

Week in review and ahead (vol.40-26)



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Week in review

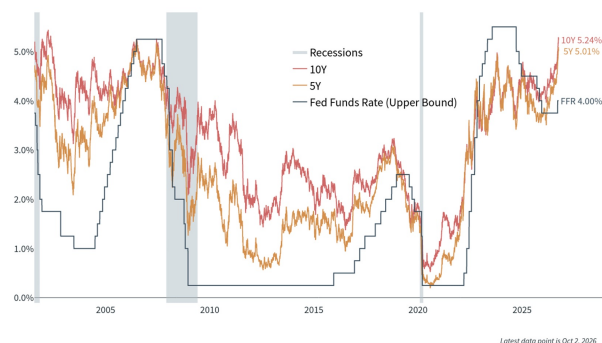
U.S. equity markets delivered a mixed performance this week as September employment growth came in weaker than expected while August PCE inflation, the Federal Reserve's preferred inflation gauge, largely met expectations. Although both reports initially sparked a rally in fixed income markets, expectations for a sustained reversal in the recent bond selloff ultimately faded, leaving Treasury yields little changed by week's end. Despite elevated borrowing costs and increasingly restrictive financial conditions, risk assets have continued to demonstrate notable resilience.

Treasury markets experienced considerable volatility throughout the week. Following softer-than-expected ISM Manufacturing PMI and PCE inflation data, bond yields initially moved lower before reversing course into Friday's close. The 2-year Treasury yield declined approximately 3 basis points to 4.83%, while longer-dated yields continued their upward march, with the 10-year and 30-year Treasury yields rising 10 and 14 basis points, respectively, to 5.27% and 5.63%. Those levels mark the highest yields since July 2007 for the 10-year Treasury and June 2002 for the 30-year Treasury, underscoring the market's continued reassessment of longer-term inflation, fiscal, and term-premium risks.

On the geopolitical front, tensions in the Middle East remained elevated as the United States announced the deployment of an additional aircraft carrier strike group and approximately 10,000 troops, including special operations forces, to the region. While prospects for a resolution remain uncertain, energy markets found some relief from reports indicating crude oil shipments through the Strait of Hormuz have recovered to roughly 70% of pre-conflict levels, albeit under significantly higher costs and security risks. However, Iranian oil exports remain effectively curtailed by U.S. sanctions and naval enforcement measures, heightening concerns that Tehran's loss of oil revenue could increase escalation risks. Additional support for energy markets came from the European Union's decision to prepare strategic petroleum reserve releases, particularly diesel inventories, while the United States opted against implementing a diesel export ban.

Historical Interest Rate Cycles

10-year, 5-year and fed funds upper bound. Recessions are shaded



Latest data point is Oct 2, 2026

Sources: Clearnomics, LSEG, Federal Reserve, NBER
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consecutive week as rising global bond yields, elevated energy prices, and expectations for tighter monetary policy continued to weigh on risk sentiment. Japan was a notable exception, with equities benefiting from strength in AI-related technology shares, supportive domestic fundamentals, and improving corporate earnings expectations.

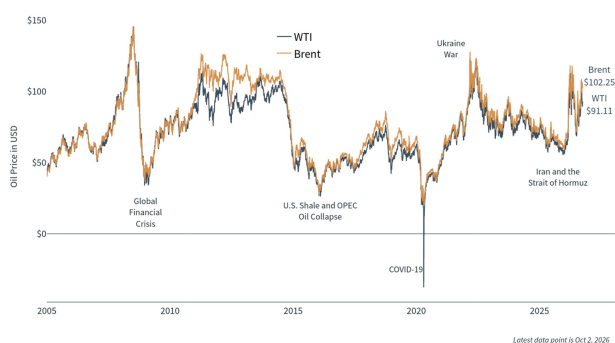
European equities also finished the week lower. The STOXX Europe 600, along with key benchmarks in the United Kingdom, France, and Germany, came under pressure as investors contended with rising sovereign bond yields, higher energy costs, and growing expectations that interest rates may remain elevated for longer. Sentiment was further dampened by mounting concerns surrounding French public finances after the spread between French and German 10-year government bond yields briefly widened to approximately 150 basis points, its widest level since the Eurozone sovereign debt crisis. The move highlighted increasing investor scrutiny of France's fiscal trajectory and political uncertainties ahead of next year's presidential election, adding another source of pressure to an already challenging environment for European risk assets.

Against this backdrop, performance across U.S. equity indices was uneven. The Nasdaq Composite was the only major benchmark to finish the week higher, advancing 0.5%, supported by continued strength in artificial intelligence and technology-related companies whose earnings and demand trends remain robust. The S&P 500 and Russell 2000 declined modestly by 0.3% and 0.2%, respectively, as investors balanced improving inflation data against still-elevated interest rates. The Dow Jones Industrial Average underperformed, falling 1.3% and ending the week at approximately 6.5% below its recent all-time high.

