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Economic & Market Commentary September 2026

August Market Recap - Artificial Intelligence Reckoning Meets a 19-Year High in Bond Yields

U.S. stocks weathered warnings from the bond market, indications of weaker spending on behalf of the American consumer and increasing concern surrounding the artificial intelligence trade to finish August in the green. The turnaround came after strong results from Nvidia Corp. revived the Artificial Intelligence (AI) narrative and boosted investor sentiment.

Following 2025, a year in which surging revenue alone was enough to appease shareholders, investors have started to question the costs of delivering on the AI infrastructure buildout. As a result, the AI complex has split into two camps. Nvidia, Palantir Technologies Inc. and CoreWeave Inc. were rewarded for growth that arrived with robust margins. Meanwhile, Cisco Systems Inc., Advanced Micro Devices Inc., SpaceX and Western Digital Corp. all beat their respective estimates and yet their share prices then declined. Cisco's 8.4% one-day drop following a "beat-and-raise" quarter was the month's defining reaction, as gross margin fell from the year-ago level on AI hardware mix and rising costs.

Additionally, the macro backdrop has flipped twice recently. July payrolls contracted outright, inflation per the CPI and PPI measurement reports were both subdued, and the ensuing assumption that the Fed would keep rates unchanged saw the S&P 500 clear 7,800 for the first time. Subsequently, the bond market convulsed seeing 30-Year Treasury yields hit their highest level since 2007, driven by deficit fears, abundant bond supply, and continued hyperscaler debt issuance. The U.S. Treasury responded twice in a fortnight, first by at least doubling long-end bond buybacks and then by signaling its $1 trillion General Account could sufficiently fund Treasury Bond repurchases. Fed Chairman Kevin Warsh closed the month by delivering a hawkish speech at Jackson Hole.

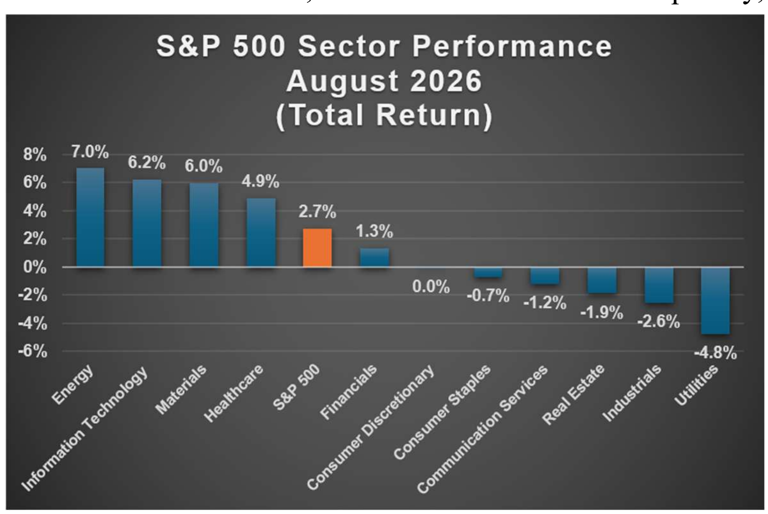

Figure 1 – August S&P 500 Sector Total Returns

Meanwhile, several reports suggested the health of the consumer is deteriorating in a worrying sign for the U.S. economy. Retail sales in July fell by the most in more than a year, and U.S. consumer confidence fell in August to the lowest level since the start of the year. Walmart, a proxy for U.S. consumer financial health, posted its slowest comparable sales growth in more than six years and fell as much as 10%, Lowe's issued forward guidance calling for flat comparable sales, and T.J. Maxx's largest division only managed to grow sales by 1%.

Overall, though, second quarter earnings were among the strongest in years, leading the S&P 500 2.7% higher through August, despite investors' evident concerns about the longer-term prospects for the U.S. economy.

