

## Not As Many Sharks Flying Around

Baz: "Storm's dying down."

Nova: "How can you tell?"

Baz: "Not as many sharks flying around."

Baz Hogan and Nova Clarke in *Sharknado* (2013)

### Executive Summary

- **The storm has not passed. The market stopped flinching.** Oil is back above \$100, long-end yields sit near multi-decade highs, and the Fed, Bank of England and Bank of Japan all set policy this week. Equities are near records anyway, with emerging markets leading at **24.6%** year to date.
- **Wednesday's hike is priced. The calendar is the question.** Fed funds futures put a 25 basis point increase at **91.5%**, with roughly 95 bps of tightening priced through next September. The chair has called 2% a hard target. Seven weeks before midterms, Wednesday tests the words.
- **Energy is the inflation floor.** Brent above \$100 with the Strait of Hormuz constrained, September CPI priced above 3.5% as more likely than not, and recession odds of **7%**. Strong growth plus an energy price floor is why the Fed's hand is being forced, not chosen.
- **Japan is competing for capital again.** A Japanese investor can now earn about **3%** on a 10-year JGB versus about 2% on a Treasury hedged back into yen. Japan holds roughly \$1.1 trillion of Treasuries, so even a small shift home matters at the long end.
- **Dispersion is the year's real story, and AI demand runs on deployment.** Value leads growth by **18 points** year to date. Two-thirds of large enterprises have doubled token use in a year, and 86% would expand usage if prices fell by half. A voluntary frontier slowdown tests the training-capex leg of the trade, not the inference leg.

Baz's evidence that the storm is passing is fewer sharks in the air, which means he is measuring the thing trying to eat him rather than the weather. Markets are doing something similar. Oil is above \$100, the long end of the Treasury curve sits near multi-decade highs, three major central banks set policy this week, and the S&P 500 is within reach of a record anyway. The easy read is that the storm is dying down. The better read, in our view, is that the sharks are still airborne. The market has learned to stop flinching, and strong earnings are what let it afford to.

### Performance

Through September 11, emerging markets lead at **24.6%** year to date and were the only broad equity index positive over the past month, up 3.6% while the S&P 500 slipped 0.8%. Domestic value is up **22.5%**, the S&P 500 **12.8%**, and Russell 1000 Growth just **3.7%**, an 18-point gap that says a great deal about where the AI trade migrated. Developed international is up 13.1%. Energy is the top sector at **47.4%**, followed by technology at



23.7% and materials at 12.9%. Consumer discretionary is the only sector in the red at -2.5%, and utilities are barely positive. Fixed income is negative across the board. The Aggregate is down 1.4% and Treasuries 1.5% year to date, and municipals lost **2.7%** in the past month alone, the worst line on the sheet. Short-dated TIPS are roughly flat, which is what owning less duration looks like in a year like this. It is called a barometer for a reason, and this one reads storm in bonds and sunshine in stocks, which is not how weather normally works.

