

Economic Navigator

Welcome to the Roaring 20s

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Executive Summary

- The Roaring 2020s remain intact as strong business investment, easy credit, and resilient consumers continue to support economic growth.
- Credit conditions are improving, with stronger loan demand, stable lending standards, and narrower loan spreads supporting corporate spending.
- The economy is proving less rate-sensitive than in past cycles, with GDP growth near 2.2% despite restrictive Federal Reserve (Fed) policy.
- Rising shipping costs and high input prices point to lingering inflation risks and could slow the disinflation process into year-end.
- Artificial Intelligence (AI) is driving investment and demand for workers in goods-producing industries, though meaningful productivity gains have yet to appear in the data.

Why the Navigator?

The macroeconomic context is a key component of the investment process. Every asset class — whether credit, equities, currencies, commodities, real estate, or infrastructure — responds to the forces shaping the global economy. Inflation trends, interest rate cycles, fiscal and monetary policy shifts, and economic growth trajectories all influence market behavior and risk-adjusted returns. Ignoring these dynamics means missing the bigger picture.

So, what will the drivers of growth be for the coming year and what characteristics of growth are worth noting? How could business and household activity remain robust amid higher rates and geopolitical risks?

In this edition of the *Economic Navigator*, we explain why we are living in the “roaring 20s” and what areas to monitor for potential cracks.

Easy Access to Credit Fuels Capital Investment

Banks aren't pulling back, and businesses are taking notice. In its Senior Loan Officer Opinion Survey (SLOOS) published August 3, the Fed found that larger banks left standards for commercial and industrial (C&I) loans basically unchanged and smaller banks were less restrictive, while reporting stronger demand from large and middle-market companies. The steadiness matters. C&I loans are a key source of funds for the business sector and correlate with business fixed investment. Lending standards are easier than a year ago. The result is a credit backdrop that remains accommodating for corporate borrowers even after a prolonged stretch of higher rates. Demand from firms of all sizes increased from previous quarters. Despite the rate environment, credit is more a tailwind than a constraint for business spending.

The survey is worth watching because it captures whether lenders are willing to lend and whether borrowers want to borrow. The Fed polls up to 80 large domestic banks and 24 U.S. branches and agencies of foreign banks, and it often releases the report ahead of the Federal Open Market Committee (FOMC) meetings. That gives policymakers and investors a near-real-time read on credit standards, loan terms and demand, well before the effects show up in

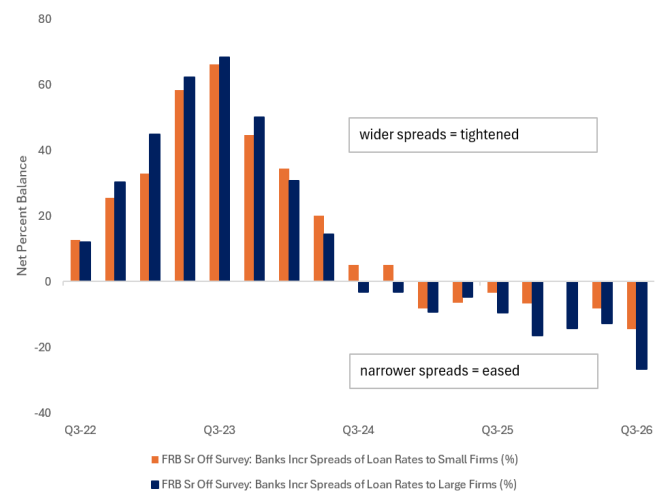
the hard data. The read-through to the real economy is direct. C&I loans tend to track business fixed investment, a line item in the GDP report. Easing conditions usually mean banks are more willing to lend and companies are more eager to spend money on machinery and technology. In a cycle where capital spending is carrying so much of the growth load, the SLOOS may be one of the better early signals of whether that investment can keep going.

Banks are also surveyed about the costs, size, and maturity of credit lines and spreads of loan rates. On net, more banks are decreasing the spreads of loan rates over their costs of funds. Narrower spreads are most pronounced for larger firms and have been for a few years.

