Macroeconomic Forecasts, 3Q2026
Domestic Metrics



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Summary

Our 3Q2025 installment of this report tracked five signals that pointed toward a recession and two that argued the economy was holding together. One year later, the scoreboard question itself has changed. The economy of late 2026 is not waiting on one more Federal Reserve cut to defend employment; it is absorbing the first rate increase in three years, an inflation re-acceleration led by a wartime energy market, and a 5% 10-year Treasury — while the unemployment rate sits at 4.1% and the S&P 500 sits in record-high territory. This section summarizes where the economy stands as of 18 September 2026, which of last year's signals have flipped, and the outcomes we consider most plausible through year-end 2026 and the first half of 2027.

The section is organized the way we read the economy: first the four signals arguing for caution, then the three arguing for resilience, then the official growth path and a note on data integrity, and finally the near-term map — three paths, an exhibit of base-path levels, and the markers that will decide among them over the next ninety days. Throughout, we cite only prints that exist. Where a number has not been published — and several load-bearing ones have not — we say so explicitly rather than substitute an estimate.

For reference, the five recession-heavy signals in the 3Q2025 report were:

1. Stubborn inflation
2. Deteriorating consumer sentiment
3. Thin consumer savings and rising loan delinquencies
4. An active Federal Reserve (then cutting to defend employment)
5. A loosening labor market

The two signals that the economy was holding together were:

1. The equities and bond markets
2. Policy reversals ("Trump is Trump")

As of 18 September 2026, that framework needs rewiring rather than reshuffling. "An active Federal Reserve" meant something different in 2025: a Committee easing into a softening labor market. On 16 September 2026 the FOMC raised the target range for the federal funds rate by 25 basis points, to 3¾ to 4 percent, on a unanimous vote — the first increase in three years, and Chairman Kevin Warsh's first. Inflation, which spent late 2025 on what looked like a glide path back toward 2%, re-accelerated through the first half of 2026 behind tariffs, the Iran war's energy shock, and an AI-driven capital-spending boom. Meanwhile the labor market — the signal we moved into the recession column a year ago — has quietly moved back out: the unemployment rate is 4.1%, below the 4.5% average the Federal Reserve's own historic file records for 2025 Q4.

Walking last year's scorecard line by line makes the rewiring concrete. "Stubborn inflation" has graduated from stubborn to re-accelerating: the question in 3Q2025 was whether the last mile to 2% would take another year; the question in 3Q2026 is whether 3.4% CPI is the plateau or the foothill. "Deteriorating consumer sentiment" remains on the board — the Michigan survey's September inflation expectations of 4.6% year-ahead and 3.4% long-run are not the readings of a reassured household sector. "Thin savings and rising delinquencies" has worsened on both halves: the saving rate is 3.0%, and the New York Fed's Q2 2026 report shows delinquency transitions rising across autos, cards, and mortgages.

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"An active Federal Reserve" is the line that flipped sign: activity in 2025 meant insurance cuts; activity in 2026 means a hike and flagged follow-ups. "A loosening labor market" is the line that left the recession column: 4.1% unemployment in August 2026 is below both the August 2025 print of 4.3% and the 4.5% average the Federal Reserve's historic file assigns to 2025 Q4. And the two hold-together signals of 2025 — the equity and bond markets, and the observation that policy shocks tend to be reversed before they bind ("Trump is Trump") — have each survived a year that included a naval war, a tariff regime, and a rate hike. What follows takes the 2026 versions of these signals in turn.

The signals that now argue for caution are:

1. Inflation has re-accelerated, with energy as the persistent driver (August CPI 3.4% year-over-year; second-quarter PCE prices 5.3% annualized)
2. A Federal Reserve that is hiking, not cutting, and flagging further increases
3. Households spending out of a 3.0% saving rate while delinquencies climb
4. A 5% 10-year Treasury and a 6.95% mortgage rate repricing housing and commercial real estate

The signals of resilience are:

1. A labor market that has stopped tightening but has not rolled over
2. Equity markets at record highs, with volatility compressed
3. Investment-grade credit that is repricing rates, not default risk

We discuss each of these signals in turn, then set out the official growth path, and close with the near-term map: what we expect through year-end 2026, and the paths we consider live for the first half of 2027.

The Case for Caution

Signal 1: Inflation Has Re-Accelerated, and Energy Is the Reason It Will Not Quit

Inflation is no longer a late-2025 "glide path back to 2%" story. August 2026 CPI rose 0.4% month-over-month and 3.4% year-over-year, with energy up 16.3% and food up 2.7% over the trailing twelve months. July PCE prices were up 3.7% from a year earlier, with core PCE up 3.3%. The quarterly arithmetic is worse: second-quarter 2026 PCE prices ran at a 5.3% annualized rate, with core PCE at 3.6%. Against the 2.8% CPI inflation rate the Federal Reserve's historic file records for 2025 Q4, the first half of 2026 did not extend the cooling — it reversed it.

The elevated core reading matters as much as the headline. A 3.6% annualized core print, after stripping food and energy, says the 2026 re-acceleration is not simply an oil story: services, shelter, and tariff-sensitive goods are still in the print. But energy is what keeps the headline from turning. The Strait of Hormuz has been a war zone since February; crude has held above $100 per barrel, with WTI near $102–$107 in mid-September on transit volatility. AAA's national average for regular gasoline was $4.4386 on 17 September 2026 — up 16 cents on the week, more than a dollar above the $3.2003 print of a year earlier, and close to this year's $4.56 high of 21 May. (See Figure 26.)

The supply-side sentences are not comforting. Strategic Petroleum Reserve inventories are at their lowest level since 1983. EIA's mid-September weekly showed gasoline demand of 8.79 million barrels per day against stocks of 207.7 million barrels. Seasonal winter-blend relief, if it arrives on schedule, will shave a few cents from the price per gallon; it will not repeal a $100 crude price, and it cannot put the

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national average back under $3 while Hormuz transits run in the single digits against a 17-ship ten-day average.

It is worth remembering how different the energy conversation was twelve months ago. The 2025 debate assumed a surplus: Venezuelan barrels returning, non-OPEC supply growth glutting a peaceful market, and an open Strait of Hormuz as the unstated premise underneath all of it. The first quarter of 2026 closed the strait-as-scenario chapter; the second and third quarters have been about how many Gulf barrels actually clear it. A surplus-oil forecast that assumed an open Hormuz is not a 3Q2026 forecast. The live question for the inflation outlook is transit, not whether non-OPEC growth will eventually glut a market that is no longer peaceful.

Households have noticed. The University of Michigan's preliminary September reading puts year-ahead inflation expectations at 4.6% and long-run expectations at 3.4% — the survey counterpart of the gap between nominal paychecks and real purchasing power. (See Figure 2.) The 16 September Summary of Economic Projections has total PCE inflation at 3.7% for 2026, falling to 2.3% in 2027. That 2027 number is conditional: it assumes the energy shock fades and tariff pass-through washes out of the price level. Neither assumption is a September 2026 fact.

The nominal-versus-real wedge is the same story told in output terms. Nominal GDP growth decelerated from 8.2% annualized in 2025 Q3 to 4.0% in 2025 Q4 in the Federal Reserve's historic file; the 2026 first half re-opened the gap, with second-quarter prices running 5.3% annualized against 1.5% real growth. When most of a quarter's nominal gain is price rather than volume, top-line revenue growth overstates the health of the underlying economy — a distinction that matters for credit underwriting as much as it does for policy.

Signal 2: A Federal Reserve That Is Hiking, Not Cutting

A year ago we wrote that the Federal Reserve was likely to deliver at least one more 25-basis-point cut before the end of 2025. That world is gone. On 16 September 2026, the FOMC raised the target range to 3¾ to 4 percent on a unanimous vote. Primary credit on the 16 September H.15 is 3.75%; the bank prime rate is 6.75%. This is the first increase in three years, and it is Kevin Warsh's hike, not Jerome Powell's.

Chairman Warsh justified the move with an explicit standard: the Committee must be confident that underlying inflation is moving to objective "clearly and at sufficient speed," and it decided that standard had not been satisfied. Inflation risks were described as tilted to the upside; labor-market risks as roughly balanced. He reported the Committee's median and did not submit his own projection. The macro mix at the time of the meeting — twelve-month CPI at 3.4%, twelve-month PCE at 3.7%, second-quarter core PCE at 3.6% annualized, unemployment at 4.1% — is not the 2.7%–2.9% headline / 4.4% unemployment mix that justified the first cut of the prior easing cycle.

The September SEP moved with the decision. The June 2026 projections had 2026 growth at 2.2% and a 3.8% funds-rate median; September raised the growth median to 2.3% and the year-end policy-rate median to 4.1%. (See Figure 6.) Wire coverage of the decision was blunter: the Fed "flagged more hikes in the coming months," attributing the persistence of price pressure to the combined impact of global import tariffs, the energy shock following the start of the U.S.-Israeli war with Iran, and capital spending from the artificial-intelligence boom.

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The financial-conditions consequence is broader than the front end. The December 2025 "QT is over, we will buy bills" package read, at the time, like the start of an easier regime. In this installment, bill purchases are a reserve-management tool; they are not a substitute for a lower policy rate. The Federal Reserve is no longer the one-way easing bid under short rates, and the September hike puts the next increment for the prime rate — 6.75% today — on the upside. (See Figure 21.)

The front of the Treasury curve has already done this arithmetic. On the 16 September H.15 the 1-month bill printed 3.93% and the 1-year 4.39% — levels consistent with a 3¾ to 4 percent target range plus some probability of another increase, not with the easing path that seemed plausible when the December 2025 bill-purchase package was announced. If the "more hikes" scenario materializes, bills and the 1-year reprice first; if the Committee holds, the 4.1% year-end median is already most of the move. Either way, the cost of short-term credit — floating-rate loans and anything priced off a 6.75% prime — has stopped falling, and that is a change in kind from the assumption embedded in most 2025-vintage planning.

What would change the Committee's mind is not a mystery; Chairman Warsh stated the test. Underlying inflation must be moving to objective "clearly and at sufficient speed." In practice that means monthly core PCE prints that annualize below the second quarter's 3.6%, an energy premium that decays as Hormuz transits normalize, and tariff pass-through washing out of the goods price level rather than compounding. None of those three was in evidence between the June and September projection rounds — which is why the funds-rate median moved up, not down. Until at least one of them appears in the prints, we read the policy risk as tilted toward the "more hikes" wire coverage rather than toward relief.

Signal 3: Households Are Spending Out of a Thin Cushion

The Bureau of Economic Analysis reported personal saving of $712.0 billion in July 2026, a personal saving rate of 3.0%. July's monthly relationship was actually a small positive — disposable personal income up 0.5%, real DPI up 0.4%, spending up only 0.2% — a month in which income outran spending. But one month of modest re-saving does not rebuild a buffer, and 3.0% is a thin margin against $4.40-plus gasoline and a 5% 10-year.

The New York Fed's Q2 2026 household-debt report supplies the stress detail: total household debt of $18.8 trillion, with 4.7% of outstanding balances in some stage of delinquency. Transitions into serious delinquency reached 3.00% for auto loans and 6.97% for credit cards; mortgage transitions rose to 1.52% from 1.29% a year earlier. Last year we wrote that consumers were "on a razor's edge" and that one modest economic shock could create a surge in delinquencies. The 2026 version of that sentence has worse pump prices, a higher mortgage rate, and a central bank that has just raised the price of carrying a balance.

The income side of the ledger explains the mood. Real disposable income growth in the Federal Reserve's historic file was 0.0% in 2025 Q3 and 1.1% in 2025 Q4; the nominal-versus-real gap since then is the inflation story. Nominal checks can rise and households still feel poorer at the pump — which is exactly what the Michigan survey's 4.6% year-ahead inflation expectation is measuring. (See Figure 2.) The next hard fact is the August personal-income release, scheduled for 30 September; we will not front-run it.

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Signal 4: A 5% Ten-Year Is Repricing Housing and Commercial Real Estate

The 10-year Treasury yield is no longer in a 4% neighborhood. On the 16 September H.15, the constant-maturity 10-year was 5.00%, the 20-year 5.40%, and the 30-year 5.36%; the front end printed 3.93% at one month, 4.11% at three months, 4.17% at six months, and 4.39% at one year, with the 2-year at 4.67%. That is a positively sloped curve — not an inversion signaling recession, but a repricing of duration against a hiking central bank and a 1.5% second-quarter growth print.

The shape of the curve deserves its own sentence, because it is the one classic recession dial that is not flashing. Recessions are conventionally preceded by inversion — short rates above long rates. The 16 September curve runs 3.93% at one month, 4.39% at one year, 4.67% at two years, and 5.00% at ten: positively sloped from front to back. (See Figure 8.) The steepness is not benign — it prices a higher-for-longer policy rate and a term premium for inflation and issuance risk — but it is not the inverted-curve warning that preceded prior downturns. A 5% 10-year hurts borrowers through the level of rates, not through the curve's shape.

The mechanical counterpart is the mortgage market. The weekly Freddie Mac 30-year fixed rate was 6.95% as of the 17 September observation, up 19 basis points on the week from 6.76%. (See Figure 18.) The 2026 trajectory for mortgage rates has been higher, not lower; the first half never restored a mid-6% purchase rate, and the September hike works against one arriving by year-end.

Investment-grade credit tells the same story without the crisis premium. Moody's seasoned AAA corporate yield was 5.88% in August, up from 5.76% in July; against a 5.00% 10-year, the AAA–Treasury spread is roughly 90 basis points. (See Figure 23.) The market has taken duration pain through the first half without demanding a credit premium on top of it. Our baseline bands — Aaa yields of 5.6%–6.1% and BBB effective yields in the mid-5s to low 6s, provided default risk stays contained — assume a funds rate near 4.1% and a 10-year near 5%. The upside risk to spreads is a Hormuz-or-tariff shock that hits coverage ratios, or a labor-market break the September SEP is not pricing; either could widen BAA/BBB spreads 50–100 basis points.

Commercial real estate carries the discount-rate problem most directly. The official CCAR series in the Federal Reserve's 2026 Final historic file has the Commercial Real Estate Price Index at 305.8 in 2025 Q4 — a modest recovery from the mid-2025 low of 289.6, but still far below the 340.1 peak of 2021 Q4. The recovery that was supposed to be financed by easier policy is now being refinanced into a 5% 10-year. The bifurcation frame still holds: industrial and data-center-adjacent product remain the bid; commodity office remains the epicenter of pricing stress; multifamily is caught between still-high homeownership costs, which support demand, and higher cap rates, which punish price. We will not invent a 2026 Q2 Z.1 print or 3Q2026 CoStar changes that have not been published for this draft.

The Case for Resilience

Signal 5: The Labor Market Has Not Rolled Over

A year ago we moved the labor market into the recession column. On the 2026 evidence, it has earned its way back out. The national unemployment rate is 4.1% in August 2026, unchanged from July and down from 4.3% in August 2025. The Federal Reserve's historic file records a 4.5% quarterly average for 2025 Q4 — so the 2026 path has been a decline from that jump-off into a 4.1% summer print, not a rise.

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The Sahm rule has not triggered. Initial claims remain low. Payroll employment increased 162,000 in August. (See Figure 3.)

The Sahm rule deserves a sentence of explanation, because it is the fastest reliable recession tell the labor data offer. It triggers when the three-month average unemployment rate rises half a percentage point above its low from the preceding twelve months — a threshold that, historically, has been crossed only when a recession is already underway. With August at 4.1%, unchanged from July and below the year-earlier 4.3%, the indicator is dormant. It is also the single number that would most change this report's tone if it moved.

Two facts are less comforting, and we do not wave them away. The labor-force participation rate is 61.6% in August 2026, versus 62.3% a year earlier, and the household survey counts 162.7 million employed against 163.4 million a year earlier. The cleaner description is a labor market that has stopped tightening and has begun to lose participation — not one that has rolled over into rising unemployment. That distinction is why we resist a recession call: the classic tell of a downturn, a rising unemployment rate on rising claims, is simply not in the data as of the August Employment Situation. A 4.1% rate with 7.0 million unemployed is a loosening market, not a breaking one.

The aggregate rate also conceals dispersion that matters for regional lenders. County-level unemployment (Figure 4) and unemployment by demographic group (Figure 5) remain uneven, and a national 4.1% is consistent with materially higher rates in exposed counties and cohorts. For institutions doing CCAR-style planning, the correct read of the August report is a base case of a stable national rate with local pockets of softness — and a risk case, discussed below, in which the participation slide converts into measured unemployment.

Signal 6: Equities Are Making Highs — for Better and for Worse

Broad U.S. equities have continued to make new high neighborhoods even as the macro tape — a hike, a 5% 10-year, $4.44 gasoline, an active naval war — would have justified a more hesitant market. The S&P 500 closed at 7,637.76 on 17 September 2026, up 1.14% on the day, and was near 7,620 on the morning of 18 September; year-to-date through 16 September the index was up 9.8% from the 6,845.49 year-end 2025 close. The VIX fell 12.82% on 17 September to 15.44. The September hike was a one-day shock, not a regime change: the index dropped around the decision and reclaimed the 7,600 area the next day.

What the hike day showed is worth separating from what it did not show. A market that sells off on a 25 basis-point increase and reclaims the level within a session is a market still willing to look through a single tightening step. It is not evidence about the questions that have not yet been asked: a closed Hormuz, a second hike, or a 3Q GDP print that confirms the second quarter's deceleration. The jump catalog for this tape is longer than its realized volatility suggests.

We take the signal with two hands. On one hand, an equity market at highs with compressed volatility is not the tape of an economy sliding into recession; it echoes the 2025 conclusion that "no news is good news." On the other, breadth remains the risk: a handful of mega-cap names still deliver most of the index gain, and the AI-related capital spending that supports the index is one of the three factors most often cited — including in coverage of the Warsh hike — for why inflation has not come down faster. The same boom that carries the market is part of the inflation problem the Fed just hiked to address. A

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15-handle VIX against a 5% 10-year, a wartime oil price, and a hiking Fed is a cheap-looking insurance market, not a verdict that the risks have shrunk. The official equity jump-off for our regression work remains the Dow Jones Total Stock Market Index at 67,501.5 for 2025 Q4; we will not invent a 2026 Q3 end-of-quarter close before the quarter ends.

For modeling purposes, the S&P 500 and the Dow Jones Total Stock Market Index remain functionally one signal: the correlation between the two series reported in Appendix C is 0.9856, and Figure 27 shows the S&P 500 as a nearly linear function of the total-market index. Whatever the 2026 Q3 closes turn out to be, they will move together. The risk that matters is not which index a portfolio tracks but the concentration inside both.

Signal 7: Credit Is Repricing Rates, Not Default

The corporate bond market is the quietest of the resilience signals, and arguably the most informative. Moody's seasoned Aaa yield of 5.88% in August sits roughly 90 basis points over the 5.00% 10-year Treasury. That spread is the market's one-number verdict on default risk at the top of the credit stack, and it is a calm number: investment-grade borrowers are paying more all-in because Treasuries yield more, not because lenders have repriced their solvency.

Three forces hold that verdict in place. The September hike put a floor under the entire curve, raising all-in yields without touching credit quality. Growth at 1.5% with 4.1% unemployment is the "soft landing that is not landing" backdrop — slow enough to cap exuberance, firm enough to keep default probabilities low — a combination that can compress spreads even while nominal yields rise. And the tariff regime and the Iran war keep a floor under BAA/BBB risk premia without, so far, producing a downgrade wave. The result is a market where the baseline for the rest of 2026 is modestly higher all-in investment-grade yields driven by the risk-free rate, not by a credit event. If that changes — if spreads start widening toward the 50–100 basis-point risk band while Treasuries rally — the resilience signal becomes a caution signal, and quickly.

Growth and the Official Path

The 2026 GDP file is two complete quarters. BEA's first-quarter print is 2.1% annualized real growth; the second-quarter second estimate is 1.5%. The composition of the second quarter, per BEA, was consumer spending, exports, and investment, partly offset by a decrease in government spending, with imports — a subtraction in the GDP calculation — increasing. (See Figure 1.) The Federal Reserve's Table 2.A Actuals end at 2025 Q4: 1.0% real growth and 4.0% nominal. Nominal growth decelerated from 8.2% annualized in 2025 Q3 to that 4.0%, and the first-half 2026 price burst — 5.3% annualized second-quarter PCE prices — implies nominal growth again running well above real. The 3Q2026 advance estimate is not out as of 18 September; we will not invent it.

The official forward path is the 16 September SEP: median real GDP growth of 2.3% in 2026 and 2.4% in 2027, unemployment holding near 4.1%, and total PCE inflation of 3.7% this year falling to 2.3% next year. Whether 2.3% full-year growth is reachable after a 1.5% second quarter depends entirely on the third and fourth quarters, which are still open. Chairman Warsh reported the Committee's medians and did not submit his own projection; we treat the dots as the Committee's map, not a promise.
One arithmetic note on that comparison: the SEP's 2.3% is a fourth-quarter-over-fourth-quarter number, not a calendar-year average. With 2.1% and 1.5% annualized in hand for the first two quarters,

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reaching the Committee's figure requires second-half quarters that run faster than the first half — which is to say the SEP embeds a re-acceleration, not a continuation of the second quarter's pace. The 3Q advance estimate is therefore not just another data point; it is the first direct test of the September projections.

A Note on Data Integrity

One residue of 2025 still touches every table in this report. The 43-day federal shutdown that halted BLS, Census, and BEA collection in October–November 2025 left October 2025 as a partial blind spot in the official record, and missed survey windows still affect the accuracy of late-2025 vintages. The binding constraint on this 3Q2026 draft, however, is ordinary timeliness rather than the blackout: the August personal-income release is scheduled for 30 September, and the 3Q GDP advance estimate arrives only after the quarter ends. Where a series has not printed, we say so rather than substitute an estimate — the same discipline applied in the Data Analysis and Regression Analyses sections that follow.

The Near-Term Map: Year-End 2026 and the First Half of 2027

We frame the near future as three paths, all of them extensions of facts already in this report rather than new point forecasts. The weights shift with three data events: the August personal-income release on 30 September, the 3Q2026 GDP advance estimate after the quarter ends, and each week's Hormuz transit count.

The Base Path: The September SEP, Taken Seriously

On the Committee's own map, growth stays positive — 2.3% for the full year, 2.4% in 2027 — unemployment holds near 4.1%, and inflation stays elevated into year-end (3.7% total PCE for 2026) before falling toward 2.3% in 2027 as the energy shock fades and tariff pass-through washes out. The policy counterpart is a year-end funds-rate median of 4.1%: a hold-to-hike stance, not an easing cycle. In this path the 10-year sits near 5%, the 30-year mortgage stays near 7%, Aaa corporate yields hold in a 5.6%–6.1% band, and equities remain carried by the same narrow leadership. Housing and commercial real estate do not get a discount-rate rescue; they grind. For the first half of 2027, this path allows headline inflation to converge toward the Committee's 2.3% and the funds rate to hold at its plateau. The September dots are the only official 1H2027 rate guide we will use.

The base path, collapsed to the levels already documented in this report, reads as follows:

Series	**Level as of 16–18 September 2026**	**Base-path direction through 1H2027**
Federal funds target range	3¾–4% (16 September)	Hold-to-hike; SEP year-end median 4.1%
Primary credit / prime rate	3.75% / 6.75% (H.15, 16 September)	Moves with the target range; next increment on the upside
10-year Treasury	5.00% (H.15, 16 September)	Near 5%
30-year fixed mortgage	6.95% (Freddie Mac, 17 September)	Near 7%

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Moody's Aaa corporate yield	5.88% (August)	5.6%–6.1% band
Unemployment rate	4.1% (August)	Near 4.1% per the SEP
CPI inflation	3.4% Y/Y (August)	Elevated into year-end; 2027 convergence conditional on energy
Regular gasoline (AAA)	$4.4386 (17 September)	Hostage to Hormuz transit counts
S&P 500	7,637.76 (17 September close)	Carried by narrow leadership

The Sticky-Inflation Path: More Hikes and a Higher Long Rate

The risk case the Committee itself flagged. If Hormuz transits stay in the single digits against a 17-ship ten-day average — Reuters' 9 September account described the largest wave of tanker attacks since the war began — crude holds above $100, and the pump price holds above $4.40 into the winter. Tariff-sensitive goods and AI-driven investment demand keep core PCE from cooling on schedule; the "clearly and at sufficient speed" standard keeps failing; and the "more hikes in the coming months" that wire coverage flagged become prints rather than warnings. In this path the 10-year trades at or above 5%, the mortgage rate stays pinned near 7%, refinancing stress in commodity office deepens, BAA/BBB spreads widen toward the 50–100 basis-point risk band, and the equity market is asked to look through a second hike — something it has not yet been asked to do. A 3.0% saving rate leaves households little margin for this version of the winter.

