare losses in the bond market. The rise in short term rates reflect monetary policy expectations, while the rise in long term rates reflect continued massive government, and corporate borrowing.

The massive borrowing by “hyper scalers” that are driving the AI and data center buildout has also pushed rates higher and has increased some concerns in the sector that up till now has driven equity market returns.

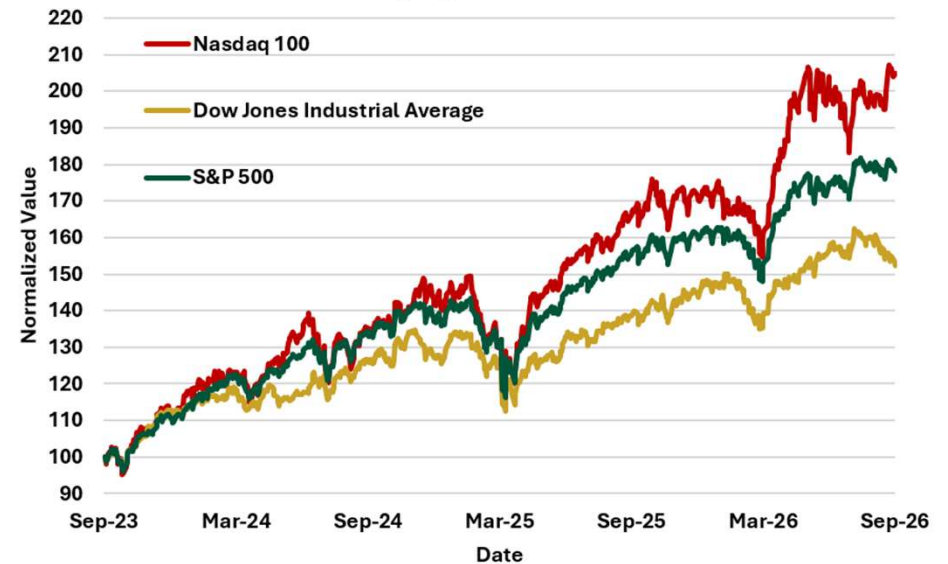
Equity market indices were pushed higher by a few large cap technology “Hyperscalers” stocks once again, while much of the rest of the markets, saw negative returns.

Stocks representing the broader economy such as consumers and industrials declined in value, as did interest rate sensitive sectors such as Utilities and small cap stocks.

2-Year and 10-Year US Treasury Yields



Equity Indexes



Market Scoreboard

Market Summary - September 30th 2026					
Bond Market	Sept	QTD	YTD	1 Year	Yield
Total Bond Market	-2.6%	-3.5%	-2.8%	-1.9%	5.6%
US Treasuries	-2.3%	-3.1%	-2.7%	-2.0%	5.1%
US MBS Index	-3.3%	-4.1%	-3.0%	-1.5%	5.9%
Corporate Bonds	-2.6%	-3.8%	-2.8%	-2.0%	6.0%
High Yield Corporates	-2.5%	-1.8%	0.0%	1.4%	8.2%
Floating Rate Corp	0.4%	1.0%	3.2%	4.4%	4.1%
US TIPS (Inflation Prot.)	-2.7%	-3.3%	-2.1%	-2.2%	2.8%
Merrill Muni Index	-4.0%	-5.8%	-3.7%	-2.3%	4.4%
International Bonds	-2.6%	-2.7%	-5.3%	-7.3%	3.7%
Commodities/Other	Sept	QTD	YTD	1 Year	End Value
Gold	-6.3%	3.7%	-3.7%	28.7%	\$4,157.41
Dollar Index	2.0%	0.3%	3.2%	1.7%	\$101.45
Oil (WTI)	7.6%	31.7%	58.9%	38.3%	\$90.42

Market Summary - September 30th 2026					
Stock Market Indices	Sept	QTD	YTD	1 Year	End Value
DOW Jones Avg.	-4.1%	-2.3%	7.2%	11.5%	\$51,032
NASDAQ Composite	1.9%	2.6%	16.1%	19.3%	\$26,973
Large Cap Core (S&P 500)	-0.3%	2.3%	12.7%	15.7%	\$7,580
Equal Weight S&P 500	-4.8%	-1.9%	10.0%	11.5%	\$8,442
Large Cap Growth	2.0%	3.4%	15.8%	18.4%	\$5,655
Large Cap Value	-3.1%	0.9%	9.0%	12.5%	\$2,243
Mid Cap Core	-4.2%	-6.4%	9.9%	11.7%	\$3,725
Mid Cap Growth	-2.9%	-6.5%	13.7%	15.1%	\$1,848
Mid Cap Value	-5.6%	-6.2%	6.0%	8.2%	\$1,137
Small Cap Core	-5.3%	-7.2%	13.9%	16.4%	\$2,919
Small Cap Growth	-5.3%	-9.4%	10.7%	12.1%	\$14,382
Small Cap Value	-5.2%	-4.9%	17.0%	20.8%	\$23,403
Europe	-4.4%	-2.0%	7.1%	12.6%	\$649
England	-3.9%	1.9%	8.0%	15.3%	\$10,409
Japan	2.8%	-0.9%	33.7%	41.8%	\$66,330
Shanghi 300	-5.4%	-10.6%	0.0%	2.1%	\$4,892
International	-3.0%	0.9%	10.8%	16.2%	\$3,118
MSCI China	-4.6%	3.7%	-11.9%	-18.4%	\$609
Emerging Markets	-0.3%	-2.4%	22.7%	27.5%	\$69

Yield Curve

The overall level of interest rates are dictated by monetary policy, fiscal policy, economic growth, inflation, demand for debt, and expectations for all the above.

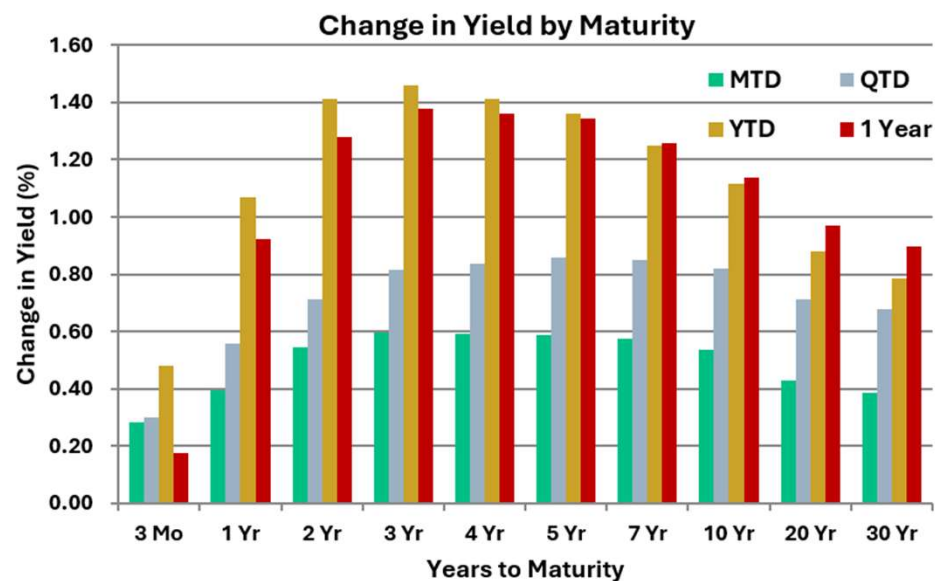
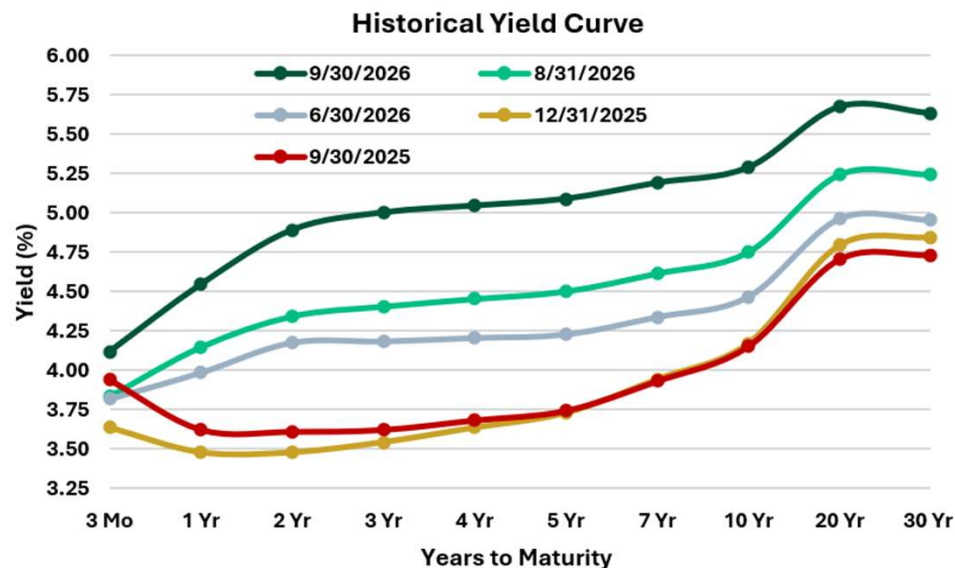
Virtually all the above contributed to the rise in rates across the yield curve.

The Fed hiked interest rates by .25% in September, and the market has priced in expectations of at least another rate hike in 2026 and 3 more by the end of 2027. This is reflected in the significant rise in 2–5-year interest rates.

Longer term rates have also increased due to stronger than expected economic growth and higher than expected inflation; however, a major driver in long term rates has also been the debt issuance by the US Government to support the deficit, and issuance by large technology companies to support the buildout of AI and data centers.

The yield curve has normalized in an upward-slope across the maturity spectrum and absolute yields are relatively close to longer term averages since 1984.

As stated, coming into the year our expectations were for a stable Fed policy subject to an acceleration of the US economy driven by the infrastructure build out. While the latter has been the case, we feel the market has priced in excessive amount of Fed tightening as reflected in short and intermediate rates that should recede; however long-term rates may continue to be pressured by continued debt issuance.



Fixed Income Returns

When interest rates rise, bond prices fall. The longer the maturity of a bond, the greater the sensitivity to changes in interest rates.

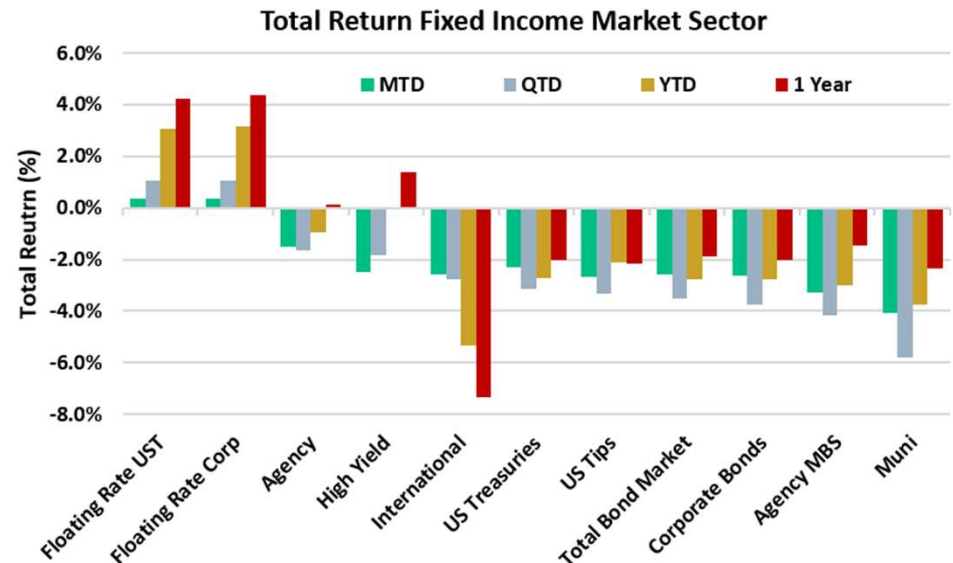
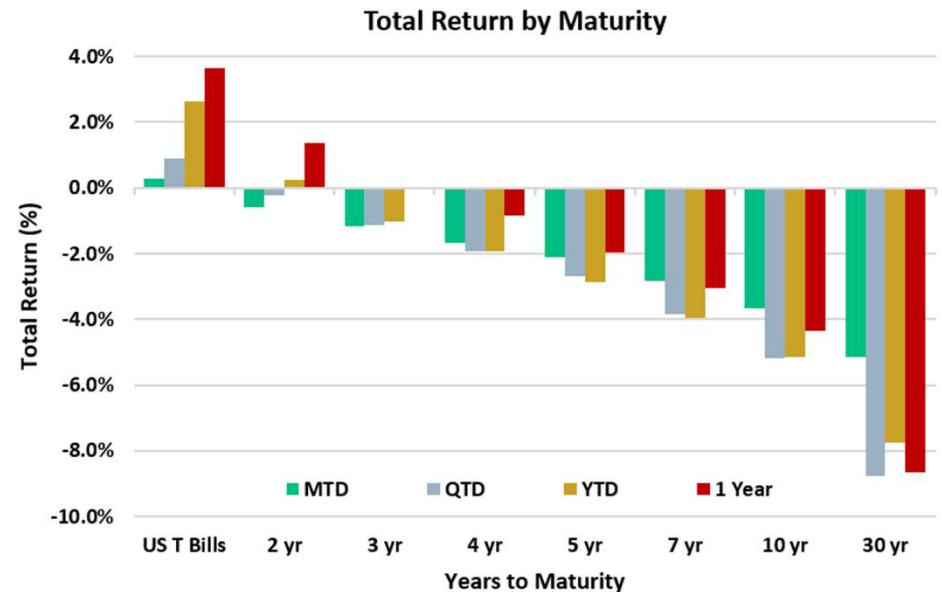
Shorter term securities, which are less sensitive to changes in interest rates, have performed the best this year as income has more than offset limited price loss, while the price impact of longer maturities has offset income generation.

