Economic and Market Review September 2026

September 30, 2026

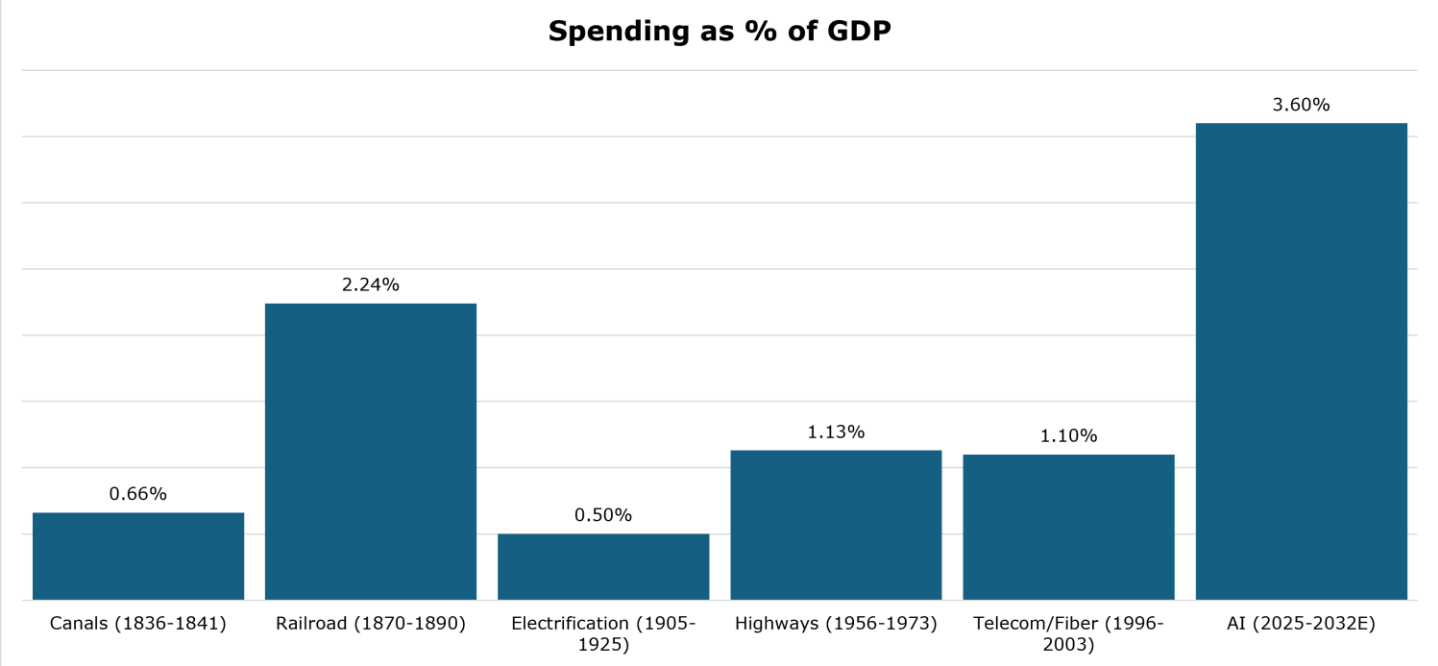
Equity Indices	Index Level	YTD Return
Dow Jones	50,906.05	5.91%
S&P 500	7,651.54	11.77%
NASDAQ	26,861.06	15.57%
MSCI EAFE	11,700.55	10.33%
MSCI Emerging Markets	2,687.68	22.04%
Bonds (Yield)	**Yield**	**YTD Return**
2yr Treasury	4.89%	1.41%
10yr Treasury	5.29%	1.13%
10yr Municipal	4.05%	-4.80%
U.S. Prime Rate	7.00%	
Commodities	**Price**	**YTD Return**
Gold	$4,173.51	-3.36%
Silver	$61.09	-14.58%
Crude Oil (WTI)	$91.16	58.76%
Natural Gas	$3.04	-17.61%
Currencies	**Index Level**	**YTD Return**
Dollar Index (DXY)	101.43	3.21%

Portfolio Review

We are cautious in our current asset allocation with a substantial allocation to treasury bills. Higher interest rates are generally a drag on stock market valuations and also the price of gold. Gold and silver which had spiked last year and into January 2026 are now negative for the year. Stocks are still up for the year, but with massive volatility especially at the individual stock level. Our energy stocks have served us well, but the offset is gold stocks have underperformed since the end of January and been a significant drag on the portfolio on a year-to-date basis.

