

Monthly Market Commentary

Benchmark Returns AS OF AUGUST 31, 2026

	MONTH	YTD
S&P 500	-0.35%	12.75%
Dow Jones Industrial Average	-4.12%	7.19%
Nasdaq	1.93%	16.09%

	MONTH	YTD
Bloomberg Agg Bond Index	-2.61%	-2.91%
Developed International	-3.01%	10.81%
Emerging Markets	-0.50%	23.73%



September Squeeze: Strong Economy vs. Higher Yields

September presented investors with an increasingly familiar paradox: economic strength is supporting the corporate earnings outlook while complicating the fight against inflation. Rising bond yields pressured financial markets, the Federal Reserve raised interest rates, and consumers and businesses continued to demonstrate resilience. Stocks finished unevenly: the S&P 500 declined less than 0.4%, the Dow Jones Industrial Average fell 4.1%, and the technology-heavy Nasdaq Composite gained 1.9%.

The bond market supplied the month’s most consequential development. The benchmark 10-year Treasury yield climbed from 4.76% on August 31 to 5.29% at September’s close—a substantial increase of 53 basis points, or 0.53 percentage point. Over the third quarter, its yield rose 87 basis points, the largest quarterly increase since early 1994. Because bond prices move inversely to yields, the interest rate advance translated into losses for existing bondholders, particularly those holding longer-maturity securities.

Higher yields carry competing messages. When driven by stronger growth, they can signal confidence in the economy and offer investors more attractive income on new bond purchases. However, rising yields also increase mortgage rates, corporate financing costs, and the government’s interest expense while reducing the relative appeal of stocks. September’s bond market sell-off reflected both economic

momentum and concerns about persistent inflation. A growing narrative suggests the run-up in rates reflects a market referendum that the ongoing Iran war and elevated oil prices will produce lasting inflationary pressure.

The Federal Reserve reinforced its inflation-fighting stance on September 16, unanimously voting to raise its policy rate by one-quarter percentage point to a range of 3.75%–4.00%. The decision echoed Chairman Kevin Warsh’s August remarks at Jackson Hole: the economy remained resilient, but progress toward price stability was insufficient. The accompanying September FOMC statement emphasized solid economic activity, resilient domestic spending, strong productivity growth, and robust capital investment. Officials’ median year-end rate projection implied another quarter-point increase before December’s close, although projections remain conditional on incoming data.

Economic reports largely supported the continuing growth assessment. Employers added 162,000 jobs in August, while unemployment held at 4.1%, suggesting a stable labor market following softer hiring earlier in the summer. Retail sales rebounded 1.2%, with back-to-school purchases helping lift online and clothing sales. The increase was broad, although higher gasoline prices also inflated receipts. These figures showed consumers’ continued willingness to spend, even as elevated living costs placed greater pressure on household finances.

Business activity also strengthened. S&P Global’s preliminary September manufacturing purchasing managers’ index rose to 57.0 from August’s 53.9, comfortably above the 50 threshold separating expansion from contraction. At month-end, the final second-quarter GDP estimate showed annualized growth of 2.2%, revised upward from 1.5%. The most recent inflation report offered some encouragement: August’s personal consumption expenditures price index increased 0.3%, while its core measure, excluding food and energy, rose 0.2%. Annualized headline and core inflation remained elevated at 3.4% and 3.0%, respectively.

Meanwhile, artificial intelligence remained both a source of investment enthusiasm and growing scrutiny. Researchers and employees raised concerns about safety safeguards, while Anthropic’s Dario Amodei, OpenAI’s Sam Altman, and Microsoft’s Satya Nadella supported stronger oversight or more deliberate development. For investors, these warnings introduce uncertainty around deployment schedules, operating costs, and eventual returns on enormous infrastructure commitments.

Entering October, investors will be anticipating companies’ third-quarter earnings reports, the outcome of the October 27–28 FOMC meeting, and the final run-up to the mid-term elections.

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