WEEKLY MARKET COMMENTS – SEPTEMER 21, 2026 – EXTERNAL

The market ended a mixed week with the Dow lower once again, to its worst level since Match and the S&P was down again for the second straight week, along with the Russell 2000 Index of small stocks. Only the Nasdaq ended higher on some strength in the semiconductor index after a horrible start on Monday.

Elevated bond yields and high oil prices were negative overall factors in the proceedings. The yield on the 10-year Treasury Note climbed to 5.01% from 4.94% late Thursday, after it rose to the 5% level early last week for the first time since 2023.

Higher yields slow the overall economy by making it more expensive for everyone to borrow money, from the U.S. government to people looking to buy homes to businesses wanting to build AI data centers. They also tend to undercut prices for equities and other investments, as we have seen in the past few weeks.

Yields have been climbing in a long march since the Covid pandemic knocked them nearly to zero in 2020. The rise has accelerated recently because inflation has remained stubbornly higher for years.

Inflation is well above 3 percent by a number of measures, as it worsened due to higher oil prices caused by the war with Iran.

The price of a barrel of crude, which is the international standard, got nearly to $110 early last week, up from a little over $70 in July.

Rising oil prices have pushed gasoline rates to $4.47 a gallon, up from $3.20 a year ago. This is tightening the squeeze on household budgets. And diesel prices are at a record $6.45 a gallon and that has a more direct impact on shipping costs for everything from groceries to clothing.

The Federal Reserve raised interest rates by a quarter of a percentage point last Wednesday, the first increase in more than three years and a significant step by Kevin M. Warsh, the central bank's chairman, to combat elevated inflation.

The decision, which lifts rates to a new range of 3.75 to 4 percent, was supported by all 12 members of the Federal Open Market Committee.

"The plain fact is that inflation is too high and has been for too long," Mr. Warsh said at a news conference after the decision was announced. He added that the U.S. economy remained strong and unemployment was low, justifying the Fed removing what he described as a "dose of accommodation."

In a statement accompanying the rate decision, the Fed said last Wednesday's increase "will support a timelier return to the committee's 2 percent goal."

Mr. Warsh steered clear of providing any guidance about the path forward for rates after Wednesday's move, however, saying that he did not want to "prejudge any future decisions we make."

But in new forecasts, policymakers indicated that there would likely be additional increases. According to the latest “dot plot,” which tracks what officials think will happen to borrowing costs over the coming years, the vast majority of policymakers who submitted projections expect at least one more quarter-point move by the end of the year. Four officials thought rates would need to rise half a percentage point from here this year.

Wednesday’s decision is a momentous one for Mr. Warsh, who was selected by President Trump to lead the Fed and took over the top job just four months ago. During the selection process, Mr. Trump said he would only choose someone who supported lower borrowing costs, although he vowed that he would respect Mr. Warsh’s independence.

Mr. Trump reiterated that U.S. rates should 1 percent or less, “because we are the “Best Credit in the World — BY FAR.” He alluded to his early threat to cut off a broad swath of U.S. trade if the Fed did not soon reduce borrowing costs.

“LOWER THE INTEREST RATES FOR THE UNITED STATES OF AMERICA, AND FAST!” he said.

However, he did not publicly castigate Mr. Warsh for the decision to raise rates, a notable change from his approach to the previous chair, Jerome H. Powell, whom he repeatedly attacked for not complying with his demands.

Mr. Trump later suggested to reporters that he had spoken to Mr. Warsh, casting the blame on the other six members of the Board of Governors, some of whom were appointed by Mr. Trump in his first term.

The president said he told Mr. Warsh that he “might as well vote with the board because it’s just not going to matter. The board is very hostile. They’re very political. They’re doing the wrong thing.”

Asked repeatedly about Mr. Trump’s demand for lower rates, Mr. Warsh said the Fed’s job was to “stay in our lane.”

“Independence is a two-way street,” he added. “We let people that do trade policy and fiscal policy stay in their lane too."

The case for cutting rates evaporated long before Mr. Warsh took the helm of the Fed in May. Mr. Trump’s war with Iran, which began in February and immediately sparked a surge in energy prices, upended the outlook for inflation and forced a rethink among officials at the central bank about their policy settings.

In the months since, growth has held up well, the unemployment rate has stayed low and consumers have continued to spend, suggesting that rates were not inflicting that much restraint on the economy and in turn, inflation. Financial markets have also undergone a rapid reset, with yields on longer-dated U.S. government bonds now trading at multiyear highs, raising borrowing costs across the economy.

That shift prompted Treasury Secretary Scott Bessent over the past month to embark on a series of interventions to force down borrowing costs. So far, those efforts have proven futile, with 10-year Treasury yields now trading around 5 percent.

Mr. Warsh ascribed the rise in longer-term borrowing costs to three factors. The first was higher growth prospects; the second, competition for capital as technology companies borrow heavily to finance the expansion of their artificial intelligence capabilities; and the third was geopolitics, or higher oil prices caused by the Iran war.

Importantly, he did not convey that concerns about the Fed’s credibility in fighting inflation or about the long-term fiscal sustainability of the U.S. government were behind the recent moves.

This backdrop, coupled with signs that inflation was progressing steadily to the 2 percent target, gave the Fed limited latitude to do anything but raise rates on Wednesday.

Mr. Warsh's decision to stake his reputation as chairman on getting inflation down also bolstered the case. Mr. Warsh reinforced his commitment as recently as last month at the central bank's annual conference in Jackson, Wyo., that the Fed "must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do."

Mr. Warsh on Wednesday said that he was most focused on the trends in inflation rather than specific data points, which he described as "noisy."

"Data point dependence is a dangerous preoccupation," he added. "It's not something that concerns me. Markets over time will come to understand how this Fed makes its decisions, what's relevant and not."

Most officials see inflation, as measured by the Personal Consumption Expenditures price index, ending the year at 3.7 percent, slightly higher than officials thought just three months ago. They also revised up their estimates for "core" inflation, which strips out volatile food and energy items, to 3.4 percent.

As of the latest data in July, overall inflation stood at 3.7 percent compared with the same time last year. Core inflation was up 3.3 percent from a year earlier. The 2 percent target is not expected to be reached until 2029.

In 2027, the median estimate for rates stood at 4 percent to 4.25 percent, although there was a range of views. Eight policymakers forecast that rates would end the year a quarter of a percentage point higher than that, while four expected rates to be no higher than 3.5 percent to 3.75 percent.

Policymakers remained upbeat about the trajectory for growth and the labor market over this time period, projecting that the economy would expand 2.3 percent in 2026 and 2.4 percent in 2027. They see the unemployment rate slightly lower, at 4.1 percent, compared to three months ago, in line with today's level.

The dot plot once again had fewer entries, with not all 19 policymakers submitting projections. Mr. Warsh in June declined to do so, reflecting his opposition to providing forecasts that he argues box the Fed in. One official submitted forecasts, but only through 2027.

The dot plot, along with other communication tools at the Fed's disposal, is the focal point of one of five task forces that Mr. Warsh created to look into issues that are central to the Fed. The other groups are looking into the Fed's$6.7 trillion portfolio of government debt and mortgage-backed securities; the data sources the central bank prioritizes; productivity trends and jobs; and the models and measures officials use to understand inflation.

WEEKLY MARKET COMMENTS – SEPTEMBER 21, 2026 – EXTERNAL – DONALD M. SELKIN – CHIEF MARKET STRATEGIST