As stated earlier, while there was volatility throughout the month, the major indexes all finished August with positive results. The Dow Jones Industrial Average gained 1.5%, while the S&P 500 advanced 2.7%. The tech-heavy Nasdaq Composite rose 4.0% as Nvidia revived the AI trade, while the equal-weight S&P 500 advanced 2.1% as other areas of the market continued to participate in the rally[1].

At the sector level, Energy (+7.0%) and Information Technology (+6.2%) led the market in August. Utilities (-4.8%) and Industrials (-2.6%) lagged, as shown in Figure 1[2].

Key Interest Rate Yields	**8/31/26**	**12/31/25**	**8/31/25**
Federal Funds Target Rate	3.75%	3.75%	4.50%
3-Month T-Bill	3.83%	3.63%	4.14%
2-Year T-Note	4.34%	3.47%	3.62%
5-Year T-Note	4.50%	3.73%	3.70%
10-Year T-Note	4.75%	4.17%	4.23%
30-Year T-Note	5.24%	4.84%	4.93%

Fixed income had a volatile, but nonetheless positive month. Yields rose on the short and intermediate parts of the Treasury yield curve, while they fell for longer maturity bonds, even if only slightly. This flattening of the curve was more pronounced following Fed Chair Warsh's hawkish speech at their Jackson Hole symposium, in which he emphasized the need to get inflation back to the Fed's 2% target. Using the SHY, IEI and TLT[3] exchange-traded-funds (ETFs) as proxies, short-, intermediate- and long-term Treasury securities returned 0.28%, 0.06% and 0.73%, respectively. The 10-year U.S. Treasury yield, a proxy for the bond market and prevailing interest rates nationwide, ended the month where it started, around 4.75%.

Corporate bonds also posted gains across most maturities as credit spreads tightened. Short- and intermediate-term corporate bonds returned 0.25%, while long-term corporate bonds gained 0.74%[4].

About the Rising Interest Rates

Oil is a Major Factor

A lot of the action in markets can be understood in examining the ramifications of the war in Iran. As Brent crude rises above $95 per barrel, inflation and interest-rate hike concerns have risen, resulting in a selloff across varying asset classes, including stocks, bonds and gold at the start of September.

This cycle has repeated itself several times this year – conflict flares, oil prices surge, markets drop, and then a brief pause in hostilities or fleeting breakthrough in negotiations catalyzes energy price declines and market rallies.

Traffic through the Strait of Hormuz is still a fraction of what it was before the war started, as shown in Figure-2[5]. This is putting pressure on crude oil and oil products inventories worldwide and hence prices. These higher oil prices are pushing near-term inflation expectations higher and thus too Treasury yields.

