Week in review and ahead (vol.37-26)

Claudio Calado | Managing Partner

September 13, 2026

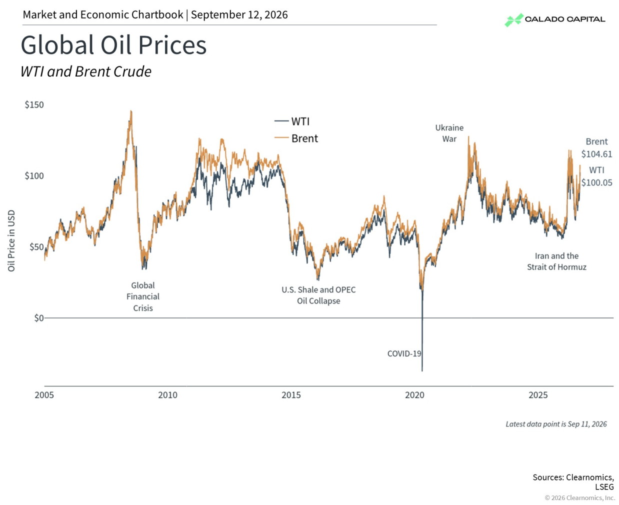
Week in review

Markets weakened during the week as escalating geopolitical tensions renewed concerns over global energy supplies, driving oil prices above $100 per barrel and reigniting inflation fears. The resulting pressure on interest rates pushed bond yields higher across major economies. In response, the European Central Bank raised its policy rate by 25 basis points (“bps”), underscoring its commitment to preventing energy-driven inflationary pressures from becoming entrenched and maintaining its 2% inflation target.

Attention now turns to the Federal Reserve's upcoming FOMC meeting, where markets widely expect a similar policy response following August CPI and PPI reports that indicated a modest reacceleration in inflation. While core CPI continued to show progress toward disinflation on a year-over-year basis, several underlying components are expected to place upward pressure on the Fed's preferred inflation measure, the PCE Price Index. Treasury markets reacted accordingly, with yields rising sharply across the curve and the 10-year Treasury yield increased 20 bps during the week, closing just below 5%.

Against this backdrop, U.S. equities posted modest declines. The S&P 500 and Nasdaq Composite fell 0.8% and 0.9%, respectively, as resilient corporate earnings and continued AI-related investment trends helped temper losses. Strong results from technology leaders, including Oracle and Taiwan Semiconductor, reinforced confidence in ongoing demand for AI infrastructure despite growing debate around the pace and scale of industry buildouts. More interest rate-sensitive segments of the market underperformed, with the Dow Jones Industrial Average and Russell 2000 declining 1.6% and 2.4%, respectively.

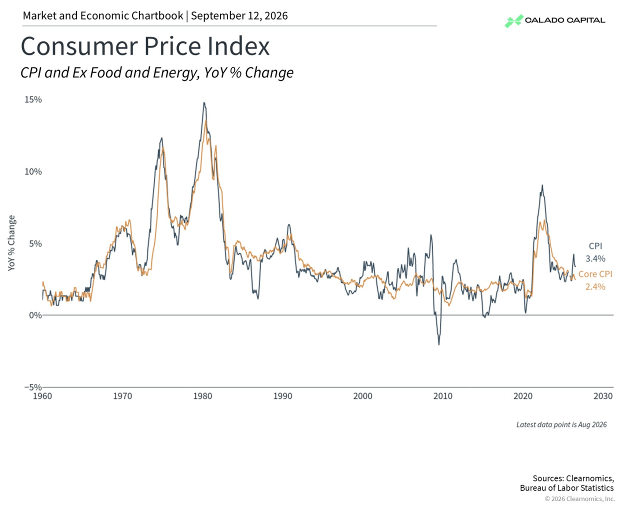
International markets followed a similar pattern as investors weighed the implications of higher inflation, rising yields, and geopolitical uncertainty. European equities declined, with Germany's DAX and the UK's FTSE 100 falling 1.8% and 1.7%, respectively. In Asia, Hong Kong's Hang Seng and Japan's Nikkei also moved lower, declining 3.3% and 1.6%, reflecting broader concerns that monetary policy may remain restrictive for longer than previously anticipated.



