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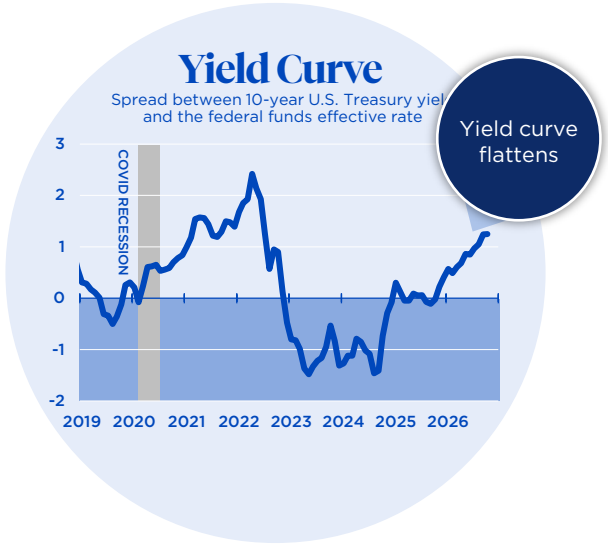
Economic & Financial Markets Monthly Review | November 2026

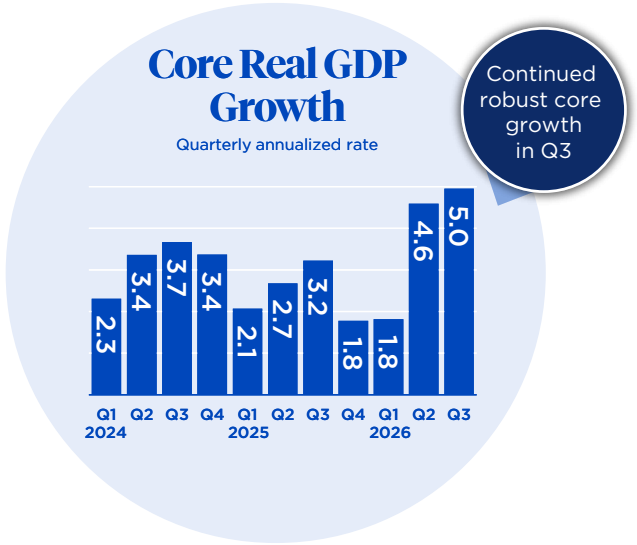
Spotlight remains on the AI buildout

Where is the economy now?

Consumer spending and business investment should maintain solid momentum at the end of 2026 despite elevated fuel costs and interest rates. AI-related spending continues to drive an outsized share of capex and spur manufacturing and construction activity. Further rapid growth in 2027 may face headwinds from public sentiment and political regulation. After pausing in October, the Fed is expected to hike rates again in December due to sticky inflation readings.







Continued positive growth momentum

Following robust GDP growth in Q3, strong job and income gains in October should help to offset elevated fuel prices to support spending in Q4. AI investment continues to boost activity and hiring in construction and manufacturing, even as non-AI business spending remains tentative in response to cost pressures and elevated interest rates.

Rates pull back slightly from highs

After hitting 24-year highs in early October, long-term interest rates eased slightly but the 10-year Treasury rate remains above 5 percent. Interest rates have normalized to the pre-Great Financial Crisis levels. The drop in energy prices has cooled near-term overall inflation concerns, but core inflation remains sticky.

Underlying growth remains strong

Annualized real GDP growth was a buoyant 3.4 percent in Q3 as final sales to private domestic purchasers rose sharply for the second consecutive quarter. Spending activity by consumers remained resilient while business investment continues to get a strong boost from AI spending. Net trade detracted from growth but reflects strong demand for imports of AI-related parts.

What does this mean for the economic outlook?