Firms Demand More, Banks Stop Tightening...



While Spreads Are Decreasing



Source: LPL Research, Federal Reserve Board, 10/07/26

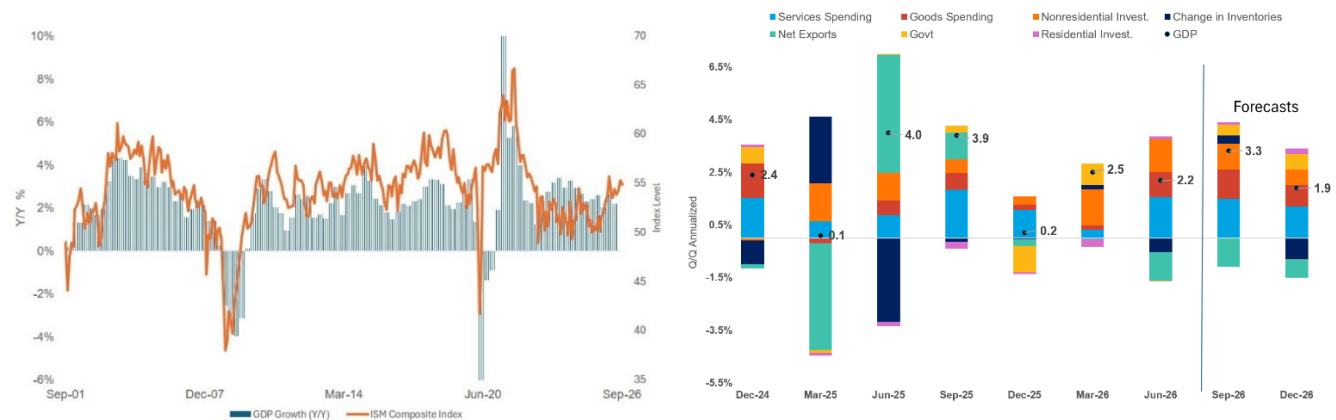
Past performance is no guarantee of future results. Economic forecasts may not develop as predicted.

Source: LPL Research, Federal Reserve Board, 10/07/26

Economic Growth Will Likely Reach 2.2% in 2026 From Positive Lending Conditions

Financial markets have spent much of the year adjusting to the prospect of additional Fed tightening, with investors now pricing in just one additional rate hike before year-end. Yet the economy continues to defy the traditional playbook. Real GDP is expected to grow roughly 2.2% in 2026, supported by a surge in business investment tied to artificial intelligence, intellectual property, and nonresidential structures. A robust consumer is also supporting growth. Those areas have provided a cushion against the parts of the economy that remain sensitive to borrowing costs, helping sustain growth despite higher rates.

Businesses Reported Uptick in New Orders... That Imply a Rebound in Q3



Sources: LPL Research, ISM, Bureau of Economic Analysis, 10/07/26

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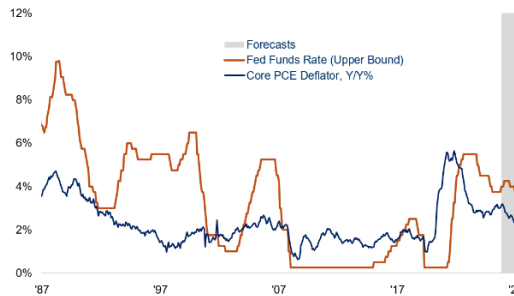
The latest manufacturing and services surveys suggest that resilience may be carried out into the second half of the year. The September ISM Composite Index slipped to 54.9, but has been above 50 since mid-2024. A level above 50 is historically associated with above-trend economic growth and expanding business activity. The improvement has been especially notable in cyclical and capital-intensive industries, including Transportation Equipment, Petroleum & Coal Products, Computer & Electronic Products, and Machinery. Taken together, the data point to an economy that is increasingly being driven by investment, production, and productivity-enhancing technologies rather than the consumer-driven interest rate-sensitive sectors, such as housing, that have historically dominated business cycles.

