

U.S. Economic Comment

- Treasury yields: surge fueled by hawkish comments of various Fed officials and a reassessment of near and longer-term risks by market participants

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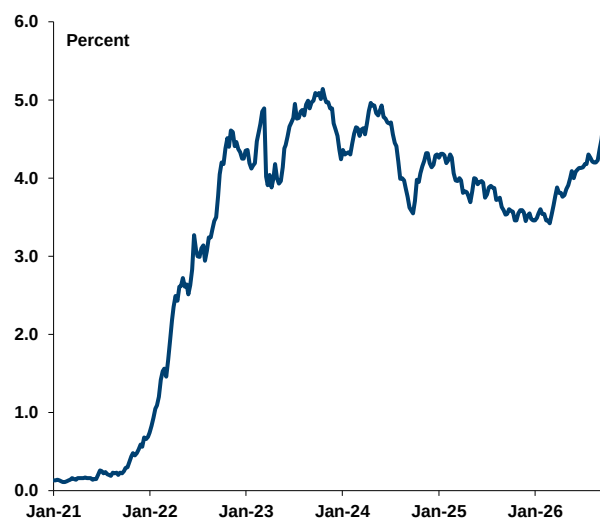
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A Jump in Yields

Following last week's hike in the federal funds rate by 25 basis points to 3-3/4 to 4 percent, bond market investors drove interest rates higher across the Treasury curve again this week – apparently pushing for further action by the FOMC amid resilient economic conditions (the Atlanta Fed's GDPNow model is projecting 5.0 percent annualized growth in Q3) and persistent and broad-based risks to the outlook. On the point, the constant maturity 2-year yield of 4.87 percent as of Thursday (the latest available reported by the Federal Reserve Board; up from 4.76 percent last Friday) was the highest since June 2024, which followed directly the March 2022 to July 2023 hiking cycle wherein the FOMC raised the target range for the federal funds rate from 0-1/4 percent to 5-1/4 to 5-1/2 percent (chart, below left). Concurrently, the 10-year yield jumped to 5.18 percent (versus 5.01 percent on Friday September 18) and the long bond yield surged to 5.47 percent (versus 5.34 percent the preceding Friday). The former was the highest rate since July 2007 and the later since June 2004 (chart, below right). Moreover, Treasury coupon auctions this week were challenging. For example, the auction of \$70 billion 5-year Treasury notes on Wednesday realized an auction high yield of 5.033 percent – the highest since June 2006, with the bid-to-cover ratio of 2.21 trailing the previous six-month average of 2.33. Further, all three coupon auctions this week (the 5-year auction plus those for \$69 billion 2-year notes and \$44 billion 7-years) all tailed (that is, the auction yields were higher than the when-issued yield at tender – further evidence of sluggish demand). All this to say, yields appear to be plotting a trajectory to a new, higher, equilibrium.

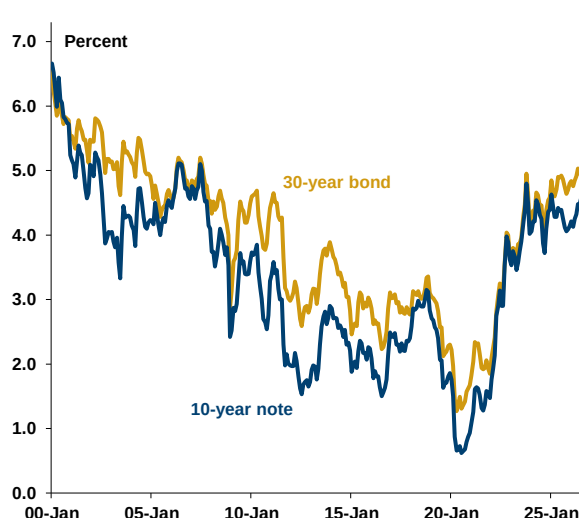
2-Year Treasury Note Yield*



* Weekly data except for the latest observation which is a daily quote from September 24, 2026.

Source: Federal Reserve Board via Haver Analytics

Long-Term Treasury Yields*



* Monthly data except for the latest observations which are daily quotes from September 24, 2026.

