

Monthly Market Commentary

September 2, 2026

Policy and Profits

Executive Summary

August's market narrative was shaped by the intersection of policy pressure and strong corporate profitability.

On the policy side, the U.S. debt crossing \$40 trillion reinforced investor concerns about persistent spending, rising interest costs, and the lack of credible fiscal restraint.

- Treasury Secretary Scott Bessent's expanded long-term buyback plan may help improve market functioning, but investors question whether it resolves the structural questions around deficits, inflation, and the U.S. government's growing financing needs.
- Bessent's buyback program also highlights a larger policy tension: Treasury is moving closer to terrain traditionally occupied by the Federal Reserve.
- At the same time, the Fed remains focused on inflation, with Chair Kevin Warsh's Jackson Hole message suggesting policy is still data-dependent and the threshold for another rate hike has moved lower.

Against that more uncertain policy backdrop, profits remain the market's main support.

- S&P 500 companies delivered second quarter earnings that beat expectations by a wide margin, led by the Magnificent Seven but supported by broader gains across the rest of the Index.
- As a result, the Index at 7,675 currently trades at 21.3 times calendar year 2026 earnings estimates and just 18.7 times the 2027 consensus forecast. Considering the surge in corporate profitability, S&P 500 EPS of \$360 would suggest a 2026 fair value estimate of 8,000 for the Index by yearend.
- With guidance revisions improving and future EPS estimates still constructive, the fundamental backdrop remains favorable, though increasingly dependent on the durability of the AI investment cycle.

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Policy

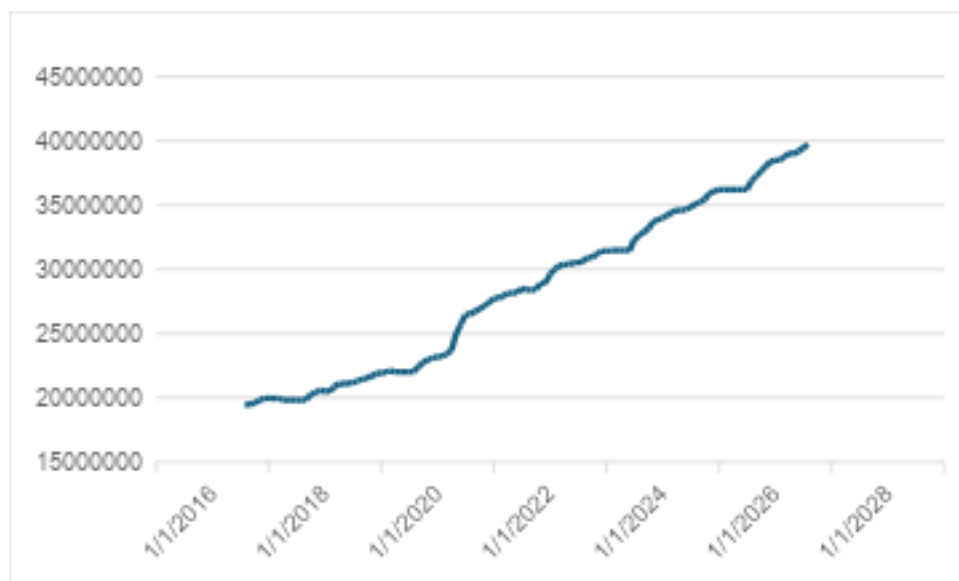
August was not the typical late-summer lull.

Policy moved to the center of the market narrative, as trade proposals, Iran sanctions, fiscal debt, Treasury financing strategy, and the Fed's inflation fight added to investor concerns. The bond market was not supportive.

Federal Debt Exceeds \$40 Trillion

The U.S. crossing \$40 trillion in gross national debt is another warning sign for fiscal policy.

The issue is less weak revenue than spending that remains well above historical norms. Receipts have recovered since 2018 and sit near their long-term average as a share of GDP, while outlays remain elevated.



Roughly \$17 trillion has been added since 2019. Pandemic relief started the surge, but temporary programs became semi-permanent and were followed by infrastructure, CHIPS, green-energy subsidies, and entitlement spending. Mandatory programs remain the main long-term pressure point, while interest expense is compounding the problem as debt-service costs hover around \$1 trillion.

The policy takeaway is straightforward: the debt problem is primarily a spending problem. Without credible restraint, especially on mandatory programs, markets may increasingly conclude that neither party intends to restore discipline. The midterm elections are approaching and that helps explain why long-term yields remain pressured even when economic data soften.

