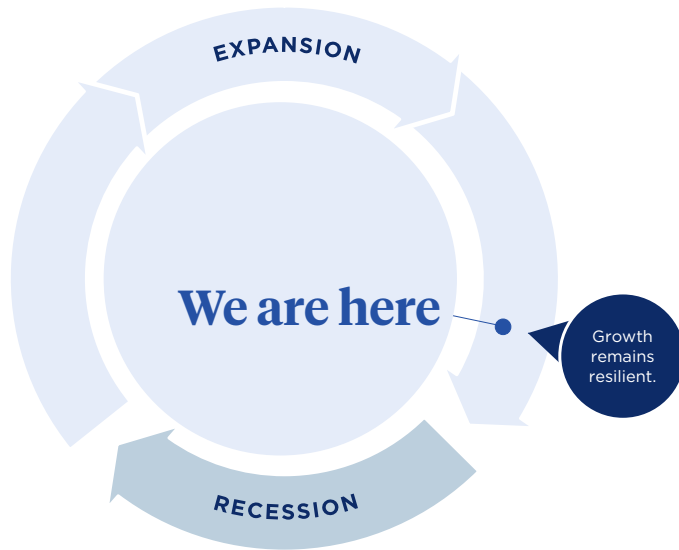


Energy prices keep inflation front and center



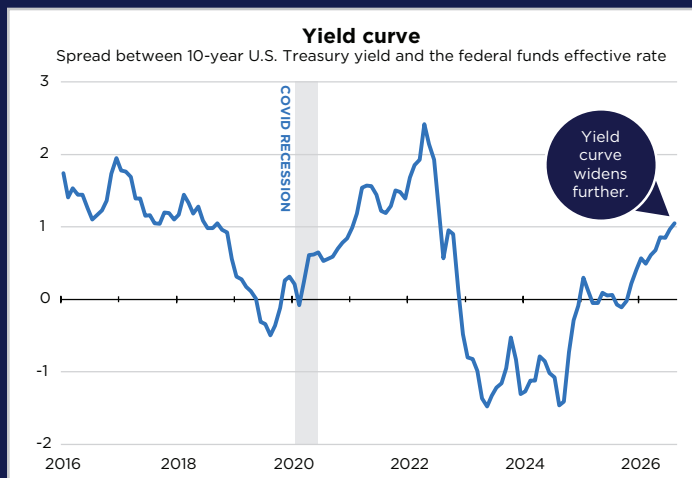
Economic growth remained strong during the third quarter despite a rebound in fuel prices. However, higher energy costs have increased inflation risks and prompted the Federal Reserve to begin raising interest rates. While elevated fuel prices may modestly slow economic activity in the fourth quarter, a sharp slowdown appears unlikely given the continued strength of the labor market and ongoing investment in artificial intelligence.

Even if oil supply conditions in the Middle East improve, ongoing refining disruptions are likely to keep gasoline and diesel prices elevated. While higher energy costs may weigh on consumer spending, healthy employment trends and income growth should help offset some of that pressure, supporting overall economic resilience.

Economic Overview

Treasury rates rise further

Inflation concerns, accelerating economic growth in Q3, deep fiscal deficits, strong AI-related corporate bond issuance and likely another Fed rate increase continue to push interest rates higher. The 10-year Treasury rose above 5.0% in mid-September for the first time in nearly 20 years. Shorter-term rates also climbed as markets priced in several Fed rate hikes over the coming months. After tightening in September, we expect the Fed to raise rates again before year end. Given uncertainty around energy prices and their potential impact on broader inflation, the FOMC likely remains on hold through 2027 or tightens further if conditions warrant, reinforcing a higher-for-longer rate environment.

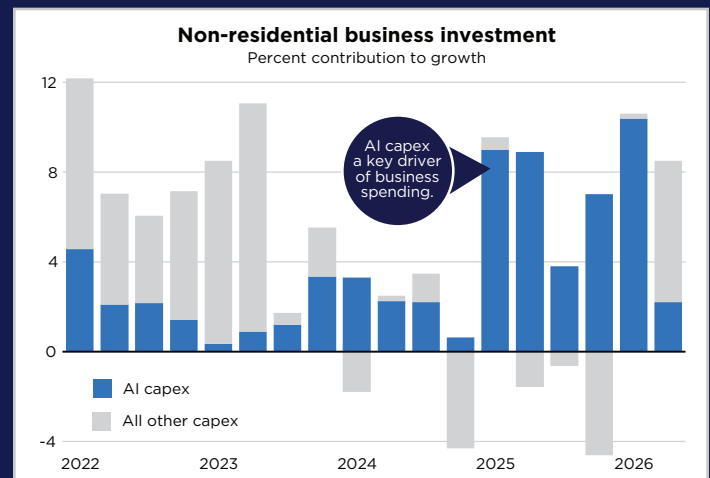


Source: Bloomberg, National Bureau of Economic Research

Economic Overview

AI capex is a key engine of growth

The AI buildout has been a key propeller of nonresidential business investment growth in recent quarters and, in turn, an important driver of healthy GDP growth. Forward-looking durable goods orders, alongside AI spending intentions by tech firms, indicate investment is set to advance at a robust pace into next year. Hyperscalers' capital spending plans suggest AI will remain a major contributor to growth. The AI buildout supports the economy both directly and through spillover effects on construction, manufacturing activity and hiring.



