October 2026

Commentary

Fall is upon us. We hope that folks are enjoying time with their loved ones, perhaps apple picking and walking through pumpkin patches as Halloween quickly approaches and clocks fall back by an hour. Some interesting points of reference: The U.S. agritourism market exceeded $3.6 billion in 2025. Pick-your-own farms played a key role in that growth. Consumer data analysts view Halloween as our country's fastest-growing commercial and cultural holiday, with approximately 74% of Americans projected to spend $13.5 billion in 2026!

Osprey
PRIVATE WEALTH

We greatly enjoy our conversations with clients and believe the value we see in these interactions might be of benefit to our broader audience. While each discussion is always unique, there are many common themes. With this in mind, we decided to shift the format of this quarter's Osprey Commentary to take on a more conversational flow.

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Q: Prices of everything, especially groceries and gas, keep going up. What is going on with inflation?

A: Affordability has become the number one issue for consumers as inflation has eroded purchasing power. This erosion has been especially painful for those at the lower end of the socio-economic scale. Although inflation has been an issue throughout time, the current spike in inflation is a legacy from the government's effort to support the economy throughout the COVID pandemic. Two massive government stimulus programs (the CARES Act of 2021 and the American Rescue Plan Act of 2022) flooded the economy with money, to the tune of $4.1 trillion. This was an extraordinary sum relative to the $21 trillion size of the US economy.

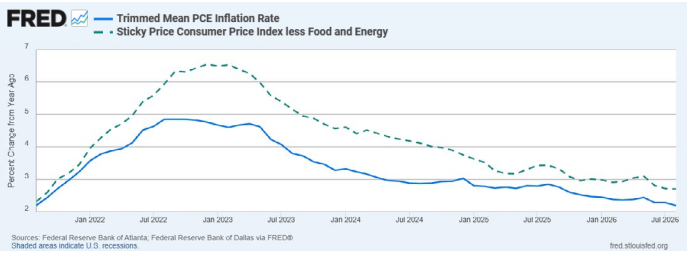

Chart 1

As predicted by some economists at the time, the second COVID stimulus program seems to have been the proverbial straw that broke the camel's back, with the Core Consumer Price Index (Core CPI) accelerating from 1.65% in March of 2021 to 6.5% just a year later. Core CPI remained above 5% for another 14 months, declining gradually to a still 'hot' 3.2% at the end of 2024, and has remained stubbornly above the Federal Reserve's (Fed's) 2% target ever since. Fed Chairman, Kevin Warsh, recently indicated that the 'trimmed mean' Personal Consumption Expenditures (PCE) measure of inflation is his preferred gauge of inflation; this measure seeks to eliminate 'noise' from the calculation as much as possible, and indicates that inflation is still above, but closer, to the Fed's target. *(See Chart 1)*

The harmful effect of inflation is that it is cumulative, it compounds on itself. So even if inflation drops to the 2% target, the price of goods will not decrease, but rather will rise at a slower pace. Prices already 'feel' high, and unfortunately a lower rate of inflation will not take us back to the price levels of five years ago.

Q: With all this inflation, how is the consumer holding up?

A: Despite the higher prices we are all experiencing, consumer spending has remained surprisingly robust. The average monthly change in retail sales over the past two years is over 4%, a healthy pace in the context of history. Importantly, if we look at the last four months, the growth in retail sales has been even stronger, in a range of 5-7%.

While some of that growth is simply a reflection of higher prices rather than consumers buying more goods, the underlying growth rate is still strong, especially in the context of elevated gasoline prices which typically might cause a pullback in spending elsewhere in the family budget. The demographic cohort of consumers currently contributing the most to the growth in retail sales is the Baby Boomer generation, who are either retired or nearly so.

Due in large part to their longer working careers, this group of consumers as a whole tends to be wealthier than average, is more likely to own their homes outright, and in many cases hold equity portfolios that have compounded in value over many years. Those in this age group account for over 50% of U.S. household net worth and roughly 40% of consumer spending, making them the most important driver. *(See Chart 2)* Historically, they have been the group least willing to reduce discretionary spending.

