

Market commentary notes

Monthly call notes

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Wealth
Management

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Summary

1. The August jobs report was positive at +162,000. The 12-month average was +31,000 per month, so this signals a significant improvement for this month. The GDP estimate for 2Q was +1.5% real growth—all from growing consumption and shrinking imports. Together they paint a picture of a modest-to-moderately growing economy.
2. The U.S. large-cap stock index was up in August, although it has given back those gains in September so far. Bonds were up (yields down) slightly in August, but that too has reversed in September. Bond yields are up very significantly so far in September, consistent with the 12-month PCE inflation index being up 5.3%.
3. Of the 36 countries we track, manufacturing indexes indicated growth for 25 of them, including the U.S. The U.S. services index also indicated moderate to robust growth.
4. In August, Saudi oil production was at its lowest level since 1990. That, and the partial closure of the Strait of Hormuz and attacks on the Saudi pipeline to the Red Sea, don't bode well for lower oil prices in the short term.

Key issues

Jobs — August estimated new payroll jobs was +162,000. That's much better than the +31,000 average for the last 12 months but is still only “moderate” compared to what the U.S. economy has been generating since after COVID 19. June and July numbers were also revised up a total of 55,000. The unemployment rate stayed steady at 4.1%, in part because the labor force participation rate dropped 0.5% since January to 61.6. 0.5% doesn't sound like much but it means that more than 800,000 workers left the labor force. [<https://www.bls.gov/news.release/empstat.nr0.htm>, September 13, 2026].

GDP growth — The second estimate of 2Q GDP was +1.5%. Consumer spending was up at a 2% rate. Imports (a subtraction) were down at a 2% rate. That tells me that 70% of the economy is growing, but importantly, investments are not. Given all the noise about AI investing, it would appear that investing in all other businesses probably fell for the quarter. [<https://www.bea.gov/news/2026/gdp-second-estimate-and-corporate-profits-2nd-quarter-2026>, September 13, 2026]. The PCE price index was up 5.3% over 12 months, which is shockingly high. Excluding food and energy, it was up 3.6%—still high. If it stays high, that may bode poorly for bonds in upcoming months. Business profits were up \$401 billion in the quarter, which should be supportive overall of the stock market. Incidentally, as I reported last month, U.S. profit growth exceeds that of most major companies other than China and Japan.

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The Fed — The next FOMC meeting was on September 15. Opinions vary about the likelihood of a rate increase, even within a single organization. The RBC Economics department recently published a note predicting a 25 bp rise on Wednesday and another 50 bp before year end. However, the day before our bond strategists said they were expecting no change.

I'm with the bond strategists on this one. Even though the inflation rate is way above the Fed's 2% target, it is hard to see how an interest rate increase would help, since we know a large component of the inflation picture is due to oil prices, which don't typically react to interest rate changes. Yemen's Houthi recently reached a strategically important Red Sea island, which may allow them to impede Saudi oil shipments through that route. Saudi oil production fell last month by 1.9 million bbl/day to the lowest levels since 1990. [FactSet, Street Account, September 10, 2026]. [G. Petroni, "Saudi Oil Production Slumps..." Wall Street Journal, September 10, 2026, <https://www.wsj.com/business/energy-oil/opeac-further-cuts-this-years-oil-demand-growth-forecast-79ed23ad>].

Chairman Kevin Warsh is between a rock and a hard place between the inflation statistics on the one hand, and a relatively weak economy on the other. That the White House and Treasury have made their preferences clear just adds to the tension. Some governors have spoken out about what it would take for them to vote for an increase. Looking at the previous meeting's minutes, it's notable that the FOMC expects better growth in 2027, but terms inflation "highly uncertain." They are still expecting to reach their 2% inflation target in 2028, but the risk is to the upside. [<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20260729.pdf>, September 13, 2026]. On the other hand, the European Central Bank (ECB) seems poised to raise rates from their current 2.5% levels. [FactSet Street Account, September 10, 2026].