Container Shipping Rates Will Put Upside Risk to the December 2.9% Core Inflation Forecast

The Baltic Dry Index is a daily benchmark that tracks the cost of shipping major raw materials — iron ore, coal, and grain — by sea on dry bulk carriers. Because it reflects real-time shipping demand for bulk commodities rather than finished goods, it's an early read on global industrial activity and trade volume. And it can also be a good indicator for inflation pressures. As of early October, shipping costs are up more than 50% from a year ago.

The index spiked in September to 3,628, the highest print since October 2021—but today's environment is a bit different. Back then, the index was being driven higher by clogged ports and vessels stuck waiting offshore, a logistics breakdown. Today's strength is different, with both demand and supply factors. Demand factors include steady iron-ore flows out of Brazil and solid Chinese steel demand. Supply constraints are from Middle East conflict. For investors using freight costs as a read on global trade, we think the takeaway is straightforward—bulk shipping demand remains healthy amid geopolitical shocks, which would keep inflation pressures heavy in the near term.

Expect Some Improvements by December... But Disinflation Will Take a While



Inflation Dashboard (Y/Y %)	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Import Prices	0.99%	2.26%	4.52%	6.88%	6.75%	6.09%	6.95%	
Producer Prices	3.35%	4.28%	5.69%	5.88%	5.58%	4.80%	5.41%	
Services Prices Index	63.00	70.70	70.70	71.30	67.70	70.30	72.60	74.00
Manufacturing Price Index	70.50	78.30	84.60	82.10	73.00	71.10	71.10	77.90
Global Supply Chain Pressure Index	0.49	0.63	1.78	1.81	1.21	0.93	1.20	1.28
Gasoline Prices: U.S. Average	2.93	3.70	4.13	4.50	4.05	3.97	4.08	4.36
Consumer Prices (CPI)	2.41%	3.26%	3.81%	4.25%	3.53%	3.36%	3.40%	
Consumer Prices (CPI) Ex Housing	2.15%	3.43%	4.05%	4.61%	3.58%	3.38%	3.53%	
Rent Prices (CPI)	2.68%	2.56%	2.79%	2.92%	2.84%	2.86%	2.75%	
PCE Deflator	2.80%	3.37%	3.57%	3.82%	3.45%	3.36%	3.42%	
PCE Deflator: Core Services Ex Housing	3.31%	3.41%	3.33%	3.59%	3.55%	3.42%	3.46%	

Sources: LPL Research, AAA, Bureau of Economic Analysis, Bureau of Labor Statistics, NY Fed, ISM 10/07/26

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Unemployment Rate Will Likely Rise to 4.4% by the End of the Year, but Solid Market Overall

Demand for workers is concentrated in industries that make things, and less so in those that provide services. August payrolls got a lift from construction, manufacturing, and healthcare. Information, financial services and government held back job growth. It is a snapshot of the new economy: the AI buildout is supporting goods-producing sectors, while technological change presses on services. The unemployment rate ticked up to 4.2%, but the labor market is still operating in a comfortable range.

Two wrinkles stand out. First, wages haven't kept pace with inflation in recent months, including the latest reading. That squeezes households on the lower leg of the K-shaped economy, where shrinking real incomes leave little cushion. Second, labor force growth has stagnated, which lowers the breakeven rate of job growth, the pace needed to hold the unemployment rate steady. Payroll gains are now approaching that breakeven pace. In plain terms, slower hiring no longer guarantees a rising jobless rate, leaving less room for error. Given the overall softness, the odds of two more Fed hikes this year are shrinking.

Firms Want Workers Who Make Stuff ... And AI Adoption Rates Are Still Low For Some Sectors



Sector	Adoption rate Aug. 2024 (%)	Adoption rate Aug. 2025 (%)	Adoption rate Aug. 2026 (%)
Technology and media	64	72	81
Finance and insurance	50	60	74
Manufacturing	29	45	61
Retail	25	35	49
Health care	20	31	43
Construction	15	31	42
Accommodation and food services	16	22	33

Source: LPL Research, Bureau of Labor Statistics, 10/07/26 Source: LPL Research, Ramp, 10/07/26

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Adoption Rates Are Low Yet Firms Hope for Productivity Boosts