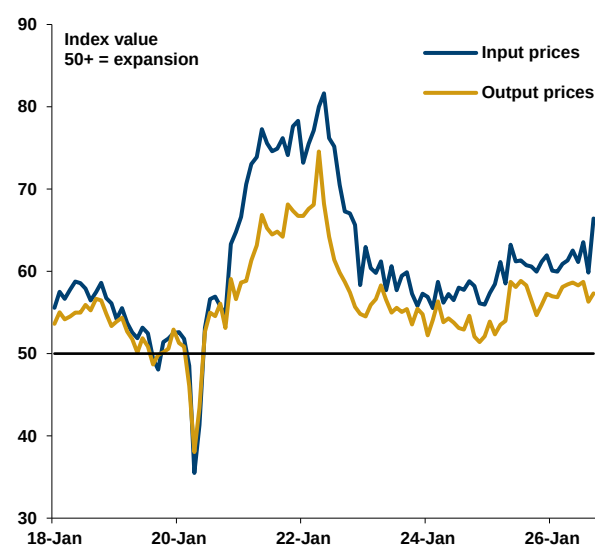
Source: Federal Reserve Board via Haver Analytics

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In addressing a reporter's question at last week's post-FOMC press conference regarding the previous rise in interest rates antecedent to the Committee action, Fed Chairman Warsh attributed the earlier (and now ongoing) upward trajectory to three factors: economic strength (see above), competition for capital between the government sector and corporate issuers (notably, AI hyperscalers), and geopolitics in the form of inflation risks emanating from higher commodity prices and the difference between those and crack spreads -- although he cautioned that the list was not "exclusive" (i.e., exhaustive). No doubt worthy of being added to that list (and likely among the drivers of the latest repricing) is policy uncertainty (related to the above-indicated inflation risks), with a bias toward further rate increases after officials removed "a dose of accommodation" last week and seemingly kept open the possibility for further hawkish adjustments.

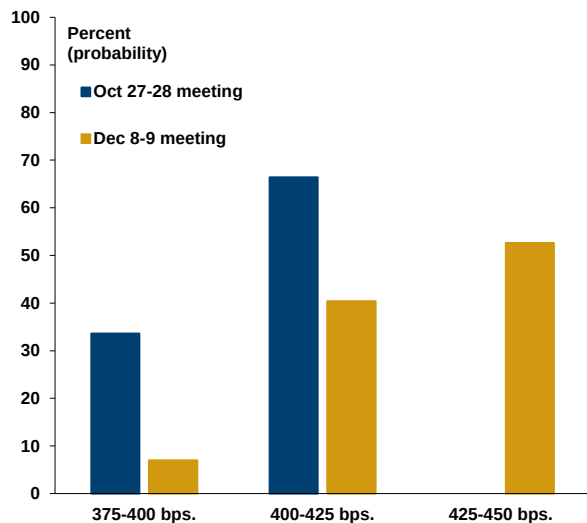
Supportive of Chairman Warsh's assessment, several Fed officials weighed in this week with their views on elements of the previously indicated factors -- along with the potential path of policy in light of inflation that has remained above target for more than five years (see the chart on the PCE price index in the week ahead section, below). On the earlier point, Austan Goolsbee, the President of the Federal Reserve Bank of Chicago and a 2027 voter, argued that policymakers may well be required to respond to supply-driven inflation, even as common practice suggests "looking through" those occurrences. He stated, "If the forecast calls for large, persistent, recurring shocks, the central bank still has to restore price stability under its legal mandate—and the only way to bring inflation down is to raise rates and narrow the gap between supply and demand, even if it's not in the exact same sectors where the cost shocks are occurring... So the key becomes recognizing when a shock stops being temporary and should be treated as persistent." Relatedly, note the consistent elevation in the composite price measure from the S&P Global U.S. PMI. The flash estimate of the input price measure jumped to 66.4 in September from 59.9 previously -- the highest reading since July 2021, with readings in the interim period also elevated as the Russia/Ukraine conflict transitioned to the tariff episode and then the latest conflict (i.e., transient shocks have seemingly become persistent). Additionally, while somewhat restrained vis-à-vis the shift in input prices, there is evidence of pass-through to output prices (chart, right). In essence, concern about second-round effects and inflation trends appears well placed, with more restrictive policy required to constrain demand -- even while not directly addressing the supply-side pressure. Further, providing context for the possible path of interest rates, Fed Governor Michael Barr suggested as his "base case" that "further policy adjustments are likely to be needed to ensure inflation comes down to target in a timely fashion," while Philly Fed President Anna Paulson, a 2026 voter, noted "some modest further tightening may be warranted." At least partially in response to those statements, market participants see odds favoring multiple hikes this year and into 2027, possibly exceeding what was indicated in the September Summary of Economic Projections (according to the CME measure, the current probability for two hikes at the end of 2026 is 52.8 percent, up from 44.1 percent from last Friday; meanwhile, SOFR futures suggest the possibility of 100 basis points in tightening through 2027 versus a median Fed projection of an additional 25; charts, below).