Total returns have turned negative YTD for maturities past 2 years, and over a 1-year period for maturities past 4 years.

Floating rate bonds performed best in the quarter due to limited interest rate sensitivity.

Municipals were the worst performing sector, while MBS and Corporates also underperformed Treasuries as yield spreads widened.

Vectors strategy has continued to reinvest into intermediate term maturities opportunistically out a steeper yield curve, with a focus on high-quality Mortgages with high yield spreads. We have been waiting for better opportunities to invest in Corporate and Municipal bonds (where appropriate) and are beginning to see better value.



Fixed Income Returns

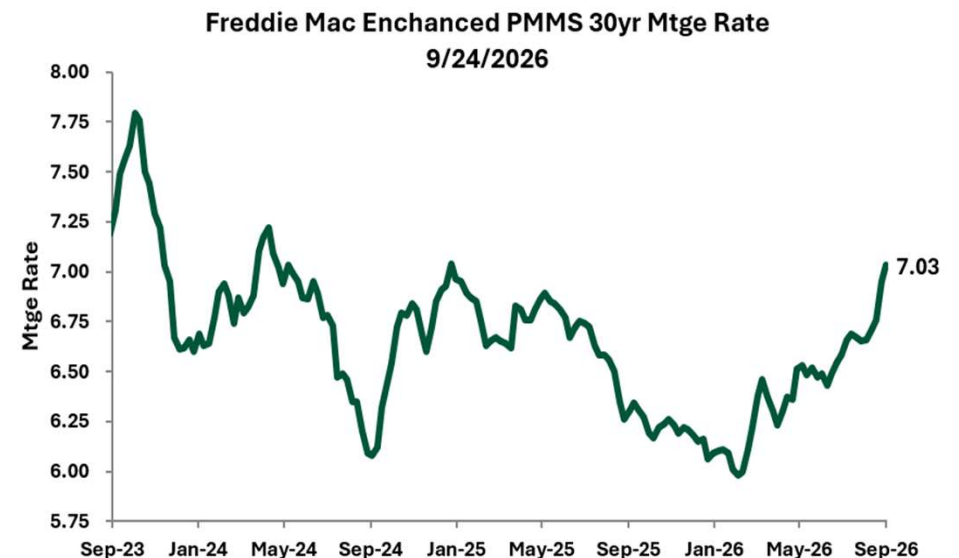
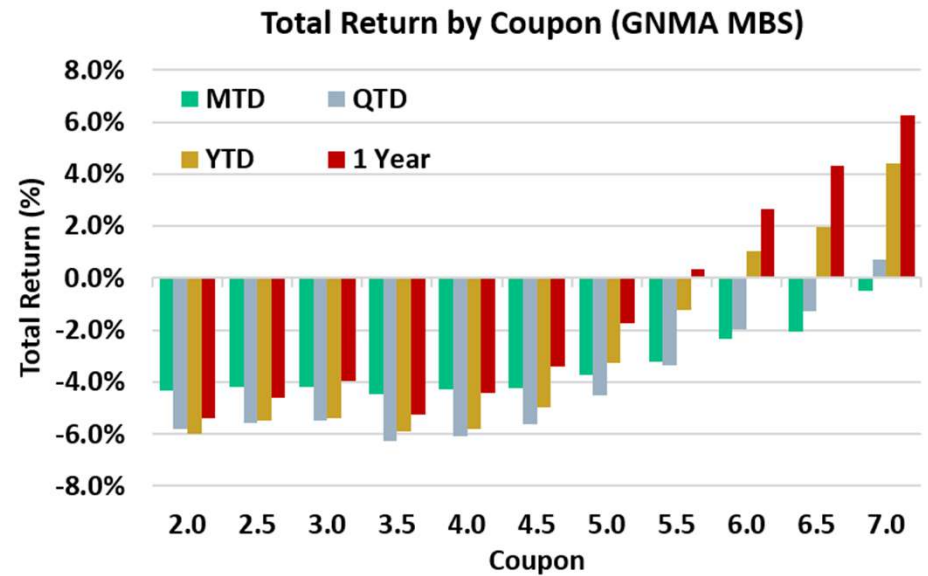
Mortgages were impacted in Q3 as the mortgage rate rose above 7% for the first time since 2025.

The rise in mortgage rates has further curbed housing turnover and reduced the likelihood of prepayment activity, preserving income on higher coupons.

Lower coupon mortgages are longer in duration due to low coupon and slower prepayment rates and are therefore more sensitive to changes in interest rates.

Vectors has maintained a focus on 4.5% - 6% coupons to maximize income and minimize price sensitivity to changes in interest rates, though most all mortgage coupons were impacted in the latest move higher.

5.5% to 6% mortgage rates are historically “normal”, 3% is not. We do not expect mortgage rates to dip back below 5.5% any time soon but also do not expect them to exceed 7.5%.



Monetary Policy

Market expectations coming into the year were for two Federal Reserve rate cuts in 2026 and maintaining 3.125% for the foreseeable future.

The Fed expectations coming into the year were for one cut in 2026 and a second cut in 2027.

The market (and Fed) has since incrementally erased all easing expectations and built-up tightening expectations.

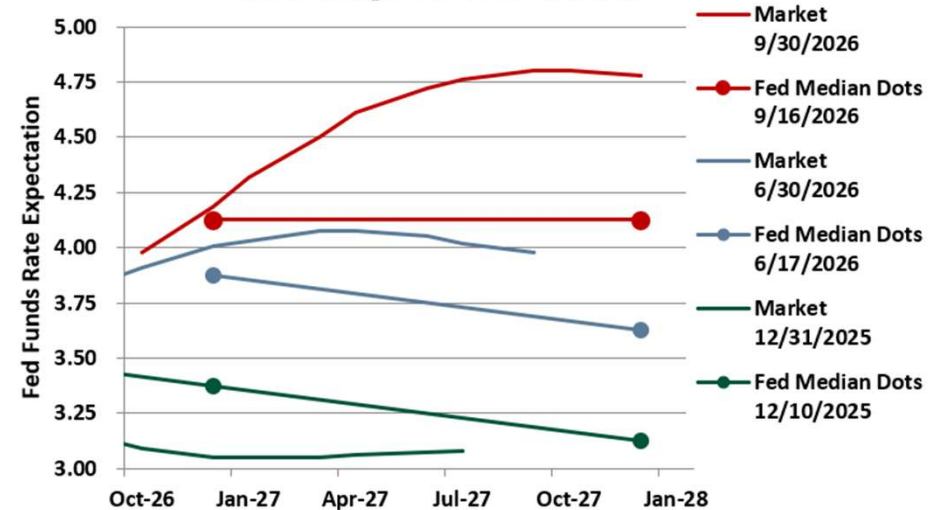
The Fed hiked .25% in September. The market has recently priced in at least another hike in 2026, and up to 3 additional hikes in 2027.

In the September Fed meeting, the median Fed projection moved to an additional tightening in 2026, holding in 2027, and returning to 3.875% in 2028.

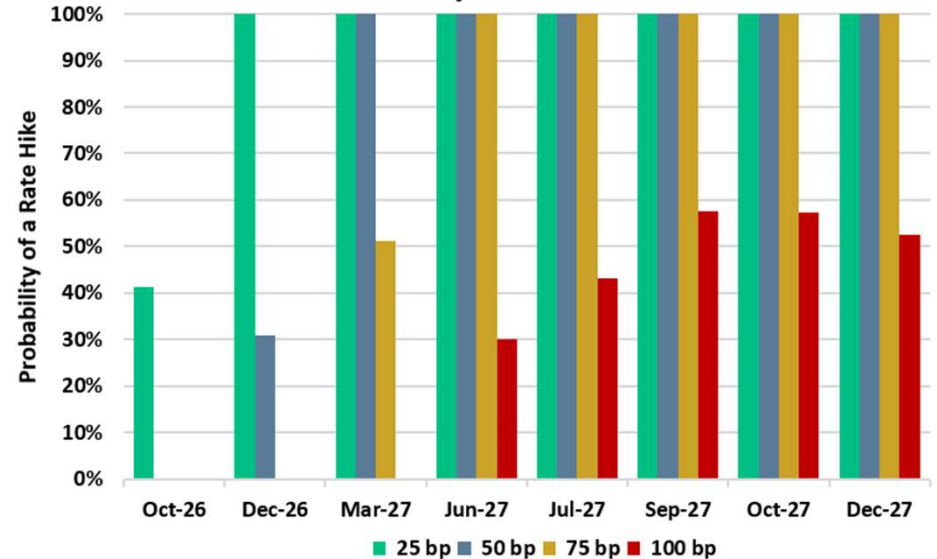
Fed Chair Kevin Warsh aims to phase out forward guidance, such as publishing expectations of future policy by Fed Governors.

We feel that the market is pricing in an excessive number of rate hikes, and that short to intermediate interest rates will revert to lower levels.