Two Wars – Higher Energy Prices – Higher Inflation – Higher Interest Rates – Lower Valuation. The earnings for the S&P500 are surging under the unprecedented capital spending boom associated with AI (Artificial Intelligence). Spending for AI is larger as a

percentage of GDP than the internet build-out around 2000, the interstate highway system and the railroads.

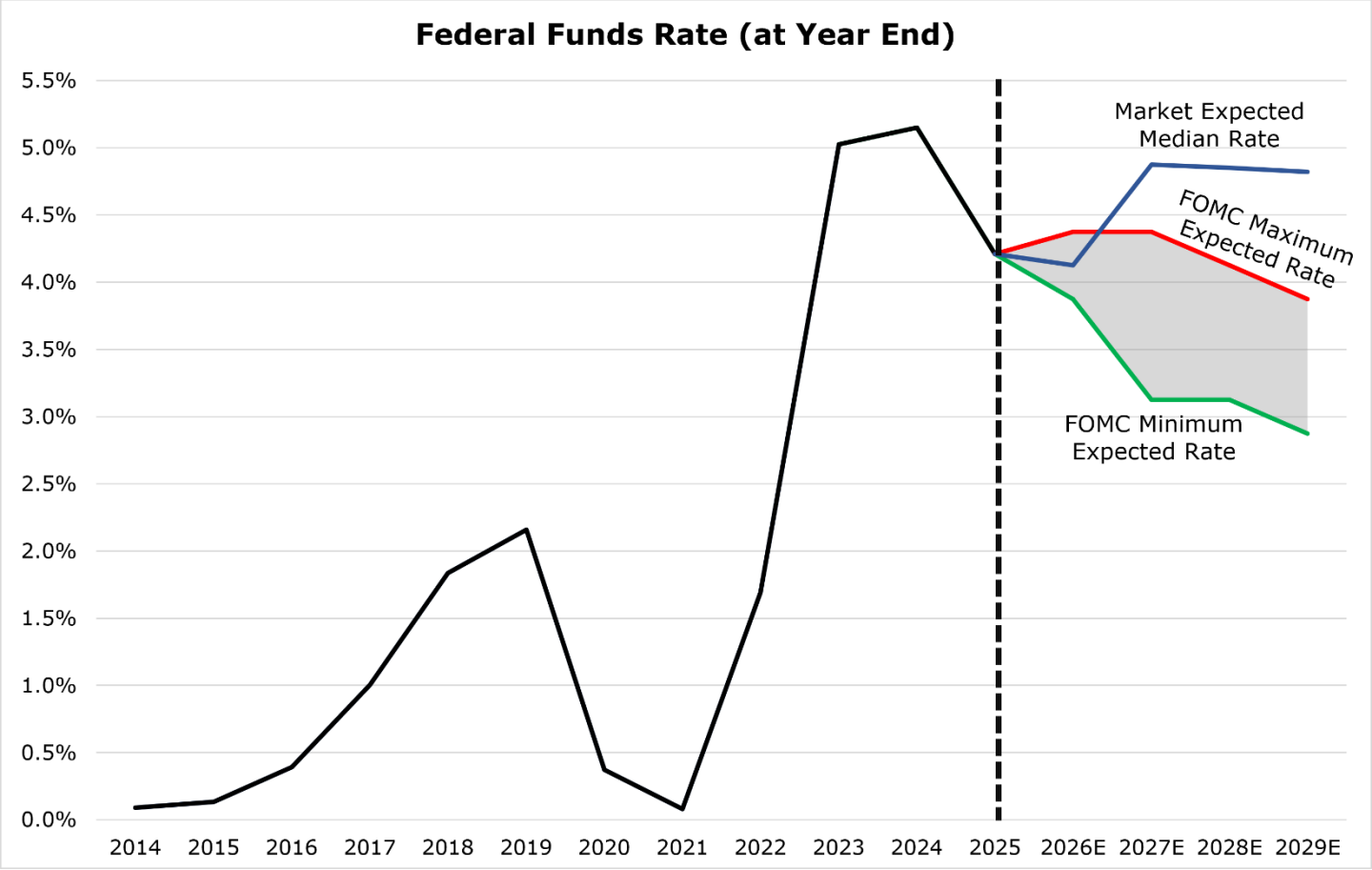


Tradition, Brookings. Measured as spending average over the stated time frame. AI is projected based on project-pipelines collected by Brookings.

The AI spending boom is being partially financed by debt at the same time as the US federal government is continuing its insatiable appetite for cash via debt. The combination of this unprecedented need for debt financing is contributing to higher interest rates. Higher rates eventually slow the economy which is our expectation for 2027.