US PMI: Composite Prices



Source: S&P Global via Haver Analytics

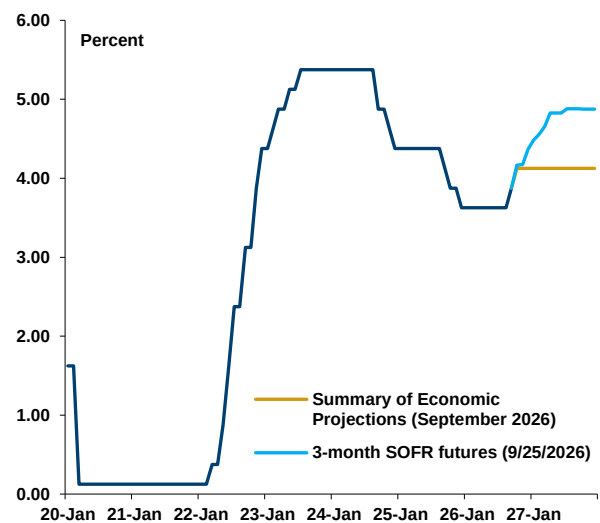
Federal Funds Target Rate Probabilities*



* The implied target range for the federal funds rate at the conclusion of each meeting based on futures pricing data as of September 25, 2026.

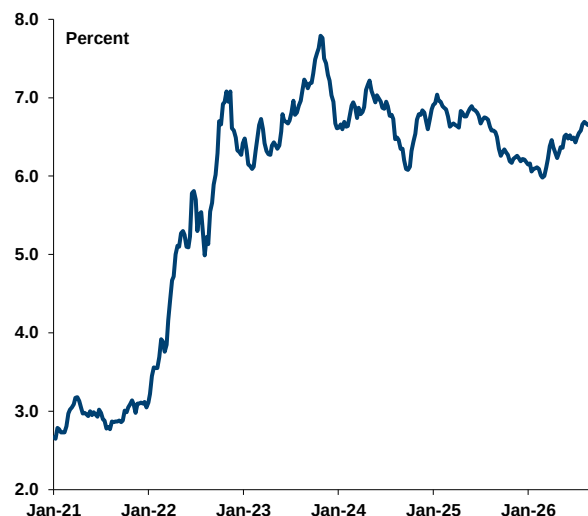
Source: CME Group, FedWatch tool

Federal Funds Target Rate*



The move in Treasury rates assuredly has implications for the economy beyond the pricing of financial assets (equities, as well as fixed income instruments). Businesses and consumers have thus far proved resilient to multiple shocks in recent years, all while price levels of shifted dramatically, interest rates have prevailed well above those prior to the pandemic, and prices of gasoline, diesel, and other items that are relatively demand inelastic have again surged. Exacerbating those challenges, the rise in longer-dated Treasuries will have knock-on effects across the economy – the cost of capital, consumer loans, etc. In that vein, mortgage rates have risen back above seven percent, magnifying affordability issues in one of the few areas where Fed officials assessed that interest rates were previously constraining activity (chart, right). Now, financial conditions could be set to tighten more quickly, with possibly more forceful impact on the real economy.

30-Year Fixed Rate Mortgages*



* Weekly data

Source: Freddie Mac via Haver Analytics

The Week Ahead

Consumer Confidence (September) (Tuesday)

Forecast: 89.0 (-0.4 pt. or -0.4%)

Consumer confidence is likely to hold at a low level in September as renewed hostilities in the Persian Gulf and associated disruptions to cargo traffic pushed gasoline prices higher and worsened prevailing uncertainty about the economic outlook. The projection, if realized, would leave the Conference Board metric near the bottom of the range of the past decade.

