

MARKET UPDATE

October 2026

Your three-minute snapshot of the U.S. economy including highlights, indicators, and economic trends and data that matter to public finance officials.

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More Rate Hikes on the Horizon?

Despite elevated inflation prints, surging government bond yields, and heightened geopolitical conflict, U.S. economic data remained resilient. That resilience reflects the strength of the economy, but it also complicates the Federal Open Market Committee's (FOMC) task of returning inflation to its 2% target.

Consumer spending remains healthy even as fuel prices surge, with retail sales increasing 0.8% month-over-month (MoM) in September on the headline and 0.2% MoM ex auto and gas. Another tailwind for the U.S. economy is the artificial intelligence (AI) buildout in which the U.S. economy is capturing a majority of the more than $1 trillion in total AI infrastructure spend in 2026 including a vast majority of the almost $800 billion in U.S. hyperscaler capex.

Headline inflation has jumped in tandem with the global energy supply shock, with September CPI increasing 0.6% MoM and 3.7% year-over-year (YoY) due primarily to a rise in fuel costs. Even when stripping out food & energy, core CPI rose 0.3% MoM and 2.6% YoY, remaining above the Fed's 2% target.

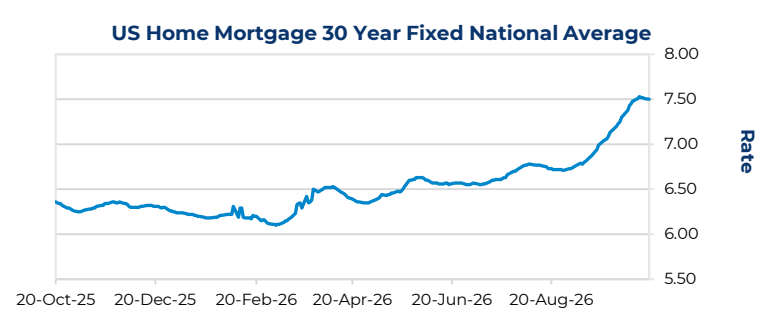
Nonfarm payrolls for September came in below expectations at +29k, with wage growth slowing to +0.1% MoM and unemployment rising to 4.2%. The rise in the unemployment rate was due to labor force participation increasing faster than employment. The labor market remains in a low fire/low hire dynamic but continues to defy expectations of any AI-related softening.

Inflation remaining above target along with a stable employment picture and continued strong economic growth pushed the FOMC to unanimously vote to raise the federal funds rate by 25 basis points at the September meeting. Chairman Warsh stated that the, "American economy appears to be strengthening," and that the committee wanted to, "remove a dose of accommodation." Fed funds futures currently have one additional 25 basis point (bps) hike priced in by the end of this year and another two full 25 bps hikes priced in by the end of 2027.

DATA POINT

What We're Watching This Month

The Bankrate.com Overnight National Average tracks 30-year fixed mortgage rates (with and without points) across all banks Bankrate surveys, calculated after each business day using the prior day's data.

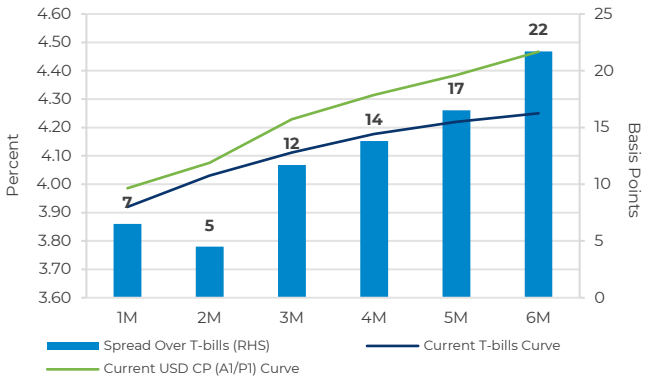


Economic Indicators

DATA	PERIOD	PRIOR VALUE	CURRENT VALUE
Fed Funds Target (Upper Bound)	10/15/2026	4.00%	4.00%
Consumer Price Index (YoY)	09/30/2026	3.40%	3.70%
U.S. Unemployment	09/30/2026	4.10%	4.20%
Home Price Index	07/30/2026	2.10%	2.47%
Non-Farm Payrolls	09/30/2026	162K	29K
Retail Sales	09/30/2026	1.20%	0.80%
Consumer Confidence	10/15/2026	48.1	46.3
GDP QoQ	06/30/2026	1.50%	2.20%

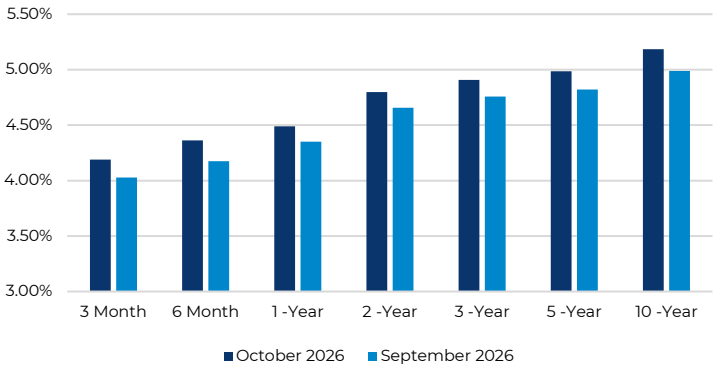
Source: Bloomberg

U.S. Money Market Curves



Source: Bloomberg

Historical Treasury Yields



Source: Bloomberg

Treasury Yields

Maturity	10/14/26	9/14/26	Change
3 Month	4.189%	4.029%	0.160%
6 Month	4.363%	4.175%	0.188%
1-Year	4.488%	4.350%	0.138%
2-Year	4.798%	4.658%	0.140%
3-Year	4.909%	4.756%	0.153%
5-Year	4.987%	4.822%	0.165%
10-Year	5.185%	4.988%	0.198%
30-Year	5.523%	5.345%	0.179%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

Maturity	10/14/26	9/14/26	Change
1 Month	3.969%	3.859%	0.110%
3 Month	4.227%	4.040%	0.187%
6 Month	4.496%	4.291%	0.205%
9 Month	4.715%	4.483%	0.232%

Source: Bloomberg

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Source: Bloomberg & FactSet. Data as of 10/15/2026. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. ***Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.***

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