D|A DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update - 9/14/26: Interest Rates March Higher

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	LTM	All-Time High	% from High
S&P 500	7,656.98	-0.80%	2.10%	11.85%	18.52%	7,798.99	1.9%
Dow Jones Industrial Average	52,573.29	-1.57%	0.49%	9.38%	15.43%	54,349.12	3.4%
NASDAQ Composite	26,333.04	-0.66%	0.46%	13.30%	22.73%	27,093.90	2.9%
Russell 2000	2,903.94	-2.41%	-3.98%	17.00%	22.71%	3,068.42	5.7%
MSCI EAFE (USD)	3,194.03	-1.39%	2.48%	10.42%	17.32%	3,262.58	2.1%
MSCI Emerging Markets (USD)	1,721.53	-0.28%	-0.08%	22.58%	36.80%	1,802.77	4.7%
Bloomberg Commodity Index	145.22	1.65%	17.89%	32.39%	41.28%	237.95	63.9%
Barclays U.S. Aggregate Bond	90.47	-1.09%	-2.78%	-3.83%	-2.79%	112.07	23.9%

Source: FactSet

We expect the U.S. Federal Reserve Bank (Fed) to increase interest rates at this week's scheduled monetary policy meeting. The Fed has held its overnight bank lending fed funds interest rate target range unchanged at 3.50% to 3.75% for five consecutive meetings, with the last change a -0.25% decrease in December 2025. But stubborn inflation and rising oil prices have driven market-traded interest rates significantly above the fed funds target, an indication that bond investors believe the Fed is behind the curve. With news that the consumer price index (CPI) increased +3.4% in August year-over-year (Y/Y), the benchmark consumer inflation reading has remained above the Fed's +2.0% target for 66 consecutive months and the 2026 monthly average (through August) was +3.3%, higher than the full-year monthly average in 2025 and 2024 (+2.7% and +3.0%, respectively). In addition, due to escalation in the Strait of Hormuz, oil prices, as measured by West Texas Intermediate (WTI) crude, were $104 per barrel on 9/14/26, up from $84 on 7/31/26. U.S. Treasury yields (TY) have surged higher since the end of July, with the 10-year TY at 4.97% (9/11/26), up from 4.71%, and the 2-year TY at 4.63% compared to 4.27% on 7/31. The 10-year yield is a proxy for U.S. long-term interest rates and is at its highest level since 2007. The 2-year yield reflects U.S. short-term interest rates and in recent years has been a reliable forward indicator of future Fed interest rate changes. The current level of 4.63% is 100 basis points above the midpoint of the fed funds target range. The fed funds futures market (revealed through the CME Group FedWatch tool, as of 9/11/26) priced in an 87% probability of a +0.25% fed funds hike this week, and a 76% chance of an additional +0.25% hike by year-end. We believe investors will be disappointed if the Fed does not hike rates, conceding that the risk of persistent inflation has increased. Equity markets are likely to remain on edge for now, weighing solid economic data vs. the potential for a sustained period of Fed tightening.

Annual inflation remained elevated in August as prices moved higher from July levels. Headline CPI increased +3.4% in August Y/Y. This was unchanged from July and ended two consecutive months of Y/Y improvement since 2026 inflation peaked at +4.2% in May. The annual increase reflected gasoline and fuel oil +27.4% and +52.0%, respectively, while electric utilities increased +3.8% Y/Y and gas utilities increased +4.4%. Overall, food increased +2.7%, but food away from home (restaurants) rose +3.4%. Core CPI, which excludes food and energy, increased +2.4%, the lowest monthly Y/Y increase of 2026, but the month-to-month (M/M) increase was +0.3%, the highest since April, sending a warning signal that inflation pressure from energy could seep into other areas. M/M inflation was +0.3% or higher for new vehicles, used vehicles, motor vehicle repair, airline fares, and shelter. Although core inflation remains much closer to the Fed's +2.0% target, there is more work to be done, and as oil prices have surged back to four-month highs, there is very little to suggest near-term improvement.

As investors wait for the Fed interest rate decision on Wednesday, key economic data releases are also on the calendar. The Fed meeting will include a press conference scheduled for 2:30pm ET on 9/16/26, and the Fed will update its Summary of Economic Projections (for GDP growth, unemployment, interest rates, and inflation). August retail sales (Census Department), due Wednesday, are expected to show a M/M increase following a July decline. In general, consumer spending trends were better than expected in recent months and the August data could set the investor outlook for the fall. Also scheduled are reports on housing starts, industrial production, and capacity utilization. The FactSet consensus for third quarter GDP growth was +2.3% annualized as of 9/11/26.

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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 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). The last monthly headline CPI report below +2.0% on a year-over-year basis was +1.7% in February 2021. The last core CPI below +2.0% was +1.6% in March 2021.

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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.

U.S. oil prices are often described using the price per barrel of West Texas Intermediate (WTI. This is a high quality low density crude oil grade sourced primarily from the Permian basin. Futures contracts and spot prices are traded on the New York Mercantile Exchange (NYMEX). Data on the economics of oil price changes on the retail price of gasoline can be found from the Federal Reserve Bank of St. Louis and the U.S. Energy Information Administration (EIA). WTI was quoted at $100 per barrel on 9/11/26, the highest level since late May 2026.

The Strait of Hormuz is located in the gulf between Oman and Iran. According to the U.S. Energy Information Administration, an estimated 20 million barrels per day are transported on ships through the Strait on a daily basis. This includes liquified natural gas (LNG) as well and is an essential waterway for Gulf energy exports.

The Automobile Club (AAA) monitors daily fuel prices in the U.S., which can be tracked at: gasprices.aaa.com.

The CME FedWatch Tool analyzes the probability of FOMC rate moves for upcoming meetings. Using 30-Day Fed Fund futures pricing data, which have long been relied upon to express the market's views on the likelihood of changes in U.S. monetary policy, the tool visualizes both current and historical probabilities of various FOMC rate change outcomes for a given meeting date.

Retail Sales measures the change in retail sales for the given time period; the Monthly Retail Trade Survey provides current estimates of sales at retail and food service stores and is answered by about 4,900 retail and food service companies that are designed to represent the complete universe of over three million retail and food service firms in the U.S.; the control group excludes volatile items like gasoline, motor vehicles, and building materials; ex-auto excludes motor vehicles and parts dealers; ex-auto fuel excludes gasoline and motor vehicles; data reported by the U.S. Census Bureau.

Housing Starts is the number of housing units started in the U.S.; excluded are hotels, motels, group residential structures such as nursing homes and college dormitories, and manufactured (mobile) homes; seasonally adjusted; reported by the U.S. Census Bureau.

Industrial Production measures the change in the total inflation-adjusted value of output produced by our nation's industrial facilities, defined as factories (manufacturing), mines, and electric/gas utilities; reported by the Federal Reserve. Capacity Utilization measures the rate at which potential output levels are being met by our nation's industrial facilities, defined as factories (manufacturing), mines, and electric/gas utilities; reported by the Federal Reserve.