International equities were broadly weaker. Across Asia, most major markets declined for a second

Global Oil Prices

WTI and Brent Crude



Latest data point is Oct 2, 2026

Sources: Clearnomics, LSEG
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Week in review – US macroeconomics

With a heavy macroeconomic calendar in focus, investors closely monitored a series of releases with direct implications for Federal Reserve policy. Attention centered on the August PCE price index, the Fed's preferred inflation gauge, alongside the September nonfarm payrolls report and ISM manufacturing survey. Additional reports, including JOLTS job openings, the final estimate of second-quarter GDP, August personal income and spending, and weekly initial jobless claims, rounded out a consequential week for markets.

The PCE report was broadly encouraging, albeit with an important caveat. Headline PCE rose 0.3%

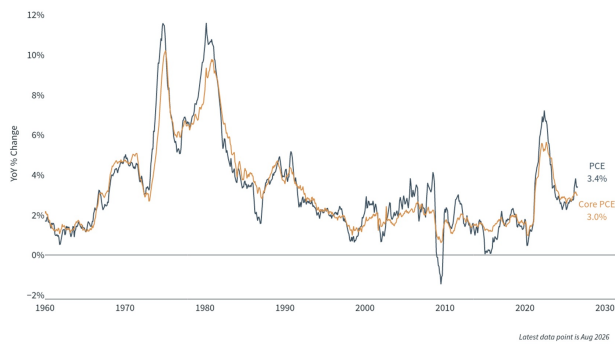
month-over-month, in line with expectations, while the annual rate slowed to 3.4%, below the 3.8% consensus. Core PCE increased 0.2%, outperforming the 0.3% forecast, with the year-over-year rate easing to 3.0% from an expected 3.3%, aided further by downward revisions to July data. However, much of the apparent improvement reflects

methodological changes introduced by the Bureau of Economic Analysis as part of its annual GDP revisions released on September 30. Analysts estimate the revisions reduced measured core inflation by roughly 0.1 to 0.3 percentage point, suggesting the moderation reflects both statistical adjustments and genuine disinflationary progress. Meanwhile, personal income rose a softer-than-expected 0.2%, while spending climbed to a robust 0.9%, indicating consumers continue to outspend income growth and draw on accumulated savings.

Market and Economic Chartbook | October 3, 2026

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PCE Inflation



Sources: Cleannomics,
Bureau of Economic Analysis
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Labor market data painted a softer picture.

September nonfarm payrolls increased by just 29,000, well below both expectations of 90,000 and the prior month's pace, while downward revisions removed an additional 60,000 jobs from the previous two months. As a result, three-month average job growth slowed to roughly 50,000, near the pace required to keep the unemployment rate stable. Even so, the unemployment rate edged higher to 4.2% from 4.1%, as labor-force participation rose to 61.8%, matching its highest level since May. Broader labor market measures remained somewhat constructive, with the U-6 underemployment rate declining to 7.6%, its lowest reading since January 2025. Wage growth also moderated, with average hourly earnings rising just

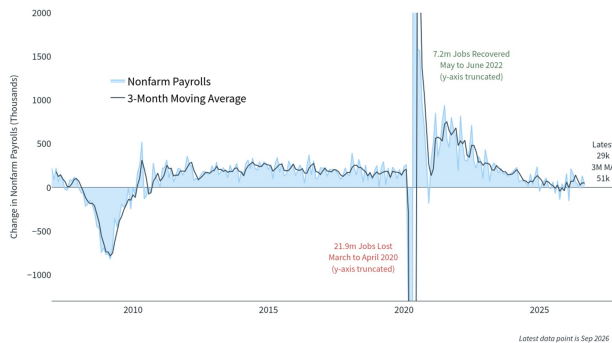
0.1% during the month and 3.0% year-over-year. Reinforcing signs of cooling labor demand, August JOLTS job openings fell to 7.08 million, the lowest level in five months, although hiring and separations remained stable. Initial jobless claims, meanwhile, held steady at a relatively low of 197,000, providing one of the few indications of continued labor market resilience.

On the activity side, the ISM manufacturing PMI registered 54.5 in September, missing expectations of 55.0 and easing modestly from the prior month. Nevertheless, the survey remained firmly in expansion territory for a ninth consecutive month. Beneath the headline reading, new orders, production, employment, and supplier deliveries all remained expansionary, while inventories were the lone component in contraction. Separately, the final estimate of second-quarter GDP was revised higher to 2.2% from 1.5%, reflecting stronger investment, consumer spending, and government expenditure. Still, the softer-than-expected ISM release failed to validate the strength signaled by the previous week's S&P Global survey, prompting Treasury yields to retrace a portion of their recent rise.

Taken together, the combination of moderating labor market conditions and activity data that fell short of confirming an overheating economy tempered the narrative that had recently driven yields higher. Consistent with this shift, the Atlanta Fed's GDPNow estimate fell to 3.7% from 5.0% the previous week, still indicative of solid growth but a meaningful step down from earlier expectations. With inflation's apparent improvement partly attributable to methodological revisions and labor market momentum continuing to slow, market expectations have increasingly shifted toward the Federal Reserve remaining on hold at its next meeting rather than considering additional tightening.

