

KEY TAKEAWAYS

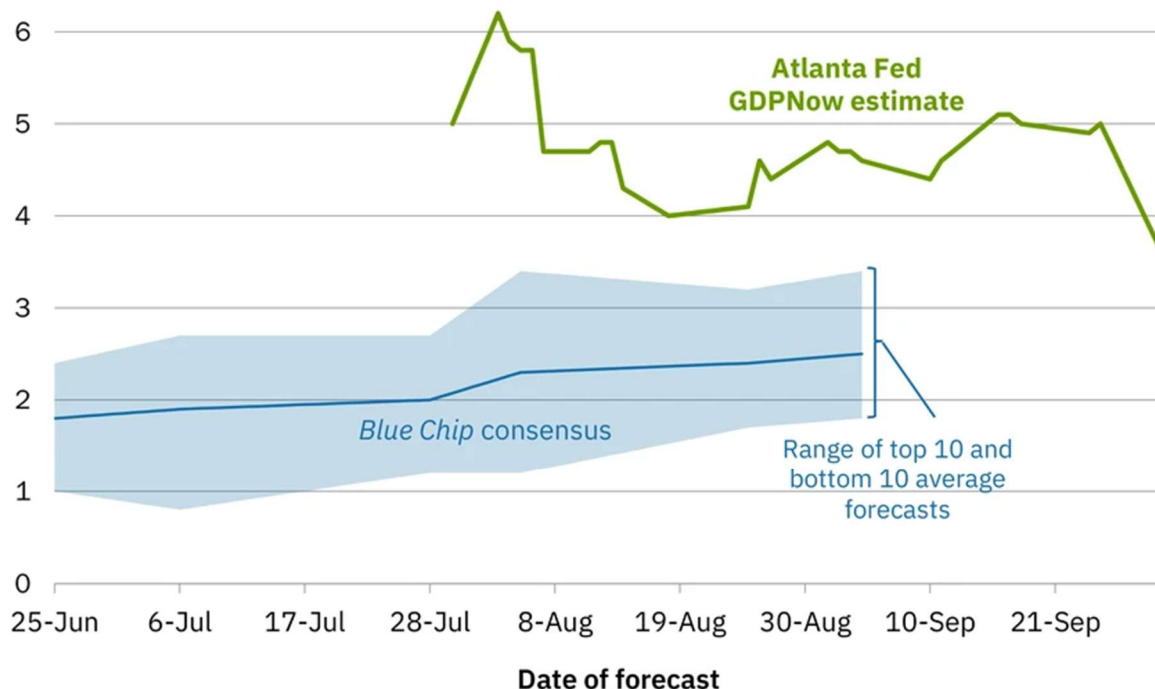
- **Equities:** The markets continued to largely trade within the range of August 4th, finishing essentially flat, as measured by the S&P 500.
- **Fixed Income:** The U.S. 10-year Treasury Yield went into hyperdrive after decisively breaking above 5% late in the month, spiking up to almost 5.3% by the end of the month.
- **Crude oil** prices ramped steadily higher the first half of the month before giving back most of those gains, ending the month up modestly.

The U.S. Economy

The final read on 2nd quarter GDP came in at 2.2% versus the last report of 1.5%. Core PCE, the embedded GDP inflation, increased 3.3% compared to 3.6% last reported. Now we turn to the 3rd quarter GDPNow estimate which is at +3.7% while the Blue-Chip consensus forecast is around 2.5%, as shown in the chart below. Growth looks to be picking up a little in the 3rd quarter.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2026:Q3

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury started the month range bound and then lurched to 5% as the Fed met and raised rates, which seemed to stymie yields at the 5% level. However, late in the month, yields turbo charged higher, ramping nearly 30 basis points the last 6 trading days of the month. Lots of speculation as to what is driving the persistent selling in the 10-year Treasury; record high diesel prices, the unwind of the Yen carry trade, as Japanese Bond yields are no longer zero, inflation concerns in general. It is hard to say, though it looks like some traders were deeply offside and getting hit hard. As mentioned, the Fed raised interest rates into rising longer term bond yields, which already tightens monetary conditions, as the supply shock from the Iran and Ukraine conflicts/wars continued to hamper supplies of refined oil products. The markets had been pricing in another hike in October, but a soft jobs opening and PCE reports have dropped those odds to neutral. The Fixed Income markets will continue to draw attention with yields moving higher. Is this simply yields returning to “normal” as growth seems to be more stable? Or is it something else? We will continue to monitor the situation. The sharp jump in yields was a major headwind for High-Quality fixed income, which as measured by the iShares US Aggregate Bond ETF plunged -2.61% for the month. The U.S. 10-year Treasury bond yield ended the month at 5.29%, up significantly from August’s close of 4.76%.