Warsh Follows Through

The Federal Open Market Committee raised the federal funds target by 25 basis points to 3.75% to 4.00% on September 16, in a unanimous 12-0 vote. It was the first increase since July 2023, and it ended a pause that began in late 2025. The Summary of Economic Projections was more hawkish than the hike itself. The median projection for the year-end 2026 federal funds rate rose to 4.1% from 3.8% in June, and 16 of 19 participants now expect at least one more increase this year, with four projecting two.



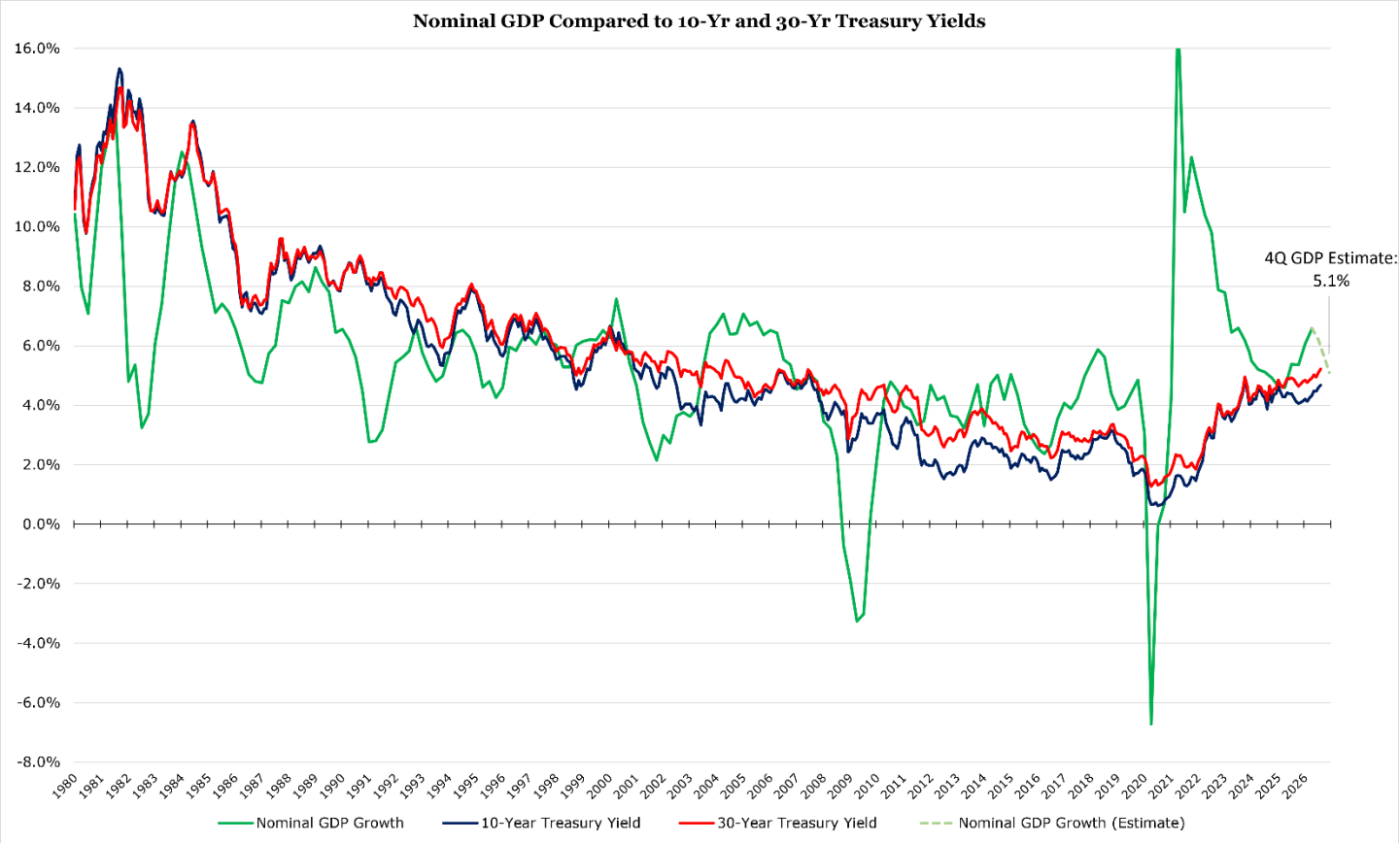
Tradition, CME, Fed

The statement described economic activity as expanding at a solid pace and inflation as elevated, and it said the move would support a timelier return to the 2% goal. In our August issue we argued that the Fed had two options: hike into improving inflation data or hold and accept a credibility cost. The committee chose the hike, and the U.S. Prime Rate moved up to 7.00%. The channel the Fed is worried about is energy pass-through, which Warsh flagged through refining crack spreads. This is the most pronounced in diesel as the Russian Ukrainian war disrupted refineries and diesel supplies. Please see page 5 for further discussion and price chart.

