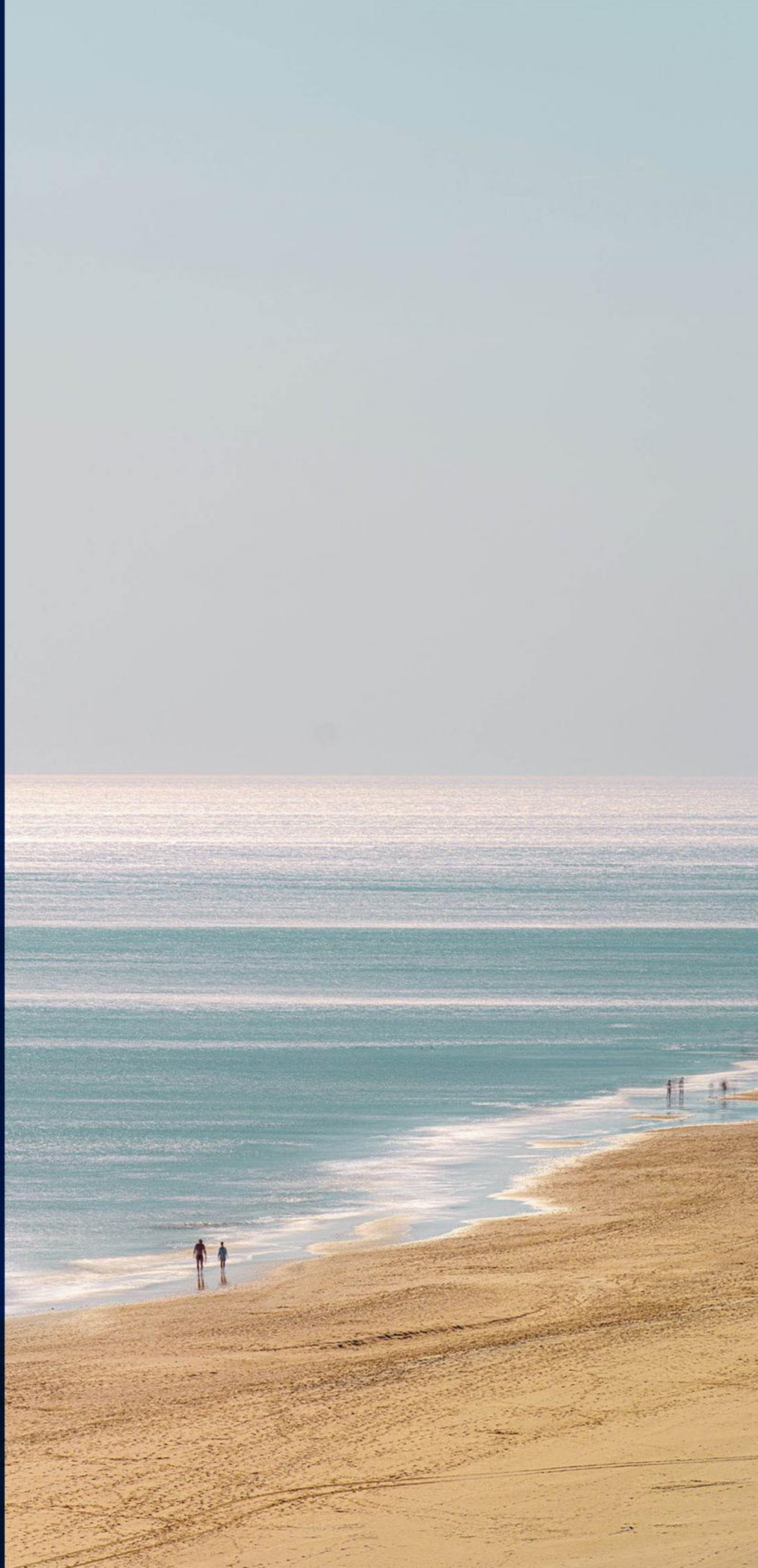
HB Wealth

Monthly Market Monitor

September 2026



Quick Takes

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Economic Growth Steady, but Carried by Investment. Policy a Near-Term Risk. The build-out of artificial intelligence (AI) data centers continues to elevate business investment and is resulting in soaring profits, framing a constructive backdrop for risk assets. Job growth is still slow, but tax refunds helped to keep consumer spending going despite very sour sentiment and slowing real wage growth. Policymakers may be an active source of volatility this autumn as midterms loom, and tariffs have re-emerged while the Treasury and Federal Reserve (Fed) grapple with the challenge of high inflation, bloated debt and deficits, and the AI investment boom.

Inflation Remains a Challenge. Growth has been accompanied by stickier-than-expected inflation, prompting markets to turn their attention to potential policy tightening by the Fed later this year. Fiscal and monetary policy started 2026 in an accommodative stance, but both may be moving toward a more restrictive stance. The dual support of fiscal and monetary policy has been key to the markets' stability since 2022, so a more hawkish tilt could slow gains in risk assets, offsetting some of the positive economic backdrop. Geopolitical risks also remain a source of inflation pressure.

Stock Bull Remains Intact and Fueled by Earnings. Stocks remain beholden to the AI theme even as leadership broadens. August marked a revival for large-cap and growth stocks that have struggled versus peers so far this year. However, headwinds due to narrowing earnings growth differentials persist – especially for the underperforming Magnificent-7 (Mag-7) group. Valuations are not a material risk according to our models. We continue to watch earnings breadth and margin forecasts for signs of an impending top in stocks. But consensus forecasts are showing no signs of slowing down amid AI's capex boom.

The Belly of the Curve Remains the Most Appealing. With Fed-driven binary outcomes on the front-end and fiscal/supply risk troubling the long end, the belly of the curve is expected to provide some volatility shelter. Healthy base yields help cushion drawdowns, while spreads remain tight across fixed income sectors, with ABS offering some idiosyncratic reprieve.

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Forward-looking statements are based on current expectations and assumptions and are subject to risks, uncertainties, and market conditions that may cause actual results to differ materially from those expressed or implied.

Chart of the Month: Bonds Battered as National Debt and Interest Expense Soars

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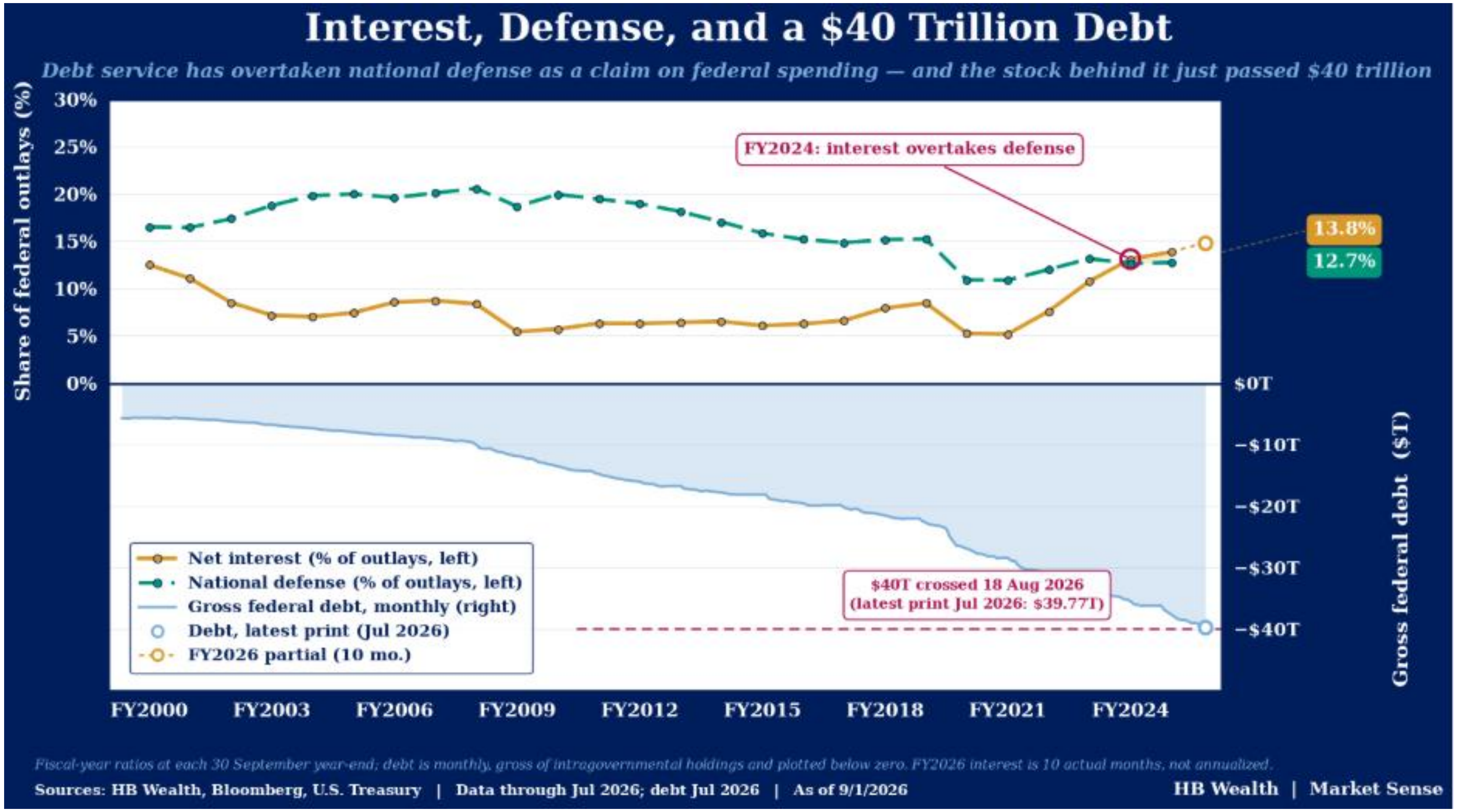
Bond markets headlined August as both 10-year and 30-year Treasury yields rose to new multi-year highs. On account of the mismatch between spending and revenues, gross national debt reached a new high of more than $40 trillion mid-month. Driven by higher borrowing costs and the rising deficit, annual net interest payments on the debt have grown so rapidly that they recently exceeded national defense spending for the first time since World War II.

As persistent inflation, issuance of artificial intelligence (AI) debt, and the ballooning deficit all pressure bond yields, policymakers are adding to the drama and may heighten volatility in the short run. In August, U.S. Treasury Secretary Scott Bessent attempted to lower rising long-term borrowing costs with intervention in the bond and currency markets, just after FOMC Chair Kevin Warsh claimed rising yields were aiding the Fed in combating inflation pressures.



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Market Sense: Insights from August

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Economy is Still on Solid Footing; Inflation is the Biggest Risk

Most signals confirm that strong AI-related business investment is keeping the U.S. economy on solid footing, with the biggest risk to the outlook still persistently high inflation. Leading indicators were mixed in August. Manufacturing continued its year-to-date resurgence, with the ISM PMI hitting the highest level in over four years in August, while consumer sentiment remained grim due to elevated prices and geopolitical strains. Backward-looking data showed that despite the onset of war in the Middle East, 2Q GDP managed a gain of 1.5% thanks to tax refunds' support for consumption and surging AI investment. Employment generally remained stable over the summer, with the unemployment rate dropping to 4.1% and jobless claims trending lower. However, inflation clearly remains a thorn in the side of the outlook. Core consumer and producer price growth are both running at a pace above the Fed's (and the bond market's) comfort level. Odds are now well above 50% that a Fed hike will emerge in September.

AI Looking More Like a Boom than a Bubble

AI continues to be the driving force for stocks, but given its unusual economic and earnings contributions, the trade is so far looking more like a boom than a bubble that's ready to pop. In our Market Sense on August 12th, we discuss how AI-Capex is expected to account for 2.5% of GDP this year and could accelerate in coming years to surpass the 2.2% that railroads accounted for in the 1880s and the 1.1% during the fiber buildout. Likewise, while we note in our Market Sense on August 20th that past investment booms don't follow a clean playbook, the AI cycle is unusual for how closely price is following corporate earnings. Just over 3 years into the build, earnings are up 33% compared to 10% for the telecom-fiber and 19% for the railroad era. That's just a 20-point gap with price gains and well shy of the 92-point spread that opened up by this time in the late 1990s, confirming that valuation expansion has been comparatively muted in the AI boom cycle. Debt funding for the boom is accelerating, but leverage is still rather muted compared to past cycles (discussed in Market Sense here).

Stellar Earnings Season Powers Stocks to New Highs

U.S. companies notched another extraordinarily strong earnings season with S&P 500 EPS rising 32.7% on a current constituent basis versus the preseason forecast for 23.2%. This is the strongest growth since 3Q21 and in the 94th percentile of history. As we noted in our Market Sense from August 28th, earnings gains are broadening – excluding the Mag-7 companies, the S&P 500 posted 32.4% growth. Thanks to the extremely strong earnings season, the S&P 500 touched a new high and ended August up 2.6% for the month and up 12.3% year to date. Small caps and emerging market equities continued to edge out U.S. large caps (up 0.9% and 3.4%, respectively, in August and 19.1% and 22.6%, respectively, YTD).

New Leadership is the Story in Equities Even as Year's Laggards Take August

Even after a mixed August, value continues to top growth in equity markets this year, the Mag-7 continues to underperform, and small caps remain in the lead, all cued by earnings trends. Volatility remains the story for the Mag-7 as the group contends with a combination of climbing capex and shrinking free cash flow. Demonstrated return on AI investment and strong forward guidance are increasingly required for these stocks to sustain gains. Meanwhile, other companies continue to benefit from the positive impact of the Mag-7's spending on the economy. On the small-cap front, revenue growth is steadily catching up to large caps, rising 11.1% in 2Q – beating the 7.5% forecast and the strongest rate of expansion since 3Q22. Looking forward, given the sharp rise in energy and tech forecasts, earnings are likely to be particularly sensitive to oil prices and AI-capex plans. There's been a sharp divergence between S&P's growth style and Russell's definition this year, with the latter sharply underperforming both its large-cap peers and value stocks. This is explained by index rules on what makes a value versus a growth stock (see our Market Sense on this here). Digging into the details, S&P 500 pure value is still leading pure growth, showing that there's still a broad appetite for cheaper shares.

Little Movement on Iran Peace Leaves Oil Flat

West Texas Intermediate (WTI) crude was essentially flat for the month as tensions with Iran reignite while the country's proposed deal with Oman to reopen a shipping route in the Strait of Hormuz keeps hopes for some relief alive. At $86/bbl, oil is still roughly 50% above the December low and in the 81st percentile of readings back to 1995. Crude is likely to remain heavily headline-driven and could continue to weigh on consumer-sector earnings forecasts while lifting energy EPS.

Bonds Whipsawed by Dovish Start, Hawkish End to August

Bond yields on the long end broke to new highs as Fed funds futures took a windy path to finish about where they started the month of August. September hike odds swung from ~65% to roughly 35% for the September FOMC meeting early in the month, only to close out the month back where they started. Yet, the long end climbed to a nearly 20-year high with the 30-year yield briefly clearing 5.3% midmonth (see our Market Sense on the state of 30-year Treasuries here). Treasury Secretary Bessent announced a doubling of long-end Treasury buybacks as public debt crossed $40T, but relief was short-lived as market participants focused on the term premium and fiscal supply story, amplified by record AI-related issuance. At Jackson Hole, chair Warsh leaned hawkish, calling 2% a "firm, fixed target" for inflation and stating that financial conditions were not restrictive, but stopped short of providing any color on the reaction function. The belly of the curve remains the most appealing in this environment, where the short end faces binary Fed-driven outcomes, and the long end doesn't provide adequate compensation for fiscal and supply risk.

Macro Summary: AI-Fueled

Economy Remains Fueled by AI Investment. The AI investment boom is nearly single-handedly fueling U.S. economic growth. U.S. household consumption had been steady, but spending in the lower-income segment started to show weakness this summer as tax refunds started to run out. Economic growth is thus inordinately focused on investment, driven by hyperscalers' race to deploy AI at scale. Net exports detracted from GDP in 2Q, sparking a revival of tariffs.

Inflation Remains Uncomfortably High, and It's Weighing on Consumers. Inflation may not be slowing down AI spending, but it is worrying consumers. Price growth remains uncomfortably above the Fed’s target rate, in part due to the AI-fueled mix of economic growth, and this is resulting in depressed consumer sentiment. Commodity prices and financial conditions both remain at levels last recorded in 2022, when the Fed was hiking rates. Even after some modest reprieve this summer, core consumer prices continued to rise at a pace north of 3%.

Policy Set to Take Center Stage as Midterms Loom. Higher borrowing costs may be the single most important risk to watch as policy shifts from market tailwind to headwind in coming months. Monetary policy is turning more hawkish as the Fed looks to achieve “price stability” just as fiscal policy support wanes given the ballooning debt and deficit. Trade policy may also continue to make waves as tariffs re-emerge. Without policy ballast, economic and market outcomes will increasingly depend on AI investment continuing to permeate more areas of economic growth. That investment is increasingly unpopular and could face a political challenge with the midterms.

