CFO OUTLOOK
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A NOTE FROM OUR CHIEF LENDING OFFICER, BILL FINK

OCTOBER 2026

In our latest issue of ***CFO Outlook***, we look at the financial and economic landscape through September 30th, with a focus on the impact of the U.S. national elections on November 3rd, the outlook for continued short-term increases by the Federal Reserve in the Fed Funds rates, the impact of higher interest rates on the real estate markets, the impact of the continuing military conflict with Iran on inflation, and the reason U.S. economic growth remains strong despite increasing interest rates and continued inflation.

Since our last issue in July, geopolitical events continue to dominate our attention and headlines, with the U.S. and Iran continuing diplomatic efforts to end the military conflict only to have diplomatic negotiations periodically interrupted by short-term fighting. Oil prices remain elevated with West Texas Intermediate (WTI) crude trading at $101.41 per barrel at the time of this writing, which represents an increase of 19.3% from the close of Q2-2026.

The direction of interest rates remains top-of-mind for consumers, investors and business owners alike following Federal Reserve Chair Kevin Warsh's testimony on July 14th when he confirmed that the members of the Fed Open Market Committee "have no tolerance for persistently elevated inflation." The Federal Reserve responded on September 16th by raising the Fed Funds rate by 25 bps and setting a target range of 3.75-4.00%. It is our view that inflationary pressures and a relatively low unemployment rate will force the Federal Reserve to continue to raise short-term interest rates in the near term. You can read more about our outlook for the direction of the Fed Funds rate beginning on page 2.

While the overall outlook for the U.S. economy remains positive when considering the unemployment rate, job creation rates, and capital expenditure rates, there remain areas to watch, particularly as they point to sustained levels of inflation. Diesel fuel prices remain elevated with the U.S. national average retail diesel price at $6.179 per gallon currently. Efforts during the first two weeks of October by the Trump Administration to permit the sale of 300,000 metric tons of diesel fuel followed by 500,000 metric tons on November 1st by Russia to the U.S. and the European Union is uncertain. This uncertainty comes at a time when U.S. stockpiles of diesel fuel are close to the lowest level since early 2000s as reported by the WSJ. The price of diesel fuel affects every part of the economy as trucks move more than 72% of all freight in the U.S.

Despite the expectation for increases in the Fed Funds rate through the balance of 2026 and early 2027 coupled with continuing uncertainty in the private credit markets, lending by commercial banks through September 30th is at an all-time high. This has been driven by an increase in home equity values, a return-to-office mandate nationally and increased demand in the industrial commercial real estate segment due to data center building and build-out activity. The strength of lending by commercial banks has offset continued weak private equity deal activity. While private equity deal activity has improved in 2026, it has not returned to the level seen in the second half of 2025 and through the first quarter 2026. Q3-2026 closed with an estimated 2,467 deals completed, totaling an aggregate value of $729.8 billion. However, the second half of 2025 saw vibrant deal flow that 2026 has not yet achieved and appears unlikely to do so in the final three months of the year. However, opportunities remain in the add-on merger and acquisition (M&A) segment. Total add-on M&A totaled $69.0 billion in Q3-2026 and $229.2 billion for the first nine months of 2026 in the U.S. as reported by ***Pitchbook***. Add-on acquisitions are a classic conservative strategy during periods of economic uncertainty when compared to larger platform acquisitions. Add-on acquisitions provide opportunities for CFOs to strengthen an existing line of business, grow market penetration, or enter a new market(s) or line of business which offer greater growth trajectory and increased financial returns. Strengthening M&A activity also provides the potential for increased liquidity events, equity compensation decisions, and wealth planning questions for closely held businesses.

At Provident Bank, we understand that, as CFOs, you are the stewards of capital and strategic captains of your organizations with a focus on generating positive long-term capital returns. Whether navigating the risks of the current geopolitical environment, the outlook for interest rates or analyzing organic growth or corporate development opportunities, clear, balanced insight and trusted guidance are essential.