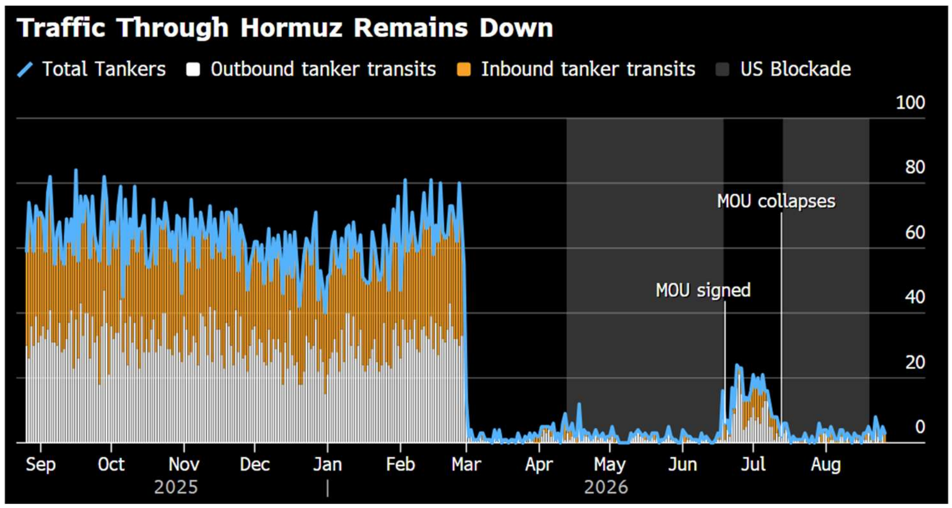

Figure 2 - Total Tanker Transit Through the Strait of Hormuz Is Still Low

In fact, the correlation between the 10-year U.S. Treasury yield and oil is the highest since the 2008 Great Financial Crisis as seen in Figure-3[6]. Oil and rates have become the same trade. So, the outcome of the Iran war is still of a paramount importance for equity investors as higher rates mean lower net present value of future cash flows and hence lower fair value for stock prices. This is especially the case for growth stocks that do not expect positive cashflows until some future date.

Nevertheless, we still expect a peaceful resolution to the conflict, although it is taking longer than we or consensus opinions have expected. A resolution to this conflict will clear up a major headwind for the global markets.

Figure 3 - Top Panel: U.S. 10-Year Treasury Rate; Bottom Panel: 40-Day Correlation of WTI Oil Price and the 10-Year Treasury Rate

Oil is not the only factor moving interest rates. For example, Treasury auctions are competing with the massive debt being issued by the Hyperscalers. Additionally, the deteriorating fiscal picture domestically and globally is another major factor. Let's expand further on these subjects.

HYPERSCALERS & THE LONG END OF THE U.S. TREASURY MARKET

Hyperscalers (Amazon, Microsoft, Alphabet, Meta, and Oracle) are issuing so much debt that they may be causing a supply-demand issue at the long end of the yield curve. In 2026 so far, debt issuance by the five hyperscalers plus NVIDIA is around $320bn (including SPVs or Special Purpose Vehicles for which these companies are backstop obligors on data center leases) as seen in Figure-4[7]. This much additional supply creates additional competition for bond demand, including U.S. Treasuries.

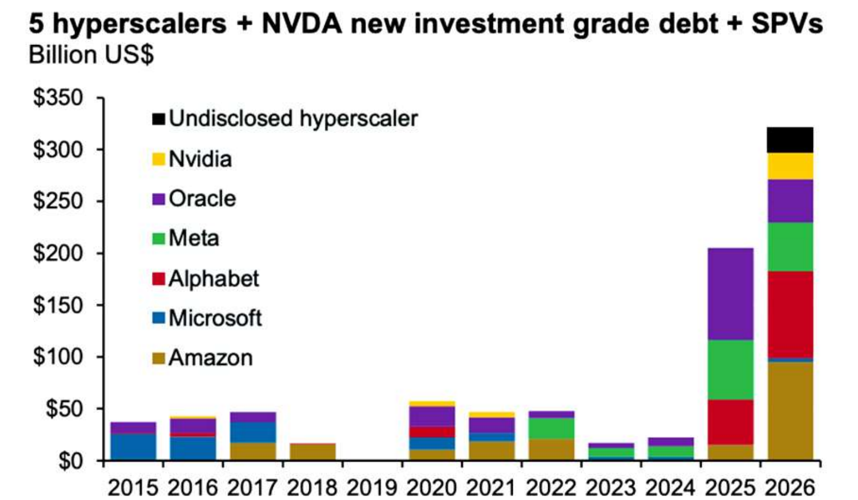

Figure 4 - Treasuries Yields Have to Go Higher to Compete with Rising Issuance of AI Debt

THE BOND MARKET ROUT IS GLOBAL

Investors are already unsettled by rising global bond yields (Figure-5[8]), amid fears that the bond vigilantes are back. These investors sell government bonds in response to widening deficits, mounting debt, rising interest costs, and inflation – driving yields higher and effectively imposing market discipline on policymakers. Elevated oil prices are adding to inflationary pressures, potentially forcing major central banks to tighten monetary policy further.