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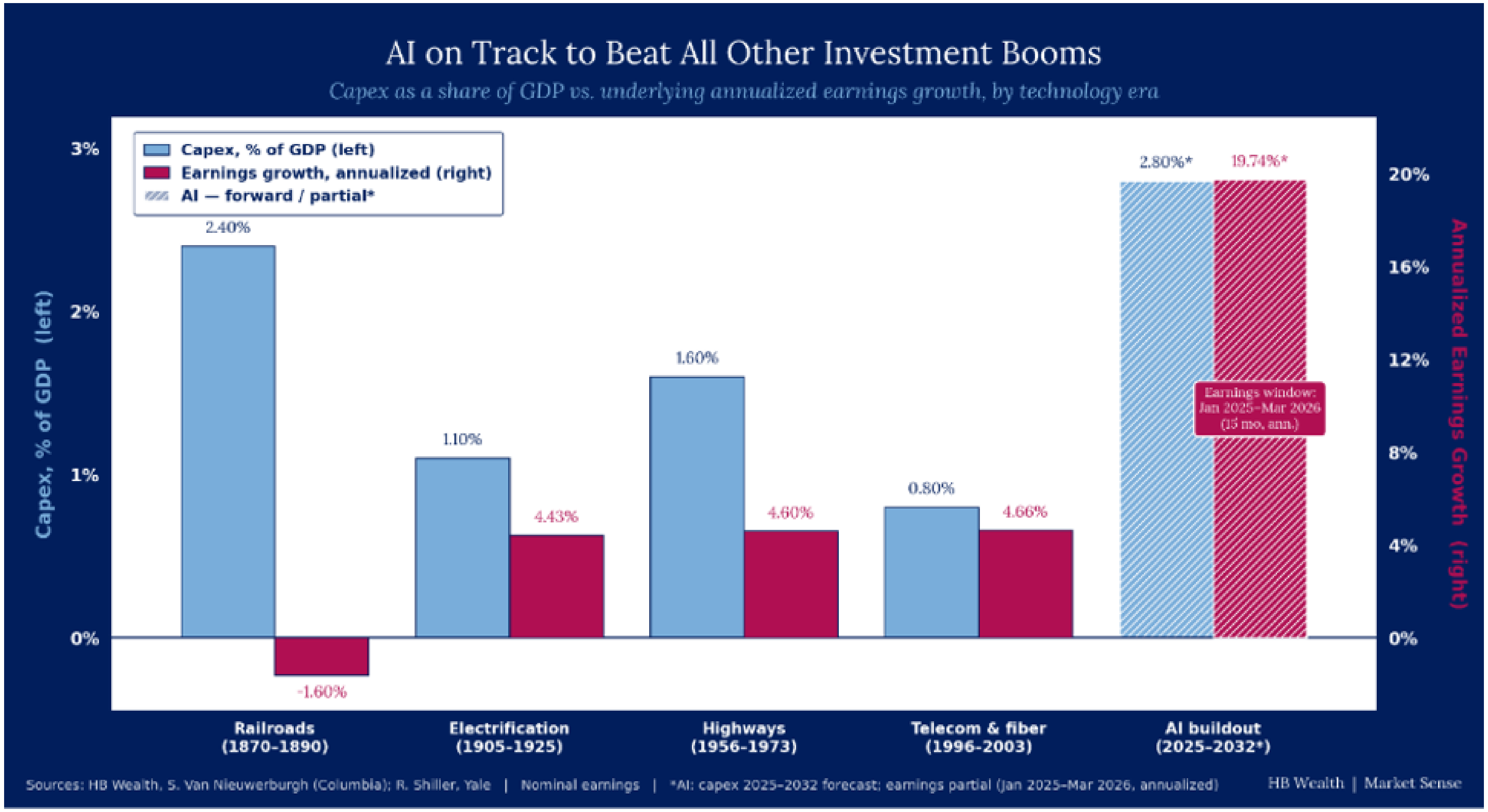
GDP Growth Powered by the AI Investment Boom

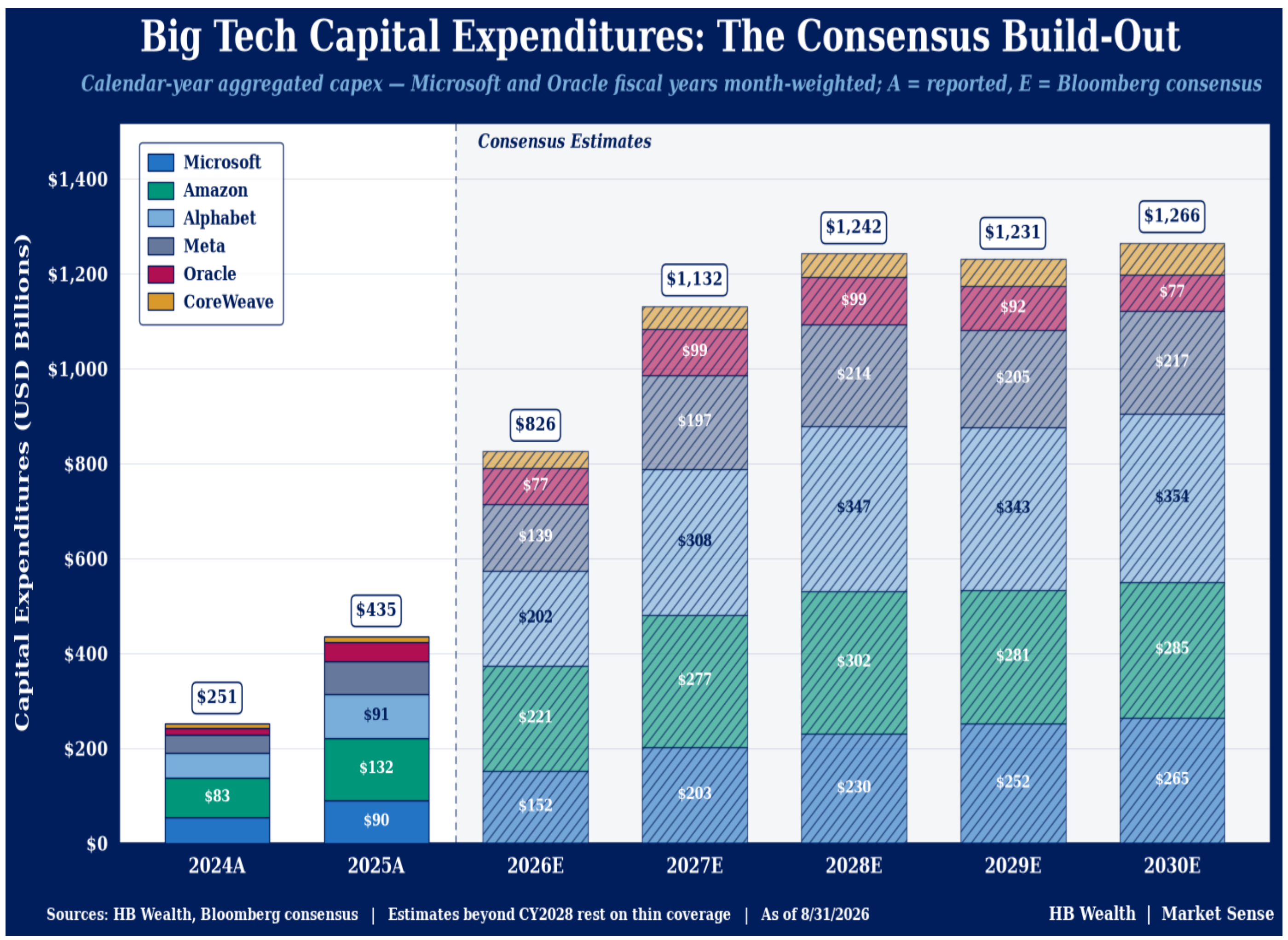
Real economic growth in the U.S. averaged 2.6% over the last three years, about the same as the 2.5% pace of growth in the pre-pandemic decade, and despite the promise of AI and elevated fiscal support, growth remains well below the 4% average recorded in the 1990s due to slower growth in U.S. consumption and housing. Nonetheless, the boom in AI investment is driving an extraordinary shift in the drivers of GDP. On pace to be the largest in U.S. history, AI investment is elevating revenues for suppliers and driving tech's contribution to GDP growth to levels beyond those of prior investment surges such as the telecom/fiber buildout of the late 1990s and the railroad boom of the late 1800s.

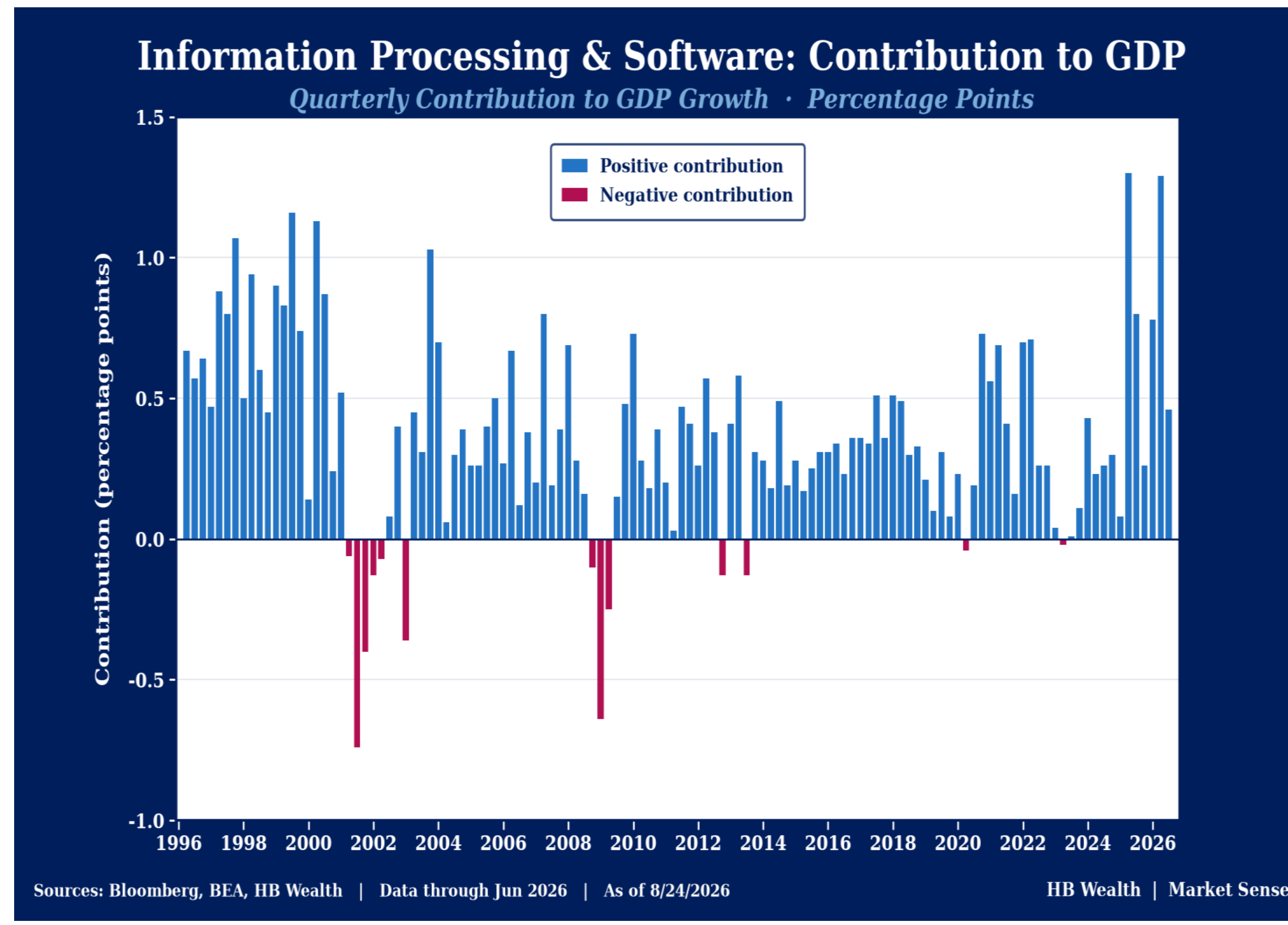


AI Spending is Driving Investment to New Highs

While GDP hasn't changed much relative to its pre-pandemic trend, the shift in mix is extraordinary as hyperscaler capital spending is driving growth. Information processing and software investment grew at an average year-over-year pace of nearly 17% and drove nearly half of U.S. GDP growth in four of the last five quarters.

Microsoft, Alphabet, Amazon, Meta, Oracle, and CoreWeave combined are now expected to spend well over $800 billion dollars in 2026 and $1 trillion+ each of the next four years.





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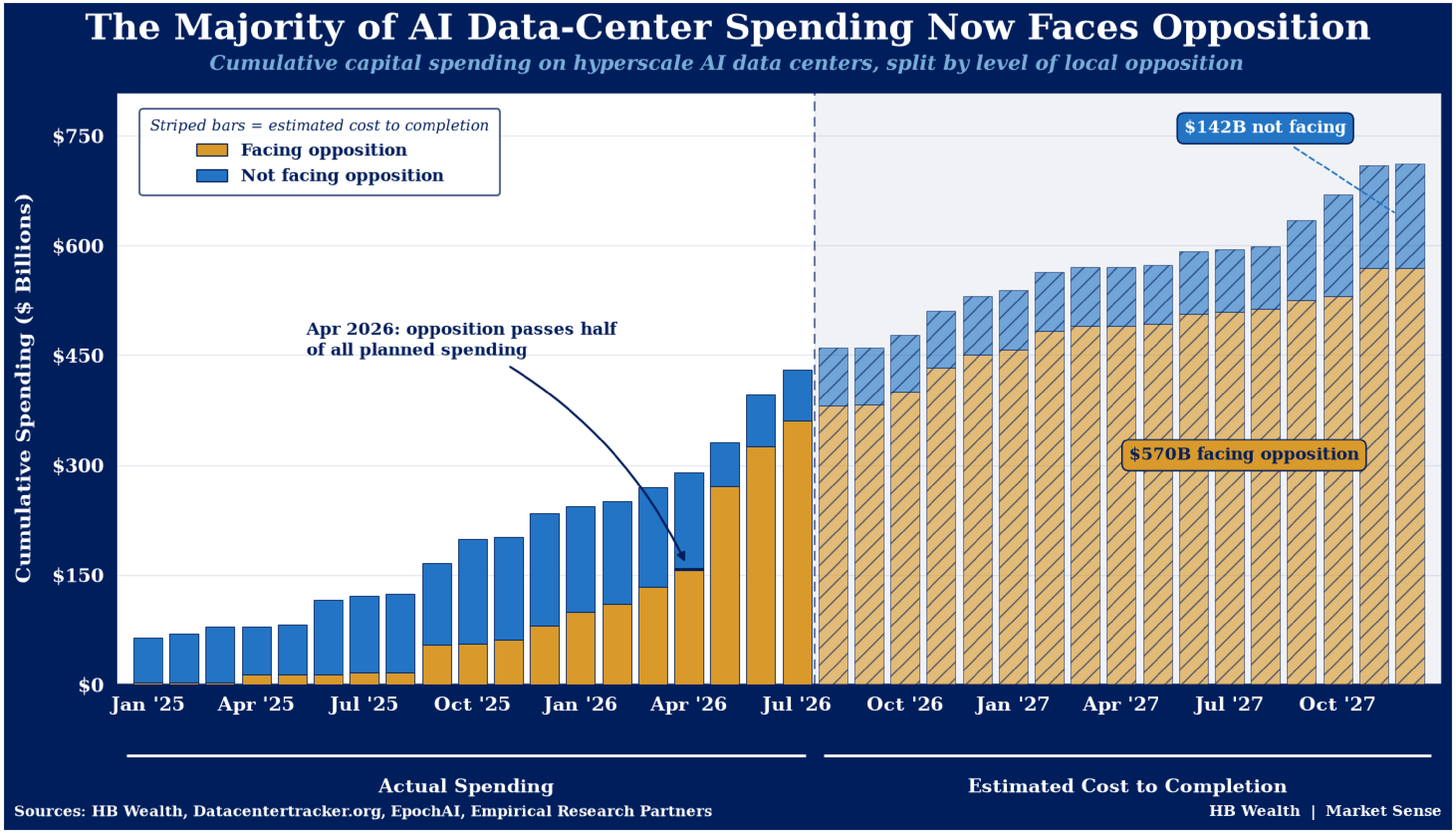
Data Centers May Be in Focus During Midterms

AI Investment may start to hit political speed bumps and promises to be a hot topic in midterm election season. A year ago, less than half of data center spending was contested, but today more than 80% of planned spending is facing local opposition. Given the fact that investment in data centers is the predominant driver of economic growth, any policy-imposed construction slowdown may have a negative impact on economic and earnings growth prospects.



Tale of Two Sentiment Stories: Manufacturing Surging as Consumer Sours

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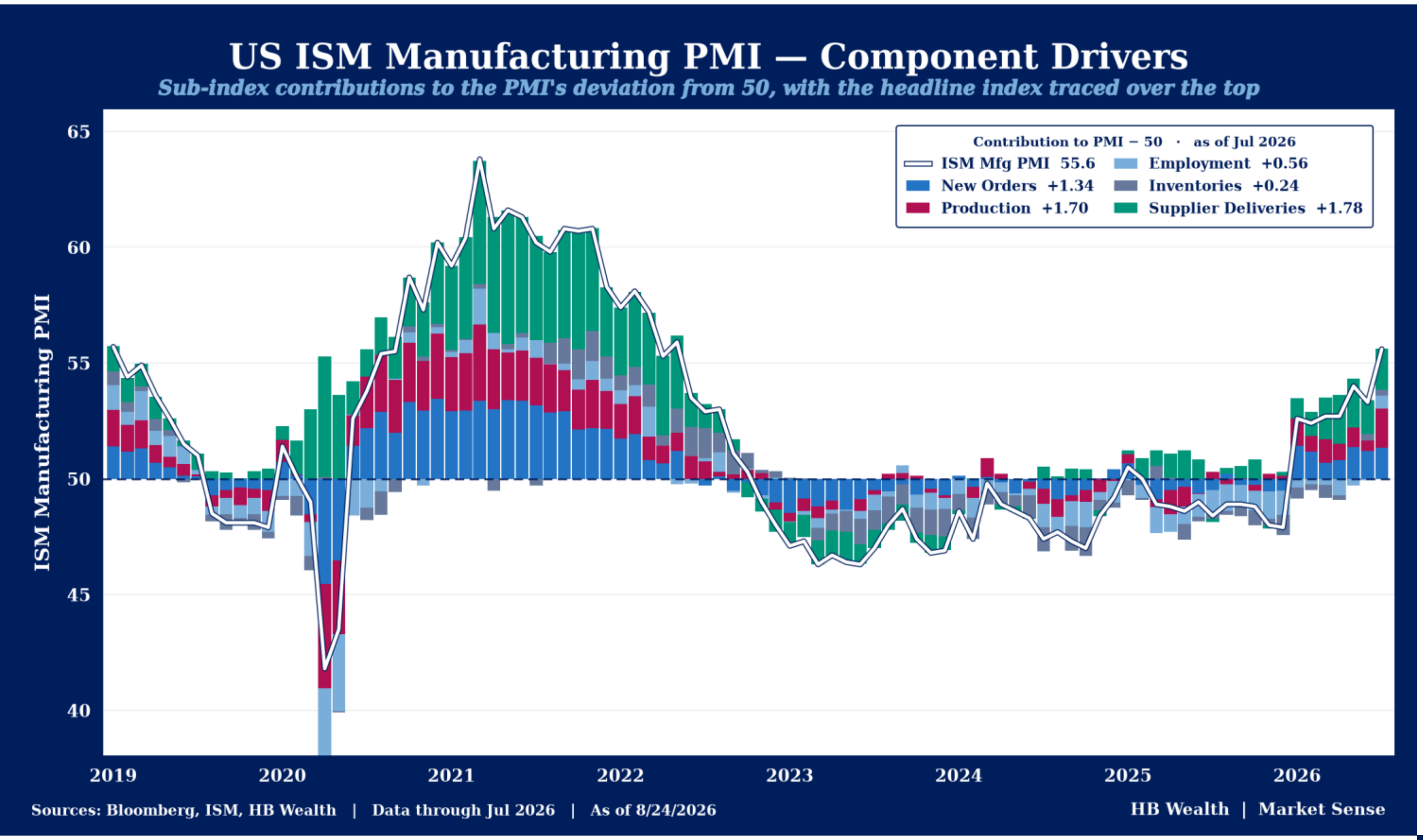
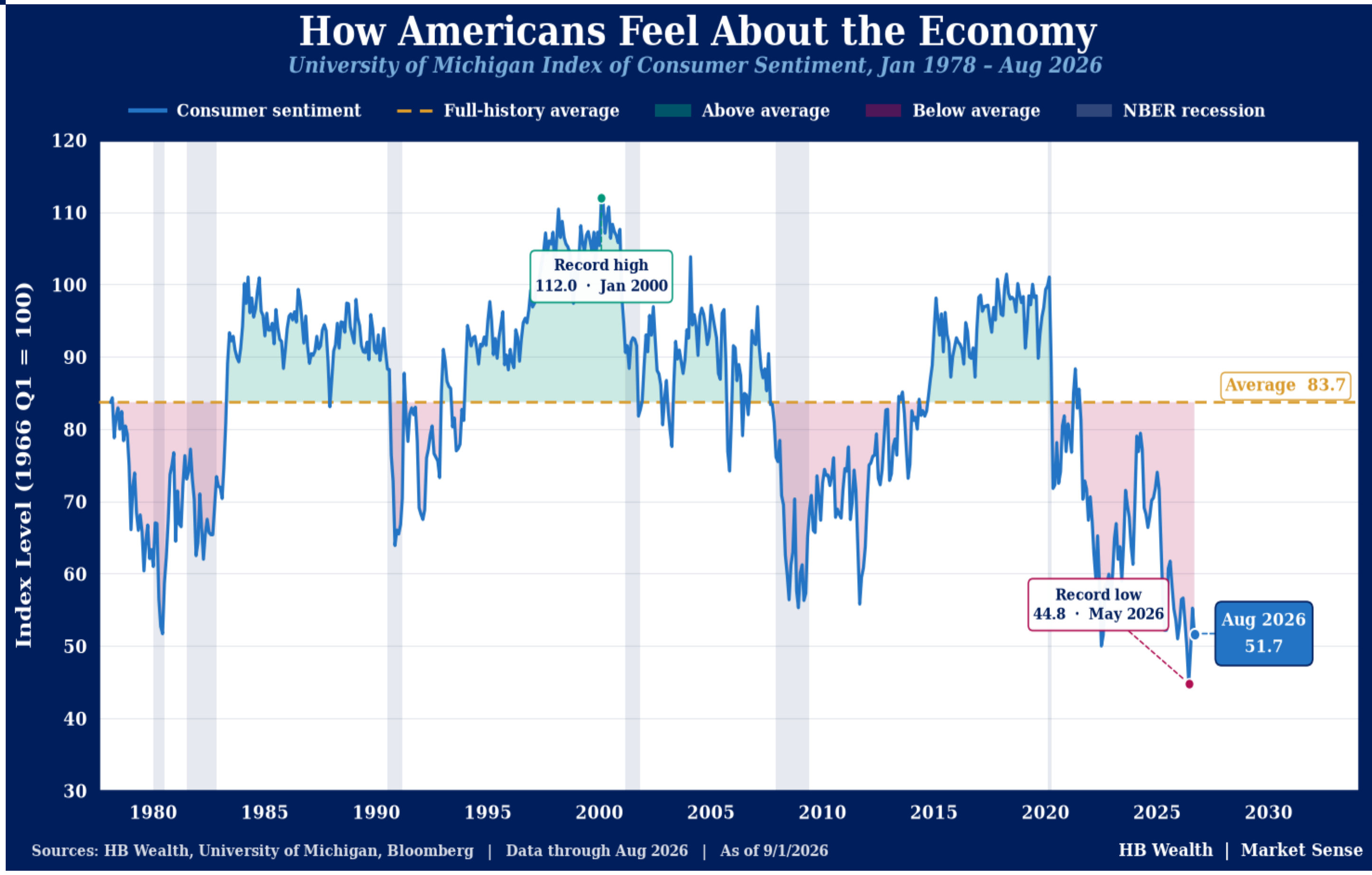