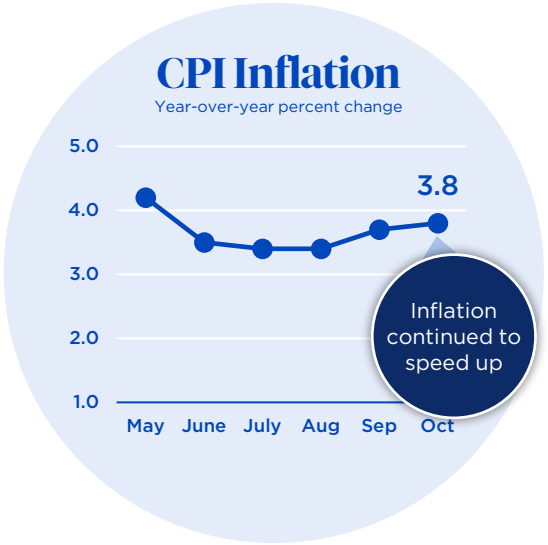
Although GDP growth is projected to ease in Q4, the economy retains buoyant momentum heading into 2027. Ongoing geopolitical uncertainty and pushback on the AI buildout are growth risks for next year, but the underlying base of the economy remains in positive shape.

The hot October inflation readings and hawkish Fed comments support our view that the Fed hikes rates another 25bps in December. A follow-up rate hike in early 2027 is likely before the FOMC holds the policy rate steady over the rest of the year.

The strong momentum from Q3 has carried into early Q4. We still expect growth to downshift to around 2.0-2.5 percent to round out 2026, but the solid foundation from consumer spending and the AI buildout is expected to extend into 2027.

Labor market strengthens as housing market struggles

Stronger hiring and wage gains should support household income and consumer spending heading into the holidays. Inflation remains firm enough to warrant another Fed rate hike in December, with rental costs adding to underlying price pressures. Meanwhile, housing remains in the doldrums with weak buyer demand and falling builder confidence pointing to further slowing after the recent run-up in mortgage rates.







Inflation remained firm in October

While the BLS omitted annual rates because of the October 2025 shutdown, our interpolation shows headline inflation rising to 3.8 percent and core inflation held steady at 2.6 percent after firm gains. Food and energy prices helped to push up the headline figure, while core prices were lifted by shelter and medical care costs.

Employment perked up in October

Employment gains strengthened and broadened in October and along large upward revisions to the prior two months, the three-month average rose to 137,000. The unemployment rate slipped to 4.1 percent despite rising labor force participation, and average hourly earnings rose a strong 0.4 percent.

Housing slump deepens

Existing-home sales fell to an annualized pace of 3.75 million units in October, the slowest pace since 2010 and the second slowest on record (data back to 1999). The decline aligned with a record low pending home sales in September, underscoring the strain on buyer demand from the recent run-up in mortgage rates.

What does this mean for the economic outlook?

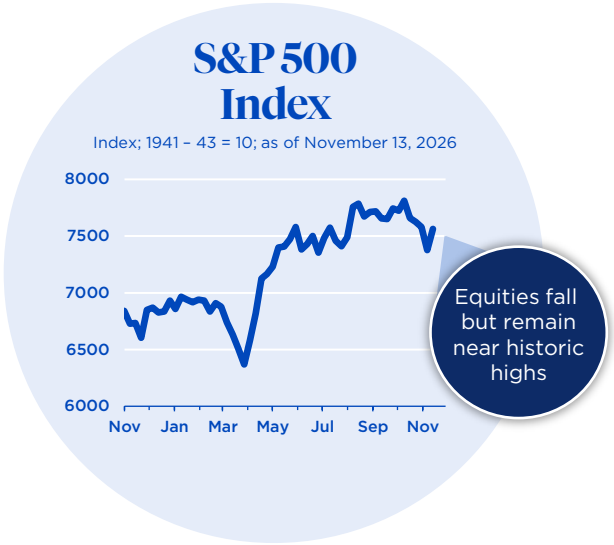
Headline inflation should get relief from lower oil and gasoline prices going forward, but rental inflation could continue to provide upward pressure on core prices. This should lead to a 25-bp rate hike at the December FOMC meeting.

Stronger payroll and wage gains should support healthy income growth and consumer spending heading into the holiday season. However, firmer wage growth and a rising quits rate suggest the labor market might again become a source of inflationary pressure.

