



US Economy

The US economy is still shaking off the prolonged energy shock. Real GDP growth in the third quarter is estimated to be 3.7%. Capital investment in AI continues to be a major structural tailwind. The unabated data center build-out is buoying headline economic growth and helping pull the broader manufacturing sector out of its own recession. The September S&P Global Flash PMI report, showed meaningful acceleration in activity for both the manufacturing and services sectors.

Monetary Policy

The FOMC meeting in September last week produced the expected 25 bps fed funds rate hike and delivered some hawkish messaging around stubborn inflation. It appears Fed Chair Warsh effectively threaded the needle with his messaging as market reaction to the announcement and press conference was rather benign. With core PCE being quite a distance from the target at 3.0% heading into the fourth quarter, there is a high probability of at least one more federal funds rate hike in 2026.

Bond Markets

Long-term Treasury yields finally broke out of their five-year range as the 10-year yield climbed to over 5.2%, its highest level since before the global financial crisis and a full percentage point above where it began the year. Investors are becoming increasingly interested in both the asset class and extending duration within the asset class. The changing shape of the yield curve may provide an interesting signal, as a flattening could indicate slower economic growth and an eventual lower rate trajectory, while steepening is predictive of a stronger economy in which rates can move higher.

Equity Markets

Higher interest rates are indeed a valuation headwind that has been completely offset by very strong earnings growth. The approximately 30% earnings growth this year is unprecedented, as that type of growth only occurs when the economy is emerging from a recession. Earnings in 2027 are expected to slow from this base but still register 15% growth, led largely by the beneficiaries of the AI spending boom. Current valuation on these 2027 earnings is approximately 19x, which we consider fair at current interest-rate levels.

LBO Market Commentary

In October, U.S. leveraged buyout activity remains subdued following the Fed's September 16th rate hike, with markets pricing one to two more hikes by year-end. With the 10-year Treasury yield above 5.2%, higher borrowing costs continue to make LBO math harder. Sponsors are rotating toward lower-leverage sectors such as commercial services and industrials, with equity contributions rising to 67%. Lenders retain pricing power, as middle market LBO spreads widened to S+510-528 and software credits now price ~50 bps wide of other tech.

Forecast Provided by Cerity Partners

	Current	2025	2026 est.
Fed Funds Rate	3.88%		
US 10-Year Treasury Yield	5.27%		
S&P 500 Index	7,652		
HY Fixed Income Spread**	317 bps		
World GDP Growth Rate		3.25%	3.00%
US GDP Growth Rate		2.25%	2.20%

*Source: Factset

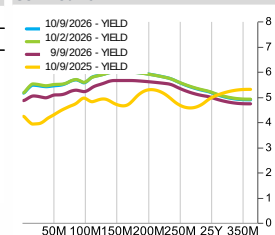
**High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10-Year Treasury Bond.

Rate Environment

Treasury Statistics/Rates

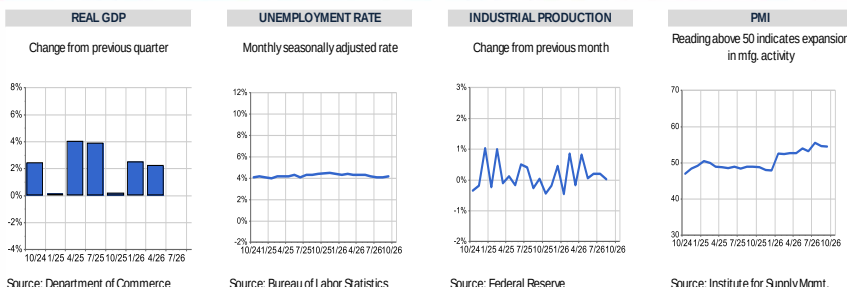
	Current	YTD %	Historical 52-Wk HI	Historical 52-Wk LO
USTreasury2yr	4.87%	1.40%	4.92%	3.39%
USTreasury5yr	5.07%	1.34%	5.07%	3.52%
USTreasury10yr	5.27%	1.11%	5.27%	3.95%
USTreasury30yr	5.62%	0.78%	5.62%	4.54%
SOFR- 3 Month	3.89%	0.24%	4.18%	3.60%
SOFR- 6 Month	3.95%	0.40%	4.06%	3.52%
SOFR- 12 Month	4.18%	0.68%	4.18%	3.42%

SOFR Curve



Treasury Statistics and SOFR Curve provided by Factset

Key Economic Data

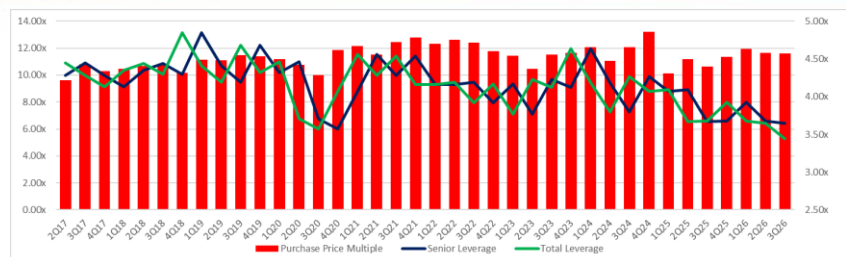


Equity Market Performance

Index	Current	% Change Last Week	% Change YTD	% Change 52 Week	52 Week HI	52 Week LO	Trailing P/E	Forward P/E	Current Yield
DOW	50,906	1.22%	7.19%	11.50%	46,397.89	46,397.89	20.18	18.38	0.00%
S&P500	7,652	2.79%	12.75%	15.74%	6,688.46	6,688.46	22.27	19.12	1.07%
NASDAQ	26,861	3.37%	21.01%	24.00%	22,660.01	22,660.01	28.35	22.28	0.00%
R2000	2,797	-2.06%	13.71%	16.20%	2,436.48	2,436.48	32.86	22.86	0.00%
VIX(S&P)	16	-2.16%	9.30%	0.37%	16.28	16.28	N/A	N/A	N/A

*Source: Factset

LBO Market Performance



LBO Market Data was provided by Refinitiv LPC

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