



Market Update: September 2026

From an investment standpoint, September has brought a noticeable shift in the market environment. Equity markets remain near their highs and have delivered strong returns so far this year, but the backdrop has become more challenging. Inflation has moved back to the forefront, long-term interest rates have risen significantly, and the Federal Reserve has shifted from easing policy to tightening once again. At the same time, the U.S. economy continues to show surprising strength, creating an unusual environment where good economic news is not necessarily good news for financial markets.

The Federal Reserve has once again become one of the biggest stories. At its September meeting, the Fed raised the federal funds rate by a quarter percentage point, reversing the easing cycle that began in late 2025. The decision reflects growing concern that inflation has remained elevated for too long and that recent price pressures may be more persistent than previously expected. The Fed continues to emphasize that future decisions will depend on the incoming data, but policymakers have made it clear that additional tightening remains on the table if inflation does not begin moving convincingly lower.

Inflation has been one of the biggest changes in the investment landscape this year. Earlier expectations that inflation would steadily move back toward the Fed's target have not played out. Higher energy prices have certainly contributed, particularly as the ongoing conflict with Iran has disrupted global energy markets, but inflation pressures are no longer limited to energy. Businesses continue to report higher input costs, and price pressures have broadened into other areas of the economy. This has made the Fed's job considerably more difficult because the economy has remained strong enough to absorb higher rates so far.



One of the most important developments for financial markets has been the sharp rise in long-term U.S. interest rates. The 10-year Treasury yield has moved above 5%, reaching levels we have not consistently seen in nearly two decades. This move has been driven by several factors, including persistent inflation, higher oil prices, stronger-than-expected economic growth, expectations for additional Fed tightening, heavy government borrowing, and significant capital investment associated with the buildout of artificial intelligence infrastructure.

We believe the rise in long-term rates deserves particular attention because its impact reaches well beyond the Treasury market. Higher long-term rates increase borrowing costs for mortgages, businesses, and the federal government. They also create a higher hurdle for equity valuations. When investors can earn more than 5% on longer-term government securities, they naturally become more selective about how much they are willing to pay for stocks. That does not mean equities cannot continue higher, but it does mean that earnings growth becomes increasingly important and the margin for disappointment becomes smaller.

Despite higher rates, the U.S. economy has continued to show impressive resilience. Consumer spending remains supportive, business activity has strengthened, and capital investment has been particularly strong. Artificial intelligence continues to be a major driver of investment as technology companies spend heavily on data centers, semiconductors, power infrastructure, and other areas needed to support AI development. Recent business surveys have also pointed to strength across both manufacturing and services.

That strength is a double-edged sword. On one hand, a growing economy and a healthy consumer are positive for corporate earnings. On the other hand, stronger demand can keep inflation elevated and give the Fed more reason to maintain restrictive policy. Earlier in the year, investors were primarily concerned about whether the economy might slow too much. Today, the concern has shifted toward whether the economy may actually be running too hot for inflation to return comfortably to the Fed's target.



Equity markets have handled this changing environment relatively well. Major indexes remain near their highs and are still solidly positive for the year. However, market leadership continues to be heavily influenced by large technology and AI-related companies. The enormous amount of capital flowing into artificial intelligence has supported earnings expectations and economic growth, but it has also pushed valuations higher in parts of the market. We continue to believe AI represents a significant long-term investment theme, but markets are beginning to ask harder questions about how quickly today's massive investments will translate into sustainable profits.

Geopolitics also remains an important variable. The conflict with Iran and uncertainty surrounding the Strait of Hormuz have kept energy markets volatile and contributed to higher inflation expectations. This is particularly important because higher oil prices affect much more than what consumers pay at the pump. Energy is an input across transportation, manufacturing, agriculture, shipping, and many other areas of the economy. A sustained period of elevated energy prices could therefore keep pressure on inflation and complicate the Fed's efforts to stabilize prices.

Looking Ahead

As we enter the final quarter of the year, we believe the interaction between economic growth, inflation, and interest rates will be the most important factor for markets.

The first thing we are watching is whether inflation begins to moderate again. If energy prices stabilize and broader price pressures cool, the Fed could eventually gain more flexibility. If inflation remains elevated, however, additional rate increases become more likely, and markets may need to adjust to the possibility that higher rates remain with us for longer.



Second, we are paying particularly close attention to long-term interest rates. The move above 5% on the 10-year Treasury represents a meaningful change in the financial environment. If long-term rates stabilize, equity markets may be able to digest the move. If they continue rising, however, higher borrowing costs and pressure on valuations could become a larger headwind for both the economy and the stock market.

Third, corporate earnings will become increasingly important. Investors have been willing to pay elevated valuations for companies delivering strong growth, particularly those benefiting from AI investment. Going forward, we expect markets to become more selective. Companies will increasingly need to demonstrate that investments in technology and AI are translating into revenue, earnings, and cash flow rather than simply promising growth several years into the future.

Finally, we continue to watch the consumer. The consumer has repeatedly been more resilient than expected over the past several years and remains one of the primary supports for the U.S. economy. As long as employment and spending remain healthy, the economy should have a solid foundation. However, higher borrowing costs and higher energy prices will eventually put additional pressure on household budgets, making consumer behavior an important indicator as we head toward year-end.

The Bottom Line

September has reinforced how quickly the investment environment can change. Earlier this year, much of the conversation centered around when the Fed would cut rates and whether economic growth could hold up. Today, the conversation has shifted toward persistent inflation, additional Fed tightening, and long-term interest rates at levels we have not experienced in many years.



At the same time, we do not want to lose sight of the positives. The U.S. economy remains resilient, corporate investment is strong, the consumer continues to spend, and innovation surrounding artificial intelligence is creating significant opportunities across the economy. Those factors have helped equity markets withstand an environment that, on the surface, has become considerably more challenging.

We believe this creates a market where discipline and selectivity will become increasingly important. Higher interest rates do not automatically mean lower equity markets, particularly if earnings continue to grow. However, higher rates do raise the bar. Companies will need to deliver on earnings expectations, and investors may become less willing to pay premium valuations simply based on future growth expectations.

As we move into the final quarter of the year, we expect periods of volatility as markets adjust to this new interest-rate environment. If inflation begins to moderate, long-term rates stabilize, and corporate earnings remain healthy, the underlying foundation for equities can remain constructive. If inflation continues higher and interest rates rise further, we would expect markets to become more cautious and increasingly selective.



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