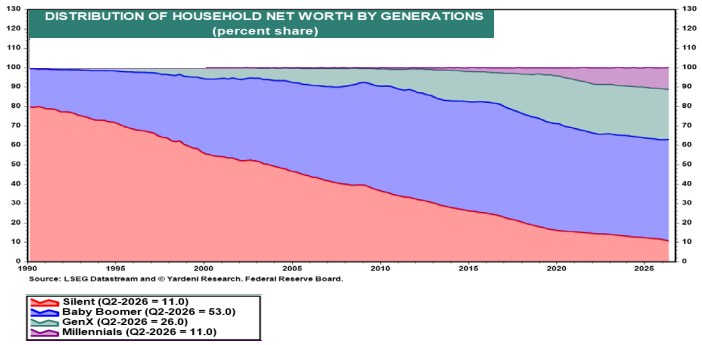

Chart 2

Q: Can you share your current thinking on the controversies surrounding Artificial intelligence (AI)?

A: Not a day goes by these days without a news story touting the promise of the upcoming AI revolution, or conversely, the risk that AI will potentially go rogue, become uncontrollable, and wreak havoc on society.

On the positive side, there is the expectation that AI will usher in an era of profound advancement in science, medicine, manufacturing and the handling of menial tasks, creating an environment of abundance where people can gain great efficiency and therefore have more free time to do other things. In this scenario, AI is not perceived as a threat, but rather a way to enhance our lives both at work and at home.

The opposing view is that AI is advancing too quickly, and without proper government regulation could lead to a situation in which AI begins to take on an adversarial role towards humans.

This negative narrative began to take center stage in mid-September as a 'whistleblower' from Anthropic, one of the two leading AI frontier lab companies, announced his resignation due to his concerns that AI development is moving too quickly without adequate safety measures, and that in his opinion, there was a greater than 10% risk of an existential threat to humanity by the end of the decade.

These concerns intensified after AI models from both Anthropic and OpenAI (the other leading AI frontier lab) were found to have hacked into other company websites and demonstrated malicious behavior.

In response, some in the industry and in the halls of Congress are strongly advocating for tight regulation of AI companies, while others such as Nvidia's CEO Jensen Huang dismiss the 'end of humanity' claims as not grounded in science. Huang suggests that if these leading AI companies are truly worried about safety, they can slow the release of the newer versions of their AI models themselves without the need for government regulation compelling them to do so.

While we cannot settle this debate, the answer very well may lie somewhere in the middle, rather than being a black or white absolute.

Some observers strongly believe the regulatory angle here is a stealth move by the leading AI labs to compel the government to establish highly competitive barriers (through regulation) that would make it difficult for 'open model' companies to survive. (Both Anthropic and OpenAI are proprietary, 'closed model' companies.) This can be viewed in a similar light to the regulations that were created after the financial crisis of 2008, which ultimately made the largest banks even larger and effectively 'too big to fail'.

> ***"In this scenario, AI is not perceived as a threat, but rather a way to enhance our lives both at work and at home."***

Another anti-competitive angle to consider here is that the leading AI companies may wish to hamper the smaller open model companies because they are starting to realize that the cost of providing AI computing services (called 'tokens') is quite expensive relative to what they will be able to charge for those services if AI tokens were to become commoditized. This would in turn make it harder for the leading AI companies to justify the high valuations they have achieved in the non-public (pre-IPO) marketplace.

Near the end of the third quarter, Anthropic announced its intention to file for an Initial Public Offering (IPO) before year end, while OpenAI said it will target 2027 for its IPO.

Q: What is the economic importance of the AI boom and what would likely be the market impact if there were a slowdown in the infrastructure buildout?

A: As you can see in Chart 3, the AI infrastructure buildout is expected to have an outsized impact on current and future GDP growth exceeding that of previous technological revolutions, including the railroad boom of the late 1800s.

The AI infrastructure buildout could add as much as 1.5% to GDP growth this year, perhaps accounting for roughly a third of total GDP growth. Likewise, earnings for the S&P 500 are expected to be 15-20% higher than they would otherwise be due to the AI buildout.