Revised GDP (2026-Q2) (Wednesday)

Forecast: +1.6% (+0.1 pct. pt. revision)

The third (revised) estimate of quarterly GDP is usually close to the second (preliminary) tally, though data released since August 26 is suggestive of the possibility of an upward adjustment to annualized growth of 1.5 percent in Q2. Recall, consumer spending and business fixed investment were again key contributors to growth in the second quarter of 2026 (adding 2.31 and 1.16 percentage points to growth, respectively). Conversely, net exports (-1.14 percentage points) and inventory investment (-0.72 percentage point) were drags on activity.

Keep in mind that the Bureau of Economic Analysis will release the 2026 annual updates to the National Economic Accounts along with next week's GDP report. Revisions will cover the first quarter of 2021 through the first quarter of 2026 and will lead to adjustments to data including: GDP, GDP by industry, monthly personal income and outlays, among others.

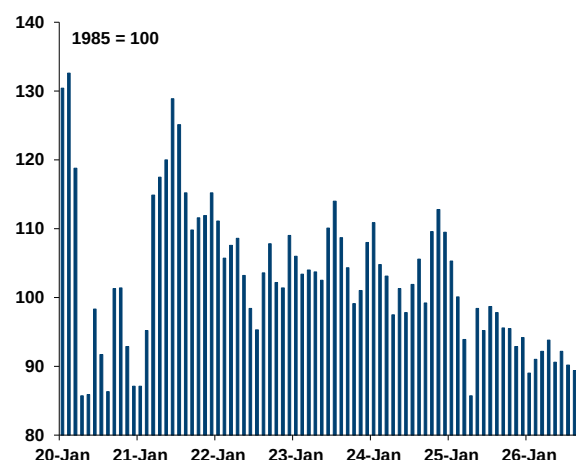
Personal Income, Consumption, Price Indexes (August) (Wednesday)

Forecast: +0.5% income, +0.8% consumption, +0.3% headline, +0.2% core

Recent results from average hourly earnings point to nominal income growth in August coming in faster than the average of +0.3 percent in the first seven months of 2026. With respect to spending, favorable results for vehicle and retail sales signal solid outlays for both durable and nondurable items. Spending on services, meanwhile, has remained on a favorable trend in 2026 thus far (average change of +0.5 percent in the January-to-July period) – a performance we expect to be maintained. In regard to inflation, data from the latest CPI and PPI reports suggest increases of 0.3 and 0.2 percent for the headline and core price indexes for personal consumption expenditures, respectively. The projected shifts would translate to year-over-year advances of 3.7 percent for the headline and 3.3 percent for the core (both essentially unchanged from their July readings).

Along with the 2026 annual updates to the National Economic Accounts, the BEA also will incorporate methodological improvements to several components of the PCE price index. Among these, the agency will improve the computational methods for components including consumer spending on: portfolio management and investment advice services, legal services, and computer software and accessories. We expect the changes to exert a modest downward influence on the current pace of inflation, although information available to formulate projections is limited.

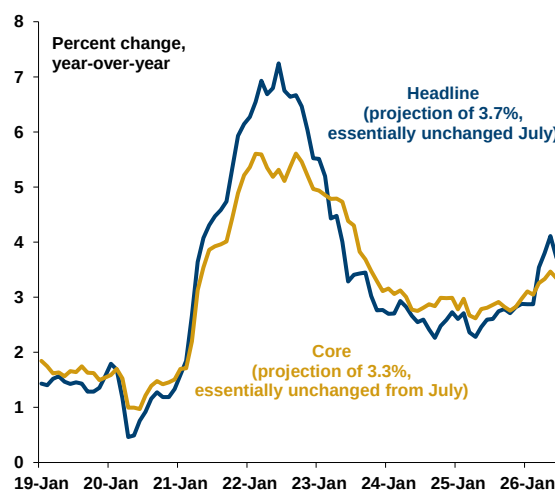
Consumer Confidence*



* The gold bar is a forecast for September 2026.

