



September 2026 Bond Market Review

Market Summary

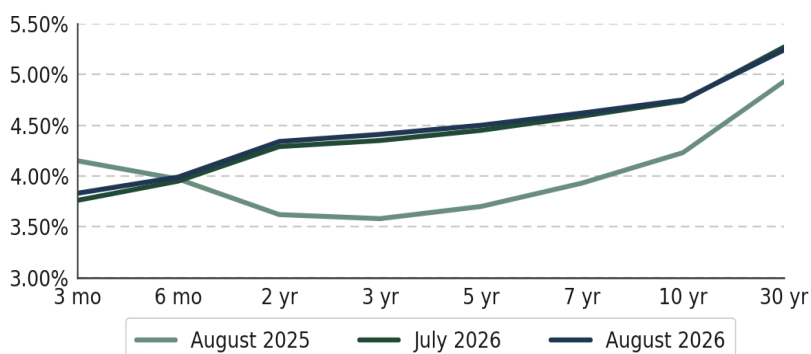
Renewed U.S. strikes near the Strait of Hormuz pushed oil prices higher heading into month-end, underscoring how the ongoing U.S.–Iran conflict continues to influence global energy markets. Meanwhile, inflation has remained more persistent than policymakers had hoped, while a summer of softer labor-market momentum has added complexity to the outlook. Against this backdrop, the new Federal Reserve chair has adopted a more hawkish tone. The Chandler team continues to expect the Federal Reserve to keep the federal funds rate unchanged through the remainder of 2026, provided that both realized and market-based inflation measures remain contained.

The Federal Open Market Committee is scheduled to meet next on September 15–16, 2026. Although the FOMC held the Fed’s benchmark rate at 3.50% to 3.75% following the July 28–29 meeting, market participants inferred a hawkish tone from Chair Kevin Warsh during his August 28th speech at the Jackson Hole Economic Symposium, where he emphasized that “we have work to do” if price pressures remain elevated. The July FOMC meeting minutes highlighted concerns that successive supply shocks related to tariffs and the U.S.–Iran conflict have driven recent inflationary pressure. The July decision was not unanimous, as the Committee voted 9 to 3 to hold rates, with Presidents Beth Hammack, Neel Kashkari and Lorie Logan each dissenting in favor of a 25 basis point increase.

Treasury yields flattened across the curve in August. The 2-year yield rose 5 basis points from July month end to 4.34%, while the 10-year yield held at 4.75%, narrowing the gap between the two maturities. The 5-year yield finished at 4.50%, up 5 basis points on the month. The 2-year to 10-year spread compressed to +41 basis points at August month end from +45 in July, extending a multi-month flattening trend. The 3-month to 10-year spread narrowed to +92 basis points from +98 in July. The move reflected front end yields rising on expectations for a more cautious Federal Reserve, even as long duration yields held near multi-month highs amid persistent inflation and fiscal concerns. The two-year to ten-year spread has averaged near 95 basis points since 2005, underscoring the compressed relationship between short and long maturities relative to the longer run norm.

The U.S. Treasury curve bear-flattened in August as short-term yields rose on hawkish signals from Fed Chair Kevin Warsh and renewed Middle East tensions, while long-end yields were capped by Treasury Secretary Scott Bessent’s surprise expansion of long-duration buybacks. At Jackson Hole, Chair Warsh reiterated his intention to curb forward guidance but struck a distinctly hawkish tone, emphasizing that inflation remains above the 2% target and that the Fed would act if price pressures do not cool. Concurrently, oil prices firmed on escalating U.S.–Iran tensions, reinforcing inflation concerns and contributing to higher short-term rates. The flattening was accentuated on August 19, when Bessent announced that the Treasury would at least double buybacks of 10- to 30-year securities to \$4 billion per operation beginning September 9, and the announcement alone helped anchor longer-term yields before the expanded operations started.

U.S. Treasury Yields



Source: Bloomberg

Credit Spreads

Credit spreads were wider in August

	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(0.10)	(0.08)	(0.02)
2-year A corporate note	0.24	0.23	0.01
5-year A corporate note	0.52	0.50	0.02
5-year Agency note	0.03	0.01	0.02

Source: Bloomberg; data as of 8/31/2026

Treasury Yields

Warsh’s Jackson Hole Tone and Oil Lift
Front End as Bessent Caps Long End

Treasury Yields	Trend	8/31/2026	7/31/2026	Change
3 month	▲	3.83	3.76	0.07
2 year	▲	4.34	4.29	0.05
3 year	▲	4.41	4.35	0.06
5 year	▲	4.50	4.45	0.05
7 year	▲	4.62	4.59	0.03
10 year	▲	4.75	4.74	0.01
30 year	▼	5.24	5.27	(0.03)

Source: Bloomberg

Market Data

Data as of 8/31/2026

	1 Mo Chg	% Chg
S&P 500		
7,686.14	196.42	2.62%
NASDAQ		
26,370.89	997.04	3.93%
Dow Jones		
53,185.90	700.87	1.34%
FTSE (UK)		
10,824.26	(43.79)	(0.40%)
DAX (Germany)		
26,258.11	628.87	2.45%
Hang Seng (Hong Kong)		
25,566.99	(317.44)	(1.23%)
Nikkei (Japan)		
66,311.93	1,949.91	3.03%

