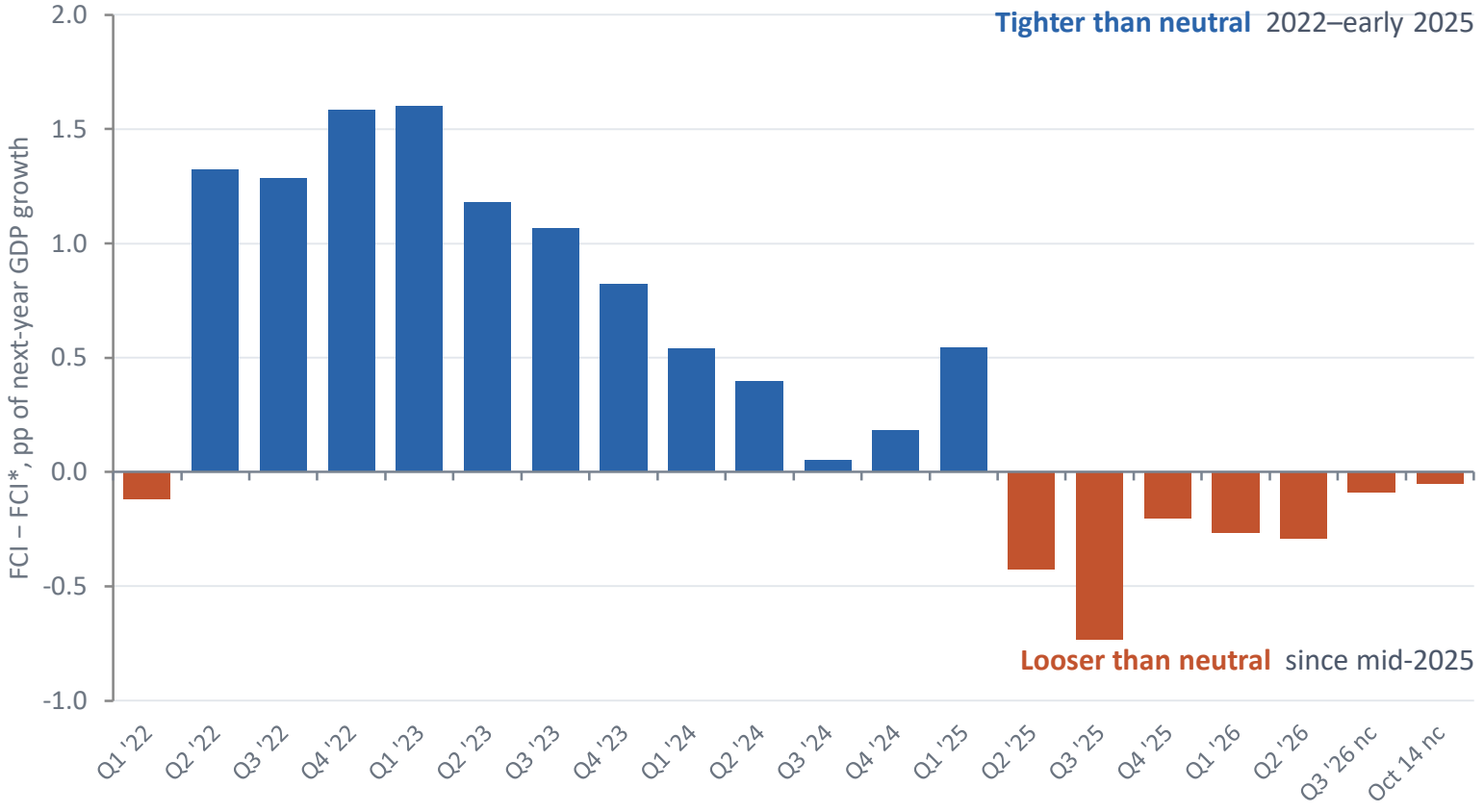
Financial conditions are neutral to slightly loose

With output above potential and inflation above target, they should be tighter than neutral



−0.05

FCI gap, daily nowcast (Oct 14): about neutral, slightly loose

−0.69

Equity contribution to FCI: stocks offset the policy rate

+0.5 / 2.7%

Output gap (SPF, Q3) / SPF core PCE inflation

The gap should be positive: tighter than neutral

Source: fcistar.org (Caballero, Caravello and Simsek), data through Oct 14, 2026. FCI is FCI-G (Ajello et al. 2023). nc: daily FCI nowcast (Q3 quarter-end; Oct 14) vs. SPF-based FCI* forecast.