Bessent Treasury Buyback Plan

Treasury Secretary Scott Bessent's decision to expand long-term Treasury buybacks was an important tactical move, but the market response underscored the limits of policy signaling when investors are focused on deeper structural risks. The announcement briefly supported long-duration bonds and pushed yields lower, but the relief faded quickly as the 10-year yield moved back toward recent highs.



Buybacks may improve Treasury market functioning, especially if they reduce volatility in long-dated bonds and shift financing toward bills investors prefer. But they cannot offset concerns about inflation, deficits, Fed uncertainty, and heavy issuance. Gold, cryptocurrencies, the weaker dollar, and pressure on long yields all point to a market skeptical of institutional resolve.

The key takeaway: Bessent can buy time, but not necessarily credibility. He will need help from fiscal legislators. Until investors see a clearer path on deficits, inflation, and Fed policy, long-term yields are likely to remain under pressure, and Treasury-market volatility will remain a central risk for equities and credit.

Are Treasury and the Fed Aligned?

Bessent's buyback program also highlights a larger policy tension: Treasury is moving closer to terrain traditionally occupied by the Federal Reserve. By at least doubling purchases of long-dated Treasuries, Treasury is trying to relieve pressure on long-term yields at a time when bond markets have been tightening financial conditions on their own.

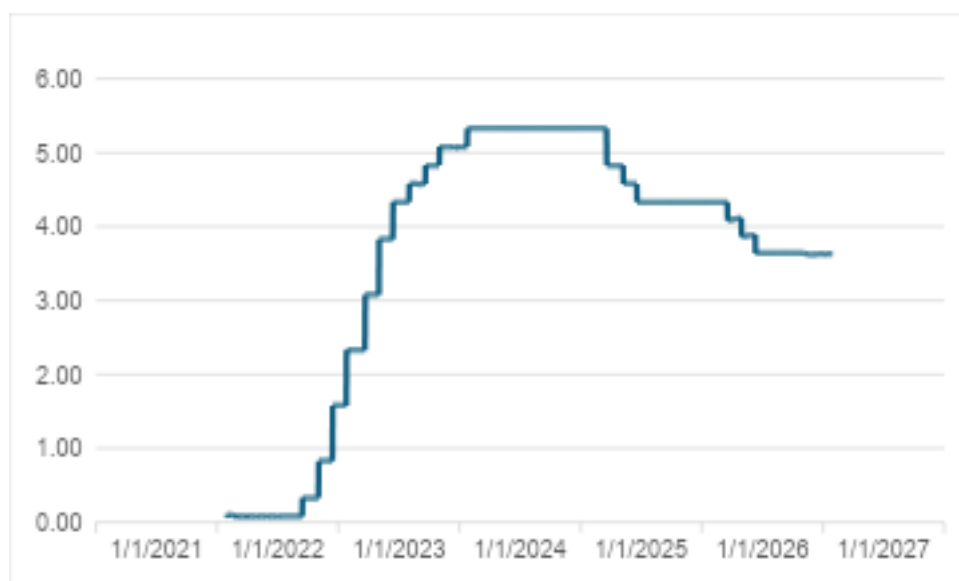
If Treasury lowers long-term rates, it could loosen financial conditions just as the Fed is trying to contain inflation. That creates a more complicated backdrop for Chair Kevin Warsh, who is already

dealing with above-target inflation, higher global bond yields, and hawkish Fed officials. Markets will watch whether this is a one-off intervention or the start of a broader effort to subordinate monetary policy to borrowing needs.

The key risk is policy confusion. Bessent's actions may stabilize the Treasury market at the margin, but if investors conclude fiscal officials are managing rates for financing purposes, the long-run cost could be higher risk premiums, weaker confidence in Fed independence, and greater volatility across rates, equities, and credit.

Fed Chair Warsh Hawkish in Jackson Hole Speech

Kevin Warsh's first Jackson Hole speech made clear that the Fed is not ready to declare victory on inflation. While recent data have improved at the margin, Warsh pushed back against the idea that policy is already restrictive enough or that the underlying trend is safely moving toward 2%. His emphasis on broad inflation pressure, including roughly half the Fed's preferred inflation basket still rising faster than 3%, signals a clear hawkish bias, despite having held rates steady at his first two policy meetings.



Markets repriced accordingly. Traders raised the probability of a September hike, and the front end of the Treasury curve moved higher. Warsh did not explicitly guide markets toward a hike; instead, he appears intent on reducing forward guidance, preserving flexibility, and forcing markets to focus on incoming data.

