



MACRO COMMENTARY

| September 2026

Charts and Smarts®

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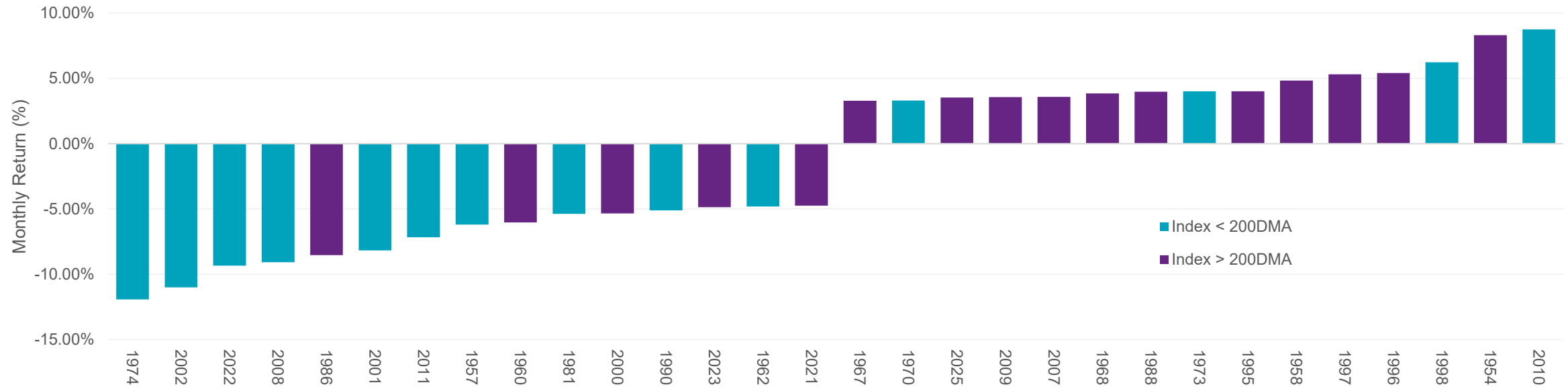
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Season of the Witch