Provident Bank is ready to discuss your financing, depository and Treasury Management needs to assist your organization in achieving its strategic and financial goals as we have consistently since 1839. Beacon Trust, Provident Bank's wealth management division extends that same institutional capability further, on the corporate side, managing operating reserves, investment policy for retirement and pension plans, and other institutional portfolios; and on the personal side, helping you and your business navigate concentrated stock, equity compensation, or proceeds from a liquidity event. We welcome the opportunity to discuss with you where these themes interact with your priorities for your business, institutional assets, and for you personally.
We are pleased to collaborate with Beacon Trust in delivering ***CFO Outlook***. We hope this resource supports you, as you plan, adapt and lead in the present economic environment.



Bill Fink
Executive Vice President
Chief Lending Officer
Provident Bank

YOU HAVE QUESTIONS – HERE ARE OUR ANSWERS

1. Will the Federal Reserve (Fed) continue to raise short-term interest rates over the next year?
2. Will the U.S. Treasury's plan to purchase government bonds reduce the Fed's independence?
3. Has the rise in long-term interest rates materially impacted the real estate market?
4. Will inflation fall substantially while there is an ongoing military conflict with Iran?
5. Why has economic growth remained somewhat strong, given the backdrop of rising interest rates and inflation?
6. What impact may the midterm elections have on the stock and bond markets?
7. How has the rise in interest rates and problems in the private credit market impacted bank lending?



Will the Federal Reserve (Fed) continue to raise short-term interest rates over the next year?

Inflationary pressures and a relatively low unemployment rate will likely force the Fed's hand to continue to raise short-term interest rates. The main question for market participants is, "How far and how fast?" The graph below, based on Federal Funds futures prices, shows a wide variation in market expectations for interest rate hikes over the next year. The median forecast is for an additional 75 basis points in rate hikes from its current range of 3.75%-4.00%.



Source: CME Group

In our view, hikes of this magnitude may be a bit too aggressive for a few reasons. We believe Jay Powell is likely to step down from his position as Fed Governor within the next year due to his exoneration of fraud in the investigation related to building renovations of the Federal Reserve. Powell's likely exit will provide President Trump with the opportunity to add another "dovish" governor to the Board. The sharp rise in long-term interest rates has resulted in mortgage rates reaching a 3-year high. Housing prices are the largest component of the Consumer Price Index (CPI). The "double whammy" of elevated home prices and high mortgage rates create a backdrop for subdued increases in real estate prices. Of course, Fed Chair Kevin Warsh was appointed by President Trump who has vociferously called for lower interest rates. Although Warsh has stressed the Fed's independence, we believe he will lean towards a dovish posture regarding future interest rate hikes. Lastly, a shorter than expected resolution to the military conflicts related to Iran and Russia would put downward pressure on energy prices and hence inflation.

Will the U.S. Treasury's plan to purchase government bonds reduce the Fed's independence?

Market participants were surprised by Treasury Secretary Scott Bessent's recent announcement that the U.S. Treasury plans to repurchase billions of dollars of government debt. Of course, the U.S. Treasury regularly issues massive amounts of new debt. Hence, we view Bessent's announcement akin to a company that issues stock and simultaneously announces a stock buyback. Logically, it does not appear to make great sense. Bessent's main motivation with his repurchase plan

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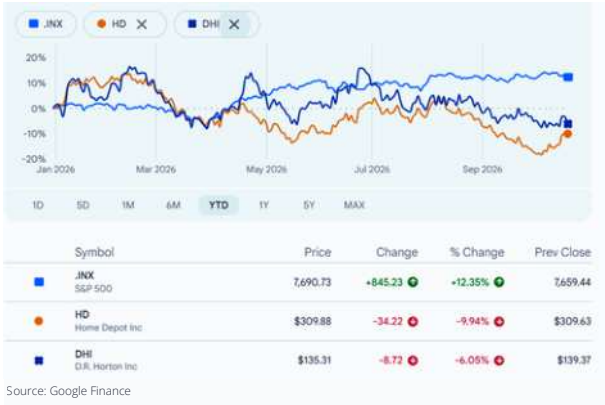
is to tamp down longer-term interest rates, in order to lower the amount of interest paid on U.S. Treasury debt. Debt service is now among the largest components of the federal budget. Lower interest rates also tend to encourage long-term investment and economic growth. Economic growth, and their corresponding higher taxes receipts, ameliorates the budget deficit. This strategy may be effective as long as Congress is willing to keep spending in check, a task they have been woefully inadequate with.