The 10-Year Clears 5%

On the Treasury's daily par yield curve, the 10-year yield rose from 4.75% on August 31 to 5.00% on September 15 and to 5.26% on September 29, the highest level since 2007. It traded as high as 5.31% on the morning of September 30 before the PCE

report. The 30-year rose from 5.25% to 5.59% on the par curve, its highest level since 2002.

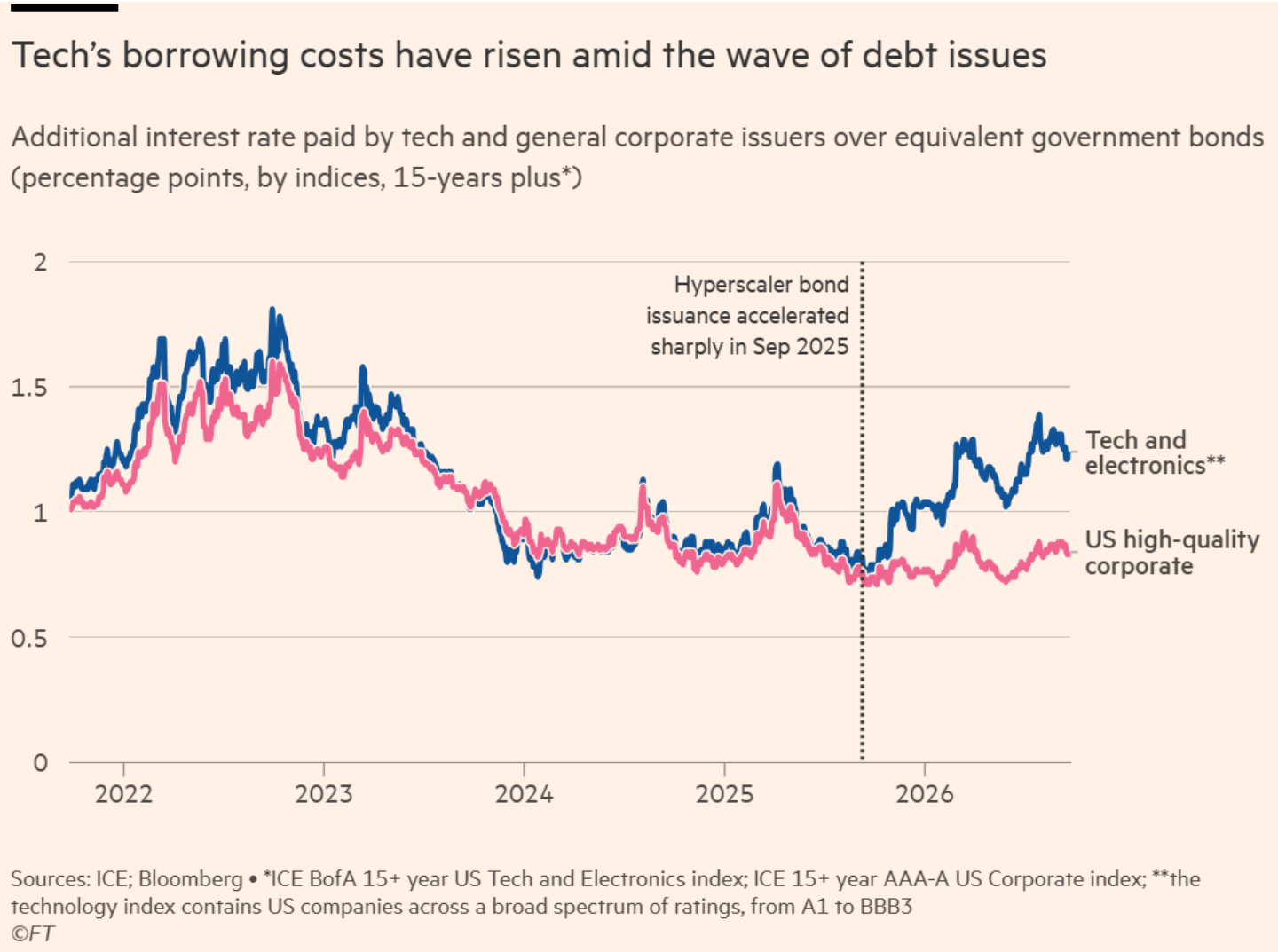


Tradition, FRED

The Treasury's expanded buyback program did not change the direction of the long end. On September 9 the department announced a purchase of up to $6 billion of 10- to 20-year securities for the following day, 3x the usual $2 billion size. Oil kept the inflation risk alive and the flash PMI release on September 23 pushed the 10-year yield up 15 basis points in a single session. At his press conference, Warsh named competition for capital from the technology hyperscalers as one of three reasons for higher long-term yields.

