

U.S. Economic Comment

- FOMC preview: policymakers appear poised to maintain the target range for the federal funds rate at 3-3/4 to 4 percent
- Friday data: S&P composite PMIs signal solid economic output in October; gauge of selling prices rises to new multi-year high

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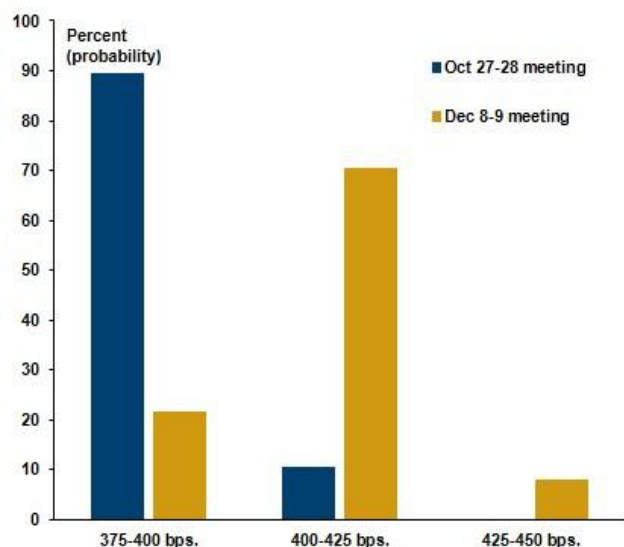
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FOMC to Stay On Hold Next Week

Given the opportunity to challenge colleagues' recent assessments that the Federal Open Market Committee could afford to be patient in responding to above-target inflation after hiking interest rates at its September gathering, Chairman Warsh last Friday passed on offering a counterargument in an appearance at the 2026 Annual Meetings of the International Monetary Fund (a final chance to comment before the traditional blackout period preceding policy meetings). He instead reaffirmed his focus on inflation by noting, "We made very clear that we would deliver price stability, and we removed a dose of accommodation about a month ago," but offered little on the possible path of the policy rate. In fact, he reiterated forcefully his distaste for providing early hints on his leanings: "I don't prejudge meetings. I don't believe in saying now what I might do at the meetings that we have in the balance of this year." Thus, market participants were left to assess prospects for a move based on prior comments by The Federal Reserve Bank of New York's John Williams on September 29 ("there is no need for urgency"), among other key policymakers, and assigned an exceedingly low probability of a hike heading into the final weekend before the meeting (approximately 90 percent as of writing; chart, below left). That said, prospects for another tightening this year (and possibly in 2027) remain high given the persistence of inflation and reaction functions of other Fed officials signaled in the September Summary of Economic Projections, but that appears to be a consideration for December (chart, below right).

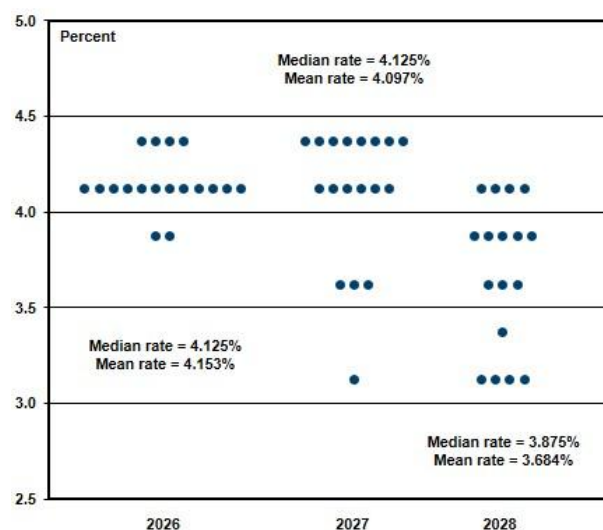
Federal Funds Target Rate Probabilities*



* The implied target range for the federal funds rate at the conclusion of each meeting based on futures pricing data as of October 23, 2026.

Source: CME Group, FedWatch tool

FOMC Rate View, September 2026*



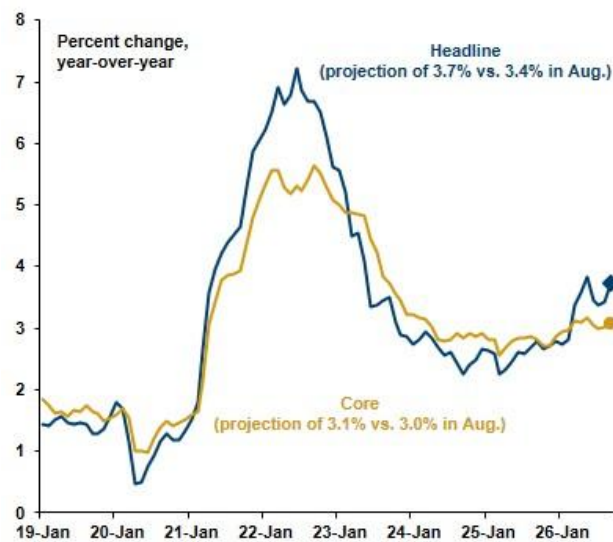
* Each dot represents the expected federal funds rate of a Fed official at the end of the year.