#### Market Performance Barometer Through 9/11/2026

| Performance                     |        |        |        |        | Performance                         |        |        |        |        |
|---------------------------------|--------|--------|--------|--------|-------------------------------------|--------|--------|--------|--------|
|                                 | 1 Mo   | QTD    | YTD    | 1-Year |                                     | 1 Mo   | QTD    | YTD    | 1-Year |
| <b>Equities (Sorted by YTD)</b> |        |        |        |        | <b>Fixed Income (Sorted by YTD)</b> |        |        |        |        |
| MSCI EM                         | 3.55%  | 0.46%  | 24.58% | 32.70% | Bloomberg TIPS 1-5 Year             | -0.67% | -0.66% | -0.10% | -0.48% |
| Russell 1000 Value Index        | -0.91% | 5.41%  | 22.48% | 28.26% | U.S. Aggregate                      | -1.09% | -2.04% | -1.43% | -0.59% |
| MSCI EAFE                       | -1.35% | 2.87%  | 13.06% | 19.26% | Corporate                           | -0.98% | -2.35% | -1.52% | -0.95% |
| S&P 500 Index                   | -0.79% | 2.33%  | 12.75% | 17.07% | U.S. Treasury                       | -0.97% | -1.81% | -1.53% | -0.87% |
| Russell 1000 Growth Indx        | -1.05% | -1.55% | 3.69%  | 5.96%  | Municipal Bond Index                | -2.68% | -3.78% | -1.55% | -0.08% |
| <b>Top Sector Indexes (YTD)</b> |        |        |        |        | <b>Bottom Sector Indexes (YTD)</b>  |        |        |        |        |
| S&P 500 ENERGY INDEX            | 6.93%  | 23.21% | 47.43% | 50.72% | S&P 500 COMM SVC                    | 1.24%  | 1.63%  | 2.45%  | 12.54% |
| S&P 500 INFO TECH INDEX         | 1.07%  | 3.25%  | 23.65% | 28.02% | S&P 500 UTILITIES INDEX             | -2.84% | -6.53% | 0.66%  | 0.58%  |
| S&P 500 MATERIALS INDEX         | -3.54% | 0.79%  | 12.86% | 10.80% | S&P 500 CONS DISCRET IDX            | -4.81% | -1.77% | -2.53% | -2.10% |

Source: Bloomberg

Indexes are unmanaged, do not incur management fees, costs, or expenses, and cannot be invested in directly.

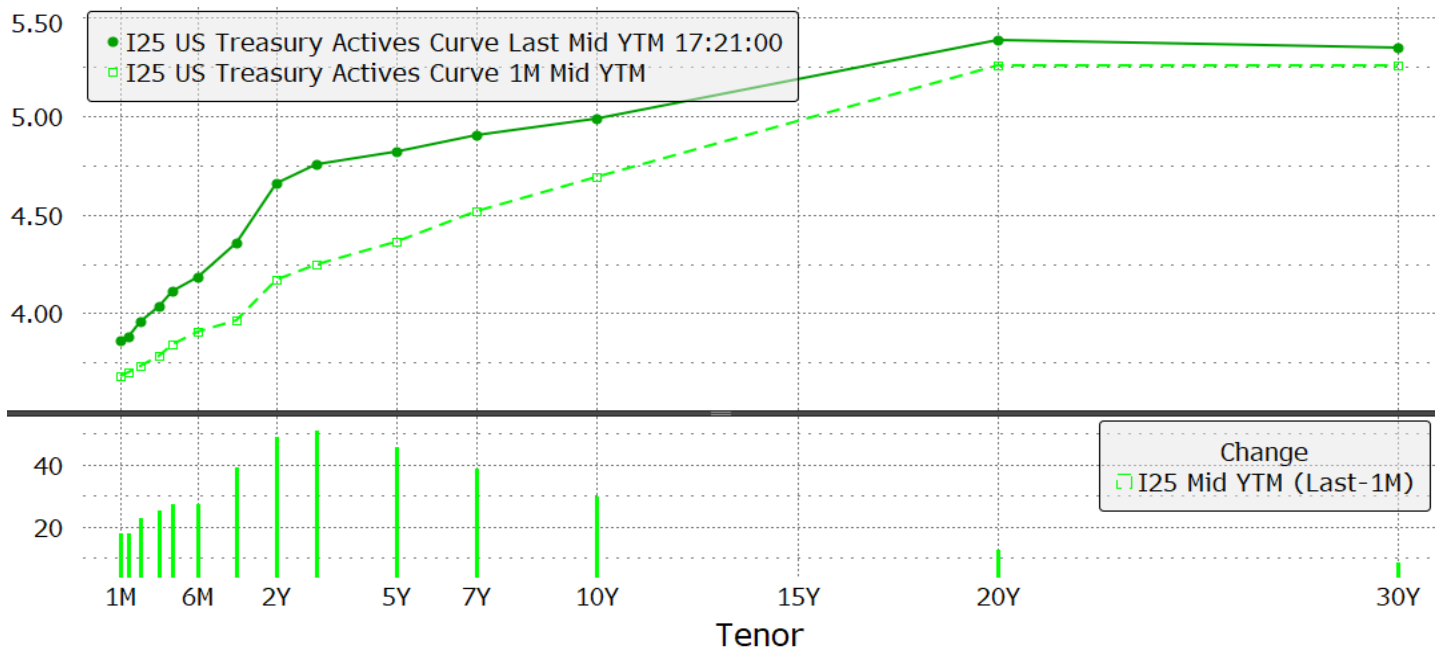
#### Fed Rate Hikes: The Shark You Can See Coming