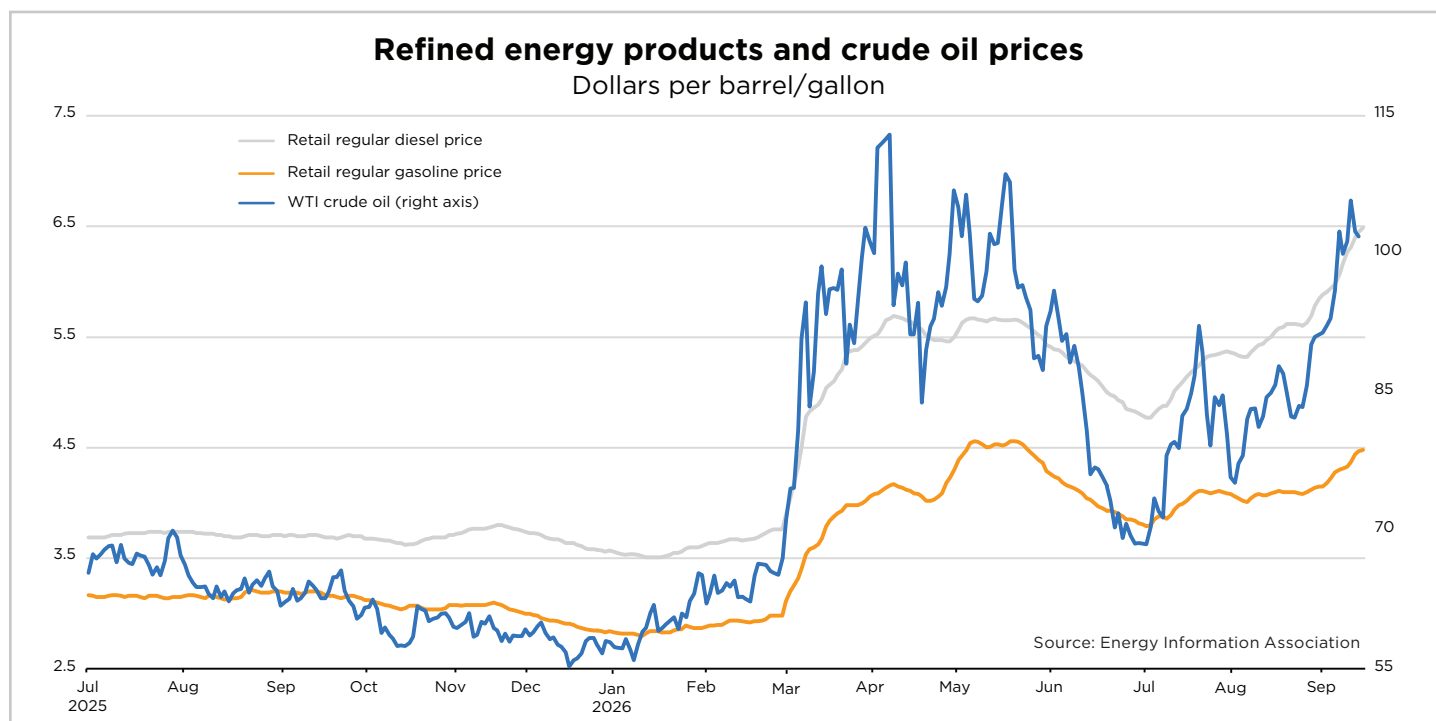
Source: Bureau of Economic Analysis

Outlook: Renewed energy price spike keeps inflation front and center

The global oil supply shock has intensified in recent weeks as renewed tensions with Iran and disruptions to Red Sea oil traffic pushed crude oil prices back above \$100 per barrel. Retail diesel fuel prices climbed above \$6 per gallon in early September for the first time ever, while average gasoline prices are again running at \$4.50 per gallon. Many forecasts expect fuel prices to remain elevated through year end and likely into early 2027, even if oil trade conditions improve.

In addition to pushing headline inflation higher through gasoline prices, the jump in diesel fuel costs could lead to broader price increases as businesses pass along higher transportation expenses. Food inflation is particularly sensitive to rising diesel and fertilizer costs. In turn, Consumer Price Index (CPI) inflation is now expected to increase to 3.9% by year end and remain elevated until the second quarter of 2027, with a risk that price pressures persist even longer.

Given the recent jump in fuel costs, we expect economic growth to cool to around 2% in the fourth quarter, following a strong 3.0% advance in Q3.



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This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Consumer Price Index (CPI): The CPI measures the average change in price over time of a market basket of consumer goods and services. The market basket includes everything from food items to automobiles to rent.

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