2027 Market Outlook

A rewrite for the world as it is · Reading time: 7 minutes

As of Tuesday 8 September 2026 · Last U.S. cash close Friday 4 September (Labor Day observed)

S&P 500 LAST **7,718.60**	YTD / 1-YEAR **+12.8% / +19.1%**	52-WEEK **6,317 – 7,817**	10-YEAR UST **4.80%**
FED FUNDS **3.50–3.75%**	FED CHAIR **Kevin Warsh**	CPI / CORE PCE **~3.4% / ~3.3%**	UNEMP. AUG **4.1%**
WTI / BRENT **~\$94 / ~\$99**	GOLD / BTC **~\$4,400 / ~\$78k**	IRAN WAR **Day 193**	MIDTERMS **55 days**

THE WORLD WE ACTUALLY LIVE IN

This outlook is written for a world that is mid-war, mid-tariff, mid-campaign, and mid-buildout. On the morning this note is dated, four things are true at once: the U.S.-Iran war is in its seventh month and the Houthis just hit Saudi energy again; Canada's dollar-for-dollar tariffs on $20 billion of U.S. goods snapped on at midnight; Chair Kevin Warsh has eight days until an FOMC meeting the market has been pricing as a possible hike; and President Trump is sixteen days from a scheduled Washington summit with Xi Jinping. That is the tape. The index at 7,718 is a derivative of that tape, not a substitute for it.

2027 will be decided by whether oil can fall, whether North American trade can be rewritten without breaking the auto and steel complex, whether the midterms produce a Congress that can pass anything, and whether a trillion dollars of AI capex starts to show up as cash instead of as a mark-to-market line in a hyperscaler footnote.

EXECUTIVE FRAME — TWO STAGES, DIFFERENT WAR

Stage One runs from this morning through the first quarter of 2027: Hormuz and the barrel, the 15-16 September FOMC, the 24 September Trump-Xi date, the 3 November midterms, and the December SEP that will be the first honest 2027 dots after the votes are counted. Stage Two is the rest of 2027: the audit year for AI free cash flow, the first full year of a Warsh Fed, a possible divided Washington, and a China that walks into a Party Congress with property still broken and an AI budget that is a fraction of America's.

This note is a market map, not a stock list. No individual names, no price targets, no tickets. The work is the tape, the policy path, and the asset-class posture.

THE WAR PREMIUM — DAY 193 AND THE BARREL

The conflict that began with U.S. and Israeli strikes on 28 February is now a shipping war with an energy annex. Iran is promising a Gulf exclusion zone and a new Hormuz corridor. Washington says the strait is open and under Navy control. The ships disagree with both press offices: commodity transits have been running near ten vessels a day, the lowest since May. Overnight, Houthi fire hit the Aramco system at Jizan and other Saudi sites. Brent is back near $99. That is not a geopolitical headline. That is the inflation input that decides whether Warsh hikes.

A $70-$85 oil world lets 2027 look like a mid-cycle expansion at a 3.50-3.75 percent funds rate. A $110-$120 oil world, even for a quarter, puts winter CPI back in the political bloodstream two months before an election and forces the Committee to do the thing the President does not want. We do not need a view on who wins Day 200. We need a view on whether the barrel stays in the nineties. Gold near $4,400 is the other vote. Bitcoin near $78,000 is risk appetite with a smaller constituency.

NORTH AMERICA IS MID-DIVORCE, NOT MID-CYCLE

This morning Canada's retaliatory list went live: 15 to 50 percent duties on about $20 billion of U.S. goods - clothing, cheese, metal parts, wood, electronics - answering the 50 percent U.S. Section 338 tariffs that landed in late August. The President has already threatened 50 percent auto tariffs from 1 January USMCA is in its first six-year review. Washington declined a clean extension toward 2042. Mexico and Ottawa wanted one. The pact is still standing; the duty-free assumption underneath the auto and steel books is not.

