

September 2026

The range of outcomes for rates in the long-term has rarely been this wide, and we think the asymmetry points lower. Two opposite paths could end in the same place. If AI delivers the revenue its spending implies, the productivity shock is deflationary and rates will fall. If it disappoints, equities reprice and the rotation into Treasuries drags long rates down anyway. Market consensus is fixated on supply lifting yields. We believe this is fair in the near term as these themes will take time to play out.

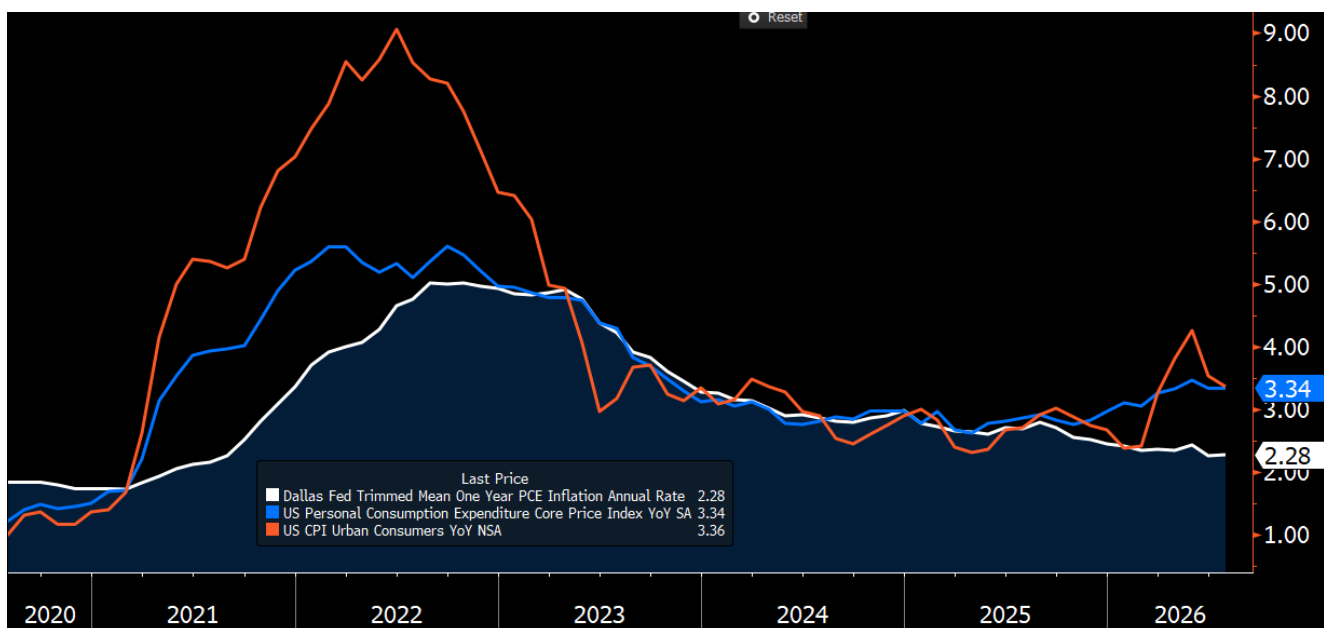
In August, the economy added 162k jobs against a 55k consensus, unemployment held at 4.1%, while participation rebounded to 61.6%. Additionally prior months payrolls were revised up 55k, erasing July's reported loss. Most of the jobs came from: bars and restaurants and local government education, while the information sector shed another 23k as AI appears to be eating computing and publishing roles. This report was strong enough to keep the Fed focused on the inflation side of its mandate, not labor. Hike odds for September jumped above 50% after the report. One thing we are watching is the AI build is cannibalizing housing. Data-center sites are pulling electricians and plumbers off residential jobs with 25% to 30% pay raises, worsening a structural shortage and keeping shelter sticky. This is inflationary now and AI related deflationary later.

The near-term challenge is oil. US clashes with Iranian forces in the Strait of Hormuz drew retaliation on Gulf bases, Brent pushed above \$100, and diesel hit its highest since 2022. July CPI was tame at 3.4% headline and 2.5% core, but shelter drove two-thirds of it and real wages are negative year over year. Core PCE remains stuck near 3.3%. All eyes will be on Friday's CPI report which is the last major data point before the FOMC meeting.

