Investment Committee Note — September 2026

Synthesized Market Outlook, Cycle Analysis, and Allocation Framework

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Research Sources

Source	Document	As Of
MarketDesk	Investment Committee Handbook — September 2026 Monthly Update	Sept 1, 2026
BlackRock / iShares	2026 Thematic Mid-Year Update: How the AI Economy Is Expanding	Sept 1, 2026
TCW (Trust Company of the West)	Patience Is a Policy — Monetary Policy Commentary	Aug 2026
Clearnomics / Stanganelli	The Fed's AI Dilemma: Long-Term Perspectives	Sept 1, 2026
The Kobeissi Letter / Market Data	Public market commentary and live yield / inflation data	Sept 1, 2026

Executive Summary

Five-Source Consensus: Late Cycle, Inflation-Challenged, Pre-FOMC Asymmetry Five independent research sources converge on a late-cycle environment where supply-driven inflation remains elevated, the Federal Reserve faces a difficult hold-vs-hike decision, and a new military escalation in the Strait of Hormuz (September 1) has added fresh inflationary pressure. The analytical case for a Fed hold is strong; market pricing reflects approximately 68% probability of a September hike following Chair Warsh's hawkish Jackson Hole remarks. The August jobs report (Friday, September 4) is the single most important near-term release before the September 15-16 FOMC meeting.

S&P 500 VS. ALL-TIME HIGH	RISK DEMAND INDICATOR (USRDI)	CORE PCE (YEAR-OVER-YEAR)	SEPTEMBER HIKE PROBABILITY
-1%	**+0.44**	**3.3%**	**~68%**
Max YTD drawdown: -9%	Risk-On above zero	Fed target: 2.0%	FOMC: Sept 15-16

10-Year Treasury Yield **4.79%**	Headline PCE (YoY) **3.7%**	NFP 3-Month Average (July) **20k**	S&P 500 NTM Forward EPS **$420**
30-Year Treasury Yield **5.28%**	Unemployment Rate **4.1%**	Wage Growth (YoY) **3.1%**	EPS Revision Breadth (3-Mo) **31% — 94th Pct**
Fed Funds Rate (Current) **3.50-3.75%**	Real GDP Growth (Q2 2026) **1.5%**	S&P 500 NTM P/E **19.5x**	Consumer Health Indicator **31%**

Market Performance Drivers — Figure 1 (IC Handbook, p. 3)

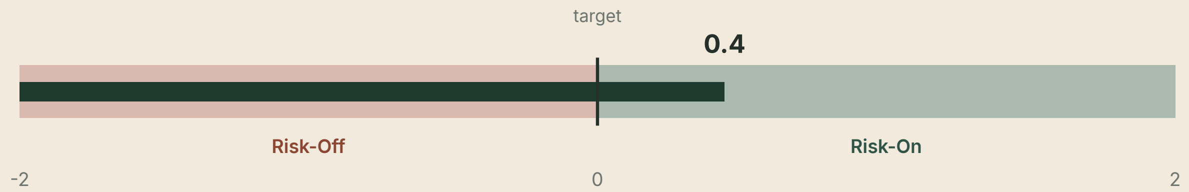
[MarketDesk tracks 15 key macro drivers across six categories over a trailing six-month horizon. The current scorecard shows **4 Risk-On, 6 Neutral, and 5 Risk-Off** signals — a moderately constructive but meaningfully divided picture. The primary drag is concentrated in valuations (multiple expansion and BBB credit spreads both Risk-Off) and liquidity (net liquidity and financial conditions both Risk-Off), which are the most critical watch areas heading into a potential rate hike.]

Category	Macro Driver	6-Month Trend
Earnings	NTM Earnings Revisions	Risk-On
Earnings	US Manufacturing PMI	Neutral
Valuations	Multiple Expansion	Risk-Off
Valuations	Credit Spreads (BBB)	Risk-Off
Rates	Yield Curve (10Y vs. 2Y)	Risk-On
Rates	10-Year Real Yield	Neutral
Sentiment	CBOE VIX	Risk-On
Sentiment	Investor Sentiment (USSI)	Neutral
Sentiment	Risk Demand (USRDI)	Risk-On
Liquidity	US Net Liquidity (USNLI)	Risk-Off
Liquidity	Financial Conditions (USFCI)	Risk-Off
Growth	Oil Prices	Neutral
Growth	Industrial Metals	Neutral
Growth	Fed Weekly Economic Index	Neutral
Growth	Mortgage Applications	Risk-Off
Scorecard	**4 Risk-On / 6 Neutral / 5 Risk-Off**	**Moderate Constructive**

U.S. Risk Demand Indicator — USRDI, Figure 9 (IC Handbook, p. 4)

[The USRDI is a quantitative composite of momentum signals across equities, equity derivatives, credit markets, and foreign exchange. A reading above zero signals that conditions are supportive of increasing portfolio risk. At **+0.44**, the indicator is moderately bullish — confirming a risk-on posture while remaining well below overbought territory. This reading is consistent with a constructive but not euphoric environment.]

