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WEALTH MANAGEMENT

The Weekly Market Update - 8/31/26: A Fed Speech for the Ages

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	LTM	All-Time High	% from High
S&P 500	7,711.76	0.49%	2.83%	12.65%	21.65%	7,798.99	1.1%
Dow Jones Industrial Average	53,559.99	0.53%	2.37%	11.44%	21.37%	54,349.12	1.5%
NASDAQ Composite	26,402.42	0.85%	0.72%	13.60%	25.00%	27,093.90	2.6%
Russell 2000	2,972.37	-1.51%	-1.72%	19.76%	34.40%	3,068.42	3.2%
MSCI EAFE (USD)	3,246.34	0.08%	4.16%	12.22%	24.09%	3,262.58	0.5%
MSCI Emerging Markets (USD)	1,722.14	0.01%	-0.04%	22.63%	38.52%	1,802.77	4.7%
Bloomberg Commodity Index	140.19	-0.21%	13.81%	27.81%	38.55%	237.95	69.7%
Barclays U.S. Aggregate Bond	91.76	0.06%	-1.39%	-2.46%	-0.48%	112.07	22.1%

Source: FactSet

Kevin Warsh delivered an impressive keynote address at the Fed's annual Jackson Hole event, highlighting multiple essential topics and investor concerns. The Kansas City Federal Reserve Bank, or Fed, held its annual Economic Policy Symposium in Jackson Hole, WY. On his 100th day as new Fed Chairman, Kevin Warsh opened the conference with a stirring speech that emphasized the Fed's commitment to increase short-term interest rates soon if inflation data remains elevated. The speech provided clear thoughts on the current state of the economy, including artificial intelligence (AI) driving business investment, and ongoing resilience of the U.S. consumer. In our view, Chair Warsh delivered on high expectations and strengthened market confidence that the Fed will effectively deploy monetary policy tools to support the U.S. economy and remain independent from political pressure. The initial bond market reaction was higher interest rates from U.S. Treasury yields (TY). The U.S. 2-year TY (on 8/31/26 vs. 8/27/26-pre-speech) was 4.34%, up from 4.24%, and the U.S. 10-year TY moved to 4.76% from 4.67%. In addition, the futures market on Monday reflected a 68% chance the Fed will increase its overnight fed funds interest rate target range by +0.25% at the next meeting on 9/16/26. This was up from a 41% probability one week ago and a hike would take the fed funds target to 3.75% to 4.00%. In our view, equity markets can tolerate modestly higher interest rates if the economic growth outlook remains above +2.0%, and markets believe that the Fed is committed to using interest rates to tame inflation. Chair Warsh's closing comments emphasized that he is "committed to a discipline, not to a decision."

Chair Warsh commented on AI, appropriate Fed guidance, and monetary policy key principles. At Jackson Hole, the Fed Chair said that AI has the potential to create substantially higher long-term economic growth and erode a long-standing view from some policymakers that secular stagnation will limit global growth. But as the AI economic impact is early and uncertain, the Fed will be cautious in current policy decisions. We believe the Warsh Fed will scale back on its quarterly Summary of Economic Projections (SEP) which was essential during the Global Financial Crisis but has less utility today, according to Warsh. He compared giving detailed guidance to a "hall of mirrors" where markets rely on Fed interest rate guidance and the Fed relies on market prices. Warsh wants both the Fed and investors to watch asset prices, including commodities, movements in Treasury yields, and credit conditions (interest rate spreads). If the Fed allows inflation expectations to adjust meaningfully higher, it is the American public that will suffer the most. The Fed Chair laid out core principles for monetary policy including the Fed's +2.0% inflation target is firm and fixed, the Fed must deliver stable prices and support full employment, data sources must be improved, the fed funds rate is and will be the Fed's primary tool, and the size of the Fed's balance sheet to support the Treasury market matters.

The Fed sees a strong U.S. economy, but inflation is a problem. At Jackson Hole, Fed Chair Warsh said that strong economies can absorb shocks and that in the U.S. both "Main Street and Wall Street have been remarkably resilient." He pointed to business capital investment as the "seed of future…growth" and to strong corporate earnings growth. Real consumer spending has been above +2% for a year and gross domestic final purchases (a measure of domestic activity) above +3%. At the same time, inflation was above the Fed's +2% target for 65 consecutive months, and more than half inflation categories are above +3% year-over-year. In our view, the Fed will impose interest rate hikes if inflation trends do not meaningfully improve over the next couple of months (PCE inflation was +3.7% in July, up from +2.9% in February 2026).

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Russell 1000 index includes the largest 1000 companies (by market capitalization in the Russell 3000 index. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts estimates from firms that submit estimates to FactSet for a given financial metric.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The next scheduled FOMC meeting is over two days 9/15/26 and 9/16/26. The Fed balance sheet represents the value of Treasury securities and mortgage securities that the Fed owns and are held as assets.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The Summary of Economic Projections (SEP) represent individual projections from Federal Reserve Board members and Fed bank presidents and rely upon individual assumptions.

The Federal Reserve Bank of Kansas City's Economic Policy Symposium in Jackson Hole, Wyoming, is one of the longest-standing central banking conferences in the world. The event brings together economists, financial market participants, academics, U.S. government representatives, and news media to discuss long-term policy issues of mutual concern. The 2026 Jackson Hole Economic Policy Symposium was held August 27-29. The topic was "Financial Innovation: Implications for Payments and Policy." A transcript of Kevin Warsh's opening speech is linked.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE).

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures and adjustments for inventories and net exports (imports). Non-Residential Fixed Investment includes several subcategories including software and information processing equipment that measure investment in technology. Imports of goods and services are subtracted from GDP data (products are not produced or performed in the U.S) while exports are added to GDP. Gross domestic final purchases measures the market value of goods and services purchased by U.S. residents, regardless of where the goods and services were produced. It excludes the GDP net exports adjustment.

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities. AI infrastructure refers to spending on data centers, graphic processors (GPUs), networking, power, and cloud computing capacity.

The CME Group published a FedWatch Tool that computes the probability of changes to the Fed rate (fed funds interest rate target) implied by 3-0-day fed funds futures prices. The probability of a rate hike (or conversely, a rate cut) is calculated by adding the probabilities of all target rate levels above (or below) the current target rate. Probabilities of possible fed funds target rates are based on fed funds futures contract prices, assuming that rate hikes/cuts are uniformly sized in increments of 25bps (0.25%), and that the Effective Fed Funds Rate (EFFR) will react proportionally to the size of the hike/cut.