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

PCE Price Index*



* The observations for August 2026 (dots) are forecasts.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

International Trade in Goods (August) (Wednesday) Forecast: -\$113.5 billion (\$5.4 billion narrower deficit)

Monthly trade flows have swung widely since early 2025 as firms have adjusted to both the Trump administration's still-evolving tariff agenda and an energy shock stemming from the Iran conflict. Additionally, strong underlying domestic has driven brisk import flows. Previously in July, for instance, the nominal goods deficit trade deficit surged by \$17.9 billion to a 16-month high of \$118.9 billion, reflecting a jump of \$12.0 billion in imports that was paired with a decline of \$5.9 billion in exports. Looking deeper, the latest deterioration was primarily driven by a \$14.4-billion increase in capital goods imports – a shift that we anticipate to reverse to a degree in August, although the ongoing AI buildout suggests that the expected easing could be relatively modest. Nonetheless, even if the projected narrowing is realized, it would still leave the average deficit in the first two months of Q3 at \$116.2 billion (versus -\$96.2 billion in Q2), setting the stage for net exports to again act as a drag on GDP growth.

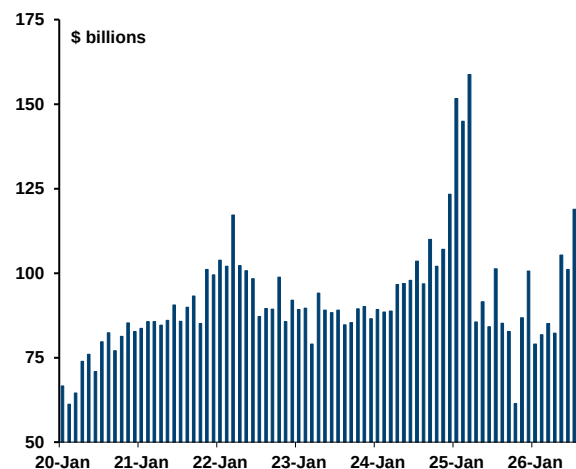
ISM Manufacturing (September) (Thursday) Forecast: 55.5 (+0.9 pct. pt.)

The Institute for Supply Management's manufacturing PMI appears poised to register its ninth consecutive expansionary reading in September, reflecting firms' resilience in a challenging business climate characterized by uncertain trade policy and geopolitical tensions. While only modest changes for the majority of subcomponents are expected, we suspect that the supplier deliveries subcomponent could nudge higher at least in part on account of supply chain disruptions tied to further escalation of conflict in the Persian Gulf. Relatedly, the prices index could also rise from its already-elevated level as firms bear the brunt of increased operating costs.

Construction Spending (August) (Thursday) Forecast: +0.2%

Although housing starts fell in August (-2.6 percent), the decline was concentrated in the multi-family area. Thus, expected increases in single-family construction and home improvements could provide an offset and nudge total private residential building higher after four consecutive declines. Concurrently, government-sponsored building has essentially flattened after trending sharply higher earlier in the expansion while business-related activity, which had trended lower between the springs of 2025 and 2026, has shown signs of stabilization – performances we expect to be maintained in the latest report.

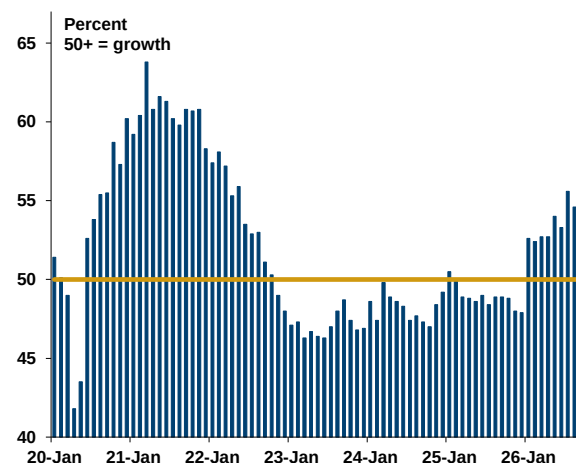
Nominal Trade Deficit in Goods*



* The gold bar is a forecast for August 2026.