Source: Federal Open Market Committee, Summary of Economic Projections, September 2026

Taken at face value, the broadly anticipated outcome of next week's FOMC meeting appears at odds with the policy response seemingly demanded by the data. Results from the September CPI and PPI suggest that the price index for personal consumption expenditures rose 0.6 percent and the core measure advanced by 0.3 percent – both of which would generate pickups in the already brisk year-over-year inflation rates (chart, next page, left). At the same time,

labor market conditions remain consistent with a fully employed economy; the unemployment rate at 4.2 percent in September was consistent with the median longer-run view of Fed officials in the September SEP, while the Fed Chairman's preferred high-frequency measure of layoffs (the four-week moving average of initial claims for unemployment insurance) declined by 1,000 to 197,750 in the week ended October 17 – the lowest since October 2022 and in the low end of the historical range (chart, below right). Further, GDP growth in Q3 is likely to outpace that in Q2 (+3.0 percent, annual rate, expected versus +2.2 percent previously) and PMI data for October were firm (see below). Thus, another hike to address upside risks to inflation seems justified, even prudent.

PCE Price Index: Headline & Core*

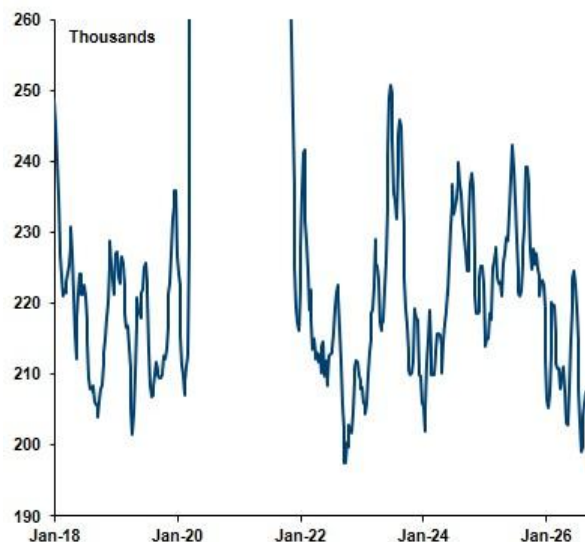


* The projections for September 2026 (dots) assume one-month increases of 0.6 and 0.3 percent for the headline and core, respectively.

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

However, despite the current steady state in the labor market and resilient economy, caution is warranted. Market volatility has picked up recently amid questions about durability of the current equity rally (the S&P 500 is up almost 12 percent year-to-date, although down more than two percent from the all-time high with the VIX index stirring; chart, right). Additionally, the 10-year Treasury yield fell below five percent yesterday from a recent high of 5.31 percent on October 5 – an apparent flight-to-quality trade corresponding with volatility in equities and emerging concern about ongoing developments in France. At the same time, pressure appears to be developing in corporate credit markets (chart, next page, left), notably concentrated in the A.I. space, and elements of the real economy are somewhat concerning. (For more information, please refer to the Federal Reserve Bank of New York's Corporate Bond Market Distress Index [CMDI] Report, <https://www.newyorkfed.org/research/policy/cmdi>.) With respect to the latter, pending home sales, which give insight into existing transactions occurring one to two months hence, fell 7.3 percent to a record low in September (released on Tuesday; chart, next page, right), suggesting that high borrowing costs have caused the housing market to stall. In essence, the same risk management approach

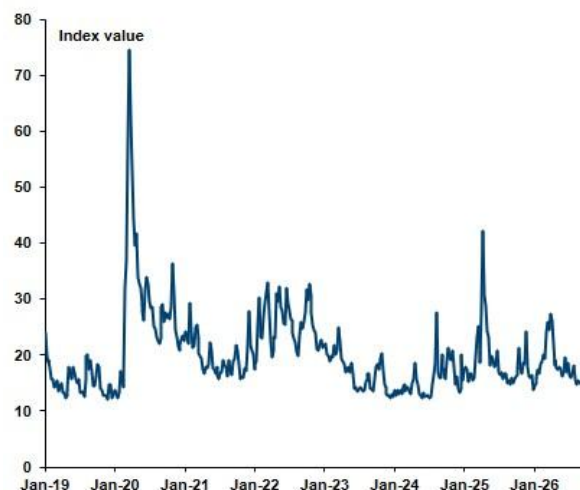
Initial Claims for Unemployment Insurance*



* Four-week moving average, COVID-related extremes truncated.

