PROSPECT BANK
217-465-4154

OUTLOOKS

October 2026

ECONOMIC OUTLOOK

Summary

The September jobs report was disappointing. Employers added just 29,000 jobs, well short of the 90,000 economists expected, and revisions lowered the previously reported total for the prior two months by a combined 60,000. At the same time, the unemployment rate edged up to 4.2%. This labor data paints a picture of a cooling job market, but the broader economy does not look like one that is losing steam. The Atlanta Fed's GDPNow model estimates third-quarter growth at a 3.7% annualized pace and both first- and second-quarter GDP growth were revised higher on September 30.

There are a few explanations for the disconnect between jobs and growth. The first is related to demographics. With less immigration and more baby boomers retiring, the economy no longer needs as much job creation to keep the unemployment rate steady. Estimates of that breakeven pace have fallen from roughly 150,000 to 250,000 jobs per month in 2024 to somewhere between zero and 50,000 today. By that measure, slow hiring is less worrisome, which is supported by an unemployment rate that has stayed in a narrow range for the past couple of years.

The second is where the growth is coming from. Business investment continues to stand out as companies spend to improve their technology and adopt AI. To support that, the large technology firms behind it keep building the data centers needed to meet the extra demand. Spending on equipment and facilities adds to output without requiring the same amount of hiring that consumer-driven growth typically would.

For the Federal Reserve, which raised rates in September for the first time since 2023, the mixed picture complicates its next move. The soft jobs report makes a second consecutive 25 basis point hike at the October meeting less likely. Still, with inflation above the Fed's 2% target for more than five years, a single increase is unlikely to be the last word. Most Fed officials have already projected at least one more hike this year, which keeps December in play. The path from there depends on whether energy and tariff pressures fade, since those, more than wages, are what is keeping inflation elevated. For now, the economy is growing at a healthy pace despite slower hiring, which leaves the outlook for the rest of the year more constructive than the September jobs number alone would suggest.

Positives

Following annual revisions, year-over-year Core PCE decreased to 3.0%

Retail sales had their strongest month since March (1.2% vs. 0.8% est.)

Q2 GDP was revised higher from 1.5% to 2.2%

Negatives

Average Hourly Earnings reached their lowest level since May '21 (3.0%)

Higher oil prices in September are likely to push inflation higher

ISM Manufacturing Prices Paid Index jumped to 77.9 from 71.1

Economic and Fixed Income content copyright by FCI Advisors, a DBA of Financial Counselors, Inc. Equity content Copyright by Midwest Advisors for Trust Investment Solutions, both of which are DBAs of Midwest Trust. This material has been prepared for information purposes only. Factual materials obtained from sources believed to be reliable but cannot be guaranteed. For further information contact TIS at 913.663.0630 or visit TrustInvestmentSolutions.com.

PROSPECT BANK
217-465-4154

OUTLOOKS

October 2026

EQUITY OUTLOOK

Summary

Equity markets consolidated in September, with the S&P 500 Index slipping 0.4%. The index remains close to its all-time high, but the surface calm masks weakening breadth. Other major indexes have lagged and leadership has again narrowed to a handful of large-cap, technology-related companies. The Russell 1000 Growth Index gained 2.2% for the month, while the Russell 1000 Value Index, Russell Midcap Index and the small-cap Russell 2000 Index fell 3.1%, 4.2% and 5.3%, respectively. That divergence matters. A market propelled by a few mega-cap names can hold up for a while, but it is more vulnerable if those leaders stumble, and the weakness in mid- and small-cap shares suggests investors are becoming more selective about risk.

What investors are watching:

The factors driving sentiment are largely the ones we have discussed: the midterm elections, the Iran war and its effect on oil prices, inflation and Federal Reserve policy, and corporate earnings. While these appear repetitive, there have been few factors to influence markets meaningfully outside of these subjects.

At least one of these variables will soon be in the rearview mirror. With midterms only a few weeks away, it increasingly appears the balance of power in Washington will shift, leaving the government divided. Markets appear to have largely digested this outcome and seem comfortable with it. Gridlock typically means fewer sweeping policy or regulatory changes, which can create a more predictable operating environment for businesses.