S&P 500® price return: 15 best and worst Septembers since 1951

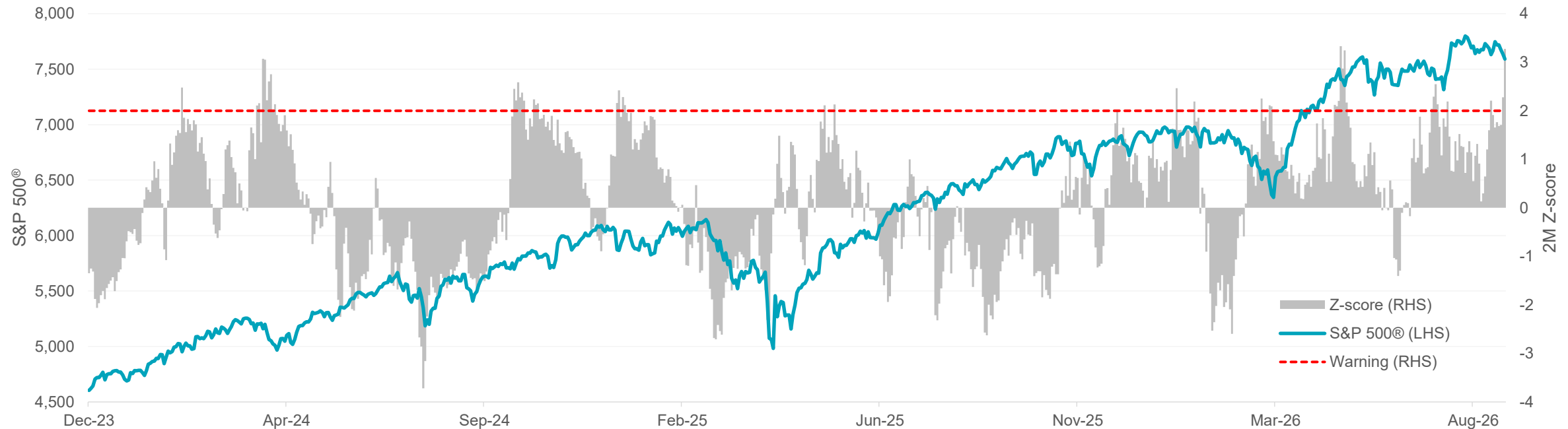


It's September, and that means the bears are prowling. September is well known as the worst seasonal month for equity market returns, posting an average decline of 1.12% and median drop of 0.42% since 1928, and that's only exacerbated in midterm years which decline 1.48% on average with a median decline of 0.71%. The reputation is well earned. But as we love to remind readers, initial conditions matter, and that can be seen clearly when decomposing those averages. Underneath the underwhelming averages lies a more encouraging story about September prospects for equity markets. Markets tend to trend, and applying a simple heuristic of whether the S&P 500® was above or below its 200-day average to delineate uptrends versus downtrends, tells a more nuanced story. Since 1951, September has posted a negative return in 55% of years with a median return of -2.86% in negative years versus 2.92% in positive years. Of the 55 years that entered the month trading above the 200-day average, the hit rate for a negative return falls modestly, to just below a coin flip, but a notable positive skew emerges for those positive years which post a median return of 2.69% versus -1.97% in negative years. Let's be clear, September is certainly a month to tread lightly given the higher likelihood of price declines, particularly in a midterm year, but positive years tend to generate greater upside than negative years weigh on prices. And looking through the lens of market trends reveals that weak markets tend to yield weak Septembers. While markets have continued to consolidate in the wake of the summer momentum unwind, today we find ourselves comfortably above that 200-day moving average. It's always worth being mindful of seasonality, but it is hardly the end all be all. Underlying trends matter far more for markets than the month on the calendar – and they remain strong today.

Source: Portfolio Analysis & Consulting; Bloomberg. Performance data shown represents past performance and is no guarantee of future results.

Hurdy Gurdy Man

Rate of change on US 10Y Treasury yield vs. S&P 500® (12/8/23–9/10/26)

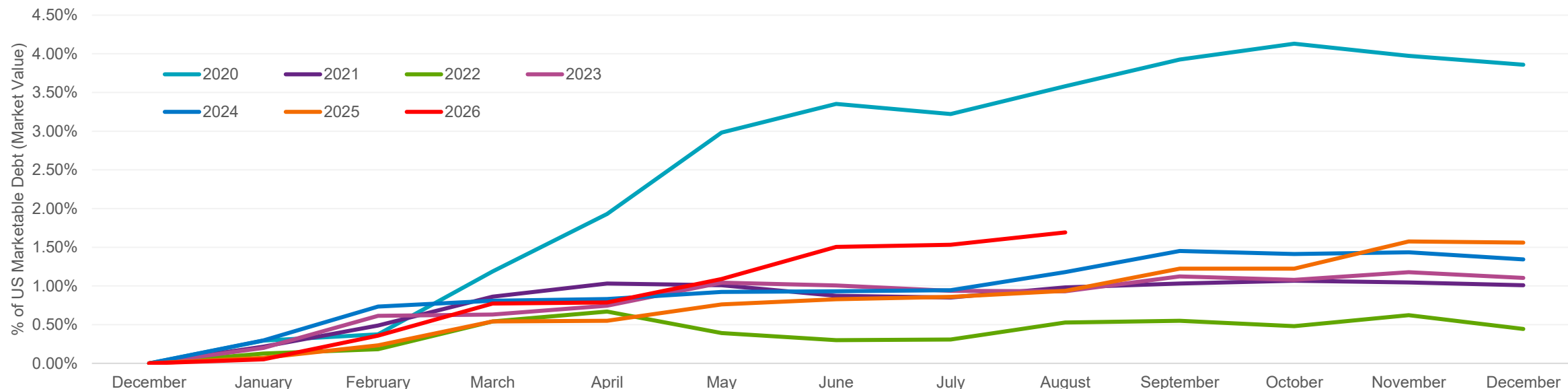


While the bears may be rolling out the typical seasonality argument, stronger support for their case rests within price action in the rates market. As we've seen on numerous occasions over the past few years, rates have taken pole position in the market narrative with the relentless march higher across the curve weighing on sentiment. While the level of rates always grabs all the headlines, particularly when we push toward key psychological levels like 5% for the 10-year yield, it's the rate of change that tends to be more meaningful for equities. A two standard deviation move over two-month period tends to be the danger level when equities start taking note. With the early September thrust toward 5% we now find ourselves in 3 sigma territory, firmly in the region where the upside pressure in yields presents issues for the equity bulls. While moves of this nature can certainly translate to pullbacks, they can also prompt less pernicious bouts of indigestion leading to sideways chop and consolidation. So far, we appear to have a case of the latter as markets chop wood searching for both a new narrative and new leadership. Yields don't need to fall for equities to find their footing – a stabilization, even if toward the upper end of the range would be sufficient for the headwinds to calm down and underlying fundamental strength begin to show through again. With markets already discounting close to 100bps of tightening over the coming year, as underlying inflation trends continue to look more encouraging than the headline figures, we may finally have experienced enough pain at the long end to see yields stabilize and remove the key headwind to equity markets over the past few weeks.

Source: Portfolio Analysis & Consulting; Bloomberg. Z-score represents the number of standard deviations a data point is away from the average.

