U.S. ECONOMIC RECAP

THIRD QUARTER 2026

CURRENT ECONOMIC CONDITIONS COMMENTARY

The Federal Reserve publishes a report (known as the Beige Book) eight times per year that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The most recent *2026 Beige Book* publication, which was released on October 14, 2026, highlighted:

- Reports on economic activity varied among Districts: two reported moderate growth, three indicated modest growth, four showed slight growth, and three noted no significant change
- Robust, broad-based growth in manufacturing led the surge in activity; little growth was seen in other sectors
- Little or no change reported in overall consumer spending, with the majority driven by high-income households
- Even Districts reporting solid retail sales noted lower-income customers being more cautious with spending
- Flat to modestly lower auto sales in five of the six Districts that reported
- Tourism continued to grow, but some Districts noted a decline in sales from Canadian tourists

Overall, most District reports maintained a positive economic outlook for the coming months. Expectations tend to be for slight growth, weighted toward manufacturing and burdened by persistent uncertainties.



CONSUMER CONFIDENCE – THE BACKBONE OF THE U.S. ECONOMY

Consumers influence the U.S. economy immensely through their spending and savings decisions. As such, measures of consumer confidence may provide valuable information in discerning the economic outlook.

In the University of Michigan's *September 2026 Survey of Consumer Confidence*, Chief Economist, Joanne Hsu opined:

Consumers perceive rising pressures on their cost of living both now as well as the future. About 56% of consumers cited high prices as a negative factor for their personal finances, up from 53% last month and 44% a year ago. After declining for two straight months, spontaneous references to gasoline increased this month at 29% of consumers amid rising fuel prices. Unsolicited comments about tariffs rose for the second month in a row, from 24% in July to 36% in September. Looking ahead, consumers mentioning gasoline reported higher short-run inflation expectations than those who did not, with similar patterns for tariff mentions. Differences are limited to the one-year time horizon; long-run inflation expectations were comparably elevated whether or not consumers mentioned tariffs or gasoline.



CONSUMER PRICE INDEX (CPI)

The September 2026 Consumer Price Index (CPI) reading rose by 0.4% month-over-month and was up 0.6% year-over-year to 3.7%. The index for gasoline rose 9.1% in September, accounting for over half of the monthly all items increase. The energy index increased 5.2% over the month following a 2.1% increase in August. The shelter index rose 0.4% in September after rising 0.3% in August. The index for food was unchanged in September, with the index for food away from home increasing 0.2% and the index for food at home falling 0.1%. The index for all items less food and energy rose 0.3% in September. Indexes that increased over the month include recreation, used cars and trucks, education, airline fares, medical care, and apparel. The index for communication was among the small number of major indexes that decreased in September.

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MONETARY POLICY

Determined by the Federal Reserve's *Federal Open Market Committee (FOMC):*

In the *September 2026 Statement*, the FOMC noted:

Economic activity is expanding at a solid pace. While uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient.

Productivity growth is strong, and capital investment is robust. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

The Committee decided to maintain the target range for the federal funds rate at 3½% to 3¾%, in support of the Federal Reserve's dual mandate. The Committee reaffirmed its policy of maintaining ample reserves in the banking system.

Inflation remains elevated. Today's policy action will support a timelier return to the Committee's 2% goal. The Committee will deliver price stability.

INTEREST RATES (PRIME RATE)

The prime rate is often used as a base rate to price short-term business loans

In Q3 2026, *the prime rate* was 7.0%, resulting in the first increase since mid-December 2025. The Federal Reserve does not control the prime rate, but many banks base their prime rates partly on the target level of the federal funds rate.

PUBLIC MARKETS

In public markets, asset prices fluctuate with changes in future expectations.

Stock indices fluctuated over the third quarter of 2026:

- *S&P 500* closed September 30, 2026 up 2.0% (152.18 points) from Q2 2026
- *DJIA* contracted by 2.7% (1,413.15 points) as compared to the prior quarter end
- *NASDAQ* experienced the largest expansion, rising by 2.5% (647.34 points)

FORECAST BASED ON ECONOMIC INDICATORS

In September 2026, members of the FOMC submitted projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2026-2029 and over the longer run. These projections were based on information available at the time, assessment of appropriate monetary policy, and assumptions about other factors likely to affect economic outcomes.