The Growth-Scare Path: A Slowdown Without a Labor Break

The second quarter already decelerated to 1.5%. If the third-quarter advance estimate confirms that pace or worse, the live question becomes whether the participation slide — 61.6% versus 62.3% a year earlier, with household-survey employment down roughly 700,000 over the same window — hardens into an actual rise in the unemployment rate. The uncomfortable feature of this path is that the Federal Reserve is constrained: with twelve-month CPI at 3.4% and core PCE near 3.3%, the fast easing that cushioned prior slowdowns is not available until the inflation standard is met. The watch items are mechanical: household-survey employment, the Sahm-rule gap, and weekly claims. We will not call a recession before the unemployment rate or the GDP file gives us the print — and as of the August Employment Situation, neither has.

The First Half of 2027

The 2027 half of the map rests on the September SEP's 2027 medians — 2.4% real growth, unemployment near 4.1%, and total PCE inflation of 2.3% — and on their explicit conditionality. The 2.3% inflation figure assumes the energy shock fades and tariff pass-through washes out of the price level; both assumptions run through the Strait of Hormuz and the trade docket, not through anything the Federal Reserve controls. If the conditions hold, the first half of 2027 looks like the plateau: a funds rate at or near the 4.1% year-end median, headline inflation converging toward the target, and — only after the "clearly and at sufficient speed" standard is met — a live discussion about the timing of relief. We will not put a date on that discussion; the 16 September dots are the only official guide we will use. The housing market is where a 2027 inflection would be most visible. A 6.95% mortgage against a 5% 10-year leaves the spring 2027 selling season hostage to the long end; any durable decline in the 10-year

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— whether from decaying energy premia or from a growth scare — passes through the Freddie Mac survey within weeks. Commercial real estate refinancing runs on the same dial. Conversely, the sticky-inflation path pushes the first half of 2027 toward further tightening, wider BAA/BBB spreads, and a CRE file that re-tests its 2025 lows rather than extending the 305.8 recovery. The honest statement is that 1H2027 is a function of three variables — the energy premium, the tariff pass-through, and the participation slide — and all three are observable, weekly or monthly, between now and then.

Markers for the Next Ninety Days

Between this report and the next, five scheduled or high-frequency reads will decide which of the three paths is being walked:

1. The August personal-income release (30 September): whether July's pattern of income outrunning spending extends, and whether the 3.0% saving rate begins to rebuild.
2. The 3Q2026 GDP advance estimate (after the quarter ends): confirmation or contradiction of the 1.5% second-quarter pace.
3. Monthly CPI and the Employment Situation: whether energy's 16.3% twelve-month contribution decays, and whether the participation slide converts into a rising unemployment rate.
4. Weekly Hormuz transit counts and the AAA pump price: the single best high-frequency read on the inflation path the September SEP assumes will fade.
5. The weekly Freddie Mac mortgage survey against the 5% 10-year: whether housing gets any rate relief into the spring 2027 selling season.

For institutions that run scenario planning off the variables in this report, the operative change from the 2025 vintage is directional. Planning frameworks built through 2025 assumed a policy rate easing into any weakness; the 2026 facts — a hike delivered, further increases flagged, and an inflation standard explicitly not yet met — mean the adverse leg now has to contemplate rates rising into weakness, with the long end at 5% rather than rallying as a cushion. That combination — not any single print catalogued above — is what distinguishes the 3Q2026 planning problem from the one this report described a year ago.

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Disruptive ("Black Swan") Events

The past ten years have seen several unusual events that have had a substantial impact on national and/or global conditions and that warrant mentioning. We mention them from the perspective of considering whether any of these types of events could occur again in the near future, and planning for their potential impact on the economy and on business operations would seem prudent. Several items that were still risks at the start of 2026 have been realized in the first half of the year.

1. Biological Events: The world has seen a number of new "Influenza-Like Illnesses" (ILI). The historical list is unchanged and still the right one to keep on the wall.

   A. SARS (2002 & 2004)
   B. "Swine flu" (H1N1, 2009)
   C. "Avian flu" (H5N1 in 1997; H7N9 in 2013; H5N6 in 2014; H5N8 in 2016)
   D. COVID-19 (2019-2022), with several different strains

   While questions during the handling of the COVID-19 emergency have shone a light on the globe's ability to address a new pathogen under pressure, any answer is still a function of the contagiousness of the pathogen. Depending on how quickly a new pathogen spreads, along with its incubation period and symptoms, could mean the difference between survival and massive devastation. CDC's global summary covering 4 August 2025 through 10 June 2026 reports 12 human A(H5N1) infections in Bangladesh, Cambodia, and India, three of them fatal, and a cumulative 1,022 human cases worldwide since 1997. No person-to-person spread was identified; CDC's assessment of the risk to the U.S. public remained low as of that summary. ECDC's March–May 2026 overview reported 949 highly pathogenic A(H5) detections in birds across 30 European countries in that window and sporadic mammalian detections. Human infections remain rare. The incubation-period / contagiousness caveat still applies.[1]

2. Disinformation Campaigns: A staple of international conflicts (both military and otherwise), organized campaigns based on disinformation or propaganda have been around for hundreds of years. The 2026 version of the same risk is no longer only "bots around an election." U.S. authorities have attributed a coordinated wave of Iran-affiliated cyber activity — including operations against water, waste, energy, and government facilities — since March 2026, in the context of the war that began in February. The point for a bank's planning purposes is the same as it was: freely available networks are a delivery mechanism, and the sponsor no longer has to be hypothetical.[2]

3. Disruptive Malware and Ransomware: Over the past five years, sophisticated attacks on businesses have (literally) become a business for some entities, foreign and domestic. "Ransomware" is the latest version of malware that "… [locks and encrypts] a victim's computer or device data, then demand a ransom to restore access." What is new in this installment is the crossing of that business into wartime infrastructure and shipping. On 17 September 2026 the FBI and U.S. Coast Guard said they had boarded two U.S.-bound commercial vessels in the Gulf of Mexico in August after indications that hackers had compromised the ships' computer

[1] CDC, "Highly Pathogenic Avian Influenza A(H5N1) Virus: Identification of Human Infection and Recommendations for Patients," covering 4 August 2025–10 June 2026 (12 human cases; 3 deaths; no person-to-person spread identified). https://www.cdc.gov/bird-flu/
[2] See, e.g., https://www.cnn.com/2024/10/30/europe/russian-disinformation-harris-walz-us-election-intl/index.html and https://www.nytimes.com/2024/07/09/business/russian-bots-artificial-intelligence-propaganda.html

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networks. The Coast Guard referred to "foreign cyber actors." A bank that treats ransomware as an IT-budget line item and not as an operational-continuity item is still making the same mistake; the loss function now includes ports and water systems, not only file servers.[3,4,5]

4. Societal Unrest, including Domestic Social Changes and Terrorism: Since 2020, we saw many social protests turn violent on both ends of the political spectrum. Without warning, these movements have caused rapid and unexpected upheavals in social climates, and upended assumptions on which financial decisions were made. The 3Q2026 overlay is a cost-of-living argument with a wartime energy price attached. University of Michigan preliminary September 2026 sentiment is 47.8 — down from 51.7 in August and 55.1 a year earlier — with year-ahead inflation expectations at 4.6%. We are not predicting riots. We are noting that a 47.8 sentiment print, $4.44 gasoline, and a 3.0% saving rate is the kind of mix that has, in other cycles, turned polling disdain into an operational problem.[6]

5. Unanticipated Changes in Leadership: Donald Trump turned 80 on 14 June 2026 and is still the oldest sitting President in U.S. history. Given his age, his polarizing opinions, and the two attempted assassinations during the 2024 campaign, one should consider the possibility of him not being able to serve out his term. While the rules for succession are clear on paper, the first 48 hours of any actual event always inject ambiguity. A second leadership change has already occurred at the Federal Reserve: Kevin Warsh is Chair, and the 16 September 2026 meeting was his to explain. Discord between the White House and an FOMC that has just hiked into a war-driven energy shock is not a constitutional crisis. It is a Black Swan channel because it can change the path of the funds rate faster than the real economy can re-contract.[7]

6. Supply Chain Disruptions: Several straits and canals are considered major trade bottlenecks because they are crucial waterways that connect different continents, meaning any disruptions in their operations can significantly impact global trade flows, causing delays and price fluctuations. The key bottlenecks remain the Panama Canal, the Suez Canal, the Strait of Hormuz, the Strait of Malacca, the Turkish Straits, and the English Channel. Roughly 20 million barrels per day of crude and petroleum liquids (about 20% of global consumption) and about one-fifth of worldwide LNG transit Hormuz. The U.S.–Israeli war with Iran began on 28 February 2026, so 1Q2026 opened under a new transit regime and 2Q2026 lived with it. As of early September the strait was neither open nor closed; tankers faced a set of risky transit options. CNN reported a U.S. wartime-high escort of 40 commercial vessels carrying 18 million barrels and Strategic Petroleum Reserve inventories at their lowest level since 1983. AAA's national average for regular gasoline was $4.44 on 17 September 2026, more than a dollar above a year

[3] See https://us.norton.com/internetsecurity-malware-ransomware-5-dos-and-donts.html
[4] https://www.forbes.com/sites/heatherwishartsmith/2024/12/09/the-persistent-ransomware-threat-2024-trends-and-high-profile-attacks/
[5] https://assets.sophos.com/X24WTUEQ/at/9brgj5n44hqvgsp5f5bqcps/sophos-state-of-ransomware-2024-wp.pdf
[6] See https://www.insurancebusinessmag.com/us/risk-management/news/global-civil-unrest-on-the-rise-as-costofliving-crisis-intensifies-449683.aspx
[7] Donald J. Trump turned 80 on 14 June 2026 and remains the oldest sitting U.S. President.

earlier, with WTI near $102–$107. On 9 September, Reuters reported the largest wave of shipping attacks since the war began. This is a 2026 first-half price, not a scenario.[8,9,10,11,12]

7. Cryptocurrencies: With the increasing visibility of distributed cryptocurrencies, several countries are currently investigating the benefits of implementing their own cryptocurrencies based on their own hard currencies. Spot bitcoin ETPs have now been listed for more than two years (SEC approval was 10 January 2024). Through 1Q2026 and 2Q2026 they have been a flow channel rather than a novelty. In the same week as this draft, that channel moved violently in both directions. The Senate failed to advance the CLARITY Act on 15 September 2026 on a 49–50 procedural vote. Spot bitcoin ETFs recorded about $746 million of outflows over two sessions around the Fed hike, with bitcoin trading in the mid-$70,000s, then flipped to a $159 million inflow on 17 September, almost entirely through IBIT. A Senate procedural vote and a 25 bp hike now show up in the same day's redemption tape.[13,14,15]

8. Global unrest: Russia's invasion of Ukraine is still not over. As of 18 September 2026 the war remains active: Ukraine has described offensive operations in northern Donetsk Oblast; Russia has continued missile and drone strikes and began three-day State Duma elections the same week. The larger 2026 change is the second war. The U.S. and Israel launched war with Iran on 28 February 2026, so 1Q2026 absorbed the opening and 2Q2026 absorbed the bill. A Defense Department inspector-general estimate cited in contemporaneous reporting put the U.S. cost at about $33.4 billion through 29 June 2026 and described munitions shortages and industrial-base bottlenecks. The Strait of Hormuz is a war zone, and U.S. consumer gasoline is a dollar higher than it was a year ago because of it.[16,17,18,19]

9. Natural disaster risks: While there has been a significant amount of propaganda about climate warning and similar risks, this comment is intended to focus on events such as strong hurricanes and wildfires. We are extremely concerned about the financial impact of these events: FEMA's national flood insurance program remains at risk of being scuttled — more than 4.7 million policies and more than $1.3 trillion in coverage, against more than $22 billion in arrears. Then consider that issue in conjunction with a household sector with a 3.0% saving rate and an insurance complex that is already being asked to price a wartime energy shock and a domestic cyber campaign against water systems. A landfalling hurricane added that mix is will not be

[8]EIA, "The Strait of Hormuz is the world's most important oil transit chokepoint," and contemporaneous wartime reporting: CNN, early September 2026 (40-ship U.S. escort; SPR at a 1983 low); Reuters, 9 September 2026 (largest wave of tanker attacks since the 28 February 2026 start of the U.S.–Israeli war with Iran).

[9] https://english.aawsat.com/business/5155964-insurance-costs-ships-strait-hormuz-rise-over-60 and https://www.ainvest.com/news/hormuz-tensions-double-cargo-insurance-premiums-0-5-2506/

[10] https://www.cnbc.com/2025/06/23/mideast-ocean-freight-rates-soar-on-iran-strait-of-hormuz-risks.html

[11] https://customer-hub.ligentia.com/hc/en-gb/articles/20871625011228-Customer-Update-Pending-Closure-of-Strait-of-Hormuz

[12] https://supplychaindigital.com/news/middle-east-conflict-impact-on-air-sea-freight and https://blogs.tradlinx.com/?p=10053

[13] https://www.atlanticcouncil.org/cbdctracker/

[14] Ibid.

[15] See https://www.reuters.com/technology/spot-bitcoin-etfs-start-trading-big-boost-crypto-industry-2024-01-11/ and https://www.sec.gov/news/statement/gensler-statement-spot-bitcoin-011023

[16]As of 18 September 2026 the Russia–Ukraine war remains active (Ukrainian operations in northern Donetsk Oblast; continued Russian missile and drone strikes; State Duma elections that week).

[17] https://www.washingtonpost.com/world/2024/09/30/israel-lebanon-hezbollah-hamas-war-news-gaza/ and https://www.nytimes.com/live/2024/10/01/world/israel-lebanon-hezbollah

[18]The U.S. and Israel launched war with Iran on 28 February 2026. A Defense Department inspector-general estimate cited in contemporaneous reporting put the U.S. cost at about $33.4 billion through 29 June 2026.

[19] Per https://www.iaea.org/sites/default/files/24/06/gov2024-39.pdf and https://www.iaea.org/sites/default/files/unsc_resolution2231-2015.pdf

extraordinary, but the balance sheets that absorb it are thinner than they were when the NFIP arrears were first discussed.[20,21]

10. Governmental shutdown: The 43-day federal shutdown that halted BLS, Census, and BEA collection in October–November 2025 is now a historical event, but it is not a closed one. October 2025 remains a partial blind spot in the official record, and missed survey windows still affect the accuracy of later reports. A further shutdown scare in late January 2026 was the subject of a last-day Senate compromise; it was described at the time as a potential second shutdown of the current presidential term. We do not have, as of this writing, a repeat of the 43-day data blackout in 2026. We do have a statistical system that already lost a month, a Fed that just hiked on an inflation series that includes a war-driven energy shock, and another funding-deadline season in front of us. A second multi-week shutdown in that environment would not just delay a jobs print. It would remove the only official check on whether the 3.7% PCE path in the SEP is a forecast or a hope.

[20] https://www.bloomberg.com/news/newsletters/2025-03-31/what-fema-s-demise-could-mean-for-flood-insurance
[21] https://www.coverager.com/state-farm-pays-out-over-2-5-billion-for-ca-wildfire-claims/

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Data Analysis

As part of the Dodd-Frank Act, larger banking institutions in the United States are required to use government specified variables, and approved proprietary processes, to determine if they are adequately prepared for unexpected "systemic failures". Some banking institutions are also incorporating portions or components of their forecasting processes to estimate future profitability; in order to do so, however, realistic forecasts (as opposed to extremes) are required.
While arguments could be made about the variables included in this study, as stated in Panagiotelis et al., "there is little to no improvement in forecast accuracy when the number of predictors is expanded beyond 20–40 variables."

Capitalytics provides the results of a rigorous analysis of every variable that is included in our quarterly macroeconomic study. These variables include the following[22]:

5. Real GDP growth
6. Nominal GDP growth
7. Real disposable income growth
8. Nominal disposable income growth
9. Unemployment rate
10. CPI inflation rate
11. 1-month Treasury yield
12. 3-month Treasury yield
13. 6-month Treasury yield
14. 1-year Treasury yield
15. 3-year Treasury yield
16. 5-year Treasury yield
17. 7-year Treasury yield
18. 10-year Treasury yield
19. 20-year Treasury yield
20. 30-year Treasury yield
21. BBB corporate yield
22. Mortgage rate
23. Prime rate
24. US Average Retail Gasoline Price ($/gal; all grades, all formulations)
25. S&P 500 Stock Price Index
26. Cost of Federal Funds (Primary Credit Rate)
27. Moody's AAA Rate
28. Moody's BAA Rate
29. Dow Jones Total Stock Market Index
30. House Price Index
31. Commercial Real Estate Price Index
32. Market Volatility Index (VIX)

[22] This study is motivated by the Federal Reserve Board's Dodd-Frank Act, which includes requirements to consider various international factors; however, those factors will not be discussed extensively in this particular report based on the target use and audience of this report.

Our procedure is as follows:

1. Data is collected per the information in Appendix A, "Data sources".
2. Correlations between variables are identified to determine which variables are may be considered as "dependent" (upon other variables, i.e., highly correlated with other variables as part of their nature).
3. Multiple forecast analyses are performed per the procedure in Section I of Appendix B for all variables, with the results of corresponding forecasts aggregated.
4. Regressions are performed per the procedure in Section III of Appendix B for all variables.
5. The rationale for these analyses, modifications, and the conclusions thereto are documented in the following section of this report, "Data Series Conclusions".

Correlations

Part of Capitalytics' analysis of macro-economic variables entails computing the correlation between variables, to establish the existence and level of interdependence of variables. In Appendix C of this document, we document the 137 pairs of variables that showed absolute correlation values greater than or equal to 0.6. As part of this portion of the study, Capitalytics identified the following sets of strong dependencies (correlations with magnitudes greater than 0.95) between variables that were subsequently validated as significant, long-term, recurring correlations as part of the nature of the variables; these pairings of variables are viewed as extremely significant based on the respective definitions of the variables and will be leveraged as discussed in Section I of Appendix B.

Table 14: Variable Dependencies

Regression (Dependent) Variable		**Independent Variable**[23]
1-month, 3-month, 6-month, 3-year Treasury yield		1-year Treasury yield
5-year Treasury yield		3-year Treasury yield*
7-year Treasury yield		5-year Treasury yield*
10-year Treasury yield	**… depends on …**	7-year Treasury yield*
20-year and 30-year Treasury yield, and		10-year Treasury yield*
30-year Mortgage rate		7-year Treasury yield*
Moody's AAA yield		30-year Mortgage rate*
Prime Rate and Fed Funds Rate		1-year Treasury yield

[23] It should be immediately apparent that some of the variables that are listed as "independent" are, in fact, dependent on other variables; these "independent" variables that actually have dependencies are noted by a trailing "*".

Real & Nominal GDP Growth, Real & Nominal Disposable Income Growth, and CPI Inflation Rate

Analysis

BEA's second estimate for 2Q2026 puts real GDP growth at 1.5% annualized, following 2.1% in 1Q2026. The Federal Reserve's 2026 Final historic file — the vintage Capitalytics has already collected — records 2025 Q4 real growth of 1.0% and nominal growth of 4.0% as the jump-off into this year. The 2026 first half is therefore a two-step sequence: a 2.1% opening quarter, then a 1.5% second quarter. That is a deceleration inside 2026, not a continuation of last year's late-year print.

Real and Nominal GDP

The 2026 GDP file is now two complete quarters. BEA's 1Q print is 2.1%; the 2Q second estimate is 1.5%. The Fed's Table 2.A Actuals end at 2025 Q4 (1.0% real, 4.0% nominal). The 3Q2026 advance estimate is not out as of 18 September; we will not invent it. The live question is whether 3Q and 4Q recover from the 1.5% second-quarter pace or confirm it.[24]

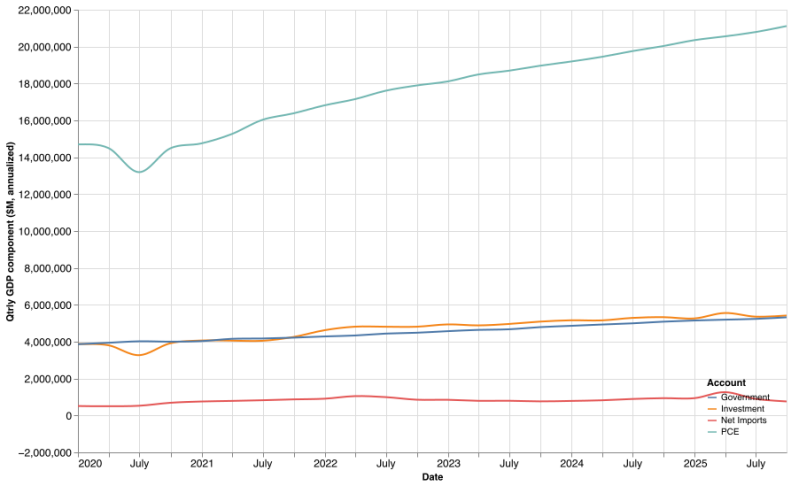
The composition of 2Q2026 growth, per BEA's second estimate, was consumer spending, exports, and investment, partly offset by a decrease in government spending; imports, a subtraction in the GDP calculation, increased. Compared with the first quarter, the deceleration reflected a downturn in government spending and decelerations in investment and exports that were partly offset by an acceleration in consumer spending. Final sales to private domestic purchasers increased 4.2%. The price side of the same release is the more important sentence: the price index for gross domestic purchases increased 5.8%; the PCE price index increased 5.3%; core PCE increased 3.6%. (SeeFigure 1 for the 2025 component chart still used as the structural exhibit.)[25,26,27,28]

Personal consumption is still carrying the accounts in 2Q2026, as it did in 1Q, but the household is now doing it against $4.44 gasoline, a 3.0% July saving rate, and a University of Michigan sentiment print of 47.8. Investment remains an AI-and-energy story rather than a broad capex boom. Government spending was a drag in 2Q2026 after a more neutral first quarter. Imports rose in the second quarter, a subtraction in the GDP identity that was not the 1Q mix.[29,30,31,32]

[24]https://www.bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-2nd-quarter-2026
[25] https://fred.stlouisfed.org/series/GDPC1
[26] See https://www.bloomberg.com/news/articles/2025-08-28/us-economy-expands-at-revised-3-3-rate-as-investment-improved and https://www.cnbc.com/2025/08/28/us-economy-grew-3point3percent-in-q2-growth-was-stronger-than-initially-thought.html
[27] https://fred.stlouisfed.org/series/NGDPSAXDCUSQ
[28]https://www.bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-2nd-quarter-2026
[29] https://www.reuters.com/world/us/us-economic-growth-likely-remained-strong-third-quarter-2025-12-23
[30] https://www.independent.org/article/2025/12/31/third-quarter-gdp-growth/
[31] https://www.wsj.com/economy/federal-reserve-outlook-charts-a5fc28f2
[32] https://www.bea.gov/data/gdp/gross-domestic-product

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Figure 1: Quarterly GDP Components



Source: Bureau of Economic Analysis (https://www.bea.gov)

For 3Q2026 we do not have an official GDP print. The Federal Reserve Bank of Atlanta's GDPNow and other trackers will fill the gap after the quarter closes. What we can say from published monthly data is that August retail activity and still-positive payrolls do not look like a contraction quarter, while the price complex (August CPI 3.4% Y/Y; July PCE 3.7% Y/Y; 2Q PCE 5.3% annualized) is running hotter than the 1Q GDP price mix implied.[33,34,35]

Any 1Q2026 rebound arithmetic from the late-2025 federal shutdown — CBO had put a 1.5 to 2.0 percentage-point hit on fourth-quarter 2025 annualized real GDP, mostly reversing via back-pay — can be read against the two 2026 prints we now have. BEA's 1Q2026 print of 2.1% is consistent with some of that rebound; the 2Q2026 print of 1.5% is consistent with the rebound fading. We should not treat 1Q2026 as a new trend speed.[36,37]

