Richard Rose Wealth Management

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WEEKLY COMMENTARY

Richard Rose AIF®

Good morning,

What's in this week's Report:

- The Biggest Reason Behind the Pullback
- Weekly Market Preview: Ceasefire hopes and the Fed (It's Potentially a Critical Week)
- Weekly Economic Cheat Sheet: Fed Decision on Wednesday is the Key

Futures are moderately lower on a rebound in oil prices as tensions in the Gulf worsened over the weekend.

The Gulf states/Iran meeting about Hormuz, which was the main catalyst for Friday's rally, was postponed while the Houthis continued to seize land on the Red Sea coast and the Saudi East-West pipeline was shut down due to damage.

All three events are raising concerns about oil supply from the Persian Gulf, and oil is 2% higher as a result.

Today, there are no notable economic reports or Fed speakers, so focus will stay on geopolitics. Any hints of progress towards a ceasefire (including scheduling meetings) will be an immediate positive. At the same time, any reports of further fighting will push oil and Treasury yields higher and stocks lower.

Market	Level	Change	% Change
S&P 500 Futures	7,673.50	-53.75	-0.70%
U.S. Dollar (DXY)	99.35	0.51	0.51%
Gold	4,323.10	-85.80	-1.95%
WTI	104.70	4.65	4.65%
10 Year	4.982%	0.007	0.14%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks extended the pullback last week on a familiar combination of rising geopolitical tensions, higher oil prices, and surging Treasury yields. The S&P 500 fell 0.78%.

Stocks started the holiday-shortened week lower after the U.S. and Iran resumed reciprocal strikes. Oil prices rose in response, weighing on stocks as the S&P 500 fell moderately, down 0.58%.

The declines continued on Wednesday as the U.S. targeted and destroyed numerous Iranian tankers, while Iran launched attacks on U.S. bases in Jordan and Houthis attacked parts of Saudi Arabia, hinting at a potential expansion of the conflict. Oil rose again, and Brent crude hit its highest level since mid-July, while Treasury yields rose as Treasury buybacks disappointed investors (only $6 billion vs. a hoped-for $8 to $10 billion). Positive tech/AI news helped support the S&P 500 and the index fell modestly again, down 0.5%.

Stocks fell further on Thursday, this time on a hot PPI report that boosted rate-hike expectations and rekindled inflation fears. Additionally, news that the Houthis had seized a Red Sea port city in Yemen further boosted oil prices. Higher oil and the surging 10-year Treasury yield (which nearly hit 5%) pressured stocks, and the S&P 500 extended the short week's declines, falling 0.6%.

Stocks rallied initially on Friday, thanks to some potentially positive geopolitical news and a "not-worse-than-feared" CPI report. Geopolitically, a summit in Oman between Iran and Gulf nations was announced, raising hopes for a deal to improve Hormuz transit. On CPI, the numbers weren't better than expected, but they didn't mirror the hot PPI readings, and the net result was positive. Stocks rallied moderately throughout the day and closed with solid gains, reducing the weekly losses.

Examining the Reason for the Pullback

The S&P 500 has now declined about 2% from the Aug. 13 highs, but while several reasons are being cited for the pullback, most of these declines are the result of the conflict in Iran.

Importantly, it's not about escalation in the conflict as no one thinks this is going to spiral into a broader regional war. Instead, it's that there's "no end in sight."

The reality is that a lot of oil is still exiting the Persian Gulf, either through Hormuz or via the Red Sea. While exact measures are hard to find given the number of "dark" transits (ships with Automatic Identification Systems (AIS) turned off), many energy industry analysts believe 60%-70% of pre-war oil flows are still occurring. That type of deficit is manageable for a time with global oil supplies (and it's why oil prices fell to the $70-$80/bbl level when there were ceasefire hopes).

Oil is at the highest levels of the summer and stocks are declining because if there's "no end in sight," the longer it lasts, the more unsustainable it becomes to "make up" for the reduced flows from Hormuz. The headlines of the past two weeks, including the U.S. economic escalation, reciprocal strikes between the U.S. and Iran, and most recently, the Houthis seizing Yemeni port towns and putting Red Sea oil traffic in play, all add to the no-end-in-sight fears.

Those fears are why oil is climbing, and higher oil is the biggest reason Treasury yields have hit multi-year highs (the biggest negative influence on the markets). To be clear, that isn't the only reason that yields are higher, but it is the biggest one.