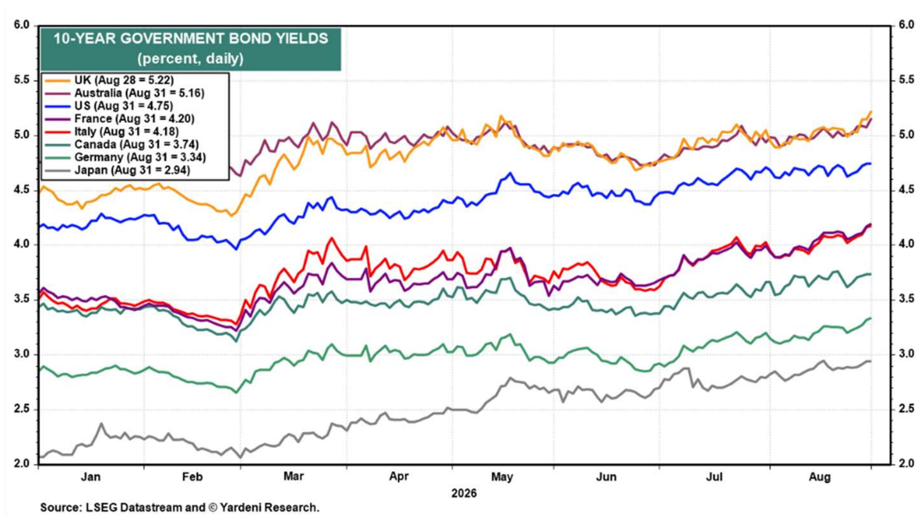

Figure 5 - Bond Yields Are Rising Globally due to Higher Government Spending, Higher Energy Prices, and Competition from AI Debt

According to the Bank of International Settlement (BIS) data, the United States is not the only country with a government debt problem, but it is one of the most indebted among major developed economies (Figure-6[9]). U.S. Government debt now exceeds 110% of GDP, higher than most peers and far above Germany.

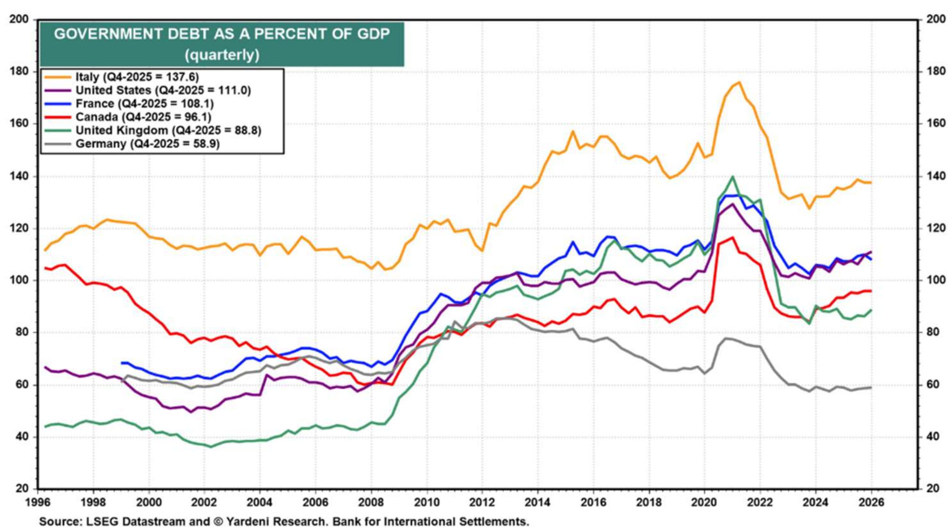

Figure 6 – The U.S. Has One of the Highest Level of Debt as a Percentage of GDP in the Developed World

Although the rise in interest rates has been continuous this year, the move higher has been slow and steady throughout the year, not sudden. The current selloff in global bond markets has driven yields to multi-year highs, but the move is just a fraction of the one seen in late 2022. On a peak-to-trough basis, bonds have lost 4.2% this year – a far cry from the 23% plunge seen in 2022, when the Fed embarked on one of the largest interest-rate hiking campaigns in history (Figure-7[10]).