We think the larger question for equity investors is valuation. The S&P 500 finished the month close to where it started while the 10-year yield rose more than half a percentage point, and EY-Parthenon chief economist Gregory Daco warned that a December hike could increase the risk of a stock market correction. At 5.3%, the 10-year Treasury now competes directly with equities for new money. We would expect that competition to

show up first in rate-sensitive sectors such as utilities and real estate, and in long-duration growth stocks whose valuations depend most on distant cash flows.



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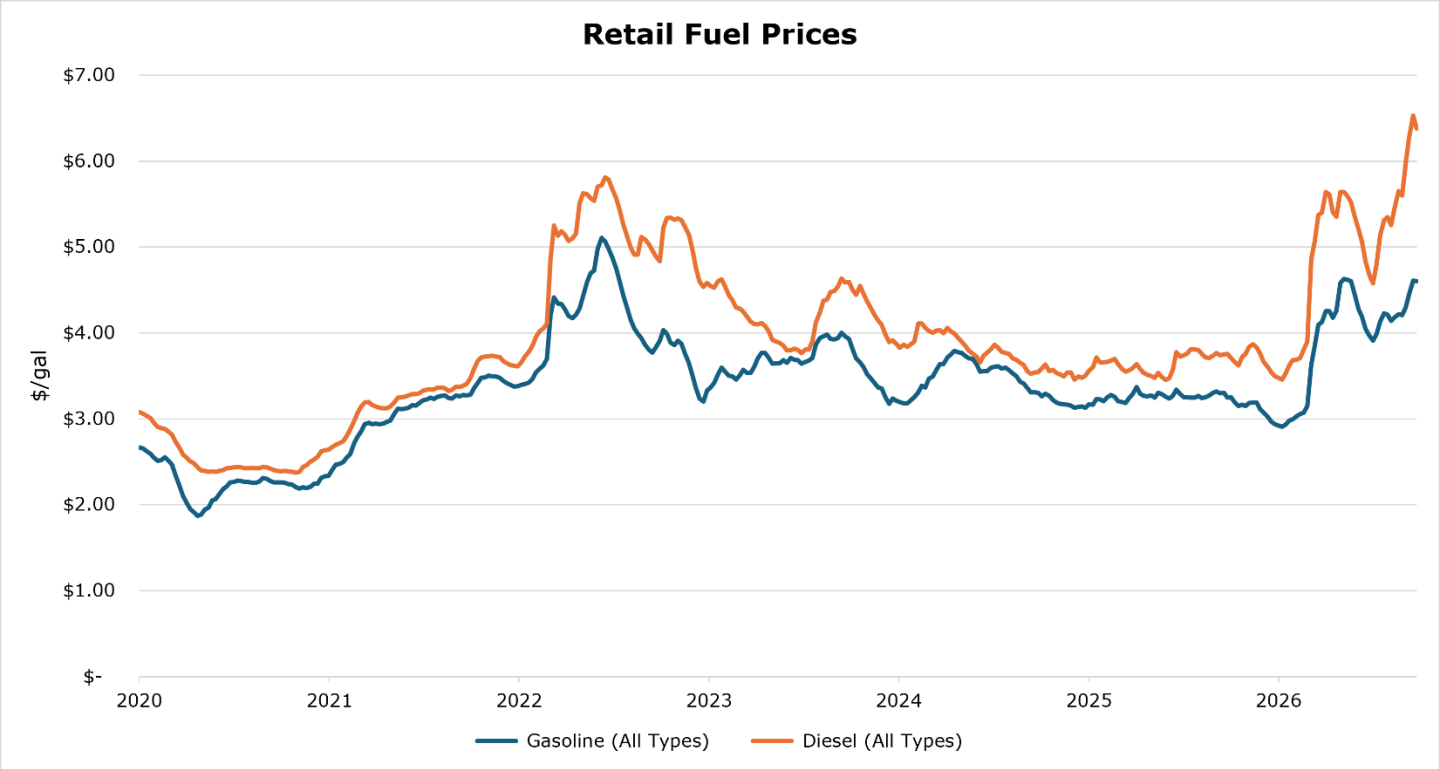
Washington Takes Aim at Diesel Exports