For 2027 this is not a rounding error. It is a margin story for Detroit, Ontario, and the Mexican export corridor, a CPI story in a handful of grocery and building categories, and a campaign story in Michigan, Wisconsin, and Pennsylvania. Ontario has already floated electricity and critical-minerals as leverage. It is a negotiating position now, not a thought experiment.

ELECTION SEASON — 55 DAYS, NOT A THESIS

House: roughly 222 R / 213 D. Democrats need net +5. Senate: 53 R / 47 D. Democrats need +4. Generic ballot aggregators sit near D+6. Approval is in the high 30s. Wrong-track numbers are ugly. Midterm gravity says the White House party loses the House. Senate models still lean Republican. A split Congress in 2027 is the market's comfort zone - continuing resolutions, agency fights, fewer large fiscal surprises. A sweep either way reprices duration, defense, energy permitting, and the corporate tax conversation. We do not position the book for a sweep. We keep dry powder for the two thin weeks after the count, when close races become price.

The campaign will be run on the cost of living. That is why oil, the Canada list, and the September CPI print on the 11th are not separate files. They are the same file.

THE WARS THAT DID NOT END

Ukraine is in year five. Moscow still likes its battlefield math and sees little reason to stop. Any Trump-brokered ceasefire would be a rates-and-energy event as much as a humanitarian one: sanctions relief, frozen assets, and European fiscal arithmetic all move if the guns pause. Do not pre-trade a deal that does not exist. Do not pretend the war is a finished file. German rearmament is a live European industrial story - defense is a growth sector, not a footnote.

China remains the long-cycle rival while Washington is busy in the Gulf. The intelligence community's public line is that Beijing is not on a fixed 2027 invasion clock for Taiwan. That is not the same sentence as Taiwan is calm. PLA activity around the island continues. Japan's Prime Minister Takaichi has called a Taiwan contingency an existential matter for Tokyo; Beijing answered with the usual multidomain pressure. Watch the 24 September Trump-Xi meeting in Washington for minerals, tariffs, and whether the Busan-style truce gets another year - not for a grand bargain on the Strait. 2027 is also a Party Congress year in Beijing. Succession theater and industrial-policy theater will both run. Property is still the hole in the floor.

THE WARSH FED — HIKE BIAS, POLITICAL WEATHER

Kevin Warsh took the chair on 22 May. At Jackson Hole he said inflation has cooled a bit and that the cooling does not tell him underlying trends have meaningfully improved. Otherwise, we have work to do. Funds sit at 3.50-3.75 after a 9-3 hold on 29 July. The June SEP median for year-end 2026 is 3.8 percent - a tightening bias. Median 2027 and 2028 dots are 3.6 and 3.4. Three dissenters already wanted a hike in July. Oil in the nineties is how those three become six.

Labor is stable, not hot: unemployment 4.1 percent, payrolls still adding on the order of 160,000. Headline CPI is near 3.4 percent; core PCE near 3.3. Three-month core has come down from the spring energy spike and is still not two percent. The President wants cuts. The chair is talking about work to do. That gap is the 2027 rates volatility. Cash still pays. Treasury bills and short government paper remain the conservative first sleeve. There is no need to stretch for credit to replace a four-percent bill. Duration is a 2027 opportunity if oil and the midterms deliver a growth scare. It is not an opportunity to pre-buy.

U.S. EQUITIES — AN EARNINGS TAPE ON A WAR MULTIPLE

FactSet's bottom-up 2026 EPS estimate rose about 6 percent from 30 June to 31 August, to roughly $361. Street 2027 sits near $409-$415. Q2 growth looks spectacular until mark-to-market gains on private AI stakes are stripped out of a handful of mega-cap platforms - and it is still robust after the strip. Forward P/E has come in from about 23 times in January to about 20 times. Earnings yield is near 5 percent, finally competitive with a 4.8 percent ten-year. The bull case is one sentence: profits grew faster than price, so the multiple compressed while the index made a high. The bear case is also one sentence: 14-16 percent 2027 growth is mid-cycle, the deceleration is in tech and discretionary, and a 20-times market with Brent at $99 does not have a large error budget.