Hyperscaler investment is still driving a broadening infrastructure recovery that is notably improving manufacturing sentiment. The ISM manufacturing PMI has expanded every month so far in 2026 for the first time since 2022. While jobs are still relatively scarce, production and new orders are accelerating and showing signs of extending beyond technology to industries that support the AI-data center buildout.

However, consumer sentiment, as measured by the University of Michigan, remains in a severe slump at a level near all-time lows. Sticky inflation, due in part to the rapid build and natural resource drain of data centers, geopolitical tensions, and rising medical care costs, has consumers in a persistently sour mood. The sharpest drops in sentiment are concentrated among older adults, lower- and middle-income households, and those without stock holdings or higher education credentials.



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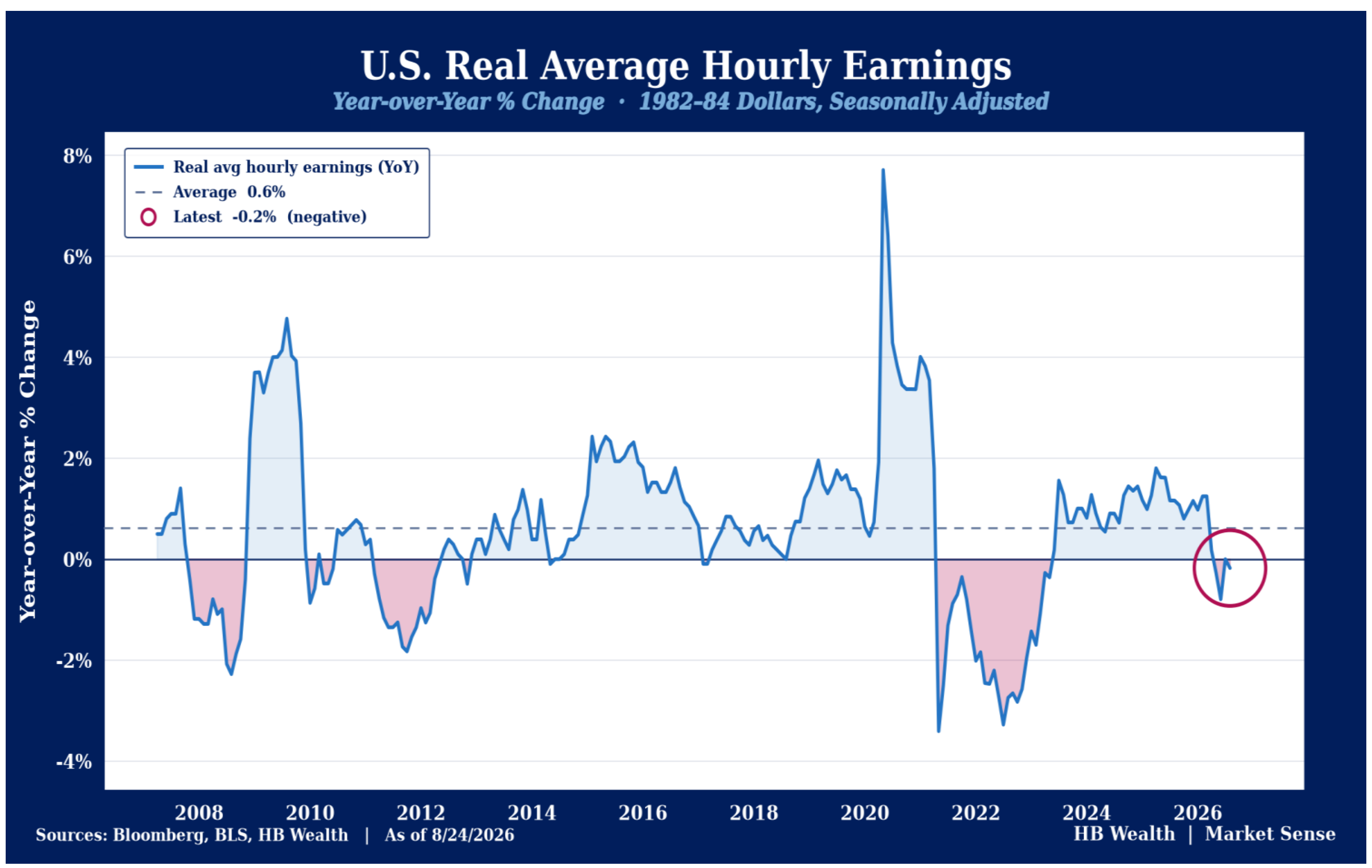
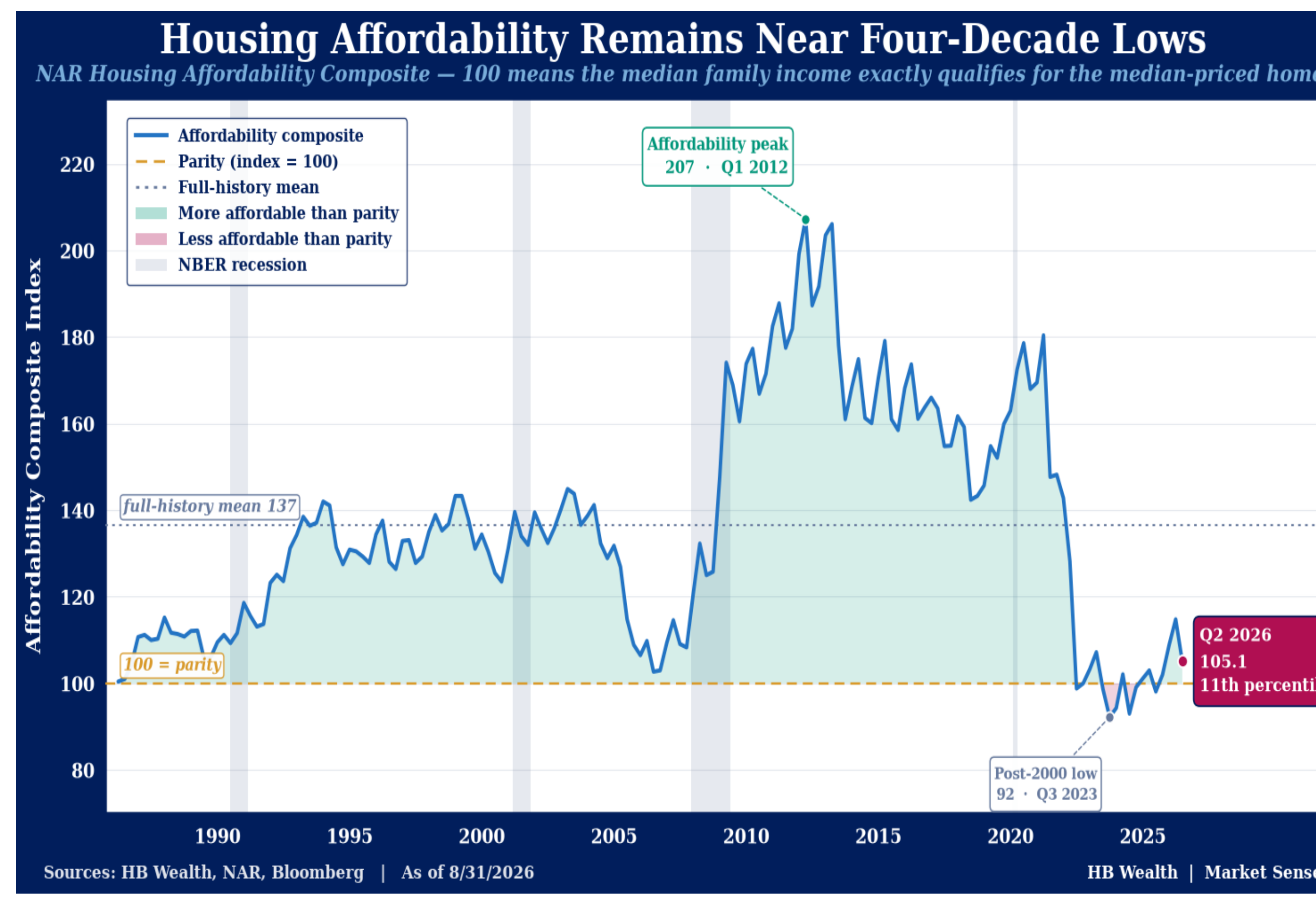
Consumer Outlook Limited by Prices

Peace in the Middle East could help ease the U.S. consumer's pain at the pump, but wage growth and housing activity are core to the consumer outlook, and neither is offering much of a boost to the mood at this time. Job growth has improved so far in 2026 after a struggle in 2025, but the average monthly gain is still just about half as strong as the long-term average job gain during economic expansions. Wage growth is thus too slow to offset price inflation, resulting in negative real average hourly earnings growth this year for the second time in the post-pandemic era. Meanwhile, housing affordability remains extremely low, and a lack of transaction activity is weighing on consumption trends.





Inflation: Consumer Prices are on the Rise

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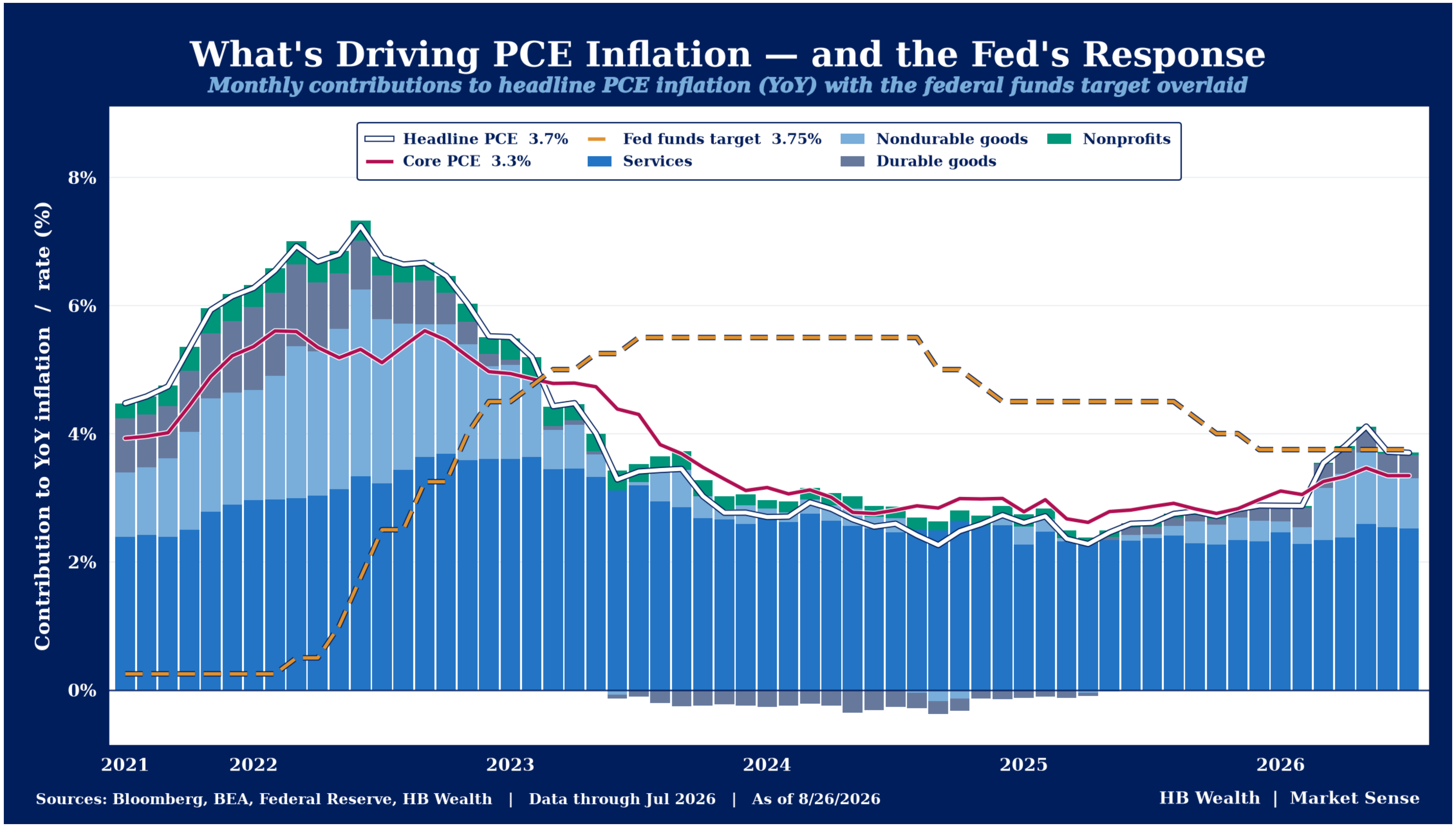
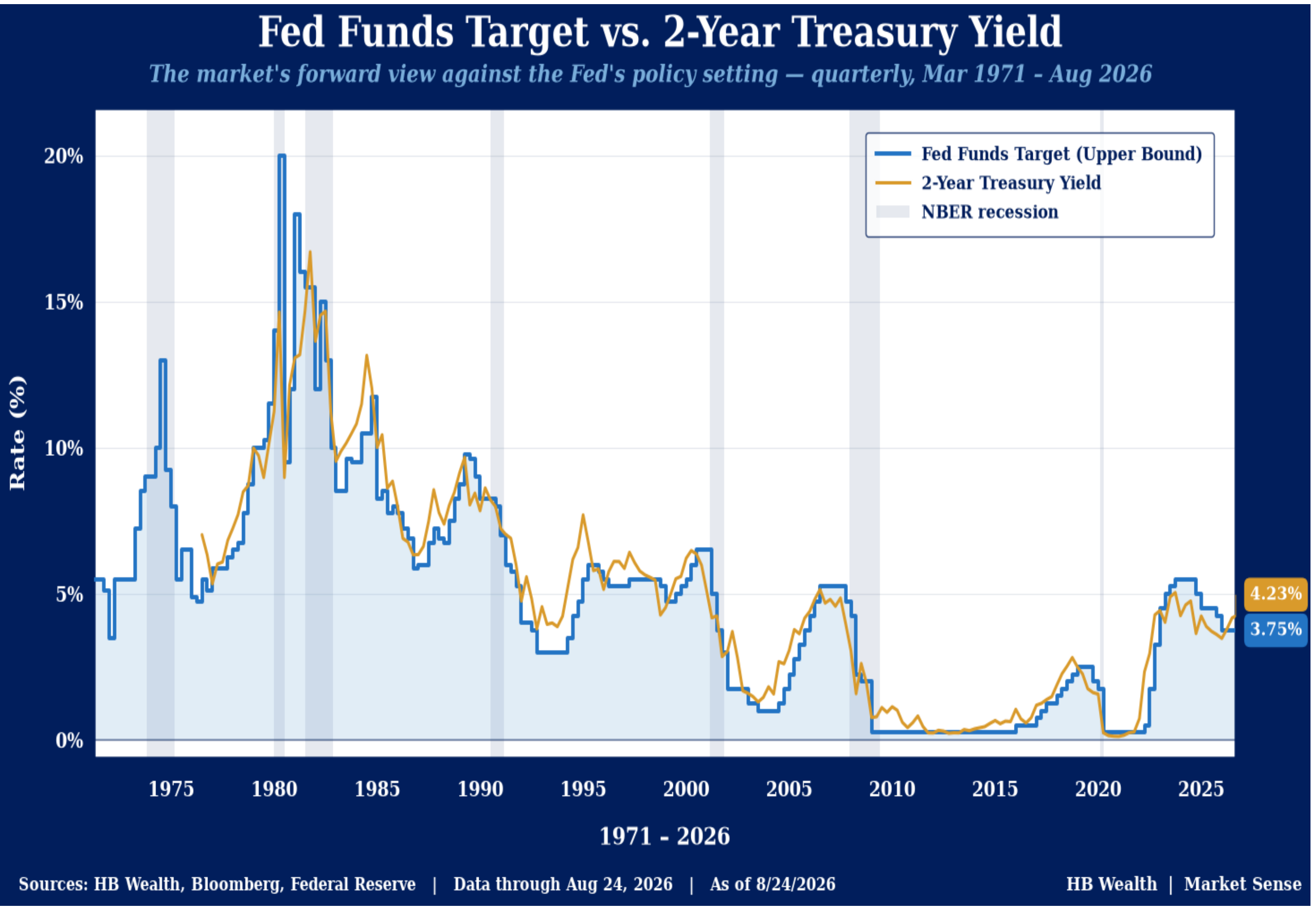
After easing for most of the last few years, consumer price inflation has reaccelerated in 2026. Inflation in energy prices has been particularly rapid, reflecting the wartime acceleration in oil prices, but recent price gains extend beyond the pump. Core consumer prices (excluding food and energy) have accelerated at an average pace of 3.3%. Excluding housing, core price gains are approaching 4% and have not been below 3% since early 2021. These sticky prices may force the Fed's hand to raise interest rates later this year, as core inflation has been above the Fed's target for 65 consecutive months as of August.