Source: U.S. Department of Labor via Haver Analytics

CBOE Volatility Index (VIX)*

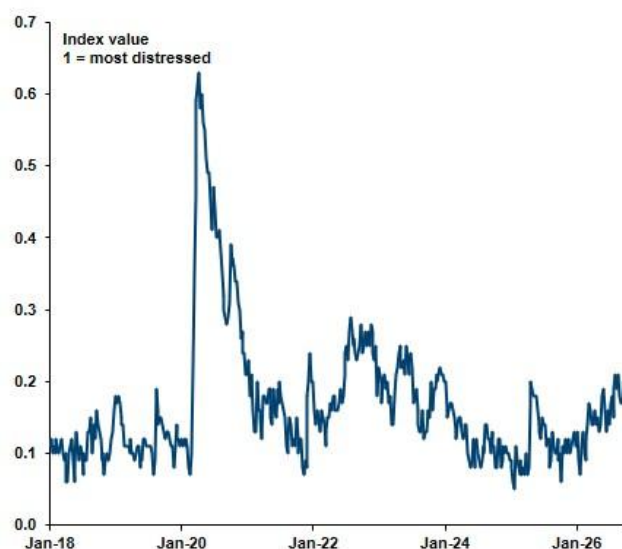


* From Bloomberg: The VIX index is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 index, and is calculated by using the midpoint of real-time S&P 500 Index option bid/ask quotes. Weekly data except for the latest observation which is a midday quote from October 23, 2026.

Sources: CBOE via Haver Analytics; Bloomberg

emphasized by various Fed officials that prompted a hike in September may now be steering the Committee toward a pause next week, with officials using the upcoming post-meeting period to assess the effects of the recent net tightening in financial conditions and pickup in financial market volatility on the real economy. Should conditions calm, and inflation remain on its current trajectory, then December appears the more likely period for the next rate adjustment – although we would do well to heed Chairman Warsh’s advice and refrain from viewing December as anything but a live meeting.

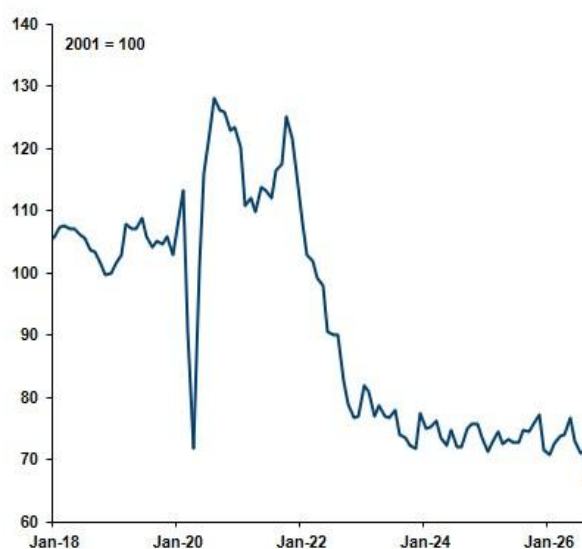
Corporate Bond Market Distress Index*



* The CMDI is a measure that quantifies joint dislocations in the primary and secondary corporate bond markets through the incorporation of a wide range of indicators (e.g. primary market issuance and pricing; secondary market pricing and liquidity conditions; and the relative pricing between traded and nontraded bonds).

Source: Federal Reserve Bank of New York via Haver Analytics

Pending Home Sales



Source: National Association of Realtors via Haver Analytics

S&P PMIs Indicate Both Solid Growth and Mounting Price Pressure in Early Q4

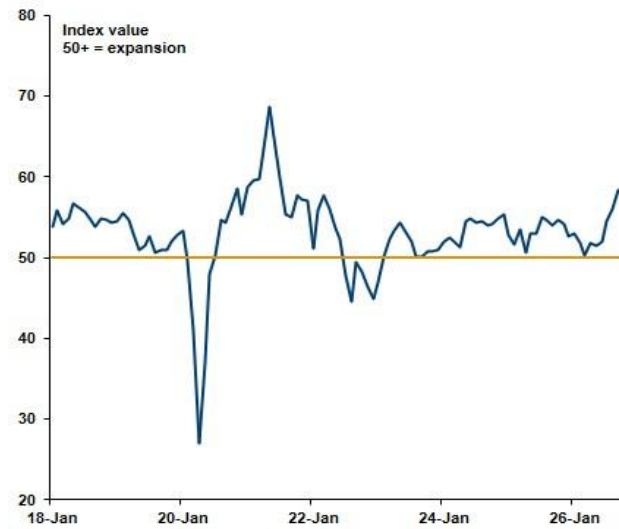
Carrying over from what we expect to be a favorable Q3 performance (see GDP write-up, below), while also underscoring challenges confronting policymakers next week, today’s release of the October “flash” estimates for S&P Global’s manufacturing and services PMIs suggested that the solid performance continued apace early in the closing quarter of 2026. Shifts in manufacturing and services were modest -- contributing to a 0.8-point dip to 57.6 for the composite measure (just below the recent multi-year high and the 45th consecutive observation in expansion territory; chart next page, left). Looking deeper, the services measure eased 0.9 point to a seventh straight expansionary read of 57.9 (and 44th in the past 45 months). Manufacturing, meanwhile, rose a modest 0.1 point to a 53-month high of 56.0 – its 15th consecutive read above the critical threshold. That said, while August’s performance was among the best over the past several years, uncertainty remained elevated on account of the ongoing conflict in the Middle East. Specifically, Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, noted how “cost pressures remain a key concern, notably as the renewed surge in oil prices reverberates through to impact a wide variety of goods and services.”

