

Market commentary notes

Monthly call notes
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Wealth
Management

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Summary

1. The Fed raised short-term rates by ¼% in mid-September and their minutes suggest that they might raise again before the end of the year. Meanwhile, interest rates at longer maturities rose even more.
2. Second quarter real GDP is estimated to have increased at a 2.2% annual rate. The latest new payroll figures were +29,000 with a revision of –60,000 to the prior two months. This is well under consensus expectations.
3. On the other hand, U.S. PMI surveys of business activity indicate moderate growth in manufacturing and strong growth in services. For the other 36 countries that we track, 29 of them reported manufacturing PMIs in the growth range. Globally, there are no obvious signs of impending recession.
4. The war in Iran continues and with it, oil prices continue to be volatile, inducing volatility in Treasuries and gold as well. About a quarter of recent CPI inflation is attributable to oil prices, directly and indirectly.

Key issues

Jobs — September estimated new payroll jobs was a disappointing +29,000. But in a “bad news is good news” paradox, the stock market rose on the news since it seemed to suggest that the probability of another Fed rate increase might be diminished. The job growth was mainly in health care, construction and manufacturing. Over the last year, average earnings were up 3.0%, which lags inflation. July and August new jobs numbers were revised down by a total of 60,000—reversing the upward revisions last month. In all, this means that for the last year, new net job growth has been a trickle and wages aren’t quite keeping up with inflation. From a markets standpoint, this isn’t good news for Consumer Discretionary, Staples, Real Estate or Utilities sectors. On the other hand, productivity is up at an annualized rate of 1.4% in the second quarter—so that is a positive and probably accounts for our modest GDP growth despite flagging employment growth. [<https://www.bls.gov/news.release/empsit.nr0.htm>, Oct. 3, 2026] [<https://www.bls.gov/news.release/prod2.nr0.htm>, Oct. 3, 2026]

Inflation — The CPI was up 3.4% for the year as of the end of August. Gasoline and oil accounted for a third of the increase. Bear in mind that if oil prices drop, that implies a roughly equal moderation to inflation rates, regardless of what the Fed might or might not do. [<https://www.bls.gov/news.release/cpi.nr0.htm>, Oct. 3, 2026] I think this is significant not only to put wage increases in context, but it also tells us something about what’s happening to real (after inflation) interest rates. For instance, short-term real rates seem to be around half a percent, which is low when productivity is 1.4%. Ten-year Treasury real rates are around 1.8% last week, which is also not overly high.

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GDP growth — The third estimate of 2Q GDP was revised up to +2.2%. Consumer spending and investments were both revised up a little to account for the upward adjustment. [<https://www.bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-2nd>, Oct. 3, 2026]

The Fed — So, contrary to my expectations, the Fed did raise short-term interest rates by a quarter percent at their mid-September meeting. The rate is now set in the 3¼ to 4% range. The vote was unanimous, which gives Chairman Warsh some political cover. [<https://www.federalreserve.gov/newsevents/pressreleases/monetary20260916a.htm>, Oct. 3, 2026]

But will it help reduce inflationary pressure? We all know that one of the main sources of inflation has been rising oil prices and their indirect impacts. Raising rates in the U.S. isn't going to reduce tensions with Iran or increase oil extraction anywhere else. The FOMC is still projecting a decline in inflation to 2.3% in 2027 and 2.1% in 2028. Are these achievable? Time will tell, but even without increases in oil prices, core inflation has been running around 3%. It is also worth noting that the Fed calculates their historical error rates on next-year GDP to be +/- 1.8% and on CPI inflation at +/- 1.7%, so the error bands are extremely wide. [<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20260916.pdf>, Oct. 3, 2026]

Tariffs — The White House has implemented Section 301 tariffs in response to alleged unfair pricing of imported goods due to lax international enforcement of prohibitions against forced labor. The results include 10% tariffs on EU products and 10% on countries including Canada, Mexico, U.K. Also, 12% tariffs on Japan, S. Korea and Switzerland. [<https://www.tradecomplianceresourcehub.com/2026/02/24/trump-2-0-tariff-tracker/>, Oct. 3, 2026]

September — Drifting downward at various rates — A stylized fact in the investment business is that September tends to be the weakest month for U.S. stocks. I have trouble with that “fact” from a statistical standpoint, but more relevant right now is the actual fact that despite its volatility in September, U.S. large cap stocks ended the month just barely below where they began. Small-, mid- and international stocks all experienced dips, however. On the bond side, we saw interest rates rise dramatically, especially toward the end of the month. That sent bond prices down (yields up, price down). I think that was due to more attention to the growing U.S. federal budget deficit which 18 months ago was targeted at half the current level, stubborn inflation and the Fed short-term interest rate increases. That said, my sense is also that current rates have overshoot what makes sense under the present conditions.