According to the August Beige Book, which the FOMC uses to underpin their assessment of the economy, ten of the twelve districts experienced modest growth with two showing no change. Car sales were down but manufacturing was up a little. What does this tell us as the Fed is about to begin their meeting? Perhaps that the information they are receiving about the economy would suggest caution in raising rates. [https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20260902.pdf, September 13, 2026].

AI events — As always, there's good news and bad news for the economy. Currently AI appears to offer a bit of both. The good news is that development in the U.S. and abroad continues at a breakneck pace. DeepSeek, a Chinese company launched a lower cost, faster version of their model. Other Chinese companies including Alibaba and Z.ai have launched "open source" models that are

available to anyone and can be hosted locally—meaning they don't have to use data centers. It is possible that that will become a challenge to the U.S. corporate models and their revenue streams. Stanley Druckenmiller, a one-time colleague of George Soros published an op-ed in the Wall Street Journal criticizing Secretary Bessent's strategy of buying back Treasuries to try to keep interest rates down as ineffective and an abuse of the bond market.

What makes it an AI-related story is that it subsequently emerged that Mr. Druckenmiller used AI to write the op-ed [<https://www.forbes.com/sites/antoniopequenoiv/2026/08/25/wall-street-journal-defends-publishing-billionaires-ai-generated-op-ed-criticizing-bessent/>, September 13, 2026]. Additionally, an internet retailer is partnering with one of the major AI companies to run ads in ChatGPT. [<https://www.cnn.com/2026/09/10/amazon-chatgptads-open-ai.html>, September 13, 2026]. Finally, there are concerns that so-called guardrails on AI systems are ineffective or subject to abuse, potentially exposing all of us to sophisticated hacks. [<https://www.nti.org/risky-business/people-are-trying-to-misuse-ai-thats-exactly-why-safeguards-matter/>, <https://ctc.westpoint.edu/feature-commentary-guardrails-under-test-terrorist-misuse-of-ai-models-and-the-open-weight-abliteration-problem/>, September 13, 2026].

I'd recommend cognitive scientist Gary Marcus as a voice worth reading in this area. Private credit funds have also been raising concerns with their exposure to data center construction. Prominent funds have recently begun to restrict client exits. It also appears that defaults are around 6.1% and "payment in kind" (PIK) meaning that loan payments are rolled into more loans have doubled since 2022. ["Private credit pressure deepens as Blackstone caps withdrawals", Investment News, September 9, 2026].

Tariffs — The White House is attempting to use Section 338 to justify additional tariffs on some \$20 billion in imports from Canada. These include motor vehicle parts, alcohol and dairy products and might be expanded to include aircraft and lumber. These tariffs, and Canada's retaliatory tariffs, are likely to affect the northern states including Maine, New York, Michigan, Ohio and Wisconsin. [<https://www.tradecompliancesourcehub.com/2026/02/24/trump-2-0-tariff-tracker/>, September 13, 2026].

August — U.S. large cap and bonds performed better — Perhaps because the inflation numbers were more muted, reducing the perceived probability that the Fed would raise rates, we experienced a little rally in stocks and bonds in August. International stocks also had positive performance. With oil prices rising again and inflation apparently perking up alongside oil prices, both stocks and especially bonds sagged in the first half of September.

Global stock indexes

Total Index	August %	YTD %	1 yr. %	Estimated PE Trailing/Projected
S&P 500	2.72	13.14	20.38	24.94/20.36
S&P Mid Cap	0.15	14.71	17.13	25.29/16.43
S&P Small Cap	-0.60	20.82	24.08	51.61/15.18
FTSE All REIT	-2.71	14.49	12.52	
MSCI All Country xUS	2.57	17.01	27.35	
MSCI Emerg Mkt	3.37	24.08	39.25	

Source: Factset as of August 31, 2026. Estimated PEs are 12-month values from <https://www.spglobal.com/spdji/en/index-family/equity/us-equity/#overview>.
 *Trailing PEs are as of March 31, 2026. Projected PEs are as of August 31, 2026.
 Figures are provided for comparisons over time.