Colours

Net US corporate issuance by year (2020–2026 YTD)

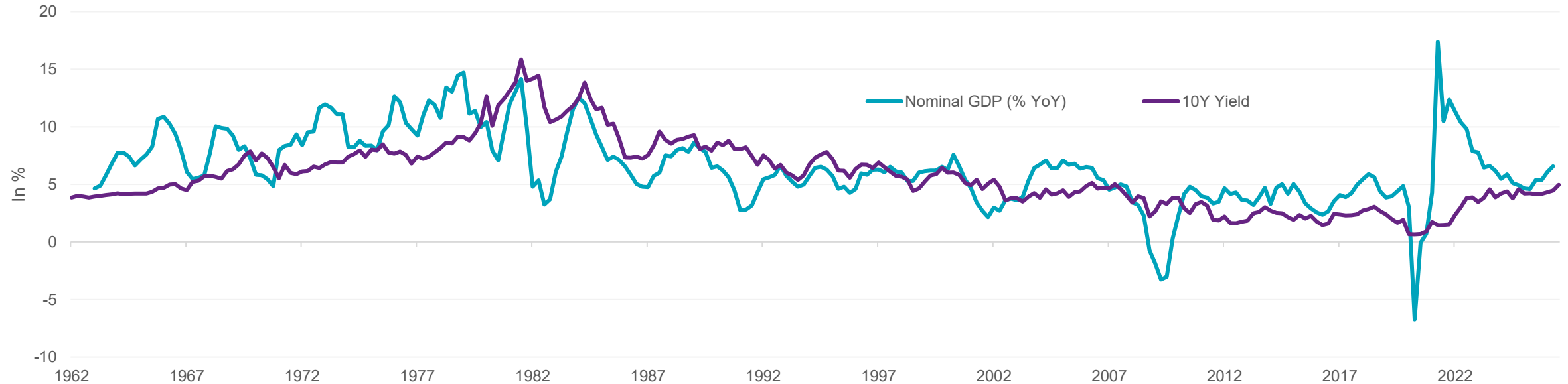


As is tradition, when no one knows exactly why rates are selling off the market collectively throws any narrative at the wall and sees what sticks. Given the painful push higher in yields over the past few months its no wonder that we've again begun to hear chatter around debt, deficits, and of course our favorite, expanding term premium. While there are indeed many factors behind the selloff in the long end, which has been a global phenomenon, one of the fun new narratives that has emerged emanates from the AI buildout. With hyperscaler capex running full steam ahead and free cash flow compressing as a result, we have undoubtedly seen a large increase in tech and AI related issuance. As the new narrative goes, the demand for capital to build out AI infrastructure is so large that it is now crowding out the Treasury market and pressuring yields higher. Looking through the data, we find little compelling evidence to support these claims. Indeed, tech issuance has surged this year, with combined gross issuance of investment grade and high yield paper totaling nearly \$270B through August. But net tech issuance, once factoring in retired debt and maturities, stands at just \$165B while total nonfinancial corporate net issuance sits at just shy of \$500B. That sum is greater than in any year other than 2020 amidst the mad dash to build COVID-era corporate war chests, but scaling that to the size of the marketable US Treasury market, it amounts to just 1.69% by market value. While that is again higher than any calendar year since 2020, it is hardly an explosion in net new supply that is somehow crowding out the deepest, most liquid bond market in the world and pressuring sovereign rates higher. If you want to make an argument that AI investment is placing upside pressure on rates, stick to the story that it is providing a massive lift to nominal GDP growth, not that AI-related debt issuance is crowding out Treasuries. One has empirical support, the other is little more than a fun narrative.

Source: Portfolio Analysis & Consulting; Bloomberg. Chart shows cumulative net issuance by calendar year. 2026 YTD as of 8/31/26.

Catch the Wind

10Y yield vs. nominal GDP growth (3/31/62–9/10/26)