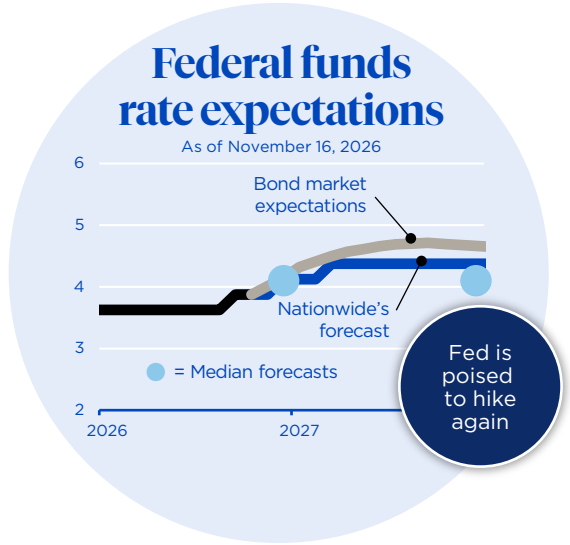
Sellers remain reluctant to lower asking prices while buyers hold out for lower rates in 2027, leaving little prospect of a near-term rebound. Lingering affordability challenges and elevated mortgage rates should keep sales subdued through year end. We do not expect a meaningful pickup until late 2027 at the earliest.

Stocks and interest rates fall from their recent peaks

Third-quarter earnings season is nearly over, with the tone of reports positive so far as strong demand kept margins healthy despite elevated input costs, interest rate pressures, and geopolitical risks. A selloff in tech stocks has pushed the S&P 500 off its highs but the index remains buoyant. Treasury yields are down slightly from their October peak and the curve spread (10-yr less 2-yr) narrowed as long-end Treasuries rallied more strongly than the front end.







Equities lose a spring in their step

The S&P 500 index has pulled back mildly as investors temper their optimism around the hyperscalers' building out of artificial intelligence. There's been some churn in the market, but the benchmark stock index remains on a positive trajectory, and most sectors are holding onto year-to-date gains. Third quarter earnings reports have generally delivered a positive message.

Interest rates oscillate

Short-term rates moved along a roller-coaster like path as bond investors reduced the expected number of rate hikes after the Fed skipped raising rates last month but ratcheted them higher after inflation ran hot in October. Yields at the long-end moved along a similar path, with the 10-year yield falling to below five percent, before reversing higher.

Fed likely to hike again before year end

The Federal Open Market Committee (FOMC) decided to hold the fed funds rate steady in the 3.75 to 4.0 percent target range in October. Most members of the committee want to gather more information before potentially hiking again, though they retained their tightening bias. The economic data since then argue in favor of more tightening.

What does this mean for the economic outlook?

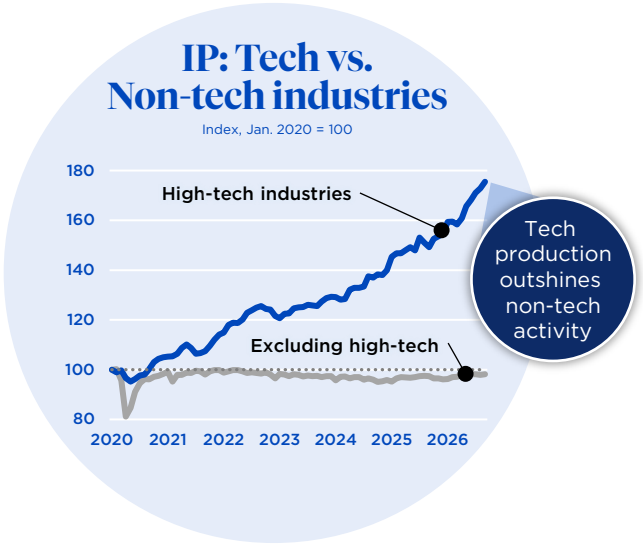
The AI selloff, elevated interest rates and geopolitical uncertainty pose risks, but we expect healthy revenue and profit growth together with buoyant earnings expectations to offer support. The decline in AI stocks looks to be a healthy recalibration that removes some froth.

Yields should stay elevated as growth remains solid, inflation sticky, the Fed continues raising short-term rates, and the term premium holds around historically-normal levels.

Our base forecast is that after skipping raising rates in October, the FOMC will follow up with a rate hike in December and likely again in early 2027 as inflation is poised to remain elevated and economic activity solid. The October inflation and employment data support our view that additional tightening is ahead.