The FOMC's September 2026 *Summary of Economic Projections* includes the following highlights:

The Federal Reserve's September 2026 economic projections indicate expectations for a period of moderate and stable economic growth through 2029, with real GDP growth projected to range from 2.1% to 2.4% annually. The unemployment rate is expected to remain steady at approximately 4.1%, suggesting a labor market that is balanced and near full employment. Inflation, as measured by PCE inflation, is projected to decline from 3.4% in 2026 to the Federal Reserve's long-run target of 2.0% by 2029, reflecting expectations of easing price pressures over time. Projected reductions in the federal funds rate from 4.1% in 2026 and 2027 to 3.6% by 2029 suggest an anticipated transition toward a less restrictive monetary policy environment as inflation moderates and economic conditions stabilize.

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MARKET IMPLIED INFLATION

The *Federal Reserve Bank of St. Louis* posts nominal and inflation-indexed constant maturity treasuries. Taking the difference between nominal yield and inflation-indexed yields provides a market-based estimate for inflation compensation over each maturing period. Below are the September 2026 results:

MARKET IMPLIED INFLATION					
	5 Year	7 Year	10 Year	20 Year	30 Year
Nominal Treasuries	4.93%	5.00%	5.08%	5.44%	5.39%
Treasury Inflation Protected Securities	2.60%	2.66%	2.74%	2.98%	3.13%
Market Implied Inflation	2.33%	2.34%	2.34%	2.46%	2.26%

Source: *FRED Selected Interest Rates Instruments, September 25, 2026*

TARIFFS

Tariffs and trade policy have been a primary topic of discussion over the last year.

These policies include broad global duties ranging from 10% to 41% to address trade deficits. As of the end of September 2026, the U.S. tariff environment remained complex, with import duties often consisting of multiple layers of base HTS duties, Section 301 tariffs, and Section 232 tariffs depending on the product, country of origin, and classification. A temporary 10% reciprocal surcharge implemented under Section 122 expired in July, reducing tariff costs for some importers, but significant duties remain in place on many imported goods. Tariffs continue to raise landed costs, influence sourcing decisions, and encourage companies to reevaluate supply chains, vendor relationships, and import strategies to mitigate the impact of elevated trade barriers.

SUPPLY CHAIN ACTIVITY

Measured by integrating manufacturing indicators and transportation cost data.

A high Global Supply Chain Pressure Index (GSCPI) indicates a tightening of the global supply chain, while a lower number shows relaxation. The GSCPI indicates that supply chain conditions were generally below historical norms throughout 2023 through 2025, with the index remaining mostly negative during that period.

In contrast, supply chain pressures have sharply increased in 2026, with the index rising from 0.36 in January to a peak of 1.81 in May. The index remained elevated at 1.28 in September 2026. Overall, the data suggests that global supply chain constraints have reemerged in 2026 after several years of relatively subdued pressure.

WAR IN THE MIDDLE EAST

As of September 30, 2026, the conflict in the Middle East continues to create economic uncertainty through its impact on global energy markets and supply chains. Disruptions to shipping and energy flows through the Strait of Hormuz, which normally handles a significant portion of global oil exports, have contributed to elevated oil prices, higher transportation costs, and persistent inflationary pressures. The International Energy Agency reported substantial reductions in Gulf oil production and inventories during September, while the U.S. Energy Information Administration subsequently increased its oil price forecasts due to continuing supply concerns and tight global energy markets.

CURRENT EMPLOYMENT CONDITIONS – ALL INDUSTRIES

The U.S. labor market, a key indicator of the strength of the economy, has remained relatively unchanged. The FOMC will keep an eye on these trends to review economic conditions.

The Bureau of Labor Statistics (BLS) reported that the September 2026 unemployment rate (4.2%) and number of unemployed persons (up by 29,000), changed little from August 2026. The number of people not in the labor force who wanted a job remained at 5.8 million.

Federal Reserve data indicated flat growth. Most Districts described little or no net change in overall employment levels and stable labor market conditions. Labor supply was generally adequate to meet demand; however, shortages persist for specialized, technical, and skilled trade workers. Five Districts reported that some firms had reduced staffing levels (through attrition), delayed hiring, or anticipated less job creation after increasing productivity by investing in AI.