Market Expectations of Fed Funds
Fed Meeting Date vs Month End



Probability of Fed Rate Hike



Fiscal Policy

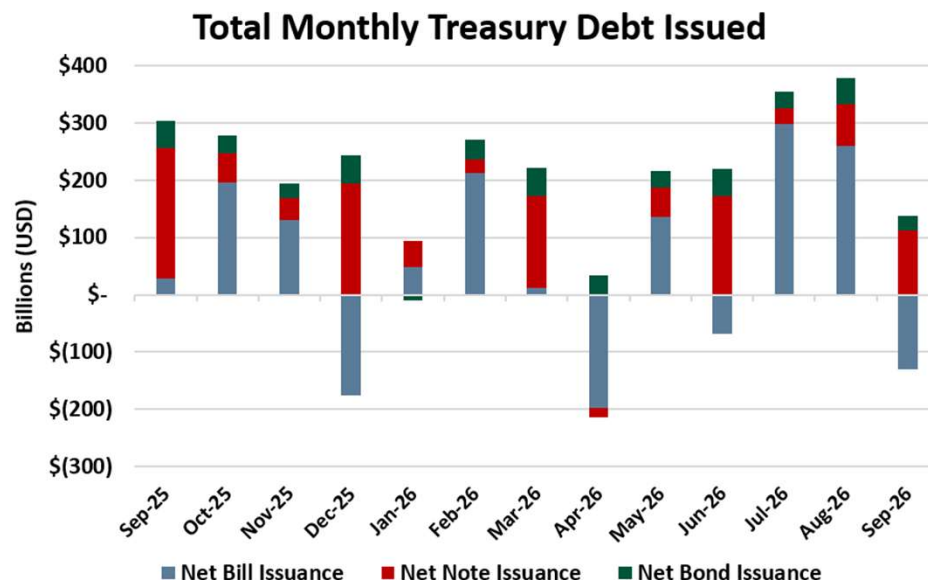
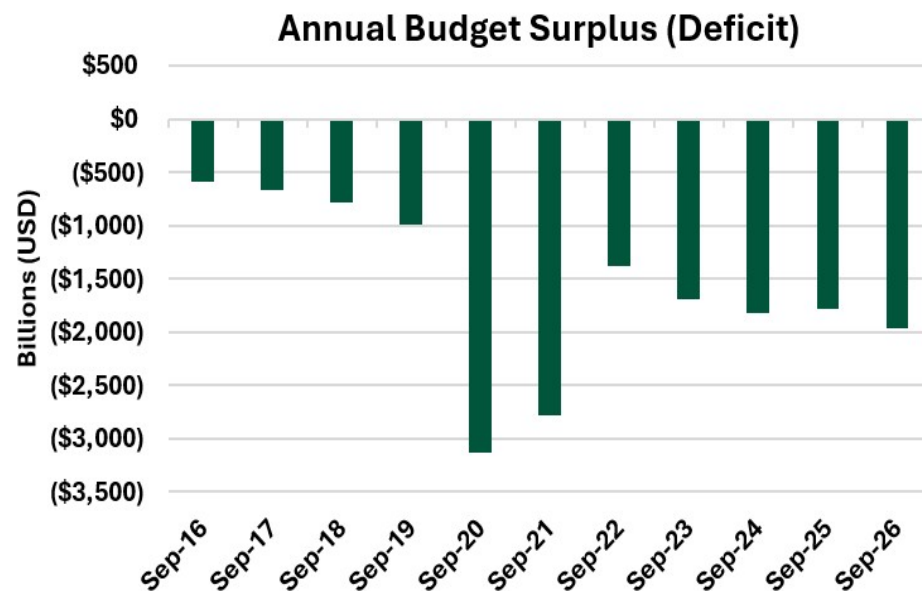
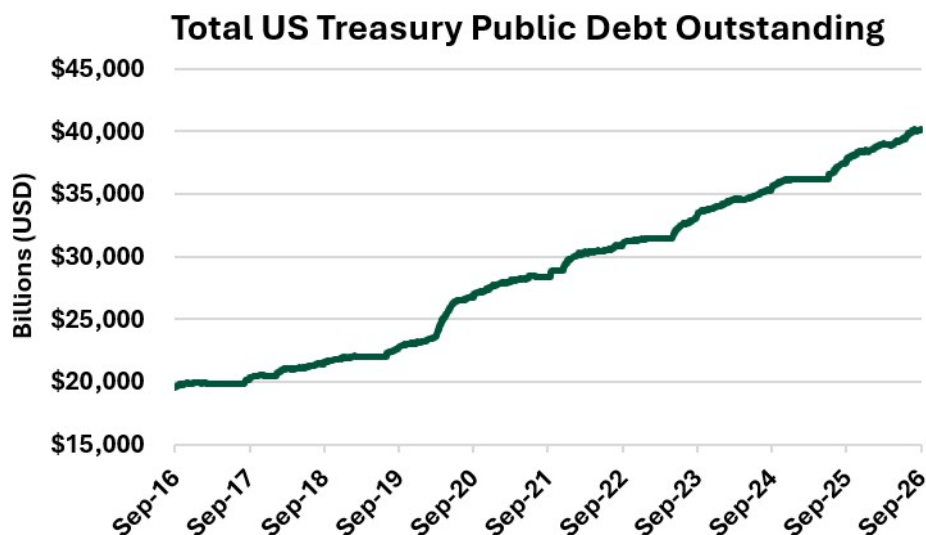
The US budget continues to run at a significant deficit despite an environment of robust nominal economic growth.

Interest expense continues to be a significant component of government spending at more than \$1 Trillion this year, higher than defense spending.

Total US Treasury debt outstanding reached \$40 Trillion.

Over the last 12 months, the US Treasury borrowed a net average of \$170 billion in debt per month (\$110 billion in Notes and Bonds, and \$60 billion in Bills).

This continued issuance may continue to pressure long term interest rates.



Credit Spreads

Corporate and Mortgage spreads widened from their tightest levels in Q3.

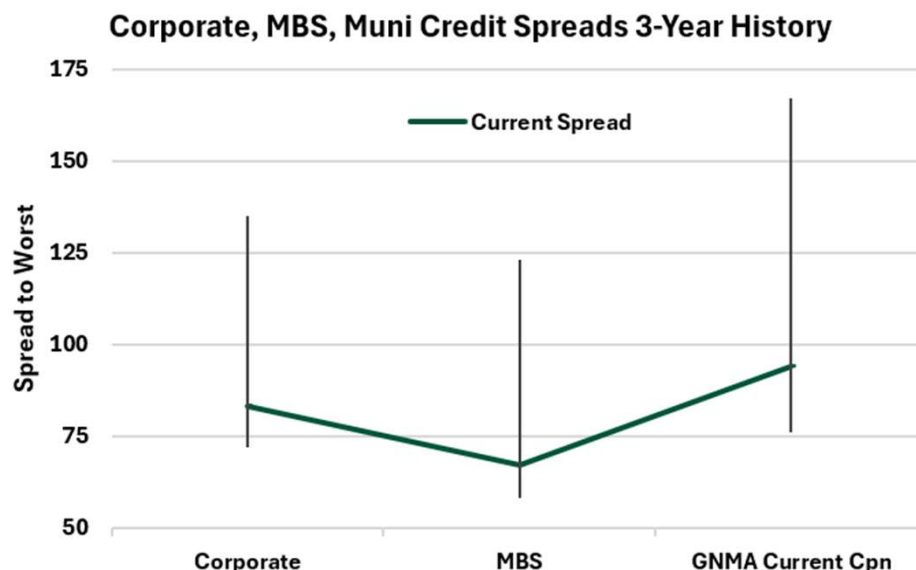
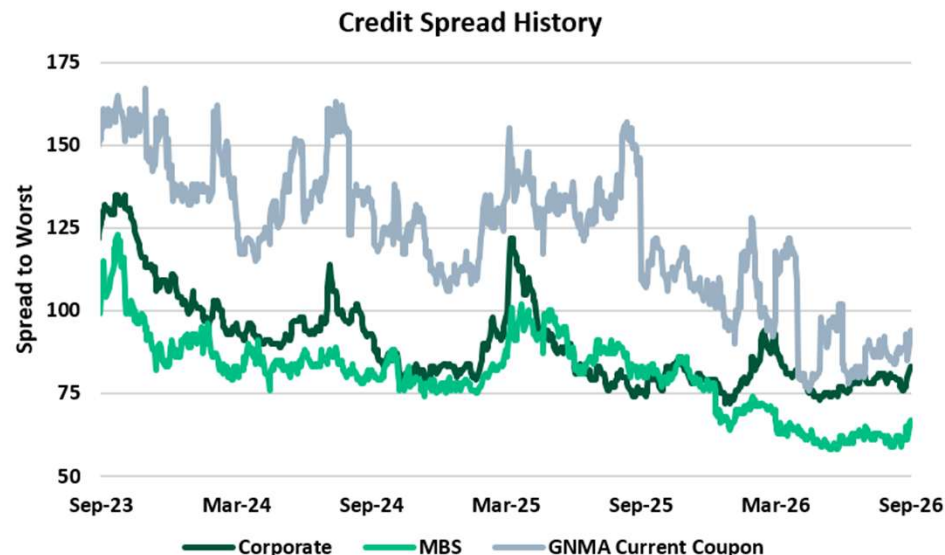
Credit concerns have risen in the private credit market, with some defaults and private credit funds refusing to fully redeem investors.

The corporate bond market is experiencing record new supply coming to market, averaging 19 billion per month and a record YTD at over \$1.4 trillion, particularly in technology to support the data center buildout.

The hyperscalers and AI oriented companies have issued over \$250 billion in debt year to date, up from \$108 billion all of last year and \$17 billion in 2024. There has also been increased equity issuance to support the over \$750 billion in cap ex this year.

The combined impact has been to widen (raise) corporate spreads and dilute equity. We expect this to continue to finance the AI buildout.

Current Coupon MBS with no credit risk and limited new issuance remain better relative value than corporates, particularly in GNMA's.



International Yield Curve

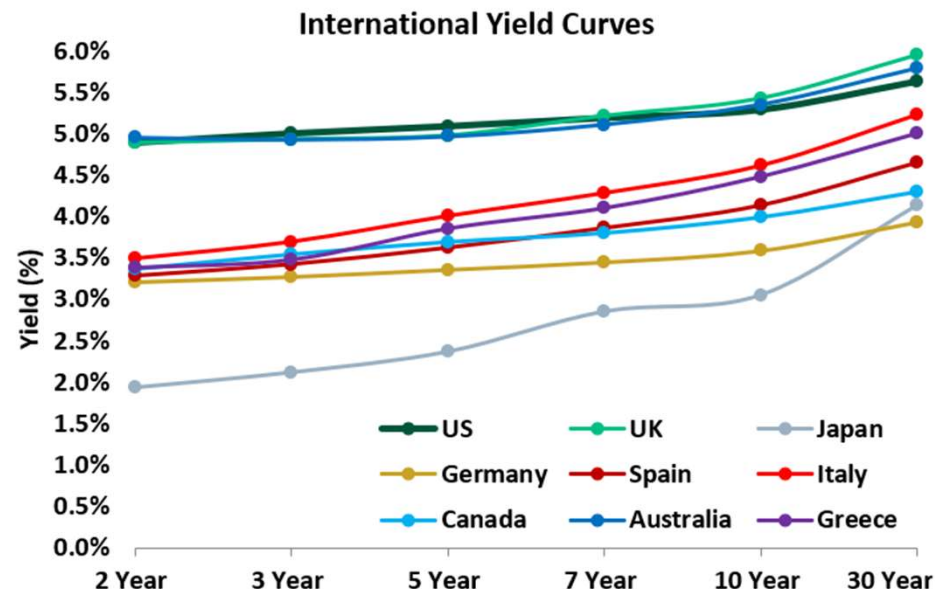
The ECB hiked rates for the second time since June, raising their deposit rate to 2.5% to counter inflation from the energy conflict in the Middle East. Japan also hiked again, raising its rate to 1.25%.

The US hiked in September, while the Bank of England held rates steady at 3.75%, though officials signaled a shift towards a hawkish stance due to sticky inflation.

Long term interest rates rose across most major countries due to significant current and expected debt issuance to fund expanding deficit spending.

Rising global interest rates has generated negative returns in global bond markets and increased stress on various sectors of the economies and equity markets.

Tighter monetary policy in the US with higher rate expectations, together with stronger overall economy has strengthened the US Dollar.



Equity Returns

The S&P 500 index returns in Q3 were dominated by just a few large cap Technology and Communication companies in the “Magnificent 7”, pushing the index and those overall sector returns positive.

As can be seen, 7 of the 11 sectors generated negative returns, as did 306 of the 503 stocks in the index. The equal weighted Index generated negative returns.

Energy has been a top performer this year due to higher oil prices driven by the extension of the conflict between the US and Iran.

Technology had a strong quarter as another strong earnings season reflecting the continued capital investment into the AI and data center buildout. But only 41 of the 75 stocks in the Technology sector had positive total returns in Q3.

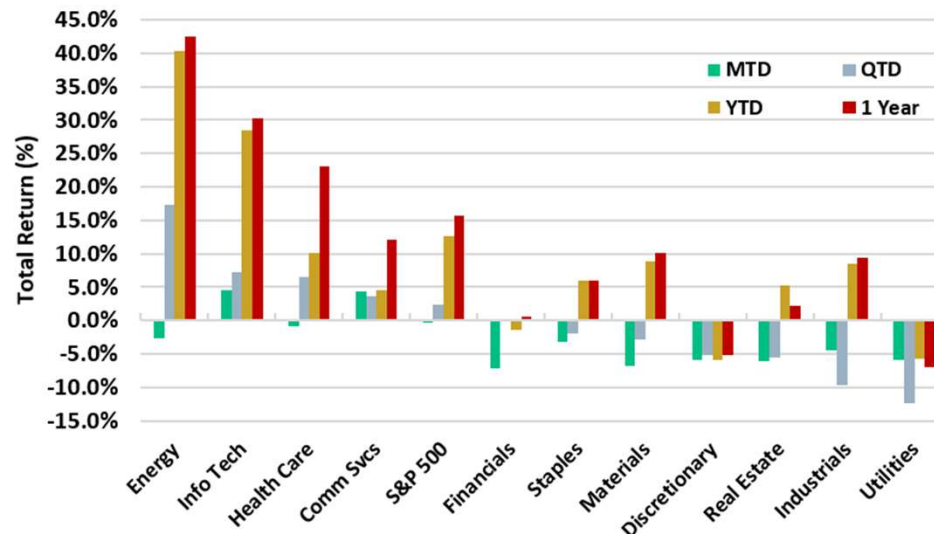
Healthcare performed well as the beginning of a sector rotation into safety.

Industrials and Utilities experienced a slight correction as sentiment around the buildout of additional data centers has been met with broad public pushback.