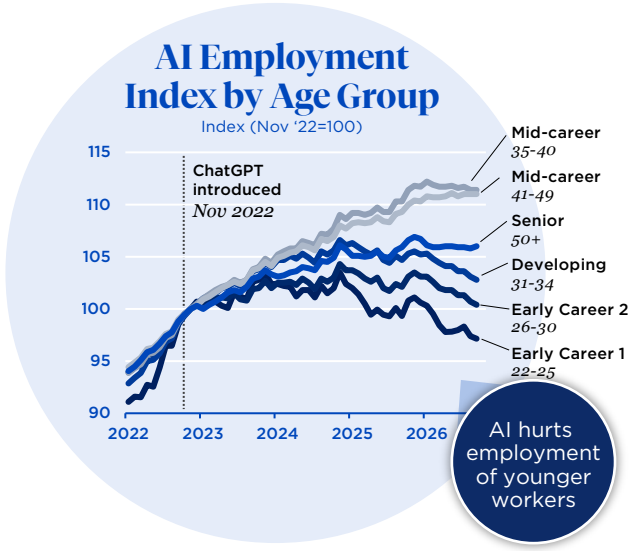
AI drives tech spending and wage growth

Robust AI investment is sustaining solid GDP growth through late 2026, boosting industries tied directly and indirectly to the buildout while the non-tech economy grows more slowly. Widespread AI-driven job losses have yet to emerge, though younger workers are facing greater challenges and AI adoption is still unfolding. High demand for critical AI-related labor is putting upward pressure on wages.



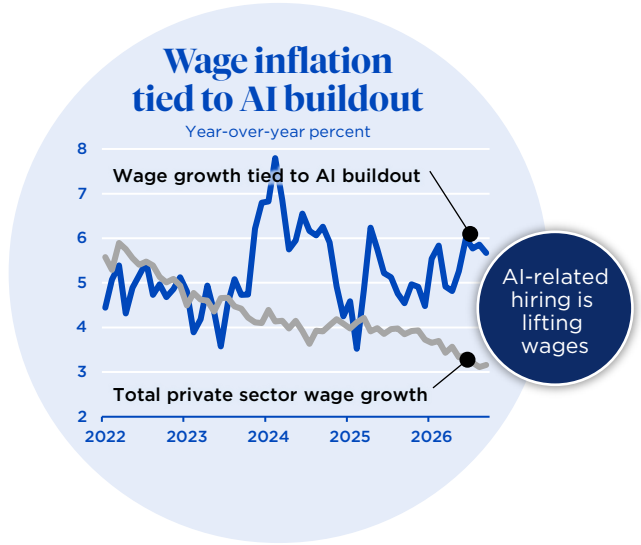
AI leads industrial sector growth

Domestic industrial sector activity attached to the AI buildout — computers, semiconductor chips, communications, and related equipment — is growing robustly, with output nearly doubling since 2020. Non-tech activity has gained some momentum recently but is significantly lagging, weighed down by policy and geopolitical uncertainty among other factors.



AI dampens hiring of younger workers

High frequency data show early-career and younger cohorts of the workforce are experiencing slight job increases or declines. More experienced and older cohorts appear generally more insulated and are not experiencing significant job losses as this technology is deployed across the economy.



AI buildout is pushing up wages

Strong demand for workers to drive the AI buildout is raising wages for this cohort at a heated pace, approaching six percent year-over-year at the end of Q3. The pace is significantly faster than workers in the rest of the economy. This comes as costs of key raw and intermediate physical goods are pushing inflation higher.

What does this mean for the economic outlook?

Hyperscalers' capital spending plans suggest the AI buildout will continue contributing positively to industrial and broader economic growth into the new year. We anticipate a smaller positive contribution to growth in 2027 and 2028 relative to this year as spending slows.

While it is still early days, AI's employment impacts so far contrast with prior expectations. Most were speculating that AI would displace more experienced workers as younger workers would embrace the new technology more quickly and benefit more.

Wage inflation for workers related to the data center buildout will continue to bubble under the surface. Upward pressure from the labor and input goods price fronts means AI investment will exert upward pressure on prices in the near term and prevent PCE inflation from easing more quickly.