The 16 September 2026 SEP median is 2.3% real GDP this year and 2.4% next year, with unemployment about 4.1% and total PCE inflation 3.7% this year falling to 2.3% next year. The June 2026 SEP had 2026 growth at 2.2% and the funds-rate median at 3.8%. September raised both the growth and the policy-rate medians. Whether 2.3% is reachable after a 1.5% second quarter depends entirely on 3Q and 4Q, which are still open.[38,39,40]

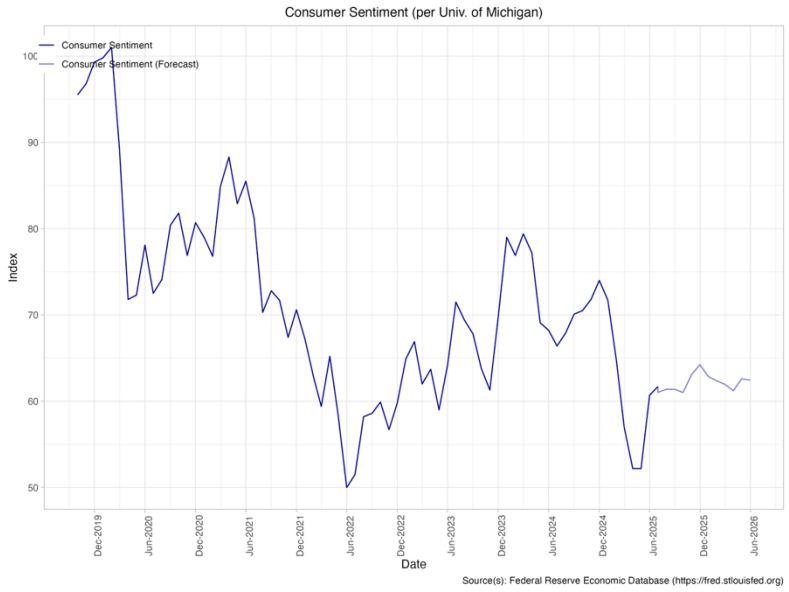
Nominal GDP in the Fed historic file decelerated from 8.2% (ann.) in 2025 Q3 to 4.0% in 2025 Q4. The 2026 first-half price burst (2Q PCE 5.3% annualized) implies that nominal growth in 2Q was again running well above real growth. We will not back out a false-precision nominal-dollar level for 2Q2026 from incomplete monthly source data.[41]

[33] https://www.richmondfed.org/research/national_economy/macro_minute/2025/phantom_figures_missing_data_in_october
[34] https://www.atlantafed.org/cqer/feature/2025/12/23-gdpnow
[35] https://www.atlantafed.org/cqer/research/gdpnow
[36] https://www.cbo.gov/publication/61823
[37] https://www.cbo.gov/system/files/2025-10/61823-Shutdown.pdf
[38] See https://www.spglobal.com/ratings/en/regulatory/article/economic-outlook-us-q4-2025-below-trend-growth-persists-amid-a-swirl-of-policy-shifts-s101646549 and https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q3-2025
[39] https://www.conference-board.org/topics/us-leading-indicators/
[40] See https://tradingeconomics.com/united-states/business-confidence , https://www.economy.com/united-states/purchasing-managers-index , and https://tradingeconomics.com/united-states/manufacturing-pmi
[41] https://fred.stlouisfed.org/series/NGDPSAXDCUSQ

The median participant on the 16 September 2026 FOMC sees real GDP at 2.3% in 2026 and 2.4% in 2027. Chairman Warsh did not submit his own projection. Private-sector commentary in the same week treated the 25 bp hike as an acknowledgment that tariffs, the Iran energy shock that began in 1Q2026, and AI-related capital spending have kept price pressure intense enough to require tighter policy. That is a first-half 2026 evolution from an easier year-end 2025 stance into a hike.[42,43,44]

Likely path through year-end 2026 and into 1Q2027: real GDP remains a moderate expansion near the September SEP rather than a stall or a boom, and nominal GDP stays the faster of the two while the first-half price burst is still in the accounts.

Figure 2: US Nationwide Consumer Confidence (per University of Michigan)



Real and Nominal Disposable Personal Income

Real disposable personal income growth in the Fed historic file is 0.0% in 2025 Q3 and 1.1% in 2025 Q4. BEA's July 2026 personal-income release — the latest monthly print after 1Q and 2Q — shows disposable personal income up 0.5% in the month and real DPI up 0.4%, with PCE up only 0.2% (real PCE less than 0.1%). That is a month in which income outran spending. It is also a month in which the saving rate was still only 3.0%.[45,46,47,48,49,50]

[42] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20260916.pdf
[43] https://www.deloitte.com/us/en/insights/topics/economy/us-economic-forecast/united-states-outlook-analysis.html
[44] https://www.foxbusiness.com/economy/us-economy-expected-grow-faster-2026-despite-stagnant-job-market-goldman-sachs
[45] https://www.bls.gov/cpi/additional-resources/2025-federal-government-shutdown-impact-cpi.htm
[46] https://fred.stlouisfed.org/series/A067RO1Q156NBEA
[47] https://fred.stlouisfed.org/series/A229RX0
[48] https://fred.stlouisfed.org/series/A229RX0
[49] Ibid.
[50] https://www.nytimes.com/2025/12/23/business/us-economy-consumer-spending.html

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The gap between nominal and real income remains the inflation story. July PCE prices were up 3.7% from a year earlier; core PCE was up 3.3%. August CPI was up 3.4% Y/Y, with energy up 16.3% over the twelve months. Nominal checks can rise and households still feel poorer at the pump. The University of Michigan's preliminary September reading — year-ahead inflation expectations at 4.6%, long-run at 3.4% — is the survey counterpart of that gap. (See Figure 2.)[51,52,53,54,55]

The Bureau of Economic Analysis reported personal saving of $712.0 billion in July 2026, with the personal saving rate at 3.0%. That is a thin buffer against the first-half 2026 price and energy path. Households are still spending. The New York Fed's Q2 2026 household-debt report puts total household debt at $18.8 trillion; 4.7% of outstanding debt was in some stage of delinquency, with serious-delinquency transitions of 3.00% for autos and 6.97% for credit cards.[56,57]

The October 2025 data blackout is no longer the binding constraint on a 3Q2026 draft. The binding constraint is timeliness of the August personal-income release (scheduled 30 September) and of 3Q GDP (after the quarter ends). July's relationship — income up 0.4%, DPI up 0.5%, PCE up 0.2% — says households added a little saving that month. A 3.0% saving rate still leaves little margin if gasoline stays above $4.40 and the 10-year stays near 5%.[58]

Likely path through year-end 2026 and into 1Q2027: real disposable personal income stays barely positive, and nominal DPI growth is mostly absorbed by mid-3s PCE, so the 3% saving rate does not rebuild.

Inflation

Inflation is again the central data-analysis signal, and it is no longer a late-2025 "glide path back to 2%" story. August 2026 CPI rose 0.4% month-over-month and 3.4% year-over-year. Energy was up 16.3% over the twelve months ending in August; food was up 2.7%. July PCE was up 3.7% year-over-year, with core PCE at 3.3%. The 2Q2026 GDP second estimate is more alarming on a quarterly-annualized basis: PCE 5.3%, core PCE 3.6%.[59,60]

The Fed historic file's 2025 Q4 CPI inflation rate is 2.8%. The 2026 first half reversed that cooling: 2Q PCE prices ran 5.3% annualized, with core PCE at 3.6%. The 16 September SEP has total PCE at 3.7% for 2026 before falling to 2.3% in 2027. That path assumes the energy shock that opened in 1Q fades and that tariff-related price increases do not keep getting re-lit.[61,62,63,64]

[51] https://fred.stlouisfed.org/series/A229RC0
[52] https://www.ey.com/en_us/insights/strategy/macroeconomics/personal-income-and-spending
[53] https://www.bbvaresearch.com/en/publicaciones/us-downward-revisions-to-job-gains-show-a-weakening-labor-market/
[54] https://www.ssa.gov/news/en/press/releases/2025-10-24.html
[55] https://www.usinflationcalculator.com/inflation/current-inflation-rates/
[56] https://www.bea.gov/news/2025/personal-income-and-outlays-data-update-september-2025
[57] https://www.independent.org/article/2025/12/31/third-quarter-gdp-growth/
[58] https://www.bea.gov/news/2025/personal-income-and-outlays-data-update-september-2025
[59] https://www.ey.com/en_us/insights/strategy/macroeconomics/cpi-report
[60] https://fredblog.stlouisfed.org/2025/12/fomc-summary-of-economic-projections-december-2025/
[61] https://fred.stlouisfed.org/series/GDPC1
[62] https://fred.stlouisfed.org/series/PCEPI
[63] https://fred.stlouisfed.org/series/DPCCRV1Q225SBEA
[64] https://www.dallasfed.org/research/pce

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The fact that 2Q core PCE (3.6% annualized) is elevated even after stripping food and energy underscores that the 2026 re-acceleration is not simply an oil story. Services, shelter, and tariff-sensitive goods are still in the print. The Iran war put a visible kink in energy; it did not create the entire core.[65]

Near-term CPI momentum in August (0.4% M/M, 3.4% Y/Y) sits on top of a 2Q PCE print that was already hotter than 1Q. Until Hormuz traffic normalizes, a single soft month will not re-establish a first-half disinflation that did not occur.[66,67,68,69]

We are not using a nowcast to fill a missing October. The official August CPI and July PCE are in hand. The Fed hiked on 16 September because, in Chairman Warsh's words, the Committee was not confident that underlying inflation was moving to objective "clearly and at sufficient speed." That sentence is the operational inflation forecast.[70]

October 2025 remains a partial blind spot in the official year-over-year comparisons that run through last autumn. For a 3Q2026 reading the larger current problem is the wartime energy shock that began in 1Q2026 and was still in the 2Q and August prints.

Likely path through year-end 2026 and into 1Q2027: CPI remains in the mid-3s rather than resuming a 2% glide path, with the first durable downshift delayed until energy transit risk eases.

Other Commentary

- "In the Summary's median projections, real GDP rises at 2.3 percent this year and 2.4 percent next year. Total PCE inflation runs at 3.7 percent this year and falls to 2.3 percent next year. The unemployment rate holds steady at about 4.1 percent. The median participant judges that the appropriate federal funds rate [is] 4.1 percent at the end of this year, and to remain there next year." (https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260916.pdf; 16 September 2026)
- "Real gross domestic product (GDP) increased at an annual rate of 1.5 percent in the second quarter of 2026 … In the first quarter, real GDP increased 2.1 percent. … The personal consumption expenditures (PCE) price index increased 5.3 percent … and the PCE price index excluding food and energy increased 3.6 percent." (https://www.bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-2nd-quarter-2026; 26 August 2026)
- "With a resurgence in fuel prices and trade tensions, consumers anticipate greater pressures on their pocketbooks to come. … Year-ahead inflation expectations jumped from 4.0% last month to 4.6% this month … Overall, sentiment is now 16% below February, prior to the start of the Iran conflict, and 13% lower than a year ago." (https://www.sca.isr.umich.edu/; preliminary September 2026)

[65] See https://www.bea.gov/news/2025/personal-income-and-outlays-data-update-september-2025 and https://econsnapshot.com/2025/12/28/q3-gdp-reveals-strong-growth/
[66] https://www.bls.gov/news.release/pdf/cpi.pdf
[67] https://tradingeconomics.com/united-states/core-inflation-rate
[68] https://economics.td.com/us-cpi
[69] https://www.cnbc.com/2025/12/18/cpi-inflation-report-november-2025.html
[70] https://www.clevelandfed.org/indicators-and-data/inflation-nowcasting

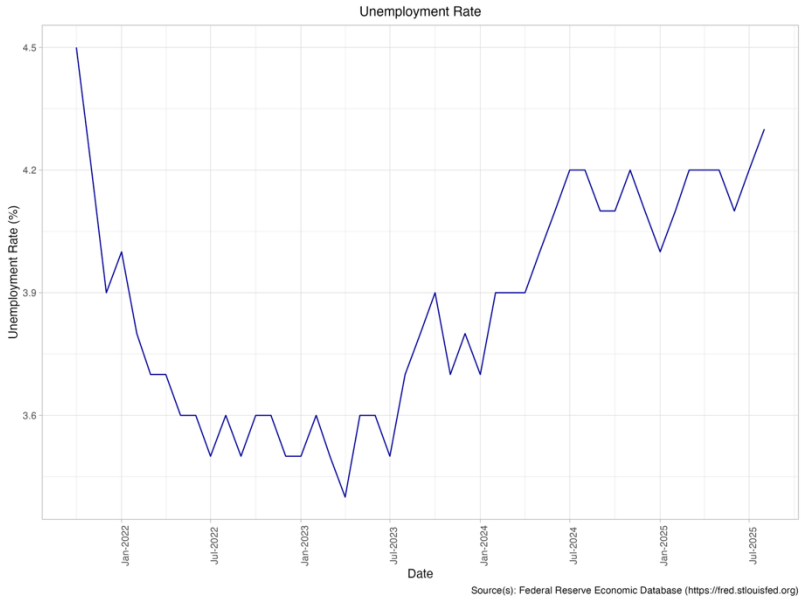
Employment

Analysis

The national unemployment rate is 4.1% in August 2026, unchanged from July and down from 4.3% in August 2025. The Fed historic file's 2025 Q4 quarterly average is 4.5%. The 2026 path is a decline from that jump-off into a 4.1% summer print, not a rise. Two other labor-market facts are less comforting. The labor-force participation rate is 61.6% in August 2026, versus 62.3% in August 2025. Payroll employment increased 162,000 in August, but the household survey shows 162.7 million employed versus 163.4 million a year earlier. (See Figure 3 and Figure 4.)[71,72]

The August Employment Situation is the relevant print: unemployment unchanged at 4.1%, 7.0 million unemployed, participation 61.6%. The Sahm rule has not triggered. Initial claims remain low. The cleaner description is a labor market that has stopped tightening and has begun to lose participation, not one that has rolled over into rising unemployment.[73]

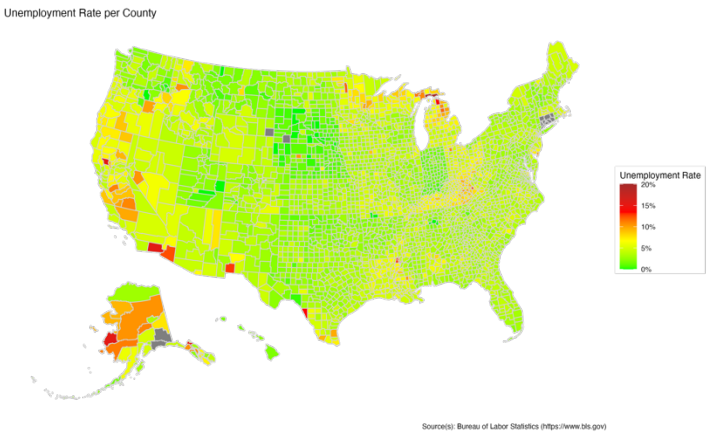
Figure 3: US Nationwide monthly unemployment rate



[71] https://fred.stlouisfed.org/series/UNRATE
[72] https://finance.yahoo.com/news/the-us-labor-market-ground-to-a-halt-in-2025-the-risk-in-2026-is-that-it-cracks-140026614.html
[73]https://www.bls.gov/news.release/empsit.htm (August 2026 Employment Situation)

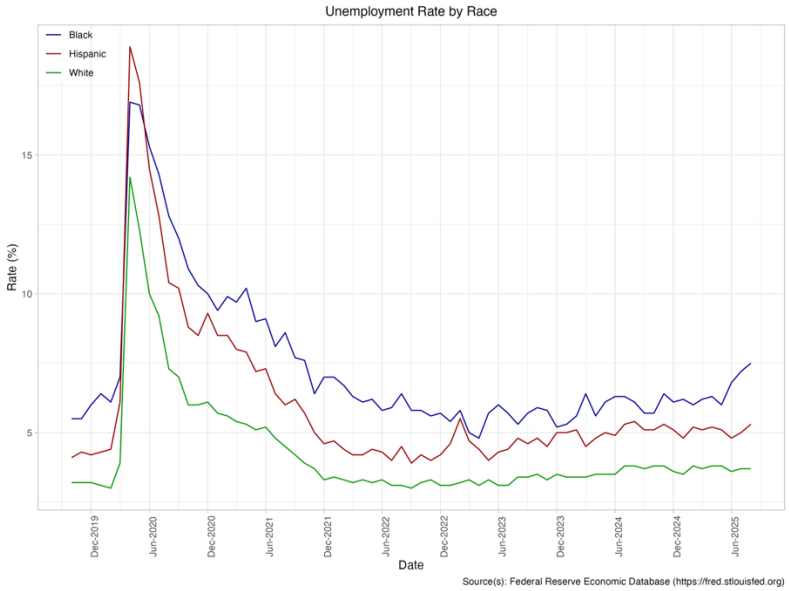
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Figure 4: Nationwide unemployment per county



Underlying demographic fractures have not disappeared. We will not pretend to have a new county-level map for August 2026 in this exhibit. What the national file does show is that adult women (20+) printed 3.5% unemployment in August while teenagers printed 14.1%. The total unemployed count of 7.0 million is the current print; the 2026 first-half story is a stable headline rate with weaker participation. (See Figure 5.)[74]

Figure 5: Unemployment Rate by Race



Private-sector trackers are a cross-check on the official file, not a substitute for it. The official August payroll gain of 162,000 is a moderate print after a 1Q–2Q labor market that stopped tightening. Small-

[74] https://www.epi.org/indicators/state-unemployment-by-race-and-ethnicity/

business sensitivity to credit and tariffs remains the right qualitative risk. It is not, in the August household survey, a collapse.[75,76]

Teenage unemployment in August 2026 is 14.1%. We do not have a matching Black-women print in the August news release tables used for this draft, and we will not invent one. The 1Q–2Q national file is a 4.1% unemployment rate with participation drifting down, not a demographic shock series we can re-cut from incomplete monthly tables.[77]

Looking through the rest of 2026, the labor market looks more like stagnation-with-a-hike than like a recession call. The September SEP holds unemployment at about 4.1% this year and next — the same neighborhood as the August print, and the forecast the Committee used to justify raising the funds rate after a 1.5% second quarter.[78]

The Federal Reserve's September 2026 median is an unemployment rate of 4.1% through the forecast horizon, not the 4.4%–4.5% late-2026 range in the December 2025 SEP. The baseline now assumes the labor market is stable enough to take a hike. The risk is that participation keeps drifting down while the unemployment rate stays "well behaved" — a composition change that the headline U-3 will not advertise.[79]

Likely path through year-end 2026 and into 1Q2027: the unemployment rate stays near 4.1%, with payrolls expanding slowly and no Sahm-rule recession signal in the official file.

Other Commentary

- "[David Rosenberg] said the collapse of the labor market and a subsequent recession will force the Fed to cut rates … 'It is not whether Kevin Hassett, Kevin Warsh or Kevin Costner [is] Fed chair,' he said. 'The data will drive the Fed.'" (https://www.marketwatch.com/story/u-s-on-verge-of-unemployment-surge-that-forces-fed-to-slash-rates-wall-street-veteran-says-e4bd0be1; 3 January 2026). Nine months later the data have not delivered that collapse, and Warsh has hiked.
- "Total nonfarm payroll employment increased by 162,000 in August, and the unemployment rate was unchanged at 4.1 percent … The labor force participation rate edged up to 61.6 percent." (https://www.bls.gov/news.release/empsit.htm; August 2026)
- "In the Summary's median projections, … The unemployment rate holds steady at about 4.1 percent." (https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260916.pdf; 16 September 2026)

[75] https://mediacenter.adp.com/2025-12-03-ADP-National-Employment-Report-Private-Sector-Employment-Shed-32,000-Jobs-in-November-Annual-Pay-was-Up-4-4
[76] https://www.cnbc.com/2025/12/03/adp-jobs-report-november-2025-private-payrolls-unexpectedly-fell-by-32000-.html
[77] https://fortune.com/2025/12/31/soft-landing-economic-narrative-wrong-black-women-unemployment/
[78] https://finance.yahoo.com/news/the-us-labor-market-ground-to-a-halt-in-2025-the-risk-in-2026-is-that-it-cracks-140026614.html?guccounter=1
[79] https://finance.yahoo.com/news/the-us-labor-market-ground-to-a-halt-in-2025-the-risk-in-2026-is-that-it-cracks-140026614.html

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Federal Funds (Primary Credit) Rate

Analysis

When a depository institution has a shortfall and need for liquidity, it may borrow funds on a short-term basis from the Federal Reserve. The "discount rate" is the interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's "discount window". The Federal Reserve Banks offer three discount window programs to depository institutions: Primary Credit, Secondary Credit, and Seasonal Credit, each with its own interest rate. Under the Primary Credit program, loans are extended for a very short term (usually overnight) to depository institutions in generally sound financial condition. (Secondary Credit & Seasonal Credit may be available to institutions that do not meet the "sound financial condition" criteria.) The discount rate charged for primary credit (the primary credit rate) is set above the usual level of short-term market interest rates.

Inter-bank loan rates will also track with the primary credit rate for overnight lending. The rate for inter-bank loans is generally driven by the target federal funds rate; the target federal funds rate is the target interest rate set by the Federal Open Market Committee (FOMC), and is intended as a guide for the rate at which commercial banks borrow and lend their excess reserves to each other on an overnight basis. The FOMC sets the target federal funds rate periodically based on key economic indicators that may show signs of inflation, recession, or other issues that can affect sustainable economic growth. The actual interest rate that a lending bank will charge is determined through negotiations between the two banks. The weighted average of interest rates across all transactions of this type is known as the effective federal funds rate.

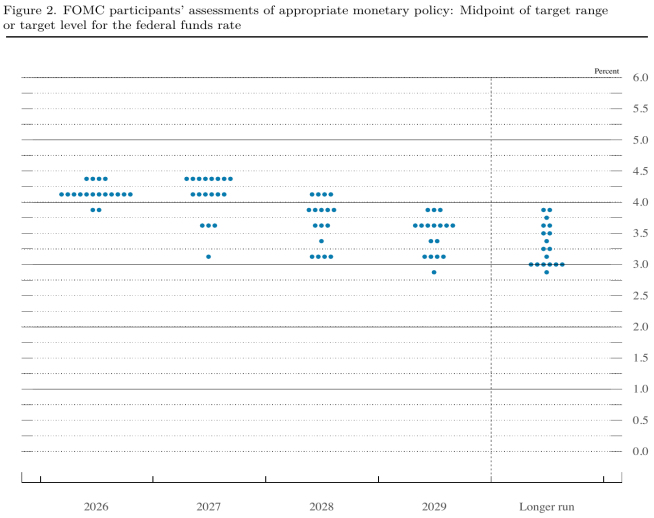
The Federal Reserve entered 3Q2026 after a first half that ended with the target range at 3.50%–3.75%. On 16 September 2026 the FOMC raised that range by 25 basis points to 3¾ to 4 percent. The vote was unanimous. Primary credit on the 16 September H.15 is 3.75%; the bank prime rate is 6.75%. This is the first increase in three years, and it is Kevin Warsh's hike, not Jerome Powell's. The 2026 evolution is from an easier first-half stance into a September tightening.

By the time of the 16 September 2026 meeting, twelve-month CPI was 3.4%, twelve-month PCE was 3.7% (July), and 2Q core PCE was 3.6% annualized. Unemployment was 4.1%. That is not the 2.7%–2.9% headline / 4.4% unemployment mix that justified the first cut of the prior easing cycle.[80,81,82,83]

Chairman Warsh justified the hike with an explicit standard: the Committee must be confident that underlying inflation is moving to objective "clearly and at sufficient speed." It decided that standard had not been satisfied. Inflation risks were described as to the upside; labor risks as roughly balanced. He reported the Committee's median and did not submit his own projection.[84]

[80] https://www.bls.gov/news.release/archives/empsit_09052025.htm
[81] https://www.cnbc.com/2025/09/26/pce-inflation-august-2025.html
[82] https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm
[83] https://tradingeconomics.com/united-states/core-inflation-rate
[84]https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260916.pdf

Figure 6: FOMC "Dot Plot," 16 September 2026 Summary of Economic Projections



Source: https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20260916.pdf

October and December 2025 easing had taken the year-end 2025 target to 3.50%–3.75%; that range held through 1Q2026 and 2Q2026. The September 2026 hike takes it back up a quarter point. Tariff-driven cost pressures and the Iran energy shock that opened in 1Q2026 are now the stated reason the Committee would not wait.

