WEEKLY MARKET COMMENTS – SEPTEMBER 14, 2026 – EXTERNAL

Even though Friday saw the market gain, the Dow suffered its worst week since March 20th while the S&P and Nasdaq ended negative for the first week in three after five down days in a row.

Even though the market was higher, there was a sadness to the proceedings as the overhang for the 25th anniversary celebration of 9/11 hung over investor minds and sentiment.

The implied chances of a rate hike increased from 59% a week ago to 87% on Friday. The reasoning here is that inflation reports show prices outrunning the central bank's 2 percent target. This factor, in addition to crude oil gaining an additional 10% for the week. If we add that to the strong August jobs report from two weeks ago, this certainly paints a picture for some upside action here.

Rates have already been on the rise, with the 10-year yield jumping from 4.4% at the end of June to nearly 5% last Friday and the 2-year gaining to over 4.6%. And last Thursday, the 30-year yield ended at 5.36%, which was the most since June 2004.

These yield gains haven't helped stocks, which has been about flat while analysts have increased their earnings projections for

21 consecutive weeks. This is due to artificial intelligence and means that potential buyers might not be deterred from interest rates that rise a bit.

In the meantime, increasing clashes in the Middle East could further disrupt energy supplies and briefly pushed the price of crude oil to $110 on Friday at the same time that U.S. diesel prices rose to above $6 a gallon.

Saudi Arabia said that a pipeline that takes oil from the Persian Gulf to the Red Sea was “targeted multiple times” and had been shut down. Worries about decreasing energy supplies have forced governments and consumers to decrease their usage with the I.E.A. expecting a decline of 2.5 million barrels a day.

Iran has basically shut down most ships from passing though the Straights of Hormuz, which before the war saw one-fifth of the world’s crude oil flowing through this region.

Prices for heating oil are up by 52 percent over the past year and farmers and trucking companies are going to have to pass through this increase to consumers.

U.S. inflation showed little improvement in August, running at a 3.4 percent annual rate. Investors believe the Federal Reserve is very likely to raise rates at its meeting on Wednesday, September 16th due to stubbornly high rates in August.

The Consumer Price Index report, released on Friday, showed overall inflation remained elevated at an annual pace of 3.4 percent, after a 0.4 percent rise from July. “Core” inflation, which strips out volatile food and energy items, rose 0.3 percent in August, or 2.4 percent from a year earlier.

Consumer sentiment dropped sharply in early September, according to the survey from the University of Michigan. Most of the decline came in the part of the survey that asked about consumers’ expectations for the year ahead, a sign that Americans are becoming more worried that higher gas prices won’t go away anytime soon. Consumers expectations for future inflation, both over the next year and over the longer run, rose in August. That could worry Fed policymakers, who fear that if people and businesses start to anticipate higher prices, it will be harder for the central bank to get inflation fully under control.

Kevin Hassett, the director of the White House National Economic Council, acknowledged on Friday that there was a “big, big issue” with diesel, citing ongoing conflicts abroad as the reason why prices have risen to new highs.

Inflation is eating away at workers’ paychecks. Average hourly earnings were up 3.1 percent in August from a year ago, below the 3.4 percent increase in consumer prices. It was the fifth month in a row that inflation-adjusted hourly pay fell on a year-over-year basis.

Will the Fed raise rates this week? Investors, at least, now seem firmly convinced the answer to that question is yes. But the August data doesn’t do much to resolve the longer-run question of where inflation is headed. Optimists can point to the fact that much of the recent run-up in inflation has been driven by oil prices, and there is relatively little evidence of those price pressures spilling over to other areas, apart from a few key categories like airfare. If oil prices ease, they argue, inflation should cool. Pessimists can point out that the economy has endured one supposedly temporary price shock after another in recent years — just look at what has happened to oil over the past few days. The August data may change the calculus for the Fed this week, but it doesn't necessarily change the broader contours of the debate.