USRDI — Current Reading vs. Risk Regime Zones



USRDI — Risk Demand Indicator	USBI — Breadth Indicator	USTI — Technical Indicator
+0.44 — Risk-On	**59 — Strong (above 50)**	**-0.4 — Mildly Bearish**

Asset Class Ratings — IC Handbook, Page 2 (6-12 Month Horizon)

[**OW** = Overweight (favor higher weight than broad index). **N** = Neutral / Marketweight. **UW** = Underweight (potential area of risk). Ratings reflect a 6-12 month horizon as of September 1, 2026. Cross-referenced with BlackRock thematic themes and TCW rate policy framework in the synthesis section below.]

U.S. Factors	Rating
Quality	OW
Equal Weight	OW
Growth	OW
Minimum Volatility	OW
High Dividend	N
Large Caps	N
Small Caps	N
Momentum	N
Value	UW
High Beta	UW

U.S. Sectors	Rating
Technology	OW
Financials	OW
Consumer Discretionary	OW
Industrials	OW
Materials	N
Energy	N
Communication Services	N
Real Estate	UW
Health Care	UW
Utilities	UW
Consumer Staples	UW

Fixed Income	Rating
MBS	OW
Investment Grade	OW
Long Duration (Tsy over Corp)	OW
Bank Loans / CLOs	N
EM Sovereign	N
Municipals	N
TIPS	N
Preferreds	UW
High Yield	UW

International / FX	Rating
U.S. Dollar	OW
Emerging Markets	N
ACWI ex U.S.	N
Developed Markets	N

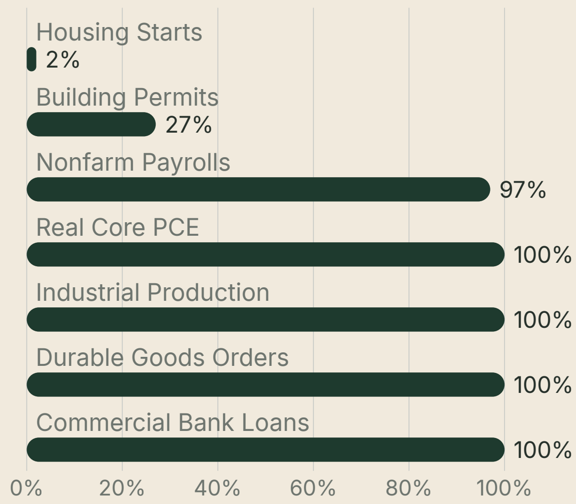
Economic Cycle Analysis — Leading, Coincident, and Lagging Indicators (IC Handbook, p. 17)

[The three composite economic indices from The Conference Board define the cycle stage. Their current ordering — LEI (83.8) below CEI (106.9) below the Lagging Index (111.0) — is the **textbook late-cycle configuration**, where leading indicators have already decelerated relative to coincident and lagging measures. All three are advancing at an identical +0.2% monthly pace, indicating low-speed equilibrium rather than contraction. The key question is whether this equilibrium holds or the soft-data deterioration now evident in surveys begins to pull hard-data readings lower.]

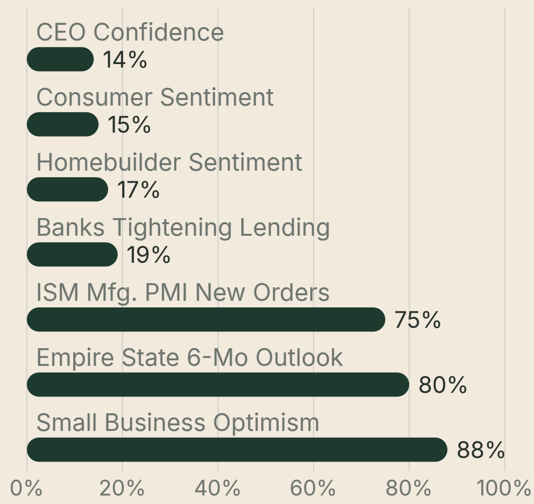
Leading Economic Index (LEI) **83.8**	Lagging Economic Index **111.0**	CEI 1-Month Change **+0.2%**
Coincident Economic Index (CEI) **106.9**	LEI 1-Month Change **+0.2%**	Lagging 1-Month Change **+0.2%**