The tightest part of the energy market in September was diesel. U.S. crude topped $100 again on September 10 as renewed U.S.-Iran strikes raised concern about supply through the Strait of Hormuz, and front-month WTI traded as high as $105.63 during the month. Diesel did not follow crude down. On September 29, WTI fell 3.5% while October ULSD futures rose 3.0% to $4.8979 per gallon, a move DTN attributed to growing concern over a global diesel deficit. The national average retail diesel price

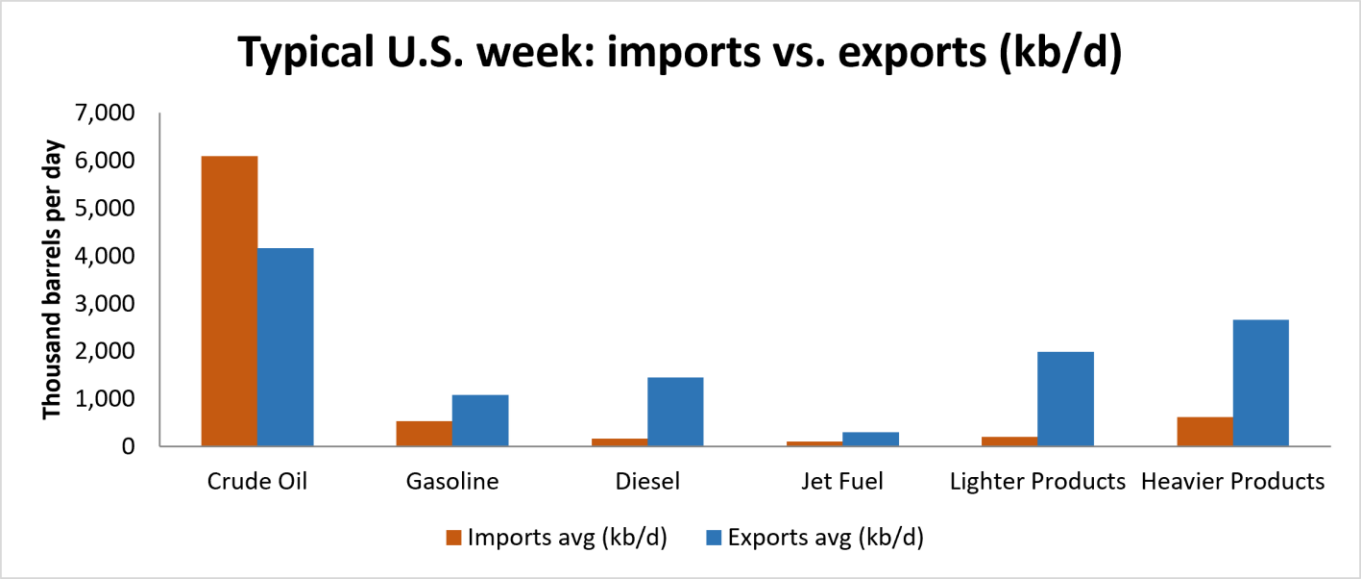
reached a record $6.52 per gallon in late September, up 77% from a year earlier, according to Yahoo Finance.



Tradition, EIA

On September 22, President Trump said he had called for a ban on U.S. diesel exports, and Treasury Secretary Scott Bessent said the administration was studying whether a full or partial ban is feasible given refining capacity. Politico reported that a 90-day ban was under consideration, and on September 27 the President said he was looking at it "very seriously," according to Bloomberg. The United States produces about 5.2 million barrels per day of diesel and uses about 3.6 million, according to the EIA. A ban would therefore keep roughly 1.6 million barrels per day of exports in the domestic market. Most of those barrels would stay on the Gulf Coast, where the export terminals are. The Colonial Pipeline carries about 1.1 million barrels per day of distillate to the East Coast and is already running near capacity. The Jones Act also limits tanker shipments from the Gulf to the Northeast; hence, a ban would do little outside the Gulf region unless the Jones Act is suspended as well. Senator Chuck Grassley and several Midwestern