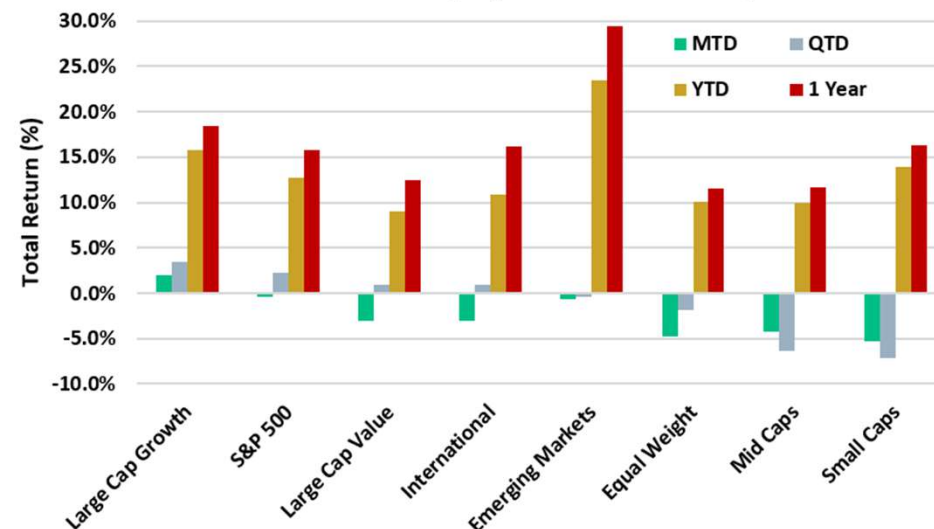
Q3 was led by large caps, with the magnificent seven acting as a haven.

Small and mid caps have lagged due to their higher sensitivity to interest rates.

Total Return Equity Market Sector



Total Return Equity Market Size and Style



S&P 500 Top 10

The top 10 outperformed the bottom 490 by a substantial margin in Q3 at +9.8% vs. -2%. The top 10 make up 39% of the S&P 500 index.

On a year-to-date basis, TSLA is now the sole negative performer. META saw a surge after releasing its new AI agent, Muse.

Index performance for Q3 was driven by META, AAPL, NVDA, and a significant rebound in MSFT.

Curiously, chip companies AVGO and MU were negative for the quarter as was GOOG.

Growth rates remain high as companies reported another strong quarter of around 30% earnings growth year-over-year.

Google and Amazon show negative expected growth over the next 12 months, but this is due to their large investment gains required to be reported under GAAP as is reflected in the last 12 months EPS growth. Their core operations are still expecting strong growth, but large unrealized paper gains make for a tough comparison.

The continued escalation in growth assumptions at higher prices increases the risk of disappointment.

Top 10 Holdings vs. Rest of S&P 500						
Company	Name	9-30-2026 % Weight	MTD Return	QTD Return	YTD Return	1 Year Return
NVDA	NVIDIA Corp	8.4%	3.6%	14.3%	22.7%	22.7%
AAPL	Apple Inc	7.4%	5.1%	15.2%	22.8%	31.3%
MSFT	Microsoft Corp	5.8%	1.1%	37.8%	6.7%	-0.2%
AMZN	Amazon.com Inc	3.7%	-4.1%	4.5%	7.9%	13.5%
GOOGL	Alphabet Inc	3.1%	1.5%	-3.7%	10.1%	41.9%
AVGO	Broadcom Inc	2.5%	-5.0%	-6.9%	2.0%	7.2%
GOOG	Alphabet Inc	2.5%	1.7%	-3.5%	8.8%	40.3%
META	Meta Platforms Inc	2.4%	26.8%	28.8%	10.1%	-0.9%
MU	Micron Technology Inc	1.8%	11.1%	-7.7%	273.4%	537.6%
TSLA	Tesla Inc	1.5%	-3.6%	-15.6%	-21.1%	-20.2%
Top 10 of SPX	Top 10 S&P 500	39.0%	3.0%	9.8%	15.5%	20.5%
Rest of SPX	Bottom 490 S&P 500	61.0%	-2.4%	-2.0%	11.0%	12.8%
SPX Index	Market Weight S&P		-0.3%	2.3%	12.7%	15.7%
SPW Index	Equal Weight S&P 500		-4.8%	-1.9%	10.0%	11.5%

Top 10 Holdings vs. Rest of S&P 500						
Company	Name	Price	Last 12M P/E Ratio	Next 12M P/E Ratio	Last 12M EPS Growth	Next 12M EPS Growth
NVDA	NVIDIA Corp	\$228.38	32.2	18.7	96.9%	72.0%
AAPL	Apple Inc	\$333.02	37.7	35.6	20.1%	7.1%
MSFT	Microsoft Corp	\$512.90	29.6	25.9	26.7%	14.8%
AMZN	Amazon.com Inc	\$249.15	34.6	26.1	89.5%	-24.3%
GOOGL	Alphabet Inc	\$344.08	33.3	25.3	112.0%	-32.4%
AVGO	Broadcom Inc	\$351.19	31.9	19.6	55.2%	78.0%
GOOG	Alphabet Inc	\$340.74	33.3	25.3	112.0%	-32.4%
META	Meta Platforms Inc	\$725.18	27.1	23.7	-3.9%	14.5%
MU	Micron Technology Inc	\$1,065.11	13.9	6.4	811.0%	113.7%
TSLA	Tesla Inc	\$354.81	228.3	199.9	-17.9%	7.4%

Source: Google Finance, Company Filings, VAM. As of 9/30/2026

Sector Analysis

Over the past year, the top performing sectors have been Energy, Technology, and Health-Care. Energy and Technology have had strong trailing growth, and strong future growth expectations.

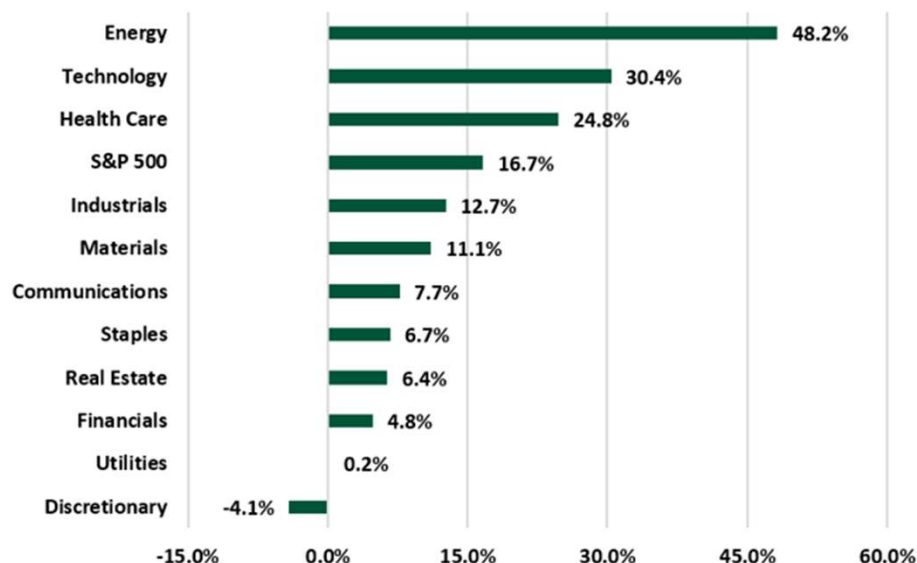
Health Care has had weak historical growth recently but is expected to recover to be the 3rd fastest growing sector over the next twelve months, led by Biotechnology, life sciences and health care equipment.

Consumer Discretionary, Utilities, and Financials have been the laggards over the last year. Discretionary has struggled as price sensitive consumers have been shifting down the value chain to more affordable options. Utilities and Financials have been impacted more recently due to the rise in rates as these are more rate-sensitive sectors.

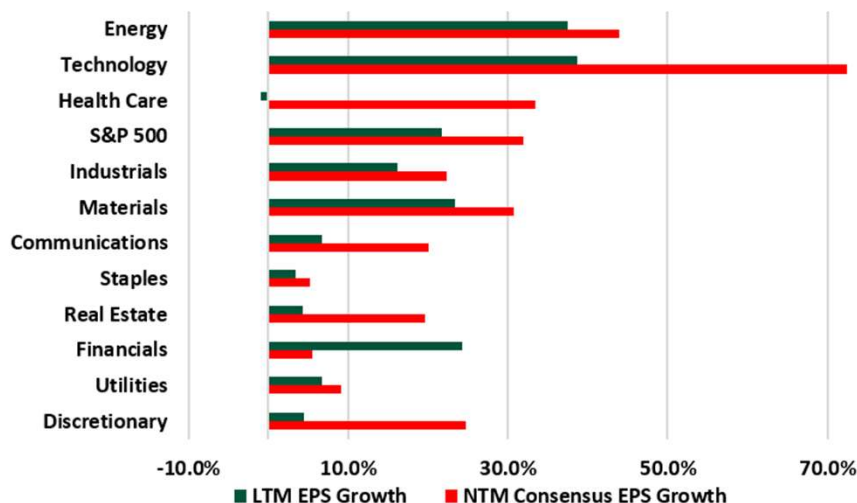
Industrials have a split personality as they are being influenced by the traditional manufacturing sector including reshoring and infrastructure buildout, as well as the AI and datacenter buildout.

Virtually all sectors, ex Financials, have accelerating growth expectations built into their current valuations.

1-Year Total Return (9/18/2025-9/18/2026)



Last Twelve Month and Next Twelve Month EPS Growth by Sector



Sector Analysis

Earnings growth expectations are accelerating, explaining much of the drop in P/E ratios.

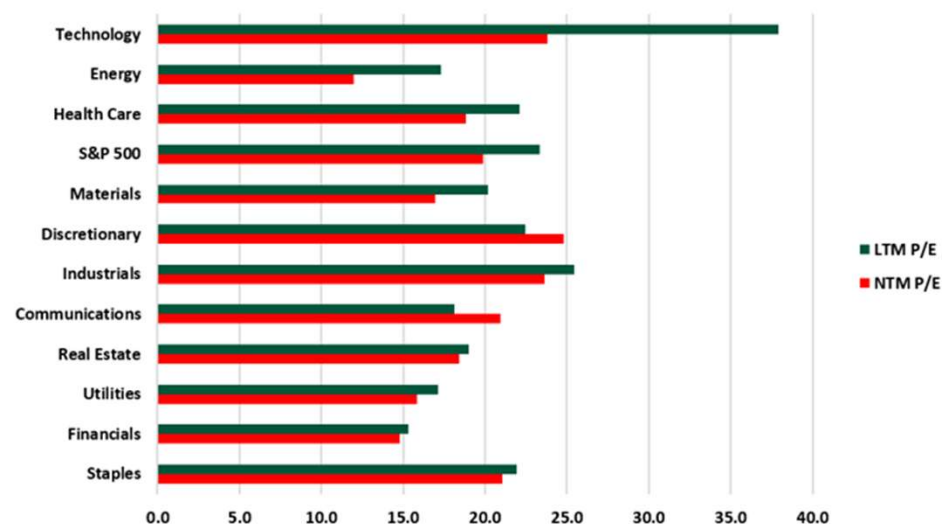
Technology, Energy, and Health Care have the largest growth expectations over the next 12 months. From a P/E perspective Technology is one of the most expensive sectors, while Energy remains the cheapest. Health Care offers a discount to the market index that is heavily concentrated in Technology, Communications, and Discretionary, the Magnificent Seven sectors.

Staples, Financials and Utilities are the lowest growth sectors on a forward-looking basis, although Financials has had robust growth over the past 12 months. Traditionally a value sector, Staples has a high P/E as companies like Walmart and Costco trade at premium valuations.

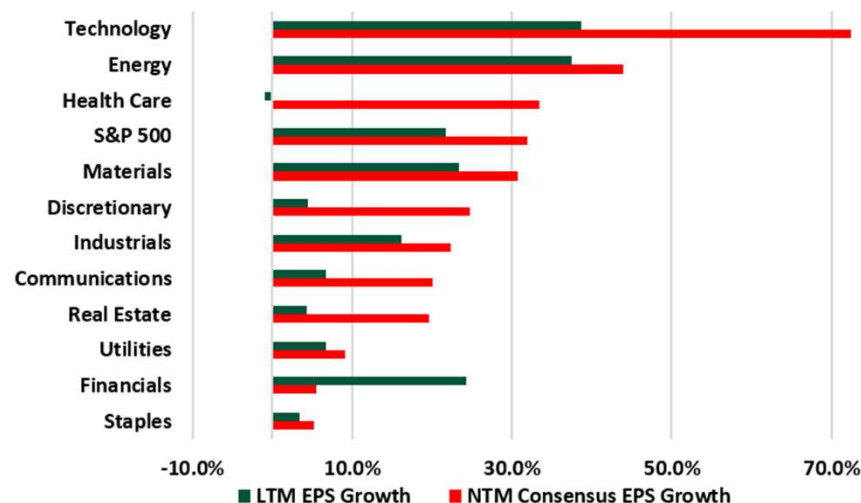
Energy earnings expectations have been volatile due to fluctuating energy prices and currently carries the lowest forward P/E and highest growth expectations.