[The most significant signal in the current data set is the **divergence between hard data and soft data**. Hard data indicators — actual transactions in industrial production, durable goods, real PCE, and bank lending — are at or near the 97th-100th percentile of their five-year ranges, signaling current economic strength. Soft data indicators — CEO confidence, consumer sentiment, and homebuilder expectations — are at the 14th-19th percentile, signaling that forward-looking decision-makers expect meaningful deterioration ahead. Historically, soft data leads hard data by three to six months.]

Hard Data — 5-Year Percentile Rank



Soft Data — 5-Year Percentile Rank



Cycle Stage: Late Expansion — Not in Recession, But Momentum Has Peaked The LEI-below-CEI-below-Lagging ordering is the classic late-cycle pattern where leading indicators peaked 12-18 months ago and the economy is now advancing on residual momentum. The economy is NOT in recession: employment is positive, real PCE is at the 100th percentile, and initial jobless claims are near historic lows (3rd percentile — very few layoffs). However, three late-cycle warning signals are active. First, Housing Starts at the 2nd percentile — already at recessionary levels in the most interest-rate-sensitive sector of the economy. Second, the NFP 3-month moving average collapsed from 142k in May to 77k in June to just 20k in July — a deceleration rate historically seen only near recession transitions (per TCW research). Third, the Consumer Health Indicator (USCHI) is at the 31st percentile — households have limited buffer capacity to sustain spending momentum if conditions tighten further.

No Classic Overheating Signal Confirmed Despite hard data readings at the 97th-100th percentile, the composition does not support a broad overheating diagnosis. Strength is concentrated in AI-related capital expenditure (data centers, semiconductors, defense) and government-adjacent spending — not in broad consumer excess or wage-price spiral dynamics. Wage growth at 3.1% is below headline inflation at 3.7%, meaning real wages are flat to slightly negative. Unemployment at 4.1% with stable initial claims does not indicate labor market tightness beyond productive capacity. A genuine overheating signal would require sustained core PCE above 3% with accelerating nominal wages — the wage channel is not yet confirming this pattern.

Key Recession Risk: Hard Data Begins to Follow Soft Data Lower The critical question is whether the depressed soft-data readings (CEO confidence 14th pct, consumer sentiment 15th pct, homebuilder sentiment 17th pct) represent a false alarm or a genuine leading signal. The NFP trend — 142k to 20k in three months — may be the first hard data point beginning to confirm the rotation. With the S&P 500 at 19.5x NTM P/E and HY spreads at only 263bp vs. a 437bp historical median, neither equities nor credit have priced in meaningful recession probability. This asymmetry — expensive assets against rising late-cycle risk — is the single most important portfolio risk management consideration entering Q4 2026. The August jobs report (September 4) is the critical near-term test.

Five-Source Research Synthesis

[The following table scores agreement and conflict across all five research sources reviewed in preparing this note. Full source details are listed in the Research Sources section.]

Key Investment Question	Cross-Source Verdict	Key Nuance or Conflict
Should the Fed hold at the September meeting?	4 of 5: Hold	Market (68% hike) and 3 FOMC hawks dissent. TCW: offsetting supply shocks requires 4-6% unemployment rise — a cost no Fed chair would accept.
Is inflation supply-driven and resistant to rate hikes?	Unanimous	All 5 sources agree. Yellen (June 2026): monetary policy cannot tame supply-driven inflation without unacceptable unemployment costs.
Is AI capex inflationary in the near term?	Unanimous	BlackRock: front-loaded capex delays productivity gains. Clearnomics: 1990s IT precedent — productivity benefits arrive slowly after investment.
Overweight Energy, Commodities, and Gold?	Unanimous	BlackRock: AI power demand thesis. IC Handbook: Iran / oil supply shock thesis. Different rationale, same OW — reinforced by Hormuz escalation today.
Overweight Short-to-Mid Duration Fixed Income?	Unanimous	All 5 agree. TCW and BlackRock: market yields are already doing the Fed's tightening work. IC Handbook also OW Long Duration Treasuries over corporates.
Underweight High Yield Credit?	Unanimous	HY OAS 263bp vs. 437bp historical median — extremely tight. A

