

CAPITAL MARKETS REPORT - October 05, 2026



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- September Payrolls
- PCE and Consumer Spending
- Fed Signals Tightening

--> September payrolls came in below expectations, providing further evidence that the labor market may be beginning to slow. The weaker report reduced expectations for another Fed rate hike in October or December and initially pushed the 2-year Treasury yield as much as 10 basis points lower before it partially retraced. Despite the softer employment data, inflation remains above the Fed's target and consumer spending continues to show strength. With additional economic data still ahead of the October meeting, one weaker payroll report is unlikely to determine the Fed's next move. Markets will remain focused on whether upcoming labor and inflation data confirm a broader slowdown in economic activity.

--> August PCE rose 0.3% for the month, while inflation-adjusted consumer spending increased 0.6%, its strongest monthly gain since March 2025. The combination of persistent inflation and strong consumer demand suggests the economy continues to withstand higher interest rates and reinforces the case for the Fed to maintain a restrictive policy stance. For fixed income markets, the report adds to concerns that inflation could remain elevated for longer and keep upward pressure on Treasury yields. Strong consumer spending remains supportive of credit fundamentals in the near term, but continued inflation also increases the risk of additional Fed tightening. Attention now turns to upcoming inflation and economic data ahead of the October FOMC meeting.

--> Fed officials continued to signal that additional tightening may be needed to bring inflation back toward the 2% target. Several policymakers indicated that another rate hike remains possible before year-end, particularly if inflation stays elevated and energy prices continue to add pressure. The consistent message suggests the September rate hike may not be the final move of the current tightening cycle. Attention now turns to Wednesday's release of the September FOMC minutes for additional insight into the Fed's policy outlook. Markets will be focused on the level of support for further rate hikes and how policymakers are balancing persistent inflation against signs of a slowing labor market. The minutes could help shape rate expectations ahead of the October FOMC meeting.

Market Last Week

Index	9/25/2026	10/2/2026	Weekly Change In Bps
2 yr. Note	4.854%	4.827%	-3
5 yr. Note	4.99%	5.05%	+7
10 yr. Note	5.16%	5.27%	+11
30 yr. Bond	5.49%	5.62%	+13
SOFR Rate	3.90%	3.88%	-2

Data This Week

Date/Time (ET)	Economic Data	Market Estimate	Prior Report
Monday, October 5 2026 9:45 AM	S&P Global US Services PMI (Sep F)	58.7	58.7
Monday, October 5 2026 10:00 AM	ISM Services Index (Sep)	55	55.4
Tuesday, October 6 2026 8:30 AM	Trade Balance (Aug)	-\$102.0b	-\$88.6b
Wednesday, October 7 2026 3:00 PM	Consumer Credit (Aug)	\$15.0b	\$18.1b
Thursday, October 8 2026 8:30 AM	Initial Jobless Claims (Oct 3)	200k	197k
Friday, October 9 2026 10:00 AM	U. of Mich. Sentiment (Oct P)	47.7	48.1
Friday, October 9 2026 10:00 AM	U. of Mich. 1-Yr Inflation Expectations (Oct P)	-	0.046
Friday, October 9 2026 10:00 AM	U. of Mich. 5-10 Yr Inflation Expectations (Oct P)	0.0345	0.034
Friday, October 9 2026 10:00 AM	U. of Mich. Current Conditions (Oct P)	50.5	50.9
Friday, October 9 2026 10:00 AM	U. of Mich. Expectations (Oct P)	45.7	46.3

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