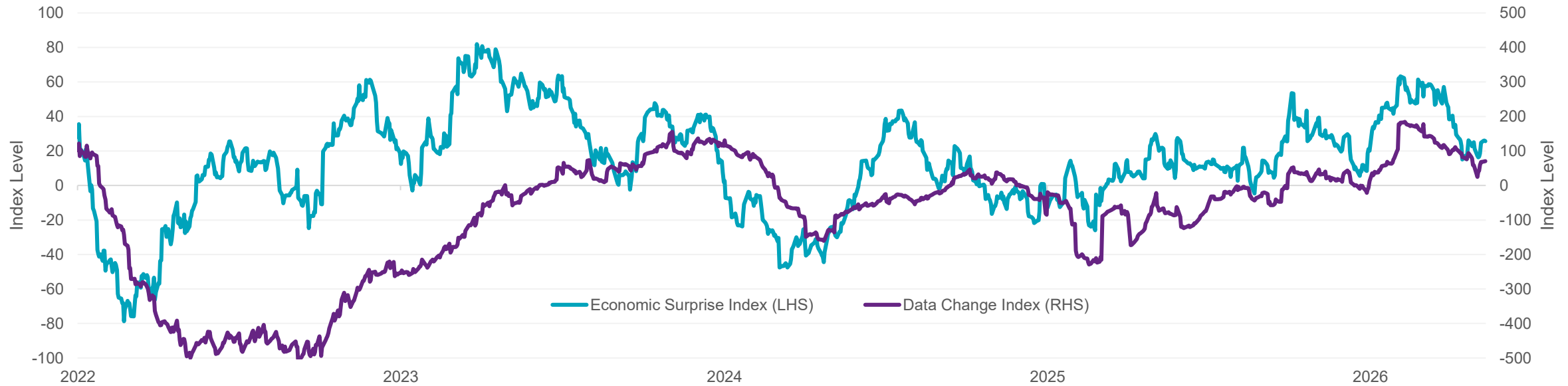


The selloff in rates isn't only bringing out all sorts of theories to explain the move, but it's predictably spurred renewed calls for the 10-year yield to push up well over 5% to even 6%. As usual, we just always have to take things too far and extrapolate current trends into perpetuity. And while the bond vigilantes may be clamoring for 6% on the back of the rising debt burden and large fiscal deficits, they've been making similar claims steadily for the past 40 years. What started as a fundamental repricing of the path of policy rates in response to stickier inflation and negative supply shocks stemming from the conflict in Iran has seemingly broken down into a technically fueled negative feedback loop and buyer's strike. While technicals can certainly drive short term oscillations and overshoots, over time fundamentals matter. Interest rates do not move in a vacuum. Nominal rates tend to follow nominal growth. While we are sympathetic to the idea that equilibrium rates should be higher than the prior cycle as the global savings glut paradigm has been seemingly flipped on its head with persistent fiscal deficits and surging private sector investment now competing for a smaller pool of global savings, the call on rates still largely boils down to a call on nominal growth. In that vein, the backup in nominal rates seems largely justified by the inflection higher in nominal growth, and our fair value estimates of the 10-year yield confirm as much. But the growing risk is that investors are over extrapolating that firming in both nominal rates and nominal growth. AI capex is set to remain robust, but the growth impulse is set to cool as the growth rate of investment moderates while the nominal anchor in the economy, income growth remains soft in the face of growing fiscal headwinds and a potential tightening in financial conditions. AI could ultimately prove to be the driver of structurally higher nominal growth in the future, but between now and then, we are likely to see growth moderate in the coming quarters, capping upside in nominal yields in the process.

Source: Portfolio Analysis & Consulting; Bloomberg. GDP is gross domestic product.

Mellow Yellow

Citi Economic Surprise vs. Data Change Index (5/2/22–9/9/26)



While both real and nominal growth have once again been remarkably resilient in the face of exogenous shocks as the AI infrastructure buildout has become one of the most critical growth engines in the economy, we are beginning to see signs of exactly that moderation in growth that appears likely to reign back in the long end of the curve. While the growth narrative has remained resilient as well, the Citi Economic Surprise Index, which measures incoming data relative to consensus expectations, has softened materially in recent weeks, and that hasn't been simply a function overly optimistic expectations, but rather outright cooling as evidenced by the decline in the Data Change Index, a composite of that incoming data flow. What's more, decomposing surprise indices reveals a sharp divergence that has emerged between the real hard data and soft survey data which has been notably unreliable as a proxy for real activity in recent years. Yes, growth has remained resilient and GDP accounting points to another strong quarter for Q3, but underlying growth momentum appears to be moderating. The housing market remains mired in stasis, with the recent backup in rates keeping activity depressed. Non-AI capex remains tepid as AI capex drives the lion's share of nonresidential investment. Consumption headwinds are mounting as income growth remains muted and fiscal drag is set to grow in the coming quarters. The manufacturing recovery continues to appear heavily driven by a shorter term inventory restocking cycle, not a true cyclical recovery. And as we mentioned earlier, the contribution to GDP growth from AI capex is set to moderate as the growth rate of investment cools. This is by no means an economy on the brink of a precipitous slowdown, but it does appear to be one in which underlying growth trends are cooler than the consensus narrative appreciates. Should these dynamics begin to weigh on incoming data in the months ahead it wouldn't be surprising to see growth concerns begin to mount, particularly should it occur in the face of renewed tightening from the Fed.

Source: Portfolio Analysis & Consulting; Bloomberg.

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