World Stock Market Index Descriptions

S&P 500—The S&P 500 is a market value-weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. **NASDAQ**—The NASDAQ Composite Index is the market capitalization-weighted index of over 3,300 common stocks listed on the NASDAQ stock exchange. **Dow Jones**—The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)—The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. **DAX**—The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. **Hang Seng**—The Hang Seng Index is a freefloat-adjusted market-capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. **Nikkei**—Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Economic Roundup

Equities

The S&P 500 ended August at 7,686.14, gaining 2.7% for the month and 12.28% for the year, while the Dow Jones Industrial Average finished at 53,185.90, up 10.66% year to date, and the Nasdaq Composite closed at 26,370.89, up 13.46% year to date. Gains were tempered late in the month by renewed U.S. strikes on Iranian positions near the Strait of Hormuz, which lifted oil prices and weighed on risk sentiment. Second quarter earnings season is now 97% complete, with 86% of S&P 500 firms beating estimates, above the 78% five-year average, the best beat rate since the second quarter of 2021. Excluding one-time gains at two large technology firms, S&P earnings grew 33.8%.

Consumer Prices

Headline Consumer Price Index (CPI) inflation edged up 0.1% in July, and its annual rate eased to 3.4% from 3.5%. Core CPI, which strips out food and energy, rose 0.2% for the month, and its annual rate eased to 2.5% from 2.6%. Energy prices fell 1.5%, driven by a 2.9% drop in gasoline. The Personal Consumption Expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge, painted a firmer picture. Headline PCE advanced 0.2% in July and 3.7% annually, while core PCE also rose 0.2% for the month and ran at 3.3% year over year. Inflation remains well above the Fed's 2% longer-run goal, keeping the policy outlook unresolved. Officials have signaled they are not ready to declare victory, particularly amid risks that renewed oil-price increases could lift headline inflation.

Retail Sales

Consumer sentiment softened slightly in August, as the Conference Board's Consumer Confidence Index slipped to 89.4 from July's 90.2. Yet beneath the headline decline, households continued to view the labor market favorably: the gap between respondents calling jobs "plentiful" versus "hard to get" widened to 7.5%. Sales slowed as July's Advance Retail Sales report surprised to the downside, falling 0.6% month-over-month against expectations of a 0.1% gain, with the control group down 0.4%. Much of the weakness traced to autos and gasoline stations; stripping out both categories, sales fell a more modest 0.2%. The remaining softness can be partially attributed to Amazon's Prime Day landing in June this year rather than July, pulling online spending forward a month earlier. Despite the pullback, which followed several strong months, retail sales remained up 5.0% year-over-year.

Labor Market

July's employment report pointed to a labor market softer than earlier data had suggested. Nonfarm payrolls fell by 23,000, while combined downward revisions to May and June, down 66,000 and 37,000 respectively, erased a further 103,000 previously reported jobs. Losses were concentrated in local government education, down 50,000, leisure and hospitality, down 40,000, and retail trade, down 19,000, partially offset by a gain of 22,000 jobs in health care. The unemployment rate ticked down to 4.1%, though that improvement was owed partly to reduced labor force participation rather than stronger hiring.

Housing Starts

Housing data weakened in July. Starts fell 12.4% month over month to a seasonally adjusted annual rate of 1.239 million, well below economists' forecast of 1.35 million, as single-family starts declined 9.9% to 808,000 units and multifamily starts dropped 16.8% to 431,000 units. Building permits, however, rose 4.3%, suggesting builders continue to plan future projects despite the pullback in starts. Home prices told a different story: the S&P Case-Shiller 20-City Composite Index posted a 2.10% year-over-year gain in June, an acceleration from May's unrevised 1.6% pace, pointing to renewed firmness in prices even as transaction volumes soften elsewhere. Adding to affordability pressures, Freddie Mac's average 30-year fixed mortgage rate ended August at 6.66%, up from 6.49% at the end of June.

Economic Indicator	Current Release	Prior Release	One Year Ago
Trade Balance	(88.58) \$B Jul. 31	(71.18) \$B Jun. 30	(75.06) \$B Jul. 31
Gross Domestic Product	1.50% Jun. 30	2.10% Mar. 31	3.80% Jun. 30
Unemployment Rate	4.10% Aug. 31	4.10% Jul. 31	4.30% Aug. 31
Prime Rate	6.75% Aug. 31	6.75% Jul. 31	7.50% Aug. 31
Refinitiv/CoreCommodity CRB Index	410.57 Aug. 31	385.10 Jul. 31	302.35 Aug. 31
Oil (West Texas Int.)	\$85.76 Aug. 31	\$84.67 Jul. 31	\$64.01 Aug. 31
Consumer Price Index (YoY)	3.40% Aug. 31	3.50% Jul. 31	2.70% Aug. 31
Producer Price Index (YoY)	6.60% Aug. 31	5.80% Jul. 31	1.90% Aug. 31
Euro/Dollar	1.16 Aug. 31	1.15 Jul. 31	1.17 Aug. 31

Source: Bloomberg

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