While Industrial earnings multiples are high, growth expectations are moderate relative to the level of ongoing economic activity.

Last Twelve Month and Next Twelve Month P/E Ratios by Sector



Last Twelve Month and Next Twelve Month EPS Growth by Sector



Sector Analysis

Profit margins have grown substantially over the past 10 years. The S&P 500 has seen its net profit margin increase from just over 10% to near 15%. This has largely been driven by acceleration in Technology and the recent spike in communications.

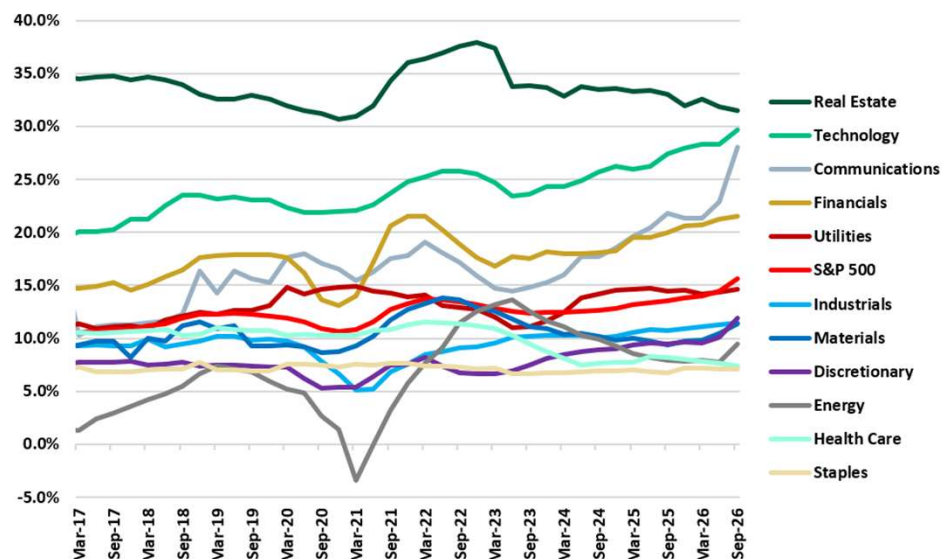
Financial firms as well as consumer sectors have also seen steady and increasing margins. This has contributed to higher-than-expected inflation; however, we see these higher margins as potentially unsustainable as consumers increasingly reject higher prices.

In certain industries, prices may have to stay constant for some time despite increasing costs, causing margin compression.

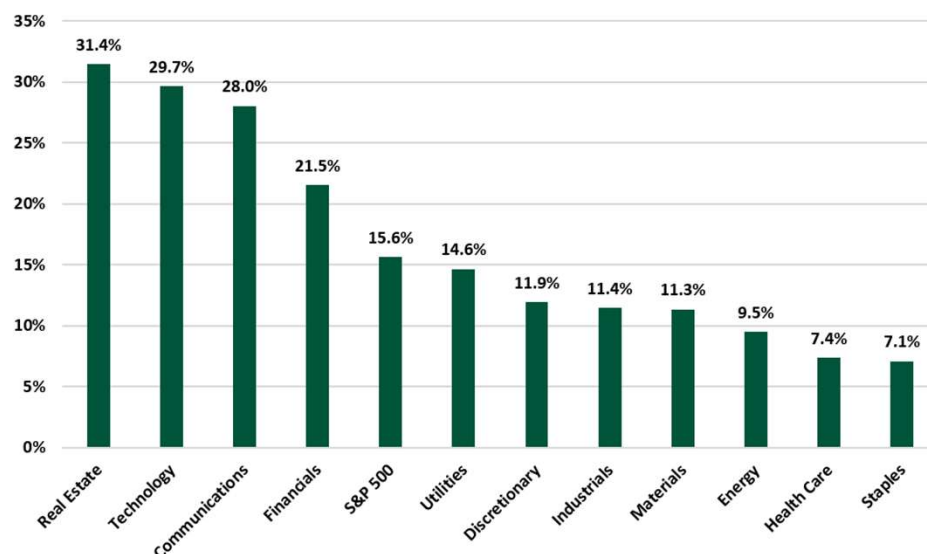
Technology and Communications margins may be reduced as supply catches up to demand, competition for products increases, and cost pressures build to create a rejection of pricing.

Real Estate margins continue to come under pressure as residential builders and sellers increasingly provide discounts to move property.

Historical Profit Margin by Sector



Profit Margin by Sector



Source: S&P Dow Jones Indices, VAM. As of 9/30/2026

Earnings

With all companies reporting, earnings growth for Q2 2026 was 33.9% vs. Q2 2025 for the S&P 500 index, well above the pre-season expectation of 23.2%. Earnings growth was 25.4% over the past year.

Much of the higher earnings were already priced into the market as the average “beat” was not rewarded as much as the average “miss” was penalized.

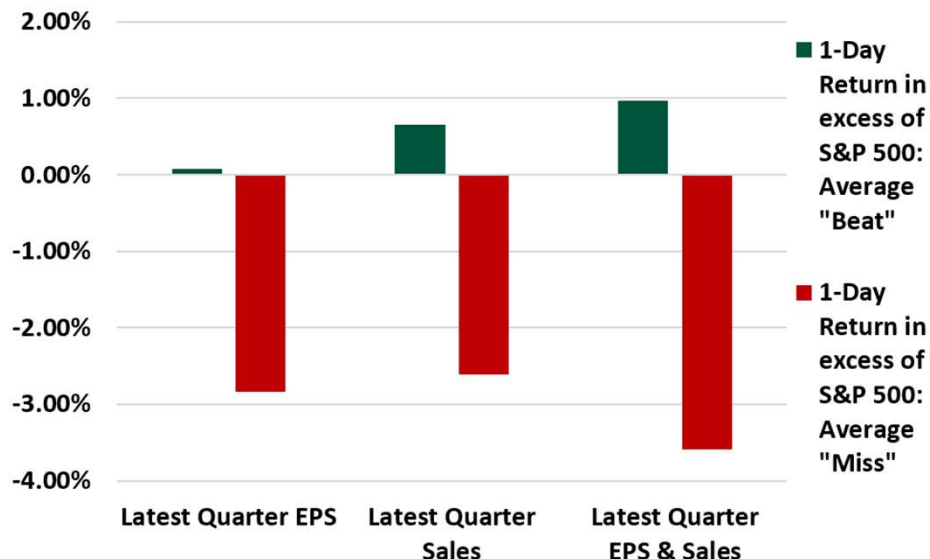
Excluding the magnificent seven, growth only drops to 33.1% for Q2 2026 vs. Q2 2025. When you exclude technology, growth drops further to 20.9%, but still robust.

While the S&P 500 Index price has taken off, it has been accompanied by next twelve-month EPS estimates, which was not the case in 2024 and 2025.

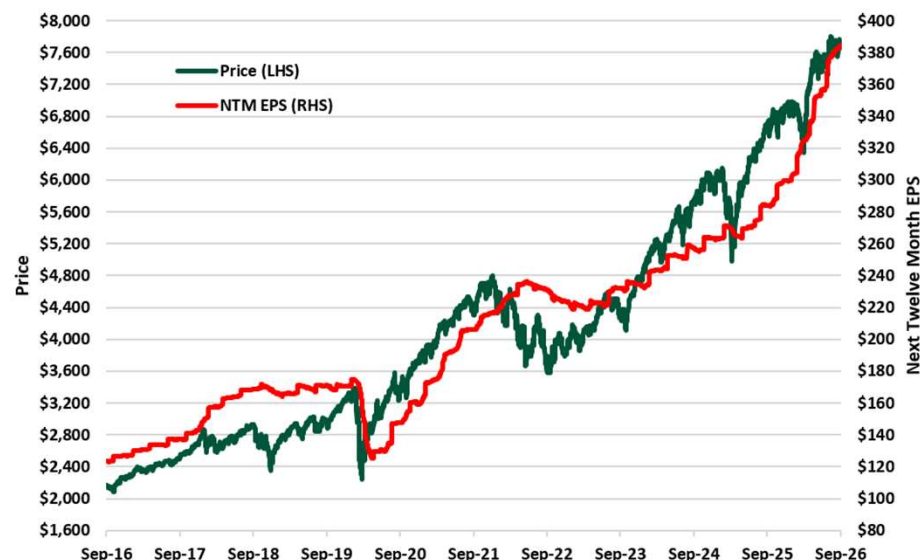
S&P 500 revenue growth came in at 15.7% for Q2 2026 vs. Q2 2025, also above pre-season expectations of 12.1%.

This marks the second consecutive double-digit gain for revenues.

S&P 500 EPS, Sales Surprise vs. Average Price Change



S&P 500 Change in Next Twelve Month EPS vs. Change in Price



Source: S&P Dow Jones Indices, VAM. As of 9/30/2026

Fed Policy

In their September release, the Fed has increased real GDP growth forecasts for 2026, signaling their initial decrease was too large and that the economy is more resilient.

Their expectations of the unemployment rate was further lowered to 4.1% to reflect the current environment of labor market stability.

The Fed's expectations of PCE Inflation were raised again to 3.7% from 3.6%. The supply shock to oil and other energy caused by the conflicts ongoing in the Middle East have raised concerns for stickier inflation.

Core PCE Inflation expectations were also raised. This demonstrates an expectation for the higher energy prices to flow through the economy, raising core inflation indicators as well and not just the already volatile energy component.

We continue to feel that core inflation will continue to decelerate as increased price sensitivity, including home prices and associated consumption continue to decline. Employment will likely continue to be stable.

Federal Reserve Median Economic Projections						
As of 9/16/2026						
Change in GDP	Actual	2026	2027	2028	2029	Longer Run
Sept 2026 Projection		2.3	2.4	2.2	2.1	2.0
June 2026 Projection		2.2	2.3	2.2		2.0
March 2026 Projection		2.4	2.3	2.1		2
Actual Q2 2026	2.2%					
Unemployment Rate						
Sept 2026 Projection		4.1	4.1	4.1	4.1	4.2
June 2026 Projection		4.3	4.3	4.2		4.2
March 2026 Projection		4.4	4.3	4.2		4.2
Actual Septemeber 2026	4.1%					
PCE Inflation						
Sept 2026 Projection		3.7	2.3	2.1	2.0	2.0
June 2026 Projection		3.6	2.3	2.0		2.0
March 2026 Projection		2.7	2.2	2.0		2.0
Actual August 2026	3.4%					
Core PCE Inflation						
Sept 2026 Projection		3.4	2.5	2.2	2.0	
June 2026 Projection		3.3	2.5	2.1		
March 2026 Projection		2.7	2.2	2.0		
Actual August 2026	3.0%					
Projected Policy Path- Fed Funds						
Sept 2026 Projection		4.1	4.1	3.9	3.6	3.2
March 2026 Projection		3.8	3.6	3.4		3.1
December 2025 Projection		3.4	3.1	3.1		3.1
Actual Sept 2026	3.9%					

Economic Activity

The BEA reported Q2 2026 real GDP at an annualized 2.2% driven by Business Investment and Consumption. Nominal Q2 GDP hit 8.5% annualized and 6.3% year over year.

Business Investment equipment is focused on the growth of AI and the associated data center and energy infrastructure buildout.

