Economic Growth Improves and Inflation Rises, but Bond Yields Retreat on Tech Concerns

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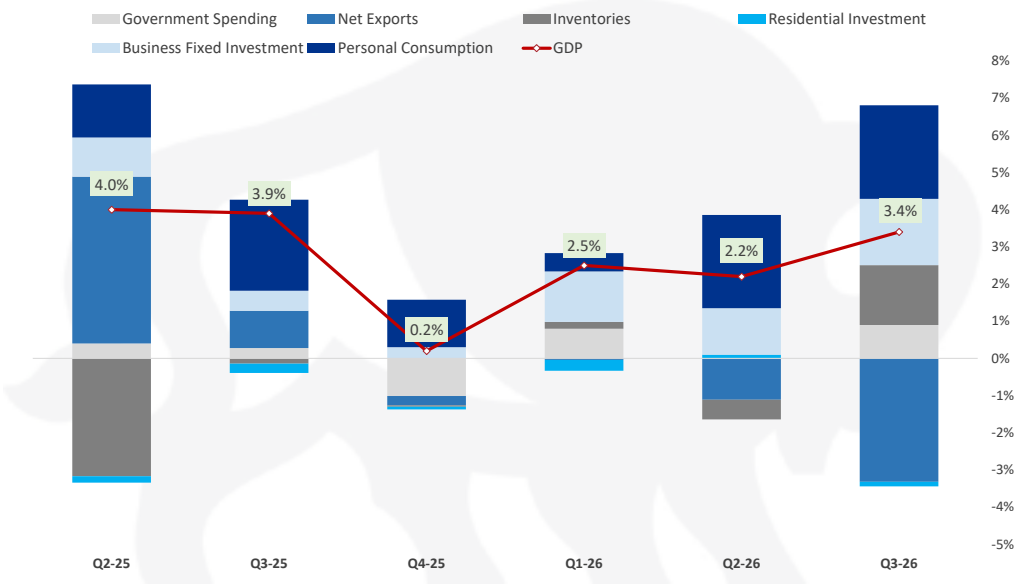
This morning, the Bureau of Economic Analysis reported the U.S. economy grew at a better-than-expected +3.4% inflation-adjusted annualized pace in the third quarter. Although it was the strongest headline GDP reading since Q3 2025, the underlying data was even more impressive. Consumer spending was surprisingly robust for the second straight quarter as personal consumption rose +3.8%, contributing 2.5 percentage points to the headline. Business fixed investment jumped +12.7%, adding 1.7 percentage points as the massive A.I. buildout continues. Restocking of business inventories contributed 1.6 percent, while government spending jumped +5.3%, adding 0.9 percentage points.

On the downside, net trade subtracted a whopping 3.3 percentage points, as exports fell -5.7% while imports surged +19.7%. The jump in imports reflects efforts by U.S. companies to secure foreign purchases before the next round of tariffs begins, as well as purchases necessary for the construction of data centers and other A.I. infrastructure. Residential investment (housing) fell -3.3% as mortgage rates climbed for much of the quarter.

Gross domestic purchases (which exclude net trade) increased +6.6%, the strongest since Q1 2021. *Real final sales to private domestic purchasers* (which subtracts business inventories, government purchases and net trade, and is considered to be a cleaner measure of economic growth) rose +4.9% during the quarter.

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Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



Source: Bureau of Economic Analysis

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Also released this morning, the PCE deflator for September rose +0.5% bringing this annual inflation measure up from +3.4% to +3.6%. Personal income and spending were both below forecast in September, while real personal spending was flat and the savings rate slipped from 4.0% to a three-year low of 3.8%. The combination of rising inflation, a stagnant spending pace and dwindling savings suggests strained consumer capacity … *although admittedly, this lingering concern has yet to play out.*

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Bond yields are lower in early trading despite the GDP strength and further indications of rising prices, which would normally push yields upward. This morning's rally mostly reflects a flight-to-quality away from tech stocks, which are under pressure after Google reported disappointing third-quarter earnings yesterday afternoon. On a positive note, this morning's bond rally suggests the U.S. Treasury market remains a safe harbor for investors.

The futures market is currently indicating a 79% probability of a quarter-point rate hike in December, while pricing-in another 25 bp increase by the second quarter of 2027.

Market Indications as of 10:58 A.M. Central Time

DOW	Down -164 to 52,311 (HIGH: 54,349)
NASDAQ	Down -293 to 26,257 (HIGH: 27,600)
S&P 500	Down -18 to 7,726 (HIGH: 7,819)
1-Yr T-bill	current yield 4.43%; opening yield 4.44%
2-Yr T-note	current yield 4.67%; opening yield 4.70%
3-Yr T-note	current yield 4.75%; opening yield 4.78%
5-Yr T-note	current yield 4.82%; opening yield 4.84%
10-Yr T-note	current yield 5.00%; opening yield 5.01%
30-Yr T-bond	current yield 5.34%; opening yield 5.33%

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