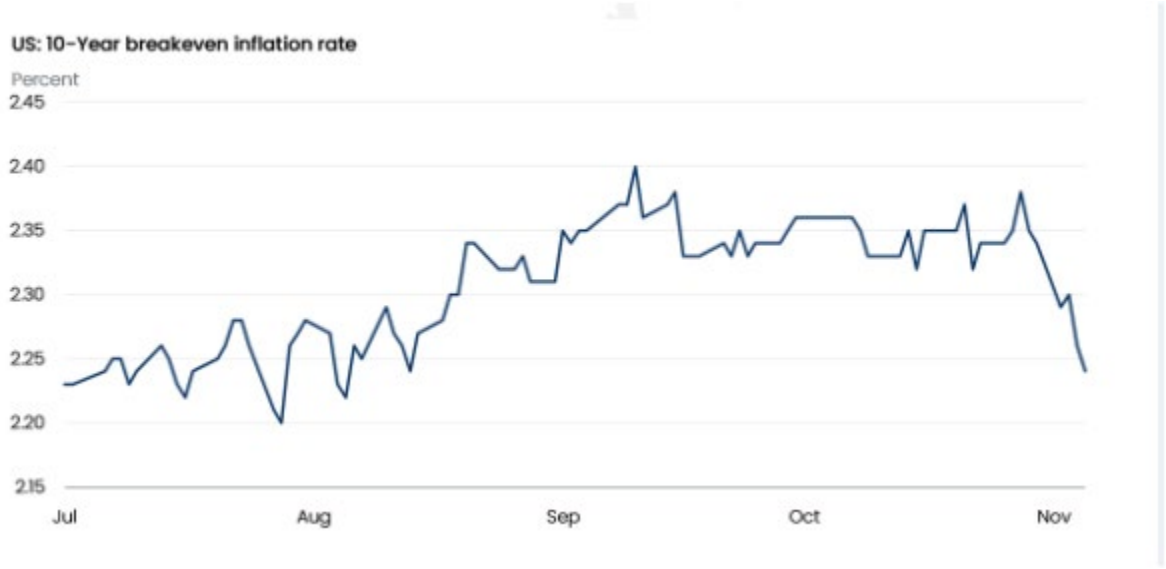
Weekly Economic Update — November 9th, 2026

GPA GOVERNMENT PORTFOLIO ADVISORS

The yearslong disconnect between downbeat vibes and upbeat data has not been closed, but the midterm elections confirmed that there is no distance between how the public feels and how they vote. The question is, will the election results help close the vibes gap? Many things influenced how people voted, but high on that list were widespread complaints about affordability, i.e. inflation; when prices are too damn high, people are angry and vote for change, whether or not the current regime is responsible for their misery. In this case, there was plenty of blame to go around, but a fair share can be attributed to tariffs and war linked to the administration and Republican supporters.

The market turmoil that followed the election sends a confusing signal about how investors interpreted the results. Following a torrid "relief rally" on Wednesday, the stock market plunged on Thursday before recovering some ground on Friday. However, as the prediction markets had increasingly priced in greater odds of a congressional takeover by Democrats, bond yields steadily fell, with the 10-year yield hitting a two-month low on Thursday, fully half-percent below its peak in early October. Like the election results, that too may reflect myriad factors influencing investor perceptions. But there is a strong connection between market yields and inflation expectations, indicating that the election results struck a disinflationary chord among bond investors, highlighted by the sharp decline in market-priced inflationary expectations.