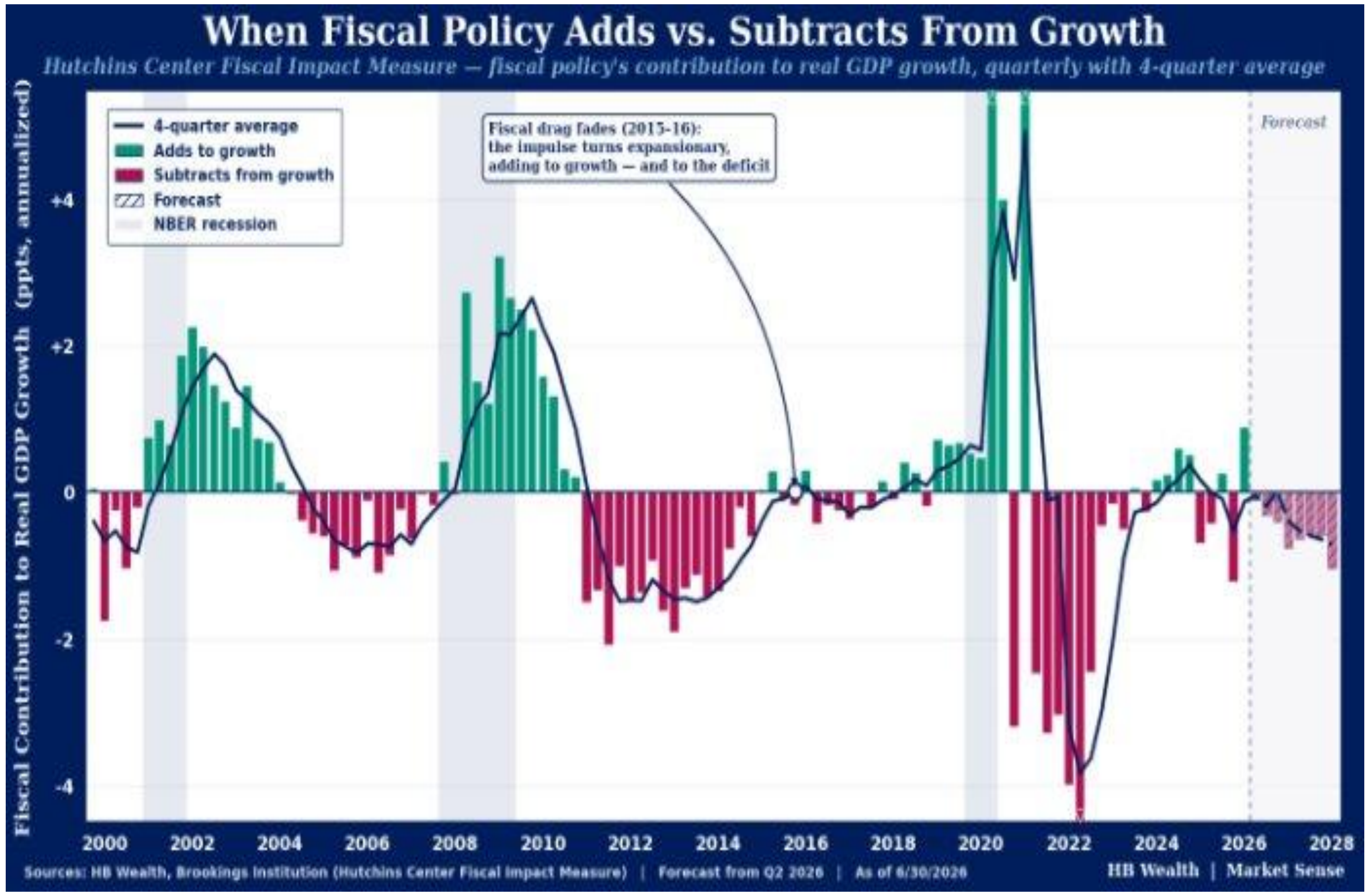


Monetary and Fiscal Policy



Monetary policy at the Fed appears set to make waves in markets. After the easing cycle in 2024-2025, several measures suggest the Fed's policy rate is now technically too "easy" at its current level of 3.75%. The 2-year Treasury yield moved above the Fed funds rate for the first time since 2022 in March and has held above it, increasing the probability of a Fed rate hike. Likewise, financial conditions remain easier than at any point since 2022, when the Fed was last hiking rates.

The 2025 tax reform contributed nearly half a percentage point to growth in the first half of 2026, but effects will wane. Federal, state, and local purchases are expected to contract in the years ahead, consistent with economic expansions. The structural mismatch between federal spending and revenues may become a constraint, particularly if the mid-term results in a mix-shift in Washington.



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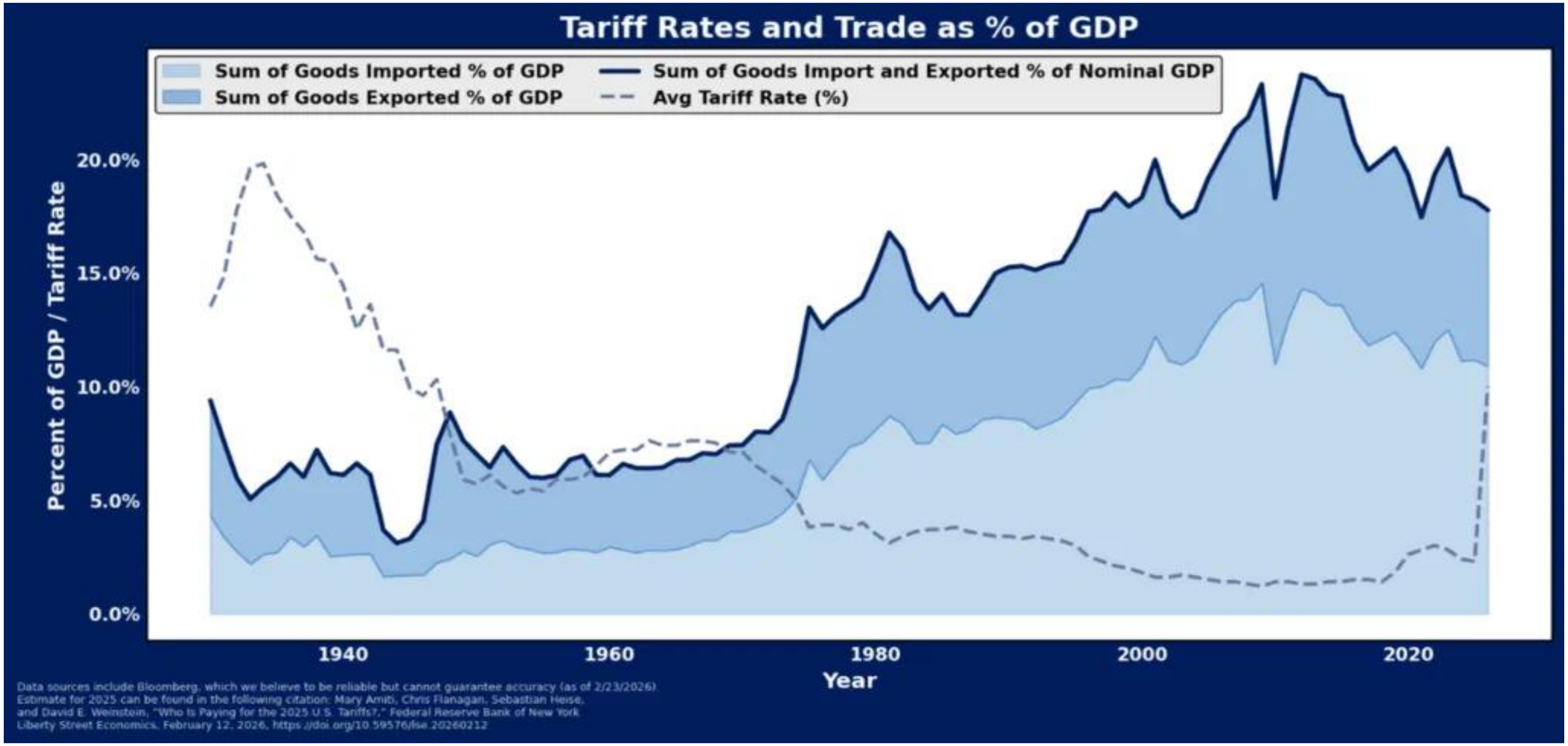
Tariffs Re-emerge with Rising Trade Deficit

Tariffs may remain a source of long-term tension for the economy and financial markets. Levies were ultimately lower than feared in 2025, and the Supreme Court ruled IEEPA tariffs unconstitutional in February, resulting in a temporary tailwind to corporate profits as companies clawed back some of the $165 billion due. However, the trade deficit has widened over the last 18 months to $1.8 trillion and is sparking renewed tariff efforts by the Trump administration. The latest tariffs, enacted under Section 301 of the Trade Act, include broad 10% to 12.5% import taxes on more than 80 trading partners, which may bring the rate to its highest level in more than 80 years.



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Equity Summary: Stocks Back To Soaring

AI Reverses Course in August. Stocks gained broadly in August, but the month appeared marked by a reversal in fortunes for growth and tech stocks. Following a brutal July, growth led value across the cap spectrum, though both moved sharply higher. Larger stocks outperformed the Russell 2000 domestically, and emerging markets have retaken the lead year-to-date.

Large Cap Multiples Converge With Our Model. Much has been made about S&P 500 multiples, but with the continued earnings surge and ongoing consolidation, large-cap valuations are starting to look tame. The index's forward P/E is now 19.4x and just a smidge below the 19.7x our model estimates.

Another Phenomenal Earnings Season is in the Books. Earnings blew past consensus again in 2Q, with the S&P 500 pacing a 32.7% (versus forecasts for 23.2%) while the Russell 2000 posted 11.1% topline growth (versus forecasts for 7.5%). Fundamental gains are broadening with Mag-7 earnings growth converging with the 493's clip (now over 30% year-over-year, the highest on record). Still, significant volatility was apparent at the stock level, especially within large-cap tech where capex spending and cash flows came under the microscope amid lofty estimates.

Investment Boom is Looking Like No Other. There wasn't a lot of consistency across the four other investment booms we examined, but despite exceptionally strong returns, AI isn't looking as bubbly as many of the others. Strong earnings are keeping valuation expansion tame even as AI-capex is set to add more to GDP than even the railroad expansion in the late 1800s.

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Tech Rout Hits Emerging Markets, Puts U.S. Small Caps Back in the Lead

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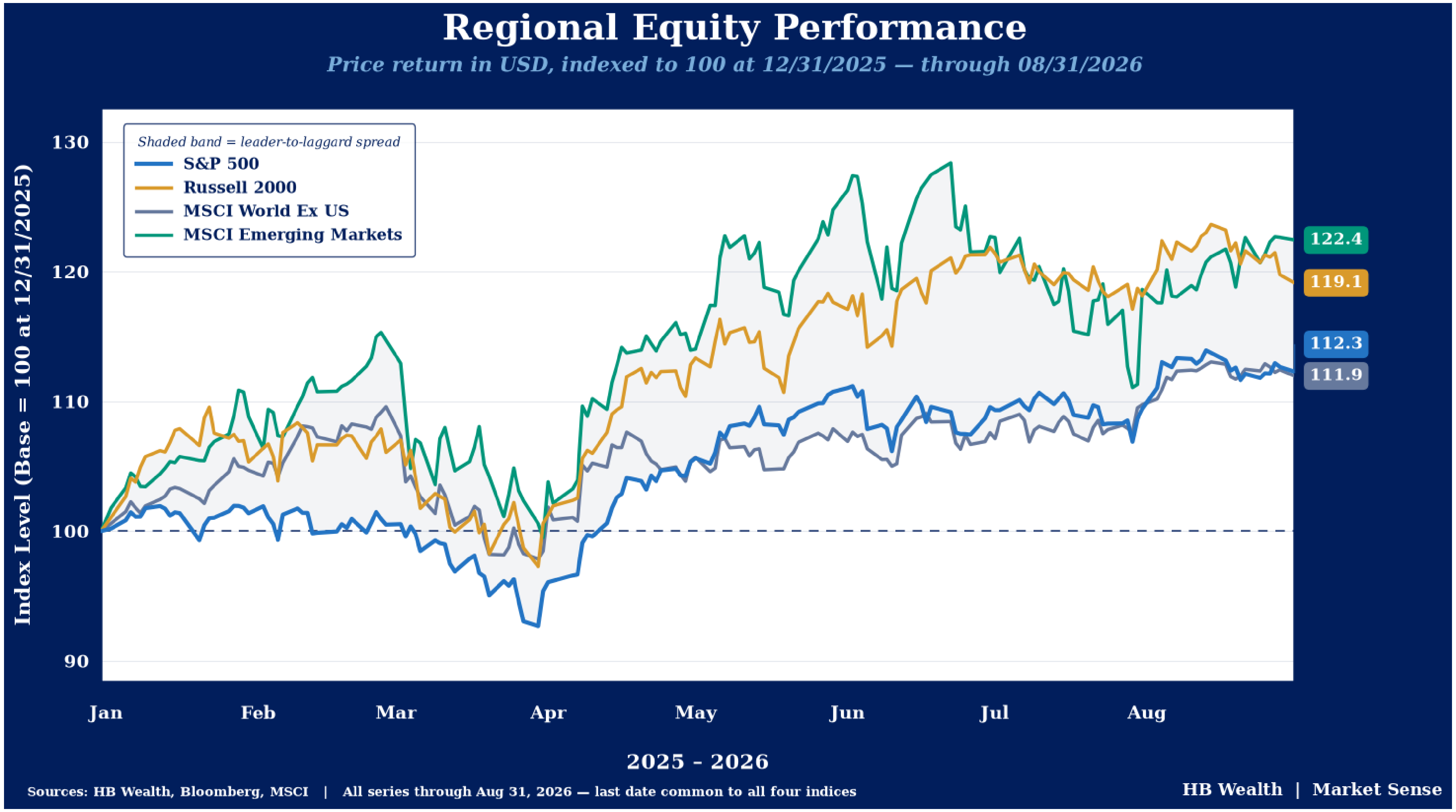
Renewed interest in growth stocks in August pushed emerging markets back to the lead year to date and has large-cap stocks closing the gap with the Russell 2000, for now. Emerging markets had become extremely concentrated in tech stocks as well as Korea and Taiwan equities, making it no surprise that just as tech found its footing following a rough July, the index pulled into the lead among regions. U.S. large caps and developed markets ex-U.S. are pulling up the rear, each up a little more than 12% for the year. Value underperformed growth during the month, but large-cap value still posted a nearly 2% gain as the small-cap version of the style slipped.



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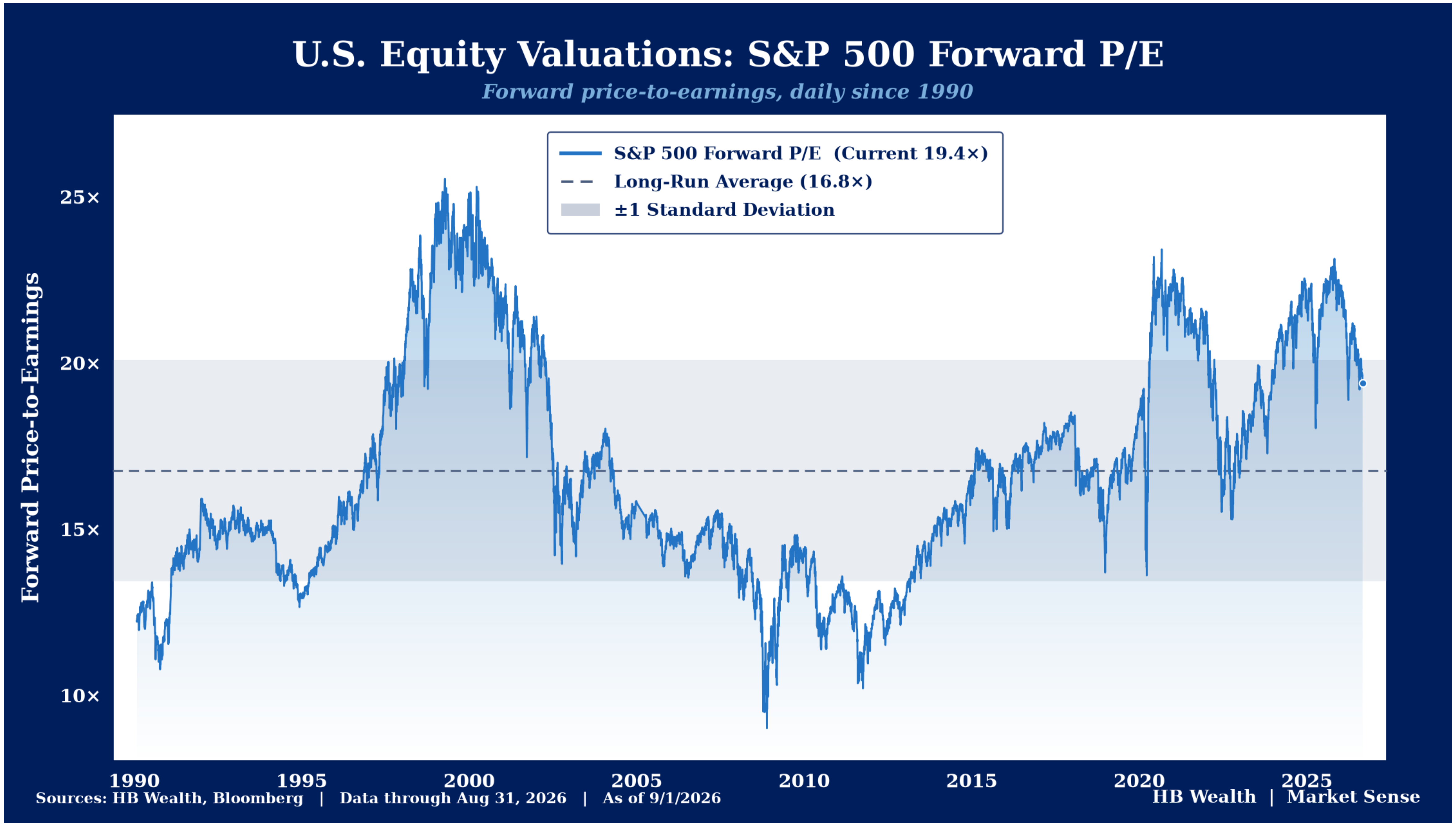
S&P 500 Multiples Back in Line With Our Fair Value Model

S&P 500 forward P/E multiples are trending lower, largely due to the extraordinary earnings advance, and are now back in line with our fair value model. Currently, the large-cap gauge trades at 19.4x, which is 0.8 standard deviations above the average since 1990. This is a touch below our model's estimate of 19.7x. Multiples have contracted from 23.1x at the end of October 2025 and remain short of the 2021 high that was fueled by a unique combination of monetary and fiscal stimulus. Likewise, at the height of the dot-com bubble, S&P 500 forward valuations had climbed north of 25x – a level the market has yet to approach this cycle.