Because the market has all but settled it. Fed funds futures put a 25 basis point increase on Wednesday at **91.5%** and prediction markets at **87%**. Beyond this week the curve prices roughly another 50 basis points this year and a policy rate near 4.6% by next fall, unwinding the 2025 cuts and then some. Then the twist. Chairman Warsh has consistently called 2% inflation a hard target. The first hike of a new chair's tenure, seven weeks before midterm elections, is where that commitment meets its first real test, and the market knows it: the odds of at least one dissent alongside a hike sit at 56%.

Bloomberg Intelligence expects two hikes and then a hold of a year or more, less than the curve implies, and the options market agrees the range is wide, with roughly equal odds on a single hike and on a policy rate above 4.75% a year out. The mechanism matters more than the count. If the Fed holds without a compelling case, the front end rallies and the long end sells off as investors demand more compensation to hold duration, a twist steepening that would read as a credibility question. If it hikes, the curve does what it usually does into a tightening cycle and flattens. Bloomberg Intelligence still sees the 10-year holding a 4% handle through 2027,



with a brief trip above 5% not out of the question, and expects the belly of the curve to outperform the long end by late next year. Either way the pressure lands on the long end. Duration is where the sharks are.



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### Inflation: Sharks in the Manholes

Start at the pump. Brent crude is back above \$100 for the first time since July after renewed hostilities between the U.S. and Iran, with traffic through the Strait of Hormuz still severely constrained and scarcity shifting downstream into refined products. Prediction markets put the national gasoline average above \$4.34 a gallon this week at even odds and give a 41% chance of a \$5.00 print before year-end; diesel trades near \$6.26. Markets price September headline CPI above 3.5% year over year at 56%, and they price headline inflation still above 3.0% in December 2027 at 66%. Recession odds sit at 7%. Put those together and the picture is a strong economy with an energy-driven inflation floor, which is the combination that forces a central bank's hand rather than one that leaves it a choice. The energy sector's 47% year-to-date gain is the equity market pricing the same thing. For portfolios, inflation protection has stopped being theoretical: real assets, energy and shorter duration are doing the work that long bonds used to do.