Global stock indexes

Total Index	September %	YTD %	1 yr. %	Estimated PE Trailing/Projected
S&P 500	-0.35	12.75	15.74	24.94/20.36
S&P Mid Cap	-4.22	9.88	11.69	25.29/16.43
S&P Small Cap	-5.57	14.08	16.02	51.61/15.18
FTSE All REIT	-5.73	7.93	5.61	
MSCI All Country xUS	-2.38	14.22	20.00	
MSCI Emerg Mkt	-0.56	23.38	29.22	

Source: Morningstar as of September 30, 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	September %	YTD %	1 yr %
Bloom Agg Intermed	-2.15	-1.99	-0.66
ICE BofA U.S. Convertibles	-1.52	15.17	17.02
S&P GSCI*	4.79	55.24	56.74
Bloom U.S. Corp HY	-2.52	0.10	1.41

Source: Morningstar as of September 30, 2026.

Sector performance — In September, the three best-performing sectors were IT, Communications and Industrials. The three worst were Utilities, Financials, Real Estate. With the possible exception of Industrials, this follows the pattern you'd expect when interest rates rise. Higher debt sectors can do worse and vice versa. On a YTD basis, Energy, IT and Industrials outperformed while Utilities, Consumer Discretionary and Financials brought up the rear. [<https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf>, Oct. 3, 2026] [<https://digital.fidelity.com/prgw/digital/research/sector>, Oct. 3, 2026]

Commodities

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Commodity	Sept %	YoY %
Copper	-1.3	29.0
Lumber	-8.3	-14.5
Cotton	-8.8	20.8
Sugar	10.3	21.0
Coffee	-2.2	-26.1
Wheat	-7.2	32.6
Corn	-3.4	18.8
Oil	-0.2	49.7
Natural Gas	4.2	-8.7

Source: <https://tradingeconomics.com/commodities>, Oct. 3, 2026.

In September, only two of the nine major commodities that we track experienced price increases. It was seven in August. On a 12-month basis, we still had six experiencing price increases. Apart from oil and gas, the average annual increase in these commodities prices was about +11.7%, which is down a little from last month. As has been the case since March, oil price changes are mostly dependent on the escalations and de-escalations of the war in Iran.

Looking more broadly at commodities, we look at 22 categories of agricultural commodities and 26 categories of industrial commodities. In September only 17 of the 48 experienced price increases, down from 31 last month but similar to the June reading. That suggests surprisingly moderate commodities inflation. The YoY figures remained at a pretty high 36 of 48 experiencing price increases. Same as last month and up from June and July.

U.S. Economy

U.S. PMI statistics — The U.S. Manufacturing PMI rose significantly to 55.9 from a previous 53.9. The services PMI, most of our economy, rose some more to a very strong 58.7 from 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 and to some extent in the distribution of incomes. [<https://tradingeconomics.com/country-list/services-pmi>, Oct. 3, 2026] [<https://tradingeconomics.com/country-list/manufacturing-pmi>, Oct. 3, 2026]

International

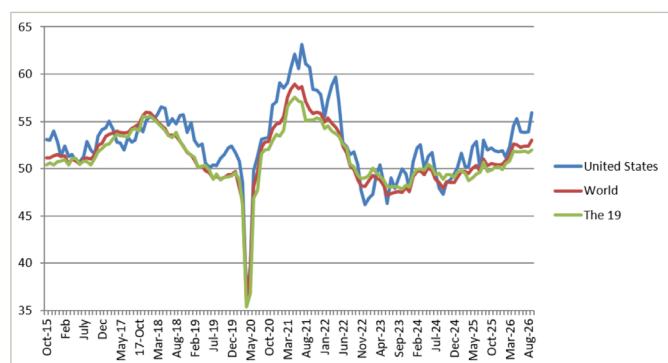
Manufacturing PMI: Every month we look at global Purchasing Managers Index (PMI) statistics for 36 countries. In September, 29 of them reported PMIs of 50 or more compared to 25 last month. However, another four had PMIs of 49.5 or more, so the overall picture is one of the major economies in the world growing in unison, despite the headwinds of oil prices, wars and other impediments. Across the 36 countries the average

reading was 53, which is the highest average we've had in at least two-and-a-half years. That suggests that the global economy is doing okay—not showing signs of recession at this point. The Euro area perked up a little; the major economies of France, Italy, Spain and Germany all experienced more growth. [Author's calculations based on published PMI statistics as of Oct. 3, 2026]

On the services side, the Euro Area perked up some more at 53—mostly due to France, Italy and Germany rising a little and Spain leveling off at a very robust level of growth. [<https://tradingeconomics.com/country-list/services-pmi>, Oct. 3, 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 Oct. 3, 2026.

Table summary

Region	Manu PMI	Last Month	12 mo. Ago
U.S.	55.9	53.9	52
19 majors	52.0	51.7	49.7
38 world	53.0	52.4	50.4
EU	52.9	52.7	49.8
China	52.1	51.5	51.2

Source: Author's calculations based on published PMI statistics, Oct. 3, 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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