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Earnings Trends Make Case for Rotation

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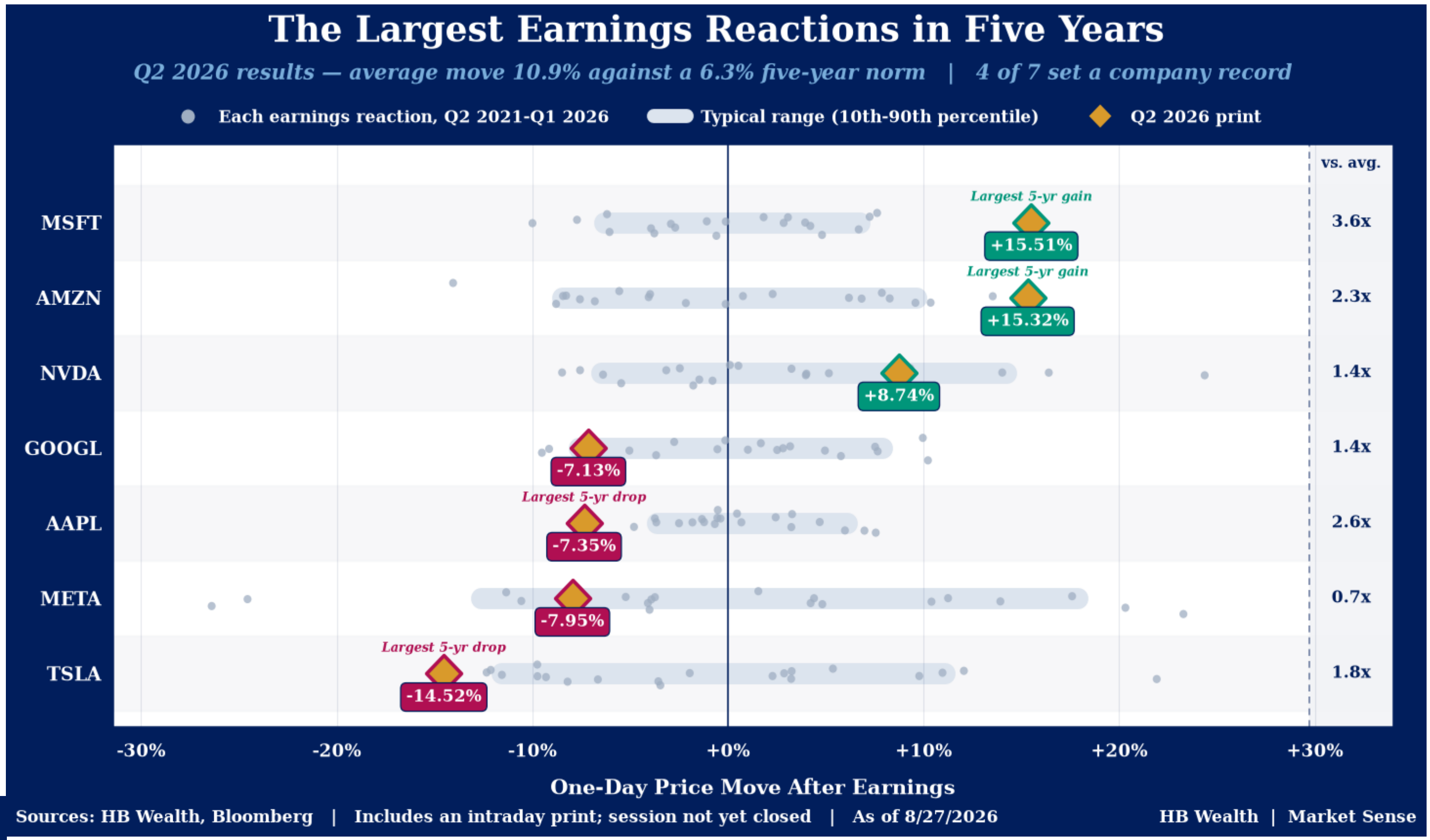
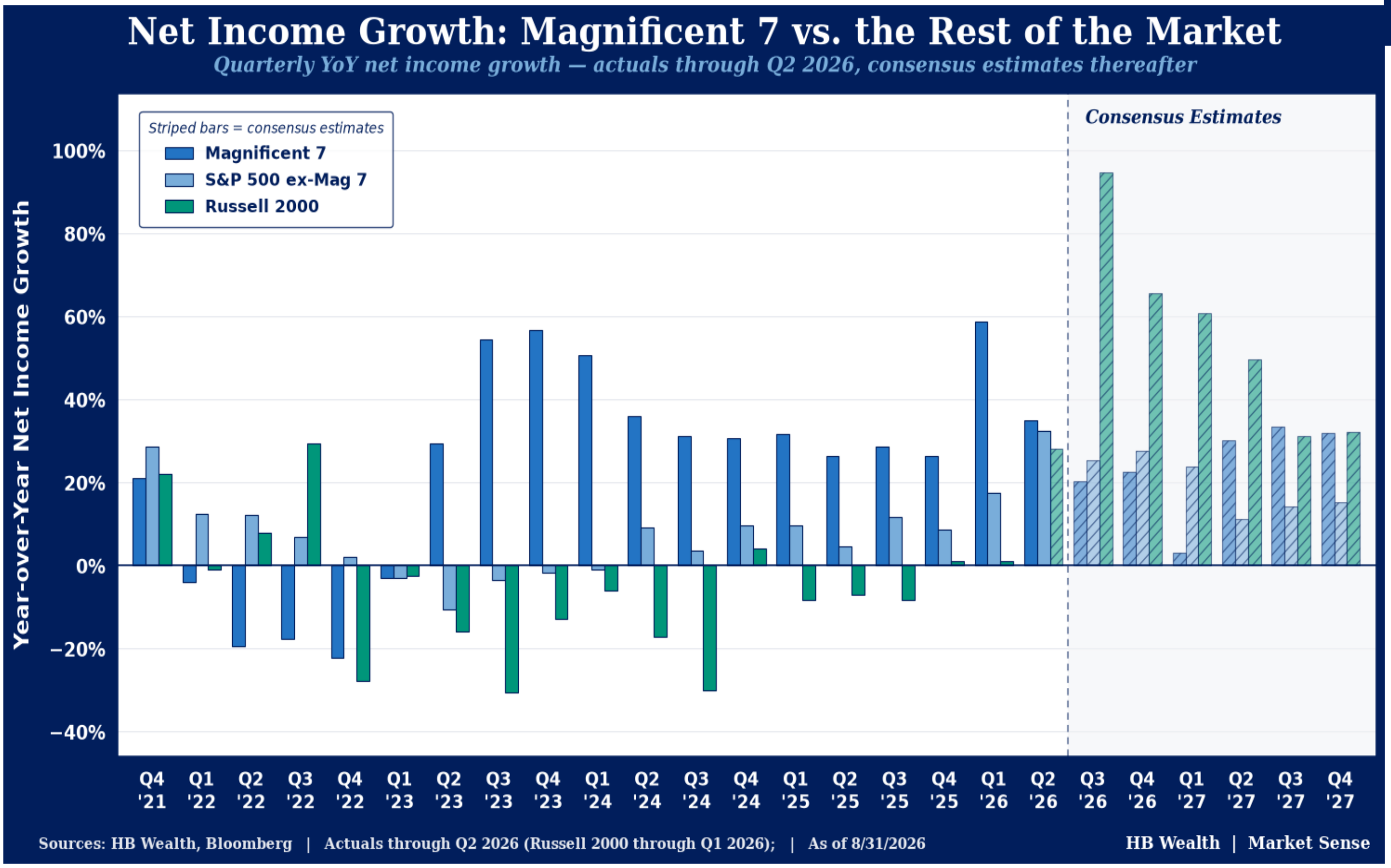
It’s been yet another earnings season in which hyperscaler spending plans are under the microscope, with investor expectations sky-high, and that's driving a breakup of the formerly ubiquitous Mag-7 trade. In 2Q, Mag-7 hyperscalers that increased spending plans without segment revenue to back up the investment, missed on free-cash-flow (FCF) projections or both – like Alphabet, Meta, and Tesla – sold off sharply after reporting. Conversely, Microsoft and Amazon – both pointing to accelerating cloud revenue from their AI investments – gained. Nvidia also rose after its earnings release, with projections for exceptionally strong fiscal year 2028 revenue lifting the stock, while Apple slipped as rising component prices threaten margins.





Under the surface, a broader swath of stocks is participating in the earnings surge, helping sector and size rotations that began in 2025 gain steam this year. The Mag-7 drove much of the post 2022 bear market recovery in earnings and were rewarded with dramatic outperformance that snowballed into the concentration risk concerns of today. But the landscape is shifting quickly. Earnings for the 493 and small caps have begun to recover, and consensus expects them to pull ahead in 3Q. This has coincided with underperformance for the Mag-7.

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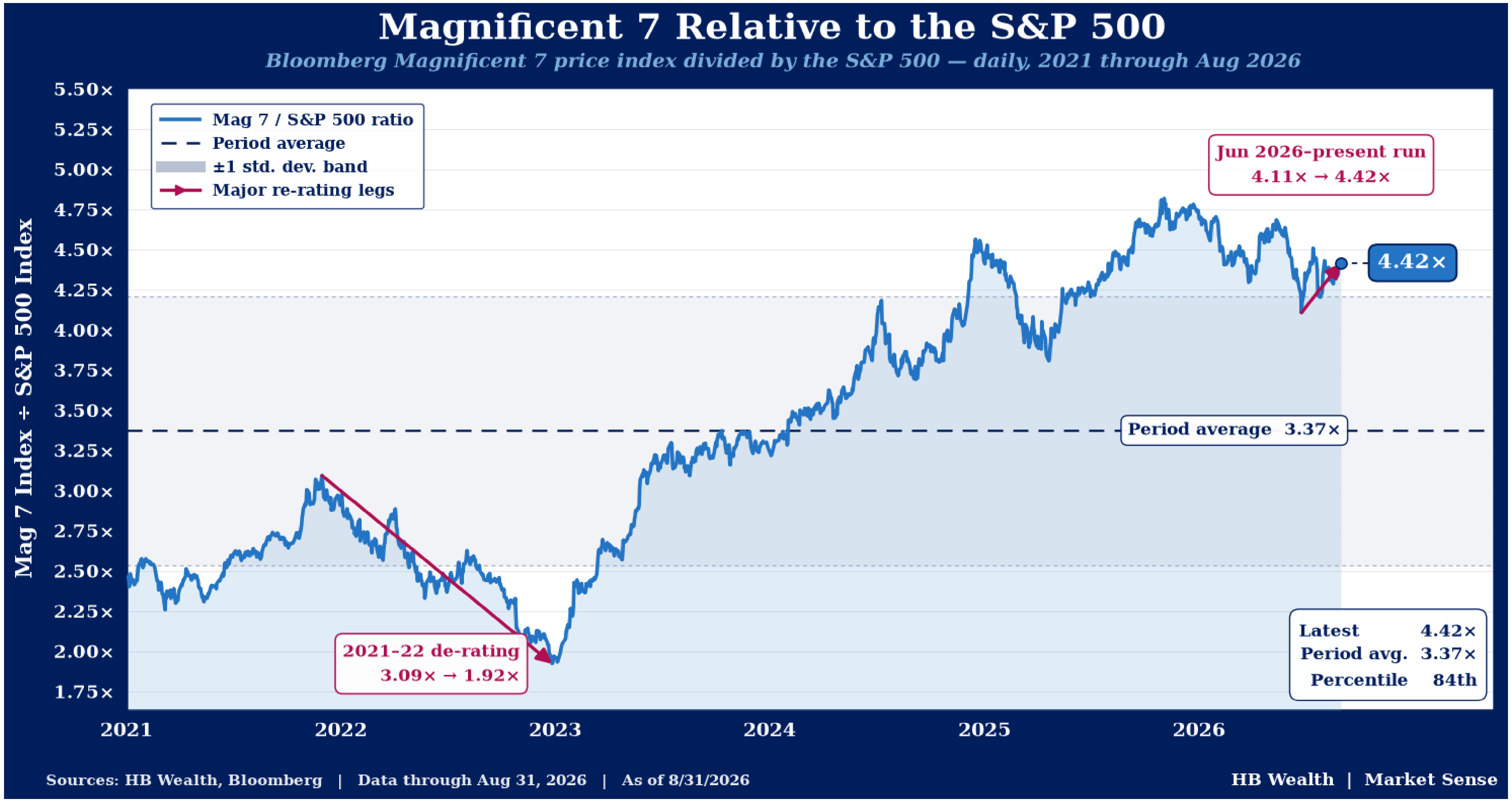
Fundamentals Matter to the Mag-7

Today's Mag-7 underperformance isn't as dramatic as 2022's, but it rhymes, as fundamental trends are the driving force. Since October, the Mag-7 has gained just 1.8% while the index at large is up 12%, as consensus forecasts for a narrowing earnings gap have largely proven correct, minus 1Q's blowout quarter for the Mag-7. Performance over that recent stretch harkens back to the 2022 bear market – the last time that 493 earnings outstripped the Mag-7's. During that period, rapidly rising rates, a post-pandemic slowdown in advertising, and a slowdown in Apple's China business turned Mag-7 earnings negative. However, the rest of the index held up, posting earnings growth until 1Q23 (when the Mag-7 likewise caught up) – leading to more than 31 percentage points of outperformance for the index at large.



Capital Investment Booms Suggest AI Surge May Just Be Getting Started

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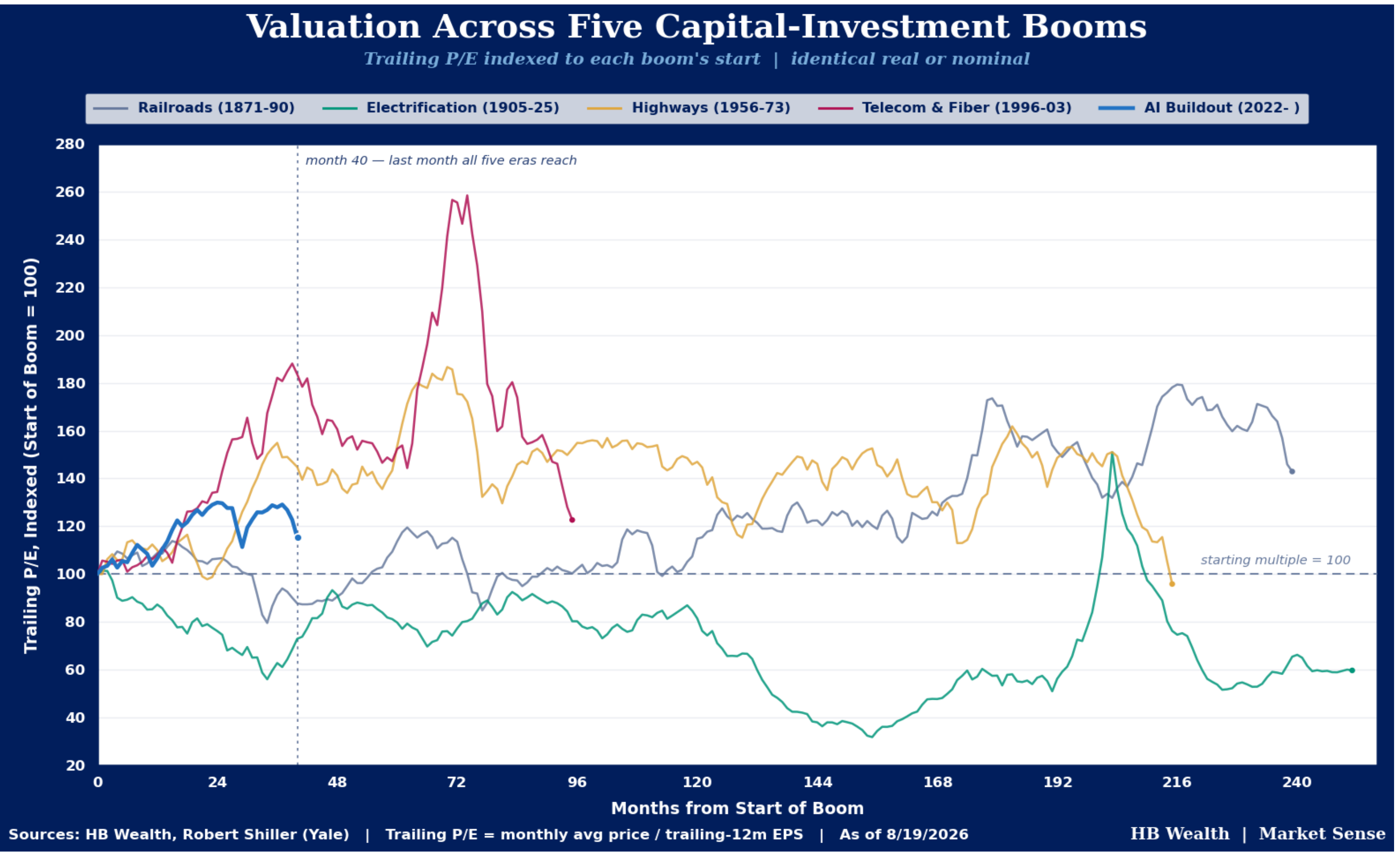
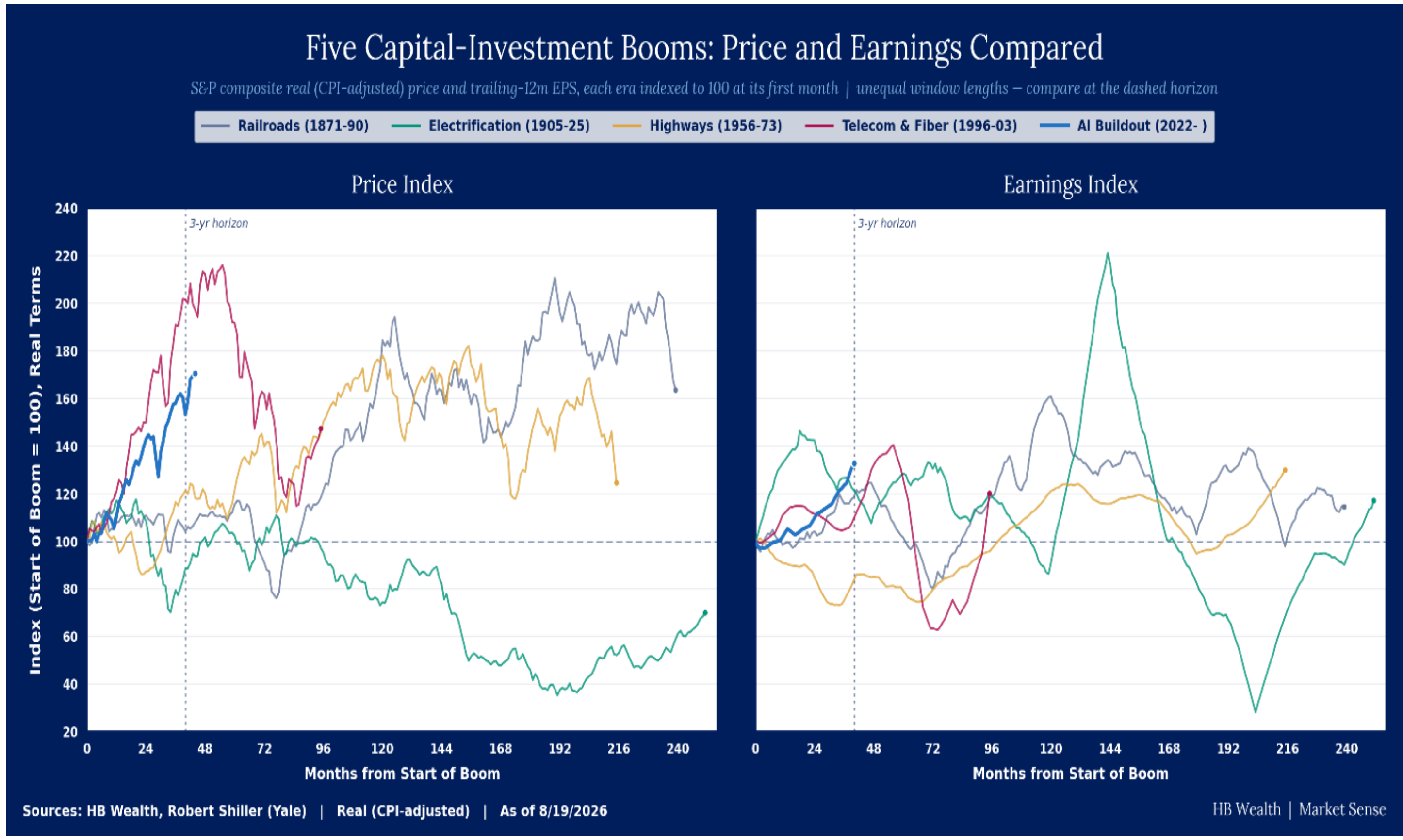
Stock prices are off to a strong start with the AI-investment boom that began in 2022. Gains thus far only trail the fiber buildout of the 1990s. But valuations remain notably tame -- thanks to extraordinary earnings growth this time, valuation expansion in the AI-era has been limited compared to the telecom and highway investment eras. Also, every other investment boom ended with more valuation expansion. The gap between price and earnings growth in the first forty months of the AI buildout is about 20 points, significantly lower than the 92-point gap that had developed by this stage of the telecom build and the 38-point gap that had developed by this stage in the highway build.