The September 2026 decision was not internally contentious in the way December 2025 was. The vote was unanimous. That is a more hawkish committee, under a new Chair, than the one that split among a 50 bp cut, a 25 bp cut, and a hold last December. (See Figure 6 for the current SEP materials.)[85]

Forward guidance has flipped with the Chair. Warsh's Jackson Hole and September language is about a discipline, not a pre-committed sequence of cuts. The median appropriate funds rate in the September SEP is 4.1% at the end of 2026 and still 4.1% at the end of 2027. That is not "one more cut." That is a plateau, with the risk to the next move on the hike side if energy and tariffs do not fade.[86,87,88]

The September 2026 median funds-rate projection is 4.1% at year-end, versus 3.8% in the June 2026 SEP. We will not reprint a member-by-member count we do not have in a usable table in this draft; the public SEP materials are the exhibit. The operational fact is the 3.75%–4.00% target range and a 4.1% year-end median.

The committee's September economic projections provide the context. Median real GDP is 2.3% in 2026 and 2.4% in 2027; unemployment about 4.1%; total PCE 3.7% then 2.3%. If those forecasts prove accurate, they support a funds rate that stays here. If Hormuz stays ugly or tariff pass-through re-accelerates, the case for another hike strengthens. If the labor market breaks, the case for a cut returns. We are not in the December 2025 "patient easing" baseline.[89]

[85] https://tradingeconomics.com/united-states/interest-rate
[86]https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260916.pdf
[87] Ibid.
[88] https://www.reuters.com/business/finance/fed-says-will-start-reserve-management-treasury-bill-buying-2025-12-10/
[89]https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20260916.pdf

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Jerome Powell's tenure as Chair ended on schedule in 2026. Kevin Warsh is the Chair who just raised rates. The White House still has a preferred policy rate below the one the FOMC set in September; that gap is a 3Q political fact, not a personnel forecast.[90]

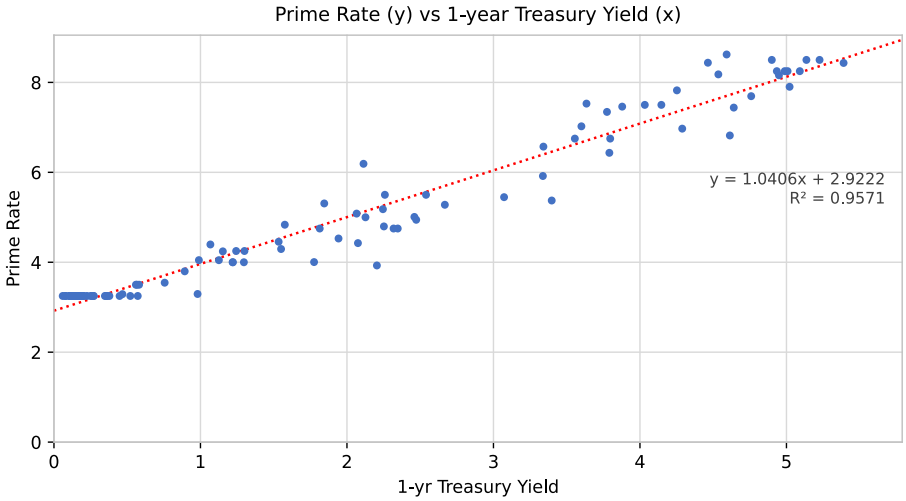
This is no longer "transition uncertainty;" it is a new reaction function. A Chair who defines the standard as "clearly and at sufficient speed" and then hikes into 1.5% 2Q growth and $4.44 gasoline is telling banks that inflation, not the unemployment rate, is the binding mandate again.[91,92]

For the balance of 2026, the most likely path is the SEP's 4.1% year-end funds rate — this hike and then a hold — contingent on incoming inflation and energy data. That is a change from the first-half 3.50%–3.75% range. Should labor conditions deteriorate sharply, cuts can return; should Hormuz or tariffs worsen, another hike is the live alternative.

Likely path through year-end 2026 and into 1Q2027: the target funds range and the primary credit rate hold near the mid-September setting — the SEP's 4.1% year-end funds rate — with another hike more plausible than a cut if inflation does not cool.

In Figure 7, we see the historical and projected relationship between the target federal funds rate and the 1-year T-bill yield.

Figure 7: Primary Credit, as a function of 1-year Treasury yield



Source: Authors' calculation

Other Commentary

- "In the meeting just concluded, the FOMC decided to raise the target range for the federal funds rate by ¼ percentage point to 3¾ to 4 percent … We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Today, the FOMC decided that this standard has not been satisfied."

[90] https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260916.pdf
[91] https://www.reuters.com/business/warshs-words-may-matter-more-than-anticipated-fed-rate-hike-2026-09-16/
[92] https://www.investopedia.com/what-to-expect-from-the-fed-in-2026-11875776

(https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20260916.pdf; 16 September 2026)

- "The Federal Reserve raised interest rates on Wednesday and flagged more hikes in the coming months, with new U.S. central bank chief Kevin Warsh joining a unanimous decision … the combined impact of his global import tariffs, an energy shock following the start of the U.S.-Israeli war with Iran, and capital spending from the artificial intelligence boom has kept price pressures intense enough that the Fed felt it needed to raise its benchmark overnight interest rate by a quarter of a percentage point to the 3.75%-4.00% range." (https://www.reuters.com/business/warshs-words-may-matter-more-than-anticipated-fed-rate-hike-2026-09-16/; 16 September 2026)
- H.15 Selected Interest Rates for 16 September 2026: bank prime loan 6.75%; discount-window primary credit 3.75%; 10-year Treasury constant maturity 5.00%; 2-year 4.67%; 30-year 5.36%. (https://www.federalreserve.gov/releases/h15/; 16 September 2026)

Treasury Yields (1, 3, & 6-month; 1, 3, 5, 7, 10, 20, & 30-year series)

Analysis

The U.S. government raises money to operate the federal government through the sale of U.S. Treasury Securities; these are debt instruments that are offered at fixed interest rates. Rates are expected to generally rise as maturity durations increase. The interest rates vary from day-to-day, and, when collected across all maturities, may be documented as a line chart (rate versus maturity) called a "yield curve". There are several different types of "Treasuries" (a generic name for "Treasury bonds", "Treasury notes", and "Treasury bills"), and most may be re-sold on the open secondary market.

Initial interest rates offered for Treasury Securities ("yields") are set when the security is initially sold, and may be affected by several factors, including (for example)

- The published target federal funds rate;
- Investor sentiment (i.e., supply and demand);
- Currently outstanding debt levels; and
- Anticipated future events (e.g., investors' beliefs regarding economic growth, inflation, and other geopolitical trends).

The 10-year Treasury yield is no longer in a 4% neighborhood. The H.15 constant-maturity 10-year was 5.00% on 16 September 2026, with the 2-year at 4.67% and the 30-year at 5.36%. That is a positively sloped curve. The backup is a 2026 first-half and summer story: a 1.5% second-quarter real-GDP print against a 5% long rate.[93,94]

Short rates have come down from the 2024–early-2025 plateau and then been pulled back up by the September hike. On 16 September the 1-month was 3.93%, the 3-month 4.11%, the 6-month 4.17%, and the 1-year 4.39%. The 3-, 5-, and 7-year were 4.76%, 4.83%, and 4.91%. The 20-year was 5.40%. (SeeFigure 8.)[95]

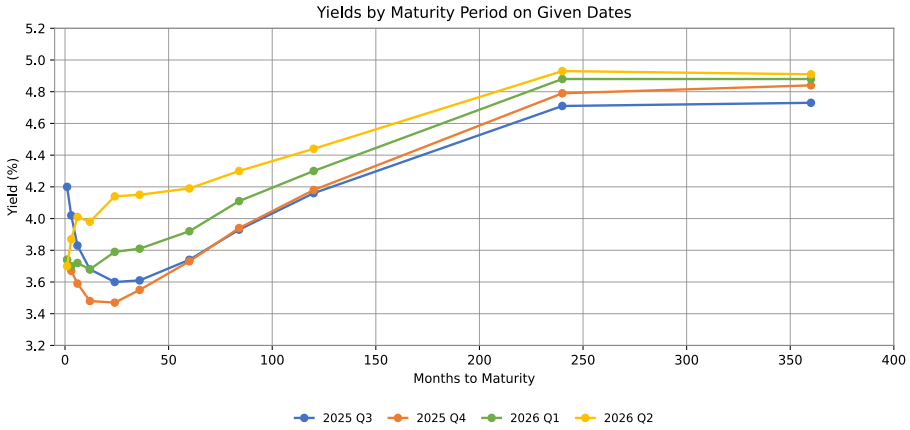
[93] https://fred.stlouisfed.org/series/dgs10
[94] https://riverbridge.com/fixed-commentary-q3-2025/
[95] https://fred.stlouisfed.org/series/dgs10

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The Federal Reserve is no longer the one-way easing bid under the front end. The September hike, a 4.1% SEP year-end median, and a 10-year at 5% are a tighter financial condition than the December 2025 "QT is over, we will buy bills" package implied. Bill purchases, if they continue, are a reserve-management tool. They are not, in this installment, a substitute for a lower policy rate.[96]

The Fed's operating procedure — expand the balance sheet to match currency and reserve demand, and avoid large-scale long-bond purchases — still looks right as a description of what the Desk is doing. What has changed since 1Q2026 is the rate path those operations sit under. A 5% 10-year against a 1.5% 2Q real-GDP print is not a downward-drifting long-rate regime.[97]

Figure 8: Recent Yield Curves from Selected Quarters



Source: Federal Reserve Economic Database (https://fred.stlouisfed.org)

Looking through the rest of 2026, the path for Treasury yields has an upward, not a downward, bias if the SEP is right. A funds rate that stays near 4.1% and an inflation print that the Committee itself puts at 3.7% this year does not produce a 3.90% 10-year. A 4.75%–5.25% range for the 10-year over the next two quarters is the honest neighborhood, with the risk to the upside if Hormuz stays closed-ish.[98]

The term premium is being asked to price a wartime energy shock, a still-large Treasury supply, and a Fed that has just demonstrated it will hike. That combination keeps the long end from following the front end down even if the Committee later pauses. Figure 9 through Figure 17 remain the correlation exhibits; the structural relationships have not been repealed by the war.[99]

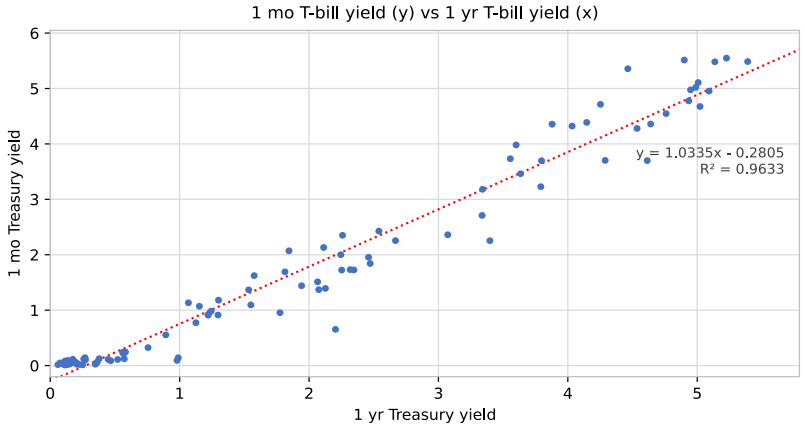
Likely path through year-end 2026 and into 1Q2027: Treasury yields stay high and gently upward-biased across the curve, with the front end pinned by a 4.1% funds rate and the 10-year near 5% rather than a renewed easing bid.

Figure 9 through Figure 17 illustrate the most significant correlations between Treasury yields.

[96] https://www.pimco.com/us/en/insights/moving-from-cuts-to-caution-fed-enters-2026-in-wait-and-see-mode
[97] https://www.ishares.com/us/insights/fed-outlook-2026-interest-rate-forecast
[98] https://www.wsj.com/finance/jgbs-edge-higher-tracking-gains-in-u-s-treasurys-8eb91370
[99] https://www.tdsecurities.com/ca/en/global-strategy-outlook-2026

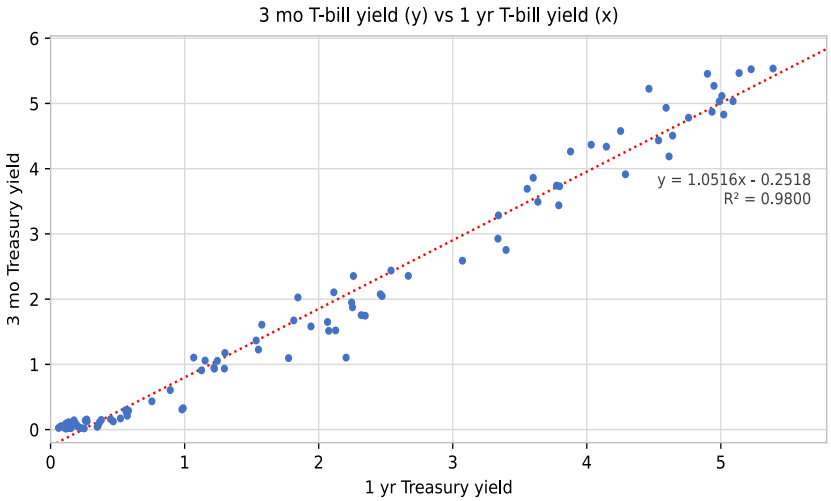
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Figure 9: 1-month Treasury yield rates, as a function of 1-year Treasury yield rates



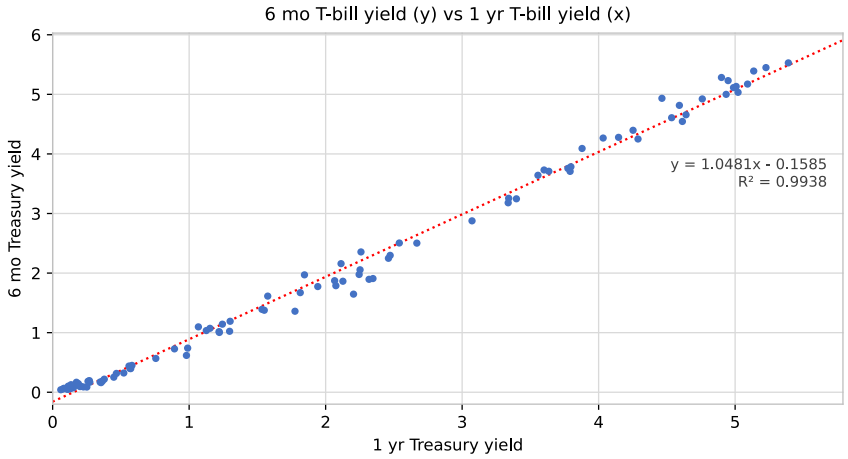
Source: Authors' calculation

Figure 10: 3-month Treasury yields, as a function of 1-year Treasury yields



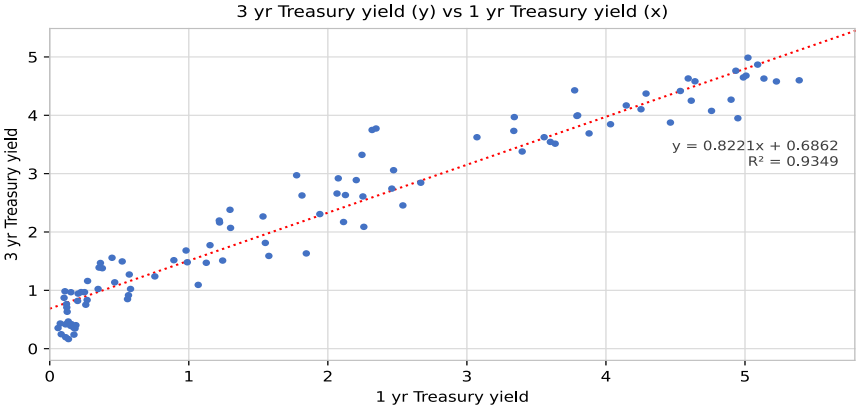
Source: Authors' calculation

Figure 11: 6-month Treasury yields, as a function of 1-year Treasury yields



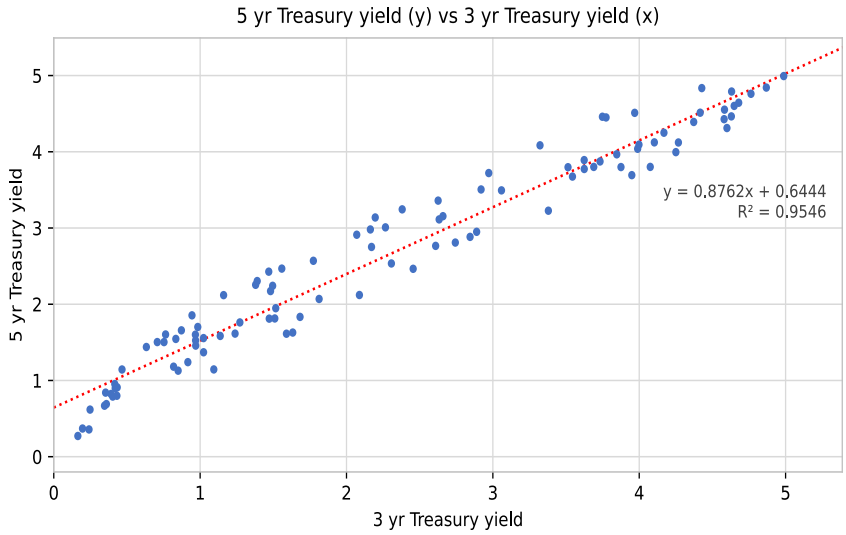
Source: Authors' calculation

Figure 12: 3-year Treasury yields, as a function of 1-year Treasury yields



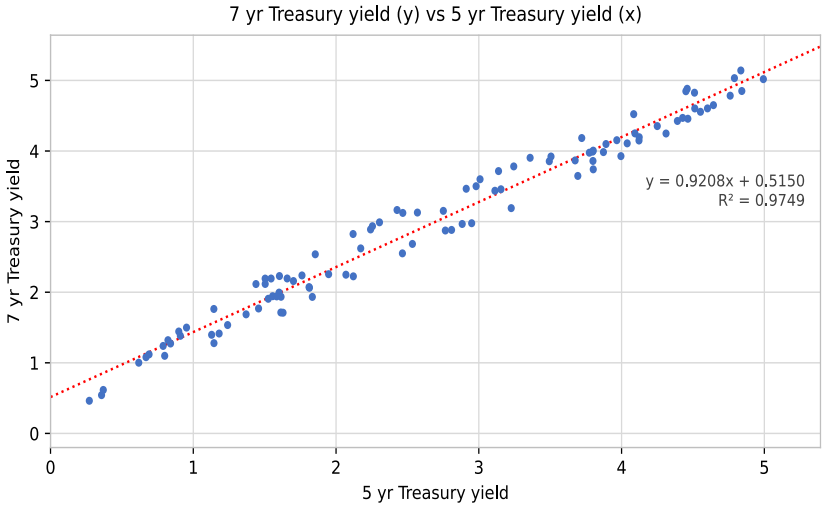
Source: Authors' calculation

Figure 13: 5-year Treasury yields, as a function of 3-year Treasury yields



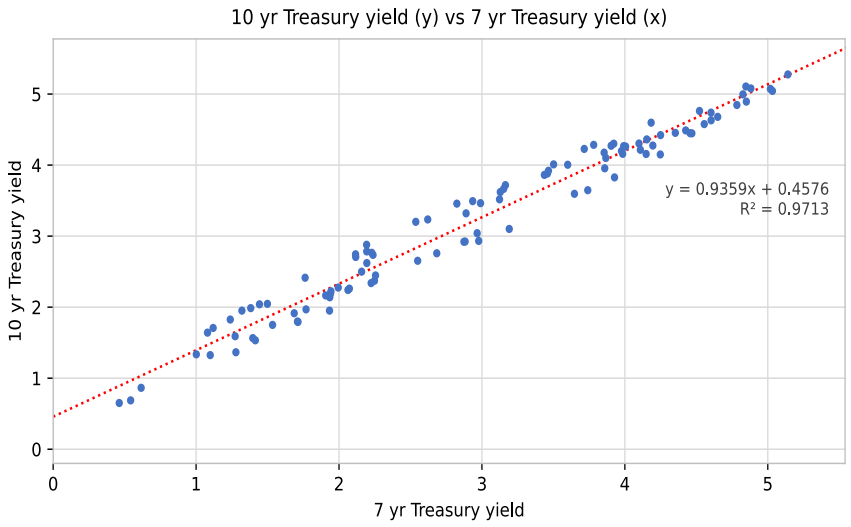
Source: Authors' calculation

Figure 14: 7-year Treasury yields, as a function of 5-year Treasury yields



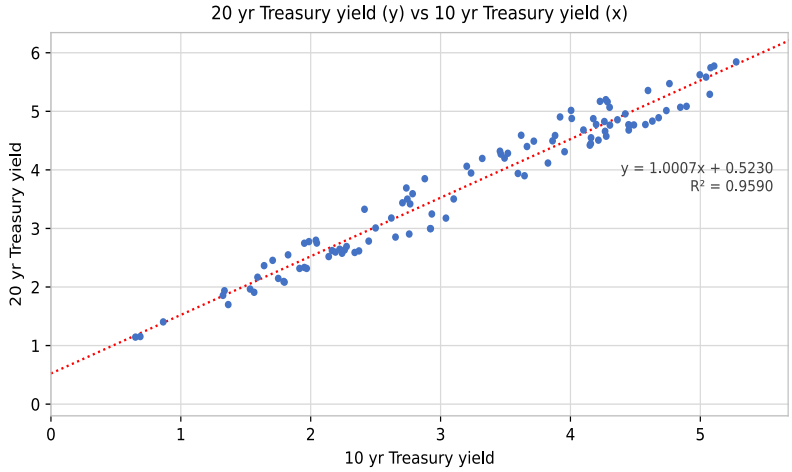
Source: Authors' calculation

Figure 15: 10-year Treasury yields, as a function of 7-year Treasury yields



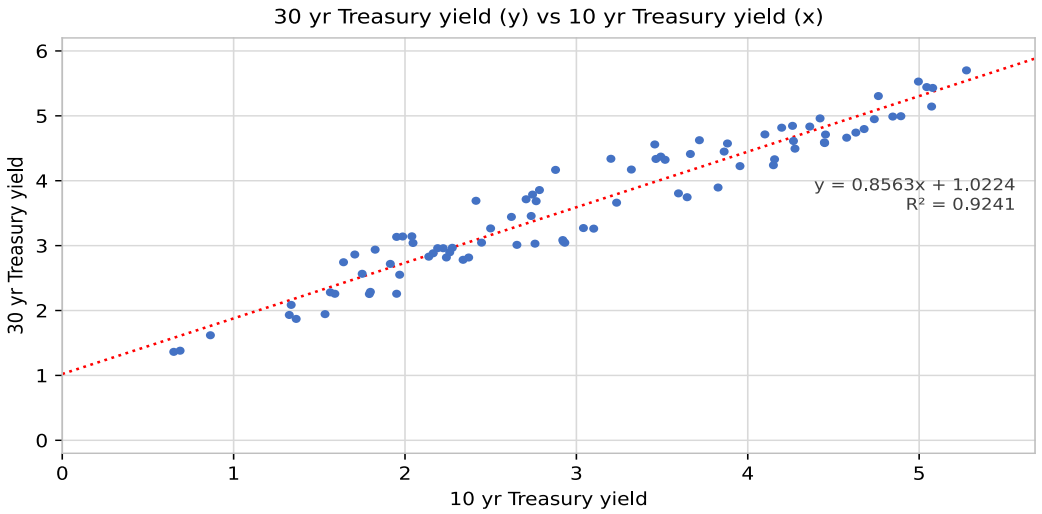
Source: Authors' calculation

Figure 16: 20-year Treasury yields, as a function of 10-year Treasury yields



Source: Authors' calculation

Figure 17: 30-year Treasury yields, as a function of 10-year Treasury yields



Source: Authors' calculation

Other Commentary

- "The 10-Year [was] at 5.01% … the 2-Year … 4.74% … the yield curve has a normal positive slope. … The 30-Year Fixed Mortgage Rate climbed 19.0 basis points over the week to 6.95%." (FRED-based market close summary, 16–17 September 2026; https://finbunker.com/article/41582/sep-17-close-sp-500-surges-114-as-vix-drops-sharply)
- H.15, 16 September 2026: 3-month 4.11%; 1-year 4.39%; 5-year 4.83%; 10-year 5.00%; 30-year 5.36%. (https://www.federalreserve.gov/releases/h15/)

30-year Mortgage Rate & Residential Home Price Index

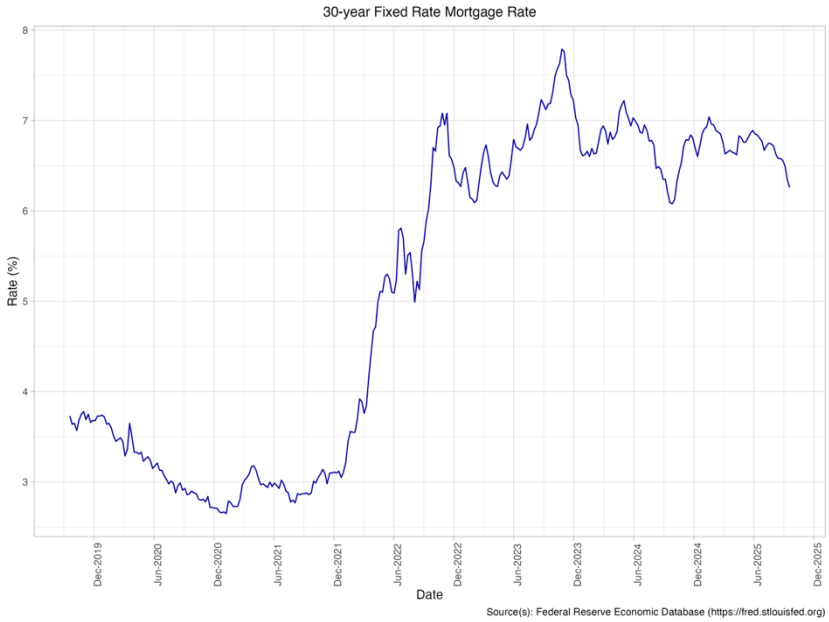
Analysis

Mortgage rates have traditionally been tightly correlated with mid-duration Treasury yields, given the typical sources of funding and duration of held mortgages. Day-to-day, offered mortgage rates are driven by traditional supply-and-demand forces between mortgage providers, and they are also influenced by the releases of various metrics (and the reactions of investors).