Economists and policymakers dig far beyond the headline numbers in these reports to try to tease out what's happening beneath the surface. One number that the Fed has focused on in recent years is so-called "super core" inflation — prices of services excluding energy and housing — which some policymakers see as a measure of underlying price pressures in the economy. That number came in very hot, up 0.5 percent on a monthly basis and up 3 percent from a year ago. That is one reason investors see today's report as raising the odds of a rate increase.

Goods prices appear to have stabilized after last year's tariff shocks, though these prices were recorded before the President's latest round of punishing tariffs on Canadian imports. Household furnishings are up less than 1 percent since this time last year. Apparel prices were up 3.6 percent over the year, but flat in August compared with July.

Gasoline, diesel and related heating fuels have gotten so much more expensive because of the war with Iran that they make the 3.8 percent increase in electricity prices over the past year look tame.

Investors have raised their bets on the chance of a quarter of a percentage point increase to interest rates. Prices in futures markets suggest a 90 percent chance of a rate increase, up from about 70 percent before the numbers were released.

The price of lettuce continued to slide and was down 6.2 percent in August, after the cyclospora outbreak tanked demand for leafy greens over the summer. But relief may be in sight: The government appears ready to declare an end to the outbreak that sickened thousands.

It’s worth noting that these stubborn inflation numbers predate the recent sharp rise in oil prices, with Brent crude, the international benchmark, up 15 percent in September to roughly $105 per barrel. Oil price changes take a little time to flow through into higher energy costs, higher prices at the pump and higher prices for other petroleum products.

As we head toward fall and cooler weather, it’s striking to see how much more expensive fuel oil has gotten. Prices for the heating fuel, a close cousin of diesel, are up 52 percent year over year.

The price of eggs, however, was up 2.9 percent in August, though it was down 23 percent compared with last year. The price of eggs frequently becomes a political cudgel in the run-up to elections.

Grocery prices were flat over the month, but up 2.2 percent compared with last year.

There has been very little reaction to the numbers in financial markets. Stock futures remain up for the day, as they were before the data was released. The two-year Treasury yield, which is sensitive to changes in Fed rate expectations, has inched higher.

A 3.9 percent jump in the price of gasoline in August made up for a large share of the overall increase in consumer prices. Prices for fuel oil, which is used to heat homes and very similar to diesel, rose even more: 10.1 percent.

The rise in fuel costs was also evident in airline fares, which jumped 2.7 percent from July and were up 23.4 percent over the past year.

That 0.3 percent monthly increase in core prices is slightly above what forecasters were expecting. But that is going to make it more likely that the Fed will raise interest rates at its meeting.

Overall energy costs, driven by the war in Iran, rose 2.1 percent in August and are 16.3 percent higher than they were at this time last year. Americans are feeling this spike at the pump. The price of a gallon of regular gasoline averaged $4.30 on Friday, more than a dollar more than last year.

Once again, U.S. consumer prices rose 0.4 percent in August and were up 3.4 percent from a year earlier. “Core” prices, excluding the volatile food and energy categories, were up 0.3 percent month over month and 2.4 percent year over year.

The yield on the two-year Treasury, which is heavily influenced by Federal Reserve policy, has jumped to 4.58 percent from 4.38 percent at the start of the week.

These inflation numbers will be more important for the immediate direction of interest rates and whether the Fed opts to raise rates. But stubborn inflation has also started to push longer-term bond yields — which feed into the interest rates companies and consumers pay to borrow — higher as well, giving the data release broader importance.

Investors already had a challenging week, with government bond yields rising sharply, partly in response to developments in the Middle East and partly because of the administration’s smaller than expected response to the higher borrowing costs. The 10-year Treasury yield is close to crossing 5 percent for the first time since October 2023.

Economic data is, by definition, a look back at the past — we measure what happened to prices or jobs last month or last quarter, not what it’s doing today. That lag feels particularly acute on days like today, when the economic reality can seem to be running way ahead of the economic data. The inflation report will reflect prices in August, when oil was selling for around $80 a barrel and gasoline cost around $4 a gallon. Now oil is back up to about $100 a barrel and a gallon of gas goes for about $4.30, up 13 cents in the past week alone. Those numbers won't show up until next month's inflation report.