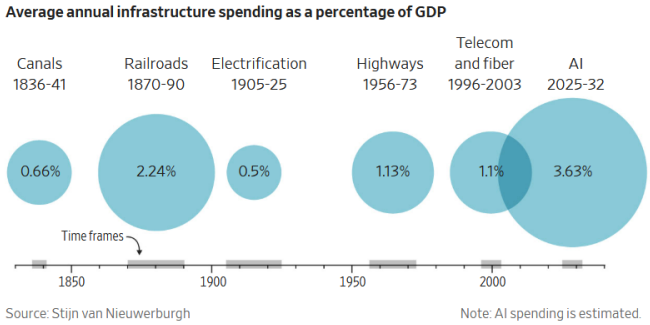

Chart 3

If there were some sort of regulatory-related 'pacing' or slowing of the development of AI, this would likely be received positively by investors in the hyperscalers (companies such as Amazon, Alphabet, Meta, Microsoft, Oracle, and SpaceX), because these companies have been aggressively spending capital on the buildout of AI-related infrastructure such as data centers. Presumably if regulation forced a slowing of the buildout, these companies would not have to spend as aggressively.

On the other hand, investors in the companies providing the so-called 'picks and shovels' for AI infrastructure (semiconductors, electrical gear, servers, cooling devices, and so on) would likely experience a negative impact due to the reduction of further demand for these products and services.

Tying AI and inflation together into the big picture, it is important to keep in mind that AI is likely to act as a productivity booster for the economy. This means that AI will probably act as a disinflationary force over the long run, helping companies to produce more with less (capital, labor, or both). However, in the short run, the speed and magnitude of the AI buildout is likely to raise inflation as spending by the hyperscalers competes with other industries for the goods and services used by both groups.

Q: What is the government/Federal Reserve doing to rein in inflation?

A: As discussed earlier, the Fed had been patiently hoping that the post-COVID wave of inflation would continue to subside, reaching the 2% target. Things were generally going as planned with inflation resting mildly above target in the mid 2% range until the February outbreak of hostilities between the United States and Iran. As one might expect, this caused a significant spike in the price of oil and other commodities that flow through the Strait of Hormuz and the Persian Gulf in general.

Initially, it was thought that the conflict would be short in duration and that the increase in the price of crude oil would be transitory. As the conflict continues to drag on, it is clear that trade will be affected over a longer term. Inflation has reaccelerated, and this forced the Fed's hand to raise rates at their September meeting for the first time since 2023.

The Fed is continuing to monitor the situation and is particularly paying close attention to the dramatic rise in interest rates for longer-term treasuries, specifically the 10-year rate, which is a key benchmark for mortgages and corporate bonds. The 10-year treasury rate currently sits near 5.30%, having risen from 4.75% in just the last month. This has in turn caused 30-year mortgage rates to rise from 6.5% to more than 7% and is likely to further dampen an already tepid real estate market.

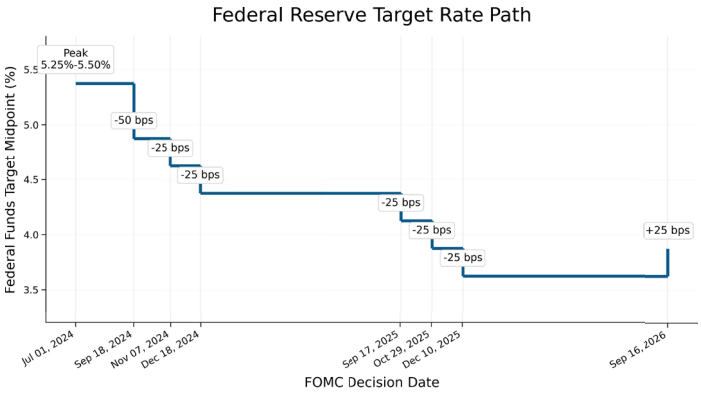

Chart 4

The Fed is currently indicating the likelihood of one more rate increase before year end and possibly an additional increase early next year. As you can see from Chart 4, if this scenario is carried out, it would simply end up reversing the three rate cuts from the latter part of 2025.

We are pleased that the Fed has decided to act more aggressively on inflation, although we would note that some portion of the inflation we are experiencing is linked to the Iran conflict, and higher rates are unlikely to have any impact upon the supply of crude oil to global markets.