Additionally, evidence underpinning ongoing concern about cost pressures was present in the monthly price indexes. Input prices slipped 1.0 point in October to 64.9 -- a reading that is only modestly below last month’s near-four-year high. At the same time, output prices posted a 1.5-point increase to a 50-month high of 59.8 – indicative of firms’ increasing willingness to pass along higher costs to end consumers (chart, next page, right).

Thus, returning to the path ahead for monetary policy, the very latest data reiterate our recent observations on the economy: the growth backdrop is largely favorable, although inflation remains elevated with risks skewed to the high side on account pressure on commodity prices. However, as noted above, we have now observed some troubling

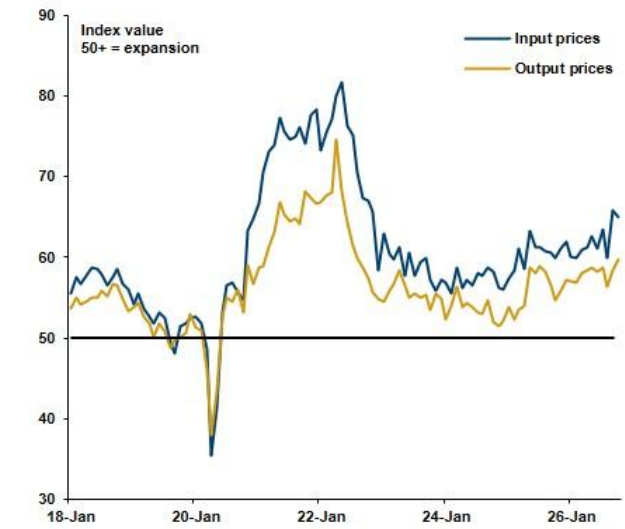
signs in financial markets and pockets of the economy that could complicate the path ahead for the FOMC. Needless to say, the economic landscape remains largely in flux. While we stand by our call for a hold next week, our assessment of underlying conditions and projections for monetary policy could both evolve notably over the next several months.

US PMI: Composite



Source: S&P Global via Haver Analytics

US PMI: Composite Prices



Source: S&P Global via Haver Analytics

The Week Ahead

Durable Goods Orders (September) (Tuesday)

Forecast: +5.0%

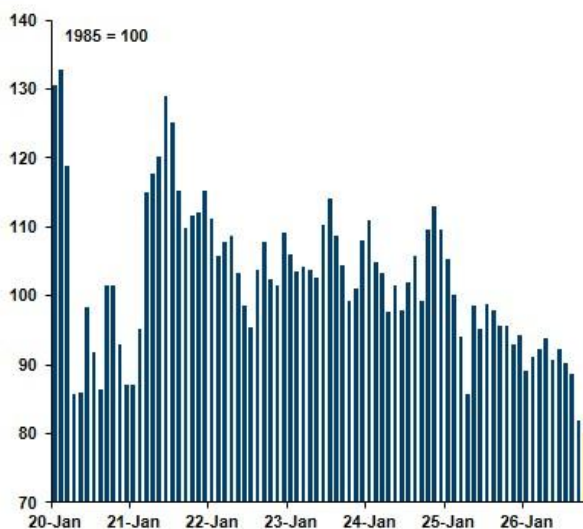
The transportation component of durable goods orders typically introduces significant volatility to total bookings, often reflecting wide swings in the civilian aircraft subcategory (range of -51.1 to +167.4 percent in the past six months). That trend is expected to continue apace in September, with a jump in aircraft orders at Boeing potentially providing a boost to the headline (165 versus 15 in August). Averaging through the noise, total bookings have tilted higher on balance – a performance likely to be maintained in the final month of Q3. Concurrently, orders excluding transportation have moved decidedly higher since the spring of 2025.

Consumer Confidence (October) (Tuesday)

Forecast: 80.0 (-1.9 pts. or -2.3%)

Consumer confidence is likely to deteriorate further from September's 149-month low of 81.9 as affordability issues and dour assessments of job market prospects continue to weigh on household attitudes. On the latter point, the updated reading on the labor market differential -- which provides insight into underlying views on job market strength by subtracting the share of survey respondents who report that positions are "plentiful" by those who say they are "hard to get" -- will be of particular interest. Recall, this metric continued on its downward trajectory in September with a 2.5-percentage-point decline to 1.7 percent, the lowest value observed since February 2021 and indicative of sluggish underlying labor market conditions.

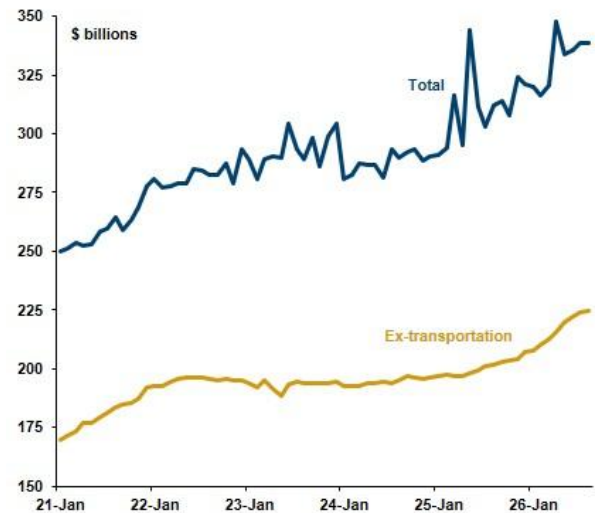
Consumer Confidence*



* The gold bar is a forecast for October 2026.