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

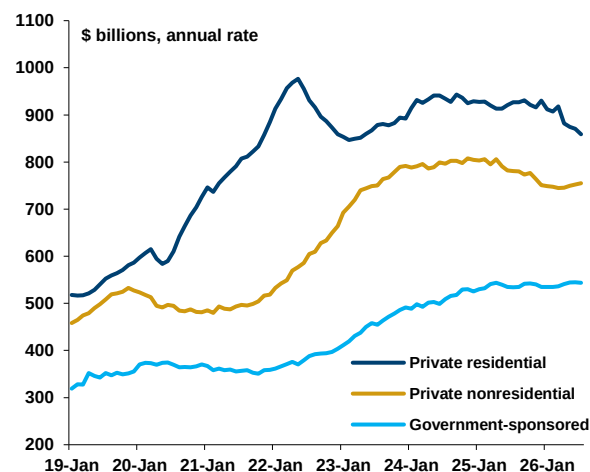
ISM Manufacturing Index*



* The gold bar is a forecast for September 2026.

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Value of Construction Put in Place



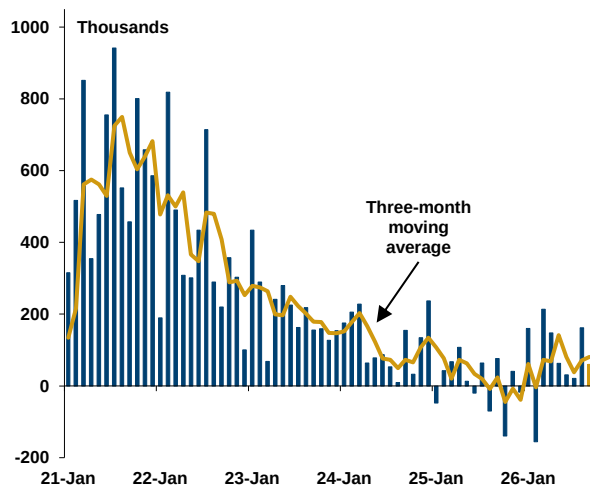
Source: U.S. Census Bureau via Haver Analytics

Payroll Employment (September) (Friday)

Forecast: +60,000

Employment conditions have seemingly improved in recent months, a development that prompted Fed Chairman Warsh to remark that “the labor side of the Fed’s congressional remit is in good shape” in his post-FOMC meeting press conference. On the point, job growth totaled 162,000 in August, with the three-month moving average accelerating to +71,000 from +38,000 in July. Turning to September, while payroll growth is expected to decelerate a bit from the prior month, it would still reflect a respectable pace of hiring. With that in mind, we would be unsurprised by the projected tempo maintaining the unemployment rate at 4.1 percent for the third consecutive month. With respect to wages, average hourly earnings could register an advance in line with the trailing 12-month average of +0.3 percent (associated with a year-over-year increase of 3.2 percent, up 0.1 percentage point from August).

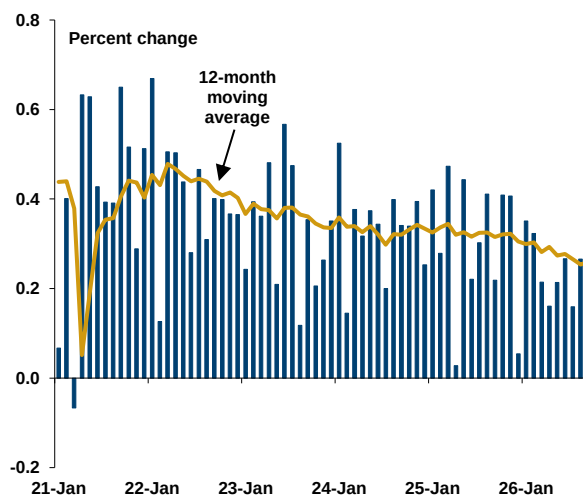
Change in Nonfarm Payrolls*



* The gold bar is a forecast for September 2026.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Average Hourly Earnings*



* The gold bar is a forecast for September 2026.

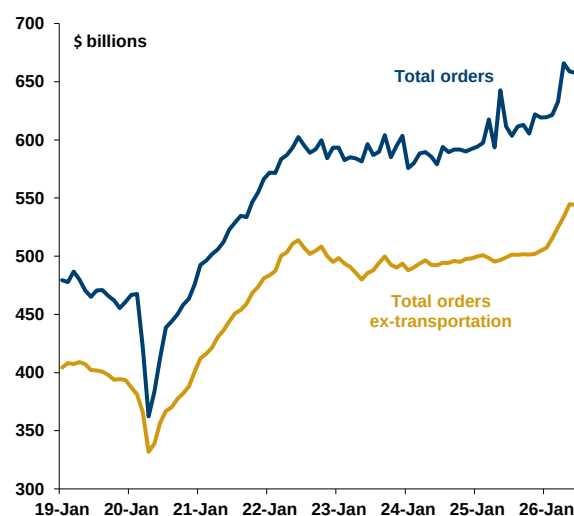
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Factory Orders (August) (Friday)