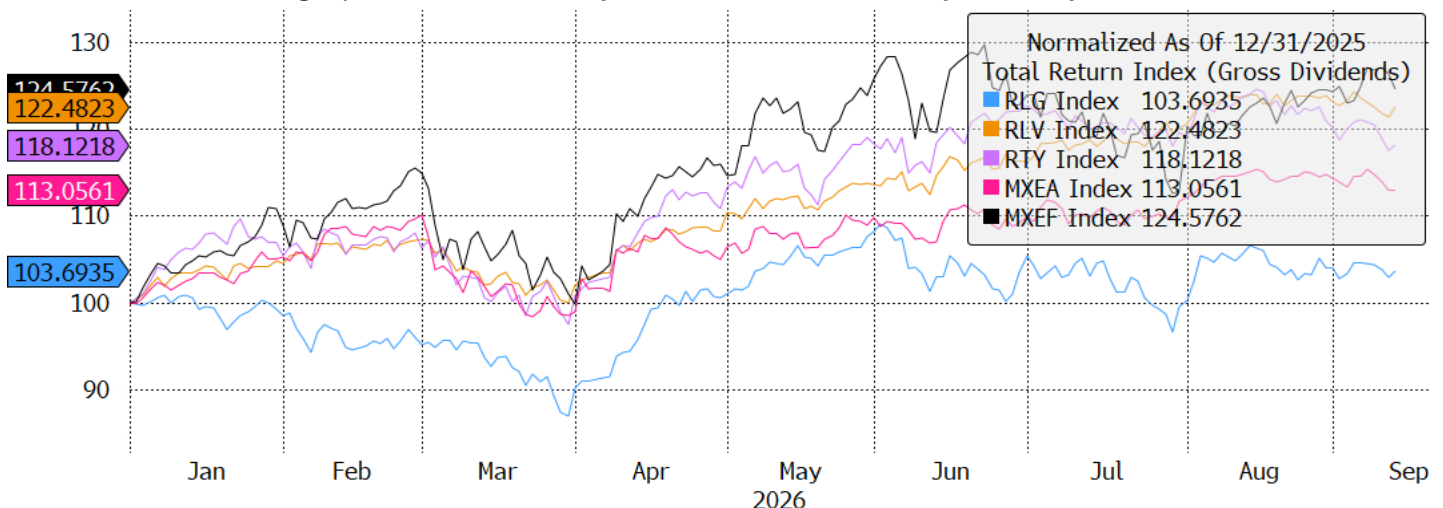
### Capital Going Home: Posing with a Dead Shark

In Sharknado 3, Jerry Springer poses with a giant shark on the boardwalk. The supposedly dead shark reawakens and does what sharks do best, attack. The Japan bid was treated as a settled, docile feature of the Treasury market for two decades. It just moved.



Because the math changed. For decades, near-zero yields at home sent Japanese savings abroad, and Japan became one of the largest foreign holders of Treasuries, at roughly **\$1.1 trillion**. That trade worked because a Treasury paid more than a JGB even after hedging the dollar back into yen. It no longer does. According to BlackRock Investment Institute, using Bloomberg data, the 10-year JGB topped **3%** this month for the first time since 1996, the 30-year hit a record 4.18%, and a 10-year Treasury hedged back into yen with rolling three-month forwards now yields about 2%. The domestic bond wins by a full point.

The Bank of Japan is being pushed from two directions. Underlying inflation and rising wages argue for tighter policy, and the yen's slide to ¥160 per dollar drew a coordinated U.S.-Japan intervention in August, the first since 1998. At the same time, government debt above twice GDP makes every hike expensive, which is why fiscal dominance is now part of the conversation. Markets fully price a hike on Friday regardless. The feedback loop is what matters for U.S. investors: higher U.S. rates weaken the yen and push the BoJ to move faster, higher Japanese rates draw capital home, and thinner Treasury demand pushes U.S. borrowing costs higher still. None of this requires a repatriation wave. An illustrative 5% shift in Japanese holdings is about \$55 billion, roughly a quarter of the increase in all foreign Treasury holdings over the past year. Europe and the UK are in the same competition, with yields at multi-year highs and the Bank of England deciding Thursday. This is why the long end can stay elevated after the Fed is done. It is a buyer story, not just a policy story. For portfolios, that argues for intermediate duration: get paid for the rate risk you take, and leave the 30-year to buyers who need it.



RLG Index (Russell 1000 Growth Index) 2026 YTD Major Index Daily 31DEC2025-11SEP2026 Copyright© 2026 Bloomberg Finance L.P. 14-Sep-2026 17:32:51

## How Can You Tell It's a Rotation?

Because the winners and losers are inside the same index. Value is beating growth by **18 points** year to date. Energy is up 47% and consumer discretionary is down 2.5%. Emerging markets are up 24.6% while the largest U.S. growth stocks, the leadership of the past several years, have gone roughly sideways. That is not a bear market or a bull market. It is what a higher cost of capital looks like. When money is free, the market pays for the



story. When long-term yields sit near multi-decade highs, the market pays for the cash flow, and companies with the earnings to outrun a higher cost of capital separate from those without. Dispersion is rising, and dispersion is the environment in which selectivity and diversification stop being slogans and start being return. The AI trade is the clearest example. It has migrated from the platform layer to the physical layer, from the companies that write the software to the ones that supply the chips, the power and the land. That is rotation, not a referendum. For portfolios, being in the market has mattered less this year than being spread across it, and the leadership of the past decade is a position, not a law.