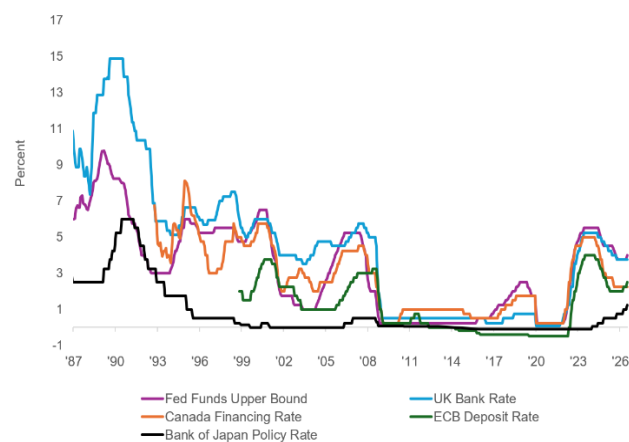
The AI boom is fueling a surge in spending on data centers, semiconductors and computing infrastructure. But are firms feeling the benefits yet?

Output per hour has been running at a healthy pace, suggesting workers are producing more, but utilization-adjusted total factor productivity, a measure from the Federal Reserve Bank of San Francisco brought to my attention by a few of my colleagues, has not budged. That divergence is likely because companies are generating more output because they are investing heavily in machines, software and equipment, not necessarily because the economy has become fundamentally more efficient.

For insights in which sectors will be impacted by AI, we continue to track the share of businesses who spend on AI models, subscriptions, tokens, and other access points. The data suggest that AI will continue to negatively impact services sectors and will bring payroll growth down to the breakeven rate of roughly 45,000 a month.