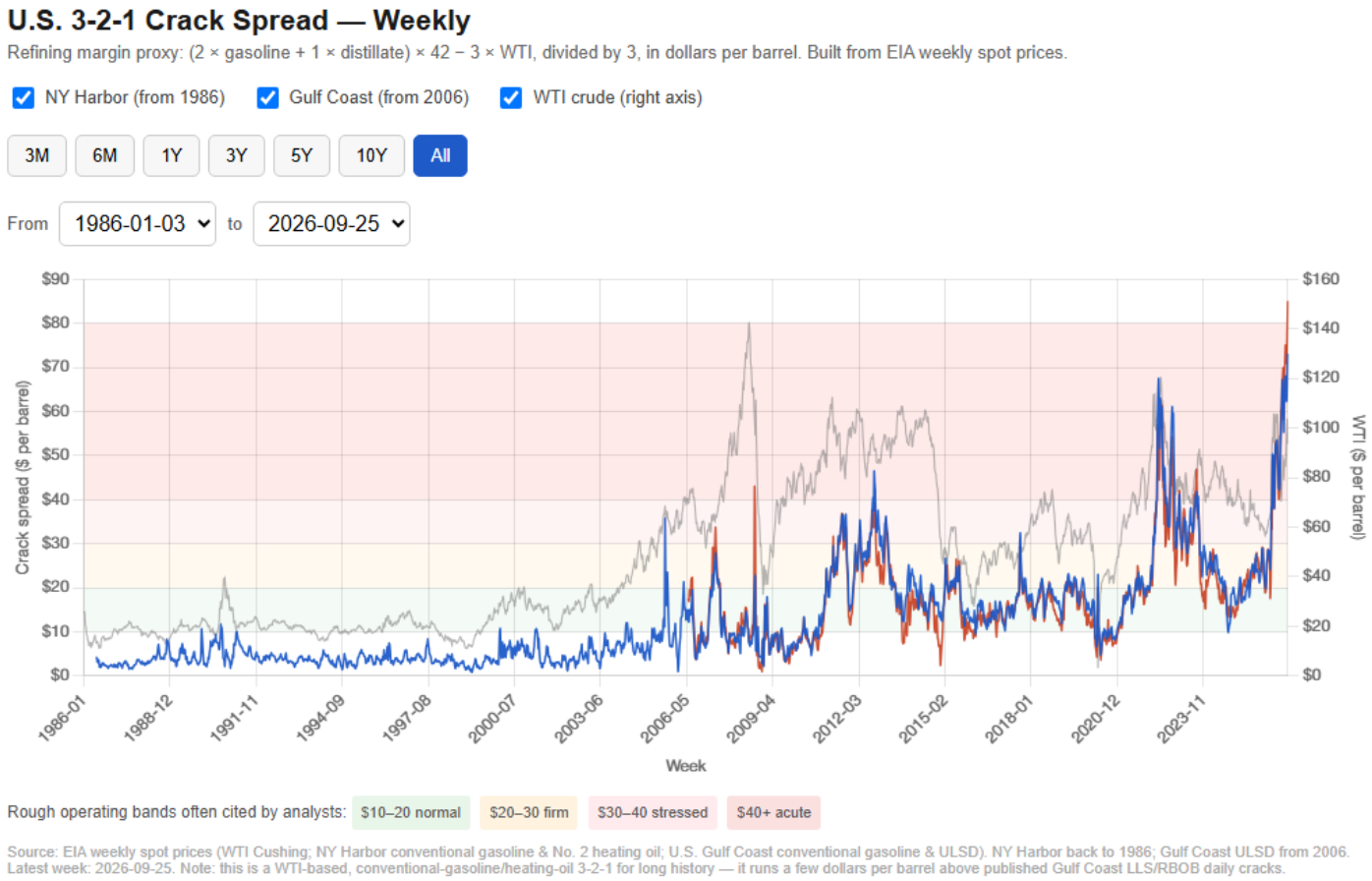
Republicans support the export ban idea, Senator John Cornyn called it a gimmick, and the American Petroleum Institute opposes it.