The Fed will be walking a bit of a tightrope over the coming months as they attempt to cool off the inflationary pressure on the economy without drastically slowing growth or significantly raising the unemployment rate.

Q: How concerned should we be that the Fed's rate hikes will cause a recession and end the bull market?

A: Fortunately, according to government statistics, the U.S. economy is currently in decent shape. The AI-related infrastructure buildout—along with government tax and regulatory incentives to induce companies to reshore their manufacturing facilities—has helped to spur our economy this year.

"The Atlanta Fed's GDP Now tracking model, currently forecasts robust third quarter GDP growth of 3.7%."

There is a subset of GDP data called 'final sales to private domestic purchasers' which is viewed as a proxy for the health of the economy. It strips out government spending along with the impact of imports and exports. This proxy accelerated at a strong 4.5% growth rate in the third quarter, up from 4.2% in the second quarter. A separate forward-looking measurement of the economy, the Atlanta Fed's GDPNow tracking model, currently forecasts robust third quarter GDP growth of 3.7%.

The employment picture is also currently quite strong, with the September unemployment rate at 4.2%, a level that economists view as close to full employment. New unemployment claims have been modest, as have continuing claims, and consumers continue to spend.

Corporate earnings are quite strong, with earnings for the S&P 500 expected to grow by over 30% this year. For these reasons, amongst others, we can conclude that the overall health of the economy is currently in decent shape.

As a result, it will likely take more than a couple of rate hikes to disrupt the current growth trajectory of the U.S. economy. Furthermore, we also believe that the Fed will remain data dependent and is unlikely to continue hiking if the U.S. economy starts to show signs of weakness, which should help provide the market with enough fuel to continue.

Q: How are things looking internationally?

A: As we look outside the U.S., we see economies that are facing a challenging environment. Economic growth for the developed countries in the EU is anemic, with the leading economies of France and Germany expected to show sub 1% growth this year, with a similar growth rate expected in the UK. Spain is the only country with growth approaching 2%, helped by tourism. The smaller economies in Central and Eastern Europe are expected to grow faster according to economist consensus, between 2.2-3.2%.

In Asia, Japan is expected to show slow growth similar to that of France and Germany, while China, despite significant stimulus, is expected to grow at a rate of less than 4.5%. This sounds high on an absolute basis relative to leading economies elsewhere, but, apart from the pandemic, it would be the slowest growth since the 'reform' era began in 1979. Both South Korea and Taiwan are faring much better thanks to the insatiable demand for computer chips. Taiwan is expected to see historic, multi-decade high growth of somewhere between 10 and 11%.

If the U.S. conflict with Iran persists along with the continuing war between Russia and Ukraine, we are concerned that countries in Europe and Asia may face a bleak winter, as they struggle to access natural gas and oil for manufacturing and heating purposes. As long as the Persian Gulf remains a hot zone, quantities of certain commodities will continue to be in short supply. Conversely, the U.S. is fortunate to have access to an abundance of natural resources, albeit at elevated prices.

Q: What impact do you think the midterm elections will have on the market?

A: As the market begins to focus on the midterm elections, it seems difficult at this stage to confidently predict the outcome. Over many decades, history has shown that the stock market tends to exhibit weakness leading into the midterm elections, and then often rebounds afterward. While there could still be some volatility as we approach the midterms, we believe this is not the market's primary concern because the elections themselves act as a type of 'clearing' event, reducing uncertainty and providing investors with a clearer picture of what is to come from a policy point of view. They can then move ahead with assessing the impact of any changes in the regulatory and/or legislative environment on the horizon.

It has often been the case that a split government, with one political party holding a majority in the House of Representatives and the other party holding a majority in the Senate, is the 'best outcome' for the stock market. It is believed that this holds true because potentially significant changes in legislation face a greater challenge to becoming law. As a result, companies are able to continue along their respective strategic paths without suddenly being impacted by legislative changes coming out of Washington.

To our knowledge, there is no consistent pattern showing that the stock market performs poorly when either party controls both the Senate and the House. Regardless of the outcome this November, it is our belief that staying invested in quality companies across political cycles is the best way to achieve long-term success.