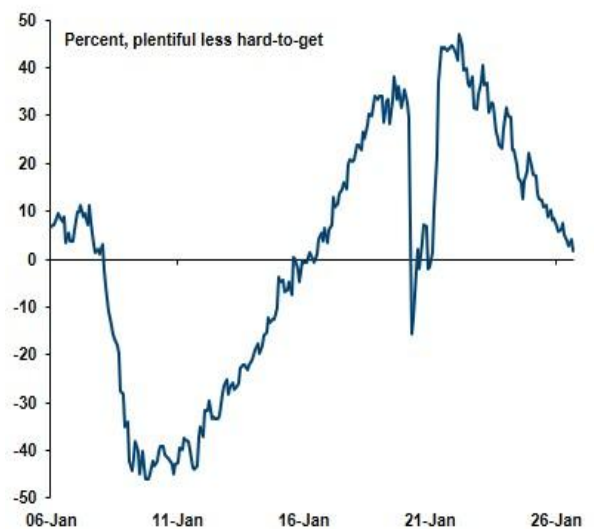
Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Labor Market Differential*



* The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard to get."

Source: The Conference Board via Haver Analytics

New Home Sales (September) (Tuesday)

Forecast: 0.635 million (-7.2%)

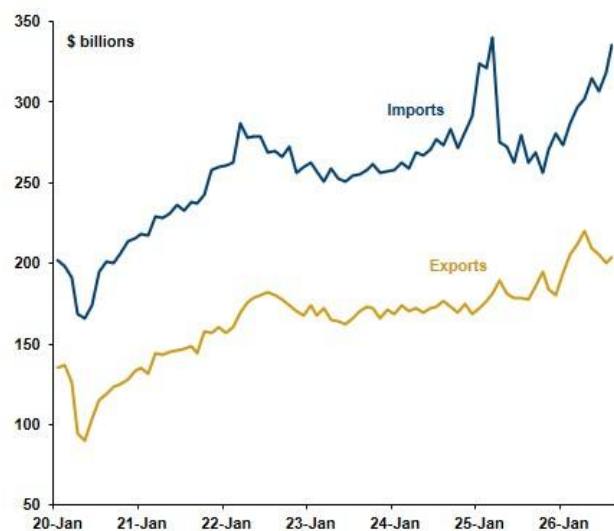
Following August's surprise increase of 6.4 percent, depressed buyer traffic (as measured by the National Association of Home Builders) and lower mortgage applications for a home purchase suggest that higher financing rates constrained new home sales in September. If the projection of a downshift is realized, it would leave the pace of sales in the lower end of the range of the past two years – indicative of a stagnant market.

International Trade in Goods (September) (Wednesday)

Forecast: -\$127.5 billion (\$4.6 billion narrower deficit)

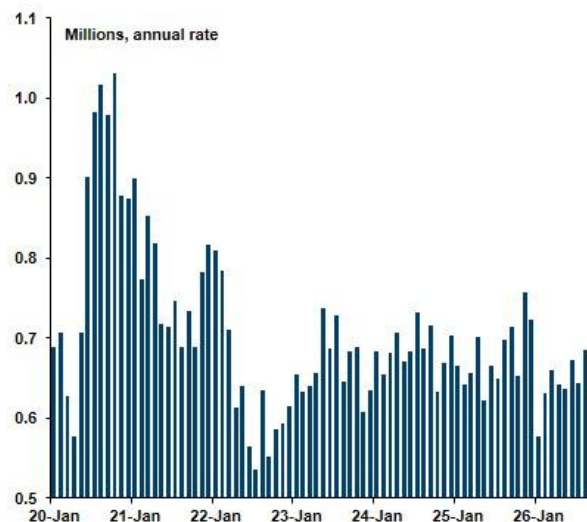
After wide swings in trade flows in 2025 associated with the implementation of the Trump administration's tariff program, imports have remained brisk this year, reflecting broadly solid domestic demand, and foreign shipments of capital goods for the A.I. buildout, among other factors. While these factors were likely still in place in September, the swelling of \$13.2 billion in the goods trade deficit to a 17-month high of \$132.1 billion (reflecting a surge of \$17.4 billion in imports that outpaced a gain of \$4.2 billion in exports) leaves some room for mean reversion in flows in the latest month. That said, even if the projected easing is realized, it would still leave the average deficit for 2026-Q3 at \$126.1 billion (versus -\$96.2 billion in 2026-Q2), suggestive of a sharp drag on Q3 growth from net exports (see below).