The trajectory of the 30-year fixed mortgage rate during 2026 has been higher, not lower. After a first half that did not restore a mid-6% purchase rate, the weekly Freddie Mac rate was 6.95% as of the 17 September observation, up 19 basis points on the week from 6.76%. That is the mechanical counterpart of a 5% 10-year. (See Figure 18.)[100,101]

[100] https://fred.stlouisfed.org/series/MORTGAGE30US
[101] https://www.milliman.com/en/insight/mortgage-market-and-housing-trends-q3-2025

Figure 18: US Nationwide Average 30-Year Fixed Rate Mortgage Rate



The spread between the 30-year mortgage rate and the 10-year Treasury yield is about 195 basis points at 6.95% versus 5.00%. That is a wide spread for a 2026 tape that was supposed to heal as policy eased; policy has instead tightened from the first-half range. Existing homeowners remain locked in; purchase applicants face a 7-handle neighborhood again. (See Figure 19.)[102]

Figure 19: 30-year mortgage rate / 10Y bond yield spread



Foreclosure-volume scenarios that assumed mortgage rates in the low- to mid-6s are not the current rate. Alternative scenarios that raise unemployment now have a higher starting mortgage rate as well. The housing market's sensitivity to the labor market has not fallen; the interest-rate overlay has risen through 1Q and 2Q into September.[103]

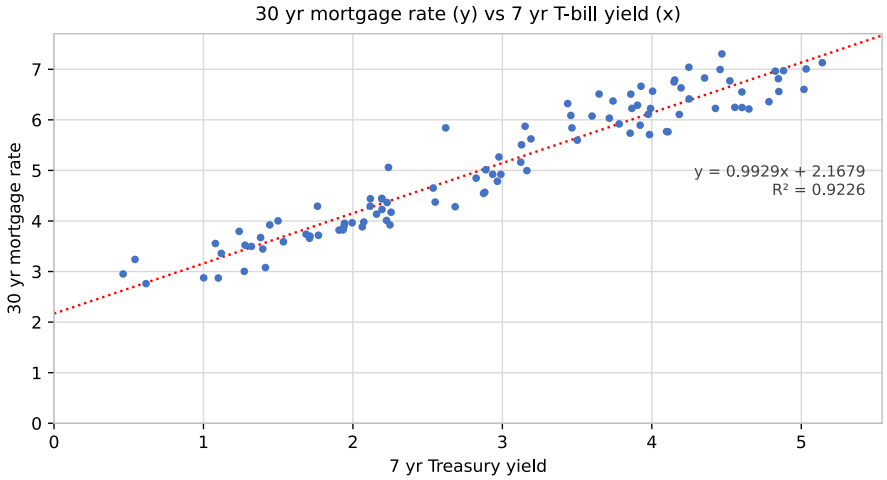
[102] https://www.cmegroup.com/openmarkets/interest-rates/2025/Why-Mortgage-Rates-Remain-High-Despite-Fed-Cuts.html
[103] https://themortgagepoint.com/2025/02/05/forecasting-foreclosure-volume-in-2025/

The consensus outlook for the rest of 2026 is not a 1.2%–2.5% home-price drift with a mid-6% mortgage. The Fed historic file's House Price Index is 323.4 in 2025 Q4, after 322.9 in 2025 Q3 — a slow grind into the 2026 jump-off. A 7-handle purchase rate against a 4.1% unemployment rate is a low-turnover market: owners stay, listings stay thin, and prices can remain sticky even as affordability worsens.Figure 20 remains the 30-year / 7-year correlation exhibit.[104,105]

Likely path through year-end 2026 and into 1Q2027: the 30-year fixed mortgage rate remains in the high-6s to around 7%. The national house-price index continues a slow grind higher rather than a 2025-style easing in carrying cost.

See Figure 20 regarding the correlation between the US 30-year fixed-rate mortgage rates and 7-year Treasury yields.

Figure 20: US 30-year (fixed rate) mortgage rate, as a function of a 7-year Treasury yield



Source: Authors' calculation

Other Commentary

- "The 30-Year Fixed Mortgage Rate climbed 19.0 basis points over the week to 6.95% from 6.76% as of the September 10 observation." (FRED / Freddie Mac PMMS via market close summary, 17 September 2026)
- A December 2025 Kiplinger outlook said: "Thirty-year fixed-rate mortgages are currently around 6.2%. … odds are that rates at the end of 2026 will be close to where they are today." That call is already off by roughly 75 basis points after 1Q and 2Q, with a quarter still to run. (https://www.kiplinger.com/economic-forecasts/interest-rates; 12 December 2025)
- New York Fed Q2 2026: mortgage transition into serious delinquency 1.52%, versus 1.29% in Q2 2025; 4.7% of all household debt in some stage of delinquency. (https://www.newyorkfed.org/newsevents/news/research/2026/20260811; 11 August 2026)

[104] https://www.cnbc.com/2025/12/31/housing-market-outlook-for-2026and-10-cities-where-prices-may-fall.html
[105] Ibid.

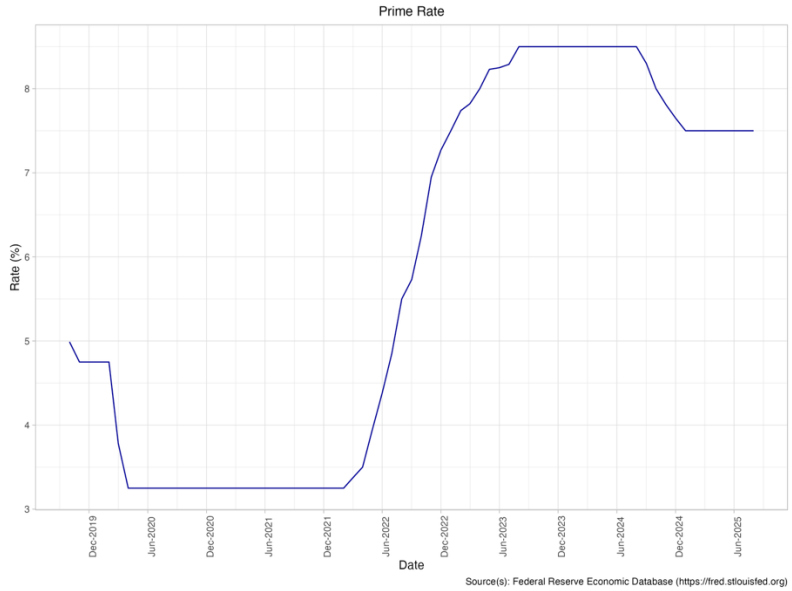
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Prime Rate

Analysis

The Prime Rate is still the 300-basis-point-over-funds convention. It is 6.75% on the 16 September 2026 H.15, matching a 3.75% primary-credit rate after the hike. That is the same 6.75% that prevailed through the 2026 first half; the decline has stopped, and the September hike puts the next increment on the upside. (See Figure 21.)[106,107]

Figure 21: Prime Rate



A 6.75% prime rate is not relief. Floating-rate consumer and small-business credit that reset down in late 2025 will not reset down again until the funds rate does. Lending standards remain the second variable: the price of credit is no longer falling, and the availability of credit does not have to expand just because the last easing cycle happened.[108]

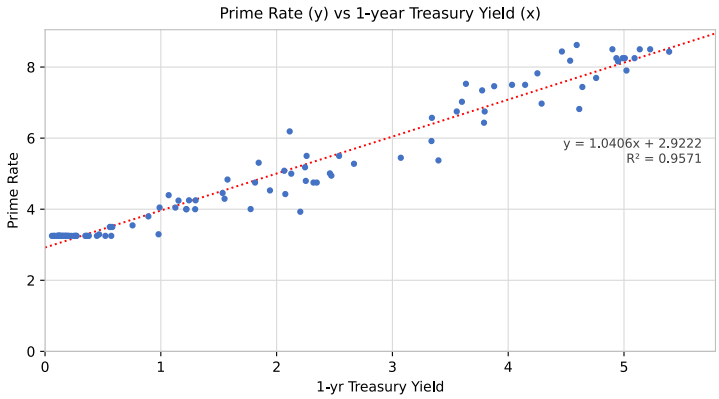
Looking ahead, the Prime Rate will remain mechanically linked to the funds rate. The September SEP's 4.1% year-end median implies a prime rate that stays near 7% if the Committee's next move is another hike, or near 6.75% if this is the hold. SeeFigure 22 for the prime / 1-year Treasury relationship.[109]
Likely path through year-end 2026 and into 1Q2027: the Prime Rate stays near 7%, moving only if the funds rate moves, so floating-rate borrowers do not get another reset down.

See Figure 22 for the relationship between the Prime Rate and 1-year Treasury yield.

[106] https://www.investopedia.com/terms/p/primerate.asp
[107] https://fred.stlouisfed.org/series/DPRIME
[108] https://www.wsj.com/buyside/personal-finance/mortgage/fed-rate-decision-december-2025-savings-cds-mortgages
[109] https://www.realtor.com/news/trends/fed-rate-cut-forecast-2026-mortgages/

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Figure 22: Prime Rate as a function of 1-year Treasury yields



Source: Authors' calculations

Moody's AAA & BAA Rates; and the BofA BBB Corporate Yield

Analysis

Moody's seasoned AAA corporate yield was 5.88% in August 2026, up from 5.76% in July. That is a 2026 summer backup in line with the 10-year, after a first half in which Treasuries were already moving higher. BAA and ICE BBB have moved with the Treasury curve; we will not invent a daily BAA close we do not have in this draft. (SeeFigure 23.)[110,111,112]

Spreads remain the more important story. With the 10-year at 5.00% and AAA at 5.88%, the AAA–Treasury spread is about 90 basis points. That is a market that has taken duration pain through 1Q and 2Q and has not demanded a crisis credit premium on top of it.

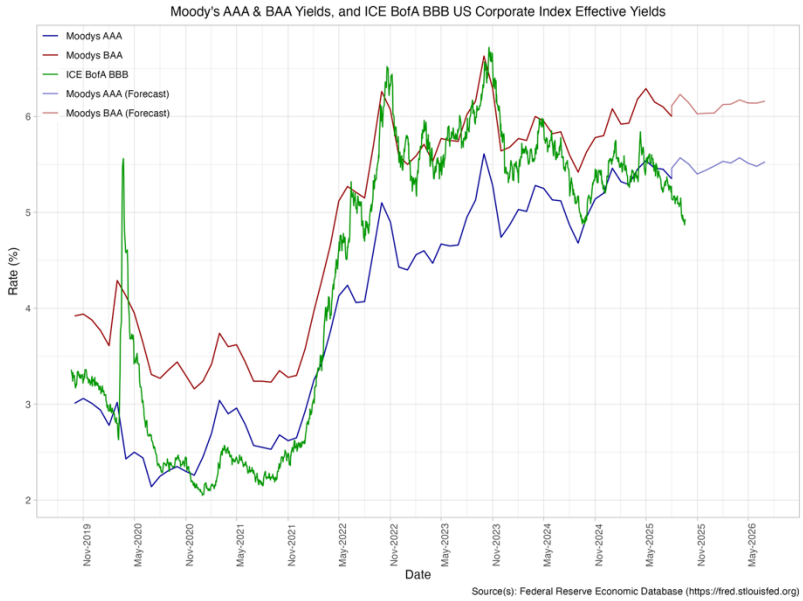
Three forces are now shaping investment-grade yields: First, the Federal Reserve's hike has put a floor under the entire curve. AAA and upper-tier borrowers are paying more in all-in yield because Treasuries yield more, not because they have been downgraded.[113]

Second, growth is slower in 2Q2026 (1.5%) than in 1Q2026 (2.1%) but not recessionary. A 1.5% second-quarter print and a 4.1% unemployment rate is the textbook "soft landing that is not landing" backdrop: default probabilities stay low, and the bid for quality income remains. That combination can compress spreads even while nominal yields rise.[114]

[110] https://fred.stlouisfed.org/series/DAAA
[111] https://fred.stlouisfed.org/series/DBAA
[112] https://fred.stlouisfed.org/series/BAMLC0A4CBBBEY
[113] https://www.federalreserve.gov/newsevents/pressreleases/monetary20251210a.htm
[114] https://blog.swbc.com/investmenthub/q3-2025-economic-summary

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Figure 23: Moody's AAA, BAA, and ICE BBB Average Bond yields



Third, tariff policy and the Iran war keep a floor under BAA/BBB risk premia. These risks have not produced a downgrade wave in the sources used for this draft, but they limit how far spreads can compress: investors still want incremental compensation for energy, freight, and margin pressure.

Looking into the rest of 2026, the baseline is modestly higher — not lower — all-in yields on investment-grade corporates, driven by a higher risk-free rate rather than by a credit event. The September SEP is a hold-to-hike funds-rate path, not a 2026 easing cycle.[115]

If the funds rate stays near 4.1% and the 10-year stays near 5%, it is reasonable to expect:[116]

- Aaa corporate yields in a 5.6%–6.1% band, provided default risk remains negligible.
- Baa corporate yields holding a 75–125 bp spread over Treasuries, oscillating with energy and tariff headlines rather than with a new default cycle.
- BBB effective yields in the mid-5s to low-6s, preserving a meaningful but not outsized credit premium.

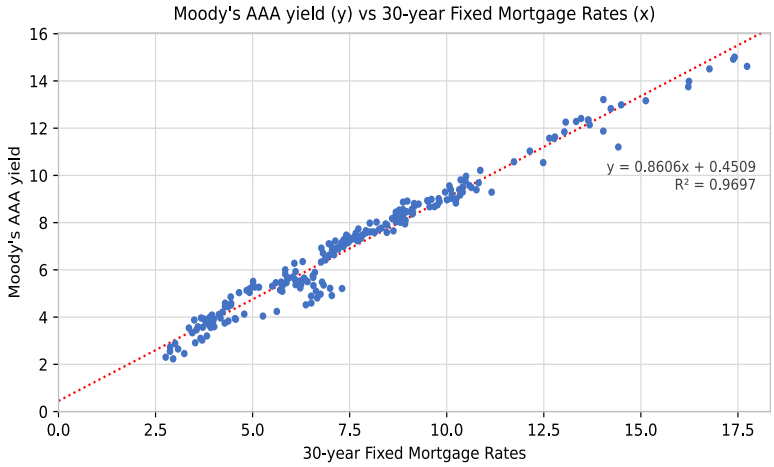
The main upside risk to spreads is a Hormuz-or-tariff shock that hits coverage ratios, or a labor-market break that the September SEP is not pricing. Either could widen BAA/BBB spreads 50–100 bp from current levels. A cleaner energy path could allow selective tightening in higher-quality names. Figure 24 and
Figure 25 remain the correlation exhibits.

Likely path through year-end 2026 and into 1Q2027: Moody's AAA, Moody's BAA, and the BofA BBB yield stay at or a little above summer 2026 all-in levels. Spreads widen only if energy or growth surprises; they do not tighten because the risk-free rate falls.

[115] https://madisoninvestments.com/fixed-income-market-update-q3-2025/
[116] https://www.tdsecurities.com/ca/en/global-strategy-outlook-2026

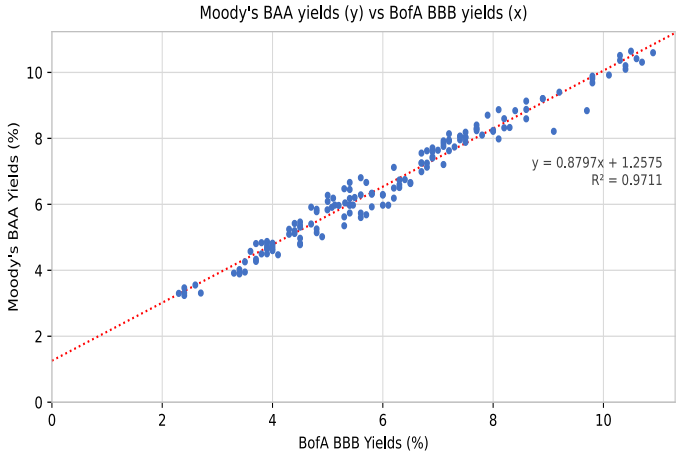
See Figure 24 and
Figure 25 for how Moody's AAA & BAA Corporate Bond yields have historically correlated with other macroeconomic metrics.

Figure 24: Moody's AAA-grade investment yields, as a function of 30-year Fixed Interest Mortgage Rates



Source: Authors' calculation

Figure 25: Moody's BAA-grade investment yields, as a function of BofA BBB yields



Source: Authors' calculation

US Average Retail Gasoline Price

Analysis

The second half of 2026 is a wartime pump-price tape. AAA's national average for regular gasoline was $4.4386 on 17 September 2026, up 16 cents on the week, more than a dollar above the $3.2003 year-earlier print, and close to this year's $4.56 high of 21 May. WTI was near $102–$107 in mid-September

on Hormuz volatility. 1Q opened the war; 2Q and summer kept the premium. (SeeFigure 26 for the crude-price exhibit.)[117,118]

The supports that can take pump prices down — softer crude, ample inventories, and winter blends — are not the 3Q2026 facts. Crude is above $100 barrel because the Strait of Hormuz has been a war zone since February. EIA reported gasoline demand of 8.79 million barrels per day in the mid-September weekly, with stocks at 207.7 million barrels.[119,120]

Domestic supply is not the binding constraint; transit risk is. CNN's early-September account of a 40-ship U.S. escort carrying 18 million barrels, and Reuters' 9 September account of the largest wave of tanker attacks since the war began, are the supply-side sentences. SPR inventories at their lowest level since 1983 are the buffer sentence.[121,122,123]

Seasonal winter-blend relief, if it arrives on schedule, will shave a few cents from the price-per-gallon; it will not repeal a $100 crude price. It cannot put the national average back under $3 while Hormuz transits are in the single digits against a 17-ship 10-day average.[124]

A surplus-oil debate that assumed Venezuelan barrels and an open Hormuz is not a 3Q2026 forecast. 1Q2026 closed the strait-as-scenario chapter; 2Q2026 and September are about how many Gulf barrels clear it. The live question is transit, not whether non-OPEC growth will glut a peaceful market.[125]

EIA's December 2025 STEO call for $55 Brent in 2026 is, as of this writing, a missed forecast rather than a baseline. We will not replace it with a false-precision 2026 average. We will say that a $100 WTI / $4.44 gasoline pair is the operating assumption until the war's naval chapter changes.[126,127]

Reconciling a loosely balanced, high-$2 to low-$3 gasoline market with the current print is straightforward: the geopolitical upside risk was realized in 1Q2026 and is still in the 2Q and September prices. A surplus / Venezuela downside has not arrived.[128,129,130]

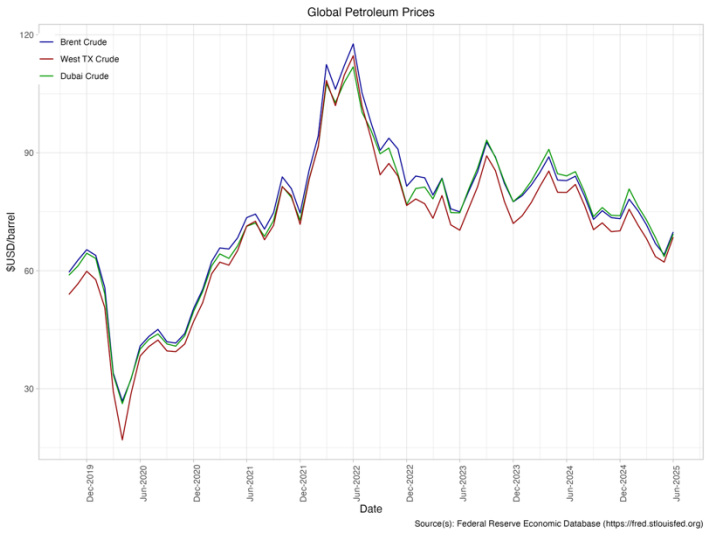
U.S. drivers should expect the rest of 2026 to look more like May2026, as opposed to a pre-war winter. Seasonal summer spikes have already happened; a winter easing is possible only if crude eases. The all-time AAA national high remains $5.01 (14 June 2022); $4.44 is not that far from it.[131,132]

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[117] https://www.eia.gov/dnav/pet/pet_pri_gnd_a_epmr_pte_dpgal_m.htm
[118]https://gasprices.aaa.com/ (AAA national average $4.4386 on 17 September 2026)
[119] https://www.eia.gov/outlooks/steo/
[120] https://newsroom.aaa.com/2025/12/national-average-dips-below-3-a-gallon-for-first-time-in-4-years/
[121] https://gasprices.aaa.com/outside-the-snow-is-falling-and-so-are-gas-prices/
[122] https://fred.stlouisfed.org/series/GASREGW
[123] https://www.cnbc.com/2025/12/23/oil-prices-holiday-road-trip-december-aaa.html
[124] https://gasprices.aaa.com/outside-the-snow-is-falling-and-so-are-gas-prices/
[125] https://oilprice.com/Latest-Energy-News/World-News/OPEC-Holds-Firm-on-Bullish-Oil-Demand-Outlook-for-2026.html
[126] https://www.spragueenergy.com/world-oil-supply-will-match-demand-next-year-due-to-production-increases/
[127] https://www.eia.gov/outlooks/steo/
[128] https://www.spragueenergy.com/world-oil-supply-will-match-demand-next-year-due-to-production-increases/
[129] https://oilprice.com/Latest-Energy-News/World-News/OPEC-Holds-Firm-on-Bullish-Oil-Demand-Outlook-for-2026.html
[130] https://www.investing.com/analysis/brent-stays-pressured-by-surplus-fears-even-as-shipping-and-product-risks-rise-200672366
[131] Ibid.
[132] https://www.eia.gov/finance/markets/products/balance.php