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Earnings, Price, Valuations During Investment Booms

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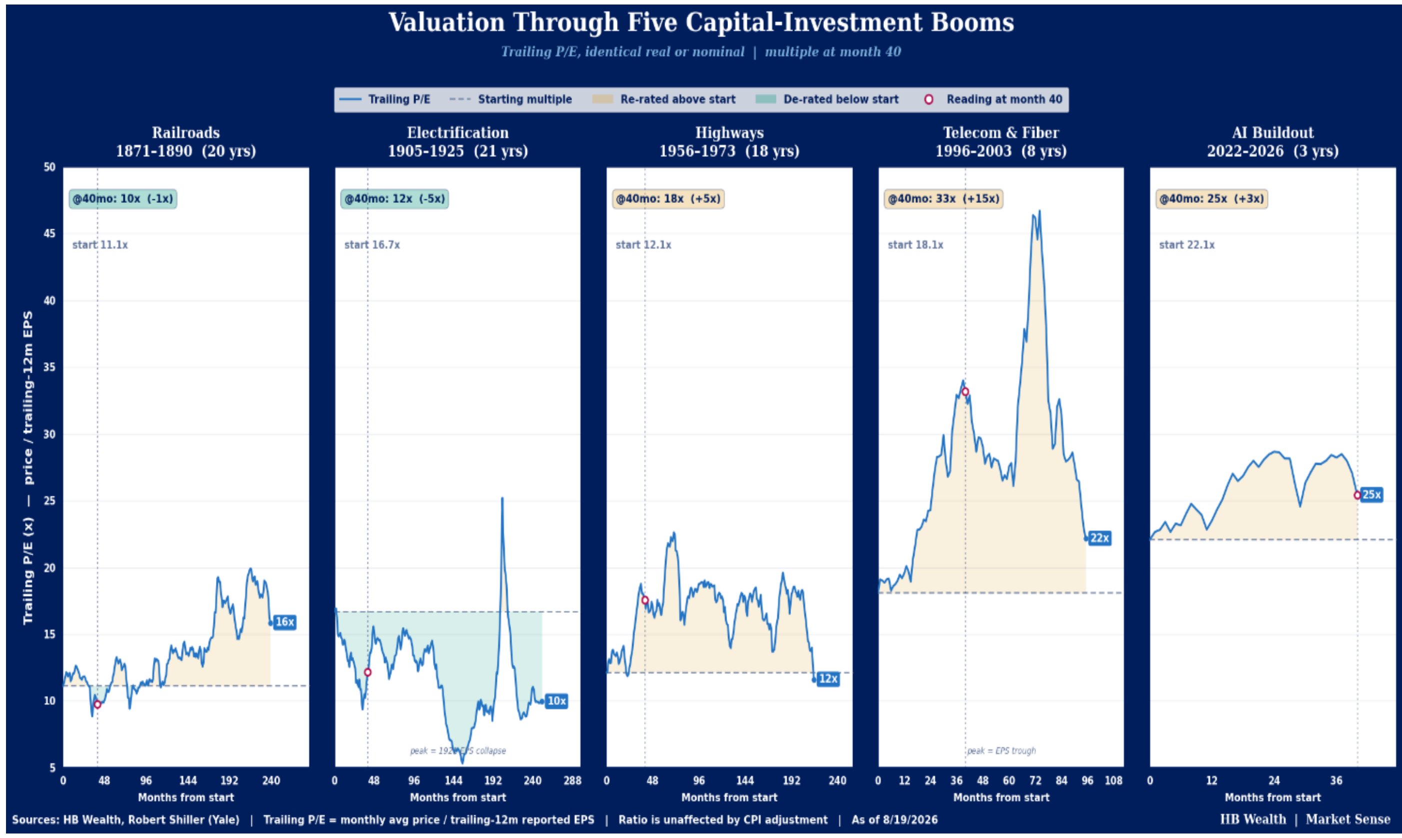
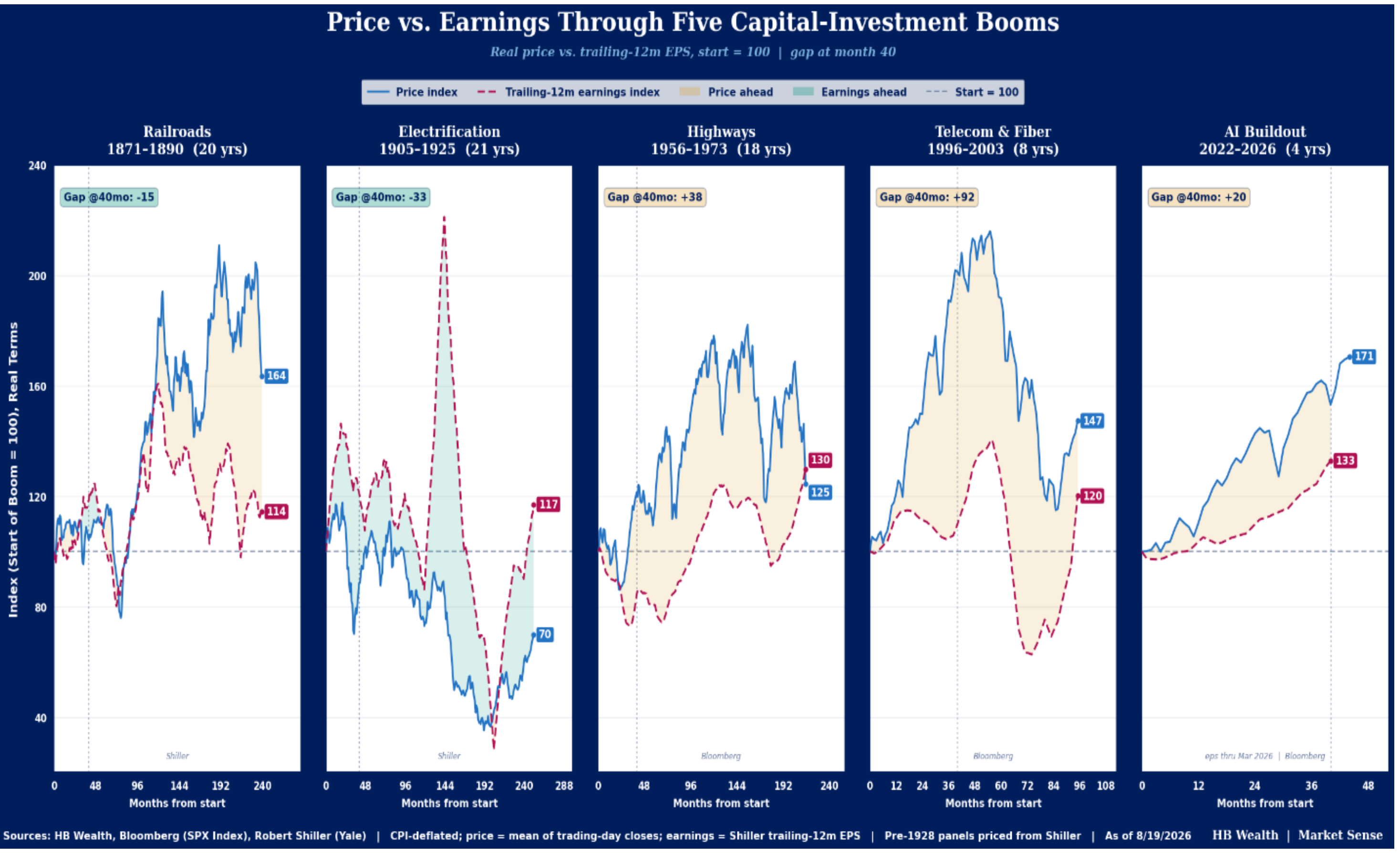
Valuation expansion so far in the AI boom appears tame compared to historical corollaries. At the peak in stock prices in 2000, P/E had jumped 55%. At the stock price peak affiliated with highway investment, in 1968 (13 years in), P/E had jumped 53%. It took 16 years for stock prices to peak in the railroad investment era, but by then P/E had risen by 61%. All of these make the 20% AI-related acceleration in P/E so far look rather benign by comparison. Only electrification, which showed no market-affiliated enthusiasm, had less valuation expansion than the AI era thus far.





In all but the electrification age, prices rose faster than earnings, resulting in elevated valuations by the end of each boom, but the valuation excesses varied by era. While market P/E has jumped about 20% to 25X from its starting point of 22X over the last 40 months, the multiple rose more than 80% – from 18.1X to 33X – in the first 40 months of the telecom build-out. The highway investment boom also showed significantly more valuation expansion of nearly 50%, from 12.1 to 18 P/E. In the early stages of both electrification and railroads, prices rose more slowly than earnings.

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Is This as Good as Earnings Breadth, Margin Forecasts Will Get?

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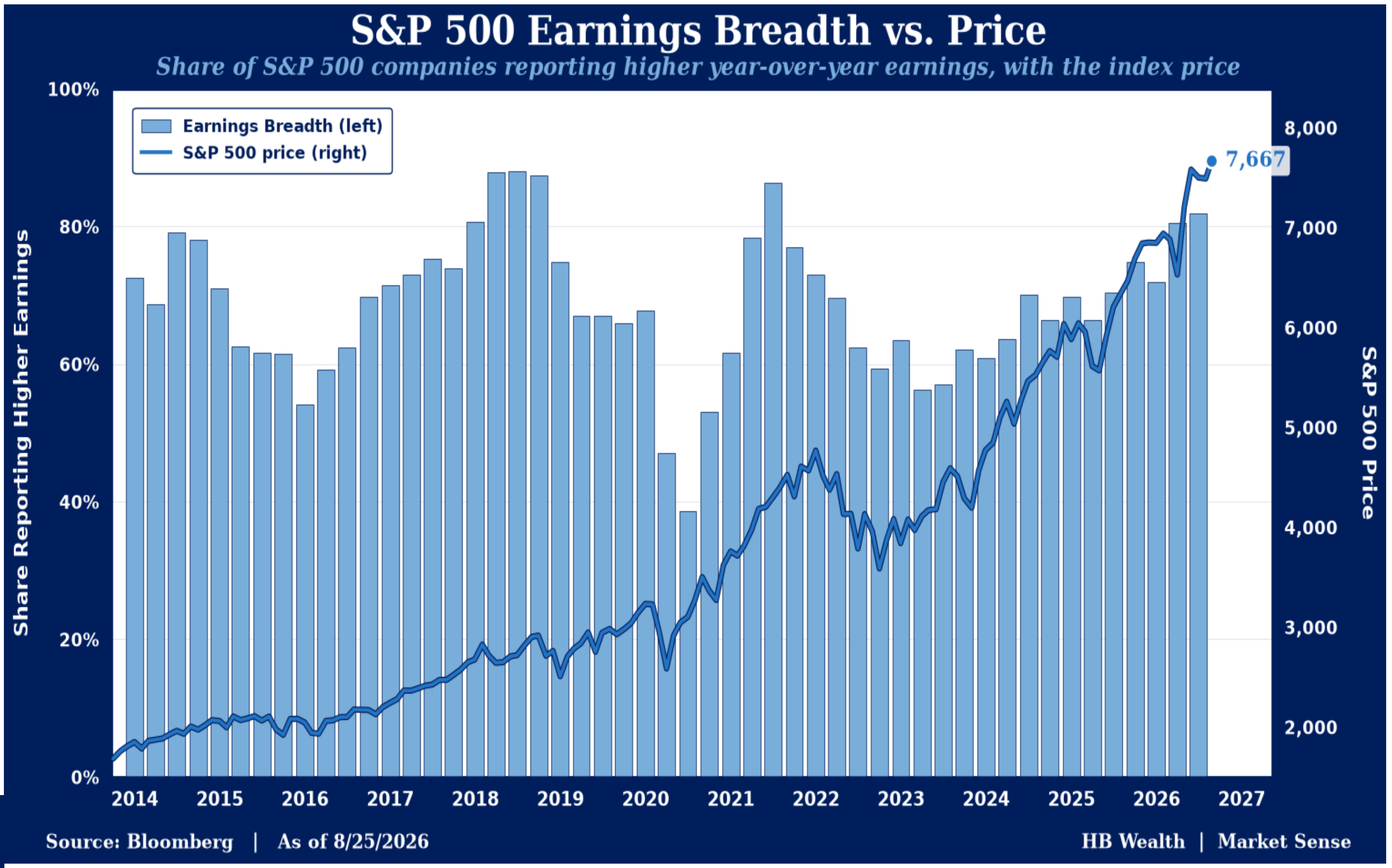
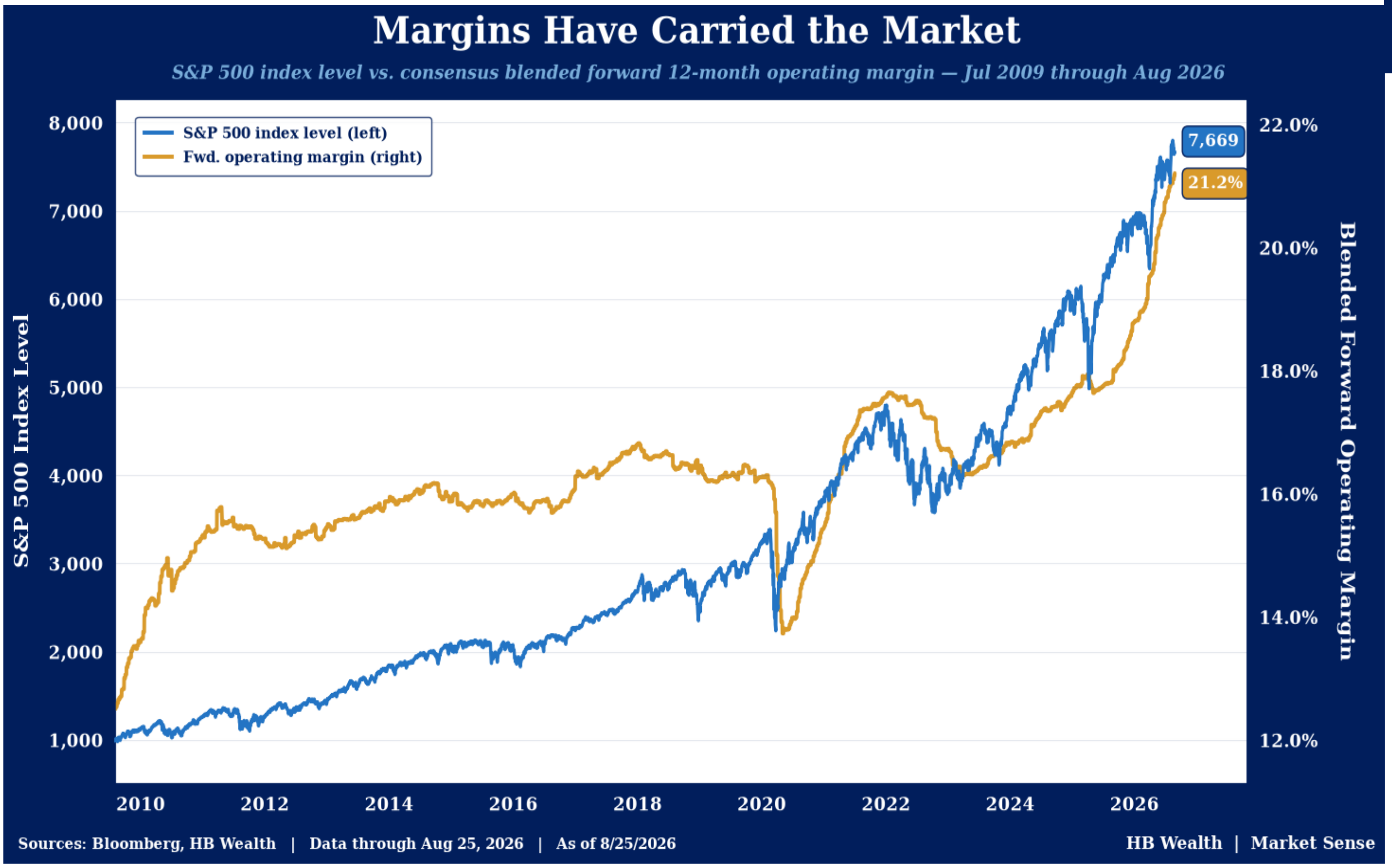
Peaks and troughs in earnings breadth have been especially meaningful to stocks' direction over the past decade. Breadth hit an all-time high in 2Q18 (at 88%) and began to fade over the subsequent quarters, contributing to the 19.8% peak-to-trough correction in the S&P 500 that year. Likewise, breadth hit another high in 2Q21 (at 86.4%), and when the cooling trend was confirmed, stocks began their descent into the 2022 bear market. Earnings breadth surged to 82.2% in 2Q from 80.6% in 1Q, but consensus implies that the peak could still be at least a few quarters away. In 2Q, every S&P 500 sector posted earnings growth except for health care, and consensus sees every group growing through the second half of 2026.





Margin trends are similarly a strong indicator of impending market tops, and the consensus outlook is showing little sign of slowing down. Ahead of the S&P 500's declines in 2011, 2015, 2018 and 2020, reduced projections ultimately weighed on prices. However, estimates just keep climbing – at the start of 2026, consensus pegged the S&P 500 for 18.8% forward 12-month operating margins, but that has climbed to 21.2% currently. That surge is the strongest similar length rise on record outside of the immediate recovery from the Great Financial Crisis. Every sector is participating in the rise in operating margin forecasts, with energy, tech, materials, utilities, and communications leading the way.