### Slowing AI: Sharks Coming Out of the Movie Screen

Not yet, and the people best positioned to know are the ones asking for one. Four of the leading U.S. AI developers called this weekend for pacing frontier development so that safety work can keep up, according to The Wall Street Journal. Whether that becomes self-restraint, regulation, or neither is an open question, and China is unlikely to pace anything. The market concern is direct: if the frontier slows, does demand for chips, power and data centers slow with it? The trade has two legs: training the next model, and running the models already in production, which is where the demand growth now sits. For portfolios, the question is not whether the frontier slows but whether deployment does.

### How Can You Tell Who Gets Paid?

Watch how the buyers behave. Bloomberg Intelligence<sup>1</sup> surveyed 100 senior AI executives at large enterprises and found two-thirds have at least doubled token consumption in a year, **92%** expect budgets to rise next year, and only 9% can confidently measure the return. They are spending anyway. Token costs remain under 10% of IT budgets for three-quarters of respondents, and only 35% of firms have half their workforce using AI weekly, so the runway is long. Demand is elastic in the right direction: **86%** would expand usage if prices fell by half, while 84% would optimize or switch models rather than cut back if prices rose by half. Seventy percent expect token prices flat or falling, 55% already route work to cheaper models, and 43% reconsider their model provider every quarter. The models keep getting cheaper to make and the audience keeps showing up, which is how you end up with six Sharknado movies. Bloomberg Intelligence's read, and ours, is that the money accrues to the theater, not the studio: the infrastructure serving the tokens rather than the labs building the models. Hyperscaler capital spending guidance is the tell for the training leg. Own the physical layer with breadth, not as a single bet on the next model.

### What We're Watching

- **Wednesday, Fed decision.** A hike is priced. The statement, the dissent count and any guidance on pace are what move the curve.

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<sup>1</sup> Source: Bloomberg Intelligence survey of 100 senior AI executives referenced September 2026.



- **Thursday, Bank of England; Friday, Bank of Japan.** The BoE is expected to hold and a BoJ hike is fully priced. The yen and the JGB long end are the tell for Treasury demand.
- **September CPI, October 14.** Prediction markets lean toward a headline print above 3.5%. A hot number cements the second hike.
- **Third-quarter earnings season.** Hyperscaler capital spending guidance is the first place a frontier slowdown would show up, if it shows up at all.
- **Midterm elections, November 3.** Not a market event in itself, but the backdrop for every Fed communication between now and then.

### **Portfolio Takeaways: Shark Hunting with a Chainsaw**

Baz never says the sharks are gone. He says there are fewer of them, which is a different claim and a more useful one. A portfolio that needs the storm to end is built wrong. One built for a few sharks at all times is having a reasonable year for exactly that reason: emerging markets and value lead while growth lags, short-dated bonds sit near flat while the long end and the muni index take the damage, energy is doing what an inflation hedge is supposed to do, and the physical layer of AI is getting paid while the frontier debates itself. That is diversification doing its job, not because any one call was right but because no single call had to be. The range of outcomes for the long end is wide, three central banks are about to add to it, and the next Fed meeting will not be the last contested one. In our view the discipline that matters from here is unglamorous: hold intermediate duration and get paid for it, keep equity exposure spread across styles, regions and sectors rather than concentrated in last decade's leadership, and treat the AI buildout as an input story with many suppliers rather than a bet on one lab. Staying invested, staying diversified, and getting paid for the risks you choose to hold does not require the weather to cooperate. It requires that you keep counting sharks.

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