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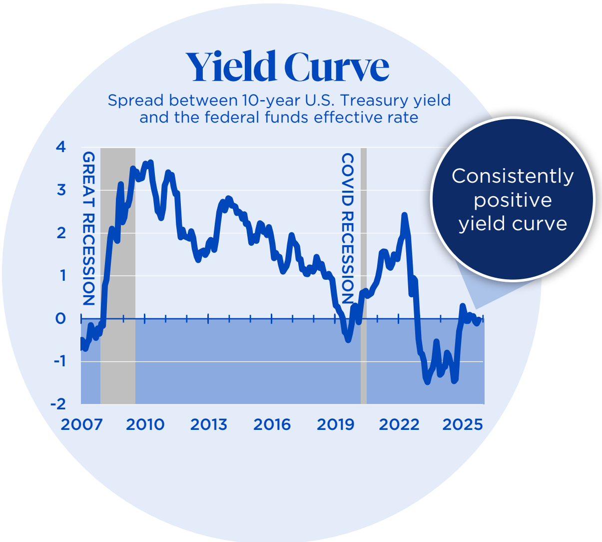
Economic & Financial Markets Monthly Review | November 2025

Shutdown data fog clouds the picture

Where is the economy now?

While the government shutdown delayed many key economic data releases, private sector readings indicate continued soft hiring by businesses. We expect sluggish economic growth in the fourth quarter as the weak labor market and the government shutdown weigh on economic activity. But lower interest rates from the Fed and fiscal stimulus from the government should keep the slowdown relatively brief and boost economic activity starting in Q1 2026.



Where we are this month

Softer end to 2025 expected

The record-long government shutdown will drag on economic activity in the fourth quarter, and the soft employment picture should restrain consumer spending.

Yield curve steepens with Fed easing

Despite a rate cut by the Fed at the end of October, interest rates rose in early November after Chair Powell tamped down hard on the high expectations of another Fed rate cut in December.

Home sales are still sluggish

Affordability concerns continue to hold back home purchases with existing home sales through September stuck near the low levels recorded in 2023 and 2024.

What does this mean

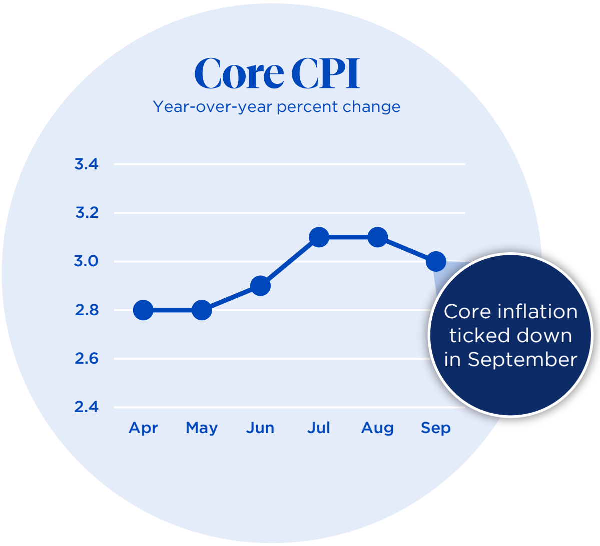
- We look for economic growth to end 2025 on a soft note, but the soft patch should be short-lived as fiscal stimulus, Fed rate cuts, and reduced uncertainty should power firmer activity in 2026.
- The OBBBA will deliver large individual tax refunds in Q1, lower tax burdens throughout the year, and enhanced business incentives, that along with reduced policy uncertainty should boost consumer and business spending as well as hiring next year.

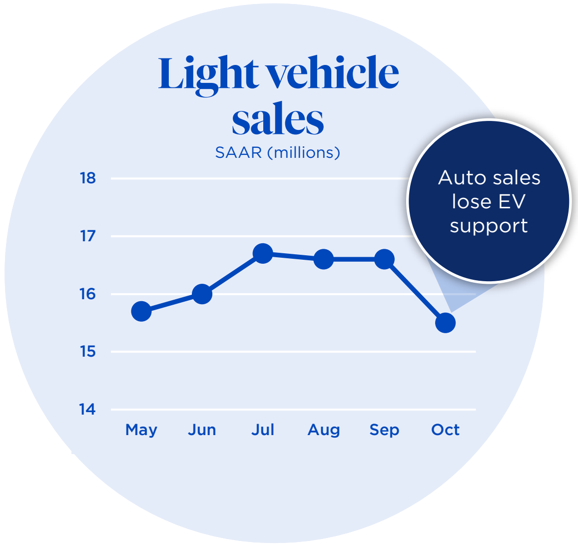
- Regardless of the Fed rate cut and changing expectations for further Fed easing, yields on 10-year Treasury notes have remained near 4.1 percent. We expect 10-year yields to remain anchored near 4.1 percent as the yield curve steepens further.
- We still anticipate the Fed will reduce rates in December, but it's a close call as a deep split has emerged on the Federal Open Market Committee. We look for another 50 bps of rate cuts in 2026.

