OBSERVATIONS

- Markets were mixed last week, even as the S&P 500 reached a record high on Tuesday. The S&P 500 ended the week up 1.2%, while small-cap stocks, as measured by the Russell 2000, declined 0.9%. The 10-Year U.S. Treasury yield fell 3 basis points, ending the week at 5.24%.[1]
- The ISM Services PMI declined to 54.9 in September from 55.4 in August, falling short of expectations but remaining in expansion territory for the 27th consecutive month. [1] Readings above 50 indicate expansion. The prices-paid sub-index rose to 74.0, its highest level since July 2022, while the employment sub-index increased to 50.1.[1]
- The U.S. trade deficit widened to $105.6 billion in August from a revised $92.8 billion in July, marking the largest deficit since March 2025. [1] Imports rose 4.3% month over month as companies continued to need semiconductors and data-center equipment for the AI buildout.[1]
- U.S. mortgage applications fell 4.2% in the week ended October 2, marking a fifth consecutive weekly decline. The drop in applications followed a recent rise in mortgage rates, with 30-year fixed mortgage rates now above 7%.[1]
- Initial unemployment claims remained historically low at 197,000 last week, down 2,000 from the prior week's revised level of 199,000.[1]
- The University of Michigan's Preliminary Consumer Sentiment Index dropped to 46.3 from September's final reading of 48.1, coming in below expectations. October's reading was driven by consumers feeling frustrated with higher costs of living, increasing energy prices, and heightened geopolitical tensions.[1]

EXPECTATIONS

- Minutes from the Fed's September meeting indicated that most officials viewed another rate increase by year-end as appropriate, with inflation risks still tilted to the upside. More recent comments from Fed officials, however, have suggested differing timelines for additional increases, while markets have priced in at least one more rate hike by year-end.[1]
- The Federal Reserve Bank of Atlanta's GDPNow model—which estimates real GDP growth using available economic data—was revised to a 3.7% annualized rate for the third quarter. Stronger estimates for consumer spending and business investment lifted the forecast, while net exports remained a drag.[2]
- Third-quarter earnings season begins Tuesday with financial companies JPMorgan and Goldman Sachs reporting. Year-over-year earnings growth is estimated at 29.5%, which would mark a third consecutive quarter of growth above 25%. In addition, 62% of S&P 500 companies have issued positive earnings-per-share guidance—a record share and well above the five-year average of 40% and the 10-year average of 41%.[3]

ONE MORE THOUGHT: Sacré bleu–France Edging Towards a Fiscal Crisis[1]

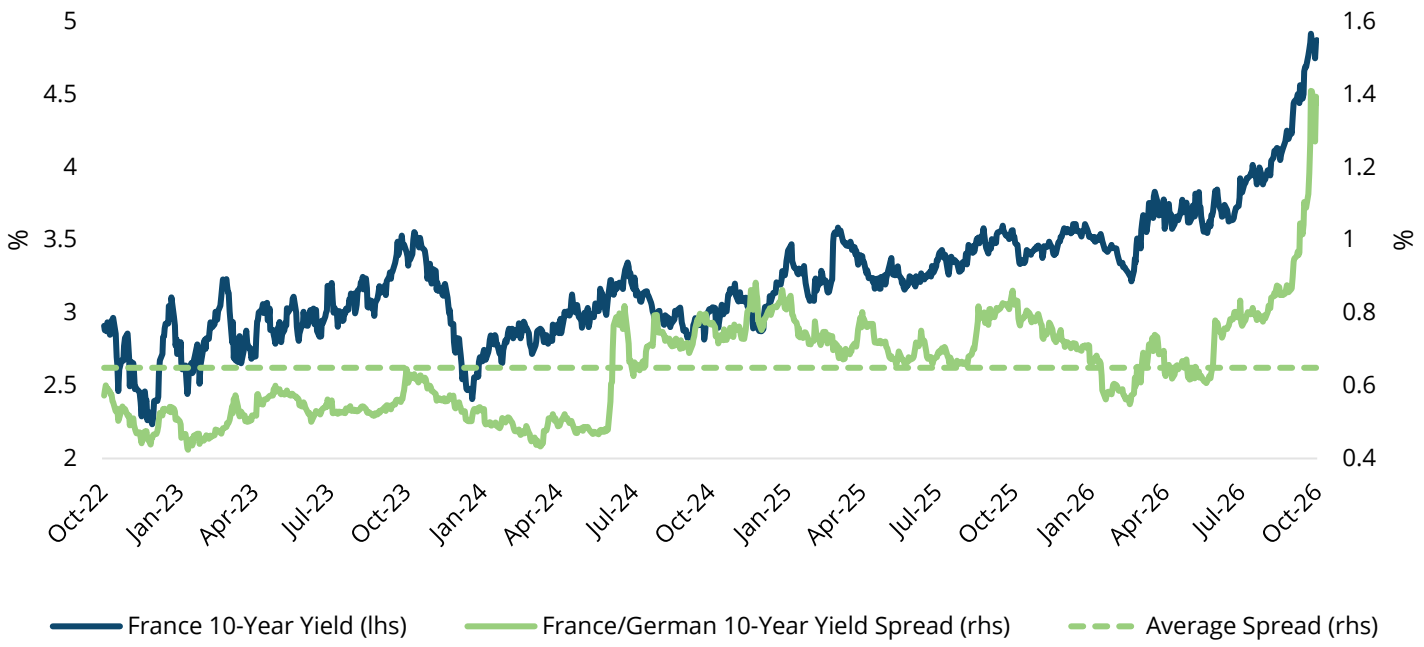
France is caught between the bond market and the barricades. Student protests over school funding have expanded to include teachers, civil servants, trade unions, and left-of-center political parties. At the same time, the centrist government has proposed a 2027 budget with broad austerity measures, but it appears to lack the votes

[1] *Bloomberg LP, 10/9/2026*
[2] *Federal Reserve Bank of Atlanta*
[3] *FactSet Earning Insight, 10/2/2026*

needed for passage. Public debt has reached approximately $4.0 trillion, or nearly 120% of GDP, while 10-year government bond yields have risen toward 5%, their highest level since 2008 (see Chart of the Week). The 2026 budget deficit is now projected at 5.4% of GDP, above the government's initial 5.0% estimate, as slower growth and higher borrowing costs take a toll. Debt service has become the government's largest expenditure, and interest payments are expected to approach $100 billion in 2027. With tax revenue already near 44% of GDP, France has limited room to raise taxes, leaving spending cuts as the clearest path to stabilization. Yet political support for meaningful reform remains weak ahead of the 2027 presidential election. Bond markets have responded accordingly: France's 10-year borrowing cost has moved above those of Italy and Greece, and its yield premium over German Bunds has widened to levels last seen during the eurozone debt crisis. France may ultimately need faster growth, tighter spending, and policies better aligned with an aging society. Until a credible path emerges, conditions may worsen before they improve. France's experience also offers a warning to other Western democracies—including the United States—as debt levels and debt-service costs continue to rise.

CHART OF THE WEEK

French Bond Yields Moving Higher



Source: Clearstead, Bloomberg LP 10/9/2026

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