Risk-centric macro: what ~16% SPX earnings growth requires

2027, Q4/Q4: SPX earnings +16.35%, all other corporate profits flat, CBO and SPF macro forecasts as given

	Benchmark GDP growth		Benchmark + 0.5 pp	
2026 Q4 → 2027 Q4	**CBO**	**SPF**	**CBO**	**SPF**
Real GDP growth	1.81%	2.18%	2.31%	2.68%
Aggregate corporate profits, nominal	9.42%	9.42%	9.42%	9.42%
Labor share (comp / GDP), change	**−0.56 pp**	**−0.53 pp**	**−0.51 pp**	**−0.47 pp**
Real compensation growth	0.7%	1.1%	1.3%	1.7%
Real consumption growth needed	1.5%	2.0%	2.3%	2.8%
Required real wealth growth	**4.6%**	**5.8%**	**6.3%**	**7.4%**
Required real equity-wealth growth	9.7%	12.3%	13.5%	16.1%
Consumption shortfall if equities flat, % GDP	0.60	0.76	0.84	1.00

≈ 2×

Labor-share decline vs. its 2000–25 pace; the share is already at a post-1990 low

5–7%

Real wealth growth needed; realized 5.1–5.8% in 2023–25

0.6–1.0%

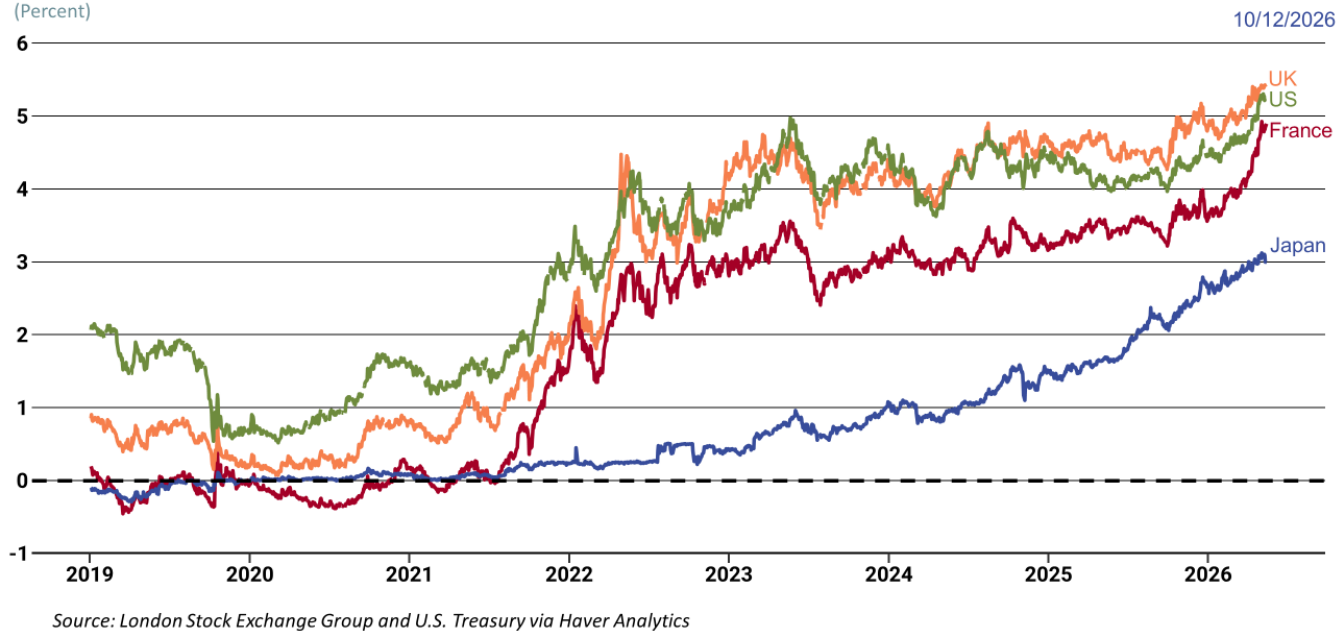
of GDP in lost demand if equities simply go flat

$\Delta C = 0.668 \cdot \Delta L + 0.030 \cdot \Delta W$; consumption is GDP less CBO/SPF investment, government and net exports. Non-equity wealth grows with real GDP; equities are 35.4% of net worth. +0.5 pp: higher real GDP growth, same inflation and non-consumption spending. SPX growth is a scenario input (FactSet CY2027 bottom-up consensus ≈ 17%). Source: SPX Earnings and Macro Consistency (Oct 2026).

Long rates up worldwide; Treasury absorption premia too

A combination of FCI-stabilization and limited debt capacity

10-year government bond yields



Source: London Stock Exchange Group and U.S. Treasury via Haver Analytics

Measured Treasury absorption premia bp, annualized

	Cash-Treasury	Real duration	Total
2015 Q1	−18.2	8.4	−9.9
2026 Q1	−0.5	38.9	38.3
2026 Q2	−1.0	48.1	47.1
Change	**+17.2**	**+39.8**	**+57.0**

+57 bp
Absorption premia, 2015 Q1 to 2026 Q2

80 → 205
bp marginal absorption cost (+124 bp)

Left: Chicago Fed AAC economy slides (Oct 12, 2026); LSEG and U.S. Treasury via Haver Analytics. Right: Caballero, The Safe-Debt Laffer Curve (2026), Table 1. Cash-Treasury: debt-weighted Treasury par yield minus matched swap rate. Real duration: debt-weighted DKW real term premium. Marginal cost adds the repricing of privately held notes and bonds (Table 2).