There are historical precedents for this response. Notably, the congressional sweep by Democrats means that we are facing a divided government for the next two years. Compromises will be made on some issues, such as on the debt ceiling to avoid a catastrophic default, but most believe the stage is set for gridlock that will stifle meaningful legislation

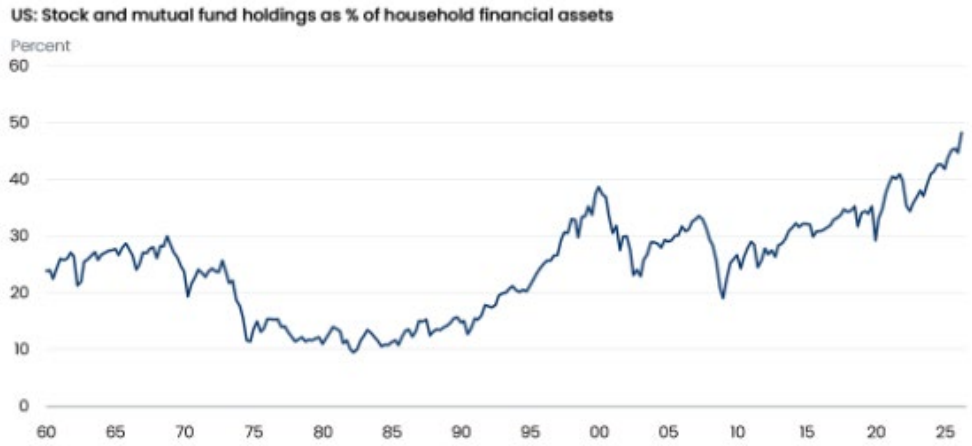
regarding fiscal policy. Gridlock has both supporters and critics depending on whether changes in tax and spending policies are viewed favorably or unfavorably in a given environment. Traditionally, financial markets view it favorably during periods of economic uncertainty, when investors prefer legislators take the Hippocratic oath to “do no harm”. In the current case, that feared threat is from an inflation-stoking fiscal expansion, such as tax cuts, which has been taken off the table by gridlock.

Beyond disabling a potential fiscal thrust, the election outcome had other disinflationary portents. For one, the Fed’s independence got a big boost, enhancing its credibility in the process. Any attempt to pack the courts with judges sympathetic to the removal of a Fed governor has been weakened. What’s more, Senate confirmation would be needed for any appointment of a new governor, who would certainly be rejected if not demonstrably independent-minded. A Fed that is confident in its independence is more likely to respond to incoming data rather than political influence in making interest rate decisions. Importantly, its inflation-fighting credibility would likewise be enhanced.

For another, a big flashpoint in the elections revolved around the AI buildout, most notably the construction of data centers that has garnered growing backlash. The inflationary implications of this trend have increasingly hit the pocketbooks of voters concerned about rising utility bills, inappropriate land use, water shortages and labor displacement. While the election headlines focused more on the congressional results, most regulation regarding data center construction comes from state and local governments. There, the verdict was loud and clear, as voters backed candidates or legislation aimed at restricting data centers in local jurisdiction covering a wide swath of the U.S.

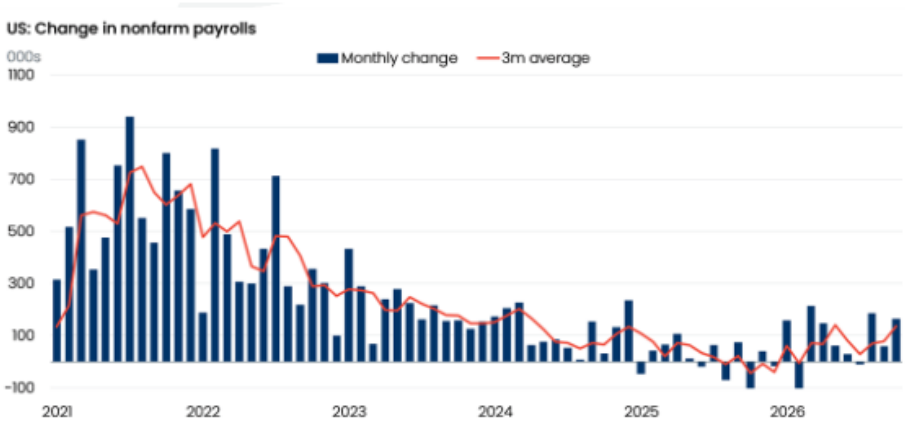
Should the follow-through match the magnitude of voter discontent with the AI buildout, the disinflationary implications would reverberate on two fronts. First, the economy’s growth rate would suffer a major dent, as the hundreds of billions of dollars spent on the AI-related equipment and structures accounted for more than half of the GDP increase this year. Restricting that spending spigot would not choke off AI-related investment immediately, as the buildout already in place requires workers and equipment to operate. But a main cylinder driving the growth engine would eventually sputter and the prospective slowdown would, in time-honored fashion, reduce inflationary pressures.