The Federal Reserve historically has been the government agency tasked with managing the economy, in particular through its control of interest rates. Short-term interest rates are impacted mostly by the Fed's control of the Federal Funds Rate. Longer-term interest rates are influenced by the Fed's purchase or sale of securities from its massive balance sheet. Fed purchases of securities aim to lower interest rates, a policy known as quantitative easing (QE). Conversely, Fed sales of securities from its balance sheet usually increase interest rates, a policy known as quantitative tightening (QT).

Secretary Bessent's plans to repurchase U.S. Treasury securities seems to infringe upon the Fed's turf. Legendary investor, Stan Druckenmiller, strongly questioned the effectiveness of the policy of his former protégé, Bessent. Market participants, nicknamed the "bond vigilantes," have also spoken. Long-term interest rates as of this writing are higher than when Bessent announced his policy and are near 20-year highs. Although we do agree with the notion of some greater coordination between the Fed and U.S. Treasury, we do think Bessent's policy reduces the Fed's independence, or at a minimum, makes it harder for it to do its job.

Has the rise in long-term interest rates materially impacted the real estate market?

The rise in long-term interest rates has somewhat negatively impacted the real estate sector, but it is important to look beyond the surface. First, average residential mortgage rates of 7.5% are near a multi-year high, making homes less affordable for the marginal borrower. Second, the graph below shows real estate-oriented stocks, such as Home Depot and D.R. Horton are down YTD, while the S&P 500 is up roughly 12%.



Source: Google Finance

Third, new housing starts have declined slightly over the past year despite the shortage of housing, most notably at the lower-income levels. Fourth, the S&P Case Shiller Index of national home prices reported an annual increase in home prices of 1.9% over the past year. This figure reflects a sluggish to somewhat normal national market, rather than one at risk of collapse. Fifth, the lock-in-effect continues to be genuine, with many homeowners refusing to sell their existing homes in order to purchase a new home with more than two to three times their current mortgage rate.

On the positive side, the manufacturing renaissance in the U.S. and artificial intelligence (AI) infrastructure buildout has combined to create a somewhat robust market for those working in the industrial sector of the real estate market. AI hyperscalers, such as Alphabet, Amazon, Meta, and Microsoft have the capital budgets and balance sheets to continue their plans in the face of rising interest rates. In sum, we believe the rise in long-term interest rates has dampened the residential real estate market, but has had a lesser effect on the industrial real estate sector.

Will inflation fall substantially while there is an ongoing military conflict with Iran?

We believe inflation will remain above the Fed's 2% target as long as the military conflict continues with Iran. The sharp rise in diesel prices over the past year is perhaps emblematic of the problem. Since there are almost no electric trucks, the entire supply chain of physical goods is impacted by oil and, particularly, diesel prices. Many companies will pass on these costs to consumers, resulting in somewhat sticky inflation.

It will take years to reengineer the oil supply chain around the Strait of Hormuz or to materially improve the output from the U.S. controlled

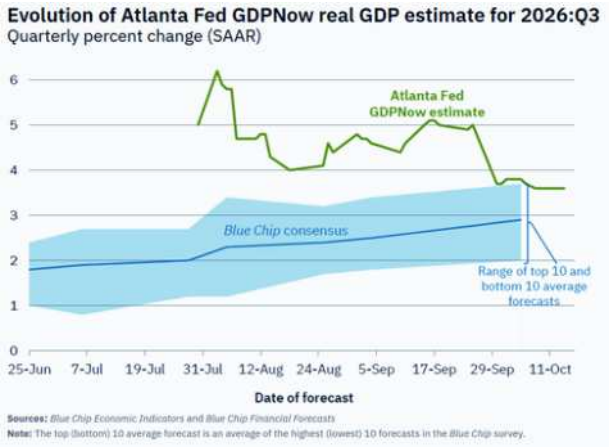
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Venezuelan oil industry. Although we view an increase in technology as deflationary in the long-run, in the short-run the AI buildout has increased prices. Perhaps the most visible indications are in the prices of computer memory, water, and electricity.