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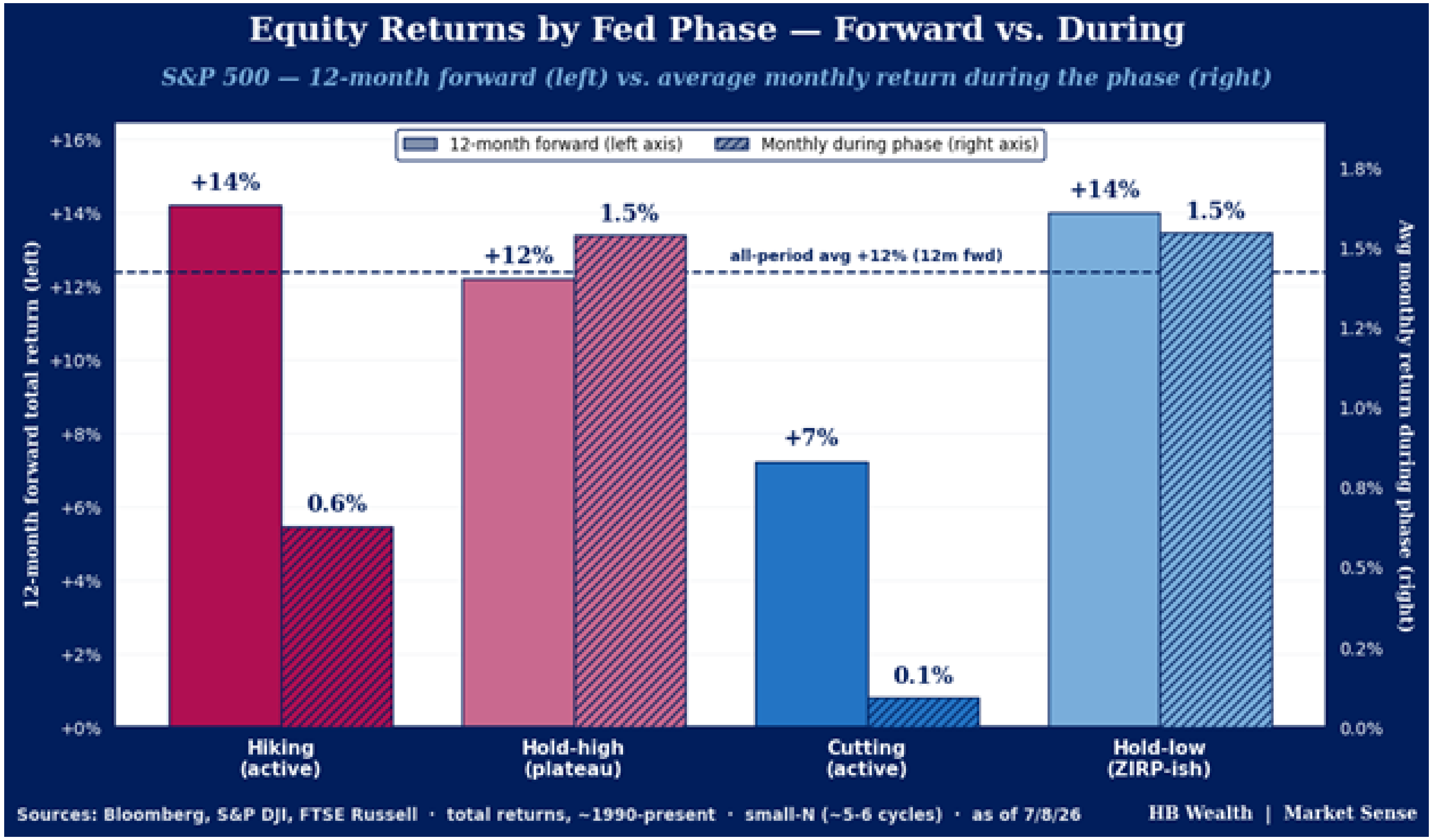
Tighter Monetary Policy May Slow Stock Returns

Monetary policy may tighten in coming months, and that could slow the pace of gains in stocks. Markets suggest at least one hike is priced in this year, and Chairman Warsh has likewise made clear his disdain for using the central bank's balance sheet as a monetary policy tool – preferring to unwind the massive liquidity pumped into financial markets in the post-Great Financial Crisis and COVID-19 periods. Unfortunately for stocks, periods of policy tightening, using any combination of tools, show lower returns than periods when policy was accommodative or neutral.



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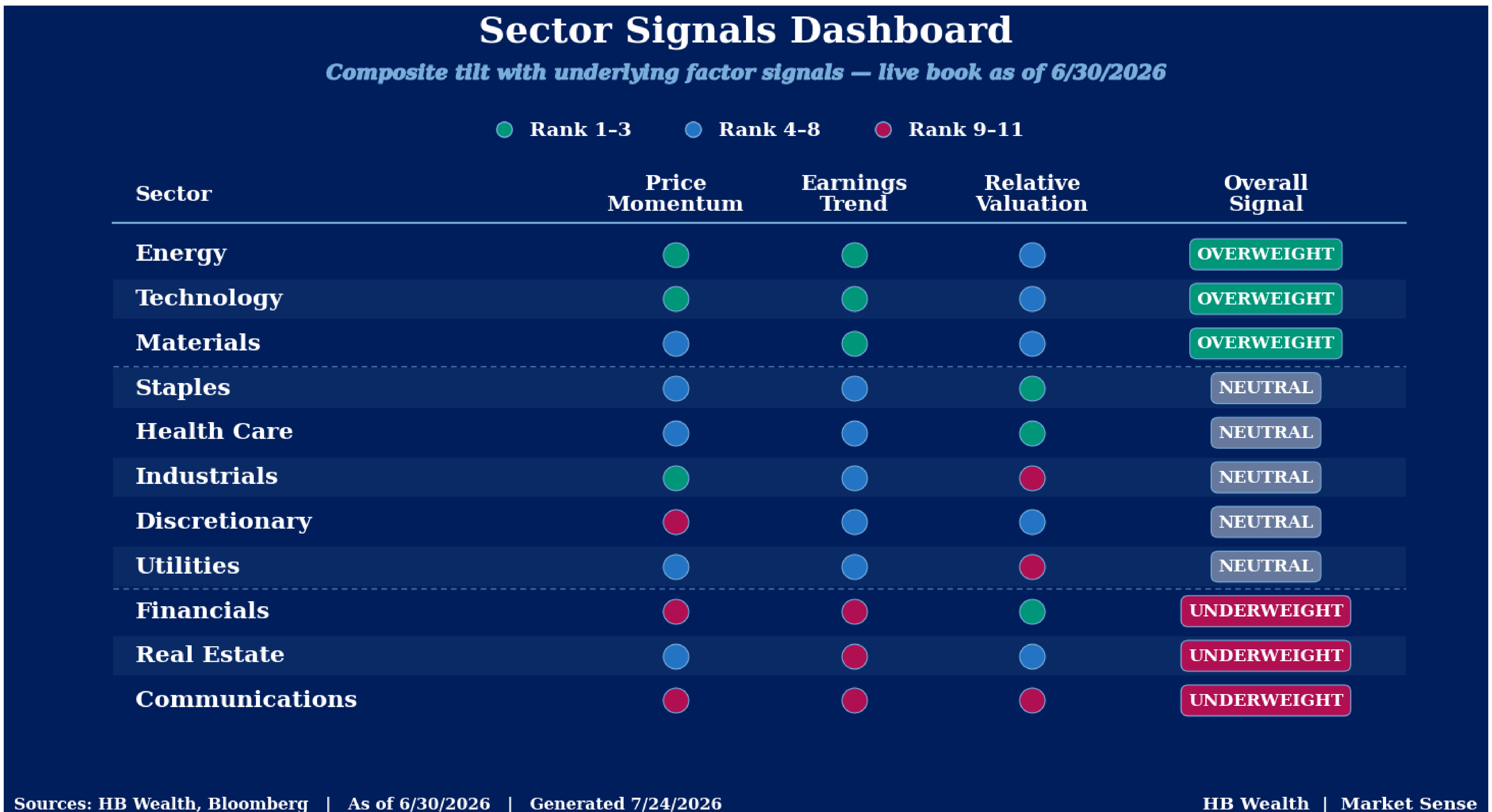
Forward-looking statements are based on current expectations and assumptions and are subject to risks, uncertainties, and market conditions that may cause actual results to differ materially from those expressed or implied.

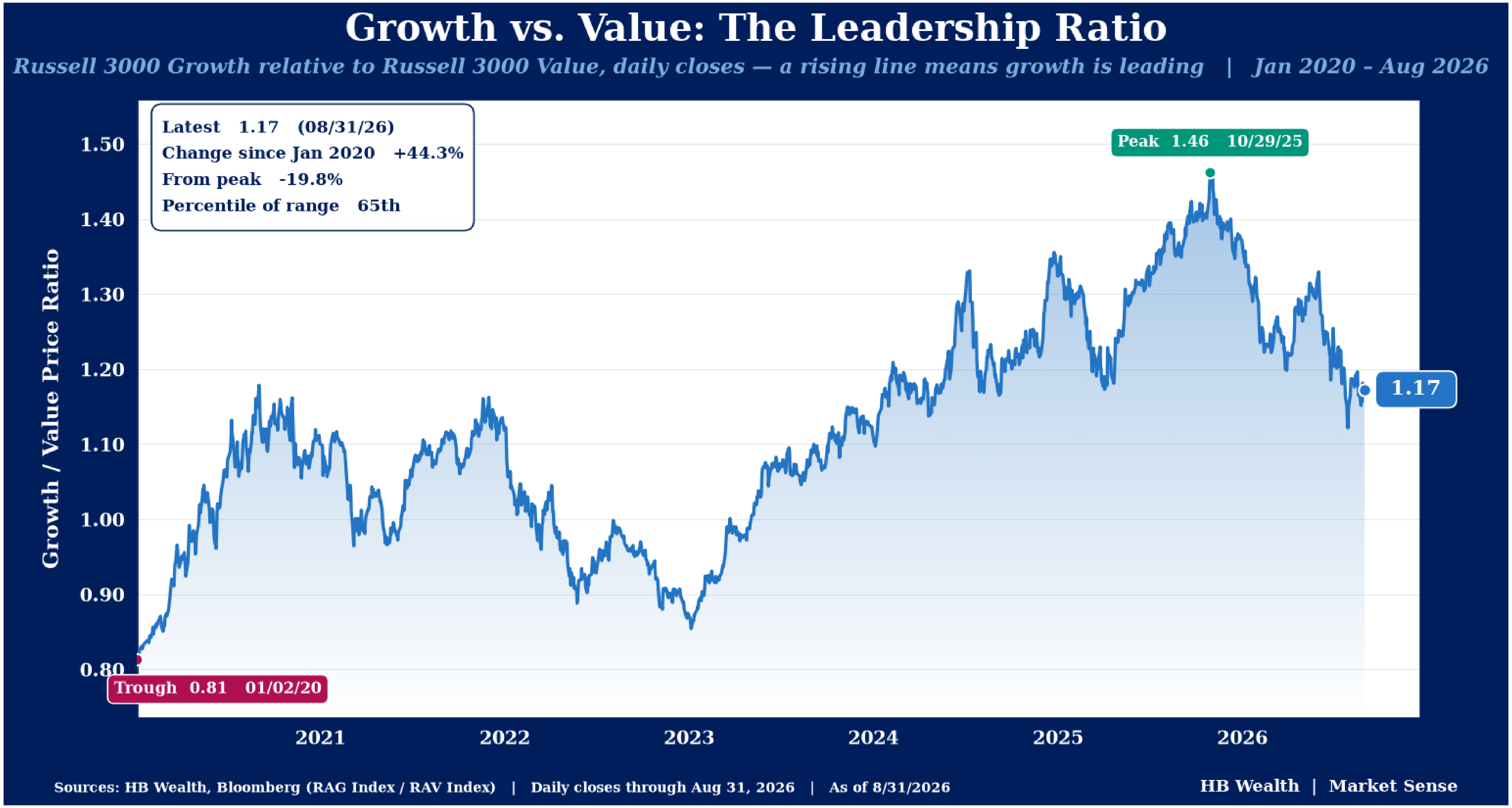
Plenty of Sector Discounts Still Available

It's too early to give up on year-to-date sector winners in large caps, according to our sector model, which suggests an overweight position in energy, tech and materials. Meanwhile, we suggest steering relatively clear of weaker and interest-rate-sensitive groups like real estate and financials, as prospects of a rate hike, possibly later this year, and difficult year-over-year comparisons weigh on estimates. Communications rounds out our suggested underweights, as early AI winners remain concentrated in tech's semiconductor industry rather than communications' heavyweights (Alphabet and Meta).



Growth Stages Comeback But Still Struggling YTD

Russell 3000 growth had a resurgent August following one of its historically worst months of underperformance versus value in July. However, that's done little to resolve its year-to-date lag. Unlike its S&P peer, the Russell style has struggled by ignoring momentum – the best-performing factor this year. Even though S&P's versions lead value counterparts this year on a cap-weighted basis, on an equal-weighted basis, growth is still struggling to find its footing.



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Fixed Income Summary

Base Rates Remain High While Spreads Remain Tight. The “higher for longer” mantra is proving true, as inflation has put Fed hikes on the table for 2026, with one priced in for September and a 50% chance of another in December. This has boosted the attractiveness of yield on intermediate-duration bonds, without the need to stretch on longer credit as well.

Treasury Secretary Bessent announced a doubling of long-end Treasury buybacks as public debt crossed $40T, after the 30-year Treasury briefly crossed 5.3%, its highest level since 2007. Relief was short-lived as market participants focused on term premium, fiscal supply, and record AI-related issuance.

Warsh Leaned Hawkish at Jackson Hole but Withheld Reaction Function Details. The new Chair put the responsibility of recent inflation squarely on the shoulders of the Fed and called 2% a “firm, fixed target” for inflation. He also noted that financial conditions were not restrictive but stopped short of providing any color on the reaction function.

The Belly of the Curve Remains Most Appealing in this Environment, where the short end faces binary Fed-driven outcomes, and the long end doesn’t provide adequate compensation for fiscal and supply risk.

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10-year Yield is Holding "Higher for Longer"

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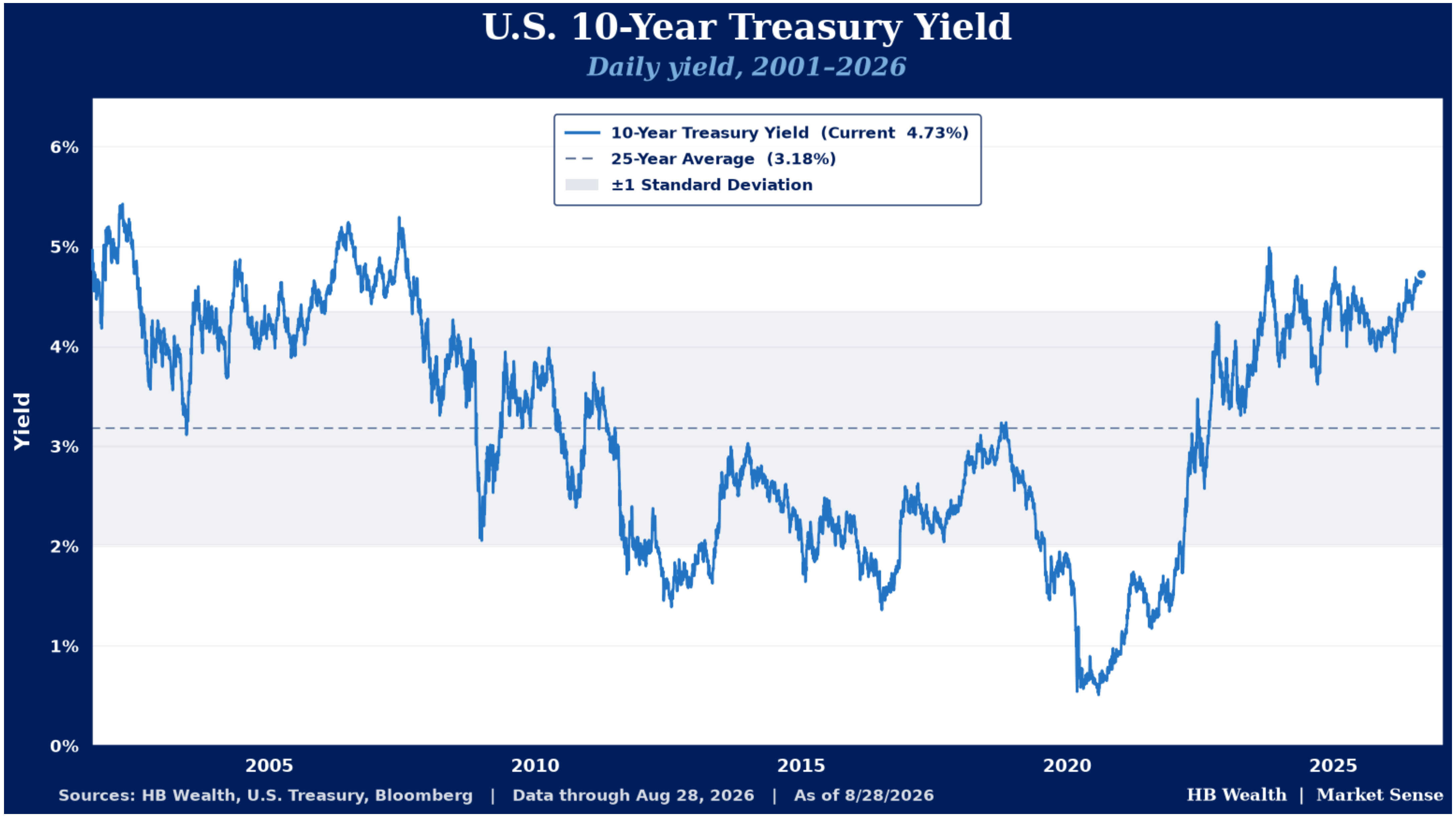

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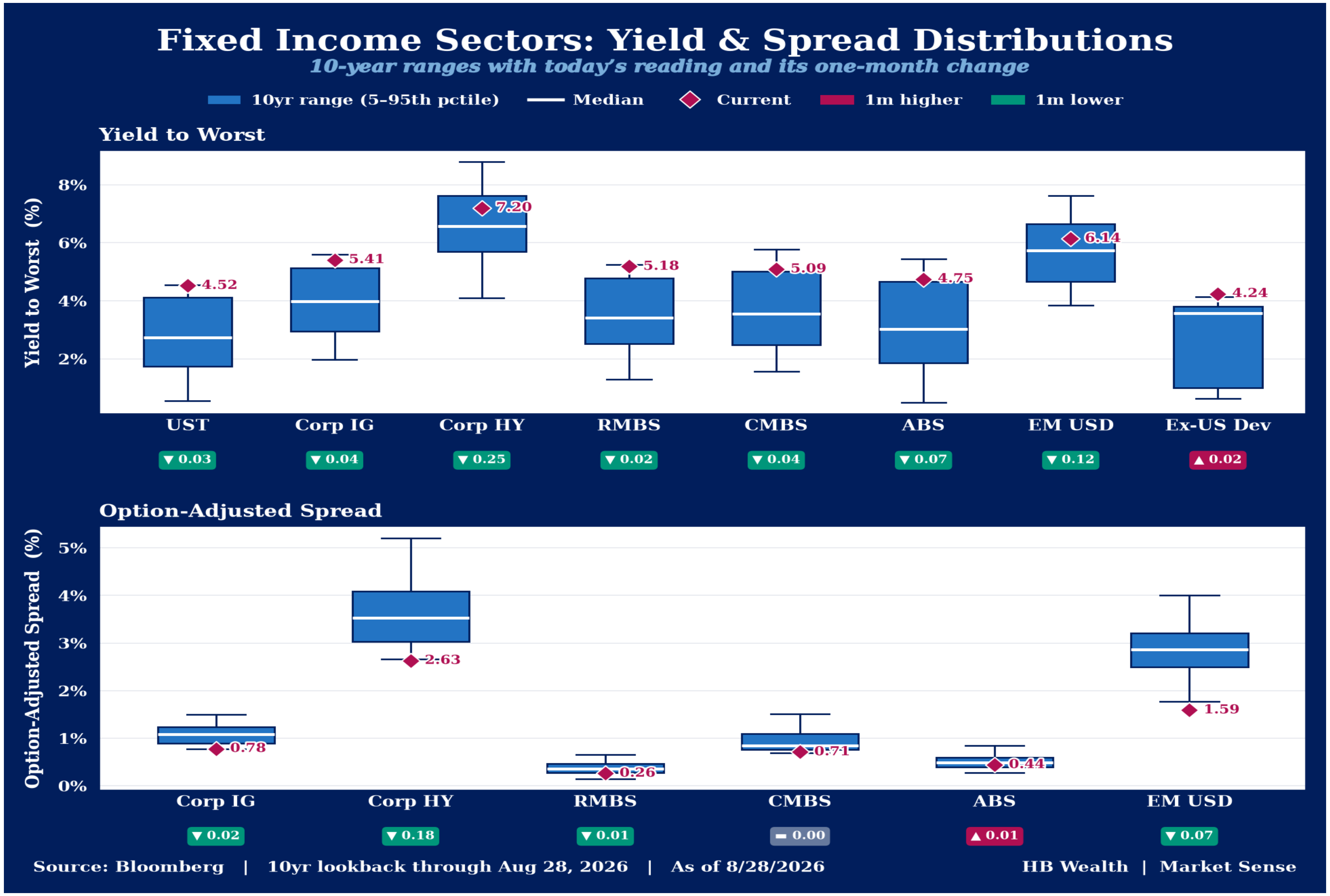
Fixed Income Spreads

Historically tight spreads across fixed-income sectors provide little reprieve. Some idiosyncratic value can be found in more off-the-run areas of the securitized market.