Most Districts described moderate or modest growth in overall wages. Several Districts noted that inflation has spawned additional wage pressure in the form of higher cost-of-living demands from individuals as well as challenges from rising benefit costs. Staffing contacts in one District noted that workers were motivated to seek new jobs as wage increases lagged inflation.

The U.S. unemployment rate remained relatively stable during the period presented, increasing from the mid 3% range in 2023 to the low 4% range throughout 2024, 2025, and 2026. After reaching a recent peak of 4.4% in September 2025, the unemployment rate improved modestly during 2026, declining to 4.1% in July and August before increasing slightly to 4.2% in September 2026. Overall, the data suggests that labor market conditions have softened compared to 2023, but remain generally healthy by historical standards. Unemployment continues to fluctuate within a narrow range. The relatively stable unemployment rate indicates ongoing employment opportunities and a resilient labor market, supporting consumer spending and broader economic activity despite a slowing pace of job growth.



INDUSTRIAL PRODUCTION & MANUFACTURING

The Institute for Supply Management's (ISM) *Purchasing Managers Index* (PMI) can be used to determine whether the manufacturing sector of the economy is expanding or contracting. A reading above 47.5% generally indicates an expanding manufacturing economy, while a PMI below 47.5% denotes contraction.

The September PMI was 54.5%, a 0.1% decrease from the prior month. The ISM report for September also noted:

U.S. manufacturing activity remained in expansion territory. Of the five subindexes that make up the PMI, only New Orders and Employment grew faster than the previous month. In September, 40% of the comments were positive and 60% negative, with a 1-to-1.6 ratio of positive to negative sentiment. Among negative comments, pricing volatility was mentioned 46%, tariffs 34%, Iran war 30% and increasing lead times 21%; most comments mentioned multiple factors.

ANTICIPATED IMPACT OF AI

Artificial intelligence (AI) continues to be a significant driver of economic activity, investment, and corporate strategy across the United States. As of the end of 3Q 2026, businesses are investing heavily in AI infrastructure, software, and automation initiatives to enhance productivity, reduce costs, and improve competitiveness. AI is also influencing valuation methodologies, M&A activity, and private equity investment strategies as companies seek to capitalize on growth opportunities while mitigating potential disruption risks. While AI is creating substantial economic benefits with efficiency and innovation, it is also increasing competitive pressures on businesses whose products or services may become vulnerable to technological displacement.

PRIVATE EQUITY

Private equity remains as a strong influence on economic activity through investment, acquisition, and operational improvement initiatives across numerous industries. While elevated portfolio inventories and challenging exit conditions have slowed transaction activity, PE firms continue to actively pursue value creation opportunities, particularly through AI implementation and operational enhancement strategies. Efforts to improve portfolio company performance and generate liquidity support corporate transformation and business investments despite a challenging fundraising and exit environment. Looking ahead, AI-enabled value creation and alternative liquidity solutions may help drive renewed middle-market transaction activity and support economic growth.

HOUSING & NONRESIDENTIAL CONSTRUCTION

The *Dodge Momentum Index (DMI)* is issued monthly by Dodge Data & Analytics to measure the initial reports for non-residential building projects in planning, which have been shown to lead non-residential construction spending.

Highlights through September of 2026 include:

- The DMI was 3.7% higher than in September 2025
- Commercial & Institutional projects were up 20.2% compared to year-ago levels
- Removing data centers, the Commercial segment would be 14.9% higher than September 2025
- The DMI includes 45 projects valued at $100M+

A total of 45 projects valued at $100 million or more entered planning in September. The largest commercial projects were a $480 million Project North data center in Jermyn, PA and two $473 million data centers in Bastrop, TX. The largest institutional projects were the $346 million Duke Raleigh Hospital addition in Raleigh, NC, the $325 million Spartanburg Regional Heart and Vascular Hospital in Spartanburg, SC and the $319 million WakeMed Hospital in Wendell, NC.



Meet the Author: Allison (Ezbiansky) Morgan, CVA

As a Senior Analyst with GYF's Business Valuation & Litigation Support Services team, Allison performs risk identification, financial statement analysis, economic and industry research, and financial modeling as part of the process of valuing privately held companies for various purposes. Allison earned her BS/BA in Finance and Accounting from Robert Morris University's Honors Program and has obtained the Certified Valuation Analyst (CVA) credential.