Monthly Market Analysis

September 2026

The Quick Read

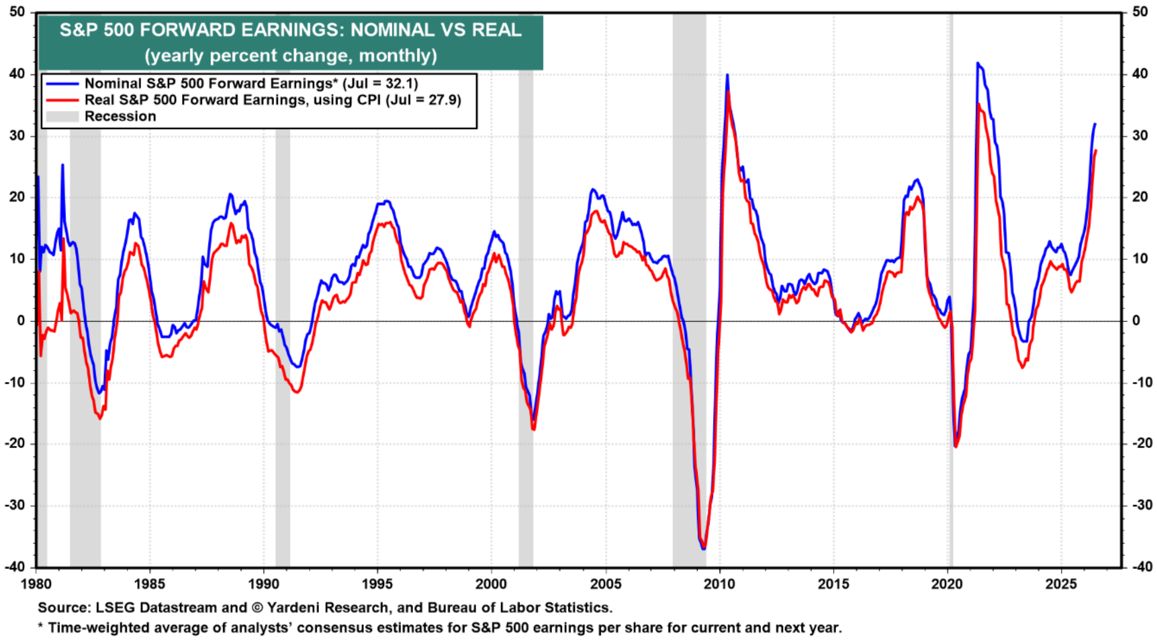
- August was the story of two halves—with stock indexes setting new highs in the first half of the month, while drifting lower through the second half to finish modestly higher.
- The end of 2Q earnings season helped to propel AI-related stocks as reports showed better-than-expected results, moving markets upward to start the month.
- The Iran situation dragged on and interest rates moved higher due to elevated inflation and debt concerns, negatively impacting stocks during the second half of the month.

August

Earnings Growth Continues – For Now?

The month of August started off with a bang, with major indexes moving to record highs as elevated earnings expectations were largely exceeded, easing investor concerns that the recent rapid growth couldn't continue. Development of AI resources continues to be at the forefront of investors' minds, with health care benefiting from perceived increased AI efficiency, while demand for chips and memory showed no signs of slowing.

S&P 500 Forward Earnings



Source: CPR; YCharts

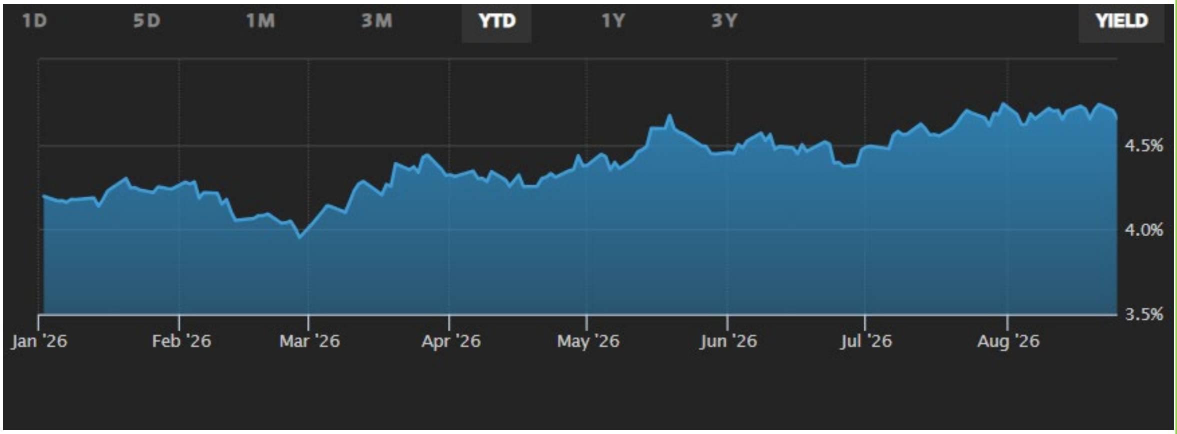
The latter half of the month saw markets move down, with interest rates moving higher on inflation and debt concerns. Inflation remains an issue, with oil again moving higher as the conflict in the Middle East continued. The US government debt hit a new headline level of $40 trillion and the prolific issuing of debt by large tech companies appeared to test the limits of what investors were wiling to lend at lower rates.

September

Back to Work

As the calendar moved toward September and closer to the midterm elections in the US, the administration attempted to reduce interest rates at the longer end of the curve with an increase in Treasury purchases of 10-30 year bonds. That effort was quickly rebuffed and yields rebounded, but investors will have one eye on the administration for signs of additional meddling in the financial markets as investors return to the office from their end-of-summer vacations.

Yields Have Been Creeping Higher in 2026



Source: WSJ, CPR

The other eye of investors will likely be on the Federal Reserve. Immediately following their July meeting, the market was pricing in a 100% chance of a hike at the September meeting, but softer inflation data and a weak labor report helped reduce those odds to around 40%--so it appears we'll have another meeting where the outcome will be uncertain. A hawkish speech by Warsh at the end of August tilted odds again toward a hike—but still far from a sure thing. As the market gets used to the new Chair and meeting outcomes become less assured, volatility is likely to increase as changing views on potential Fed actions can cause whipsaw action. Additionally, as seen in the first chart, earnings growth rates can't accelerate indefinitely and an anticipated slowdown in earnings growth rates in 3Q could push stocks lower, at least temporarily. We believe such pullbacks would be beneficial to wash out speculative money and set the stage for the next move higher as economic growth remains solid and corporate outlooks remain relatively positive.