

WEEKLY MARKET COMMENTS – OCTOBER 5, 2026 – EXTERNAL

Stocks climbed near their all-time highs on Friday after the latest jobs report eased worries that a potentially hot U.S. economy could make inflation much worse.

The S&P rose by 0.7% and moved within 1% of its record high set in August. It ended at 7723. The Nasdaq gained 1.2% to close at its best level ever at 31,000. The Dow gained 250 points or 0.5% to 51,177.

The jobs report said that employment across the country added only 29,000 more jobs and was a large drop from those in August, which saw 133,000 new positions added.

For financial markets, it lowered concerns that the U.S. economy could be so strong that it could fuel inflation even higher. Inflation has been so strong that the Federal Reserve recently raised its interest rate higher for the first time in three years.

Friday's softer than expected data on the economy made traders paring back their bets that the Fed will hike rates at its later meeting at the end of this month. The probability of this taking place is now down to 23%, down from 64% a week ago.

This report showed that the labor market has not deteriorated sharply, but at the same time there is also little evidence that is

has meaningfully strengthened, giving policymakers reason to wait for additional data.

But a solid U.S. economy is only one of the many drivers that have caused bond yields to jump, as Treasury yields dropped to below 5.17% intraday before jumping back up to end the session up to 5.28%, slightly lower than their peak of 5.35% on Thursday, which was its highest yield in two decades.

We are clearly in a higher inflationary environment, so the question is – what do we need to get stocks moving higher and the answer is earnings growth and so far, so good.

Earnings might hold the answer for the market's resilience as MU's report showed that the memory chip results on guidance signify that spending on AI continues at a rapid pace.

Reports this week from Constellation Brands (Tuesday), Levi Strauss (Wednesday), PEP (Thursday) and DAL (Friday) could tell whether consumers continue to spend with all of the pressure from interest rates and oil.

Earnings guidance will be very important as S&P earnings are currently projected to increase by 25% in the fourth-quarter and 2027 profits are forecast to advance by 16% from current year levels, which is a slowdown from this year's estimates of more than 30%.

Of the Mag 7's results, only three names have risen more than 10% this year, with AAPL, META and NVDA. TSLA has declined while GOOG, MSFT and AMZN have gained by single-digits. This means that the group now looks cheaper than it did at the start of the year. A fund with all of them now trades at 25 times earnings for the coming year, which is down from 32 times at the start of 2026.

Economic reports will have: August trade balance (Tuesday) and October Michigan Sentiment (Friday).

Officials at the Federal Reserve have coalesced over the past week around a clear message: They can afford to take their time and assess incoming economic data before moving forward with further interest rate increases. September's jobs report from the Bureau of Labor Statistics on Friday added more credence to that view.

Monthly jobs growth slowed, the unemployment rate ticked up and wage gains remained muted, signs that the labor market, while not weak, is far from overheating.

Investors immediately pared back their expectations for an interest-rate increase when the Fed gathers later this month, just days before the midterm elections. That, combined with news from the Group of 7 summit that the nations would release 100 million barrels of emergency crude oil and diesel to ease surging fuel prices, helped send U.S. government bond yields lower for a while and stocks up.

Soaring energy prices because of choked-off oil supply from the Middle East have been a key driver of inflation this year. After the G7 news, the global price of oil dropped below \$100 a barrel.

These updates capped a busy week for policymakers at the central bank, who sought to counteract a new urgency that had been injected into the debate around an October policy move. The week prior, traders in federal funds futures markets ascribed roughly 70 percent odds to the Fed following up its quarter-point increase in September with another adjustment. As of Friday, those odds stood at only 20 percent.

The reset began on Tuesday when John C. Williams, who as president of the Federal Reserve Bank of New York is vice chair of the policy-setting committee, said there was “no need for urgency” in the wake of September’s increase. Two days later, Philip N. Jefferson, the Fed vice chair, said that assessing the timing of additional moves “may take more time.”

Michelle W. Bowman, the vice chair for supervision at the central bank, also called for more time to understand how slightly higher rates might work their way through the economy.

“I don’t currently see an urgent need for further action,” she added.

According to projections released by the Fed last month, most officials see at least one more quarter-point rate increase as appropriate this year. After October’s gathering, the Fed will have one more meeting in December.

What will no doubt factor into the pace of further increases after that point is the evolution of U.S. government bond yields, which, despite Friday’s pullback, are significantly higher than just a few months ago.

Lorie D. Logan, who as president of the Dallas Fed is a voting member on this year’s policy-setting committee, said in remarks on Thursday that higher longer-term yields, depending on what is driving the move, can potentially offset what the central bank needs to do in terms of rate increases.

If the run-up in yields is because of shifting expectations of what the Fed will do to stamp out elevated inflation, those moves “don’t do our work for us.” But if instead yields are rising because investors are demanding more compensation to hold debt with longer maturities, that “can slow the economy, reducing the need to tighten monetary policy.”

Still, she said, the Fed would likely need to raise rates by another half percentage point to ensure there is enough restraint on economic activity to bring inflation back down to the 2 percent target.

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