ANALYTICAL OUTCOMES

The economy's awkward balance

The strong and the strained

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3.4%
real GDP growth in the third quarter, annualized (advance estimate)[4]
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+165k
October nonfarm payrolls, with unemployment held at 4.1%[1]
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3.75–4.00%
federal-funds target range, held by the FOMC on October 28[11]
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7.24%
30-year fixed mortgage rate in Freddie Mac's October 29 survey[14]
SURVEY

America's economy entered November with an uncomfortable combination of strengths. Output grew at a 3.4% annualized pace in the third quarter. The first serious read on October employment showed payrolls rising by 165,000 and the unemployment rate unchanged at 4.1%. Manufacturing and services purchasing managers both reported expansion. This is not the data pattern of an economy that has already slipped into a downturn.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

The awkward part is that activity strength has not brought a clean inflation victory. September nominal consumption rose 0.5%, but real consumption barely moved because the PCE price index also rose 0.5%. Core PCE increased 0.3%. The October ISM reports added another warning: manufacturing prices registered 75.2 and services prices 73.0. Those readings do not map mechanically into consumer inflation, but neither are they the raw material for easy central-bank reassurance.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

The Federal Reserve held the target range at 3.75% to 4.00% at its October meeting. The week's releases gave it little reason to reinterpret the economy as suddenly fragile. A steady policy rate is not neutral for companies. It means the discount-rate burden remains high even when credit spreads are calm. Buyers with scale and cash can live with it. Borrowers whose cases depend on cheap leverage cannot simply wish the base rate away.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

The labor report deserves a second look. September had pointed to sluggish job creation. October was much better, and professional and business services made a large contribution. Yet JOLTS data still depict a lower-turnover labor market. Job openings, hires and quits have all cooled from prior-cycle highs. The question is whether October is the start of a renewed hiring run or a one-month reprieve in a labor market that has become less mobile. Claims will tell the faster part of that story.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

Consumers also continue to confuse the picture. The Conference Board's October confidence reading rose sharply to 91.7. Michigan's preliminary November survey rose to 51.0. These moves matter, but both indexes are recovering from weak levels. NFIB optimism, which better represents the operating mood of smaller firms, slipped to 97.9 and fell below its long-run average. A national consumer can still spend while a small employer postpones expansion. That is exactly the distinction deal teams should make when assessing target-market exposure.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

Housing is still transmitting high rates more directly than most other parts of the economy. A 7.24% 30-year mortgage rate, weaker construction spending and limited transaction activity leave housing-linked software and services exposed. Prices can rise in a supply-constrained market even when volume deteriorates, so asset-price data alone will not protect a thesis based on mortgage, title, homebuilding or contractor workflow volume.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

Trade data add a final complication. September exports and imports both rose, and the deficit narrowed only slightly to $105.0 billion. Strong imports often indicate strong domestic demand, but net exports can still subtract from output. That is why a headline GDP number and an import number can seem to disagree. They are answering different questions, which macroeconomics has always found a way to make unnecessarily entertaining.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

The central case is continued expansion with slower real consumption and persistent price pressure. The downside case is a late-cycle squeeze: high rates weigh on construction and smaller businesses, while inflation makes monetary relief difficult. The upside is that capital spending and productivity gains translate into more supply before cost pressure becomes embedded. The next CPI, PPI and PCE releases will determine which version of this uneasy balance is gaining ground.[1, 3, 4, 5, 6, 7, 14, 15, 16, 17, 10]

M&A IMPACT FOR MID-MARKET SOFTWARE AND SOFTWARE-ENABLED SERVICES

The macro signal for software M&A is selective continuity, not a broad reopening. Strong Q3 GDP, a 3.4% Q4 GDPNow estimate, October job creation and expansionary ISM readings support buyer confidence in revenue demand. The October employment report is especially useful for software and services because professional and business services added 70,000 positions, including 33,000 in professional, scientific, and technical services. That does not prove a target's growth will persist, but it weakens the claim that enterprise technology budgets are in an immediate general contraction.[1, 2, 3, 5, 6, 7, 8, 10, 11, 13, 14, 25, 27]