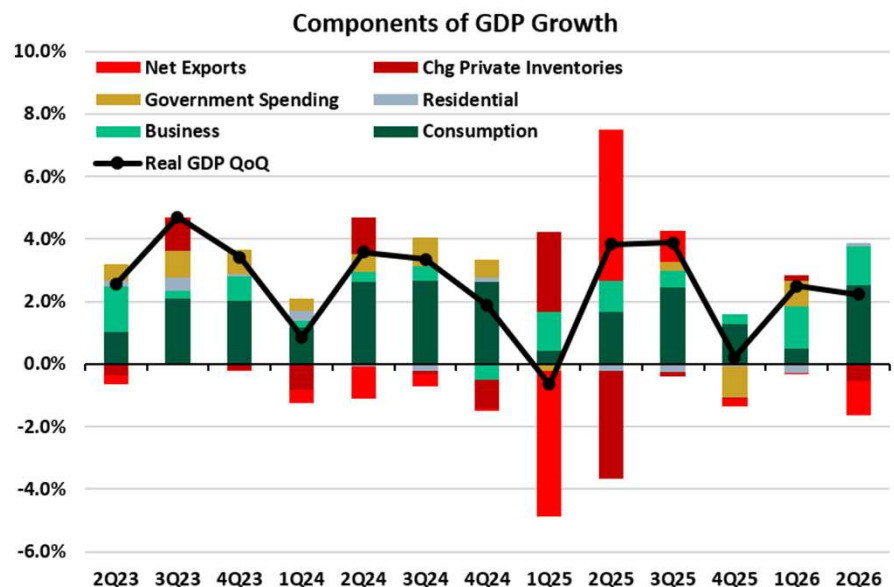
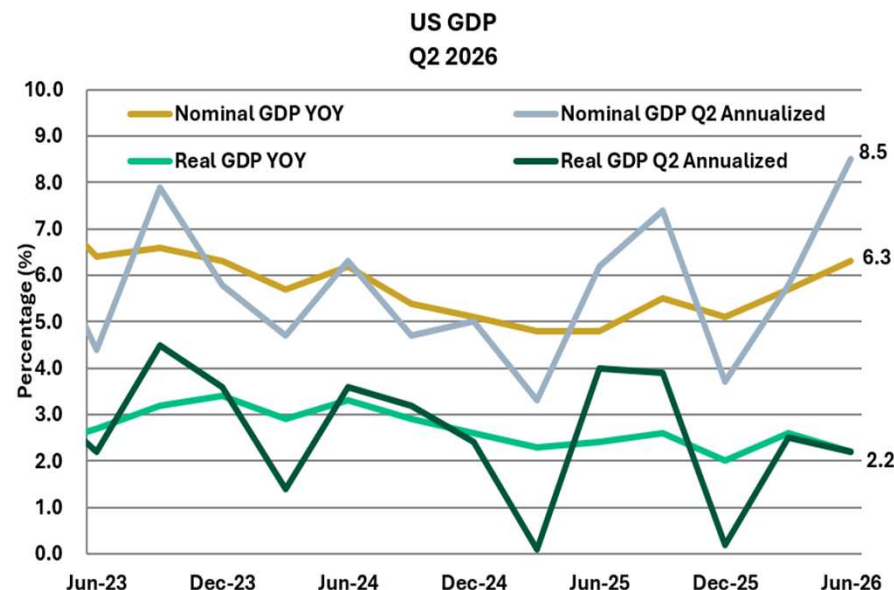
It should be noted that the equipment, semiconductors, memory, etc. is mostly imported, leading to a significant negative Net Exports that detract from overall GDP.

Furthermore, the significant price adjustment between nominal and real GDP includes energy and higher priced equipment.

Personal consumption was the largest contributor for Q2 in a rebound from Q1. A significant contributor to consumption was the World Cup, and it will be important to see if consumption holds up as the year goes on amid higher energy prices and interest rates.

Looking forward to the second half of the year, the NY Fed expects 2.65% annualized GDP for Q3 and 2.83% for Q4.

The Q2 final GDP print reflects a resilient consumer supporting US economic growth and continued business investment; however, continued higher input costs and elevated interest rates may be a headwind moving forward.



Economic Activity

The Citi surprise Index measuring actual economic activity vs. expectations was volatile in Q3, declining from its highs before rebounding to finish the quarter at 46.9.

The index did remain positive throughout the quarter. The recovery at the end of September was driven by the revision to Q2 GDP to 2.2% and stronger-than-expected consumer spending data.

Both ISM Services and Manufacturing remained in expansionary territory in Q3 but did contribute to the fall in the Citi surprise index, missing expectations in July for Services and August for manufacturing.

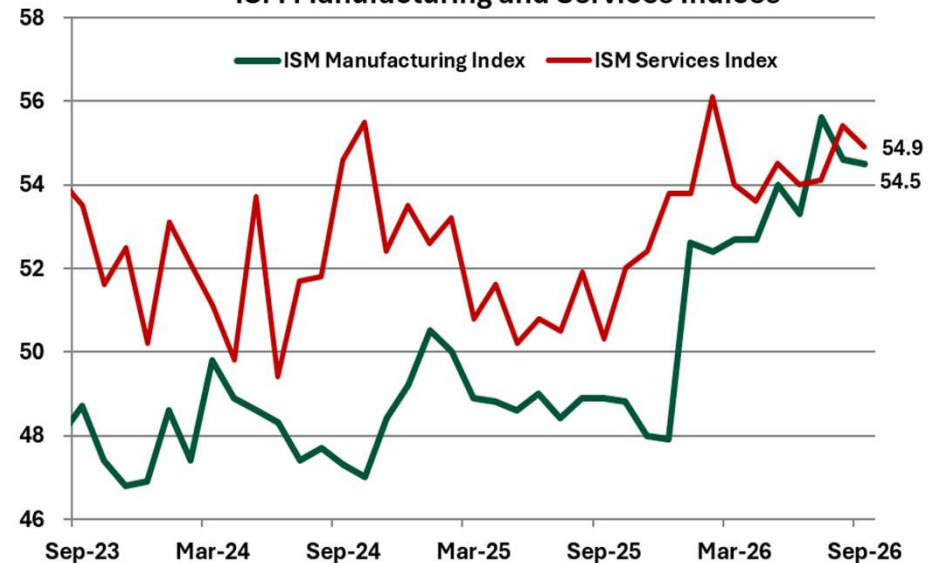
This has been the strongest sustained expansionary stretch for the manufacturing index since 2022. A broad-based demand surge supported a new high for the index in July before contracting later in the quarter.

Both surveys indicated elevating and rising input cost pressures throughout Q3, consistent with CPI and PCE data showing sticky inflation, which pushed treasury yields higher during the quarter.

Citi Economic Surprise Index



ISM Manufacturing and Services Indices



Inflation

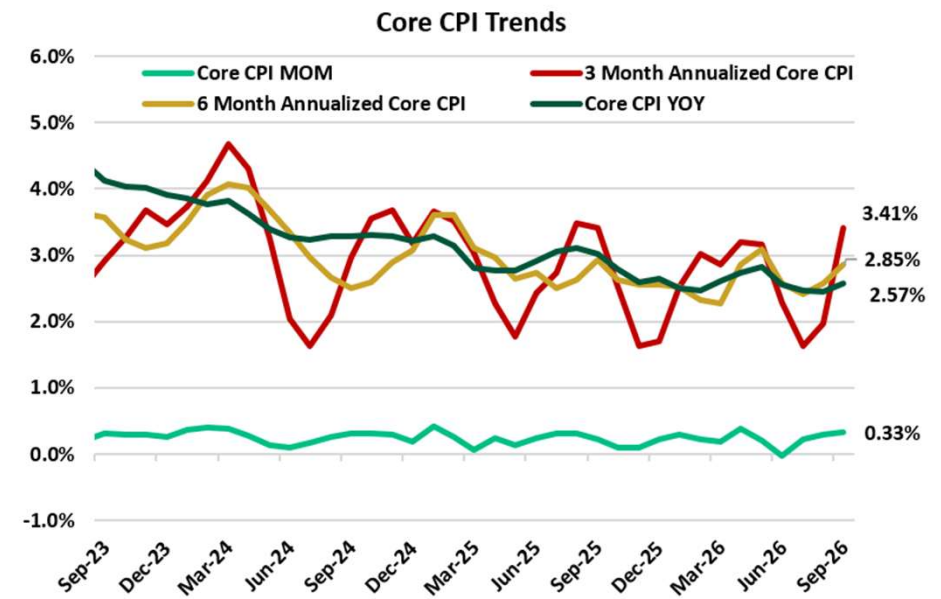
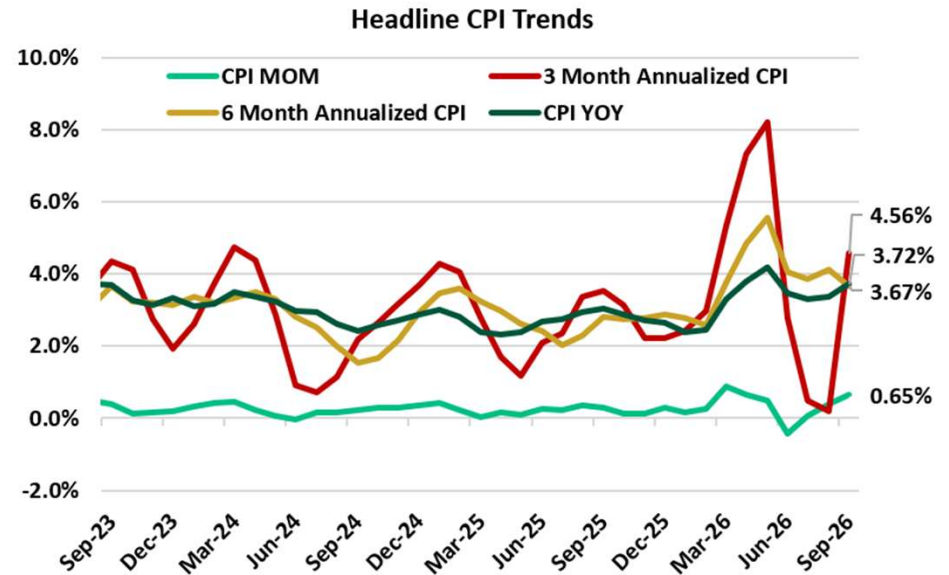
Headline CPI printed +0.65% in September; this was led by a hot print in the Energy Sector as oil prices remain elevated. Food inflation was nearly flat for the month.

Annualizing recent headline prints, we can see how volatile the inflation picture has been with the rolling 3 Month Annualized Inflation rate that has oscillated from more than 8% in Q2, down to nearly 0% in Q3, before spiking again to 4.56% with the most recent September data.

Core CPI, while less volatile, has remained elevated with a MOM September reading of 0.33%. The stickiness of core CPI is largely due to a combination of hotter shelter and services inflation.

Similarly, to Headline CPI, the recent trends in Core CPI show a spike in the inflation trend with the the 3-month annualized inflation rate increasing to a near term high of 3.41%

While the Fed tracks Core PCE as its primary inflation measure, this upside volatility to consumer inflation feeds that input and is a reason for the Feds shift in policy to a more hawkish stance.



Labor Market

Average monthly job gains in Q3 was +51,000, a sharp deceleration from Q2.

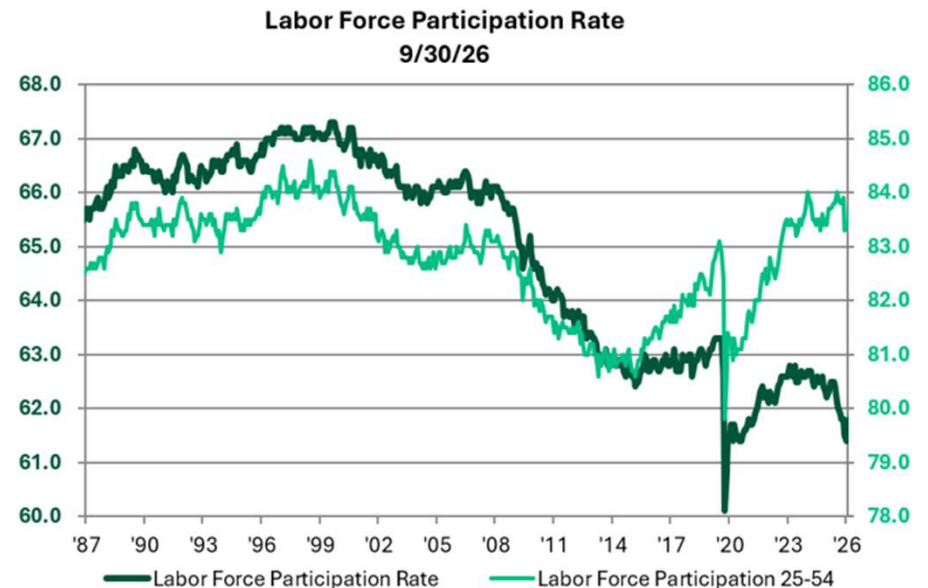
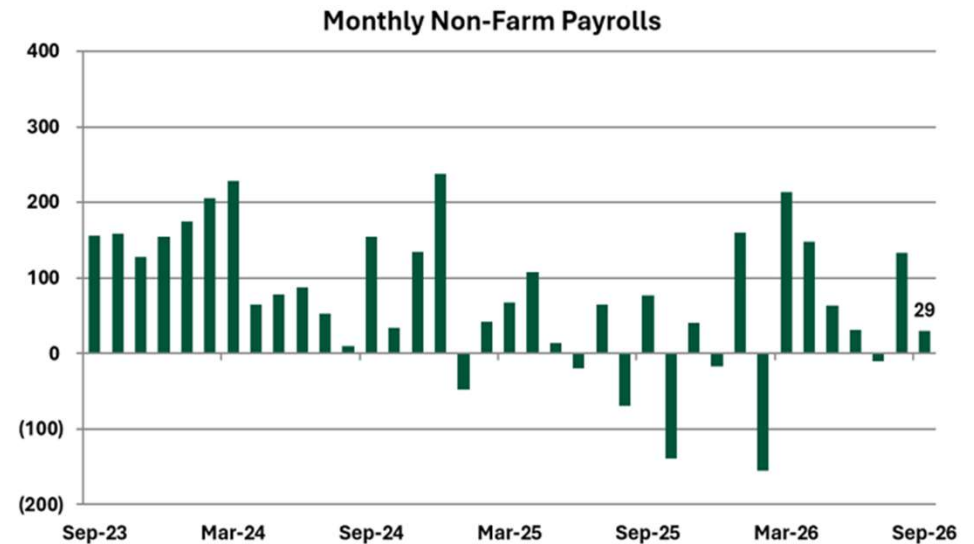
The weakest print of the quarter came in July with a loss of 10,000 followed by a rebound of a 133,000 gain in August before falling back to a 29,000 gain.