The Dow Jones Industrial Average fell -4.29%, the S&P 500 eased -0.45%, and the small cap iShares Russell 2000 ETF dropped -5.24%. The International markets again traded like the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index lost -3.23%, and the MSCI Emerging Markets iShares Core ETF Index decreased -0.54%.

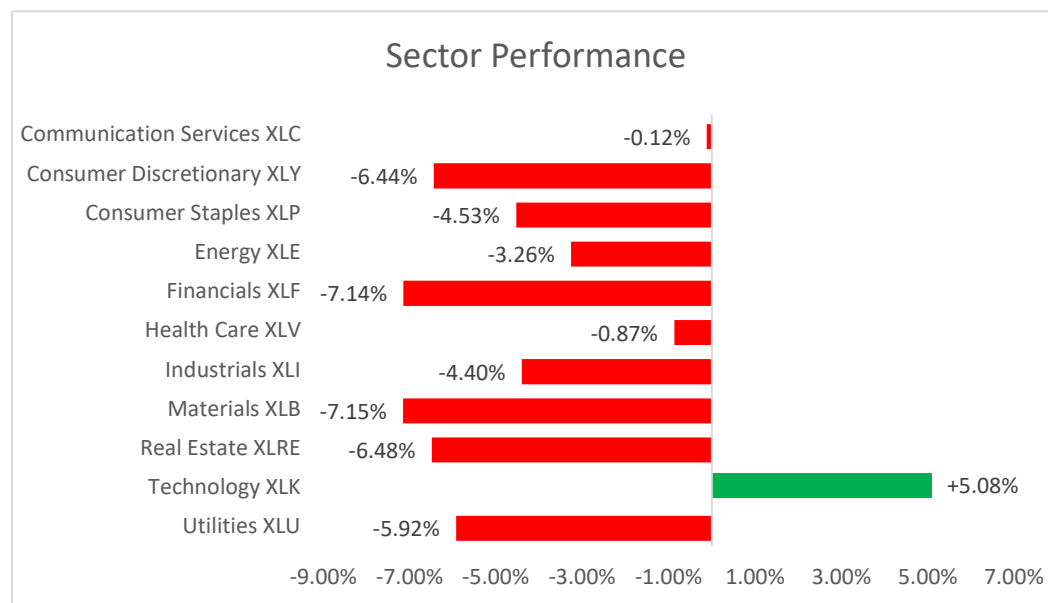
September’s Sector performance was bad except for Technology.

The best performers were...

- Technology: +5.08%
- Communication Services: -0.12%
- Health Care: -0.87%

The worst performers were...

- Materials: -7.15%
- Financials: -7.14%
- Real Estate: -6.48%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil started the month off with a steady rally of more than \$20 as Iran was attacking ships in the Strait of Hormuz and no progress was being made on ending the conflict/war. Further, Ukraine's constant drone attacks on Russian refining capacity further exacerbated a bad situation. Late in the month, whispers of apparent openness to diplomacy out of both conflicts lead to Crude Oil giving back most of the months' early gains though so far nothing has materialized. The one "benefit" of El Nino conditions has resulted in another month of no named Atlantic hurricane formations, which is now an historic event. The Pacific, on the other hand, has more hurricanes than I ever remember. Hawai'i and Mexico are feeling the brunt of the heightened activity. The current NYMEX WTI Crude Oil futures settled at \$90.34, increasing by over 5% from the prior month's close of \$85.76 a barrel. RBOB gasoline was in line with Crude and finished up over 6% vs. August's close. The summer driving season has passed, but the high prices have not. I filled up today and think the price was \$1 higher than last month. Once again, hopefully we will see a meaningful end to hostilities soon to end the violence and reduce the burden on the energy complex.

The Rest of the Data

The August ISM Manufacturing Index decreased to 54.6, down from July's reading of 55.6, remaining above the 50 level. The ISM Services Index increased to 55.4 in August, from July's print of 54.1, remaining above the 50 level. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing held at elevated levels, and Services' prices moved further into elevated levels. Consumer confidence dropped to 81.9 in August, which compares to 89.4, as reported in August. The unemployment rate in August held at 4.1%. The number of jobs jumped by 162,000, which was much stronger than expectations of +50,000. The Consumer Price Index for All Urban Consumers (CPI-U) for August increased +0.4% versus an increase of +0.1% for the month of July, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate held at +3.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy again softened further to +2.4% over the last year. Economic growth reports continue to be decent, though inflation is holding higher from the supply shocks caused by the Iran and Russia/Ukraine conflict/war. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

We are setting up for a turbulent several weeks. On Friday, we have the Jobs Report which could be impactfully on the Fed rate decision at the end of October right before the mid-term elections. On top of all that we have the ongoing Ukraine/Russia and Iran conflicts/wars. We will continue to take it one day at a time and stay focused on our process around risk management.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



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