Key Investment Question	Cross-Source Verdict	Key Nuance or Conflict
		September hike would widen spreads sharply given limited cushion at current levels.
Overweight Healthcare as an AI beneficiary?	CONFLICT	BlackRock: bullish on AI applications in healthcare. IC Handbook: UW — Health Care NTM P/E at 98th percentile vs. 10-year history; most expensive sector in handbook.
Is U.S. recession risk elevated over the next 12 months?	Elevated, Not Imminent	Late-cycle signals are building (LEI < CEI < Lagging; housing 2nd pct; NFP trend 142k to 20k). No source calls imminent recession but TCW and IC Handbook flag rising tail risk.
Does fiscal + AI spending raise the neutral rate and complicate the hold thesis?	Key Bear Risk	TCW's own bear case: if AI productivity arrives slowly while fiscal and AI capex sustain demand, the neutral rate may exceed 3%, shifting Fed from patient to catching up.

General Allocation Recommendations

> **Pivotal Near-Term Event: August Jobs Report — September 4, 2026** The NFP 3-month moving average collapsed from 142k in May to 77k in June to 20k in July. A weak August print would materially reduce September hike probability and trigger relief rallies in rate-sensitive assets. A strong print cements the hike case and pressures both bond prices and equity multiples. All positioning below should be interpreted relative to Friday's outcome and the subsequent September 15-16 FOMC decision.

Action	Position	Rationale	Sources
OW	Energy / WTI Oil	Hormuz escalation Sept 1; +45% YTD; 13.6x NTM P/E; inflation hedge	All 5
OW	Gold	Geopolitical + inflation hedge; low beta (0.2); +9.9% in August alone	All 5
OW	Broad Commodities	Highest YTD Sharpe ratio (2.3); supply scarcity thesis; structural inflation hedge	4 of 5

Action	Position	Rationale	Sources
OW	TIPS	4.98% yield at 100th pct historically; supply-driven inflation persists	MarketDesk, Clearnomics
OW	Quality Factor	Late-cycle preference; attractive vs. uncertain soft-landing environment	MarketDesk, BlackRock
OW	Equal Weight S&P 500	Reduces Mag-7 concentration risk; 16.3x P/E vs. 19.5x cap-weighted	MarketDesk
OW	AI Physical Infrastructure	Chips, power, data centers — scarce inputs; cloud revenue acceleration confirmed	BlackRock, Clearnomics
OW	Short-to-Mid Duration Fixed Income	4.5-5.1% yields at 70th-100th pct historically; income without duration risk	All 5
OW	MBS	Higher yield than Treasuries; benefits from declining rate volatility; MarketDesk OW	MarketDesk
OW	Investment Grade Credit	Lower default risk than HY; clear cash flows; neutral duration vs. spread widening risk	MarketDesk, BlackRock
OW	Covered Call / Options-Based ETFs	9.19% yield at 100th pct historically; income generation with equity downside buffer	Clearnomics
UW	High Yield Credit	OAS 263bp vs. 437bp historical median — historically tight; rate hike = spread widening	All 5
UW	Long Duration Nominal Bonds	10Y at 4.79% rising; 30Y at 5.28%; September hike risk = further price declines	Kobeissi, BlackRock
UW	Mega-Cap / High Beta AI	P/E 21-22x; ERP near zero; semiconductor concentration creates AI sentiment risk	MarketDesk
UW	REITs / Real Estate	Rate-sensitive; valuations falling; tighter lending standards; EPS: continued weakness	MarketDesk
UW	Utilities	Bond proxy pressured by higher rates; structurally challenged in tightening cycle	MarketDesk

Action	Position	Rationale	Sources
UW	Health Care (near-term)	NTM P/E at 98th percentile vs. 10-year history — most expensive sector in handbook	MarketDesk
UW	Preferreds	Bank issuer stress risk; higher equity beta creates headwind in tightening cycle	MarketDesk

Scenario Planning: September 15-16 FOMC Decision If the Fed hikes (68% market probability): Expect pressure on rate-sensitive equities (REITs, Utilities, Small Caps), HY spread widening, further yield curve steepening, and USD strength. Add to short-duration income, gold, and commodity positions on weakness. Monitor whether the hike is framed as a one-and-done or the start of a series — the latter is the primary tail risk scenario. **If the Fed holds (32% market probability):** Expect a relief rally in rate-sensitive assets and potential rotation from Quality into Growth. In both scenarios, the structural overweight on energy, commodities, AI physical infrastructure, and short-duration income remains unchanged.