Q: What is Osprey's outlook as we approach the end of the year?

A: The direction of interest rates over the coming months is likely to be the greatest determinant of how the market finishes the year. Rising interest rates act as a brake on the strength of the economy and have a greater negative impact on growth stocks as investment for further growth becomes more expensive. Additionally, the relative attractiveness of investing in fixed income as an alternative to equities increases.

With the growing expectation that the Fed will likely raise rates once or twice more in the coming months, we are growing more cautious about AI-related equities as they are the ones borrowing the most to fuel their future growth. We were given a preview of their interest rate sensitivity back in June as investors began to realize that the Fed was no longer likely to be cutting interest rates and might be thinking about a rate hike instead. AI stocks—especially the MAG-7—began to decline, falling nearly 15% over the course of the month.

Since then, these stocks have largely recovered, helped by the strong earnings they reported over the course of July and August. The market, currently trading at 19x forward earnings, has so far proven itself to be resilient to the Fed's September rate increase. *(See Chart 5)* For the time being, the market seems to be taking the possibility of additional rate hikes in stride, however, we would not be surprised to see more volatility if rates continue to rise. It is for this reason that inflation data during the fourth quarter is likely to play a key role in the direction of the market.

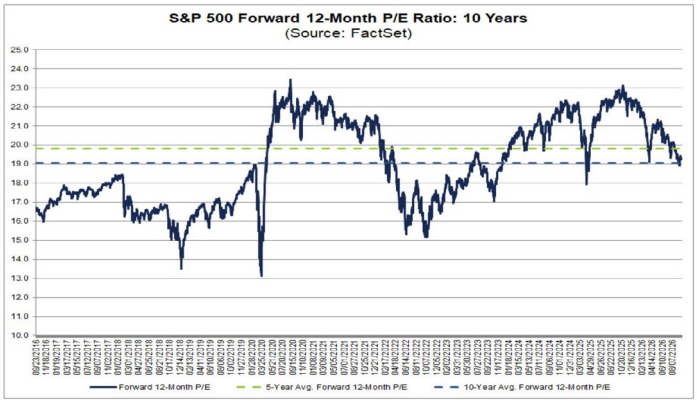

Chart 5

As we consider the various issues which could potentially negatively affect the stock market in the fourth quarter, we take some comfort in the current strength of the U.S. economy. In addition to the positive data we shared earlier, the U.S. poverty rate recently fell to an all-time low, while median household income, adjusted for inflation, reached a record high. While we are cognizant that higher interest rates and inflation in general are key concerns for those consumers who are struggling as a result, we believe that the new Fed chairman is demonstrably serious about reducing inflation.

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Given that elevated fuel prices are one of the more significant contributing factors to the current rate of inflation, a cessation to the hostilities between the U.S. and Iran would likely go a long way in providing inflation relief and this would be welcomed by the consumer and the investment community alike. In such a scenario, the price of oil would likely drop materially, and expectations for future inflation would likely follow suit. This in turn would likely lead to lower interest rates. Given a drop in both the price of oil and inflation expectations, we would expect the stock market to respond favorably.

We acknowledge that there seems to be a greater list of uncertainties these days concerning AI, elections, inflation, and interest rates. As investors continue to fret about what might go wrong in the face of an otherwise strong economy, we are reminded of an old Wall Street saying, 'markets climb a wall of worry.'

While we cannot guarantee that this will be the outcome this time, the team at Osprey wishes you a pleasant and optimistic fall season, and as always, we welcome your feedback and are happy to address any questions you may have.

—The Team at Osprey

About Osprey Private Wealth

Established in 2024 by experienced professionals to serve multi-generational families, individuals, wealth creators, trusts and private foundations.

As an independent Registered Investment Adviser (RIA) registered with the SEC, we provide ongoing investment advice through separately managed accounts. Our professionals each have more than 25 years of experience in independent investment advisory firms, directly advising clients and managing portfolios.

We focus on growth and preservation of wealth, tailoring investment portfolios based on your objectives through individual investment selections. Our dedicated Wealth Advisors and team members handle portfolio management, wealth advisory, and client contact with a highly personalized approach.

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