Appendix: Supporting Macro Charts

Bank of Japan Remains on a Tightening Path

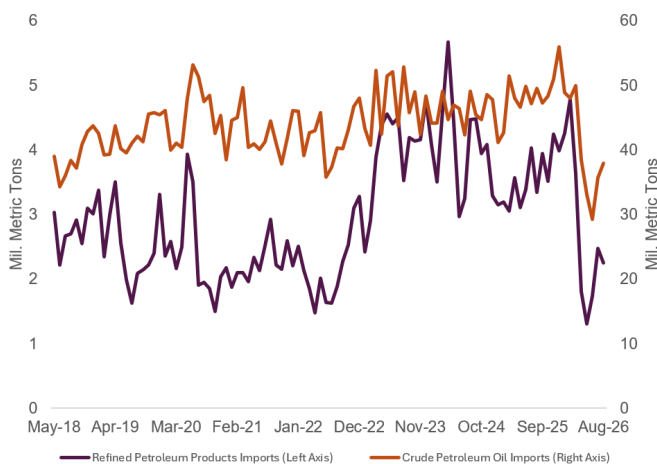


Global Purchasing Managers Composite Index

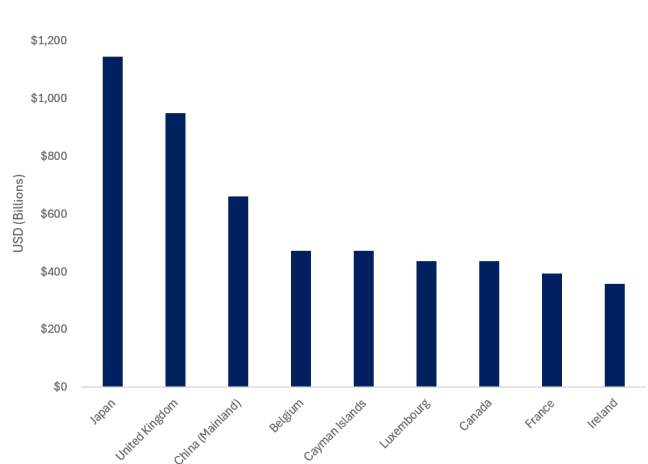
	Sep-26	Aug-26	Jul-26	Jun-26	May-26	Apr-26	Mar-26	Feb-26	Jan-26
Global	54.3	53.5	52.7	52.0	51.9	51.8	51.0	53.3	52.5
Developed Mkts	55.4	54.1	53.3	51.2	50.6	51.1	50.5	52.2	52.6
Emerging Mkts	52.4	52.4	51.2	53.0	53.6	52.7	51.4	55.1	52.3
U.S.	58.4	56.0	54.5	51.9	51.5	51.7	50.3	51.9	53.0
Eurozone	53.1	52.0	52.0	50.0	48.5	48.8	50.7	51.9	51.3
Germany	53.8	51.8	51.3	49.5	48.8	48.4	51.9	53.2	52.1
France	51.1	48.5	49.4	47.2	44.9	47.6	48.8	49.9	49.1
Italy	51.0	53.6	52.5	50.8	50.4	50.5	49.2	52.1	51.4
Spain	56.8	55.8	56.5	53.3	50.2	48.7	52.4	51.5	52.9
U.K.	52.0	52.5	52.2	49.3	49.7	52.6	50.3	53.7	53.7
Russia	50.8	50.6	49.6	48.9	49.2	49.1	48.8	50.8	52.1
Japan	52.3	53.5	52.7	52.8	51.1	52.2	53.0	53.9	53.1
China	52.4	52.1	50.8	53.6	54.0	53.1	51.5	55.4	51.6
India	55.9	54.3	54.3	57.1	59.3	58.2	57.0	58.9	58.4
Brazil	47.4	49.1	48.8	50.7	49.5	52.4	49.9	51.3	49.9

Source: LPL Research, BOC, BOE, BOJ, ECB, Federal Reserve Board 10/07/26 Source: LPL Research, S&P Global 10/07/26

China Importing Less Oil

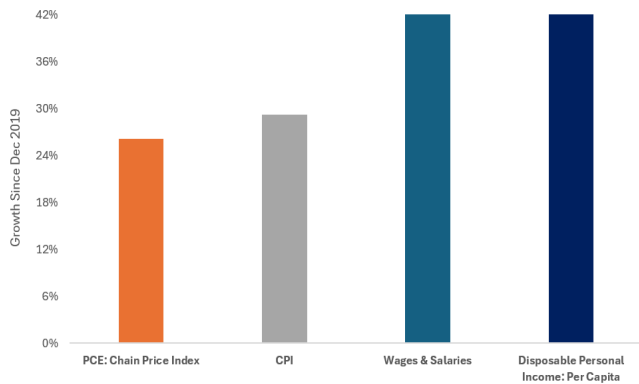


Japan: The Largest Foreign Holder of U.S. Treasuries

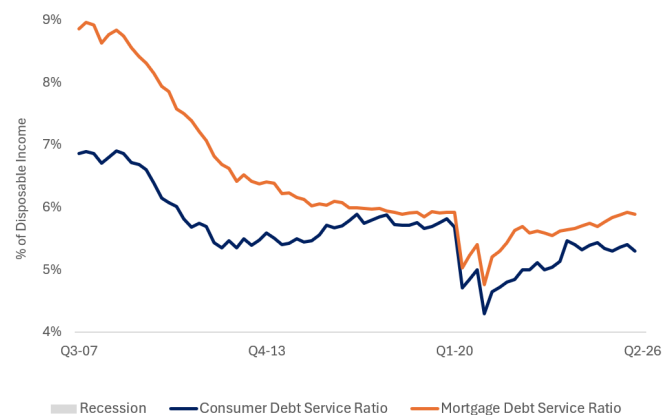


Source: LPL Research, China General Administration of Customs 10/07/26 Source: LPL Research, U.S. Treasury 10/07/26

Incomes Have Outpaced Inflation



Debt Servicing Costs Are Historically Low



Source: LPL Research, Bureau of Economic Analysis, Bureau of Labor Statistics 10/07/26

