



Macro Pulse for October 26

- Friday's September CPI report, published 9 days late due to the ongoing U.S. government shutdown, came in softer than expected at +0.3% MOM and 3.0% YOY and gives the Fed the green light for a 25bp cut in its October 29th meeting. While a choppy 7-month upward trend in inflation is intact, softness in core services, including transport and logistics, suggests the pass-through of tariff impacts to inflation is not accelerating in a linear fashion.
- Select cases of fraud and their impact to credit markets and regional banks, paired with banks tapping the Fed's standing repo facility last week, have spooked investors. We do not believe these developments are harbingers of a credit event, but rather a reminder that the credit cycle is long in the tooth. With renewed scrutiny of credit quality and liquidity dynamics, staying selective is likely to see a renaissance as a key source of return.

Halloween Special: Scary charts for this spooky season

Happy Halloween week! With markets serving up plenty of frights, we're leaning into the season with a Halloween-themed chart roundup – quick hits on what's lurking in the data and why it matters. Dive in... if you dare. 🎃 👻

A shocking labor market

Call it the Frankenstein economy: U.S. hiring is being jolted by both demand and supply shocks. On the demand side, tariff uncertainty and shifting policy are slowing net job creation and nudging firms to delay job openings. On the supply side, tighter immigration contributes to a smaller labor force. Lower supply means less monthly job creation is now needed to hold the unemployment rate steady, which can mask cooling beneath the headline numbers. Add patchy labor data during the U.S. government shutdown, and the picture looks stitched together at best.

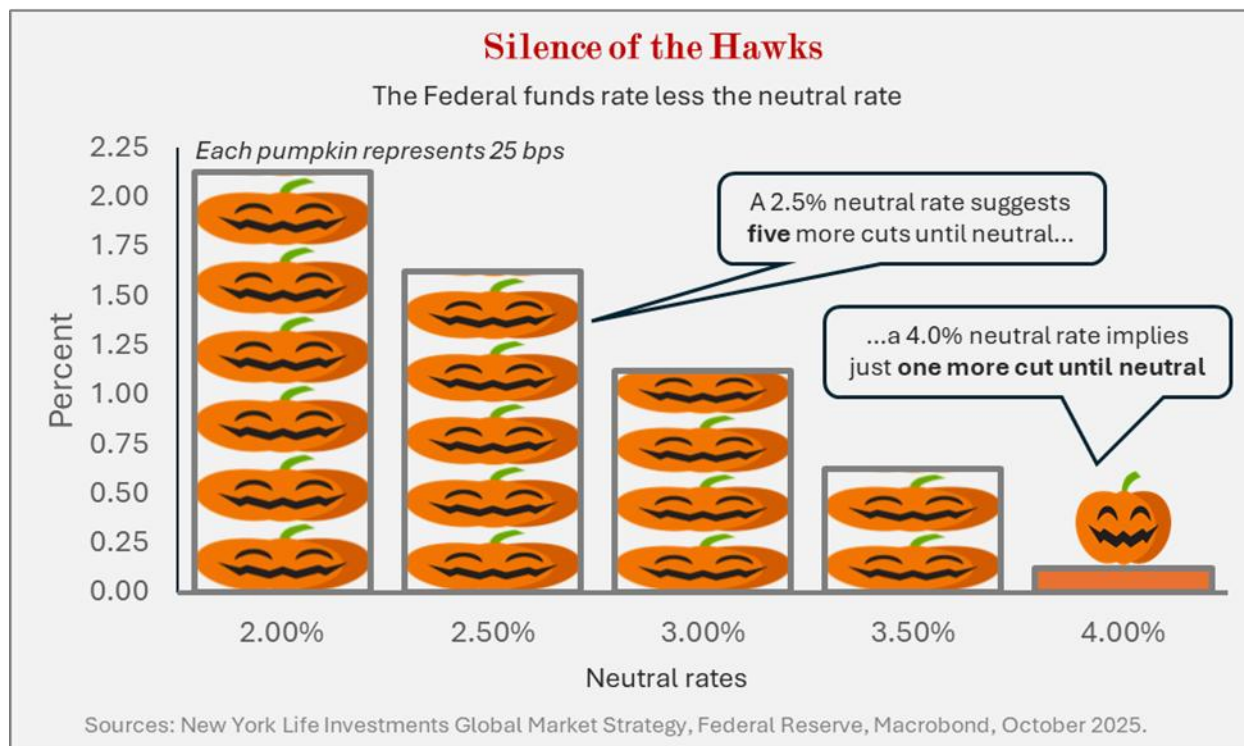
For the Fed, this mix complicates how to respond to the “maximum employment” half of the mandate – for now and the foreseeable future, payrolls weakness is justifying modest easing. For markets, it raises the risk of abrupt swings in sentiment around corporate health as employment prints whipsaw. Investors should prepare for increased volatility as real data and revisions unmask the underlying trends.