Week in review – US macroeconomics

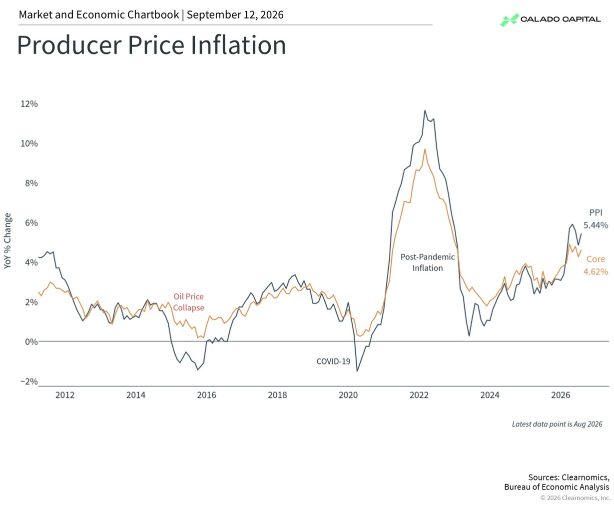
The week was defined by inflation, with August CPI and PPI reports taking center stage alongside a heavy Treasury issuance calendar, including closely watched 10- and 30-year auctions and a long-end buyback. Together, these events highlighted growing market unease over the path of inflation and interest rates.

August CPI presented a mixed but generally firmer picture. Headline inflation rose 0.4% month-over-month (MoM), in line with expectations but accelerating sharply from July's 0.1% pace, while the annual rate held steady at 3.4%. Core CPI increased 0.3% MoM, modestly above expectations, though the annual core rate eased to 2.4%, its lowest level since March 2021. The data underscored the challenge facing policymakers: annual core inflation continues to cool, but monthly price pressures are showing renewed momentum.



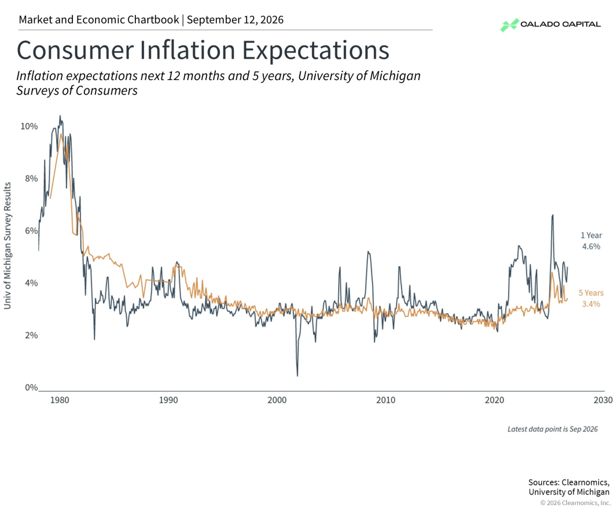
Producer prices pointed more clearly upward. Headline PPI rose 0.4% MoM and accelerated to 5.4% year-over-year, exceeding expectations and marking a notable increase from July. Core PPI came in at 0.2% MoM, softer than forecasts, but the annual core rate still climbed to 4.6%. Markets responded negatively, as upward revisions to July data occurred in components that feed directly into the Fed's preferred PCE inflation measure, raising the prospect of a hotter-than-expected PCE report.

The bond market delivered the clearest signal of concern. Despite firmer inflation data, Treasury auctions saw robust demand, albeit at increasingly elevated yields. The 10-year note auction cleared at 4.834%, the highest since 2007, while attracting its strongest bid-to-cover ratio in roughly a decade and nearly 79% indirect participation. The 30-year bond auction was similarly well received but priced at a record 5.308%, the highest yield since 2001. By contrast, the Treasury's long-end buyback fell short of expectations, repurchasing only $5.2 billion versus the $6 billion announced. Markets viewed the outcome as a setback, pushing yields higher across the curve and reinforcing skepticism about the effectiveness of efforts to suppress long-term borrowing costs.