The cost of capital remains the governing constraint. The federal-funds target is 3.75% to 4.00%, Treasury yields remain elevated, and Freddie Mac's 30-year mortgage rate was 7.24% as of October 29. High-yield spreads may be contained, yet lower-mid-market borrowers price off both the risk-free curve and lender caution. Underwriting should therefore test debt-service coverage at a higher base rate, not just a wider spread. A spread chart that looks peaceful can conceal an expensive all-in coupon. Deals that depend on aggressive leverage or a fast multiple expansion should be treated as rate bets, not operating theses.[1, 2, 3, 5, 6, 7, 8, 10, 11, 13, 14, 25, 27]

Valuation gaps will persist where sellers extrapolate top-line momentum and buyers capitalize lower free cash flow at a higher discount rate. The practical bridge remains structure: rollover equity, earnouts, seller notes, preferred equity, and staged acquisition rights. These tools should be tied to measurements that management can influence and that diligence can verify, such as gross retention, net retention, bookings quality, implementation backlog, gross margin, cloud-cost pass-through, and conversion of EBITDA into cash. Vague earnout language only converts a price disagreement into future litigation with better stationery.[1, 2, 3, 5, 6, 7, 8, 10, 11, 13, 14, 25, 27]

Sector exposures differ. AI infrastructure, cybersecurity, data management, workflow automation, compliance, energy optimization and data-center services retain structural demand support from capex and risk management. The Treasury Borrowing Advisory Committee noted capex-led growth as a driver of the ten-year yield and did not find clear evidence that tech issuance was crowding out other credit. This supports diligence on the durability of AI-related budgets, though it is not permission to pay infrastructure multiples for thin application differentiation. Housing, mortgage, title, construction and small-business-exposed targets deserve lower near-term volume assumptions because high mortgage rates and weak construction spending are already visible in the macro data.[1, 2, 3, 5, 6, 7, 8, 10, 11, 13, 14, 25, 27]

Buyer appetite should remain highest among strategic acquirers and sponsors with dry powder, modest portfolio leverage, and a credible route to post-close cash conversion. The September trade deficit, firm imports and services expansion support the revenue side of the case. PCE-price and ISM-prices readings require equal attention to the cost side. For each target, separate nominal price-led growth from unit or usage growth, and segment churn by customer size, financing sensitivity and vertical. A company can present healthy ARR while its smaller customers quietly ration seats, modules, projects or implementation work. That is where a respectable model becomes a very expensive anecdote.[1, 2, 3, 5, 6, 7, 8, 10, 11, 13, 14, 25, 27]

SOURCES CITED

1 BLS Employment Situation, October 2026, released November 6, 2026, 8:30 a.m. ET (Official)

2 BLS Employment Situation Table B-1, October 2026, last modified November 6, 2026 (Official)

3 BEA, Personal Income and Outlays, September 2026, released October 29, 2026, 8:30 a.m. EDT (Official)

4 BEA, GDP advance estimate, third quarter 2026, released October 29, 2026, 8:30 a.m. EDT (Official)

5 Atlanta Fed GDPNow, Q4 2026 estimate, updated November 4, 2026 (Official)

6 ISM, October 2026 Manufacturing PMI report, released November 2, 2026, 10:00 a.m. ET (Survey)

7 ISM, October 2026 Services PMI report, released November 4, 2026, 10:00 a.m. ET (Survey)

8 Census Bureau, Monthly Construction Spending, September 2026, released November 2, 2026, 10:00 a.m. ET (Official)

10 Census Bureau and BEA, International Trade in Goods and Services, September 2026, released November 4, 2026, 8:30 a.m. ET (Official)

11 Federal Reserve, FOMC statement, October 28, 2026, released 2:00 p.m. EDT (Official)

13 U.S. Treasury, daily par yield curve rate methodology and daily data (Official)

14 Freddie Mac, Primary Mortgage Market Survey, rate as of October 29, 2026 (Survey)

15 University of Michigan Surveys of Consumers, preliminary November 2026 results (Survey)

16 Conference Board, Consumer Confidence Index, October 2026, updated October 27, 2026 (Survey)

17 NFIB, Small Business Optimism Index, September 2026, released October 13, 2026 (Survey)

25 FRED, ICE BofA US High Yield Option-Adjusted Spread (Data series)

27 Treasury Borrowing Advisory Committee minutes, November 3, 2026 (Official)

Figures come from the official releases and public surveys cited in the source list; changes are as reported by those sources, and judgmental probabilities are estimates, not forecasts of record. The complete source record, with every citation for this issue, is on the issue page. Prepared by Analytical Outcomes for general information; it is not investment, legal, or technical advice.