Leadership is still the AI-and-electrons complex plus energy. Breadth improved in stretches - Russell 2000 last near 2,976 - but this remains a market that can have an index year and a breadth year that do not rhyme. Treat a 5-8 percent pullback before the midterms as a feature of the tape, not a thesis-breaker. The level that would change the near-term map is a weekly close through the early-August / late-July shelf in the low-7,400s.

AI IS NOW AN INDUSTRIAL POLICY AND A POWER BILL

Goldman has global AI-related investment above $1 trillion in 2026, the U.S. share near $580 billion, rising toward 2.5 percent of U.S. GDP in 2027. Moody's has the six large U.S. hyperscalers above $785 billion this year and approaching $1 trillion next year. Chinese peers are at roughly $140 billion / $165 billion. Hardware - HBM, advanced packaging, copper, transformers - stays tight into 2028.

The new constraint is not GPUs. It is watts. FERC has ordered grid operators to connect large loads faster. PJM has already been short of its reliability requirement. DOE has authorized backup generators at data centers as a last resort against blackouts. The White House Ratepayer Protection Pledge is an attempt to keep household bills from financing the buildout. Several states have flirted with pauses. Bank of America has data-center load alone adding on the order of 125 GW this decade against a utility build that does not match. 2027 is when boards stop asking how many GPUs and start asking where is the incremental dollar of revenue per incremental watt, and who pays the residential rate. Until free cash flow answers, we own the picks and shovels - power, cooling, networking, lithography, memory, copper - not every software multiple that borrowed the three letters.

FOREIGN MARKETS AND THE DOLLAR

Europe is a repair-plus-rearmament market. The ECB is cautious. Defense and energy are the two sectors that have a 2027 story independent of U.S. multiples. Japan is no longer the deflation museum: a yen that firmed in 2026 and a Bank of Japan that is finally a rate-setter change the dollar-funding arithmetic for the whole developed complex. That is a headwind for U.S. assets that lived on a one-way dollar bid, and a tailwind for Japanese financials once the adjustment settles. Currency is half the foreign-equity decision this year.

Emerging markets are a barbell. Surplus Asia that sells into the AI and energy complex can have a decent year. Deficit oil importers cannot, not with Brent in the nineties. China is the large weight that keeps the EM index from being a clean expression of either view. Valuation cheapness that remains is concentrated in the parts of China the world is least eager to own. There is no need to force a China overweight. The cleaner expression is the supplier complex outside the mainland weight.

REAL ASSETS, COMMODITIES, CASH

Property yields have already compressed against mortgage costs. What is left is differentiation that is no longer a forecast. Data centers and industrial logistics tied to the AI and reshoring build still have a bid - if they can get the power. Office is a workout. Retail is tenant quality. Cap rates will not collapse from here unless the ten-year does, and a 4.8 percent ten-year next to a 3.8 percent year-end funds-rate median is not collapsing.

Gold at $4,400 is a regime price: deficits, a funds rate that may be on hold rather than cutting, and a world that relearned that tankers and straits still matter. Copper at record levels is the grid-and-AI tell. It can correct. The decade demand path does not. We treat gold and T-bills as complementary ballast, not as a single trade.

SCENARIOS FOR 2027

BASE 50%

Soft-ish landing with a war premium that fades rather than vanishes. Fed on hold near 3.50-3.75 into mid-2027; one late cut only if core PCE is convincingly in the 2s and Brent is out of the nineties. Split Congress. Canada tariffs get walked back at the margin, USMCA limps. Oil averages $80-$95. 2027 EPS $400-$415. Index year: mid-single-digit to low-double-digit total return, earned by earnings, not multiple.

BEAR 30%

Hormuz stays tight, Brent holds above $100 into winter, September CPI reprints, Warsh hikes in September or December into an election, Canada-U.S. auto tariffs land on 1 January, midterms freeze the fiscal picture, and Q1-Q2 2027 AI reports show capex without conversion. Multiple toward 17-18x. Working drawdown from the August high: 12-18 percent. That is a correction with a war on, not a forecast of a new secular bear.