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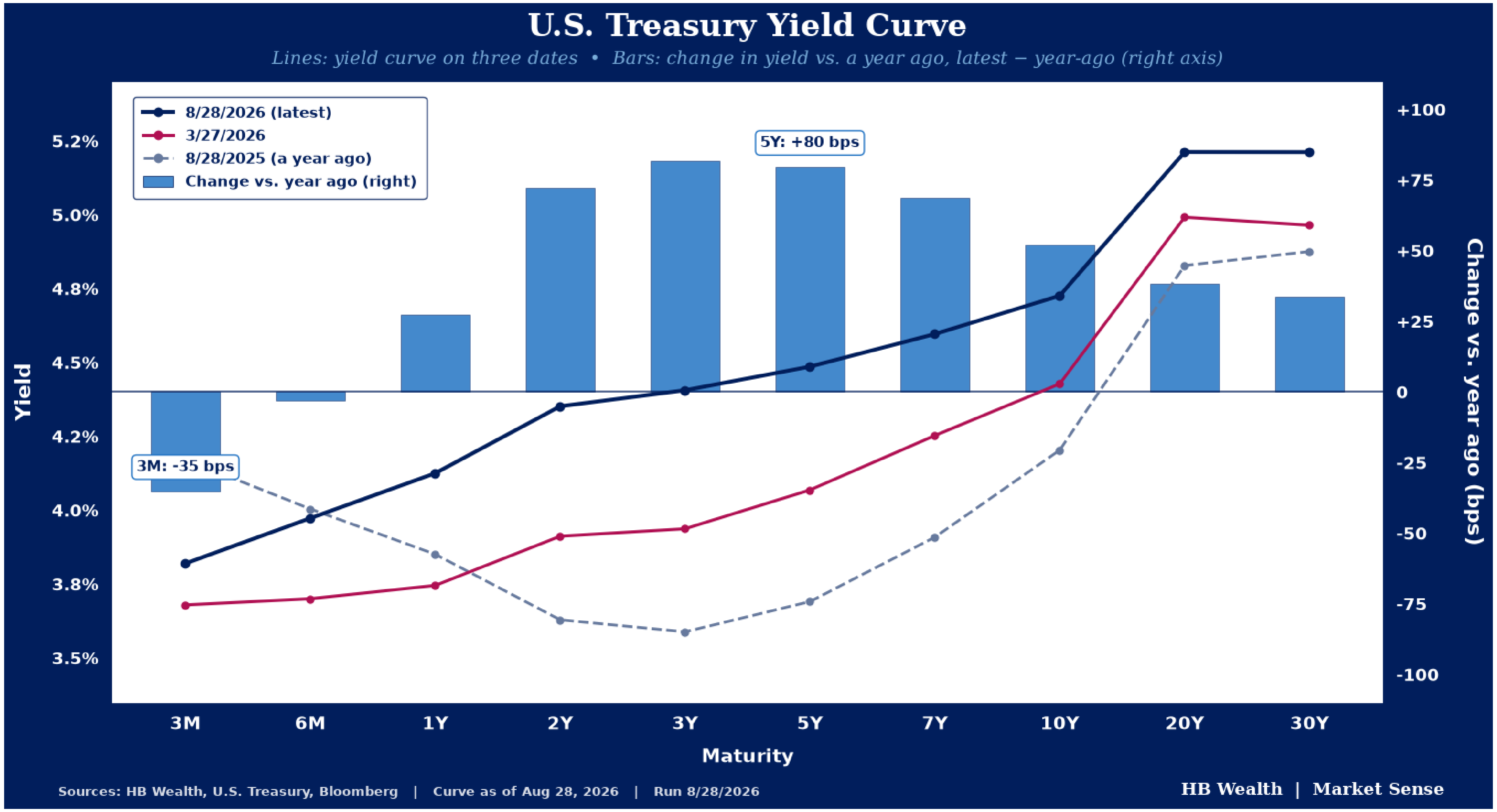
U.S. Treasury Yield Curve

The 5-year tenor has seen much of the action over the past year. Fed cut expectations have turned to hike expectations on the back of the war in Iran, as well as pricing in a higher, sustained PCE. This pushed the front end higher, while the 30-year has been elevated by deficit concerns and crowding by long IG Corporate issuance.



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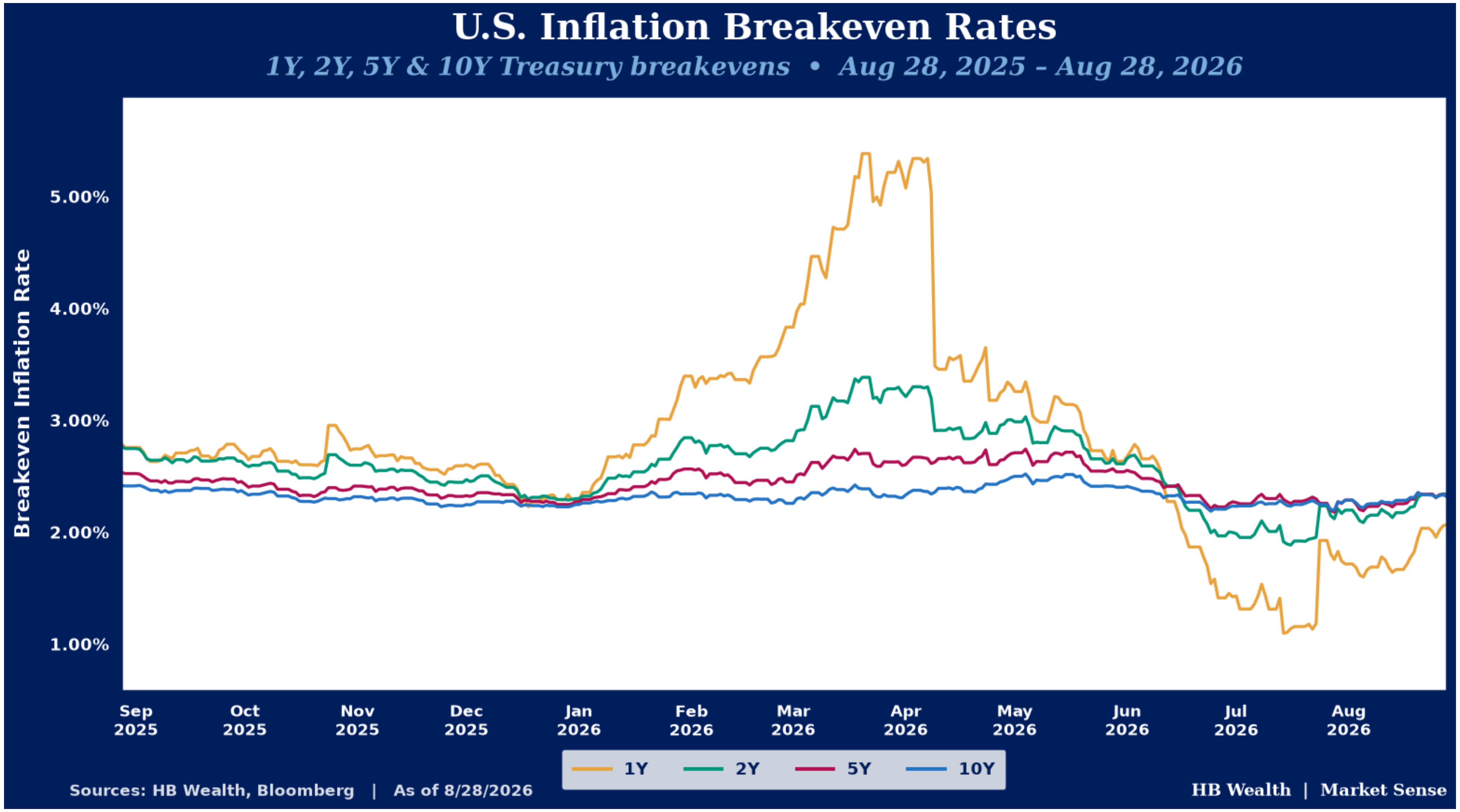
Inflation Breakeven Curve

The sharply front-loaded breakeven decline suggests that the oil shock will pass through the index and then roll off, as evidenced by the relatively stable longer-term prints. That is the market's way of saying that near-term inflation prints may be lower for mechanical reasons, rather than reflecting an expectation that the economy is genuinely disinflating in a way that changes the policy path.



The Flood of Hyperscaler Debt

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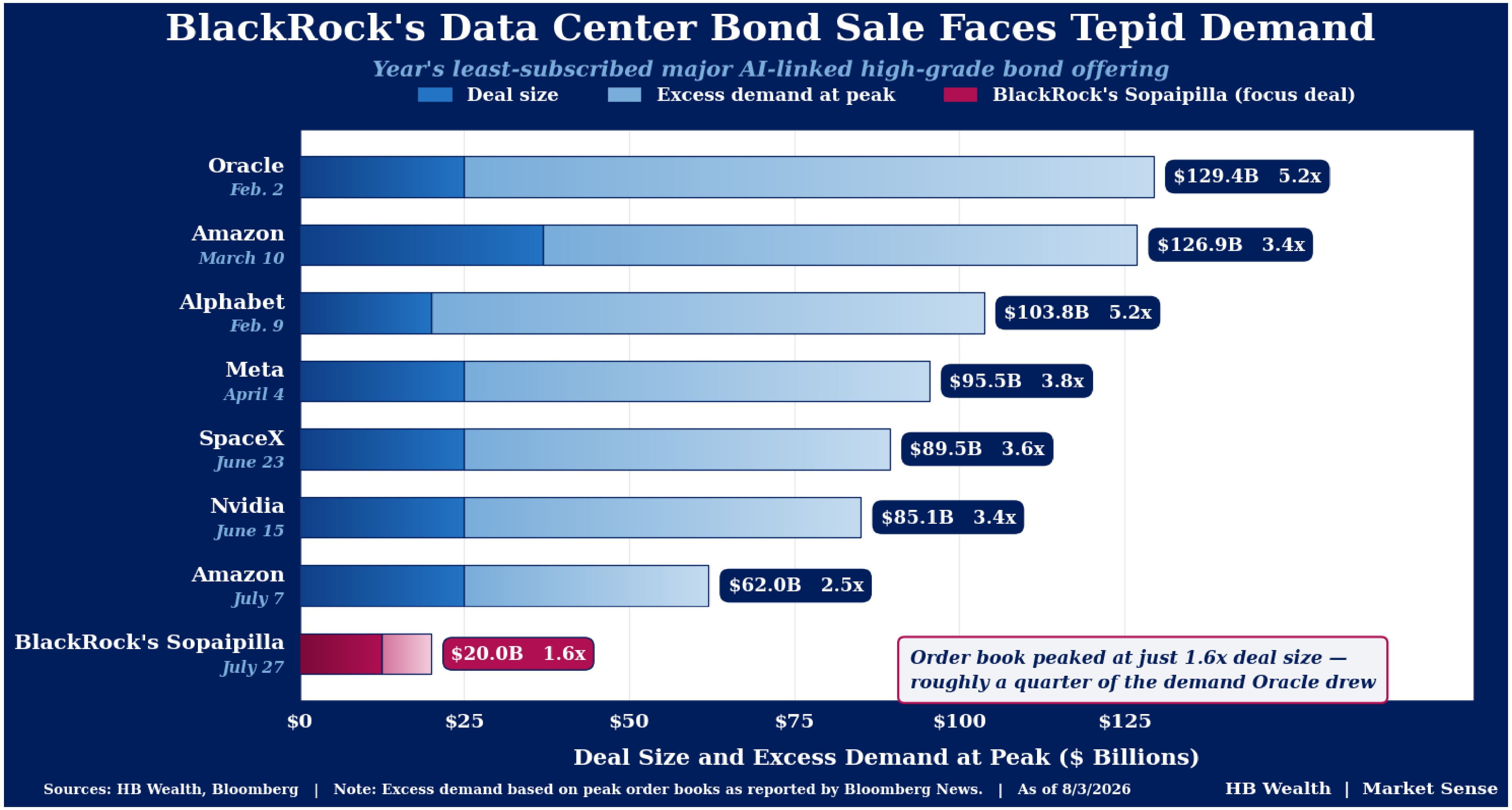
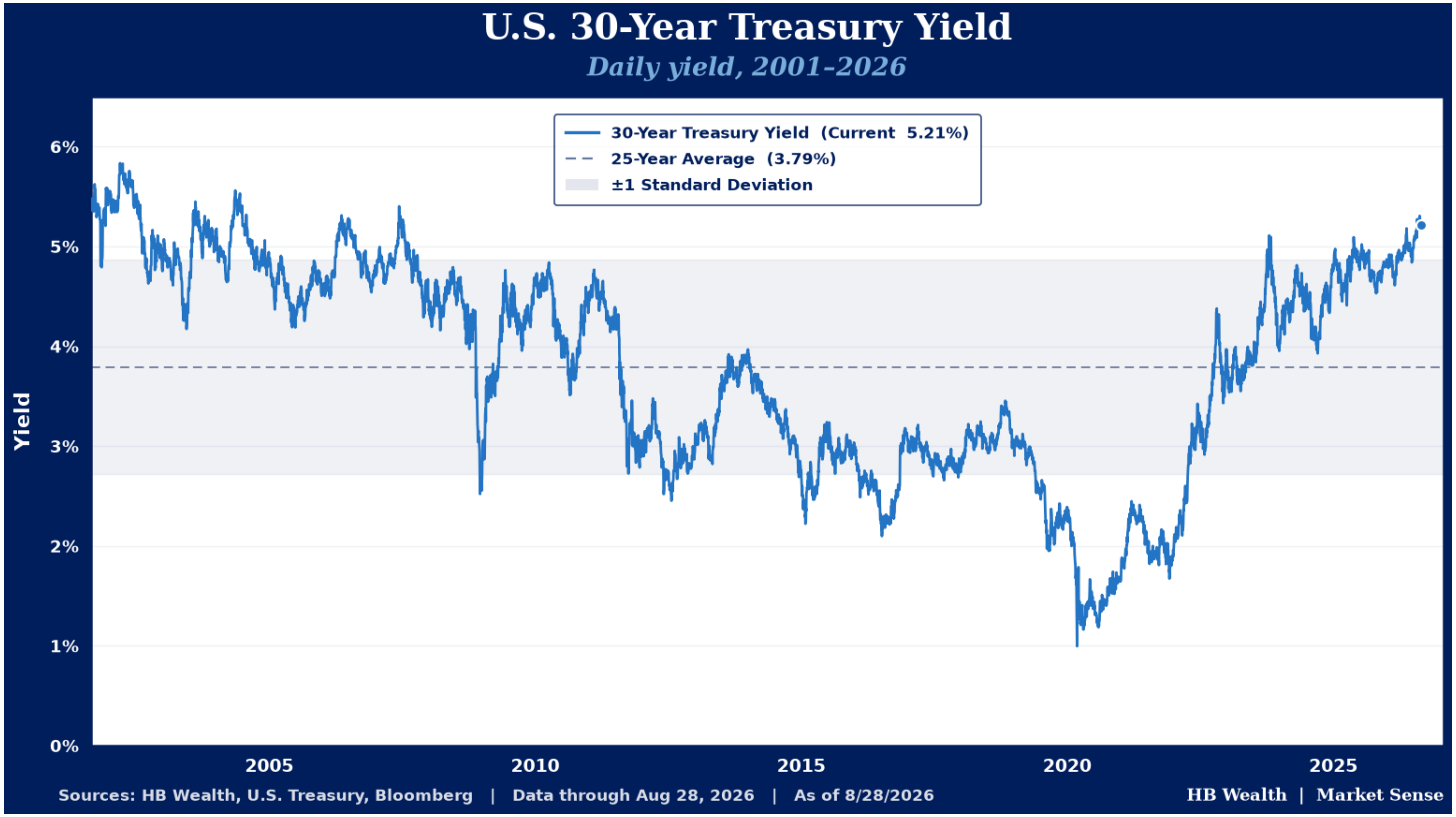
So far, the hyperscaler debt dynamic is more of a supply-side technical on relatively sound fundamental AA-rated credits, making the risk at the top of the structure one of downgrade rather than default. The key distinction among deals is structure: some are backed by parent-company guarantees and durable franchises, while others are project-level deals that may pose actual impairment risk. The volume of longer-dated debt issuance has been met by softer-than-typical demand for IG new-issue paper, as there are fewer natural buyers that far out.



30-Year Yields Nearing 20-Year Highs

Treasury Secretary Bessent announced a doubling of long-end Treasury buybacks as public debt crossed $40T and the 30-year Treasury briefly crossed 5.3%, its highest level since 2007. Relief was short-lived as market participants remain squarely focused on term premium, fiscal supply, and record AI-related issuance.



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