- Potential home buyers face continued affordability challenges, but the recent decline in mortgage rates may cause a near-term bump in sales this fall. Housing supply is also climbing which should give buyers more options on the market. But sales should only increase modestly with mortgage rates remaining elevated.
- With home sales expected to remain soft into 2026, the housing sector will continue to be a drag on projected growth.

Shutdown obscures data as economy loses steam

The government shutdown has delayed government data, but private sector indicators suggest the economy continued to lose momentum in October. Hiring slowed further pointing to softer labor conditions. Inflation remained contained in September, as mild core price pressures support expectations for another Fed rate cut in December, but it will be a close call. Auto sales slipped on weaker EV demand and caution amid a slow job market.





Where we are this month

Goods inflation remains modest

While headline CPI climbed to 3.0 percent in September — an eight-month high — the core rate dipped slightly to match the headline at 3.0 percent. The overall inflation rise has been just moderate and gradual.

Private data signal cooling job market

With official government data unavailable during the shutdown, private sources pointed to a sluggish job market in October.

Auto sales fall as EV credits expire

Light vehicle sales slowed to an annualized rate of 15.5 million in October, down from 16.6 million in September, as fading EV demand weighed on overall volumes.

What does this mean

- The monthly gain in core CPI was mild at 0.2 percent. Tariff impacts remain limited as core goods inflation held steady at 1.5 percent annually and ran just 1.2 percent for tariff-affected items.
- We still believe the Fed will prioritize labor weakness over tariff-driven inflation and cut the policy rate another 25 bps in December, but recent comments from Chair Powell and other Fed officials indicate it is a close call.

- Private firms added just 42,000 jobs, according to ADP, while Revelio Labs estimated a loss of 9,000 jobs, led by cuts in government roles. Additionally, announced layoffs as tracked by Challenger, Gray and Christmas hit their highest October level in 20 years.
- Despite low initial jobless claims, elevated continuing claims show it's getting harder for displaced workers to find a new job. Stalled hiring amid a weak labor market should support a Fed rate cut in December.

- The expiration of federal EV tax credits in October, high sticker prices, and labor market concerns combined to curb showroom traffic.
- Nationwide's Auto Affordability index rose in August to the highest level since 2021 as easing loan rates and steady income growth have helped to offset cost pressures. Still, budgets for many households remain stretched and buyers often extend loan maturity terms to lower payments.

Steadfast investor ebullience keeps equities rising

Risk assets are adding to their gains in November and corporate credit spreads remain very tight as the economy and corporate financial performance remain buoyant and ebullient attitudes around AI lift investors' spirits. Looking ahead to 2026, positive earnings growth and a modest acceleration in GDP growth, propelled by fiscal stimulus, looser Fed policy, and the easing of tariff headwinds, will keep equities rising and spur a steeper Treasury yield curve.

Where we are this month

Equities stay on an upbeat track

Instead of focusing on the government shutdown, stock investors held onto optimistic views amid solid economic and strong corporate earnings, steadfast enthusiasm over AI, news of a US-China trade deal, and further Fed easing.

Long-term yields tick slightly lower

Long-term Treasury yields are continuing along on their slow descent on increasing signs of a softening labor market. Meanwhile, rates at the shorter-end of the yield curve have risen mildly since late October.

A positive Q3 earnings season

Corporations reported very solid financial performance for the third quarter. Earnings rose a buoyant 13 percent year-over-year last quarter, a further acceleration from the healthy 12 percent year-over-year increase in Q2.

What does this mean

- Looking past recent volatility, the S&P 500 index remains on a solid upward trend and stands close to 40 percent above its April 8th low. Continued modest tariff impacts and ample market liquidity relative to history are also bolstering positive market trends.
- Outperformance of cyclical stocks relative to defensives — a gauge of market attitudes — continues to show very cheery investor sentiment.

- Near-term interest rates moved higher after Fed Chair Powell signaled another policy cut in December was “not a foregone conclusion.” Some other Fed officials have since come out in favor of a pause next month.
- We anticipate that labor market weakness will drive another Fed rate cut in December, ahead of more easing in 2026. Meanwhile, the normalization and upward pressure on the term premium for the 10-year U.S. Treasury will limit declines in long-term rates.

- Third-quarter earnings season was generally very positive. Most companies beat analyst expectations on the sales and earnings fronts and are guiding toward solid performance into 2026.
- While valuations are extremely rich relative to history, equity values are rising at a pace that's in line with earnings growth. This suggests the rally in equity prices has further room to run.