Outlook

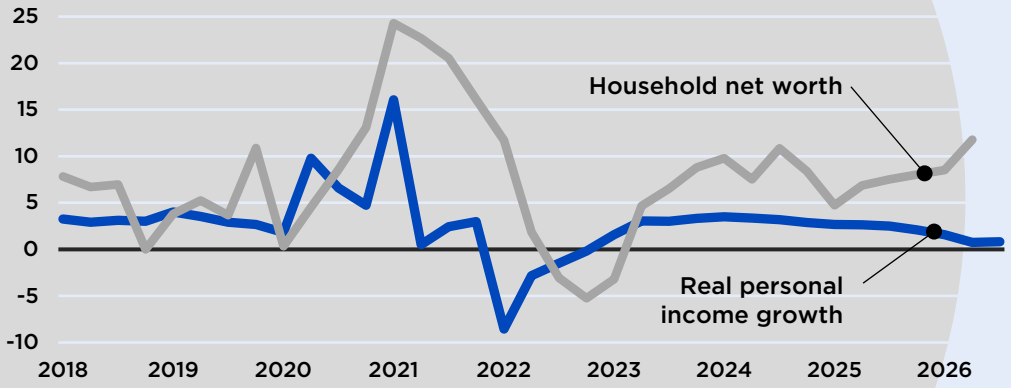
What's driving the resiliency of consumer spending?

Consumer discontent with inflation and cost-of-living pressures has weighed heavily on survey readings this year and was a prominent theme during the midterm elections. Reflective of the drag on spending power, real personal income growth has flatlined leading many households to struggle to keep up with rising prices for everyday necessities. Despite the widespread angst regarding affordability, consumer spending has been resilient in 2026. Real consumer spending was up 2.5 percent year-over-year as of September, a faster pace than 2025, while discretionary purchases have broadly held up.

A solid labor market is the key reason as job gains have steadily improved, while large tax refunds supported spending earlier in the year. Further, a strong wealth effect is supporting spending as higher income and older households benefit from the sharp appreciation of equity prices. Net household worth has jumped by more than 16 percent since the end of 2024, disproportionately concentrated among higher income households. Those wealth gains can encourage additional purchases as it's estimated that each additional dollar of wealth drives roughly two cents of added consumer spending. This wealth effect is likely to remain supportive for spending in 2027, but more importantly we look for improved real income growth as inflation fades from current highs.

Real personal income and net worth

Percent change, year-over-year



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Forecast

Data as of November 2026

	2025 ACTUAL	2026 ESTIMATE	2027 FORECAST	2028 FORECAST	2029 FORECAST
REAL GDP [1]	2.0%	2.5%	2.3%	2.3%	2.3%
UNEMPLOYMENT RATE [3]	4.5%	**4.1%**	**4.2%**	4.2%	4.2%
INFLATION [1] (CPI)	2.8%	3.9%	2.0%	2.0%	2.0%
TOTAL HOME SALES	4.74	4.65	4.74	5.05	5.40
S&P/COTALITY HOME PRICE INDEX	1.3%	2.2%	2.3%	2.7%	2.8%
LIGHT VEHICLE SALES	16.2	15.9	16.3	16.5	16.5
FEDERAL FUNDS RATE [2]	3.50%	**4.00%**	**4.25%**	3.00%	3.00%
5-YEAR TREASURY NOTE [2]	3.73%	4.80%	4.90%	4.00%	3.95%
10-YEAR TREASURY NOTE [2]	4.18%	5.00%	5.25%	4.50%	4.50%
30-YEAR FIXED-RATE MORTGAGE [2]	6.18%	7.00%	6.95%	6.00%	6.00%
MONEY MARKET FUNDS	4.03%	3.72%	4.28%	3.47%	3.03%

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[3] *Q4 average*

Low unemployment expected over 2027

Job gains have picked up in 2026 and are expected to be at least as strong as new entrants to the labor force in 2027. This would keep the unemployment rate low and maintain the labor market's support for consumer spending into the new year.

Modest rate tightening through early 2027

The Fed paused in October and has signaled a more measured response to inflationary pressures. Still, we expect a rate hike in December with another increase likely to follow early next year. After that, the Fed is expected to hold rates steady over the remainder of the year.

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Sources

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2 | Economic Review

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Fed funds rate expectations	*Federal Reserve, Bloomberg, Nationwide Economics*

4 | Economic Influence of Artificial Intelligence

IP: Tech vs Non Tech	*Federal Reserve, Haver Analytics, Nationwide Economics*
AI Employment	*Stanford Digital Economy Lab, ADP Research and Eloundou et al.*
AI wage growth	*BEA, Haver Analytics, Nationwide Economics*

5 | Outlook

Real incomes and net worth	*Bureau of Economics Analysis, Federal Reserve Board*
Latest Forecast	*Nationwide Economics*

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