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

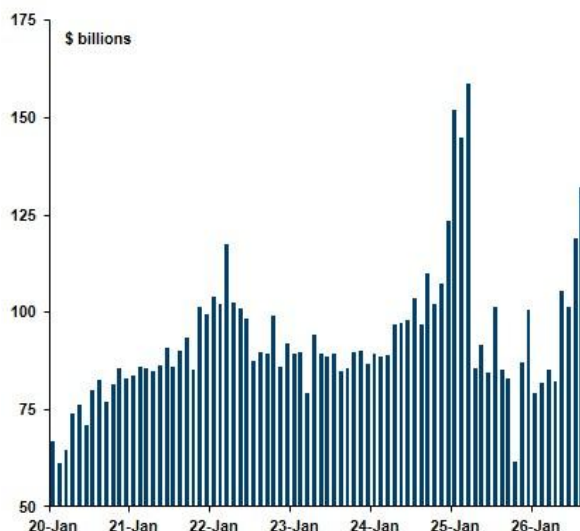
New Home Sales*



* The gold bar is a forecast for September 2026.

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

Nominal Trade Deficit in Goods*



* The gold bar is a forecast for September 2026.

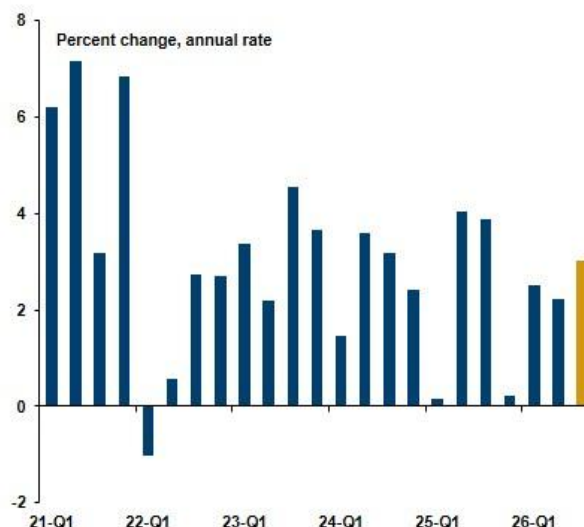
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

GDP (2026-Q3) (Thursday)

Forecast: +3.0%

Data in hand suggest that GDP again grew at a solid pace in the third quarter of 2026, likely surpassing annualized growth of 2.2 percent in Q2. Household spending appears to have lagged the +3.8 percent read in the prior quarter, although we expect growth to remain firm (+3.2 percent projected; a contribution of approximately 2.2 percentage points). Nonresidential fixed investment, meanwhile, could accelerate from the annualized jump of 9.0 percent previously – reflective of equipment spending and intellectual property investment remaining on their impressive growth tracks on account of the A.I. buildout. Furthermore, after acting as a drag on growth in Q2, inventory investment could add in the vicinity of 2.0 percentage points to GDP growth. Conversely, we look for net exports and residential construction to contribute negatively.

GDP Growth*



* The gold bar is a forecast for 2026-Q3.

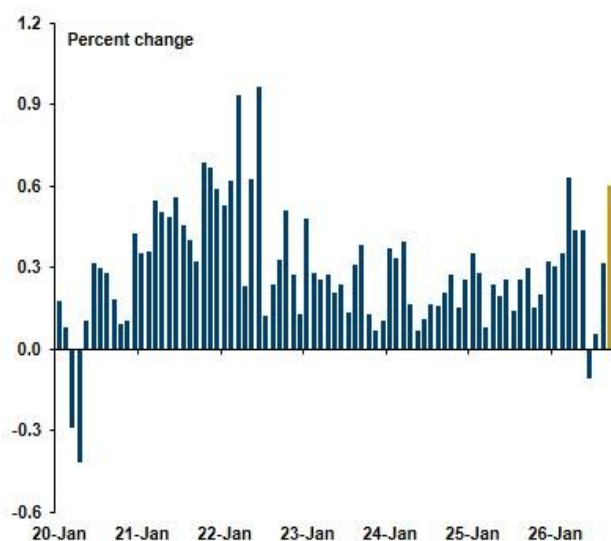
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Personal Income, Consumption, Price Indexes (September) (Thursday)

Forecast: +0.2% income, +0.5% consumption, +0.6% headline, +0.3% core

Recent results from average hourly earnings point to nominal income growth in September coming in slower than the average of +0.4 percent in the first eight months of the year. With respect to spending, positive results for retail sales are suggestive of solid outlays for nondurable items while a dip in vehicle sales indicates subdued expenditures for durables. Spending on services, meanwhile, has remained on a favorable trend in 2026 thus far (average change of +0.5 percent in the January-to-August period) – a performance we expect to be maintained. Regarding inflation, data from the latest CPI and PPI reports indicate increases of 0.6 and 0.3 percent for the headline and core price indexes, respectively. Those shifts would translate to year-over-year advances of 3.7 percent for the headline (versus +3.4 percent in August) and 3.1 percent for the core (versus +3.0 percent previously).