The August payroll gain was initially reported as 162,000 leading up to the September Fed meeting when they hiked rates but was then revised down with other months by -60,000, tempering the view that the labor market was accelerating.

Positive contributors again were dominated by Education and health services, while leisure and hospitality, construction, and manufacturing continued to make gains amid the infrastructure buildout.

The headline participation rate stabilized in the quarter at around 61.8% in September.

The prime-age participation rate also increased slightly from 83.4% in July to 83.7% in September.



Labor Market

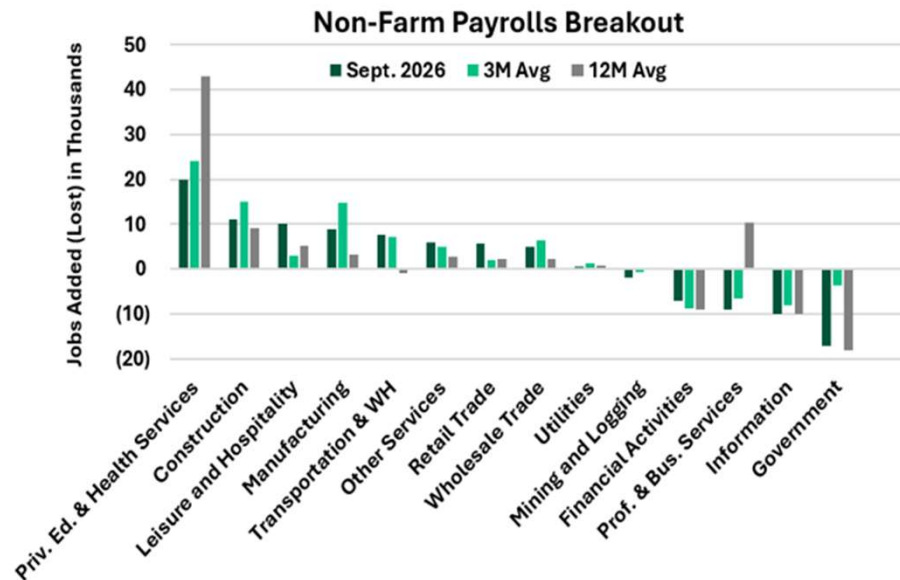
Non-Farm payrolls (NFP) printed 29k in September with a 3mo average of 51k and 12mo average of 41k.

Goods producing sector continues to be a positive contributor to jobs growth, averaging 29k in Q3 vs 13k over the last 12mo. Services softened during Q3, averaging 25k vs 47k over the last 12mo.

The infrastructure and manufacturing expansion is shifting the labor landscape. Manufacturing and Construction continue to post positive job creation. Prior to 2026, manufacturing jobs contracted for 23 months in a row.

The construction sector continues to add jobs in the non-residential sector, while the residential sectors continues to decline reflecting the inactive housing market.

Company narratives have started to shift, with many expecting roles to expand or change due to AI rather than seeing reduced headcount.



NFP Data	Sep 2026	3M Avg	12M Avg	Signal Status
Total Nonfarm	29	51	41	➡
Total Private	46	54	59	➡
Goods-Producing	18	29	13	➡
Construction	11	15	9	➡
Manufacturing	9	15	3	➡
Mining and Logging	(2)	(1)	0	⬇
Service-Providing	28	25	47	➡
Private Education and Health Services	20	24	43	➡
Leisure and Hospitality	10	3	5	➡
Transportation and Warehousing	8	7	(1)	⬆
Other Services	6	5	3	⬆
Retail Trade	6	2	2	➡
Wholesale Trade	5	6	2	➡
Utilities	1	1	1	➡
Financial Activities	(7)	(9)	(9)	⬇
Professional and Business Services	(9)	(7)	10	⬇
Information	(10)	(8)	(10)	⬇
Government	(17)	(4)	(18)	⬇
Goods Producing Data	Sep 2026	3M Avg	12M Avg	Signal Status
Mining and Logging	(2)	(1)	0	⬇
Logging	0	0	0	➡
Mining, Quarrying, and Oil and Gas Extraction	(2)	(1)	0	⬇
Construction	11	15	9	➡
Construction of Buildings	4	4	2	⬆
Residential Building Construction	3	2	(0)	⬆
Nonresidential Building Construction	1	2	3	➡
Heavy and Civil Engineering Construction	3	2	2	➡
Specialty Trade Contractors	4	9	5	➡
Residential Specialty Trade Contractors	(8)	(2)	(2)	⬇
Nonresidential Specialty Trade Contractors	12	11	7	⬆
Manufacturing	9	15	3	➡
Durable Goods	8	15	7	➡
Nondurable Goods	1	(1)	(4)	⬆

Labor Market

Annual wage growth continues to decelerate, falling 19 basis points from 3.21% in July to 3.02% in September, the slowest pace in five years.

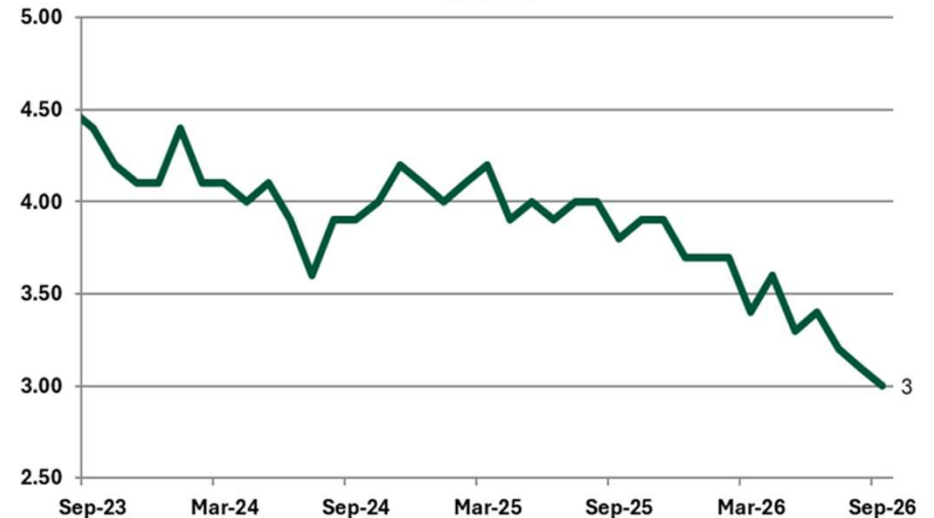
Despite nominal wage gains, real wages remained under pressure in Q3. CPI ran above wage growth for five consecutive months through September. This may support cooling inflation going forward, despite persistent higher energy prices.

The Phillips curve is diverging from its traditional linear relationship for headline CPI, as headline inflation has accelerated due to energy while the unemployment rate has remained stable at 4.2%.

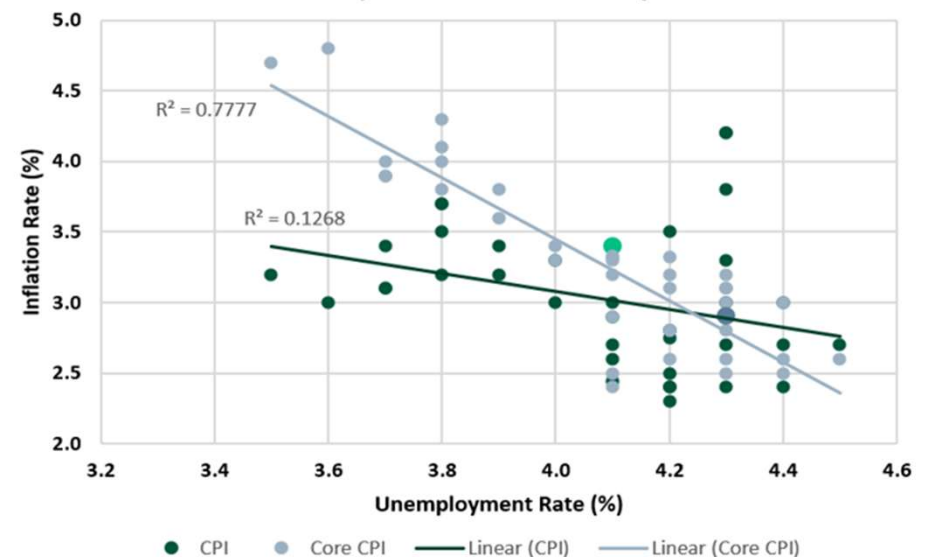
There is a notable divergence between CPI and wage inflation as well as headline CPI and core CPI where the Phillips curve remains more intact.

The Q3 Phillips curve dynamics raise questions for policymakers. The fed raised rates at the September meeting, but inflationary drivers may be resistant to higher interest rates while the employment picture continues to soften.

Average Hourly Earnings YoY % Change
9/30/26



Phillips Curve - 4 Year History



Housing Market

The housing affordability index was little changed at a low rate in Q3, moving down from 105.6 to 104.7 from May to August.

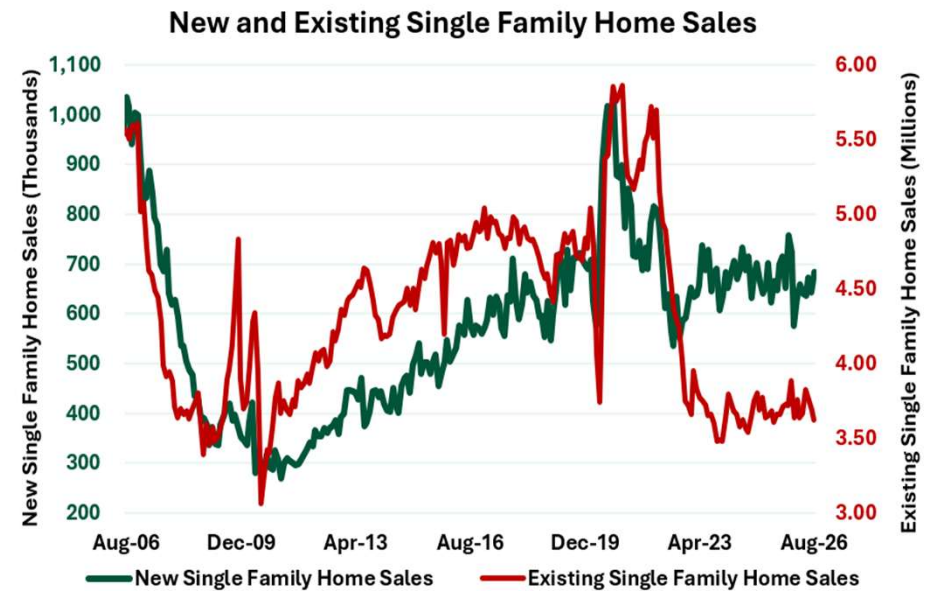
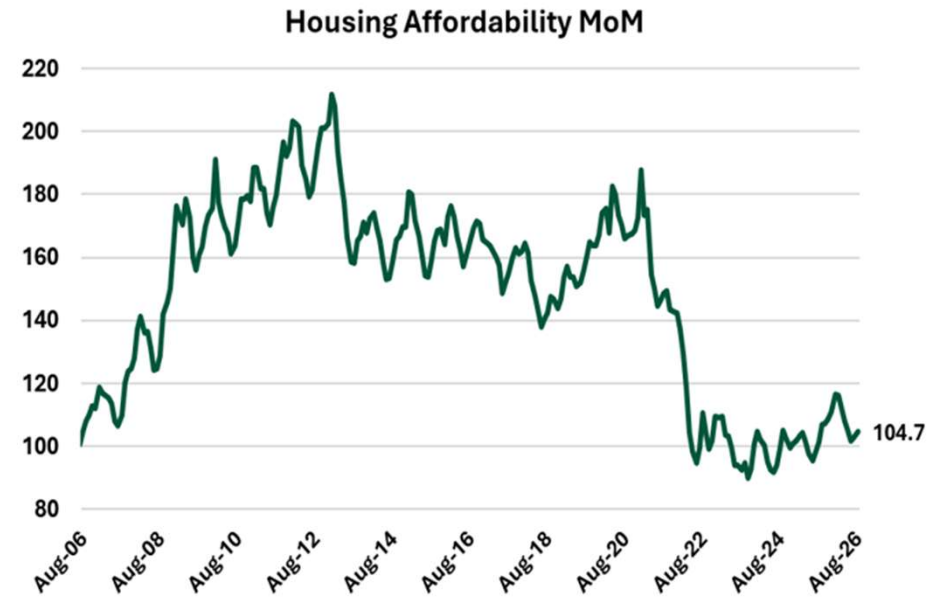
The runup in home prices through covid continue to have a lasting effect on the lack of housing activity.