Fixed income and alternatives

Total Return Index	August %	YTD %	1 yr %
Bloom Agg Intermed	0.29	0.16	2.18
ICE BofA U.S. Convertibles	0.52	16.94	24.28
S&P GSCI*	6.08	48.15	50.55
Bloom U.S. Corp HY	0.97	2.69	4.88

Source: Morningstar as of August 31, 2026.

Sector performance — In August, the three best performing sectors were Energy, IT and Materials. The three worst were Utilities, Industrials and Real Estate. It seems that over the course of a month energy prices and interest rates pretty much dictate which sectors do well or poorly. On a twelve-month basis, the worst performers were Consumer Discretionary, Consumer Staples and Utilities. [<https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf>, August 1, 2026]. [<https://digital.fidelity.com/prgw/digital/research/sector>, August 1, 2026].

Commodities

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Commodity and food price changes, current month and YoY

Commodity	Aug %	YoY %
Copper	-1.9	41.2
Lumber	0.5	-1.4
Cotton	2.0	32.5
Sugar	10.5	15.0
Coffee	-10.7	-30.4
Wheat	8.3	35.1
Corn	11.6	18.7
Oil	20.2	59.6
Natural Gas	1.0	-3.7

Source: <https://tradingeconomics.com/commodities>, September 12, 2026.

In August, 7 of the 9 major commodities that we track experienced price increases—up from 6 last month. On a 12-month basis, 6 experienced price increases. Apart from oil and gas, the average annual increase in these commodities prices was about + 15.5%, which is down from last month but up from what we were seeing earlier in the summer. As has been the case since March, oil price changes are mostly dependent on the escalations and deescalations of the war in Iran.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities: in July, 28 saw price increases, up from 16 in June. In August, that tally rose to 31. That suggests accelerating commodities inflation. The YoY figures also increased to 36 of 48 experiencing price increases versus 33 last month and 32 in June. It looks like commodity price inflation is heating up again as oil prices rise.

U.S. Economy

U.S. PMI statistics — The U.S. Manufacturing PMI was essentially unchanged at 53.9. The services PMI, most of our economy, rose smartly to 56.5, indicating robust growth. Between the two, it looks like the U.S. economy is growing well despite the obvious headwinds especially in energy prices. [<https://tradingeconomics.com/country-list/services-pmi>, September 13, 2026]. [<https://tradingeconomics.com/country-list/manufacturing-pmi>, September 13, 2026].

International

Manufacturing PMI — Every month we look at global Purchasing Managers Index (PMI) statistics for 36 countries. In August, 25 of them reported PMI's of 50 or more compared to 30 last month. Although 4 of the 6 that dropped below 50 dropped by less than 0.5. The average reading across 36 countries was unchanged at 52.4. That suggests that the global economy is doing okay—not showing signs of recession at this point. The

Euro area perked up a little as France and Germany experienced more growth while Italy and Spain stayed where they were. [Author's calculations based on published PMI statistics as of September 13, 2026].

On the services side, the Euro Area perked up some more at 51.4—mostly due to France and Germany rising a little and Spain rising quite a bit. Canada dipped a little more into the “modest contraction” category. Canada reported good GDP growth numbers recently but that may reverse course. [<https://tradingeconomics.com/country-list/services-pmi>, September 13, 2026].

Compared to a year ago, all of our numbers were up for the U.S., China, the 19 major economies and the 36 economies that we monitor.

Here's our updated graph of Manufacturing PMIs:



Source: Author's calculations based on published PMI statistics, as of September 13, 2026.

Table summary

Region	Manu PMI	Last Month	12 mo. Ago
U.S.	53.9	53.8	53
19 majors	51.7	51.8	50.6
38 world	52.4	52.4	51.0
EU	52.7	52	50.7
China	51.5	51.7	50.5

Source: Author's calculations based on published PMI statistics September 13, 2026.

Index definitions:

Past performance is no guarantee of future results. You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High-Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of \$100 million and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than \$100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of US-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g. it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xUS — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.



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