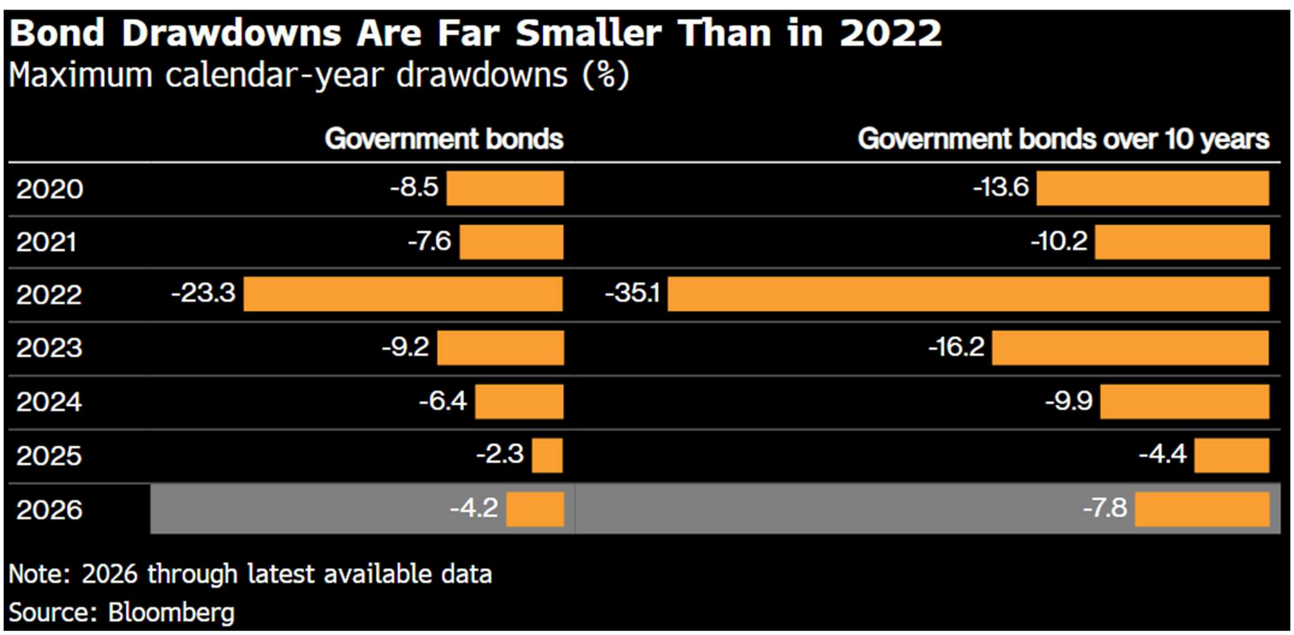

Figure 7 - Government Bond Selloffs in the Last Six Calendar Years

In sum, Treasury yields remain in a range broadly consistent with a healthy economy, and many seasoned bond investors expect yields to stay rangebound this year (e.g. the 10-year yield remaining between 4.00% and 5.00%). Additionally, if inflation stays tame, yields could stabilize and ease from here. But, public and private debt issuance, and geopolitical conflicts could continue to be major sources of angst for markets.

September and October Are Seasonally Weak, But Could Offer Buying Opportunities

Reviewing long term averages, September is notoriously the weakest month for stocks (Figure-8[11]). However, when seasonal weakness materializes, it often creates attractive buying opportunities ahead of a year-end rally that typically begins in mid-October.

This pattern is oftentimes even more pronounced during midterm-election years, which have historically featured heightened volatility and weaker performance ahead of the election. Once political uncertainty begins to fade, stocks have often rebounded strongly through year-end and into the ensuing year.