The rise in Mortgage rates to over 7% will continue to be a headwind for improved housing affordability and may put pressure on home prices which could cool inflation.

New single family home sales remain rangebound between 550 to 750 thousand homes since the rate hike cycle in 2022.

Existing home sales remain in a similar trend between 3 and 4 million but have recently dropped while new home sales have incrementally increased in their respective ranges.

According to a NAHB/Wells Fargo Housing Market Index survey, builder confidence hit its lowest level since 2012, with 43% of builders cutting prices an average of 6% for the seventh month in a row, with 60% of builders using sales incentives for 19 consecutive months.



Housing Market

The housing market is trying to find equilibrium amid price changes, interest rates, and available housing inventory.

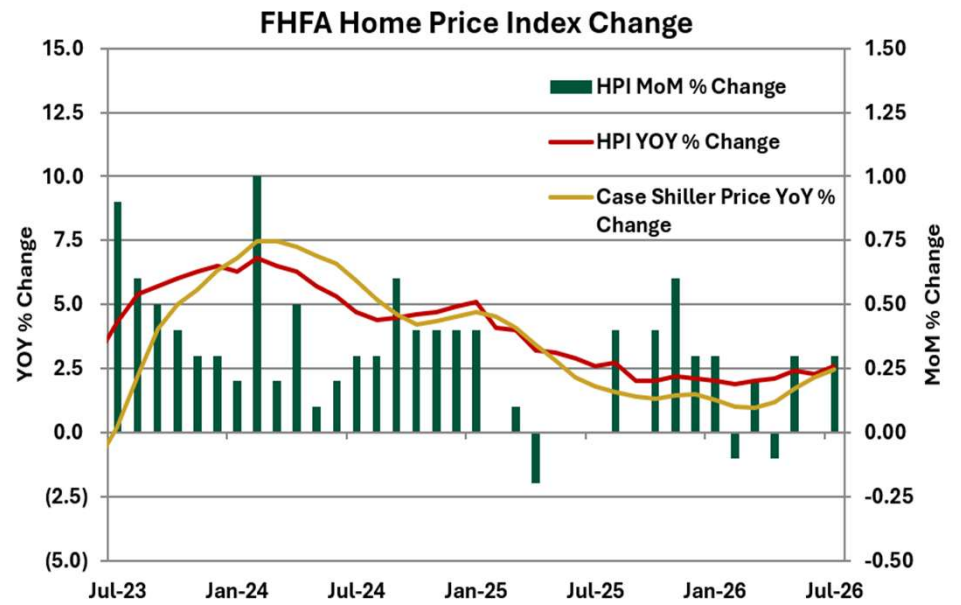
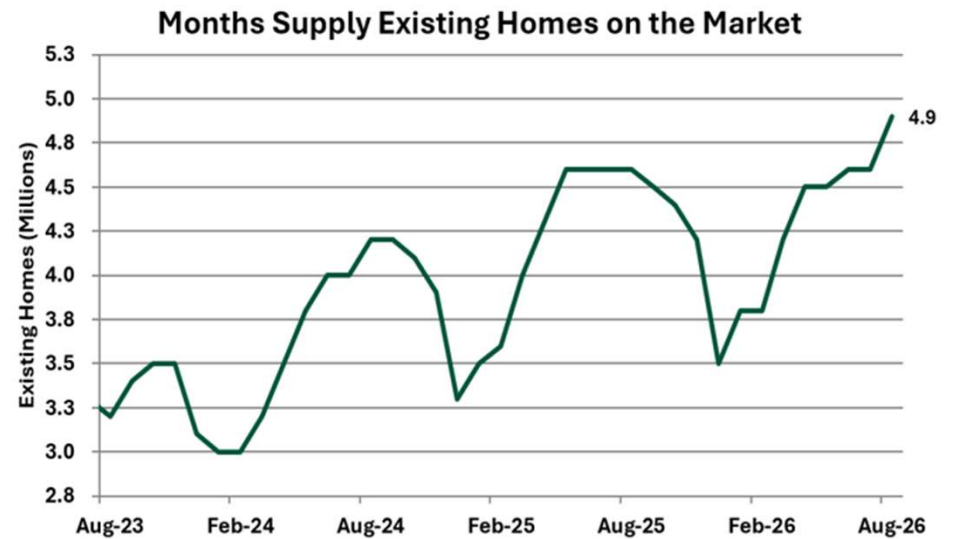
The decrease in affordability through high prices and high rates has curbed sales and has pushed inventory up to almost 5 months.

Home prices have also been volatile as an overall declining/stabilizing level and have been increasingly divergent across the country.

We have seen that the 6% mortgage rate provides for some incremental refinancing and housing activity, but a substantial increase in activity will need much lower rates and prices.

Builders continue to cut prices and help buyers buy down mortgage rates to spur sales in the new home market.

Existing home sales have slowed considerably as homes stay on the market for longer with sellers reducing prices, depending on geographic area.



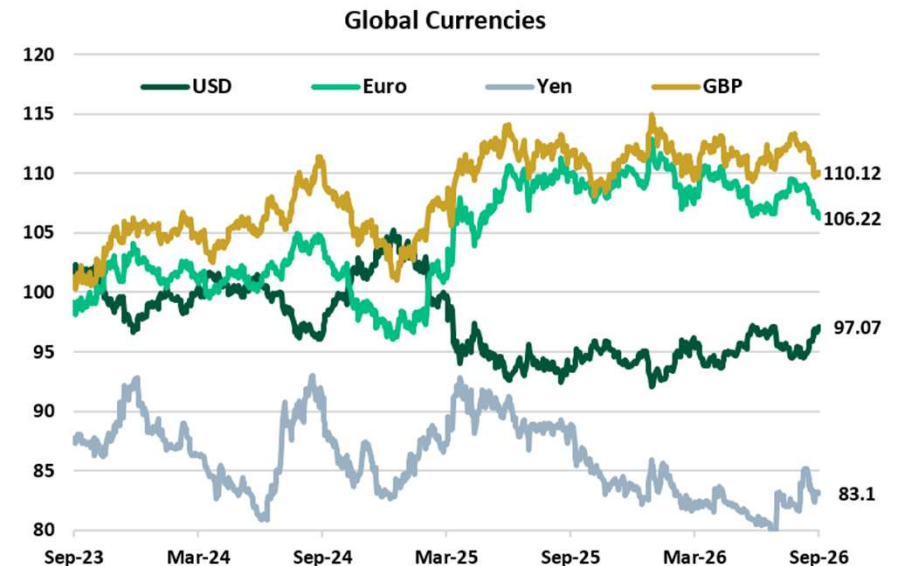
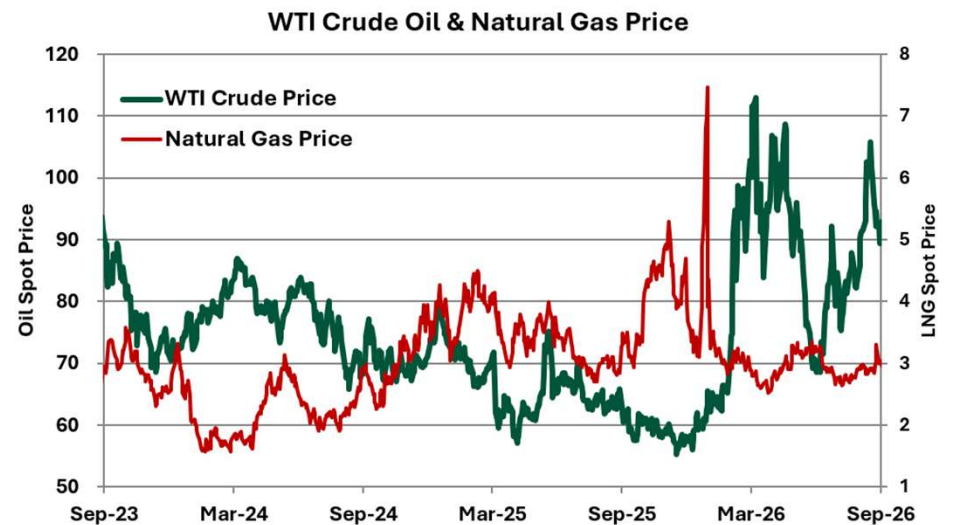
Commodities and Currency

WTI crude oil prices spiked again in Q3 as the US-Iran conflict has dragged on. While oil prices are off the intra-quarter high, they are materially higher on average than in the second quarter and were a primary contributor to the Fed's decision to hike interest rates.

Natural gas prices have moved incrementally higher as energy overall has become more expensive.

Higher oil prices are driving gas and diesel prices higher, but so are refining capacity constraints.

The US Dollar strengthened as expectations for Federal Reserve rate cuts were eliminated for 2026, and the market began to price in tighter monetary policy.



Trade Balance

The balance of trade has shifted significantly.

While overall level of imports has remained roughly the same, trade with China has been reduced significantly, dropping them to fourth from second.

Imports from Taiwan have increased significantly, representing the imports of all thing's chips and semiconductors.

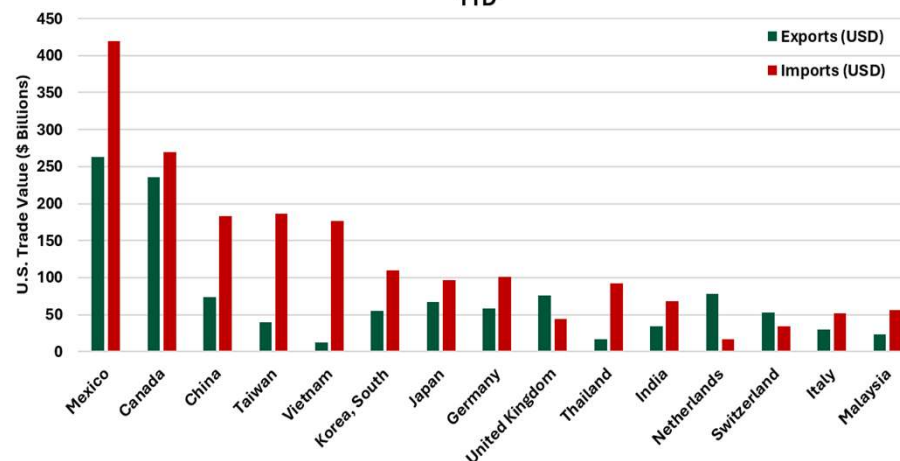
The US continues to run a significant trade deficit with virtually all countries globally except UK, Switzerland and the Netherlands.

Tariffs and other actions have reduced imports from China, Canada, and Europe.

Reshoring of US manufacturing should continue, broadening and helping to drive growth in the US fundamental economy.

Curiously, Europe manufacturing is suffering under a deluge of imports from China and is formulating action plans to curb Chinese imports.

U.S. Exports & Imports of Top 15 Partners (Goods Only)
YTD



Imports (Goods Only) in billions of \$				
Rank	Country/Region	2026 Imports Annualized	2024 Imports	Change
1	Mexico	629	506	123
2	Canada	404	412	(7)
3	Taiwan	280	116	164
4	China	275	439	(163)
5	Vietnam	264	137	128
6	Korea, South	165	132	34
7	Germany	151	160	(9)
8	Japan	145	148	(4)
9	Thailand	139	63	76
10	India	102	87	15
11	Malaysia	84	52	32
12	Italy	77	76	1
13	United Kingdom	66	68	(2)
14	Switzerland	51	63	(12)
15	Netherlands	26	34	(9)
Total		2,859	2,493	365

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