Silence of the Hawks: finding r^* in a house of mirrors

The neutral rate (r^* or “r-star”), the rate at which the fed funds rate is neither stimulating nor restraining economic growth, is as hard to spot as a specter on a ghost hunting tour. The neutral rate is more than just a theme haunting academics and macro nerds: it shapes the cadence and number of further policy rate cuts, as well as the narrative around how “restrictive” monetary policy is. For example, if the neutral rate is as high as 3.50%, then a Fed moving to neutral would, in theory, only cut a couple more times from the current policy rate’s 4.25% upper range. If the neutral rate is lower, the Fed has room for more cuts.

One way the Trump administration has sought to lower *policy* rates is to argue for a lower *neutral* rate. But the neutral rate isn’t observable in real time; we only know where it is based on how the economy is performing. And though some sectors – such as housing and other rates-sensitive sectors – are struggling under the weight of higher market rates, overall economic activity and market liquidity are healthy. Stickier inflation, AI capex spending, and geopolitical changes may also have nudged the neutral rate higher than in past cycles.

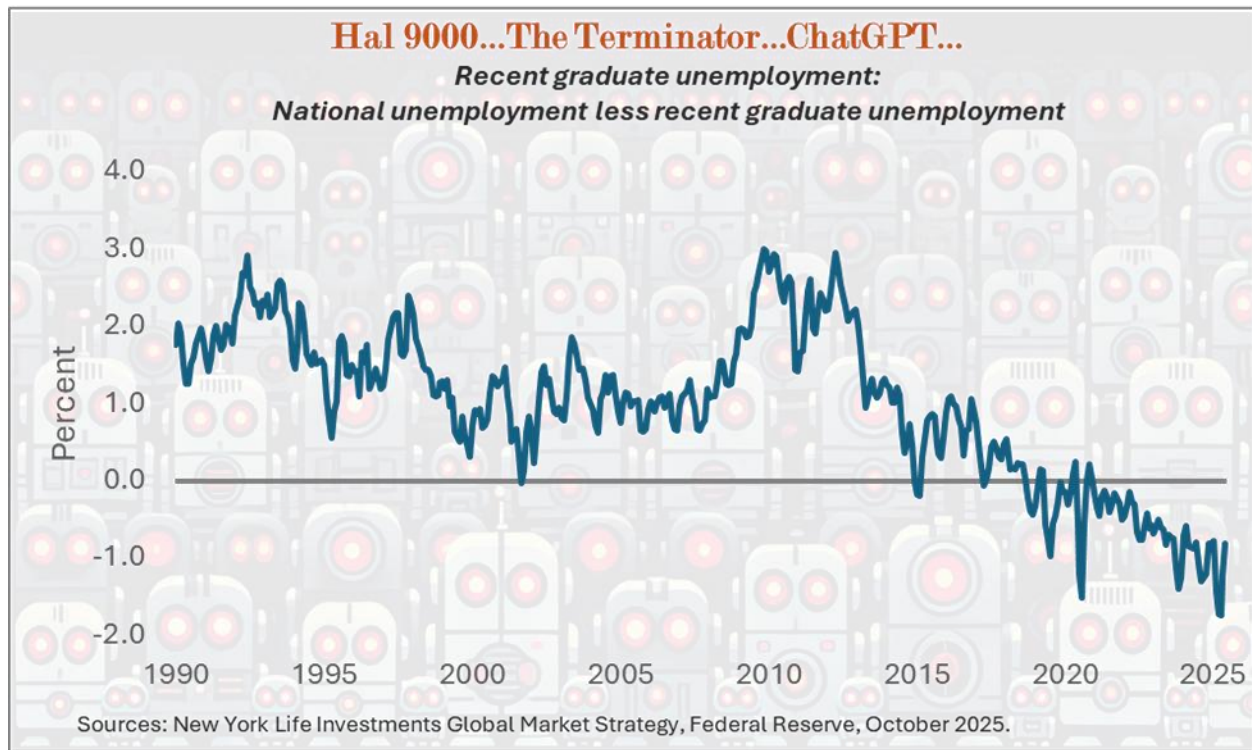


Hal 9000...The Terminator...ChatGPT...