Outlook

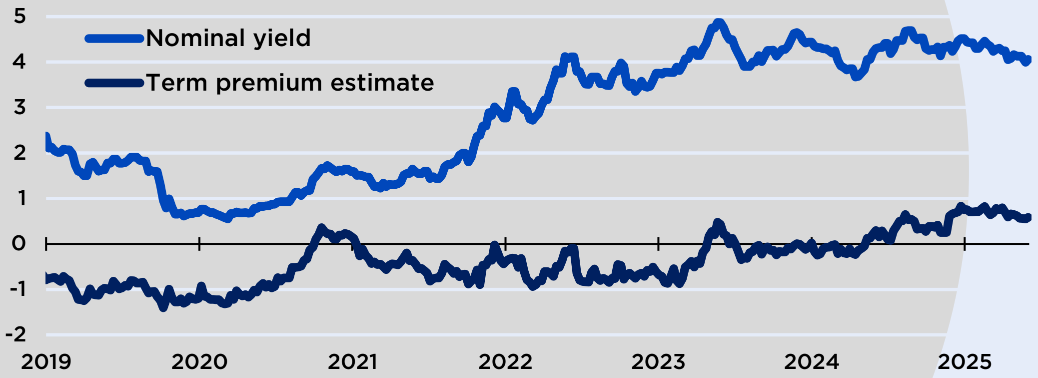
Long-term interest rates expected to remain elevated despite Fed easing

While the Fed controls interest rates of very short duration, movements in long-term rates typically follow changes in Fed policy to varying degrees. In anticipation of the Fed cutting rates later in 2025, the 10-year Treasury yield dropped from an average of 4.40 percent earlier this summer to current levels around 4.10 percent. We expect another rate cut by the Fed in December along with further easing later in 2026.

However, even if these expected Fed-driven rate declines occur over the next year, long-term interest rates likely do not see much downside. The re-normalization of the yield curve and term premium (the market's estimate of duration risk) after several years of being inverted and negative along with some building concerns about the federal government debt load, likely keep longer duration treasuries yields elevated. We forecast the 10-year Treasury note yield to remain around 4.1 percent for the foreseeable future. With mortgage rates tied to 10-year Treasury yields, this also means that costs for housing remain elevated over 2026 but could dip below 6 percent as the spread between mortgages and 10-year Treasury yields narrow.

U.S. 10-year Treasury Note

Percent



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Forecast

Data as of November 2025

	2024 ACTUAL	2025 ESTIMATE	2026 FORECAST	2027 FORECAST	2028 FORECAST
REAL GDP	2.8%	2.0%	2.2%	2.3%	2.3%
UNEMPLOYMENT RATE	4.0%	**4.3%**	**4.4%**	4.2%	4.2%
INFLATION [1] (CPI)	2.7%	3.1%	2.5%	2.0%	2.0%
TOTAL HOME SALES	4.75	4.73	5.00	5.82	5.95
S&P/COTALITY HOME PRICE INDEX	3.7%	1.7%	2.8%	3.1%	3.0%
LIGHT VEHICLE SALES	15.8	16.1	16.1	16.5	16.5
FEDERAL FUNDS RATE [2]	4.25%	3.50%	3.00%	3.00%	3.00%
5-YEAR TREASURY NOTE [2]	4.38%	3.65%	3.55%	3.55%	3.55%
10-YEAR TREASURY NOTE [2]	4.58%	**4.10%**	**4.10%**	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE [2]	6.91%	6.30%	5.70%	5.50%	5.50%
MONEY MARKET FUNDS	4.96%	4.03%	3.22%	3.03%	3.03%

Only modest increase in unemployment

Despite the sharp slowdown in hiring, the unemployment rate could remain low due to reductions in labor supply. We expect the rate to top out around 4.5 percent in early 2026 before easing back later in the year as firms pick up the pace of hiring.

Steady long-term interest rate outlook

Despite expected further easing from the Fed, the 10-year Treasury rate is projected to remain elevated over 2026. As a result, the yield curve should steepen further — historically, a positive signal for continued economic growth.

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[a] *Actual*

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Sources

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	Business Cycle	*Nationwide Economics*
	Yield Curve	*Bloomberg; National Bureau of Economic Research*
	Existing home sales	*National Association of Realtors*
2	**Economic Review**	
	Consumer Price Index	*Bureau of Labor Statistics*
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	Light vehicle sales	*Autodata*
3	**Financial Markets Review**	
	S&P 500	*Standard & Poor's*
	10-year Treasury yield	*Federal Reserve Board*
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4	**Outlook**	
	10-year Treasury rate/Term Premium	*FRBNY; Federal Reserve Board*
	Latest Forecast	*Nationwide Economics*

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