The primary upside risk is a wider closure of Hormuz or a strike-and-retaliation cycle that takes more tankers out. The primary downside risk is a ceasefire that reopens the strait and dumps the war premium. Policy changes to fuel tax or SPR releases are second-order next to that binary.[133]

Figure 26: Global Crude Oil Prices



We expect oil prices to remain in a wartime $90–$110 neighborhood under current circumstances, lower if Hormuz reopens in a durable way, higher if the President's publicly discussed "major escalation" materializes. That is the 1Q–2Q 2026 operating range extended into the third quarter. **Likely path through year-end 2026 and into 1Q2027: the national average retail gasoline price stays in a wartime $4-plus neighborhood, easing only if Hormuz reopens on a durable basis.**

Other Commentary

- "The national average for a gallon of regular gasoline is up 16 cents from last week at $4.43 and more than one dollar higher than it was a year ago. Crude oil remains high, averaging $100 per barrel amid continued volatility in the Strait of Hormuz." (https://gasprices.aaa.com/pump-prices-keep-climbing-as-crude-oil-remains-high-2/; 17 September 2026)
- The December 2025 EIA STEO sentence that "Brent … will fall to an average of $55 per barrel in [1Q2026] and remain near that price" is retained here as a missed official baseline, not as a current forecast. (https://www.eia.gov/outlooks/steo/; 9 December 2025)

Commercial Real Estate Price Index

The Fed's 2026 Final historic file carries the Commercial Real Estate Price Index through 2025 Q4 at 305.8, after 302.9 in 2025 Q3, 289.6 in 2025 Q2, and 294.7 in 2025 Q1. That is a modest recovery in the official CCAR series from the mid-2025 low, not a V-shaped rebound, and it is still well below the 2021–

[133] https://www.reuters.com/markets/commodities/five-energy-market-trends-track-2026-year-glut-2025-12-29/

2022 peak region of the same file (340.1 in 2021 Q4). We will not invent a 2026 Q2 Z.1 print that has not been used in this draft.[134]

The qualitative CRE picture through 1Q and 2Q2026 is still fragile stabilization: gains from NOI rather than cap-rate compression, industrial and necessity retail ahead of office. What 2026 has added is a higher long rate. A 5% 10-year and a 6.95% mortgage analog for cap rates are not constructive for a price recovery that was supposed to be financed by easier policy.[135,136,137]

Repeat-sale bifurcation remains the right frame: prime, institutionally held industrial and necessity retail can hold or grind higher; commodity office and smaller secondary assets cannot count on a Fed put that is no longer easing. The 2026 overlay, after two complete quarters, is the same map with a worse discount rate.[138]

By property type, industrial and data-center-adjacent product remain the bid; office remains the problem; multifamily is caught between still-high homeownership costs (a demand support) and higher cap rates (a price headwind). We will not invent 3Q2026 CoStar quarterly percent changes that have not been published for this draft.[139]

Office is still the epicenter of pricing stress. The stock of the problem is a value-weighted office index well below the 4Q2021 high; the 2026 flow of the problem is refinancing into a 5% 10-year after a first half that did not deliver easier policy. Trophy assets can still trade; commodity offices still bleed.[140,141]

The refinancing wall — hundreds of billions of CRE mortgages maturing through 2028, bank CRE lending well below pre-pandemic averages — is more binding, not less, with policy rates moving up in September instead of down through 1Q and 2Q. Properties that cannot refinance on acceptable terms will still trade at distressed prices or move to special servicers. AI-related data-center demand is the offsetting bid, and it is also a concentration risk.[142,143,144,145]

The base case for the rest of 2026 is continued uneven healing, with more of the work done by NOI and less by cap-rate compression than the Cushman “rates are moving lower” December 2025 quote assumed. Industrial and necessity retail should remain the relative winners. Office should remain the laggard. Data centers should remain the crowding trade.[146,147]

The broad message is unchanged in structure and worse in the discount rate: the U.S. commercial real estate market is in a prolonged, uneven healing process, with price trajectories driven by asset quality,

[134] https://fred.stlouisfed.org/series/COMREPUSQ159N
[135] https://www.msci.com/downloads/web/msci-com/research-and-insights/paper/rca-commercial-property-price-indexes-rca-cppi/2510_RCACPPI_US.pdf
[136] https://www.credaily.com/briefs/green-street-cre-index-edges-higher-as-market-stabilizes/
[137] https://info.greenstreet.com/hubfs/GSCPPI-20251204press.pdf
[138] https://www.costargroup.com/press-room/2025/large-office-prices-rose-third-quarter-2025
[139] Ibid.
[140] Ibid.
[141] https://ncreif.org/__static/jdj5jdewjflcvw1vytcymnhroukxdzvp/NPI-3Q2025-Press-Release(3).pdf and https://www.connectcre.com/stories/ncreif-property-index-posts-fourth-consecutive-quarter-of-positive-returns/
[142] https://www.altusgroup.com/insights/large-us-cre-deals-make-a-come-back-in-q3-2025/
[143] https://agorareal.com/blog/commercial-real-estate-lending-trends/
[144] https://www.spglobal.com/market-intelligence/en/news-insights/research/cre-maturity-wall-reaches-950b-in-2024-peaks-in-2027
[145] https://www.kaplancollectionagency.com/business-advice/52-commercial-office-real-estate-statistics-for-2025/
[146] https://www.kaplancollectionagency.com/business-advice/52-commercial-office-real-estate-statistics-for-2025/
[147] https://www.jpmorgan.com/insights/real-estate/commercial-real-estate/commercial-real-estate-trends

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sector fundamentals, and access to capital — and access to capital is tighter after the September hike than it was through the first half.[148]

Likely path through year-end 2026 and into 1Q2027: the commercial real estate index continues a slow, uneven heal — industrial and necessity retail hold or grind higher, office remains the drag, and cap rates do not compress while the 10-year is near 5%.

Other Commentary

- A late-2025 Cushman & Wakefield line that "interest rates are moving lower, and leasing fundamentals are generally stabilizing or improving" is not a 1Q–2Q 2026 description and is not a 3Q2026 one. (https://www.cnbc.com/2025/12/30/commercial-real-estate-2026-what-to-expect.html; 30 December 2025)
- "Commercial real-estate investors are becoming increasingly aligned with the AI boom—enabling them to rake in profits on the upside, but also making their funds more vulnerable to a correction in AI that disrupts demand for data centers." (https://www.wsj.com/real-estate/the-ai-boom-is-making-real-estate-investors-richand-exposing-them-to-risk-b6e65b0c; 22 December 2025). That concentration risk is larger, not smaller, after another three quarters of the same trade.
- A 5% 10-year is a tighter refinancing environment than the one in which Home Depot, in December 2025, said it "expects sales to rise between 2.5% to 4.5% in fiscal 2026" with "comparable-sales growth of flat to up 2%." (https://www.wsj.com/business/retail/home-depot-expects-higher-sales-if-housing-activity-grows-70d587a2; 9 December 2025, as context rather than a current guide)

Dow Jones Total Stock Market Index; S&P 500; and the Market Volatility Index (VIX)

Analysis

During 2026, broad U.S. equities have continued to make new high neighborhoods even as the macro tape — a hike, a 5% 10-year, $4.44 gasoline, a war — would have justified a more hesitant market. The S&P 500 closed at 7,637.76 on 17 September 2026, up 1.14% on the day from 7,551.81, and was near 7,620 on the morning of 18 September. Year-to-date through 16 September the index was up 9.8%. The VIX fell 12.82% on 17 September to 15.44 from 17.71.

The Dow Jones Total Stock Market Index in the Fed historic file is 67,501.5 at 2025 Q4, after 66,145.7 at 2025 Q3. That is the official CCAR jump-off. We will not invent a 2026 Q3 end-of-quarter DJTSM close before the quarter ends. The direction from those Actuals through 1Q and 2Q into a 7,600 S&P neighborhood is a narrow, mega-cap-led tape.[149]

The S&P 500 in the 7,550 to 7,640 neighborhood in the week of 16 September is well above the 6,845.49 year-end 2025 close. Year-to-date through 16 September the index was up 9.8%. That is a 2026 first-half and summer gain, still concentrated in the same few names.[150]

[148] https://www.capright.com/a-contrast-of-two-decades-navigating-the-reset-in-commercial-real-estate/
[149] https://www.marketwatch.com/investing/index/dwcf
[150] https://www.marketwatch.com/investing/index/spx and https://finance.yahoo.com/news/does-q4-hold-u-economy-172500870.html

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Breadth remains the risk. A tape in which a handful of mega-cap names still deliver most of the index gain has not been cured by two complete 2026 quarters of the same leadership. From a risk-management perspective, index-level calm is still not the same thing as a broad market.[151,152]

The September hike was a one-day shock, not a regime change in the equity tape. The index dropped around the decision and then reclaimed the 7,600 area on 17 September as the VIX fell. That is a market that is still willing to look through a 25 bp move. It is also a market that has not been asked to look through a closed Hormuz or a second hike.[153]

Concentration risk has not eased. AI-related capital spending is one of the three factors most often cited — including in coverage of the Warsh hike — for why inflation has not come down faster. The same investment boom that supports the index is part of the inflation problem the Fed just hiked to address. That is an awkward combination for a 3Q2026 risk committee.[154]

Volatility itself is again compressed after the hike. A VIX of 15.44 on 17 September is in a mid-teens neighborhood after a first half that did not reprice a naval war as a recession. Realized calm is not the same as the absence of a jump process. The jump catalog now includes Hormuz.[155,156,157]

We will not average a 2026 VIX we do not have as a completed year. The operational statement is that 15-handle VIX against a 5% 10-year, a wartime oil price, and a hiking Fed is a cheap-looking insurance market, not a verdict that the risks have shrunk.[158]

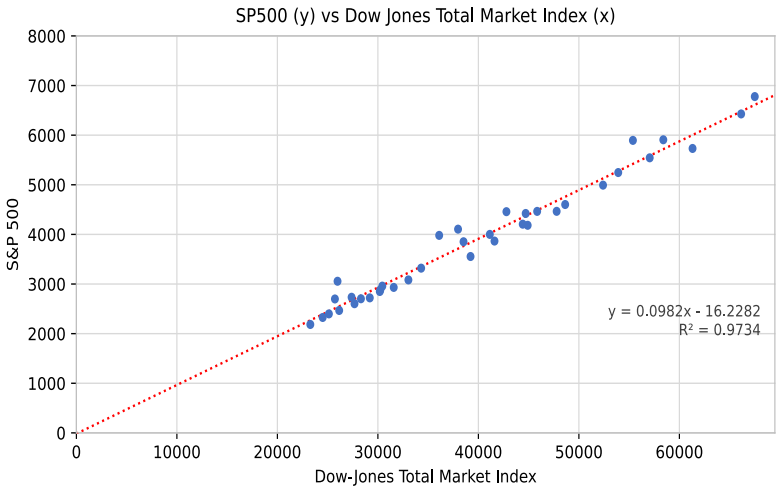
Taken together, mid-September 2026 leaves U.S. equities still priced for a continuation of favorable conditions after a 1Q–2Q advance, plus one realized geopolitical shock that the index has so far chosen not to capitalize as a recession.Figure 27 remains the S&P / Dow Total Market correlation exhibit.[159,160,161]

Likely path through year-end 2026 and into 1Q2027: the S&P 500 and the Dow Jones Total Stock Market Index stay in a high, concentrated range rather than a broad de-rating. The VIX remains in a mid-teens neighborhood unless growth or Hormuz risk is re-priced.

Figure 27 shows the relationship between the discussed market indexes.

[151] https://www.lpl.com/research/blog/q3-recap-10-key-takeaways.html
[152] https://www.blackrock.com/us/financial-professionals/insights/q3-earnings-equity-market-outlook
[153] https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes/
[154] Ibid.
[155] https://fred.stlouisfed.org/series/VIXCLS
[156] https://www.reuters.com/business/after-lull-wall-street-eyes-volatility-pickup-risks-build-2025-09-30/
[157] https://fred.stlouisfed.org/series/VIXCLS
[158] https://finance.yahoo.com/news/vix-too-low-again-190002552.html
[159] https://www.jpmorgan.com/insights/global-research/outlook/market-outlook
[160] https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/institutional/insights/portfolio-insights/ltcma-full-report.pdf
[161] https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes/

Figure 27: SP500 as a function of the Dow-Jones Total Market Index



Source: Authors' calculation

Regression Analyses

The following section documents the linear regression coefficients found for each of the aforementioned variables, as a function of other variables (which are not significantly correlated with the control variable). With this report, we have also included the natural log and the square of all variables as experimental (dependent) variables; these variables are denoted by a "LN_" prefix and a "_2" suffix below (respectively).

To compare the effectiveness of these regressions, Table 4 reports Test MAE, last-print MAE, and Test R^2 from the newest experiment on each series page at https://www.capitalytics.com/regressions. Quarterly series use the 3Q2026 experiment (train 1Q2020–4Q2024; test 1Q2025–2Q2026). Monthly series use the September 2026 experiment (test September 2025–August 2026). Independents are lagged six months. Errors are in the native units of each series, not percent. The coefficient tables that follow this exhibit are the newest-experiment specifications from those pages (3Q2026 quarterly / September 2026 monthly).

Table 4: Newest-experiment test errors (3Q2026 / September 2026)

Variable	Test MAE	Last-print MAE	Test R^2
Real GDP Growth	6.009	2.167	-27.423
Nominal GDP Growth	11.973	2.117	-59.310
Real Disposable Income Growth	1.373	0.817	-1.917
Nominal Disposable Income Growth	0.989	1.483	-0.443
Inflation	1.433	1.35	-0.942
Unemployment Rate	1.218	0.1	-100.832
1-month Treasury Yield	0.187	0.082	-0.516
3-month Treasury Yield	0.528	0.133	-3.603
6-month Treasury Yield	0.319	0.085	-6.914
1-year Treasury Yield	0.276	0.098	-3.311
3-year Treasury Yield	0.388	0.097	-2.098
5-year Treasury Yield	0.96	0.2	-21.767
7-year Treasury Yield	0.236	0.091	-0.421
10-year Treasury Yield	0.941	0.15	-53.766
20-year Treasury Yield	0.264	0.096	-3.817
30-year Treasury Yield	0.262	0.092	-5.132
30-year Mortgage Rate	0.431	0.2	-2.207
Moody's AAA Curve	0.123	0.103	-0.123
Moody's BAA Curve	0.289	0.101	-5.648
BBB Corporate Yield	0.867	0.183	-14.521
Prime Rate	0.562	0.167	-2.718
US Average Retail Gasoline Price	0.597	0.237	-1.170
Cost of Federal Funds	0.341	0.059	-1.811
Dow Jones Total Stock Market Index	4241.318	4664.05	-0.091
S&P 500 Stock Price Index	316.684	316.684	-0.025
Commercial Real Estate Price Index	6.793	6.8	-0.484
Residential Home Price Index	2.152	0.783	-12.261
Market Volatility Index	13.677	12.1	-1.889

Quarterly series: 3Q2026 experiment, test window 1Q2025–2Q2026. Monthly series: September 2026 experiment, test window September 2025–August 2026 (1-month, 6-month, 1-year, 3-year, 7-year, 20-year, and 30-year Treasury yields; Moody's AAA and BAA; retail gasoline; cost of federal funds; and the S&P 500).
MAE, last-print MAE, and Test R^2 are taken from the live pages and are in native units.

Real & Nominal GDP Growth, Real & Nominal Disposable Income Growth, and CPI Inflation Rate

REGRESSION FOR REAL GDP GROWTH (3Q2026)

	Dependent variable (+/- SE):
	Real GDP growth
Constant	-204.148 (+/- 62.415)
	p = 0.005***
Market Volatility Index^2	0.007 (+/- 0.001)
	p = 0.00001***
LN_Home Price Index	35.522 (+/- 11.051)
	p = 0.006***
Observations	20
R^2	0.707
Adjusted R^2	0.673
Residual Std. Error	6.041 (df = 17)
F Statistic	20.533*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR NOMINAL GDP GROWTH (3Q2026)

	Dependent variable (+/- SE):
	Nominal GDP growth
Constant	-383.733 (+/- 126.089)
	p = 0.008***
Market Volatility Index^2	0.009 (+/- 0.002)
	p = 0.00004***
LN_Dow Total Stock Market Index	35.864 (+/- 11.777)
	p = 0.008***
Observations	20
R^2	0.656
Adjusted R^2	0.615
Residual Std. Error	7.340 (df = 17)
F Statistic	16.198*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR REAL DISPOSABLE INCOME GROWTH (3Q2026)

	Dependent variable (+/- SE):
	Real disposable income growth
Constant	-1.766 (+/- 3.744)
	p = 0.644
Real GDP growth	0.762 (+/- 0.345)
	p = 0.042**
Nominal GDP growth^2	0.019 (+/- 0.010)
	p = 0.067*
Observations	20
R^2	0.439
Adjusted R^2	0.373
Residual Std. Error	14.905 (df = 17)
F Statistic	6.649*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR NOMINAL DISPOSABLE INCOME GROWTH (3Q2026)

	Dependent variable (+/- SE):
	Nominal disposable income growth
Constant	2.486 (+/- 3.893)
	p = 0.532
Nominal GDP growth[2]	0.028 (+/- 0.009)
	p = 0.008***
Observations	20
R^2	0.333
Adjusted R^2	0.296
Residual Std. Error	15.605 (df = 18)
F Statistic	8.993*** (df = 1; 18)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR CPI INFLATION RATE (3Q2026)

	Dependent variable (+/- SE):
	CPI Inflation Rate
Constant	-2.721 (+/- 2.675)
	p = 0.325
LN_Nominal GDP growth	3.359 (+/- 1.244)
	p = 0.016**
Observations	18
R^2	0.313
Adjusted R^2	0.270
Residual Std. Error	2.809 (df = 16)
F Statistic	7.292** (df = 1; 16)
Note:	*p<0.1; **p<0.05; ***p<0.01

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Unemployment Rate

REGRESSION FOR UNEMPLOYMENT RATE (3Q2026)

	Dependent variable (+/- SE):
	Unemployment Rate
Constant	66.773 (+/- 15.935)
	p = 0.001***
LN_Home Price Index	-11.067 (+/- 2.851)
	p = 0.002***
Observations	20
R^2	0.456
Adjusted R^2	0.425
Residual Std. Error	1.783 (df = 18)
F Statistic	15.064*** (df = 1; 18)
Note:	*p<0.1; **p<0.05; ***p<0.01

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Treasury Yields (1, 3, & 6-month; 1, 3, 5, 7, 10, 20, & 30-year series)

REGRESSION FOR 1-MONTH TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	1-month Treasury Yield
Constant	83.899 (+/- 4.945)
	p = 0.000***
LN_Real disposable income growth	-0.372 (+/- 0.097)
	p = 0.001***
Nominal GDP growth[2]	-0.027 (+/- 0.003)
	p = 0.000***
Prime Rate[2]	0.043 (+/- 0.006)
	p = 0.00000***
LN_Dow Total Stock Market Index	-7.454 (+/- 0.463)
	p = 0.000***
Observations	33
R^2	0.962
Adjusted R^2	0.956
Residual Std. Error	0.322 (df = 28)
F Statistic	175.095*** (df = 4; 28)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 3-MONTH TREASURY YIELD (3Q2026)

	Dependent variable (+/- SE):
	3-month Treasury Yield
Constant	-8.978 (+/- 1.380)
	p = 0.00001***
LN_US Avg Retail Gasoline Price ($-gal; all grades, all formulations)	11.200 (+/- 1.294)
	p = 0.00000***
CPI Inflation Rate^2	-0.055 (+/- 0.010)
	p = 0.00005***
Observations	20
R^2	0.816
Adjusted R^2	0.794
Residual Std. Error	1.060 (df = 17)
F Statistic	37.631*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 6-MONTH TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	6-month Treasury Yield
Constant	-55.641 (+/- 7.431)
	p = 0.000***
LN_3-month Treasury Yield	1.019 (+/- 0.052)
	p = 0.000***
LN_Commercial Real Estate Price Index	10.190 (+/- 1.296)
	p = 0.000***
CPI Inflation Rate^2	0.017 (+/- 0.003)
	p = 0.00000***
Observations	42
R^2	0.943
Adjusted R^2	0.939
Residual Std. Error	0.351 (df = 38)
F Statistic	210.751*** (df = 3; 38)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 1-YEAR TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	1-year Treasury Yield
Constant	-40.467 (+/- 7.969)
	p = 0.00002***
LN_3-month Treasury Yield	1.239 (+/- 0.073)
	p = 0.000***
CPI Inflation Rate	0.393 (+/- 0.052)
	p = 0.000***
LN_Real GDP growth	0.273 (+/- 0.118)
	p = 0.028**
LN_Commercial Real Estate Price Index	7.745 (+/- 1.480)
	p = 0.00001***
LN_US Avg Retail Gasoline Price ($-gal; all grades, all formulations)	-2.392 (+/- 0.765)
	p = 0.004***
Observations	39
R^2	0.970
Adjusted R^2	0.966
Residual Std. Error	0.251 (df = 33)
F Statistic	214.970*** (df = 5; 33)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 3-YEAR TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	3-year Treasury Yield
Constant	1.882 (+/- 0.389)
	p = 0.00003***
Moody's BAA Curve	0.260 (+/- 0.094)
	p = 0.009***
Real disposable income growth^2	-0.001 (+/- 0.0001)
	p = 0.000***
LN_Nominal disposable income growth	0.432 (+/- 0.116)
	p = 0.001***
Observations	42
R^2	0.907
Adjusted R^2	0.900
Residual Std. Error	0.330 (df = 38)
F Statistic	124.052*** (df = 3; 38)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 5-YEAR TREASURY YIELD (3Q2026)

	Dependent variable (+/- SE):
	5-year Treasury Yield
Constant	-37.226 (+/- 6.934)
	p = 0.0001***
LN_1-year Treasury Yield	0.601 (+/- 0.086)
	p = 0.00001***
LN_SP500 Stock Price Index	4.826 (+/- 0.840)
	p = 0.00003***
Observations	20
R^2	0.876
Adjusted R^2	0.862
Residual Std. Error	0.611 (df = 17)
F Statistic	60.248*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 7-YEAR TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	7-year Treasury Yield
Constant	3.757 (+/- 0.056)
	p = 0.000***
LN_3-month Treasury Yield	0.335 (+/- 0.033)
	p = 0.000***
Real disposable income growth	-0.027 (+/- 0.003)
	p = 0.000***
Observations	42
R^2	0.877
Adjusted R^2	0.871
Residual Std. Error	0.289 (df = 39)
F Statistic	139.166*** (df = 2; 39)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 10-YEAR TREASURY YIELD (3Q2026)

	Dependent variable (+/- SE):
	10-year Treasury Yield
Constant	-2.066 (+/- 0.577)
	p = 0.003***
LN_US Avg Retail Gasoline Price ($-gal; all grades, all formulations)	3.602 (+/- 0.516)
	p = 0.00001***
3-month Treasury Yield^2	0.067 (+/- 0.010)
	p = 0.00001***
Observations	20
R^2	0.901
Adjusted R^2	0.890
Residual Std. Error	0.473 (df = 17)
F Statistic	77.710*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR 20-YEAR TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	20-year Treasury Yield
Constant	3.420 (+/- 0.482)
	p = 0.000***
1-year Treasury Yield^2	0.026 (+/- 0.008)
	p = 0.003***
Real disposable income growth^2	-0.001 (+/- 0.0001)
	p = 0.00000***
Nominal GDP growth	-0.051 (+/- 0.030)
	p = 0.099*
Nominal disposable income growth	0.022 (+/- 0.006)
	p = 0.001***
Dow Total Stock Market Index^2	0.000 (+/- 0.000)
	p = 0.006***
Observations	48
R^2	0.870
Adjusted R^2	0.855
Residual Std. Error	0.352 (df = 42)
F Statistic	56.282*** (df = 5; 42)
Note:	*p<0.1; **p<0.05; ***p<0.01

REGRESSION FOR 30-YEAR TREASURY YIELD (SEPT 2026)