Is artificial intelligence taking away entry-level jobs? Recent-grad unemployment (22–27-year-olds with a bachelor’s degree or higher) has broken with its 30-year history of sitting below the national average, and it’s tempting to blame the newest machine in the room. But the turn began before ChatGPT – in 2018, during the late-cycle tightening pre-pandemic – and has been amplified by broader adoption of automation and software tools since. Think of AI as the latest “jump scare,” not the whole plot.

There are a number of forces at play: the rise of the gig economy; the prevalence of young people living at home (roughly half of American 18-29 year olds live with mom and dad, enabling lower-paying work); employers are prioritizing experienced hires; internships aren’t converting to full-time as reliably; and entry roles are being re-scoped or automated, especially in routine analytics and support functions. The result is a skills mismatch that haunts new grads even as overall labor demand holds up.

As with past technological shifts, education and training will adapt. Curricula that emphasize applied data skills and apprenticeships should help. Until then, expect more volatility in full-time placements and don’t let the headlines turn a labor-market thriller into a horror film.

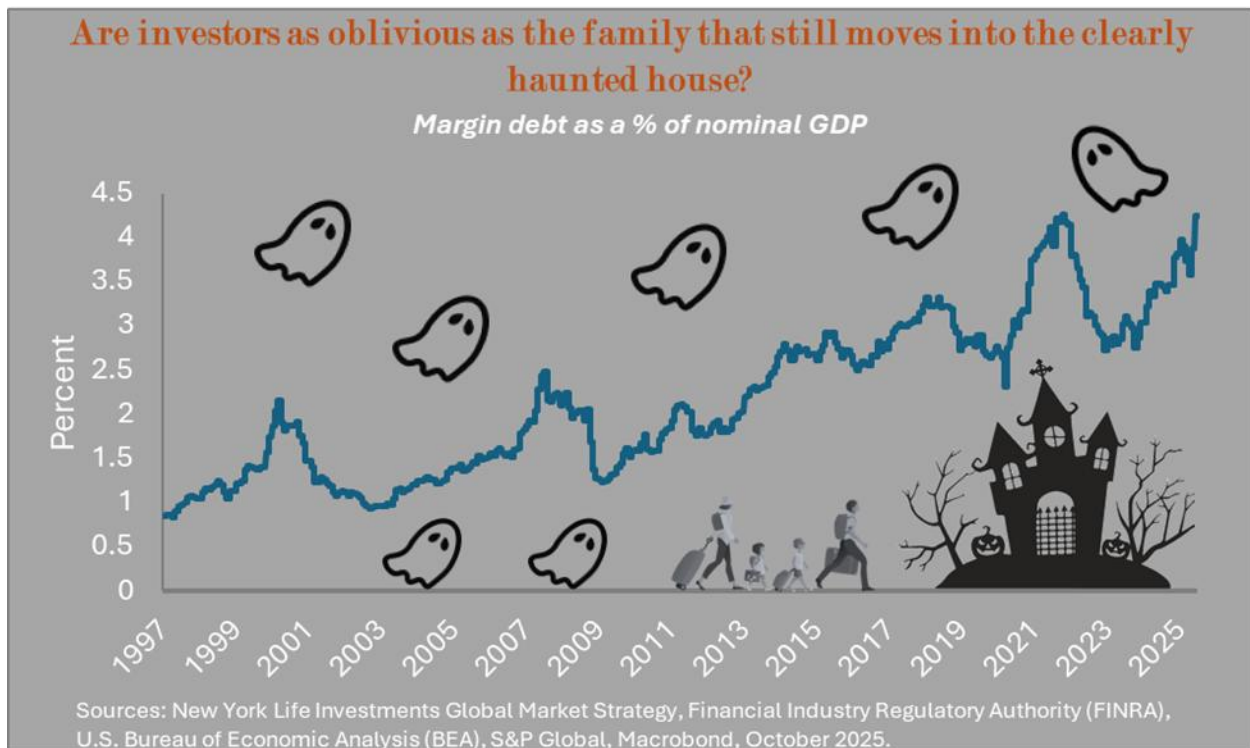


Are investors as oblivious as the family that still moves into the clearly haunted house?