It appears Washington will be divided following the November midterms, and history suggests post-midterm gridlock is the kind markets typically favor. The S&P 500 has been higher in the 12 months following every midterm since 1950, 19 for 19, with an average gain of roughly 14% to 16%, versus about 5% in non-midterm years.

Chair Warsh is "family fighting" his own committee. We believe he wants to hold the line on rates, while also needing markets to view him as hawkish as he buys time until his five task forces report near year-end. We expect those findings to support a lower alternative read on inflation, potentially using measures such as the Dallas Trimmed Mean PCE (graph below), along with a smaller balance sheet. A Fed with no forward guidance leans will force markets to lean on every economic release while energy keeps Warsh boxed in through the fall. In the meantime, we see a 25 bps maintenance hike in September as a high possibility.

Alternative Inflation Measures



Product Views

Rates: The 10-year is back near 4.85% and the 30-year around 5.30%, with the 2-year at 4.40% and the 5-year at a fresh 52-week high after the jobs report. The curve has bear-flattened since early August as the front end priced a hawkish Fed. We remain cautious on duration as this the asymmetry describe on page one, will take time t play out.

Credit: The AI funding supercycle has created a wave of price-insensitive debt issuance. IG supply has reached a record \$1.9 trillion through August, with another \$200+ billion forecast for September. For now, demand is absorbing the supply; new-issue concessions remain tight at roughly 3 to 7 bps versus a more normal 8 to 12 bps. A meaningful widening in concessions would be the first real sign that the supply wall is beginning to overwhelm the bid, and we would view that as an early warning.

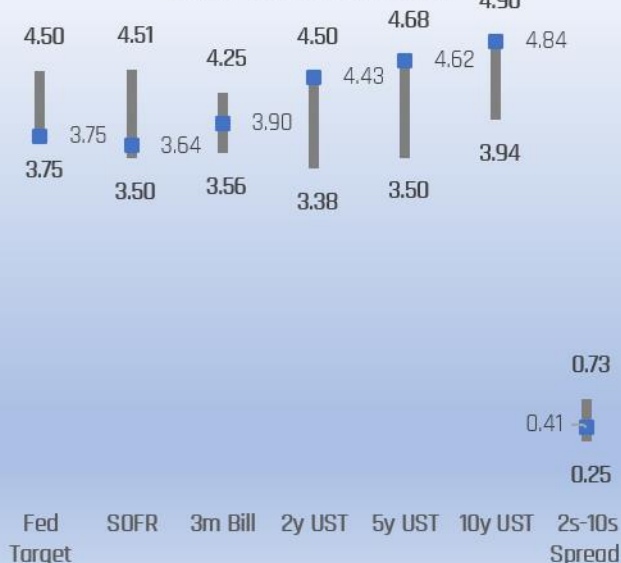
With leverage increasingly migrating into private credit, stress may surface first through private marks and wider primary concessions before it appears in public-market spreads. With the hyperscaler wall of issuance still building, we remain cautious on AI-linked names.

The more constructive opportunity may be further down the chain. With power increasingly the binding constraint, renewables and storage could quietly move back to center stage regardless of the politics, because electrons are electrons. We see potential beneficiaries in power-equipment makers, regulated utilities, independent power producers, and battery storage.

Securitized: Sticking with the AI theme, data-center securitization is becoming an increasingly important source of funding. Combined ABS and CMBS issuance reached roughly \$26 billion in 2025 and is expected to approach \$40 billion this year. These deals typically finance stabilized, leased data centers, but a AAA “real estate” label can still mask concentrated hyperscaler lease and counterparty risk. We favor diversified, multi-tenant deals over single-tenant hyperscaler exposure, where the credit ultimately depends on a much smaller number of counterparties.

TIPS: With the near-term inflation story likely to remain elevated, short-dated TIPS (<2 years) have our attention. Current breakevens suggest the FOMC will be successful in bringing inflation down quickly to levels around 2.5%, which we think is unlikely. TIPS do have some nuances, so we would suggest using a professional manager to identify and capture the relative value.

Last 12 Months (%)



Last 12 Months (bps)