That strategy raises the stakes for September. Warsh has tied his credibility to a tougher anti-inflation message. If inflation firms, the Fed may have little choice but to hike; if it stays on hold, Warsh will need to explain why current policy is sufficient when he has argued that financial conditions are not meaningfully restrictive.

The key takeaway: Warsh is trying to reset the Fed's reaction function around credibility, inflation discipline, and less pre-commitment. That may be the right long-term framework, but it creates near-term uncertainty. Markets should assume the Fed remains on hold, particularly with the oil supply shock, but no longer comfortably so. The bar for another rate hike has moved lower.

Profits – 2Q EPS

Companies in the S&P 500 Index delivered second quarter earnings reports that beat expectations by a wide margin.

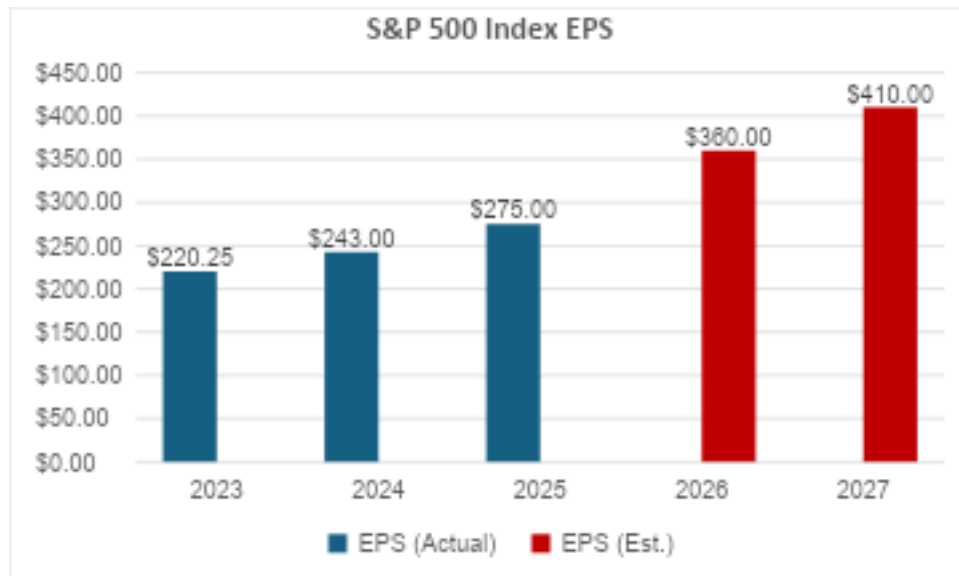
At the end of June, the Index was projected to deliver EPS growth of 23% year-over-year. Yet by the end of reporting season in late August, S&P 500 companies had beaten forecasts by an average of more than 20%, resulting in Index profit growth of 52% YOY as both sales growth (11%) and net profit margins (17%) exceeded expectations.

Of course, the AI trade played a major role in Index profitability. According to FactSet, the Magnificent Seven companies were projected to grow profits by about 30% from the same period last year, but once Nvidia concluded reporting season near the end of August, the Mag 7 companies had EPS growth of more than 100% YOY. Alphabet and Amazon each experienced significant investment gains, which also helped the surge in Mag 7 EPS growth.

Moreover, Index profitability was broad based, as the remaining 493 companies were expected to deliver profit growth of 20%, but generated EPS gains of more than 30% YOY by the end of reporting season. While tariff refunds provided a meaningful boost to margins, cash flow, and EPS, companies have displayed solid earnings power, even with uneven consumer signals in the background.

It should also be noted that management teams were decidedly less cautious in their analyst conference calls. Corporate guidance revisions have turned positive, with more companies raising outlooks than cutting them, which can be a better read on confidence than the backward-looking headline numbers alone.

Indeed, looking ahead, consensus expectations are for Index profit growth to exceed 25% in both the third and fourth quarters, resulting in S&P 500 EPS estimates of \$360.00 for 2026 and an additional 15% increase, to \$410.00, in 2027.



As a result, the Index at 7,675 currently trades at 21.3 times calendar year 2026 earnings estimates and just 18.7 times the 2027 consensus forecast. Considering the surge in corporate profitability, S&P 500 EPS of \$360 would suggest a 2026 fair value estimate of 8,000 for the Index by yearend.

While geopolitics, global interest rates, and the midterm elections may cause further volatility in the months ahead, the fundamental backdrop remains constructive for now: earnings momentum is strong, companies are leaning more positive, and the market still has support from AI investment, rising incomes, and equity gains. The main risk is that the AI narrative has become a central pillar of confidence. If that investment cycle disappoints, the market tone could change quickly.

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