OBSERVATIONS

- Markets were volatile last week with both small caps and longer-dated US Treasuries rallying. The S&P 500 lost 0.5%, small caps (Russell 2000) gained 2.0% and the yield on the 10-year Treasury fell 8 basis points to end the week at 5.00%.[1]
- The NAHB/Wells Fargo Housing Market Index fell three points in October to 29—any number below 50 denotes that a majority of home builders see weaker conditions—as all three sub-components (current sales conditions, foot traffic at model homes, and 6-month sales expectations) moved lower.[1]
- Housing starts fell to 1.221 million (annualized rate) in September, which was a 5.2% month-over-month (MoM) decline. Year-to-date, housing starts are only down 0.5% compared to the first nine months of 2025.[1]
- Much of the weakness in housing in recent months can be attributed to rising mortgage rates. The Freddie Mac 30-year fixed rate mortgage rate rose to over 7.3% in recent weeks—the highest rate since Nov-2023.[1]
- The Architectural Billings Index—a leading indicator of nonresidential construction activity—fell in September to 44.7 (any number below 50 denotes that a majority of architectural firms are seeing weaker billings), with a particular drop off in multi-family residential projects.[1]
- Initial unemployment claims remain very low and fell 6k last week to 194k total new claims. Compared to the same week last year, there were over 33k fewer claims.[1]

EXPECTATIONS

- Ahead of the Fed's policy meeting later this week, the markets have priced in only a 9% chance that the Fed moves to hike rates by 25 basis points. However, the markets have priced in about an 85% chance that the Fed does hike rates by 25 basis points at its mid-December 2026 meeting.[1]
- With about 24% of the S&P 500 having been reported, Q3 earnings season is off to a solid start. About 83% of firms have reported a positive earnings surprise, which is above the 5-year (78%) and 10-year (77%) averages. The blended earnings growth rate for the S&P 500 is tracking towards 29.5% year-over-year.[2]

ONE MORE THOUGHT: US Debt Levels on an Unstainable Trajectory[1]