Second, the AI boom has been a major force juicing the stock market, generating trillions of dollars of additional wealth for affluent households that’s been a key driver of consumer spending. The tremors that upended the stock market in the immediate aftermath of the election highlights the vulnerability of the wealth effect to any setback in the AI boom. The dramatic pullback in tech stocks the day after the election is estimated to have wiped out $2.5 trillion of shareholder wealth. That’s still a drop in the bucket relative to the wealth buildup in recent years, but people react more strongly to losses than to gains. While tech stocks stabilized later in the week, the election postmortems regarding the AI buildout have just begun and the eventual market reaction remains a wildcard in the outlook.



The good news is that the wealth effect would diminish in importance if the economy's main growth driver, the job market, continues to run on all cylinders. By all accounts, that train is forging ahead in high gear. The 165 thousand increase in nonfarm payrolls in October, reported on Friday, more than doubled expectations and followed upward revisions to previous months. There were hardly any soft spots in the jobs report and, notably, one of the strongest gainers was in manufacturing employment, where the 20 thousand payroll increase was the largest gain since 2023, reflecting in good part, sturdy hiring demand to accommodate the AI buildout. An even stronger increase was, as usual, in healthcare, but the payroll gains were widespread as a robust 57.6 percent of private industries expanded staff.

With the unemployment rate slipping to 4.1 from 4.2 percent and hourly earnings staging a solid 0.4 percent increase from the previous month and 3.1 percent over the past year, the job market remains in good shape. Hence, the Federal Reserve can keep its attention focused on reducing inflation, raising the odds of a rate hike at the December meeting. There is little chance that a quarter-point increase would impair labor conditions, whereas a major rollback of AI-related spending clearly would. That prospect adds a downside risk to the outlook and an upside chance that the December rate hike is the last for this cycle.



FINANCIAL INDICATORS

INTEREST RATES	November 6	Week Ago	Month Ago	Year Ago
3-month Treasury bill	4.11	4.09	4.10	3.82
6-month Treasury bill	4.26	4.28	4.29	3.82
2-year Treasury note	4.52	4.60	4.83	3.60
5-year Treasury note	4.65	4.73	5.05	3.71
10-year Treasury note	4.87	4.93	5.28	4.10
30-year Treasury bond	5.27	5.31	5.61	4.67
30-year fixed mortgage rate	7.18	7.24	7.28	6.17
15-year fixed mortgage rate	6.57	6.60	6.60	5.41
STOCK MARKET				
Dow Jones Industrial Index	51,285.73	51,770.31	51,177.00	47,562.87
S&P 500	7,376.90	7,580.07	7,722.70	6,840.20
NASDAQ	24,579.42	25,437.00	27,190.86	23,724.96
COMMODITIES				
Gold ($ per troy ounce)	4,073.70	3,892.0	4,168.4	4,009.4
Oil ($ per barrel) - Crude Futures (WTI)	90.44	102.95	91.43	60.87

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/ Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
Nonfarm payrolls (October) - 000s	165.0	60.0	186.0	83.0
Unemployment Rate (October) - Percent	4.1	4.2	4.1	4.2
Average Hourly Earnings (October) - % change	0.4	0.3	0.3	0.3

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