

# Economic & Market Commentary

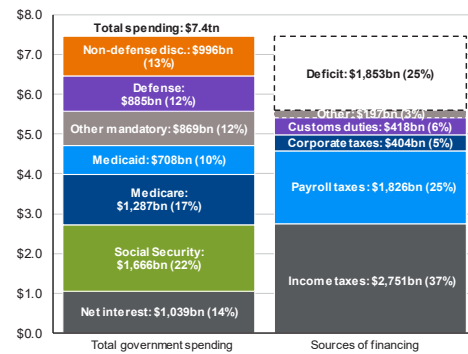
## FALL 2026



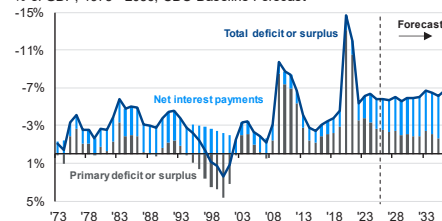
### \$40 Trillion and Counting...

One of the headline events of the summer was no surprise. As deficit spending continued unabated, aggregate U.S. debt exceeded the \$40 trillion threshold. Federal net debt is now over 100% of annual GDP, with no reversal seen in the foreseeable future. Last year's deficit (the fiscal year ending September 30) was fully 25% of total spending – additional debt issuance was close to \$2 trillion. Notable in this statistic is that interest on total debt outstanding is 14% of all federal outlays – exceeding all other line items except Medicare and Social Security.

**The 2026 federal budget**  
USD trillions



**Federal deficit and net interest payments**  
% of GDP, 1973 - 2036, CBO Baseline Forecast



**Federal net debt (accumulated deficits)**  
% of GDP, 1940 - 2036, CBO Baseline Forecast, end of fiscal year



**CBO's Baseline economic assumptions**

|                          | 2026 | '27-'28 | '29-'30 | '31-'36 |
|--------------------------|------|---------|---------|---------|
| Real GDP growth          | 2.3% | 1.9%    | 1.8%    | 1.8%    |
| 10-year Treasury         | 4.1% | 4.3%    | 4.3%    | 4.4%    |
| Headline inflation (CPI) | 3.0% | 2.5%    | 2.3%    | 2.3%    |
| Unemployment             | 4.6% | 4.5%    | 4.4%    | 4.2%    |

Source: BEA, CBO, Treasury Department, J.P. Morgan Asset Management. (Left) Numbers may not sum to 100% due to rounding. (Top and Bottom right) Estimates are from the Congressional Budget Office (CBO) February 2026 An Update to the Budget Outlook: 2026 to 2036. "Other" spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual results, results or performance may differ materially from those reflected or contemplated. Guide to the Markets - U.S. Data as of September 28, 2026.

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ASSET MANAGEMENT

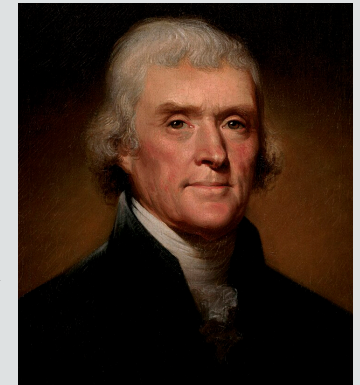
There is little to suggest this trend will change. While strong post-Covid, AI-driven economic growth will help replenish federal coffers, the Congressional Budget Office predicts continued deficit spending well into the future. Interest expense on outstanding debt will claim a steadily rising percentage of government revenues.

And note the assumptions being used by the CBO. Its long term inflation expectations are well below current levels, and Treasury yields are expected to average nearly one-half percent below today's rates. Given the Federal Reserve's recent hawkish tone and the bond market's reaction to this and world events, the deficit outlook should be hedged toward higher interest rates and deficits than now forecast.

With this view becoming consensus, markets are front-running the Federal Reserve. Longer-dated bond yields are at their highest levels in a decade. Despite (or perhaps because of) the Federal Reserve's action and statement at its mid-September Open Market Committee meeting, interest rates will likely remain elevated as the Fed works to restrain inflation. Importantly, real – inflation-adjusted – interest rates are now above their average level over the last sixty-plus years (a positive for bond investors).

