

The Market's Wishlist Is Not The Fed's Agenda

"Yeah... That's not going to happen." – Phil, *The Hangover* (2009)

Executive Summary

- **Labor market, softening but steady:** July payrolls fell by 23,000, yet the unemployment rate slipped to 4.1% as workers left the labor force, leaving the picture cooler but not cracked.
- **The Fed, less talk and no cut on offer:** Chair Kevin Warsh held rates at 3.50% to 3.75% on a divided 9-3 vote, kept forward guidance minimal, and framed a hike, not a cut, as the live question.
- **The long end, still climbing:** The 30-year Treasury pushed above 5.25% intraday and the 10-year touched a roughly 20-month high in August on term premium, supply, and fiscal concerns.
- **Iran, a standoff rather than an ending:** The conflict has settled into a cold-war rhythm of sanctions and retaliation that keeps a risk premium in oil and an inflationary tilt in the backdrop.
- **Crowding out:** AI financing and government borrowing are competing for the same pool of capital, pushing rates higher for consumers and businesses that had nothing to do with either.
- **Portfolio takeaway:** In our view this environment rewards diversification, deliberate duration, and a long horizon over positioning for a pivot that keeps not arriving.

Performance

Through 8/25/2026, the equity tape stayed constructive even as leadership rotated hard. The S&P 500 gained **4.39%** over the past month and sits at **13.77% YTD**, but the style gap is the real headline: Russell 1000 Value has returned **24.57% YTD** while Russell 1000 Growth has managed just **5.12%**. International has kept pace, with MSCI EM up **24.57%** and MSCI EAFE up **14.44% YTD**. Sector leadership tells the same rotation story: Energy leads at **40.39% YTD**, followed by Materials (**18.02%**) and Info Tech (**24.12%**), while Utilities (**2.54%**), Communication Services (**0.23%**), and Consumer Discretionary (**-0.95%**) bring up the rear. Fixed income is still fighting the long end: the U.S. Aggregate is flat at **0.11% YTD**, Treasuries off **0.16%**, and corporates barely negative at **-0.01%**, while short TIPS (**+0.76%**) and municipals (**+0.58%**) squeezed out gains. A tape where value, energy, and short duration lead is a tape that has stopped waiting for rate cuts, which is where the Fed comes in.

Market Performance Barometer Through 8/27/2026									
Performance					Performance				
	1 Mo	QTD	YTD	1-Year		1 Mo	QTD	YTD	1-Year
Equities (Sorted by YTD)					Fixed Income (Sorted by YTD)				
MSCI EM	5.05%	0.45%	24.57%	39.62%	Bloomberg TIPS 1-5 Year	0.47%	0.20%	0.76%	0.36%
Russell 1000 Value Index	3.20%	6.26%	23.47%	30.26%	Municipal Bond Index	-0.03%	-1.70%	0.58%	4.54%
MSCI EAFE	3.84%	4.12%	14.44%	22.07%	U.S. Aggregate	0.46%	-0.50%	0.11%	2.20%
S&P 500 Index	4.39%	3.25%	13.77%	19.95%	Corporate	0.55%	-0.86%	-0.01%	2.09%
Russell 1000 Growth Indx	5.86%	-0.20%	5.12%	9.61%	U.S. Treasury	0.36%	-0.44%	-0.16%	1.51%
Top Sector Indexes (YTD)					Bottom Sector Indexes (YTD)				
S&P 500 ENERGY INDEX	6.17%	17.33%	40.39%	43.14%	S&P 500 UTILITIES INDEX	-5.45%	-4.78%	2.54%	3.51%
S&P 500 INFO TECH INDEX	8.25%	3.64%	24.12%	31.30%	S&P 500 COMM SVC	2.67%	-0.57%	0.23%	14.76%
S&P 500 MATERIALS INDEX	5.06%	5.40%	18.02%	16.21%	S&P 500 CONS DISCRET IDX	6.41%	-0.18%	-0.95%	3.16%
Source: Bloomberg									
Indexes are unmanaged, do not incur management fees, costs, or expenses, and cannot be invested in directly.									