	Dependent variable (+/- SE):
	30-year Treasury Yield
Constant	8.686 (+/- 0.347)
	p = 0.000***
LN_Unemployment Rate	-4.021 (+/- 0.223)
	p = 0.000***
SP500 Stock Price Index^2	0.00000 (+/- 0.000)
	p = 0.000***
CPI Inflation Rate	-0.076 (+/- 0.018)
	p = 0.0002***
Observations	48
R^2	0.922
Adjusted R^2	0.917
Residual Std. Error	0.265 (df = 44)

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F Statistic	173.415*** (df = 3; 44)
Note:	*p<0.1; **p<0.05; ***p<0.01

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30-year Mortgage Rate

REGRESSION FOR 30-YEAR MORTGATE RATE (3Q2026)

	Dependent variable (+/- SE):
	30-year Mortgate Rate
Constant	2.229 (+/- 0.258)
	p = 0.00000***
1-month Treasury Yield	0.814 (+/- 0.061)
	p = 0.000***
CPI Inflation Rate^2	0.036 (+/- 0.005)
	p = 0.00001***
Observations	20
R^2	0.914
Adjusted R^2	0.903
Residual Std. Error	0.556 (df = 17)
F Statistic	89.795*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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Moody's AAA & BAA Rates

REGRESSION FOR MOODY'S AAA CURVE (SEPT 2026)

	Dependent variable (+/- SE):
	Moody's AAA Curve
Constant	-3.702 (+/- 2.967)
	p = 0.220
LN_3-month Treasury Yield	0.266 (+/- 0.030)
	p = 0.000***
Nominal disposable income growth	-0.023 (+/- 0.003)
	p = 0.000***
LN_Dow Total Stock Market Index	0.795 (+/- 0.276)
	p = 0.007***
Observations	42
R^2	0.888
Adjusted R^2	0.879
Residual Std. Error	0.253 (df = 38)
F Statistic	100.398*** (df = 3; 38)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR MOODY'S BAA CURVE (SEPT 2026)

	Dependent variable (+/- SE):
	Moody's BAA Curve
Constant	4.716 (+/- 0.485)
	p = 0.000***
Real disposable income growth[2]	-0.001 (+/- 0.0001)
	p = 0.000***
LN_Nominal disposable income growth	0.369 (+/- 0.054)
	p = 0.00000***
LN_CPI Inflation Rate	-0.455 (+/- 0.078)
	p = 0.00000***
LN_Market Volatility Index	0.326 (+/- 0.146)
	p = 0.032**
Observations	42
R^2	0.913
Adjusted R^2	0.904
Residual Std. Error	0.236 (df = 37)
F Statistic	97.665*** (df = 4; 37)
Note:	*p<0.1; **p<0.05; ***p<0.01

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BBB Corporate Yield

REGRESSION FOR BBB CORPORATE YIELD (3Q2026)

	Dependent variable (+/- SE):
	BBB corporate yield
Constant	-79.218 (+/- 9.809)
	p = 0.00000***
LN_Commercial Real Estate Price Index	14.574 (+/- 1.705)
	p = 0.00000***
LN_1-month Treasury Yield	0.401 (+/- 0.055)
	p = 0.00001***
Observations	20
R^2	0.911
Adjusted R^2	0.900
Residual Std. Error	0.477 (df = 17)
F Statistic	86.684*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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Prime Rate

REGRESSION FOR PRIME RATE (3Q2026)

	Dependent variable (+/- SE):
	Prime Rate
Constant	-5.698 (+/- 1.360)
	p = 0.001***
LN_US Avg Retail Gasoline Price ($-gal; all grades, all formulations)	11.232 (+/- 1.275)
	p = 0.00000***
CPI Inflation Rate[2]	-0.061 (+/- 0.010)
	p = 0.00002***
Observations	20
R^2	0.823
Adjusted R^2	0.803
Residual Std. Error	1.045 (df = 17)
F Statistic	39.607*** (df = 2; 17)
Note:	*p<0.1; **p<0.05; ***p<0.01

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US Average Retail Gasoline Price

REGRESSION FOR US AVG RETAIL GASOLINE PRICE (-GAL; ALL GRADES, ALL FORMULATIONS) (SEPT 2026)

	Dependent variable (+/- SE):
	US Avg Retail Gasoline Price ($-gal; all grades, all formulations)
Constant	7.306 (+/- 0.463)
	p = 0.000***
LN_30-year Treasury Yield	-2.091 (+/- 0.244)
	p = 0.000***
Unemployment Rate^2	-0.053 (+/- 0.008)
	p = 0.000***
CPI Inflation Rate^2	-0.006 (+/- 0.002)
	p = 0.002***
Observations	48
R^2	0.706
Adjusted R^2	0.686
Residual Std. Error	0.232 (df = 44)
F Statistic	35.210*** (df = 3; 44)
Note:	*p<0.1; **p<0.05; ***p<0.01

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US Federal Reserve Overnight Lending Rate

REGRESSION FOR US FED RESERVE O-N LOAN RATE (SEPT 2026)

	Dependent variable (+/- SE):
	US Fed Reserve O-N Loan Rate
Constant	8.660 (+/- 0.531)
	p = 0.000***
LN_Real disposable income growth	-0.547 (+/- 0.099)
	p = 0.00001***
Nominal GDP growth[2]	-0.030 (+/- 0.003)
	p = 0.000***
Dow Total Stock Market Index[2]	-0.000 (+/- 0.000)
	p = 0.000***
Prime Rate[2]	0.024 (+/- 0.006)
	p = 0.0002***
Observations	33
R^2	0.958
Adjusted R^2	0.951
Residual Std. Error	0.325 (df = 28)
F Statistic	157.947*** (df = 4; 28)
Note:	*p<0.1; **p<0.05; ***p<0.01

Dow Jones Total Stock Market Index (end-of-quarter) and S&P 500 (quarterly average)

REGRESSION FOR Δ DOW TOTAL STOCK MARKET INDEX (3Q2026)

	Dependent variable (+/- SE):
	Dow Total Stock Market Index
Constant	1,268.195 (+/- 846.023)
	p = 0.151
Observations	20
R^2	0.000
Adjusted R^2	0.000
Residual Std. Error	3,783.529 (df = 19)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR Δ SP500 STOCK PRICE INDEX (SEPT 2026)

	Dependent variable (+/- SE):
	SP500 Stock Price Index
Constant	40.657 (+/- 41.890)
	p = 0.337
Observations	48
R^2	0.000
Adjusted R^2	0.000
Residual Std. Error	290.223 (df = 47)
Note:	*p<0.1; **p<0.05; ***p<0.01

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House and Commercial Real Estate Price Indexes

REGRESSION FOR Δ HOME PRICE INDEX (3Q2026)

	Dependent variable (+/- SE):
	Home Price Index
Constant	6.056 (+/- 0.555)
	p = 0.000***
LN_3-year Treasury Yield	-2.453 (+/- 0.447)
	p = 0.00004***
Observations	20
R^2	0.626
Adjusted R^2	0.605
Residual Std. Error	2.411 (df = 18)
F Statistic	30.087*** (df = 1; 18)
Note:	*p<0.1; **p<0.05; ***p<0.01

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REGRESSION FOR Δ COMMERCIAL REAL ESTATE PRICE INDEX (3Q2026)

	Dependent variable (+/- SE):
	Commercial Real Estate Price Index
Constant	-9.016 (+/- 5.284)
	p = 0.116
LN_Real disposable income growth	5.436 (+/- 2.636)
	p = 0.064*
Observations	13
R^2	0.279
Adjusted R^2	0.213
Residual Std. Error	10.329 (df = 11)
F Statistic	4.252* (df = 1; 11)
Note:	*p<0.1; **p<0.05; ***p<0.01

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Market Volatility Index

REGRESSION FOR MARKET VOLATILITY INDEX (3Q2026)

	Dependent variable (+/- SE):
	Market Volatility Index
Constant	643.205 (+/- 130.556)
	p = 0.0003***
LN_Home Price Index	-107.183 (+/- 22.859)
	p = 0.0004***
LN_Real GDP growth	-7.567 (+/- 3.584)
	p = 0.054*
Observations	17
R^2	0.612
Adjusted R^2	0.556
Residual Std. Error	10.850 (df = 14)
F Statistic	11.037*** (df = 2; 14)
Note:	*p<0.1; **p<0.05; ***p<0.01

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Appendix A: Data Sources

The following table lists the attributes provided by Capitalytics as part of its macro-economic forecast service. The sources for data that are defined by the document "2026 Final Supervisory Stress Test Scenarios" (found at https://www.federalreserve.gov/publications/files/2026-final-supervisory-stress-test-scenarios-20260204.pdf) are listed. Historical data for the domestic and international variables are reported in that document as Tables 2.A and 2.B (Q1:2000–Q4:2025). The final 2026 historic dataset incorporates data released through mid-January 2026. Please note that shaded attributes are not discussed at length in this domestic installment.

Table 5: Data Values and Referenced Sources

Attribute	Referenced Source[162]
Real GDP growth	Bureau of Economic Analysis (NIPA table 1.1.6, line 1)
Nominal GDP growth	Bureau of Economic Analysis (NIPA table 1.1.5, line 1)
Real disposable income growth	Bureau of Economic Analysis (NIPA table 2.1, line 27, and NIPA table 1.1.4, line 2)
Nominal disposable income growth	Bureau of Economic Analysis (NIPA table 2.1, line 27)
Unemployment rate	Bureau of Labor Statistics (series LNS14000000)
CPI inflation rate	Bureau of Labor Statistics (series CUSR0000SA0)
3-month Treasury yield	Quarterly average of 3-month Treasury bill secondary market rate on a discount basis, H.15 Release, Selected Interest Rates, Federal Reserve Board (series RIFSGFSM03_N.B)
5-year Treasury yield	Quarterly average of the yield on 5-year U.S. Treasury bonds, constructed for the FRB/U.S. model by Federal Reserve staff based on the Svensson smoothed term structure model; see Lars E. O. Svensson (1995), "Estimating Forward Interest Rates with the Extended Nelson-Siegel Method," Quarterly Review, no. 3, Sveriges Riksbank, pp. 13–26
10-year Treasury yield	Quarterly average of the yield on 10-year U.S. Treasury bonds, constructed for the FRB/U.S. model by Federal Reserve staff based on the Svensson smoothed term structure model; see Lars E. O. Svensson (1995), "Estimating Forward Interest Rates with the Extended Nelson-Siegel Method," Quarterly Review, no. 3, Sveriges Riksbank, pp. 13–26
BBB corporate yield	Ice Data Indices, LLC, ICE BofA BBB US Corporate Index Effective Yield [BAMLC0A4CBBBEY], retrieved from FRED,

[162] Per https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20190213a1.pdf

	Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLC0A4CBBBEY[163]
Mortgage rate	Quarterly average of weekly series for the interest rate of a conventional, conforming, 30-year fixed-rate mortgage, obtained from the Primary Mortgage Market Survey of the Federal Home Loan Mortgage Corporation.
Prime rate	Quarterly average of monthly series, H.15 Release, Selected Interest Rates, Federal Reserve Board (series RIFSPBLP_N.M).
Dow Jones Total Stock Market Index (end-of-qtr value)	Dow-Jones
House Price Index	Price Index for Owner-Occupied Real Estate, CoreLogic National, Z.1 Release (Financial Accounts of the United States), Federal Reserve Board (series FL075035243.Q divided by 1000).
Commercial Real Estate Price Index	Commercial Real Estate Price Index, Z.1 Release (Financial Accounts of the United States), Federal Reserve Board (series FL075035503.Q divided by 1000).
Market Volatility Index (VIX)	VIX converted to quarterly frequency using the maximum close-of-day value in any quarter, Chicago Board Options Exchange.
Euro Area Real GDP Growth	Percent change in real gross domestic product at an annualized rate, staff calculations based on Statistical Office of the European Communities via Haver, extended back using ECB Area Wide Model dataset (ECB Working Paper series no. 42).
Euro Area Inflation	Percent change in the quarterly average of the harmonized index of consumer prices 16 Federal Reserve Supervisory Scenarios at an annualized rate, staff calculations based on Statistical Office of the European Communities via Haver.
Euro Area Bilateral Dollar Exchange Rate (USD/Euro)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.
Developing Asia Real GDP Growth	Percent change in real gross domestic product at an annualized rate, staff calculations based on Bank of Korea via Haver; Chinese National Bureau of Statistics via CEIC; Indian Central Statistical Organization via CEIC; Census and Statistics Department of Hong Kong via CEIC; and Taiwan Directorate-General of Budget, Accounting, and Statistics via CEIC.
Developing Asia Inflation	Percent change in the quarterly average of the consumer price index, or local equivalent, at an annualized rate, staff calculations based on Chinese National Bureau of Statistics

[163] Capitalytics does not have license to use the data referenced in https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20210212a1.pdf, specifically "Quarterly average of ICE BofAML U.S. Corporate 7-10 Year Yield-to-Maturity Index, ICE Data Indices, LLC, used with permission. (C4A4 series.)", but we use the referenced series as a proxy.

	via CEIC; Indian Ministry of Statistics and Programme Implementation via Haver; Labour Bureau of India via CEIC; National Statistical Office of Korea via CEIC; Census and Statistic Department of Hong Kong via CEIC; and Taiwan Directorate General of Budget, Accounting, and Statistics via CEIC.
Developing Asia bilateral dollar exchange rate (F/USD, index)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.
Japan Real GDP Growth	Percent change in gross domestic product at an annualized rate, Cabinet Office via Haver.
Japan Inflation	Percent change in the quarterly average of the consumer price index at an annualized rate, staff calculations based on Ministry of Internal Affairs and Communications via Haver.
Japan Bilateral Dollar Exchange Rate (Yen/USD)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.
UK Real GDP Growth	Percent change in gross domestic product at an annualized rate, Office for National Statistics via Haver.
UK Inflation	Percent change in the quarterly average of the consumer price index at an annualized rate, staff calculations based on Office for National Statistics via Haver.
UK Bilateral Dollar Exchange Rate (USD/Pound)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.

The above dataset from the Federal Reserve can be downloaded manually or automatically. Manual downloads of the 2026 Final historic files are available at https://www.federalreserve.gov/supervisionreg/files/2026_Final_Historic_Domestic.csv and https://www.federalreserve.gov/supervisionreg/files/2026_Final_Historic_International.csv (shown below, as of 18 September 2026) by selecting the links marked “2026 Historic Domestic (CSV): Final” and “2026 Historic International (CSV): Final” on https://www.federalreserve.gov/supervisionreg/dfa-stress-tests-2026.htm.[164]

2026 Final Historic Domestic (CSV) — Actuals, 2024 Q1–2025 Q4

Federal Reserve Board, Table 2.A | collected 18 September 2026 | 2026_Final_Historic_Domestic.csv

Date	Real GDP	Nom. GDP	Real DPI	Nom. DPI	U-rate	CPI	3m	5y	10y	BBB	Mort.	Prime	DJTSM	HPI	CRE	VIX
2024 Q1	0.8	4	4.2	7.9	3.8	3.7	5.2	4.1	4.2	5.6	6.7	8.5	52402.9	314.2	303.8	15.9
2024 Q2	3.6	6.3	2.4	5.1	4	2.8	5.2	4.5	4.5	5.8	7	8.5	53915.7	316.3	307.1	19.2
2024 Q3	3.3	5.1	1.2	3	4.2	1.4	5	3.8	4	5.3	6.5	8.4	57046.4	319	302.5	38.6
2024 Q4	1.9	4.3	2	4.6	4.1	3	4.4	4.1	4.3	5.4	6.6	7.8	58399.3	322	303.1	27.6
2025 Q1	-0.6	2.9	2.3	5.8	4.1	3.8	4.2	4.3	4.5	5.6	6.8	7.5	55374.9	322.4	294.7	27.9
2025 Q2	3.8	6	1.8	4	4.2	1.6	4.2	4	4.4	5.7	6.8	7.5	61309.5	322	289.6	52.3
2025 Q3	4.3	8.2	0	2.8	4.3	3.1	4.1	3.8	4.3	5.3	6.6	7.5	66145.7	322.9	302.9	20.4
2025 Q4	1	4	1.1	3.9	4.5	2.8	3.7	3.7	4.1	5.1	6.2	7	67501.5	323.4	305.8	26.4

[164] Again, due to the requirements of this client, international data elements are not being discussed in this document.

Since the CCAR historic dataset is released with the annual supervisory scenarios (Actuals through 2025 Q4 in the 2026 Final vintage), and Capitalytics provides quarterly updates to its forecasts, the CCAR dataset is supplemented after that vintage by the public-agency sources shown below. As of this writing the Fed vintage ends 31 December 2025; complete post-vintage quarters with a BEA real-GDP print are 2026 Q1 and 2026 Q2.

Table 6: Supplementary Data Sources for Data Attributes

Attribute	Supplementary Data Source
Real GDP growth	Bureau of Economic Analysis (NIPA table 1.1.6, line 1)
Nominal GDP growth	Bureau of Economic Analysis (NIPA table 1.1.5, line 1)
Real disposable income growth	Bureau of Economic Analysis (NIPA table 2.1, line 27, and NIPA table 1.1.4, line 2)
Nominal disposable income growth	Bureau of Economic Analysis (NIPA table 2.1, line 27)
Unemployment rate	Bureau of Labor Statistics (series LNS14000000)
CPI inflation rate	Bureau of Labor Statistics (series CUSR0000SA0)
3-month Treasury yield	Quarterly average of 3-month Treasury bill secondary market rate on a discount basis, H.15 Release
5-year Treasury yield	Federal Reserve Economic Research website (https://fred.stlouisfed.org/series/GS5), with “Quarterly” frequency and “Average” aggregation method
10-year Treasury yield	Federal Reserve Economic Research website (https://fred.stlouisfed.org/series/GS10), with “Quarterly” frequency and “Average” aggregation method
BBB corporate yield	Federal Reserve Economic Research website (https://fred.stlouisfed.org/series/BAMLC0A4CBBBEY), with “Quarterly” frequency and “Average” aggregation method
Mortgage rate	Federal Reserve Economic Research website (https://fred.stlouisfed.org/series/MORTGAGE30US), with “Quarterly” frequency and “Average” aggregation method
Prime rate	Federal Reserve Economic Research website (https://fred.stlouisfed.org/series/MPRIME), with “Quarterly” frequency and “Average” aggregation method
Dow Jones Total Stock Market Index (end-of-qtr value)	Dow-Jones as provided by the Wall Street Journal (https://quotes.wsj.com/index/DWCF/advanced-chart)
House Price Index	https://data.nasdaq.com/data/FED/FL075035243_Q-interest-rates-and-price-indexes-owneroccupied-real-estate-corelogic-national-sa-quarterly-levels-nsa
Commercial Real Estate Price Index	https://data.nasdaq.com/data/FED/FL075035503_Q-interest-rates-and-price-indexes-commercial-real-estate-price-index-quarterly-levels-nsa

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Market Volatility Index (VIX)	Federal Reserve Economic Research website (https://fred.stlouisfed.org/series/VIXCLS), with "Quarterly" frequency and "Average" aggregation method
Euro Area Real GDP Growth	Quarterly series for "European Union GDP Annual Growth Rate" per tradingeconomics.com
Euro Area Inflation	Quarterly average of monthly series for "European Union Inflation Rate" per tradingeconomics.com
Euro Area Bilateral Dollar Exchange Rate (USD/Euro)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.
Developing Asia Real GDP Growth	The nominal GDP-weighted aggregate of the Real GDP growth for China, India, South Korea, Hong Kong Special Administrative Region, and Taiwan per OECD
Developing Asia Inflation	The nominal GDP-weighted aggregate of the inflation rate for China, India, South Korea, Hong Kong Special Administrative Region, and Taiwan per OECD
Developing Asia bilateral dollar exchange rate (F/USD, index)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.
Japan Real GDP Growth	Quarterly average of monthly series for "Japan GDP Growth Rate" per tradingeconomics.com
Japan Inflation	Quarterly average of monthly series for "Japan Inflation Rate" per tradingeconomics.com
Japan Bilateral Dollar Exchange Rate (Yen/USD)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.
UK Real GDP Growth	Quarterly average of monthly series for "United Kingdom GDP Growth Rate" per tradingeconomics.com
UK Inflation	Quarterly average of monthly series for "United Kingdom Inflation Rate" per tradingeconomics.com
UK Bilateral Dollar Exchange Rate (USD/Pound)	End-of-quarter rates from the H.10 Release, Foreign Exchange Rates, Federal Reserve Board.

While all data that is required for the Annual Stress Tests is available from the 2026 Final historic CSVs cited above, Capitalytics provides 13 additional metrics per the information in the following table. These values are available from the point at which they are collected (which varies from metric to metric) through the latest complete print as of this draft (monthly series through August 2026 where published; quarterly series through 2Q2026).

Table 7: Supplementary Data Attributes and Sources

Attribute	Capitalytics' Source
1-month Treasury yield	https://fred.stlouisfed.org/series/dgs1mo
6-month Treasury yield	https://fred.stlouisfed.org/series/dgs6mo
1-year Treasury yield	https://fred.stlouisfed.org/series/dgs1
3-year Treasury yield	https://fred.stlouisfed.org/series/dgs3
7-year Treasury yield	https://fred.stlouisfed.org/series/dgs7

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20-year Treasury yield	https://fred.stlouisfed.org/series/dgs20
30-year Treasury yield	https://fred.stlouisfed.org/series/dgs30
US Average Retail Gasoline Price ($/gal; all grades, all formulations)	https://fred.stlouisfed.org/series/gasallm
S&P 500 Stock Price Index	https://fred.stlouisfed.org/series/sp500
Primary Credit	https://fred.stlouisfed.org/series/FEDFUNDS
Moody's AAA Rate	https://fred.stlouisfed.org/series/aaa
Moody's BAA Rate	https://fred.stlouisfed.org/series/baa
Dow Jones Total Industrial Average	https://fred.stlouisfed.org/series/djia

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Appendix B: Methodologies

Capitalytics uses non-structured macroeconomic forecasting techniques in order to prepare its clients for what trends and relationships drive certain metrics, and what values those metrics may take on in the coming months.

Section I: General Forecasting Methodology

Generally, the most effective overall forecasting techniques have been found to be a hybridization of multiple other techniques. Capitalytics uses several forecasting schemes, and aggregates the results, as part of its analysis methodology. This section describes the process that is executed for generating these results.

For each metric, four distinct forecasts are produced.

1. The first forecast uses the full quarterly history of the metric as an input to an additive exponential smoothing representation. The process that is executed is that provided by R's[165] "forecast" package[166]; specifically, the "ets" function (see p.39 of https://cran.r-project.org/web/packages/forecast/forecast.pdf)[167] is designed to automatically determine the best fitting representation out of the "Generic 'ETS' Methodology" (discussed later in this section), including optimal parameters thereto, given a sequence of values. In our work, we have restricted our study to only "additive" forms (i.e., we set "`additive.only`=TRUE" in our calls), and our optimization criteria is set to the mean of absolute residuals (i.e., "`opt.crit=mae`"). Therefore, calls to generate our estimates through this procedure look something like the following command, where "s" is an appropriately populated array, vector, time series, or similar object.

```
> m<–ets(s, model='ZZZ', opt.crit=c('mae'), additive.only=TRUE)
```

   The results of this call are shown above each dataset, including the representation type returned (as described later this section), the initial values that are used by the software, the optimal smoothing parameters estimated, and the *n+1*st forecasted value given the first *n* values of the metric's sequence (the "fitted" values)[168], and the determined parameters. While fitting forecasts to previous values,
   - "forecast error" is defined as being actual values less forecasted values,
   - "% error" is defined as forecast error divided by actual value, and

[165] As of this writing, v.4.1.2 of the "R" language is available at https://cran.r-project.org/.

[166] As of this writing, v.8.16 of the forecast package is available at https://CRAN.R-project.org/package=forecast.

[167] It should be noted that Microsoft's Excel software includes a FORECAST.ETS function which is documented as potentially producing comparable results; however, we have not been able to re-create its output independently, and, given the documentation, flexibility, and source availability of the R packages, Capitalytics has decided that it is a preferable option at this time.