Consumer data added to inflation concerns. Preliminary September University of Michigan sentiment unexpectedly fell to 47.8, its first reading below 50 since June. More importantly, both short- and long-term inflation expectations moved decisively higher, suggesting households increasingly expect inflation to remain elevated. Elsewhere, initial jobless claims remained stable at 206,000, while existing home sales fell 2% MoM in August. Rising inventories were offset by a 1.6% increase in median home prices, leaving affordability under continued pressure.

Taken together, the week reinforced the view that inflation pressures remain stubborn and may even be reaccelerating, while persistently higher Treasury yields signal mounting market concern. With consumers increasingly expecting inflation to stay elevated, the risk of those expectations becoming self-fulfilling strengthens the case for action. In our view, the Fed should raise rates at next week's FOMC meeting. With yields rising both domestically and abroad, inaction risks widening the gap between monetary policy and the market's assessment of the appropriate cost of capital. Standing pat amid firmer inflation and a continued selloff in the long end would only deepen that divergence and, given the limited success of Treasury buybacks thus far, leave the task of restoring confidence squarely on monetary policy.



Week ahead

The week ahead will be defined by the Federal Reserve's FOMC meeting, a decision that is likely to set the tone for markets through year-end and carries significant potential for volatility. Following Chair Warsh's notably hawkish remarks at Jackson Hole, markets have largely moved toward expecting a rate hike, with investors increasingly focused not on whether the Fed tightens, but on how firmly it signals its commitment to restoring price stability.

The greater source of uncertainty lies in the Fed's communication. Since taking office, Chair Warsh has emphasized a reduced reliance on forward guidance, encouraging markets to focus on incoming data rather than explicit policy commitments. While philosophically defensible, that approach has at times amplified market volatility by leaving investors with a wider range of possible policy outcomes to price. Any message that diverges materially from prevailing market expectations risks reigniting volatility across rates, equities, and credit markets.

It is also worth recognizing that markets often test the resolve of a new Federal Reserve chairman, particularly during periods of elevated inflation and fiscal uncertainty. In many respects, the recent rise in long-term yields appears to reflect that process. Investors are seeking confirmation that the new leadership is willing to prioritize inflation control even at the expense of tighter financial conditions. Until that credibility is firmly established, markets are likely to remain sensitive to any perceived inconsistency between rhetoric and action.

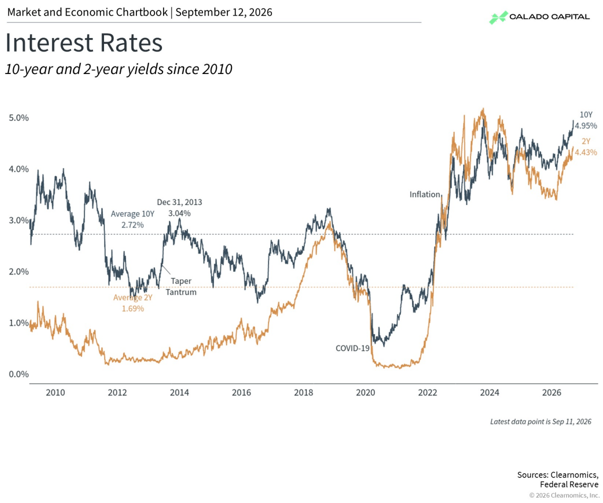
Against that backdrop, a decision to leave rates unchanged would carry meaningful risks. Such an outcome would appear difficult to reconcile with the Fed's increasingly hawkish tone, persistent inflation pressures, and the emphasis Chair Warsh placed on returning inflation to the Fed's 2% target. While a pause could be justified if policymakers believe financial conditions have already tightened sufficiently through higher market rates, investors may instead interpret inaction as a sign that the Fed is less committed to its inflation mandate than recent communications suggest. That perception could undermine policy credibility, push inflation expectations higher, and ultimately force more aggressive tightening later.

Beyond the FOMC meeting, attention will turn to the consumer. August retail sales are expected to rebound 0.9% month-over-month following July's disappointing 0.6% decline, providing an important gauge of household demand and the durability of economic growth. Housing data will also be closely watched, with building permits, housing starts, and pending home sales expected to reinforce the picture of a sector still constrained by elevated borrowing costs and persistent affordability challenges. The week concludes with August industrial production and weekly initial jobless claims, both of which will help shape perceptions of whether economic activity is slowing enough to alleviate inflationary pressures without tipping the economy into a sharper downturn.