Here's why this matters. All that has to happen for oil to reverse lower meaningfully is for the market to lose the fear that there's no end in sight. That means real progress toward a ceasefire or a broader détente. If we get legitimate headlines, even that the U.S. and Iran are restarting ceasefire negotiations, that will hit oil hard (Brent likely will fall back below $90/bbl) and, in turn, will hit Treasury yields. It's not unreasonable to think the 10-year yield could drop back below 4.70% (and maybe toward 4.50%) if oil drops and the no-end-in-sight fears ease.

The no-end-in-sight fears aren't totally driving bottom line, the pullback in stocks, but that's the vast majority of it, so if there are headlines that erase those fears, then the market should bounce back and be led by the sectors/factors that have lagged, i.e., small caps, cyclicals, and higher-valuation tech (these are the sectors that have been hit hardest as yields have risen).

Conversely, if no-end-in-sight fears continue for several more weeks, elevated oil and gasoline/diesel prices will likely weigh on growth and Fed expectations, and this pullback could morph into something bigger. Bottom line, this pullback is fixable and all we need is to reduce fears of no end in sight, but it needs to come sooner rather than later.

Economic Data (What You Need to Know in Plain English)

Last Week

Economic data (both labor market and growth) was solid last week, but it also ran borderline "Too Hot," and inflation was the focus of markets. The data ran slightly hot (when taken all together), and that 1) Boosted Treasury yields and 2) Made a rate hike this week much more likely than not (and those factors weighed on stocks last Thursday).

The most important report last week was Friday's CPI, but the most impactful report was actually Thursday's PPI, which boosted yields and rate-hike expectations.

PPI surged to 5.4% y/y vs. (E) 5.3% y/y, while core PPI met expectations at 4.6% y/y. However, those numbers were much higher than the July readings, as headline PPI rose to 5.4% from 4.7% while core PPI (which excludes energy) leapt to 4.6% from 4.2%. Those increases challenge the idea that inflation pressures are peaking and instead suggest inflation is becoming stickier. The result was what you'd expect: Expectations for a rate hike this Wednesday surged to over 70% while the hot PPI added upward pressure to the 10-year Treasury yield (which was already higher because of geopolitics).

All eyes then turned to CPI, which thankfully wasn't as hot as PPI. Headline CPI met expectations at 3.4% y/y (and, importantly, that was flat from June, so we didn't see the same jump as in PPI), while Core CPI, the most important number, actually declined to 2.4% y/y from 2.5% y/y in June.

Now, the CPI report was better than feared, especially considering the surge in PPI, but taken together inflation was still "hot," and given Fed members have pointed to last week's inflation reports as key to whether they hike rates, it's reasonable to expect that we will get a rate hike this week (the key will be whether it's a "one-and-done" hike).

Important Economic Data This Week

Wednesday's FOMC decision is, by far, the biggest economic event for the markets this week, and it's no exaggeration to say the Fed could help ease this pullback in stocks or accelerate the declines. But there are numerous potential catalysts for this meeting, including 1) Whether the Fed hikes (markets do expect a hike, but it's not a guarantee) and 2) If the "dots" show more hikes coming before year-end (if so, that'd be a negative/hawkish surprise). Bottom line: if the Fed decision (in total) implies a "one-hike-and-done" policy, it will be positive for stocks; if it does not, it will be negative (more on that tomorrow).

Beyond the Fed, notable economic reports are coming this week. While the Fed or geopolitics may overshadow them, we have to resist the urge to think growth isn't critically important. I say that because elevated inflation and higher oil prices aren't causing more pain in the markets only because growth is so strong. So we'll want growth to stay solid; otherwise, these issues will further pressure stocks.

The key economic report this week is Wednesday's Retail Sales report. Consumer spending is the engine of growth for the U.S. economy, and in part because of strong employment, retail sales has held up remarkably well for most of 2026. Investors will want to see that continue and not see any substantial drop, because if signs emerge that consumer spending is rolling over, this market will have a much bigger problem.

The other notable economic reports this week give us the first look at September economic data via the Empire Manufacturing Survey (tomorrow) and the Philly Fed (Thursday). The Fed decision will partially overshadow those reports. However, they still matter because 1) Investors won't want to see any sudden drop in activity and 2) The price indices are viewed as an anecdotal indicator of inflation trends, so markets will want to see stable (or easing) price pressures.

Other notable growth data this week includes jobless claims on Thursday and Industrial Production on Friday. For both numbers, Goldilocks readings are the best-case scenario for stocks.

Bottom line, the Fed is the key this week because markets want more clarity on future Fed policy. Still, growth data matters too, and the best-case scenario for this week, economically speaking, is the Fed executing a "one-and-done" rate hike and economic data that's Goldilocks (solid but not great).

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