Still Standing at Last Call

The July employment report was the kind of print that reads better in the headline than in the fine print. The unemployment rate eased to **4.1%** from 4.2%, but partly for the wrong reason: the labor force shrank and participation fell to its lowest level since early 2021. Payrolls contracted by **23,000**, dragged down by local government education and retail even as private payrolls eked out a small gain, and revisions lopped a combined **103,000** off May and June. Wage growth cooled to **3.2%** year over year, the slowest since May 2021. This is a labor market holding its footing rather than expanding, cooling through fewer workers rather than mass layoffs. For portfolios, a jobs backdrop that is soft but orderly argues for staying invested in quality cyclicals while respecting that consumer-facing earnings may face a slower top line.

The Fed Orders a Round of Silence

Warsh continued the house style he introduced this spring: say less, promise less, and let the data do the talking. The July statement again omitted forward guidance, and the Committee held at **3.50% to 3.75%** on a **9-3** vote, with the dissents leaning toward a hike, the most hawkish split in the same direction in years. Warsh has been direct that rates “could well be part of” the answer to sticky inflation and that the target is 2 percent, full stop. The through-line is a central bank that is wait-and-see by design and increasingly attentive to upside inflation risk rather than to easing. Investors have spent much of this cycle penciling in the next cutting campaign, and the Fed keeps answering that request the way Phil would. Futures now price essentially no cuts for 2026, and September is a hold-versus-hike conversation, not a hold-versus-cut one. For portfolios, we would not build around a pivot the policymaker keeps declining to endorse; a barbell of quality duration and short-duration exposure looks more durable than a rate-cut bet.

The Long End Keeps Its Tab Open

While the front end waits on the Fed, the back end has been writing its own story. Term premium, heavy issuance, and fiscal anxiety have pushed long yields up even as short rates sit still, with the 30-year above **5.25%** intraday in August and the 10-year probing a roughly 20-month high. Treasury’s expanded buyback plans offered only a brief reprieve before yields firmed again. A steeper curve driven by the long end, rather than by cuts at the front, changes the math on everything from mortgages to equity discount rates, and it is a big part of why the Bloomberg Aggregate is underwater on the year. For portfolios, it reinforces the case for spreading interest-rate exposure across the curve rather than reaching for yield at the very long end, where price swings have been unforgiving.

The Standoff in the Gulf

The conflict with Iran has not ended so much as changed shape. What began as open hostilities has settled into something closer to a standoff: rounds of sanctions, strikes and counterstrikes, and rhetoric that moves headlines more than front lines. Markets periodically price in hopes of a negotiated end, then reprice the end back out. Two channels matter for portfolios. First, sanctions and disrupted tanker traffic keep a persistent risk premium in oil, which helps explain Energy’s **42.96% YTD** run at the top of the sector table. Second, sustained military spending is fiscal stimulus with an inflationary tilt, arriving at exactly the moment the Fed is trying to finish the inflation fight. Neither channel calls for a portfolio reaction to each headline. Both reinforce the Fed’s reluctance to ease.



Too Many Hands on One Tab

Beneath the rate story sits a supply-and-demand problem in the capital markets themselves. The AI buildout is no longer funded from cash flow alone: data centers, chips, and the power to run them are increasingly financed in the debt markets, and that borrowing now lands on top of historically large government deficits. When two of the biggest borrowers in the world, the technology complex and the U.S. Treasury, compete for the same pool of savings, the price of money rises for everyone standing behind them in line. Mortgages, non-AI business loans, and consumer credit are all priced off a curve being pushed higher by borrowing that has nothing to do with the household or the shop on Main Street. This is classic crowding out, and it suggests the elevated cost of capital is a feature of this cycle rather than a blip. For portfolios, it favors businesses that can self-fund their growth, argues for selectivity in credit where leverage is building fastest, and adds one more reason the long end may stay stubborn even if the economy cools.

Know Your Limits

The recurring lesson of 2026 is that the market's wish list and the Fed's to-do list are not the same document, and building a portfolio around the gap between them is a good way to get surprised. Value, energy, and international have carried the tape, bonds have struggled, and the long end has reminded everyone that duration cuts both ways. Rather than wager on when the cut everyone keeps requesting finally lands, the more reliable edge is the unglamorous one: diversify across regions, styles, and asset classes, keep duration deliberate, and let a multi-year horizon absorb the noise. When the next headline promises the pivot is imminent, remember how the Fed has answered so far this year. Discipline, not prediction, remains the play.

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