Forecast: +0.1%

Shifts in total manufacturers’ bookings typically reflect wide swings in the transportation category (range of -13.5 to +22.4 percent in the past six months). That trend is likely to pause in August, however, with this area easing only 0.6 percent. Excluding transportation, factory orders have tilted higher on balance over the past year (+9.2 percent year-over-year as of July 2026). Preliminary shipments data released with the Advance Report on Durable Goods on September 25 indicate a shift of 0.0 percent in the nondurable area.

Manufacturers’ New Orders



Source: U.S. Census Bureau via Haver Analytics

Economic Indicators

September/October 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
21	22	23	24	25
CHICAGO FED NATIONAL ACTIVITY INDEX Monthly 3-Mo. Avg. June -0.01 0.01 July 0.08 -0.01 Aug -0.04 0.01			UNEMPLOYMENT CLAIMS Initial Continuing (millions) Aug 29 0.207 1.765 Sep 5 0.207 1.717 Sep 12 0.198 1.719 Sep 19 0.197 N/A CURRENT ACCOUNT 25-Q4 -\$221.1 bill. 26-Q1 -\$212.6 bill. 26-Q2 -\$246.0 bill. NEW HOME SALES June 0.672 million July 0.643 million Aug 0.684 million	DURABLE GOODS ORDERS June 0.6% July 0.9% Aug 0.0% CONSUMER SENTIMENT Aug 51.7 Sep(p) 47.8 Sep(r) 48.1
28	29	30	1	2
	FHFA HOUSE PRICE INDEX (9:00) May 0.3% June 0.0% July -- S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00) May 0.2% June 0.2% July -- CONFERENCE BOARD CONSUMER CONFIDENCE (10:00) July 90.2 Aug 89.4 Sep 89.0 JOLTS DATA (10:00) Openings (000) Quit Rate June 7,182 2.0% July 7,271 1.9% Aug -- --	ADP EMPLOYMENT (8:15) Private Payrolls July 46,000 Aug 38,000 Sep -- GDP (8:30) GDP Chained Price 26-Q1 2.1% 3.6% 26-Q2(p) 1.5% 6.4% 26-Q2(r) 1.6% 6.4% PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) Inc. Cons. Core June 0.2% 0.3% 0.1% July 0.4% 0.2% 0.2% Aug 0.5% 0.8% 0.2% INTERNATIONAL TRADE IN GOODS (8:30) June -\$101.1 billion July -\$118.9 billion Aug -\$113.5 billion ADVANCE INVENTORIES (8:30) Wholesale Retail June 0.4% -0.2% July 1.3% 0.8% Aug -- -- MNI CHICAGO BUSINESS BAROMETER (9:45) July 57.6 Aug 47.1 Sep --	UNEMP. CLAIMS (8:30) ISM MFG. INDEX (10:00) Index Prices July 55.6 71.1 Aug 54.6 71.1 Sep 55.5 75.0 CONSTRUCTION (10:00) June 0.0% July -0.5% Aug 0.2% VEHICLE SALES July 16.3 million Aug 16.8 million Sep 16.7 million	EMPLOYMENT REPORT (8:30) Payrolls Un. Rate July 21,000 4.1% Aug 162,000 4.1% Sep 60,000 4.1% FACTORY ORDERS (10:00) June -0.2% July 0.8% Aug 0.1%
5	6	7	8	9
ISM SERVICES INDEX	TRADE BALANCE	FOMC MINUTES CONSUMER CREDIT	UNEMP. CLAIMS WHOLESALE TRADE	CONSUMER SENTIMENT
12	13	14	15	16
COLUMBUS DAY	NFIB SMALL BUSINESS OPTIMISM INDEX EXISTING HOME SALES FEDERAL BUDGET	CPI BEIGE BOOK	UNEMP. CLAIMS RETAIL SALES PPI PHILLY FED INDEX BUSINESS INVENTORIES	IMPORT/EXPORT PRICES IP & CAP-U TIC FLOWS

(p) = preliminary (2nd estimate of GDP), (r) = revised (3rd estimate of GDP)

Forecasts in bold.