Tradition, EIA

Refining stocks, among the best performers of the year, sold off on the news. In the week to September 24, Valero fell 6.8%, Marathon Petroleum fell 6.2% and Phillips 66 fell 3.1%. Valero reported U.S. Gulf Coast diesel margins of $43.52 per barrel in the

second quarter against $14.79 a year earlier, and the New York 3-2-1 crack spread stood at $58.26 per barrel on September 29.



data4thepeople

The administration is also drawing down the Strategic Petroleum Reserve. The Energy Department offered up to 40 million barrels as an exchange for November and December delivery, with bids due October 6. The reserve holds 283.8 million barrels, its lowest level since October 1982. If draw is executed, it could the SPR to below 250

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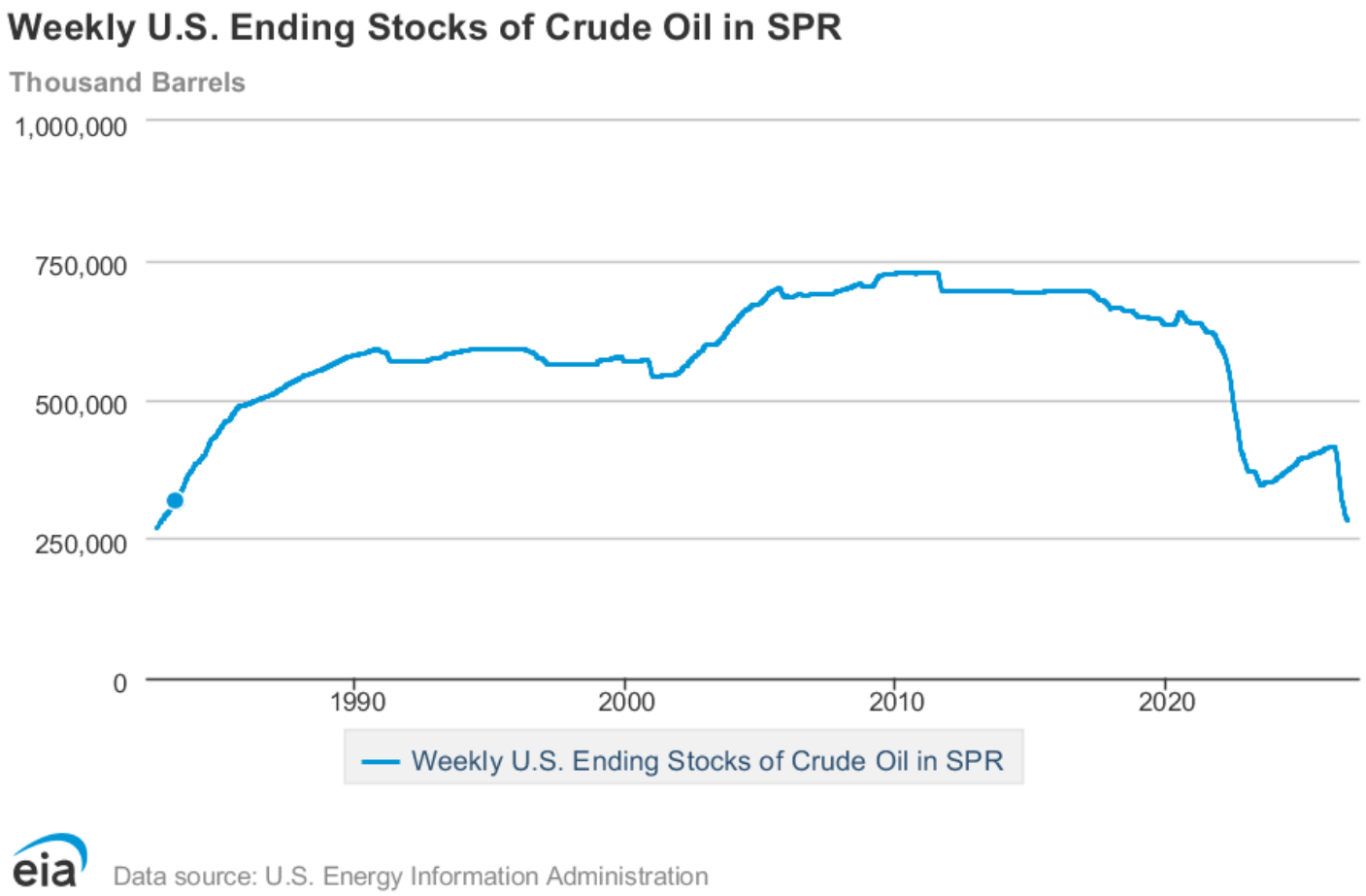
million barrels. The SPR is reaching levels that should not be breached in order to avoid damaging the storage caverns.



We believe an export ban would lower domestic diesel prices for a short period and raise them in every other market. Refiners would have to sell the surplus at home at a discount, and the economist Joseph Brusuelas has cautioned that producers could respond by cutting output. For the Fed, diesel is the part of the energy shock most likely to keep headline inflation elevated into the winter heating season.

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