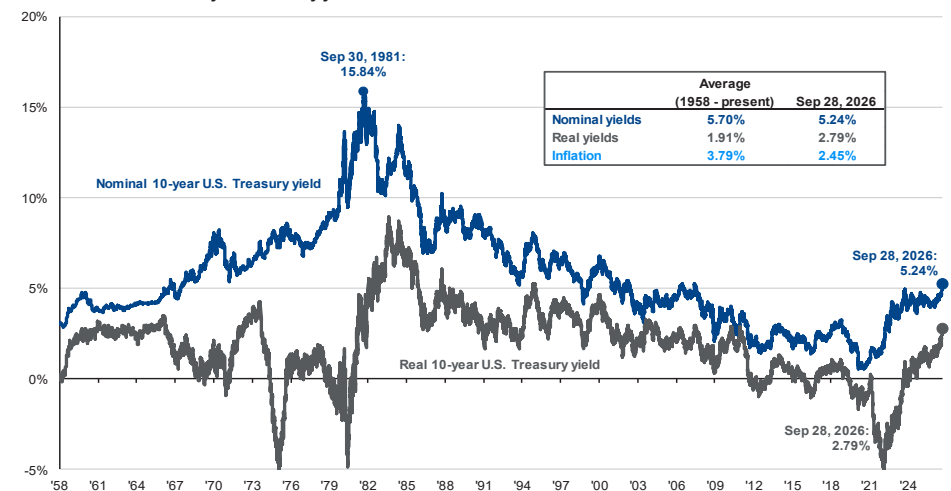
*"To preserve our independence, we must not let our rulers load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude."*

Thomas Jefferson (1743-1826)



A favorite anecdote: In 1962, President Kennedy hosted a White House dinner for Nobel laureates. He noted it was the most extraordinary collection of talent and human knowledge ever gathered there 'with the possible exception of when Thomas Jefferson dined alone.'

**Nominal and real U.S. 10-year Treasury yields**



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Real 10-year Treasury yields are calculated as the daily Treasury yield less y/y core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data are available. Guide to the Markets - U.S. Data as of September 28, 2026.

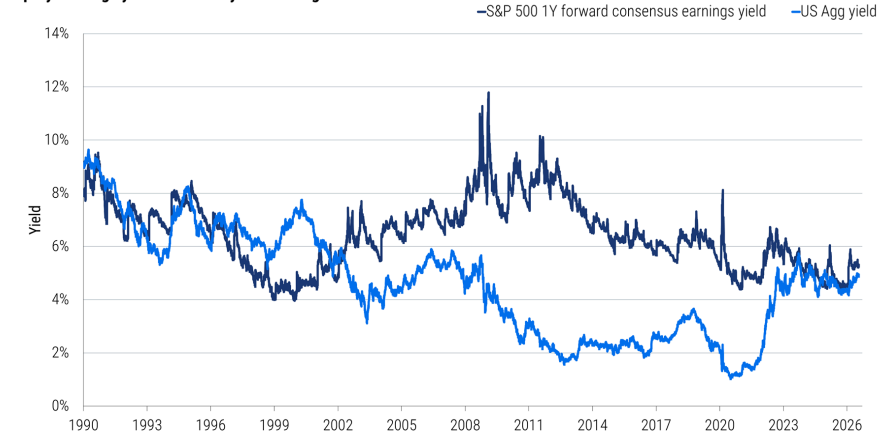
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While Treasury Secretary Bessent recently executed plans to buy longer-dated Treasury debt to mitigate market movements, it was the equivalent of swimming against a strong tidal force. Today's rate environment will weigh on interest-sensitive consumer sectors of the economy (housing and the like). Energy prices likewise will be an economic headwind for some time to come. At the same time, massive build-outs of AI-related infrastructure will partially offset this going forward, and surprisingly strong employment data will help insure economic growth continues at a favorable pace. There is a rising probability that, unlike past episodes, sustained higher interest rates will not trigger a recession.