There are some areas where inflation is somewhat under control. We noted above the somewhat modest 1.9% increase in housing prices over the past year. Since housing accounts for the largest weight in the Consumer Price Index at more than 40%, it does reduce the risk of inflation spiraling out of control. The decline in business regulations under the Trump Administration may help businesses offset some of the rising costs of their supply chains. Healthcare inflation has been particularly problematic for the past decade, but the most favored nation pricing mechanism for pharmaceutical products has reduced prices or constrained price growth across a range of products. The value proposition of college has come under attack in the AI age, forcing many schools to lower tuition or provide scholarships to increase affordability. In short, we believe inflation will remain stubbornly elevated for the near-term as long as the military conflict with Iran rages on.

Why has economic growth remained somewhat strong, given the backdrop of rising interest rates and inflation?

Although we are in the midst of Q4, Q3 economic growth is looking healthy. The Atlanta Fed estimates that Q3 GDP grew at 3.6%, while the Blue-Chip consensus estimate is 2.9%, as shown in the graph below. Either way, growth of this magnitude is solid given the inflation headwinds and political uncertainties that we previously noted. What is driving this growth? In our view, the affluent consumer and AI buildout is carrying the bulk of the economic load.



The affluent consumer is benefitting from a public stock market hitting record highs, strong private equity values, and residential real estate prices near all-time highs. When combined with a low unemployment rate, the affluent consumer has spent freely across a range of categories. The middle-income consumer continues to spend, somewhat grudgingly, despite low levels of consumer sentiment. However, the lower-income consumer continues to struggle since, in many cases, they do not have significant stock market or real estate equity and are challenged to avoid the impact of higher food and energy prices. We believe Scott Bessent's views on the C-shaped economy have not meaningfully occurred and that the K-shaped economy remains in full force.

The AI buildout is estimated to have boosted GDP growth by 0.5% with signs this figure may be accelerating. Unlike many countries whose economy is dependent upon a narrow group of industries, such as commodities or tourism, the U.S. economy is quite diverse. This diversity allows the U.S. economy to chug along, despite shocks to its system, such as the rise in commodity prices. If energy prices were to fall substantially, then we believe the U.S. economy may achieve its GDP growth potential of 3%+ on a more sustainable basis and make Secretary Bessent's C-shaped economy vision a reality.

What impact may the midterm elections have on the stock and bond markets?

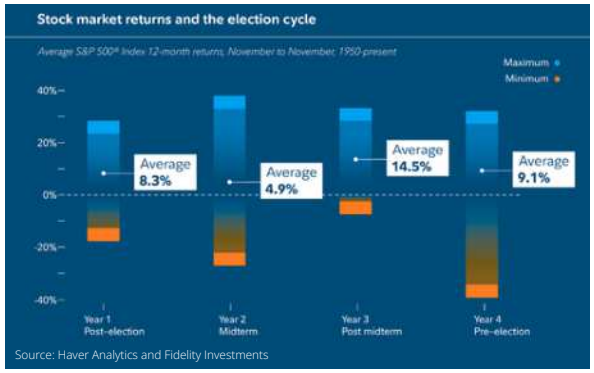
With less than one month until the midterm elections, there is not a shortage of prognostications, not to mention the torrent of political advertisements. Mindful of the expression "putting your money where your mouth is," prediction markets, such as Kalshi and Polymarket, find that investors believe there is roughly a 90% chance that Democrats regain control of the House of Representatives and more than 60% chance that they control the Senate. Republican Senator Thom Tillis and other analysts have raised the possibility that President Trump may contest the election results if he views them as unfair or unfavorable.