Source: LPL Research, Federal Reserve 10/07/26

Forecasts Imply 2026 May Be a Pivotal Year

	2025				2026				2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Growth											
Nominal GDP (Y/Y %)	4.6	4.6	5.4	5.4	5.7	6.3	6.2	6.0	5.3	5.0	6.3
Real GDP (Yr/Yr %)	2.0	2.1	2.3	2.0	2.6	2.2	2.0	2.2	2.8	2.1	2.2
Real GDP (Q/Q Annualized)	-0.7	3.8	4.4	0.5	2.5	2.2	3.3	1.9			
Consumer Spending	0.6	2.5	3.5	1.9	0.71	3.77	1.2	1.4	2.9	2.6	1.9
Government Spending	-1.0	-0.1	2.2	-5.6	4.73	-0.09	1.4	-0.4	3.8	1.1	1.3
Private Investment	23.3	-13.8	0	2.3	7.2	4.6	11.2	2.2	3.0	1.9	3.8
Exports	0.2	-1.8	9.6	-3.3	13.90	5.04	2.2	2.1	3.6	1.6	4.3
Imports	38	-29.3	-4.4	-1.0	11.51	12.58	-0.4	-0.2	5.8	2.7	3.5
Real Final Sales to Domestic Purchasers (Q/Q Ann.)	1.4	2.4	2.8	0.6	2.3	3.8	3.4	2.1	3.1	2.4	2.5
Business Sector											
Nonfarm Productivity (Q/Q Annualized)	-0.9	4.2	5.2	1.6	0.82	1.42	1.6	1.8	2.9	2.2	2.4
Corporate Profits After Taxes (Yr/Yr %)	7.5	4.8	10.8	10.2	9.79	18.16	5.5	6.1	3.9	8.4	8.1
Industrial Production (Yr/Yr %)	0.7	0.5	1.7	1.5	0.79	1.45	1.5	2.5	-0.6	1.1	1.2
Consumer											
Real disposable income (Yr/Yr %)	2.0	1.8	1.8	1.0	1.71	0.98	1.4	1.7	2.9	1.7	1.5
Retail Sales (Yr/Yr %)	4.5	4.3	4.4	3.0	3.1	5.6	5.1	5.5	2.6	4.0	5.1
Retail Sales Ex-Autos (Yr/Yr %)	4.3	3.9	4.2	3.7	3.6	6.2	4.4	3.7	2.8	4.0	5.2
Consumer Confidence	99.8	93.1	97.4	94.2	90.7	92.2	86.9	93.0	104.5	96.1	90.7
Light Vehicle Sales (Mil. Units, SAAR)	16.4	16.2	16.5	15.7	15.5	16.5	16.2	16.1	15.9	16.2	16.1
Jobs & Housing											
Unemployment rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.1	4.4	4.0	4.3	4.3
Nonfarm Payroll (Change in Thousands)	61	101	70	-116	218	242	152	145	1459	29	189
Housing Starts (Mil. Units)	1.40	1.35	1.35	1.32	1.42	1.35	1.33	1.31	1.37	1.36	1.4
Existing Home Sales (Annualized, Millions)	4.08	4.01	4.04	4.16	4.05	4.12	4.05	4.10	4.06	4.07	4.08
Inflation, Annual											
Consumer Price Index (CPI)	2.7	2.5	2.9	2.7	2.7	3.8	3.3	2.9	3.0	2.7	3.2
Core CPI	3.1	2.8	3.1	2.7	2.5	2.7	2.7	2.5	3.3	2.9	2.8
PCE Inflation	2.6	2.4	2.7	2.8	3.0	3.6	3.6	3.5	2.6	2.6	3.4
Core PCE Inflation	2.8	2.7	2.9	2.9	3.0	3.1	3.2	3.0	2.9	2.8	2.9
Brent Crude Spot Price (Average, \$)	75.81	68.01	68.97	63.63	80.21	103.28	96.33	78.00	79.86	68.19	89.46
Rates											
Fed Funds (% Upper Bound, Period End)	4.50	4.50	4.25	3.75	3.75	3.75	4.00	4.25	4.50	4.25	3.94
Mortgage Rates (30-year Fixed, Period End)	6.79	6.77	6.39	6.27	6.56	6.53	7.33	7.45	6.49	6.60	6.97

Source: LPL Research, Federal Reserve Bank of Philadelphia, Bloomberg 10/07/26

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