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OUTLOOKS

November 2026

ECONOMIC OUTLOOK

Summary

The economy grew faster than anticipated over the summer, and hiring surprised to the upside in October. Real GDP growth accelerated to a 3.4% annualized pace in the third quarter, up from 2.2% in the second quarter. Consumer spending, the largest contributor to growth, rose at a 3.8% pace for the second straight quarter, while business investment tied to the AI data center buildout was another major driver. On the hiring side, employers added 165,000 jobs in October, well above the 70,000 projected. Upward revisions to August and September added another 84,000. The unemployment rate fell to 4.1% from 4.2%, and job gains were spread across several industries, a sign of a healthy labor market.

However, the results of the midterm elections raised new questions about the AI buildout's impact on the economy moving forward. Democrats won both chambers of Congress, and several governors' races went to candidates who campaigned on pausing or restricting new data centers, including in Texas, home to roughly a quarter of planned U.S. data center capacity. That matters because business fixed investment rose at a 12.7% annualized pace in the third quarter, led by spending on information processing equipment. If these restrictions take hold, a slowing AI buildout could weigh on growth, though probably not in the near term. About three quarters of the data center capacity due in 2027 is already under construction, so any meaningful drag would show up in 2028 or beyond.

A slower pace may not be all bad since much of the buildout is being funded with corporate debt. The five major hyperscalers have issued nearly $300 billion of new debt so far this year and signed about $1.3 trillion of lease obligations that have yet to begin. Debt-fueled booms tend to end badly when capacity gets ahead of demand, so a slowdown could give companies time to reassess their plans before they overbuild, reducing the risk of a disorderly unwind.

Following the October Federal Open Market Committee (FOMC) meeting, Fed Chair Kevin Warsh said market participants are becoming "somewhat more discerning in their capital allocations" and that tighter financial conditions go "in the direction of achieving a longer, more durable period of economic growth and price stability." He spoke before the election, but a slower AI buildout fits that view. With hiring solid and inflation above target, a December rate increase remains on the table. Even so, the economy heads into 2027 on broader footing than the recent AI headlines suggest.

Positives

- September retail sales exceed expectations (0.8% vs. 0.3% est.)
- ISM manufacturing continued to expand (55.5 vs. 54.5 est.)
- September factory orders were strong (1.8% vs. 1.2% est.)

Negatives

- Inflation remains elevated - CPI, Core CPI, and Core PCE all accelerated
- Housing starts in September were weak (-5.2% vs. +1.9% est.)
- Involuntary part-time workers rose by 339k to 4.8 million

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EQUITY OUTLOOK

Summary

Equity markets were mixed in October, with the S&P 500 Index declining 0.9%. The clearest story was the sharp divide between large-cap growth and value. The Russell 1000 Growth Index fell 6.1%, while the Russell 1000 Value Index gained 4.4% — a 10.5-percentage-point gap. That divergence is a reminder the headline index return can mask a meaningful change in market leadership. Investors in growth and value experienced very different months.

The midterm elections have now concluded. Early results point to Democrats taking control of both the House and Senate, although some races remain uncalled. With Congress and the White House under different party control, sweeping legislation may be more difficult to advance. Markets may view that as a source of policy stability, but the election does not remove uncertainty around taxes, spending or regulation.

The other familiar drivers remain in focus: the conflict with Iran and its effect on oil prices, inflation and Federal Reserve policy, and corporate earnings. With the election behind us, investors can turn more attention to whether company results and the health of the consumer support current market expectations.

October's sharp growth-versus-value split points to more selective market leadership, not necessarily a broad deterioration in the outlook. Corporate earnings and profitability remain the key test. If businesses continue to deliver solid results, equities should be better positioned to weather geopolitical and policy uncertainty. Sticky inflation, uncertain oil prices and elevated valuations remain risks, and market leadership may continue to rotate.

The long-term backdrop remains constructive, but investors should be prepared for uneven returns as the market weighs fundamentals against ongoing uncertainty.

Positives

Corporate earnings growth

A divided government that may limit sweeping policy changes

Negatives

Sticky inflation and uncertain oil prices

Elevated equity valuations

Unknowns

Consumer health

The path of Federal Reserve policy

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FIXED INCOME OUTLOOK

Summary

After a rough September, the fixed income markets bounced back sharply in October as Treasury yields declined across the curve. The 10-year Treasury yield peaked in early October at 5.31% before tumbling to close the month at 4.93%. A similar decline was seen across the rest of the Treasury curve with yields falling by approximately 30 basis points (bps) during the month. The decline in yields drove bond prices higher with the Bloomberg U.S. Aggregate Index returning 2.44% in October, bringing its full year return to -0.54%.

Surprisingly, the decline in yields was not a result of lower inflation reports or declining oil prices. The Federal Reserve's preferred inflation metric, Personal Consumption Expenditures (PCE) Price Index, increased on a month-over-month basis to 0.5% from 0.3%. Additionally, the price of oil increased in October by more than 10%. So, what was the driver of lower yields in October? One explanation is remarks made by the Federal Reserve's Open Market Committee (FOMC) members during the month. Fed officials stated they were not in a hurry to raise the federal funds rate at each of the upcoming meetings. This came to pass at the October FOMC meeting where the upper bound of the federal funds rate was left unchanged at 4%. While the Fed didn't raise the federal funds rate in October, we do believe it is likely they will raise the rate by 25 bps at the December meeting. Inflation remains stubbornly above the Fed's 2% target, and the economy remains strong enough to handle a rate hike.

There are some worries in the fixed income markets that companies are spending too much money to build out AI infrastructure without certainty these investments will be profitable in the future. Companies have borrowed a tremendous amount of money by largely issuing investment-grade bonds to fund these expenditures, which primarily consist of data centers and the equipment that goes in them. Investment-grade bond issuance is expected to be a record-breaking amount of nearly $2 trillion in 2026, which can be partially attributed to the additional AI related bond issuance. The large amount of new debt, coupled with worries the AI investments might not be as profitable as companies are expecting, drove investment-grade spreads wider by 10 bps in October, closing the month at 90 bps. We remain constructive on investment-grade credit while acknowledging there is some risk in companies overspending on AI. We believe healthy corporate earnings and strong economic data should allow for spreads to remain near current levels through the end of the year.

Positives

Yields remain attractive relative to the past 20 years

Markets expect another Fed rate hike by year end, which isn't a guarantee

Strong third-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

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