[168] While this procedure does generate fitted values for intermediate samples within a sequence -- and allow for generating a forecasted set of samples to extend a sequence – according to the identified parameter set, it does not directly provide for determining the optimal parameter set of a sub-sequence. Capitalytics is currently codifying the process herein so that we may prescribe a "most likely" long term representation for each forecast, and determine the likely effects of errors in the forecasts by estimating the "recent term" values of dy/dx_i (where y is the metric being estimated and x_i is each of the parameters within the representation) and then compensating for recent quantified errors. We can also consider how "finite" a window to account for in building a set of parameters; these representations are theoretically using all history in building a forecast, but the values for alpha, beta, etc. implicitly give an indication of how much history of a metric is truly impacting a specific value.

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- "score" is defined as mean absolute forecast error over an appropriate range (generally the duration of the collected past values, less the first two to four years of collected values)[169].

2. The second forecast uses the differences between successive quarterly values in order to forecast the future quarterly differences. It should be noted that these sequences are (obviously) one data-point shorter than those in the preceding procedure. These values are forecasted using the same procedure as described in the first section, with forecasted values for the actual metric being built using the last known value for the metric and forecasts of incremental changes to the metric provided.

   An edited example for loading the SP500 end-of quarter values, and the differences between successive quarterly values, is shown below.

```
> sp<-c(130.659129, 1250.520109, 998.4076848, 812.047, 799.5264066, 927.5045326,
1041.372826, … )
> sp_ts<-ts(sp,freq=4,end=c(2017,4))
> sp_ts
   Qtr1      Qtr2      Qtr3      Qtr4
2008           130.6591 1250.5201  998.4077
2009  812.0470  799.5264  927.5045 1041.3728
…

> m<-ets(sp_ts,model='ZZZ',opt.crit=c('mae'),additive.only=TRUE)
> dsp_ts<-diff(sp_ts)
> dsp_ts
    Qtr1        Qtr2        Qtr3        Qtr4
2008                    1119.860980 -252.112424
2009 -186.360685  -12.520593  127.978126  113.868293
…

> m<-ets(dsp_ts,model='ZZZ',opt.crit=c('mae'),additive.only=TRUE
```

3. The third forecast uses the sequence of numbers from the second forecast, but partitions the dataset based on the quarter in which they are incurred. Assuming that the differences between quarters are associated with the ending points of each quarter (i.e., the difference between third and fourth quarter values are associated with a date of December 31st), four sequences of numbers are now created, with annual forecasts now being produced for each sequence using the same procedures as previously outlined. The final sequence appropriately interleaves the forecasted data-points.

4. The fourth forecast builds three sequences of values based the history of the metric to an observed point:

   - the slope of the "best fitting" line (based on minimizing the total absolute error) using the immediately preceding 2 years of values[170];
   - the same slope using the immediately preceding 4 years of values; and,
   - the same slope using the immediately preceding 8 years of values.

   While two years of data would provide for a relatively responsive change in aggregate values to be reflected given a change in the economic conditions, eight years of data (a not unreasonable

[169] It bears noting that a lower value for the "score" indicates better accuracy of an algorithm.

[170] The value for this slope is calculated using Microsoft Excel's SLOPE function, with the first argument being the appropriate number of preceding values for the metric, and the second argument being the same number of corresponding "end-of-quarter" dates.

estimate for an "economic cycle") would allow for a much more slowly moving change in average window for a counterbalance.
Using these datasets independently, we are able to use our previous procedure to generate forecasts for each slope, and then average the results on a quarterly basis. Multiplying the average slope by the duration of the following quarter (in days) provides an estimate for the change in the metric's value during that following quarter, just as in our second forecast. Obviously, this technique requires at least eight years of data to pass before being able to produce any data. However, in order to err on the side of conservatism, we generally allow a sequence to "mature" for two to four years before believing that its initial transience has become less significant and its results are trustworthy. If a dataset does not have enough data to complete one of these analyses, the analysis is dropped. In other words, if the metric does not have +/-11 years of data available, the 8-year slopes cannot be reliably calculated, and the average slope is only based on the 2- & 4-year slopes[171].

5. In some cases, we may find variables with extremely tight cross-connections that can be justified as part of their nature (treasury bill yield rates, for example, with a magnitude or correlation greater than ~0.95). In these cases, we are able to additionally enhance our forecast by building a forecast that expresses one variable (the "dependent" variable, *y(t)*) in terms of another (the "independent" variable, *x(t)*) with a coefficient of determination (R^2), such that

$$y(t) = m(t) * x(t) + b(t) .$$

Notice that the "slope" and "intercept" terms in this expression are time varying expressions that are re-evaluated with each data-point, not simply constants.

By averaging the results of these distinct forecasts in order to provide an aggregate forecast, the error for which can be characterized and measured, Capitalytics aims to provide a robust dataset that can be used for future business decisions.
It was stated earlier that Capitalytics uses each metric's complete history in order to generate a matching representation and forecast. It should be recognized that we also perform the same analyses for periods starting no more than 100, 80, 60, and 40 quarters prior to the forecasted period. However, we have found the results of all of these analyses are more reactionary and less coherent than that already presented within this report.

Section II: Exponentially Smoothed State Space Representations & Generic "ETS" Methodology

Exponential smoothing was proposed in the late 1950s (Brown 1959, Holt 1957 and Winters 1960 are key pioneering works) and has motivated some of the most successful forecasting methods. Forecasts produced using exponential smoothing methods are weighted averages of past observations, with the weights decaying exponentially as the observations get older. In other words, the more recent the observation the higher the associated weight. (See the following equation for one example of this type of equation which requires $0 \le \alpha \le 1$, and estimates future values of $\hat{y}$ given a history of values denoted as y_t. The ε_{T+1} term denotes an error term, the *residual*, which determines the value of the forecasting function.) This framework generates reliable forecasts quickly and for a wide spectrum of time series.

$$\hat{y}_{T+1|T} = \alpha y_T + \alpha(1-\alpha)y_{T-1} + \alpha(1-\alpha)^2 y_{T-2} + \cdots + \varepsilon_{T+1}$$

[171] See the SP500 metric's analysis.

In this study, the relevance of quarterly samples more than 3 years old is eliminated by setting the number of terms in this type of expression to no more than 13.
The challenge with these forecasting techniques is to estimate the value of α such that some criteria is optimized, e.g., minimizing the sum of squared errors (SSE), across all values of a set of historical values. There are other forms of exponential smoothing methods that may account for any combination of forecasting *levels* (as in the Theta method), *trends* (for which a metric may, for instance, be growing or lessening according to a linear or higher order function), and *seasonality* (for which a metric may have engrained "cycles" on, e.g., a monthly, quarterly, or annual basis).

By considering variations in the combination of the trend and seasonal components, fifteen exponential smoothing methods are possible. Each method is labelled by a pair of letters (T,S) defining the type of 'Trend' and 'Seasonal' components. For example, (A,M) is the method with an additive trend and multiplicative seasonality; (M,N) is the method with multiplicative trend and no seasonality; and so on. Per Section 7.6 of Hyndman & Athanasopoulos, some of these methods are well known per the following table.

Table 18: Mathematical Methods Associated with Trend & Seasonal Components

Trend & Seasonal Components	Method
(N,N)	simple exponential smoothing
(A,N)	Holts linear method
(M,N)	Exponential trend method
(A_d,N)	additive damped trend method
(M_d,N)	multiplicative damped trend method
(A,A)	additive Holt-Winters method
(A,M)	multiplicative Holt-Winters method
(A_d,M)	Holt-Winters damped method

Additionally, the following table (again from Section 7.6 of Hyndman & Athanasopoulos) gives the recursive formulae for applying all possible fifteen exponential smoothing methods. Each cell includes the forecast equation for generating h-step-ahead forecasts and the smoothing equations for applying the method. By recursively applying the appropriate expressions to generate consecutive forecasts, this framework can be an extremely powerful tool.

Section III: Regression Construction

Capitalytics also generates a regression to estimate future values of the variables that we track in terms of current-day values. By using R's "lm" function, we estimate the next quarter's values for each variable in terms of the preceding set of variables' values. These regressions are built using the immediately preceding 57 sets of variables' values.

Each output variable is considered in turn as the response variable, with all other variables as possibilities for the control (independent) variables *excluding* any variables that have an 80% correlation with the response variable. Successive linear regressions are built; if any of the control variables' p-

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values exceed 5%, or if the model's p-value exceeds 5% and the number of considered control variables is greater than one, the most offensive control variable is dropped, and the regression is re-run.

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Trend	Seasonal		
	N	**A**	**M**
N	$\hat{y}_{t+h\|t} = \ell_t$ $\ell_t = \alpha y_t + (1-\alpha)\ell_{t-1}$	$\hat{y}_{t+h\|t} = \ell_t + s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t - s_{t-m}) + (1-\alpha)\ell_{t-1}$ $s_t = \gamma(y_t - \ell_{t-1}) + (1-\gamma)s_{t-m}$	$\hat{y}_{t+h\|t} = \ell_t s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t / s_{t-m}) + (1-\alpha)\ell_{t-1}$ $s_t = \gamma(y_t / \ell_{t-1}) + (1-\gamma)s_{t-m}$
A	$\hat{y}_{t+h\|t} = \ell_t + hb_t$ $\ell_t = \alpha y_t + (1-\alpha)(\ell_{t-1} + b_{t-1})$ $b_t = \beta^*(\ell_t - \ell_{t-1}) + (1-\beta^*)b_{t-1}$	$\hat{y}_{t+h\|t} = \ell_t + hb_t + s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t - s_{t-m}) + (1-\alpha)(\ell_{t-1} + b_{t-1})$ $b_t = \beta^*(\ell_t - \ell_{t-1}) + (1-\beta^*)b_{t-1}$ $s_t = \gamma(y_t - \ell_{t-1} - b_{t-1}) + (1-\gamma)s_{t-m}$	$\hat{y}_{t+h\|t} = (\ell_t + hb_t)s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t / s_{t-m}) + (1-\alpha)(\ell_{t-1} + b_{t-1})$ $b_t = \beta^*(\ell_t - \ell_{t-1}) + (1-\beta^*)b_{t-1}$ $s_t = \gamma(y_t / (\ell_{t-1} + b_{t-1})) + (1-\gamma)s_{t-m}$
A_d	$\hat{y}_{t+h\|t} = \ell_t + \phi_h b_t$ $\ell_t = \alpha y_t + (1-\alpha)(\ell_{t-1} + \phi b_{t-1})$ $b_t = \beta^*(\ell_t - \ell_{t-1}) + (1-\beta^*)\phi b_{t-1}$	$\hat{y}_{t+h\|t} = \ell_t + \phi_h b_t + s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t - s_{t-m}) + (1-\alpha)(\ell_{t-1} + \phi b_{t-1})$ $b_t = \beta^*(\ell_t - \ell_{t-1}) + (1-\beta^*)\phi b_{t-1}$ $s_t = \gamma(y_t - \ell_{t-1} - \phi b_{t-1}) + (1-\gamma)s_{t-m}$	$\hat{y}_{t+h\|t} = (\ell_t + \phi_h b_t)s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t / s_{t-m}) + (1-\alpha)(\ell_{t-1} + \phi b_{t-1})$ $b_t = \beta^*(\ell_t - \ell_{t-1}) + (1-\beta^*)\phi b_{t-1}$ $s_t = \gamma(y_t / (\ell_{t-1} + \phi b_{t-1})) + (1-\gamma)s_{t-m}$
M	$\hat{y}_{t+h\|t} = \ell_t b_t^h$ $\ell_t = \alpha y_t + (1-\alpha)\ell_{t-1}b_{t-1}$ $b_t = \beta^*(\ell_t / \ell_{t-1}) + (1-\beta^*)b_{t-1}$	$\hat{y}_{t+h\|t} = \ell_t b_t^h + s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t - s_{t-m}) + (1-\alpha)\ell_{t-1}b_{t-1}$ $b_t = \beta^*(\ell_t / \ell_{t-1}) + (1-\beta^*)b_{t-1}$ $s_t = \gamma(y_t - \ell_{t-1}b_{t-1}) + (1-\gamma)s_{t-m}$	$\hat{y}_{t+h\|t} = \ell_t b_t^h s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t / s_{t-m}) + (1-\alpha)\ell_{t-1}b_{t-1}$ $b_t = \beta^*(\ell_t / \ell_{t-1}) + (1-\beta^*)b_{t-1}$ $s_t = \gamma(y_t / (\ell_{t-1}b_{t-1})) + (1-\gamma)s_{t-m}$
M_d	$\hat{y}_{t+h\|t} = \ell_t b_t^{\phi_h}$ $\ell_t = \alpha y_t + (1-\alpha)\ell_{t-1}b_{t-1}^{\phi}$ $b_t = \beta^*(\ell_t / \ell_{t-1}) + (1-\beta^*)b_{t-1}^{\phi}$	$\hat{y}_{t+h\|t} = \ell_t b_t^{\phi_h} + s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t - s_{t-m}) + (1-\alpha)\ell_{t-1}b_{t-1}^{\phi}$ $b_t = \beta^*(\ell_t / \ell_{t-1}) + (1-\beta^*)b_{t-1}^{\phi}$ $s_t = \gamma(y_t - \ell_{t-1}b_{t-1}^{\phi}) + (1-\gamma)s_{t-m}$	$\hat{y}_{t+h\|t} = \ell_t b_t^{\phi_h} s_{t-m+h_m^+}$ $\ell_t = \alpha(y_t / s_{t-m}) + (1-\alpha)\ell_{t-1}b_{t-1}^{\phi}$ $b_t = \beta^*(\ell_t / \ell_{t-1}) + (1-\beta^*)b_{t-1}^{\phi}$ $s_t = \gamma(y_t / (\ell_{t-1}b_{t-1}^{\phi})) + (1-\gamma)s_{t-m}$

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Appendix C: Variable Correlations

The following table shows the correlation factors between all of the listed variables for which the absolute value of the correlation is greater than 0.6, indicating a noteworthy degree of correlation. As is discussed in Appendix B of this report, (absolute) correlations greater than 0.95 warrant further investigation as the relationship between variables may be useful for our research.

Table 8: Correlation Factors found as of 2Q2026

Variable 1	Variable 2	Correlation
S&P 500 Stock Price Index	Cost of Federal Funds	0.611947
S&P 500 Stock Price Index	Moody's AAA Yield	0.653077
S&P 500 Stock Price Index	US 30-year Fixed Interest Mortgage Rate	0.655434
S&P 500 Stock Price Index	**Prime Rate**	**0.623475**
S&P 500 Stock Price Index	Dow-Jones Total Stock Market Index	0.985581
S&P 500 Stock Price Index	US Nat'l Residential Home Price Index	0.920098
S&P 500 Stock Price Index	Average Retail Gasoline Price (all grades)	0.614346
S&P 500 Stock Price Index	30-year Treasury Yield	0.710657
S&P 500 Stock Price Index	20-year Treasury Yield	0.729529
S&P 500 Stock Price Index	10-year Treasury Yield	0.662015
S&P 500 Stock Price Index	1-month Treasury Yield	0.620308
S&P 500 Stock Price Index	7-year Treasury Yield	0.633365
S&P 500 Stock Price Index	3-month Treasury Yield	0.600802
S&P 500 Stock Price Index	5-year Treasury Yield	0.607872
Cost of Federal Funds	Moody's AAA Yield	0.753027
Cost of Federal Funds	Moody's BAA Yield	0.689991
Cost of Federal Funds	**BofA BBB Corporate Yield**	**0.722882**
Cost of Federal Funds	US 30-year Fixed Interest Mortgage Rate	0.868577
Cost of Federal Funds	**Prime Rate**	**0.996245**
Cost of Federal Funds	10-year Treasury Yield	0.821820
Cost of Federal Funds	**1-month Treasury Yield**	**0.991513**
Cost of Federal Funds	7-year Treasury Yield	0.787012
Cost of Federal Funds	**3-month Treasury Yield**	**0.995718**
Cost of Federal Funds	5-year Treasury Yield	0.900799
Cost of Federal Funds	**6-month Treasury Yield**	**0.989485**
Cost of Federal Funds	**3-year Treasury Yield**	**0.926298**
Cost of Federal Funds	1-year Treasury Yield	0.980502
Moody's AAA Yield	**Moody's BAA Yield**	**0.978433**
Moody's AAA Yield	BofA BBB Corporate Yield	0.946962
Moody's AAA Yield	US 30-year Fixed Interest Mortgage Rate	0.957361
Moody's AAA Yield	Prime Rate	0.726698
Moody's AAA Yield	US Nat'l Residential Home Price Index	-0.667405
Moody's AAA Yield	US Nat'l Commercial Real Estate Index	-0.800793
Moody's AAA Yield	**Average Retail Gasoline Price (all grades)**	**-0.676224**
Moody's AAA Yield	**30-year Treasury Yield**	**0.967571**
Moody's AAA Yield	**20-year Treasury Yield**	**0.967129**
Moody's AAA Yield	10-year Treasury Yield	0.982641
Moody's AAA Yield	7-year Treasury Yield	0.860666
Moody's AAA Yield	3-month Treasury Yield	0.747308
Moody's AAA Yield	5-year Treasury Yield	0.935489
Moody's AAA Yield	**3-year Treasury Yield**	**0.639461**
Moody's BAA Yield	BofA BBB Corporate Yield	0.983305
Moody's BAA Yield	US 30-year Fixed Interest Mortgage Rate	0.925878
Moody's BAA Yield	Prime Rate	0.662455
Moody's BAA Yield	Dow-Jones Total Stock Market Index	-0.606299
Moody's BAA Yield	US Nat'l Residential Home Price Index	-0.678911
Moody's BAA Yield	US Nat'l Commercial Real Estate Index	-0.790827
Moody's BAA Yield	Average Retail Gasoline Price (all grades)	-0.654701
Moody's BAA Yield	30-year Treasury Yield	0.857564
Moody's BAA Yield	20-year Treasury Yield	0.864992

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Moody's BAA Yield	10-year Treasury Yield	0.943938
Moody's BAA Yield	7-year Treasury Yield	0.729248
Moody's BAA Yield	3-month Treasury Yield	0.681968
Moody's BAA Yield	**5-year Treasury Yield**	**0.881885**
Real GDP Growth Rate	**Nominal GDP Growth Rate**	**0.957535**
Real Disposable Income Growth Rate	Nominal Disposable Income Growth Rate	0.973010
US Nat'l Unemployment Rate (annualized)	1-month Treasury Yield	-0.600776
US Nat'l Unemployment Rate (annualized)	6-month Treasury Yield	-0.621891
US Nat'l Unemployment Rate (annualized)	1-year Treasury Yield	-0.630962
BofA BBB Corporate Yield	US 30-year Fixed Interest Mortgage Rate	0.925115
BofA BBB Corporate Yield	Prime Rate	0.697771
BofA BBB Corporate Yield	US Nat'l Residential Home Price Index	-0.601032
BofA BBB Corporate Yield	US Nat'l Commercial Real Estate Index	-0.698370
BofA BBB Corporate Yield	30-year Treasury Yield	0.763127
BofA BBB Corporate Yield	20-year Treasury Yield	0.798647
BofA BBB Corporate Yield	10-year Treasury Yield	0.923187
BofA BBB Corporate Yield	7-year Treasury Yield	0.724543
BofA BBB Corporate Yield	3-month Treasury Yield	0.716492
BofA BBB Corporate Yield	5-year Treasury Yield	0.880264
US 30-year Fixed Interest Mortgage Rate	Prime Rate	0.849550
US 30-year Fixed Interest Mortgage Rate	US Nat'l Commercial Real Estate Index	-0.627408
US 30-year Fixed Interest Mortgage Rate	**30-year Treasury Yield**	**0.879639**
US 30-year Fixed Interest Mortgage Rate	20-year Treasury Yield	0.922883
US 30-year Fixed Interest Mortgage Rate	**10-year Treasury Yield**	**0.980610**
US 30-year Fixed Interest Mortgage Rate	1-month Treasury Yield	0.767152
US 30-year Fixed Interest Mortgage Rate	**7-year Treasury Yield**	**0.958288**
US 30-year Fixed Interest Mortgage Rate	3-month Treasury Yield	0.872652
US 30-year Fixed Interest Mortgage Rate	5-year Treasury Yield	0.977478
US 30-year Fixed Interest Mortgage Rate	6-month Treasury Yield	0.786821
US 30-year Fixed Interest Mortgage Rate	3-year Treasury Yield	0.889510
US 30-year Fixed Interest Mortgage Rate	**1-year Treasury Yield**	**0.807862**
Prime Rate	10-year Treasury Yield	0.797528
Prime Rate	**1-month Treasury Yield**	**0.991620**
Prime Rate	7-year Treasury Yield	0.773389
Prime Rate	**3-month Treasury Yield**	**0.992565**
Prime Rate	5-year Treasury Yield	0.881454
Prime Rate	**6-month Treasury Yield**	**0.988342**
Prime Rate	3-year Treasury Yield	0.917394
Prime Rate	1-year Treasury Yield	0.977565
Dow-Jones Total Stock Market Index	US Nat'l Residential Home Price Index	0.936547
Dow-Jones Total Stock Market Index	**US Nat'l Commercial Real Estate Index**	**0.854159**
Dow-Jones Total Stock Market Index	Average Retail Gasoline Price (all grades)	0.606336
US Nat'l Residential Home Price Index	US Nat'l Commercial Real Estate Index	0.944387
US Nat'l Residential Home Price Index	Average Retail Gasoline Price (all grades)	0.717852
US Nat'l Commercial Real Estate Index	Average Retail Gasoline Price (all grades)	0.764523
US Nat'l Commercial Real Estate Index	10-year Treasury Yield	-0.730496
US Nat'l Commercial Real Estate Index	5-year Treasury Yield	-0.625132
Average Retail Gasoline Price (all grades)	10-year Treasury Yield	-0.642572
Average Retail Gasoline Price (all grades)	**5-year Treasury Yield**	**-0.605495**
30-year Treasury Yield	**20-year Treasury Yield**	**0.990802**
30-year Treasury Yield	10-year Treasury Yield	0.958069
30-year Treasury Yield	7-year Treasury Yield	0.891940
30-year Treasury Yield	5-year Treasury Yield	0.809257
30-year Treasury Yield	**3-year Treasury Yield**	**0.680326**
20-year Treasury Yield	10-year Treasury Yield	0.983419
20-year Treasury Yield	7-year Treasury Yield	0.931120
20-year Treasury Yield	5-year Treasury Yield	0.862425
20-year Treasury Yield	3-year Treasury Yield	0.746174
20-year Treasury Yield	**1-year Treasury Yield**	**0.604282**
10-year Treasury Yield	1-month Treasury Yield	0.653427
10-year Treasury Yield	**7-year Treasury Yield**	**0.976785**
10-year Treasury Yield	3-month Treasury Yield	0.822998
10-year Treasury Yield	5-year Treasury Yield	0.978509

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10-year Treasury Yield	6-month Treasury Yield	0.676351
10-year Treasury Yield	3-year Treasury Yield	0.837323
10-year Treasury Yield	**1-year Treasury Yield**	**0.706057**
1-month Treasury Yield	7-year Treasury Yield	0.770049
1-month Treasury Yield	**3-month Treasury Yield**	**0.995731**
1-month Treasury Yield	5-year Treasury Yield	0.840757
1-month Treasury Yield	**6-month Treasury Yield**	**0.990300**
1-month Treasury Yield	3-year Treasury Yield	0.919695
1-month Treasury Yield	**1-year Treasury Yield**	**0.979627**
7-year Treasury Yield	3-month Treasury Yield	0.783886
7-year Treasury Yield	5-year Treasury Yield	0.985870
7-year Treasury Yield	6-month Treasury Yield	0.795011
7-year Treasury Yield	3-year Treasury Yield	0.929252
7-year Treasury Yield	**1-year Treasury Yield**	**0.822850**
3-month Treasury Yield	5-year Treasury Yield	0.906442
3-month Treasury Yield	**6-month Treasury Yield**	**0.997629**
3-month Treasury Yield	3-year Treasury Yield	0.935330
3-month Treasury Yield	**1-year Treasury Yield**	**0.990445**
5-year Treasury Yield	6-month Treasury Yield	0.869636
5-year Treasury Yield	3-year Treasury Yield	0.976017
5-year Treasury Yield	**1-year Treasury Yield**	**0.895586**
6-month Treasury Yield	**3-year Treasury Yield**	**0.947468**
6-month Treasury Yield	**1-year Treasury Yield**	**0.996822**
3-year Treasury Yield	**1-year Treasury Yield**	**0.966382**

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