The President has argued that he is making substantial progress on inflation.

"I'm bringing the prices way down, way down," he claimed on Wednesday night at the party's midterm convention in Dallas.

Yet he also acknowledged earlier in the day that oil prices in particular probably would not fall until "right after the election." (Many economists believe it would take some time for price increases to decline.)

"They're going to be tumbling down, and we'll get them down," the president told reporters. "I think for gasoline, we'll get them below $2 a gallon."

The latest inflation data arrives amid significant uncertainty in Washington. The report won't capture the impact of two recent developments — his return to global trade warfare and his resumption of military strikes on Iran.

Trump intensified a trade spat against Canada as he prepared a battery of tariffs targeting dozens of additional U.S. trading parters. And with Iran, the return to open conflict has sent oil prices above $100 per barrel while contributing to an increase in gas prices.

A hot inflation report followed by inaction from the Fed could be very badly received by financial markets, which are on edge because of a range of risks stemming from the war with Iran and the country's tenuous fiscal situation. U.S. borrowing costs moved sharply higher in the second half of the summer, prompting interventions from Treasury Secretary Scott Bessent.

The odds of a rate rise at the September meeting rose sharply last month after Kevin Warsh, the Fed chairman, signaled that he was open to raising rates, although he didn't detail what would tip him in that direction. Warsh not only indicated that he did not think that rates were restraining economic activity, but he also downplayed any progress in inflation over the summer. Still, investors have been left guessing at what he wants to do, reflecting his deliberate strategy of keeping his preferences close to his chest.

Diesel prices rose to $6.06 on Friday as refineries around the world have increased capacity to make up for loss of supplies from the Middle East and Russia, but demand is outstripping supply.

"As with all economic shocks, that will affect the nearly half of Americans living paycheck to paycheck the most," said a former senior adviser in the Department of Energy.

Economists pay close attention to producer prices because they can give an early look at how price pressures are filtering through supply chains, before they reach consumer prices. Some components of the producer index are also used by the Bureau of Economic Analysis to calculate the Fed's preferred measure of inflation, the Personal Consumption Expenditures price index. Those components came in a bit hotter than forecasters had expected, which could make it more likely that Fed policymakers will see the need to raise interest rates this week.

One of the last Fed officials to interject before the communications blackout ahead of the next meeting was Christopher Waller, a Fed governor, who said he would be inclined to hold rates steady if there continued to be signs of disinflation, as was the case in June and July. He said his decision on rates would be "heavily influenced" by August's inflation data.

“I’m not going to say let’s wait until next year, but let’s just wait and see if we get some improvement on this,” he said at an event last week. Still, Waller made clear that it would “not take much acceleration in inflation” to nudge him toward rate increases.

The bond headlines just won’t go away, and for good reason.

Interest rates are rising all over the world. In the United States, yields on Treasury bonds are hovering around levels that haven’t been reached in decades, setting off alarms about the state of the economy and causing hardship for millions of people.

A drone attack launched from Iraqi territory led Saudi Arabia to shut down a critical oil pipeline on Friday, heightening fears that widening clashes in the region could further disrupt energy supplies. The global price of oil briefly jumped to about $110 a barrel.

The Saudi Arabian Energy Ministry said that the shutdown of the East-West pipeline, an increasingly vital means to shuttle oil from the Persian Gulf to the Red Sea, was a precautionary measure. The country’s foreign ministry said it would not immediately retaliate at the request of the Iraqi government, which said it would work to find the source of the attack.

Policymakers at the E.C.B bank, which sets rates for the 21 countries that use the euro, lifted their key rate a quarter point, to 2.5 percent. It was the second increase since the United States and Israel attacked Iran in February, starting a war that has sent global energy prices sharply higher.