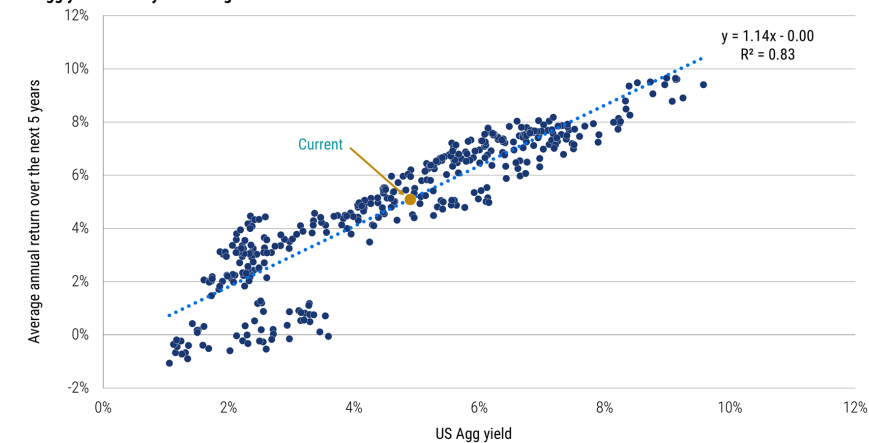
## Building a Portfolio Today

Much has been written about broad equity valuations reaching historic peaks. Price/earnings ratios (albeit heavily influenced by technology favorites) are at levels not seen in decades. Equities and fixed income are in competition for investor dollars, and in recent years the stock markets have been the clear winners. As valuations rise, however, attractiveness lessens. One measure of this is the earnings yield (earnings per share divided by the stock price) – the inverse of the price/earnings ratio.

Equity earnings yields vs. bond yields through time



US Agg yields vs. 5-year average annual returns

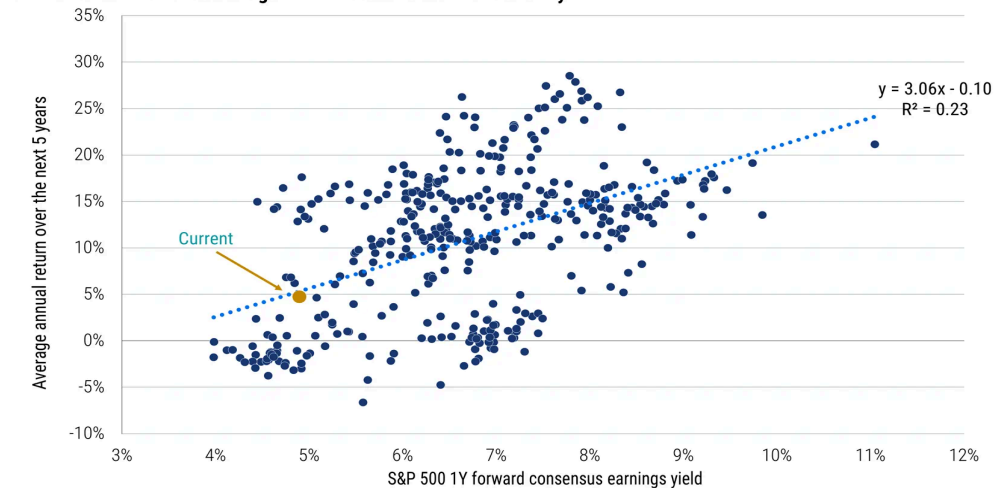


And, with interest rates rising to levels comfortably above current and expected inflation, bonds are an increasingly valuable component of a longer term investment strategy. How do the prospects for equities and fixed income compare today?

Based on the observations on the left – incorporating more than a third of a century – the halcyon days of ‘buy stocks and forget bonds’ are likely coming to an end. For the first time in a quarter-century, the earnings yield on equities and the nominal yield on high quality debt instruments are essentially equal. This suggests it's a good time for conservative investors to consider a recalibration of their portfolio structures. This is not to suggest that bonds will outperform stocks over the intermediate future. It does, however, suggest that the consistency and level of fixed income returns are stronger competition for equities than any point in recent years.

This consistency of bond returns going forward is significantly superior to those potentially realized by equities. Using the same five-year rolling endpoints of the S&P 500 earnings yield, we see that while returns are generally positive, the distribution of returns is wildly diverse. The notable point: when the starting earnings yield is at or below current levels (about 5%), five year forward equity returns tend to be marginally positive, if not negative.

S&P 500 valuations vs. average annual returns over the next five years



## Where We Stand...

We remain strong advocates of globally diversified, value-oriented equity structures as the primary vehicle to participate in the growth of the world's economy. At the same time, different cycles present different opportunity sets. In today's environment, a strong core of high-quality, short- to intermediate-term debt provides not only a stable foundation, but also a return potential comparable to equities over the intermediate term – a status not seen in some time. It's a good time to be fully invested for long term success. Talk to your Advisor and Investment Manager to see how we build portfolios to meet your goals. Your financial future matters to us.

Economic & Market Commentary is written by the Investment Services Department at Security National Wealth Management.



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