Margin debt, the money investors borrow from brokers to buy stocks, is a useful gauge of when bullish sentiment crosses from healthy to hazardous. As a share of GDP, it's near an all-time high. Today's build echoes 1999, 2007, and 2021 – periods that ended in broad selloffs. When margin balances run this hot, even a modest drop can trigger forced deleveraging and accelerate selling across asset classes. In other words, a classic setup for a Halloween-style jump scare.

Here's the spooky part: as of September, margin debt is running almost 40% higher than a year earlier, a setup that often spells trouble for high yield credit. Historically, when year-over-year margin debt has pushed past roughly 40%, high yield spreads have tended to widen by about 1.2 percentage points over the following six months.

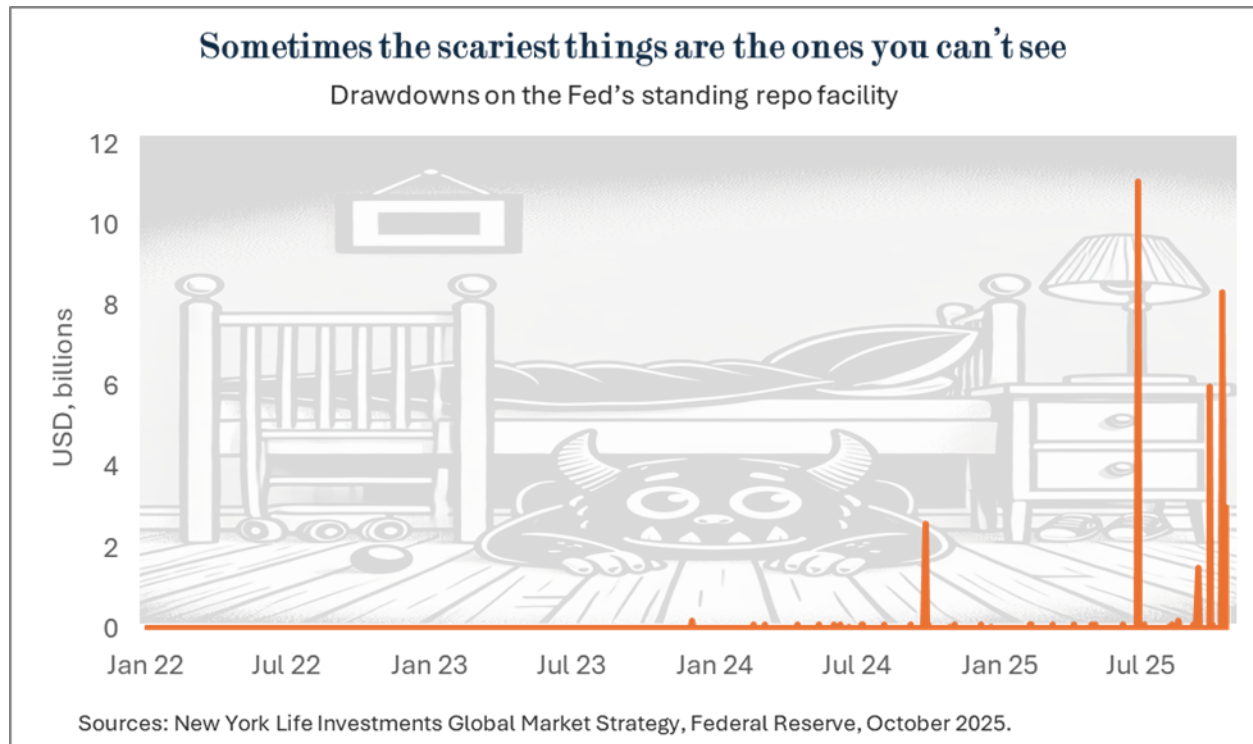
Our base case is that spreads will remain compressed, but a tightening in financial markets conditions – possibly prompted by forced deleveraging – presents a risk.



Sometimes the scariest things are the ones you can't see

The Fed's Standing Repo Facility (SRF) – a daily backstop that lets dealers borrow overnight cash when they're strapped for liquidity – is rarely used, especially away from month-end, but over the past month it's been tapped repeatedly. That points to emerging funding stress in the dealer market, or risks that lurk in the market's plumbing...the stuff that goes bump in the night.

If SRF usage persists or climbs, especially away from month end, it could draw more attention from the Fed and markets. Overall, the SRF is a small piece of the liquidity picture, but we're tracking it as a potential early signal of tightening conditions.



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