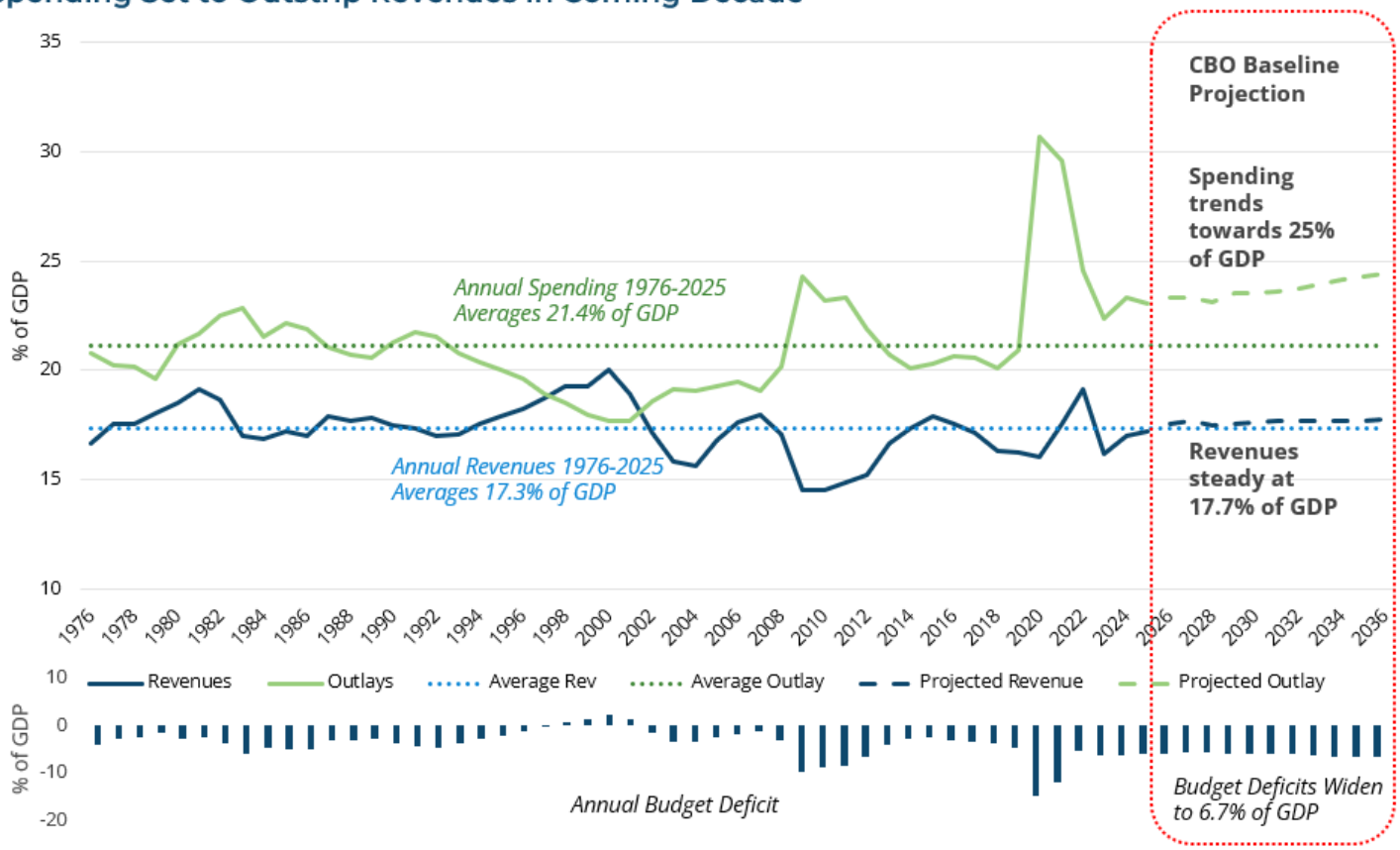
It is not hard to conclude that the US has a long-term debt problem. We are on pace to run a $2 trillion deficit for calendar-year 2026. The interest on existing US debt for fiscal-year 2026 (which ended 30-September) reached $1.039 trillion. The over $1.0 trillion dollars in net interest payments is approximately 3.3% of total GDP—topping the previous record set in 1991 and the highest level recorded since the Congressional Budget Office (CBO) data began in 1962. What is more troubling is that net interest payments are already approaching 20% of total US government revenue. This is a larger outlay than anything else the government spends money on other than Social Security payments and Medicare/Medicaid programs, including all defense spending and all other non-defense discretionary spending. Additionally, the projections by the CBO paint a difficult budgetary picture over the next decade as well. Projected spending is expected to outstrip projected revenue every year over the next decade leading to ever larger annual budget deficits, greater total government debt, and net interest payments that actually double from today's $1 trillion level to over $2 trillion dollars by 2035—see Chart of the Week. On top of this, the taxes that fund Social Security along with the surplus Social Security funds from previous years are projected to fall short by its projected benefit obligations by the end of 2032. Current law stipulates that in this eventuality; Social Security benefits are set to be cut by 22% across the board. This should precipitate Congress to act in the coming

[1] *Bloomberg LP, 10/23/2026*
[2] *FactSet Earnings Insight 10/23/2026*

years to right-size total government spending as well as look for ways to raise revenue. Spending cuts alone are unlikely to rectify the situation because, at present, about 60% of government spending is obligated by mandatory programs—Social Security, federal health programs (Medicare/Medicaid), and civil, military, and veteran pensions and programs. Another 15% of government spending is net interest payments that are directly linked to existing government debt. This means 75% is largely on autopilot. Therefore, it is hard to see how the US budget deficit situation improves without additional revenue measures and taxation. A bi-partisan solution will need to be found, and voters can trust Congress to eventually do the right thing once they have exhausted every other option and the bond vigilantes demand higher rates. That day is coming and the 2028 presidential candidates better have a plan.

CHART OF THE WEEK

Spending Set to Outstrip Revenues in Coming Decade



Source: Clearstead, Congressional Budget Office, 9/30/2026

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