Outlook for the fourth quarter:

Heading into the final quarter, despite the narrow leadership, the market looks well positioned. It has navigated the seasonal weakness that often shows up in late summer and early fall, and it now enters a stretch that has historically been favorable for equities. Uncertainties remain, notably geopolitics and energy prices, inflation and the path of monetary policy. But as long as corporations continue to deliver solid profit growth, markets should be able to weather most disruptions.

Positives

Corporate earnings growth

Negatives

Sticky inflation and uncertain oil prices

Elevated equity valuations

Unknowns

Consumer health

Economic and Fixed Income content copyright by FCI Advisors, a DBA of Financial Counselors, Inc. Equity content Copyright by Midwest Advisors for Trust Investment Solutions, both of which are DBAs of Midwest Trust. This material has been prepared for information purposes only. Factual materials obtained from sources believed to be reliable but cannot be guaranteed. For further information contact TIS at 913.663.0630 or visit TrustInvestmentSolutions.com.

PROSPECT BANK
217-465-4154

OUTLOOKS

October 2026

FIXED INCOME OUTLOOK

Summary

Fixed income markets posted negative returns during September as energy prices climbed and inflation remained stubbornly above the Federal Reserve's 2% target. The Federal Open Market Committee (FOMC) voted unanimously to increase the Federal Funds rate by 25 basis points (bps) during its September meeting. This is the first time since July 2023 the FOMC has increased the Federal Funds rate. Yields jumped in anticipation of the Fed rate increase and continued higher to finish the month, climbing 40 to 50 bps across the Treasury curve.

Longer-dated Treasuries are yielding more than they have in roughly 20 years. These higher yields provide an enticing entry point for bond investors with the 10- and 30-year Treasury notes yielding around 5.25% and 5.65%, respectively. It is important to remember these yields are high relative to the last 20 years, but they aren't necessarily high relative to the last 50 years. The average yield of 10- and 30-year Treasury notes over the last 50 years is 5.76% and 5.89%, respectively.

It's tough to pinpoint one reason why interest rates have rapidly ascended in 2026, but the catalyst is likely higher oil prices caused by the Iran war. Higher oil prices place upward pressure on inflation and investors worry these prices will seep into the price of other goods and services across the economy. Additional explanations for higher yields in 2026 include strong economic growth, continuous federal deficits and increased debt issuance by technology companies building out infrastructure for artificial intelligence. The impact of higher energy prices on inflation will eventually subside and will likely be a relief for inflation readings during the second half of next year. However, the other factors impacting Treasury yields could remain for some time, keeping interest rates around these levels.

The increase in yields resulted in poor performance for most bond indexes during the month. The Bloomberg U.S. Aggregate Bond Index posted its worst monthly return (-2.61%) in over three years. Investment-grade corporate bond spreads widened by 2 bps during the month. Spreads remain tight to historic averages and we believe these levels are justified given strong corporate earnings and a positive economic outlook. We continue to maintain a neutral duration policy and see a favorable risk/reward dynamic at the front of the yield curve.

Positives

Yields remain attractive relative to the past 20 years

Markets expect another Fed rate hike by year end, which may not occur

Robust second-quarter corporate earnings justify tight credit spreads

Negatives

Inflation remains stubbornly above the Fed's 2% target

Oil prices are elevated as the U.S.-Iran war continues

Record investment-grade corporate bond issuance expected in 2026

Unknowns

Final resolution to the U.S.-Iran war

Economic and Fixed Income content copyright by FCI Advisors, a DBA of Financial Counselors, Inc. Equity content Copyright by Midwest Advisors for Trust Investment Solutions, both of which are DBAs of Midwest Trust. This material has been prepared for information purposes only. Factual materials obtained from sources believed to be reliable but cannot be guaranteed. For further information contact TIS at 913.663.0630 or visit TrustInvestmentSolutions.com.