BULL 20%

A durable Gulf de-escalation takes the risk premium out of oil, Trump-Xi extends the minerals-and-tariff truce, midterms produce familiar divided government, the Fed never hikes, and hyperscaler capex converts into visible software, advertising and cloud dollars. EPS beats $420. The index can tag the 8,000s and keep them. This path requires the barrel to fall. Hope is not a position.

PORTFOLIO POSTURE — NOT A STOCK LIST

Conservative posture. Lead with Treasury bills and short government paper. Equity only when the tape is clean, sized so that a 10 percent S&P drawdown is an inconvenience. No leverage. Gold is ballast, not a trade.

Balanced / core. Keep the equity sleeve. Trim into strength above the August high until breadth confirms. Add on a 5-7 percent index pullback toward the mid-7,200s if earnings hold. Pair U.S. quality and AI infrastructure with a measured international sleeve (Japan financials, European defense, surplus Asia suppliers) and a real-asset / gold ballast. Do not let the AI complex become the whole book. Treat North American auto and metals exposure as a policy variable until USMCA is settled, not as a finished allocation.

Aggressive posture. Beta is a choice, not a requirement. Pair it with a cash sleeve. A weekly close through the low-7,400s would argue for less equity into the midterm print. Energy and defense can remain as the war-premium sleeve of an index book. No all-in.

WHAT A DRAWDOWN DOES TO A 60/40 BOOK

A 5 percent S&P decline, bonds flat, is about 3 percent on a classic 60/40. A 10 percent equity decline with a modest bid in intermediate Treasuries is closer to 5-6 percent. Neither number is a reason to abandon a plan. Both numbers are a reason to have sized the equity sleeve so that rebalancing is possible after a Hormuz week. The investors who get hurt in 2027 will be the ones who treated 19 percent trailing returns as a birthright and financed them with cash they did not have.

THE CALENDAR THAT WILL WRITE 2027

- 11 September - CPI. Soft print gives Warsh cover to hold. Hot print plus $99 Brent is how September becomes a hike meeting.
- 15-16 September - FOMC. Hold is still the base. Three July dissenters and a Jackson Hole work-to-do line keep a hike live.
- 24 September - Trump-Xi in Washington. Minerals, tariffs, and whether the 2025 Busan-style truce gets another year. Not a Taiwan grand bargain.
- October earnings - first clean look at whether Q3 capex commentary is still more or has become optimize, and whether war-premium costs show up in guidance.
- 3 November - midterms. Two-week post-election tape is a trading event. 2027 policy is a positioning event.
- 1 January 2027 - the date on the threatened 50 percent Canadian auto tariff. Either a headline that dies or a margin event for the whole North American complex.
- Q1 2027 reports - the audit of 2026 AI mark-ups against cash, and the first Party-Congress year tell on China.

BOTTOM LINE

2027 asks whether the world can pay for what it is already building - data centers, fleets, deficits, a seven-month war, and a trade wall with its closest neighbor - at a 4.8 percent ten-year and a 20-times equity market. Our answer is yes, at a lower rate of index return than the last twelve months, with more work done by earnings than by multiple, with the barrel as the swing factor, and with cash still an asset rather than a penalty.

Thank you for reading the rewrite. Get in touch if the book needs a sleeve resized before the midterms - or before the next Hormuz night.

WHAT THIS REWRITE IS — AND IS NOT

This is not a prediction that the Iran war ends, that USMCA is ripped up, or that the midterms flip the House. It is a map of the things that can move a 20-times market by more than a normal earnings miss: the barrel, the northern border, the September Committee, the November count, and the 2027 conversion of AI spend into cash. Ignore any one of those and the book is running last year's map.

It is also not a political endorsement. Election figures are third-party aggregates. Trade and war facts are public prints as of the morning of 8 September 2026. They will move. The portfolio rules above are written so they can survive the move.

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