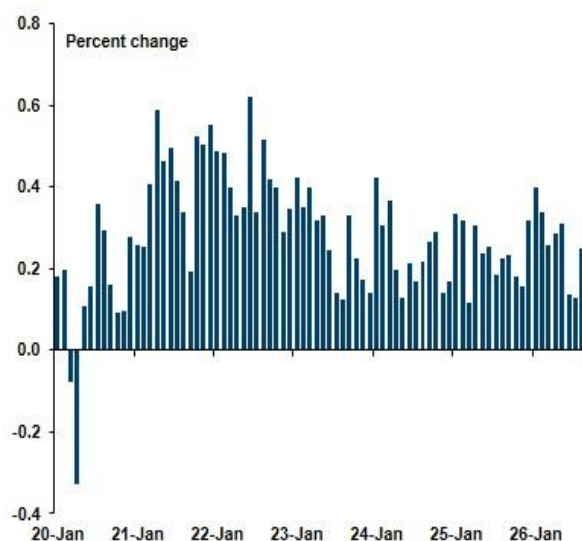
Headline PCE Price Index*



* The gold bar is a forecast for September 2026.

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

Core PCE Price Index*



* The gold bar is a forecast for September 2026.

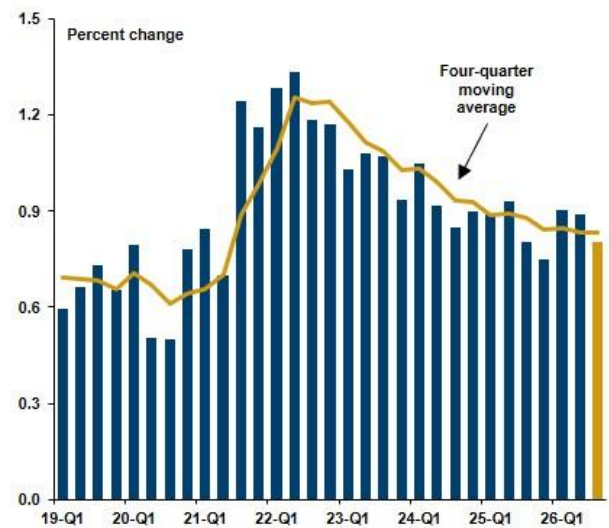
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Employment Cost Index (2026-Q3) (Friday)

Forecast: +0.8%

Readings on average hourly earnings from the BLS employment report suggest that compensation growth in the third quarter of 2026 decelerated a bit from gains of 0.9 percent (not annualized) in each of the first two quarters of the year – further evidence of softening in underlying demand for labor. If the projection is realized, year-over-year growth in the ECI would ease 0.1 percentage point to 3.3 percent, a reading well below the cycle peak of 5.1 percent in 2022-Q2 and indicative of wage growth consistent with a return to two percent inflation over time.

Employment Cost Index*



* The gold bar is a forecast for 2026-Q3.

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

Economic Indicators

October/November 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
19	20	21	22	23
NAHB HOUSING INDEX Aug 35 Sep 32 Oct 29	HOUSING STARTS July 1.369 million Aug 1.288 million Sep 1.221 million PENDING HOME SALES July -2.6% Aug 0.3% Sep -7.3%		UNEMPLOYMENT CLAIMS Initial Continuing (millions) Sep 26 0.199 1.714 Oct 3 0.198 1.703 Oct 10 0.200 1.728 Oct 17 0.194 N/A LEADING INDICATORS July 0.3% Aug -0.1% Sep 0.0%	CONSUMER SENTIMENT Sep 48.1 Oct(p) 46.3 Oct(r) 48.0
26	27	28	29	30
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly 3-Mo. Avg. July 0.08 -0.01 Aug -0.04 0.01 Sep -- --	DURABLE GOODS ORDERS (8:30) July 0.9% Aug -0.1% Sep 5.0% FHFA HOUSE PRICE INDEX (9:00) June 0.0% July 0.3% Aug -- S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00) June 0.3% July 0.3% Aug -- CONFERENCE BOARD CONSUMER CONFIDENCE (10:00) Aug 88.6 Sep 81.9 Oct 80.0 NEW HOME SALES (10:00) July 0.643 million Aug 0.684 million Sep 0.635 million FOMC MEETING (FIRST DAY)	INTERNATIONAL TRADE IN GOODS (8:30) July -\$118.9 billion Aug -\$132.1 billion Sep -\$127.5 billion ADVANCE INVENTORIES (8:30) Wholesale Retail July 1.4% 0.9% Aug 0.5% 0.2% Sep -- -- FOMC RATE DECISION (2:00)	UNEMP. CLAIMS (8:30) GDP (8:30) GDP Chained Price 26-Q1 2.5% 3.2% 26-Q2 2.2% 6.1% 26-Q3(a) 3.0% 2.8% PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) Inc. Cons. Core July 0.3% 0.1% 0.1% Aug 0.2% 0.9% 0.2% Sep 0.2% 0.5% 0.3%	EMPLOYMENT COST INDEX (8:30) Comp. Wages 26-Q1 0.9% 0.8% 26-Q2 0.9% 0.9% 26-Q3 0.8% 0.8% MNI CHICAGO BUSINESS BAROMETER (9:45) Aug 47.1 Sep 58.8 Oct --
2	3	4	5	6
ISM MFG. INDEX CONSTRUCTION	FACTORY ORDERS JOLTS DATA VEHICLE SALES	ADP EMPLOYMENT TRADE BALANCE ISM SERVICES INDEX	UNEMP. CLAIMS PRODUCTIVITY & COSTS	EMPLOYMENT REPORT CONSUMER SENTIMENT CONSUMER CREDIT
9	10	11	12	13
WHOLESALE TRADE	NFIB SMALL BUSINESS OPTIMISM INDEX CPI	VETERANS DAY	UNEMP. CLAIMS EXISTING HOME SALES FEDERAL BUDGET	PPI