Payrolls Moving Average

Monthly change in non-farm payrolls and 3-month moving average

Sources: Cleareconomics,
Bureau of Labor Statistics,
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Week ahead

Following a week dominated by meaningful economic releases, the calendar in the week ahead is notably lighter, shifting investors' focus from the data itself to the Federal Reserve's interpretation of it. The release of the September FOMC meeting minutes will be headlined for the week, offering a more detailed account of policymakers' deliberations and, in particular, the balance of opinion between maintaining current policy settings and pursuing additional tightening. With markets having recently scaled back expectations for further rate hikes, investors will closely scrutinize the minutes for insight into how policymakers are assessing the combination of moderating labor

market conditions and still-elevated inflation pressures, particularly those stemming from energy prices.

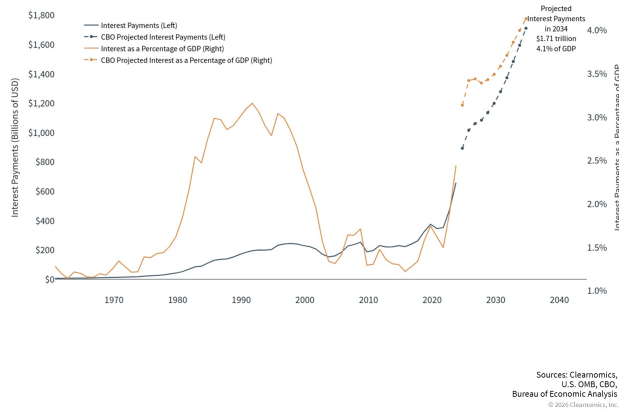
On the economic front, the September ISM Services PMI represents the week's most significant data release, providing a timely gauge of activity across the considerably larger services sector following last week's softer-than-expected manufacturing survey. The preliminary October University of Michigan Consumer Sentiment Index will offer an early read on household confidence, while weekly initial jobless claims will remain closely watched as a high-frequency indicator of labor market conditions amid growing evidence of labor market cooling.

Beyond the economic releases, a full slate of public remarks from Federal Reserve officials is scheduled throughout the week. In our view, with the data calendar relatively sparse, the tone struck by policymakers, through both the meeting minutes and public commentary, is likely to be the primary driver of market sentiment as investors enter the final quarter of the year.

Attention will soon shift to third-quarter earnings season, which unofficially begins the week after next with reports from major U.S. banks. Corporate fundamentals have so far supported risk assets despite heightened geopolitical uncertainty, persistent inflation concerns, and Treasury yields reaching multi-decade highs in the prior quarter. Investors will therefore look for evidence that earnings can continue to support current valuations and sustain equities' recent resilience.

Federal Interest Payments

Federal interest payments in dollars and as a percentage of GDP
Actual values and Congressional Budget Office projections



Number of the week: \$1 trillion

The amount the U.S. federal government has spent servicing its debt over the first eleven months of fiscal year 2026, a span running from last October through this August, given that the federal fiscal year begins in October. The figure underscores the mounting fiscal cost of higher interest rates. Net interest outlays reached \$1.02 trillion over that period, up nearly 9% from the same months a year earlier, and have now become the government's second-largest expense, trailing only Social Security and surpassing national defense. With the national debt having crossed \$40 trillion and the deficit running near \$2 trillion for the year, each leg higher in Treasury yields raises the cost of financing that

debt, compounding the burden with every new issuance and refinancing.

The dynamic is self-reinforcing and, in our view, increasingly difficult to ignore. As yields climb, both in the U.S. and abroad, the interest bill grows, widening the deficit and necessitating still more borrowing, which in turn pressures yields higher. It is the same fiscal arithmetic unsettling European bond markets, where the premium on French debt has widened to its highest since the 2012 sovereign crisis, a reminder that fiscal credibility is being repriced across developed markets. For investors, the message is that the era of costless deficits has ended. With the Fed holding policy restrictive to contain inflation, the cost of servicing government debt is likely to remain a defining feature of the macro landscape, and a growing constraint on fiscal flexibility, for years to come.

The contrast across major economies is instructive. On the IMF's latest estimates, general government debt stands near 204% of GDP in Japan, 126% in the U.S., 118% in France, 107% in China, and 105% in the U.K., with Germany the outlier at roughly 65%. Yet markets have punished the least credible rather than the most indebted: France has seen borrowing costs climb despite a lower ratio than the U.S., on political paralysis and stalled budget reform, while Japan's far heavier burden is tolerated because it is financed at home. In our view, sovereign debt is increasingly priced on trajectory and credibility, not level alone, a distinction the U.S. can ill afford to ignore now that it spends more servicing its debt than defending the nation.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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