Although we expect stock market volatility to increase around the election date, any dislocations are usually short-term in nature. Short-term meaningful declines in the stock market are

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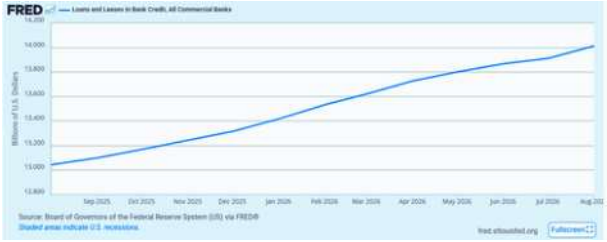
counterbalanced by increases in the value of investment grade bonds. Hence, a diversified portfolio may be the best way to mitigate political risk. We choose to focus on the fundamentals of the economy, which are fairly good, as noted in this Outlook. Accordingly, we do not encourage investors to make radical changes to their portfolios simply based on election outcomes.

In our view, portfolio changes should primarily occur at the industry or sector level, since Congress controls the U.S. budget. For example, areas related to Healthcare may positively benefit from a Democratic sweep of Congress, while Energy and Defense may perform well if there is a split congressional outcome. In the event of stock market volatility surrounding the election, it may represent a buying opportunity for long-term investors. As shown in the graph below, the third year of the Presidential term is historically the best for the stock market. It may be unlikely for the stock market to have a fourth consecutive year of extremely strong returns, but our point is that indiscriminately selling stocks simply due to political reasons may not be the best course of action for long-term investors.



How has the rise in interest rates and problems in the private credit market impacted bank lending?

Bank lending has been surprisingly solid in the wake of rising interest rates and the continued problems in the private credit market. As shown in the graph below, bank lending continues to increase and is at an all-time high.



The rise in home equity values and increase in return to office mandates have derisked the loan books of banks to a certain extent. Banks tend to be slow to increase short-term deposit rates after Fed rate hikes, while being quick to increase long-term loan rates. Hence, the lending yield curve may not be as flat as perceived and net interest margins may be reasonably attractive for many banks. Combined with solid economic growth, we think the lending window will remain open for borrowers with attractive credit ratings.

However, an emerging risk may be on the horizon for banks and other firms that face strong competition and consumer choice. Namely, the rise of AI agents, such as Meta's Muse app. While we do not have the same fears as some analysts regarding the risk of major runs on banks from an army of AI agents, we do believe it is a secular trend worth watching. AI agents now make it easy for individuals to move money from low yielding bank accounts to higher yielding ones, cancel subscriptions, and negotiate utility bills, insurance, and phone prices. In short, they may improve consumer financial well-being across a range of products and services with minimal human effort. OpenAI and others have followed Meta, launching their own ubiquitous agents. It may soon be existential for banks and other consumer-facing firms to launch their own AI agents to effectively deal with the forthcoming onslaught of digital inquiries.



Outlook provided by

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AUTHOR INSIGHTS

Mr. Longo plays a key role in developing Beacon Trust's macroeconomic outlook and serves as co-portfolio manager for several of the firm's investment products. He has 25 years of investment management experience. He contributes to Beacon Trust's thought leadership in the field of investment management and strategy and represents the firm as an invited speaker at numerous financial-related conferences throughout the world. He is the author of *The Art of Investing: Lessons from History's Greatest Traders and Buffett's Tips: A Guide to Financial Literacy and Life.*

Mr. Longo is also a Distinguished Professor of Finance & Economics at Rutgers Business School and spent 7 years at Global EMBA Asia – the joint international Executive MBA Program of Columbia University, London Business School, and The University of Hong Kong. Columbia Business School bestowed upon him its Executive MBA Commitment to Excellence award in 2022. Previously, Mr. Longo was a Vice President at Merrill Lynch, where he played an instrumental role in creating and managing investment strategies for Merrill Lynch's Strategy Power product. Strategy Power eventually gathered over $1 billion in managed account assets.

Mr. Longo holds PhD and MBA degrees in Finance and a B.A. degree with a double major in Computer Science and Economics, all from Rutgers University, and he is a Chartered Financial Analyst (CFA).

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