Treasury Financing

September/October 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
21	22	23	24	25
AUCTION RESULTS: Rate Cover 13-week bills 4.015% 2.77 26-week bills 4.155% 2.62	AUCTION RESULTS: Rate Cover 6-week bills 3.870% 3.03 2-yr notes 4.787% 2.63 ANNOUNCE: \$72 billion 17-week bills for auction on Sep 23 \$90 billion 4-week bills for auction on Sep 24 \$85 billion 8-week bills for auction on Sep 24 SETTLE: \$72 billion 17-week bills \$90 billion 4-week bills \$85 billion 8-week bills	AUCTION RESULTS: Rate Cover 17-week bills 4.135% 2.81 5-yr notes 5.033% 2.21 Margin Cover 2-yr FRNs 0.040% 2.63	AUCTION RESULTS: Rate Cover 4-week bills 3.850% 2.61 8-week bills 3.990% 2.76 7-yr notes 5.085% 2.42 ANNOUNCE: \$177 billion 13-,26-week bills for auction on Sep 28 \$85 billion 6-week bills for auction on Sep 29 \$54 billion 52-week bills for auction on Sep 29 SETTLE: \$171 billion 13-,26-week bills \$75 billion 6-week bills	SETTLE: \$28 billion 2-year FRNs
28	29	30	1	2
AUCTION: \$177 billion 13-,26-week bills	AUCTION: \$85 billion 6-week bills \$54 billion 52-week bills ANNOUNCE: \$72 billion* 17-week bills for auction on Sep 30 \$90 billion* 4-week bills for auction on Oct 1 \$85 billion* 8-week bills for auction on Oct 1 SETTLE: \$72 billion 17-week bills \$90 billion 4-week bills \$85 billion 8-week bills	AUCTION: \$72 billion* 17-week bills SETTLE: \$19 billion 10-year TIPS \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes	AUCTION: \$90 billion* 4-week bills \$85 billion* 8-week bills ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Oct 5 \$85 billion* 6-week bills for auction on Oct 6 \$58 billion* 3-year notes for auction on Oct 6 \$39 billion* 10-year notes for auction on Oct 7 \$22 billion* 30-year bonds for auction on Oct 8 SETTLE: \$177 billion 13-,26-week bills \$85 billion 6-week bills \$54 billion 52-week bills	
5	6	7	8	9
AUCTION: \$177 billion* 13-,26-week bills	AUCTION: \$85 billion* 6-week bills \$58 billion* 3-year notes ANNOUNCE: \$72 billion* 17-week bills for auction on Oct 7 \$90 billion* 4-week bills for auction on Oct 8 \$85 billion* 8-week bills for auction on Oct 8 SETTLE: \$72 billion* 17-week bills \$90 billion* 4-week bills \$85 billion* 8-week bills	AUCTION: \$72 billion* 17-week bills \$39 billion* 10-year notes	AUCTION: \$90 billion* 4-week bills \$85 billion* 8-week bills \$22 billion* 30-year bonds ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Oct 13 \$85 billion* 6-week bills for auction on Oct 13 SETTLE: \$177 billion* 13-,26-week bills \$85 billion* 6-week bills	
12	13	14	15	16
COLUMBUS DAY	AUCTION: \$177 billion* 13-,26-week bills \$85 billion* 6-week bills ANNOUNCE: \$72 billion* 17-week bills for auction on Oct 14 \$90 billion* 4-week bills for auction on Oct 15 \$85 billion* 8-week bills for auction on Oct 15 SETTLE: \$72 billion* 17-week bills \$90 billion* 4-week bills \$85 billion* 8-week bills	AUCTION: \$72 billion* 17-week bills	AUCTION: \$90 billion* 4-week bills \$85 billion* 8-week bills ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Oct 19 \$85 billion* 6-week bills for auction on Oct 20 \$13 billion* 20-year bonds for auction on Oct 21 \$26 billion* 5-year TIPS for auction on Oct 22 SETTLE: \$177 billion* 13-,26-week bills \$85 billion* 6-week bills \$58 billion* 3-year notes \$39 billion* 10-year notes \$22 billion* 30-year bonds	

*Estimate