(a) = advance (1st estimate of GDP), (p) = preliminary, (r) = revised

Forecasts in bold.

Treasury Financing

October/November 2026

Monday	Tuesday	Wednesday	Thursday	Friday																										
19	20	21	22	23																										
AUCTION RESULTS: <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>13-week bills 4.095%</td><td>2.77</td></tr><tr><td>26-week bills 4.220%</td><td>2.84</td></tr></table>	Rate	Cover	13-week bills 4.095%	2.77	26-week bills 4.220%	2.84	AUCTION RESULTS: <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>6-week bills 3.975%</td><td>2.74</td></tr></table> ANNOUNCE: \$75 billion 17-week bills for auction on Oct 21 \$110 billion 4-week bills for auction on Oct 22 \$105 billion 8-week bills for auction on Oct 22 SETTLE: \$75 billion 17-week bills \$110 billion 4-week bills \$105 billion 8-week bills	Rate	Cover	6-week bills 3.975%	2.74	AUCTION RESULTS: <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>17-week bills 4.155%</td><td>2.76</td></tr><tr><td>20-yr bonds 5.469%</td><td>2.73</td></tr></table> ANNOUNCE: \$25 billion 10-day CMBs for auction on Oct 22	Rate	Cover	17-week bills 4.155%	2.76	20-yr bonds 5.469%	2.73	AUCTION RESULTS: <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>4-week bills 3.945%</td><td>2.82</td></tr><tr><td>8-week bills 4.015%</td><td>2.57</td></tr><tr><td>5-yr TIPS 2.367%</td><td>2.41</td></tr><tr><td>10-day CMBs 3.925%</td><td>3.87</td></tr></table> ANNOUNCE: \$177 billion 13-,26-week bills for auction on Oct 26 \$95 billion 6-week bills for auction on Oct 27 \$54 billion 52-week bills for auction on Oct 27 \$69 billion 2-year notes for auction on Oct 26 \$70 billion 5-year notes for auction on Oct 27 \$44 billion 7-year notes for auction on Oct 29 \$30 billion 2-year FRNs for auction on Oct 28 SETTLE: \$177 billion 13-,26-week bills \$95 billion 6-week bills	Rate	Cover	4-week bills 3.945%	2.82	8-week bills 4.015%	2.57	5-yr TIPS 2.367%	2.41	10-day CMBs 3.925%	3.87	SETTLE: \$13 billion 20-year bonds
Rate	Cover																													
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AUCTION: \$177 billion 13-,26-week bills \$69 billion 2-year notes SETTLE: \$25 billion 10-day CMBs	AUCTION: \$95 billion 6-week bills \$54 billion 52-week bills \$70 billion 5-year notes ANNOUNCE: \$75 billion* 17-week bills for auction on Oct 28 \$110 billion* 4-week bills for auction on Oct 29 \$105 billion* 8-week bills for auction on Oct 29 SETTLE: \$75 billion 17-week bills \$110 billion 4-week bills \$105 billion 8-week bills	AUCTION: \$75 billion* 17-week bills \$30 billion 2-year FRNs	AUCTION: \$110 billion* 4-week bills \$105 billion* 8-week bills \$44 billion 7-year notes ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Nov 2 \$95 billion* 6-week bills for auction on Nov 3 SETTLE: \$177 billion 13-,26-week bills \$95 billion 6-week bills \$54 billion 52-week bills	SETTLE: \$26 billion 5-year TIPS																										
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AUCTION: \$177 billion* 13-,26-week bills SETTLE: \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes \$30 billion 2-year FRNs	AUCTION: \$95 billion* 6-week bills ANNOUNCE: \$75 billion* 17-week bills for auction on Nov 4 \$110 billion* 4-week bills for auction on Nov 5 \$105 billion* 8-week bills for auction on Nov 5 SETTLE: \$75 billion* 17-week bills \$110 billion* 4-week bills \$105 billion* 8-week bills	AUCTION: \$75 billion* 17-week bills ANNOUNCE: \$58 billion* 3-year notes for auction on Nov 9 \$42 billion* 10-year notes for auction on Nov 10 \$25 billion* 30-year bonds for auction on Nov 12	AUCTION: \$110 billion* 4-week bills \$105 billion* 8-week bills ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Nov 9 \$95 billion* 6-week bills for auction on Nov 9 SETTLE: \$177 billion* 13-,26-week bills \$95 billion* 6-week bills																											
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*Estimate