

Week in Review

Equity Markets:

US markets retracted last week following the Labor Day weekend. The S&P 500 came down (-0.78%); while the index was positive on Friday, it posted down days the rest of last week. Meanwhile, the Dow Jones Industrial Average gave up (-1.56%), the Nasdaq surrendered (-0.64%), and the small cap stocks of the Russell 2000 Index posted a loss of (-2.38%).¹ This brought the Forward 12-Month Price/Earnings Ratio for the S&P 500 down to 19.1, which is below its 5-Year Average [19.8] and just above its 10-Year Average [19.0].²

Oil prices spiked 8% last week amidst increased geopolitical unease in the Middle East.³ West Texas Intermediate crude oil ended last week at \$102.39 per barrel. That's a considerable increase from both the year-ago price of \$62.71 and above the \$57.26 per barrel price from December 31, 2025.

Fixed Income Markets:

Yields on US Treasuries spiked as Oil prices rose and inflation fears reemerged, all amidst a broader selloff in bills, bonds, and notes. The 10-Year Treasury saw its yield rise by 19 basis points to 4.97%. While the 30-Year Treasury's yield rose 11 basis points to 5.35%, the yield for the 2-Year Treasury shot up 26 basis points to 4.63%. This is despite the Treasury Department's buybacks of longer-term bonds, which were smaller than had been anticipated.⁴

Last week also saw the Bloomberg US Aggregate Bond Index come down (-1.04%). Investment Grade Corporates fell by (-0.93%), and High-Yield Bonds lost (-0.54%).

Economic Updates:

Two major reports showed inflation remains both elevated and sticky. The Consumer Price Index for August showed headline consumer inflation is up 3.4% on a year/year basis. At the same time, the Producer Price Index showed headline producer prices are up 5.4% on an annualized basis. Both metrics were largely driven higher by rising Energy prices.⁵

Other market metrics furthered hesitant considerations. The University of Michigan's Surveys of Consumers showed Consumer Sentiment declining. Meanwhile, rising Treasuries have led to rising mortgage rates. Existing Home Sales concurrently fell 2% in August and are down 1.2% on a year-to-date basis; this is despite outstanding housing inventories rising to levels not seen since 2019.

Looking Ahead

Equity Markets:

This new week begins with concerns over Artificial Intelligence and its rapid growth. Last Saturday, the leaders of major AI development companies put out notice that they intend to slow the pace of technological advancements. They cited potentially dire unintended consequences amid warnings from multiple workers of theirs currently fostering AI advancement.⁶ Fearful concerns are already emerging over potential slowdowns for data centers, semiconductors, and computer equipment.⁷

Recognizing how this industry's growth has led to the preponderance of stock market gains this year, investors should be mindful of their exposure to the impact of AI in their portfolios which could contribute to market volatility. It also is advisable for clients to speak with their Investment Advisors over any questions they may have regarding these developments.

Fixed Income Market

The bond markets have been reflecting concerns over persistent inflation, the growing federal budget deficit, and rising oil costs. The market's poor reception to the Treasury Department's buyback efforts last week has only led to increased bond market volatility. This is despite last week's beneficial auction of both the 10-Year and 30-Year Treasury bonds.⁸

The Federal Open Market Committee meets this week to consider US interest rates; this will be the first FOMC meeting under new Fed Chair Kevin Warsh. The CME Group's FedWatch tool now considers it a 90% likelihood that the FOMC will raise interest rates 25 basis points when it convenes on Wednesday.⁹

Economic Updates:

The upcoming week will primarily focus on the FOMC meeting and what it will announce on Wednesday. Other major announcements scheduled for this week include Retail Sales; Export & Import Prices; New Housing Starts; the Housing Market Index; Pending Home Sales; Industrial Production; Capacity Utilization; and Leading Indicators.

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
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- 5) T. Rowe Price
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- 7) Charles Schwab
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- 8) LPL Research
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