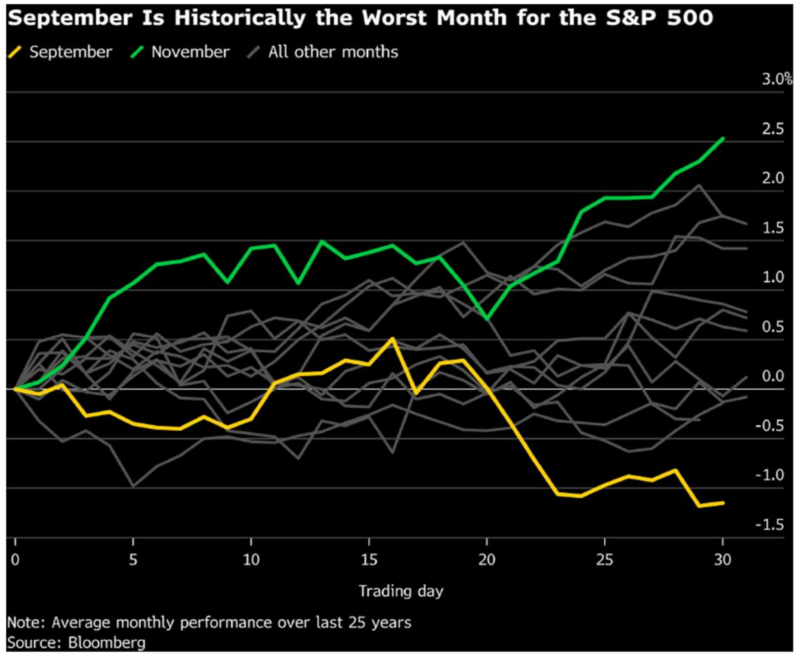

Figure 8 - S&P 500 Seasonality: Historically, September Tends to Be a Bad Month for Markets, but Markets Tend to Rally from Mid-October to End of January

Conclusion - Navigating Near-Term Volatility with Long-Term Discipline

Markets enter September at a crossroads. Fundamentals remain resilient, with strong earnings, broad market participation, and AI investment supporting growth. However, investors are increasingly focused on whether AI-related investment will translate into durable profit margins and free cash flow, while softer consumer and labor data warrant attention.

Near-term markets will likely hinge on oil prices, inflation, and interest rates. A resolution to the Iran conflict could ease energy prices and bond yields, while prolonged disruption, fiscal deficits, Treasury borrowing, and hyperscaler debt issuance could keep long-term yields elevated. Employment and inflation data, the Federal Reserve's September meeting, credit spreads, and market breadth will offer key signals.

Seasonality and midterm uncertainty may add volatility, but resilient earnings, orderly credit markets, and stabilizing inflation could create selective buying opportunities. We remain constructive over the medium term but favor companies with strong balance sheets, durable cash flows, pricing power, and visible growth, while maintaining diversification and disciplined interest-rate exposure.

As always, please contact us with any questions or to discuss how these views may apply to your portfolio.

Sincerely,

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The Westminster Financial Investment Policy Committee

Resources:

[1] Total Return Index Figures. Source: Bloomberg
[2] Total Return S&P 500 Sector Figures. Source: Bloomberg
[3] Source: Bloomberg. ETF proxies include SHY (1-3-year U.S. Treasuries), IEI (3-7-year U.S. Treasuries), TLT (20+ year U.S. Treasuries).
[4] Source: Bloomberg, and iShares. ETF proxies include IGSB (short-term investment-grade corporate bonds) and IGLB (long-term investment-grade corporate bonds).
[5] Bloomberg Economics
[6] Bloomberg
[7] J.P. Morgan Asset Management (JPMAM)
[8] LSEG Datastream and Yardeni Research
[9] Yardeni Research, Bank of International Settlement, and LSEG Datastream
[10] Bloomberg
[11] Bloomberg