Ultimately, the FOMC meeting is less about a single rate decision than about the Fed's broader credibility. Markets have already adjusted to a world of higher yields; what remains uncertain is whether policymakers are prepared to validate that adjustment. A rate hike accompanied by a disciplined, inflation-focused message would likely strengthen the Fed's credibility and better align policy with the market's assessment of inflation risks, helping to reduce uncertainty even if yields remain elevated. By contrast, if the Fed declines to tighten despite recent inflation data and its own hawkish rhetoric, investors may conclude that policymakers are once again falling behind the curve, increasing the risk of higher long-term yields, greater market volatility, and a more difficult path back to price stability.

Number of the week: 4.971%

The benchmark 10-year U.S. Treasury yield ended the week just shy of the 5% threshold, its closest approach to that level since the fall of 2023 and, before that, the period preceding the 2007-08 financial crisis. The move higher has been relentless. Even last week's 10-year Treasury auction, which attracted notably strong demand, clearing at 4.834%, its highest yield since 2007. With August inflation data showing renewed firmness and consumer inflation expectations moving higher, markets increasingly expect the Federal Reserve to raise rates at next week's FOMC meeting. Yet long-term yields have continued to climb regardless, suggesting that investors are focused less on the path of the policy rate and more on broader concerns surrounding inflation persistence, fiscal deficits, and the growing volume of government debt that must be financed.



Importantly, this is not solely an American story. Long-dated sovereign bonds have come under pressure across much of the developed world in a remarkably synchronized selloff. The U.K. 10-year gilt has risen above 5.3%, its highest level since 2007, while longer-dated gilts trade at levels not seen since the late 1990s. Japan's 10-year government bond yield has approached 3%, a level unseen since the mid-1990s and once considered unthinkable after decades of ultra-accommodative monetary policy. Germany's 10-year bund has climbed to roughly 3.5%, near its highest level since the European sovereign debt crisis, while France's 10-year OAT has risen to approximately 4.45%, widening its spread over Germany amid fiscal pressures and political uncertainty. China remains the notable outlier, with 10-year yields near 1.7%, reflecting persistent disinflationary and growth concerns rather than the inflation pressures driving yields higher elsewhere.

For investors, a 10-year Treasury yield nearing 5% is more than a psychological milestone. It reprices the cost of capital across the economy, influencing everything from mortgage rates and corporate borrowing costs to the discount rates used to value risk assets. Higher yields can weigh on equity valuations even in the absence of economic deterioration, while also increasing financing costs for households, businesses, and governments alike.

The critical question for markets is not simply whether the Fed hikes next week, but whether policymakers can convince investors that inflation will return to target without requiring even higher long-term borrowing costs. A rate increase could bolster the Fed's credibility and reinforce its commitment to price stability, helping anchor inflation expectations. However, if investors continue demanding greater compensation for inflation risk, fiscal imbalances, and expanding Treasury supply, long-term yields may remain under upward pressure regardless of the Fed's near-term actions.

Ultimately, the recent surge in global bond yields increasingly resembles a repricing of the long-run investment landscape rather than a narrow adjustment to central-bank policy expectations. If that interpretation is correct, next week's FOMC decision may influence market sentiment at the margin, but it is unlikely to be the sole determinant of where long-term rates settle. Until inflation convincingly moderates, fiscal trajectories improve, or investor demand absorbs the growing supply of sovereign debt more comfortably, the risk remains that yields continue grinding higher, keeping pressure on both bond and equity markets.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

The opinions and analyses presented are for educational and informational purposes only, and do not necessarily represent investment advice. As such, it does not consider anyone's particular investment objectives, financial situation, suitability or needs and therefore cannot be relied upon as an appropriate recommendation. If acting on information in these analyses you should consider whether it is appropriate and suitable for your circumstances and may want to seek advice from us, your financial or investment advisor.

Past performance is no guarantee of future results.

CALADO CAPITAL