Market Commentary Update

Inflation, Fed Policy & the Structural Framework — September 11, 2026

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What Has Changed Since August 7

Five weeks ago, a shocking −23,000 payroll print dominated headlines. Much has shifted since then. The labor market **reversed course**, inflation **re-accelerated on energy**, and Fed Chair Warsh used Jackson Hole to deliver the clearest hawkish signal of his tenure. As of this morning, markets are pricing a **87–90% probability** of a rate hike at next Wednesday's FOMC meeting.

> **Today's CPI Report: The Final Piece Before the Fed Meets** The August Consumer Price Index — released this morning — confirmed that inflation is not retreating fast enough to keep the Fed on the sidelines. Headline CPI held at 3.4% annually while core CPI came in at 0.3% monthly, above the 0.2% consensus. This is the last major inflation data point the Fed will see before its September 16–17 meeting.

HEADLINE CPI (AUG YOY)	CORE CPI (AUG MOM)	CORE CPI (AUG YOY)	FED HIKE PROBABILITY
3.4%	**0.3%**	**2.4%**	**~87–90%**
Unchanged from July	Above 0.2% estimate	Lowest since March 2021	Sept. meeting, per CME FedWatch

The Inflation Picture: A Mixed but Uncomfortable Read

Today's report is best described as **not soft enough**. The breadth of price pressures — not just energy — is what has tipped the scales for the Fed heading into next week.

Inflation Measure	Latest Reading	Prior	Commentary
Headline CPI (MoM)	+0.4%	+0.1%	Gasoline drove >1/3 of increase
Headline CPI (YoY)	3.4%	3.4%	Unchanged; well above 2% target
Core CPI (MoM)	+0.3%	+0.2%	Above 0.2% consensus — hawkish signal
Core CPI (YoY)	2.4%	2.5%	Lowest since March 2021; shelter easing
Core PCE (July YoY)	3.3%	3.3%	Fed's preferred gauge; +0.2% MoM

Inflation Measure	Latest Reading	Prior	Commentary
Median PCE (July MoM)	+0.2%	—	Cleveland Fed; released Aug. 26
Headline PPI (Aug YoY)	5.4%	—	Above 5.3% estimate; energy-led
Core PPI (Aug MoM)	+0.2%	+0.1%	Below 0.3% estimate; services muted
Gasoline (YoY)	+27.4%	+24.6%	Iran conflict driving energy prices
Energy Index (YoY)	+16.3%	+14.7%	Diesel surged 24.1% in PPI
Shelter (YoY)	3.0%	3.2%	Continuing to ease — positive sign
Avg. Hourly Earnings (YoY)	3.3%	3.5%	Wage growth moderating
Bloomberg Commodity Index (YoY)	+49.8%	—	Sharp rebound in recent 3 months

The key divide: Core CPI **annual** rate continues to fall (now 2.4%, its lowest since March 2021) — which suggests the underlying disinflation trend is still intact. But the **monthly** reading of 0.3% exceeded expectations, and the Fed requires sustained 0.2% or lower monthly prints to feel confident in the trajectory. As New York Fed President John Williams noted, "We need to see monthly core inflation readings of 0.2% or less to have confidence that inflation is moving sustainably toward the Fed's 2% target."

> **Investing.com Context: The Market's Pre-Meeting Read** Prior to today's release, Investing.com analysts framed the binary clearly: "CPI Preview: 0.2% Favours a Hold, 0.3% Favours a Hike." The number came in at 0.3%. Separately, the ISM Services Prices Index climbed to approximately 72 — its highest since September 2022 — a leading indicator that services inflation has not been tamed. Energy and diesel prices have also continued to feed through to PPI and, eventually, core PCE. The report was, as one analyst put it, "not an inflation disaster, but not soft enough to remove the possibility of additional tightening."

What Changed Between August 7 and Today

The August 7 note warned that today's report and the August jobs number would be "decisive for the Fed's next move." Both data points ultimately strengthened the case for action.

Event / Data	Date	Result	Market Impact
July PCE (Core)	Aug. 26	+0.2% MoM; +3.3% YoY; spending stalled	Gave Fed brief comfort to hold
Warsh — Jackson Hole Keynote	Aug. 28	Hawkish pivot; 54% of PCE components	Hike odds jumped 20+ pts overnight

Event / Data	Date	Result	Market Impact
		above 3%; 'firm, fixed' 2% target	
August Jobs Report	Sept. 4	+162,000 payrolls; unemployment near multi-year lows	Reversed July weakness; hike case strengthens
August PPI	Sept. 10	+0.4% MoM; +5.4% YoY; diesel +24.1%	Hike odds rose to ~70%
August CPI	Sept. 11 (Today)	+0.4% MoM; 3.4% YoY; core +0.3%	Hike odds surge to ~87–90%
UoM Consumer Sentiment (Sept.)	Sept. 11 (Today)	47.8 — well below 51.0 consensus	1-yr inflation expectations hit 4.6%

The Fed: From Watchful to Cornered

When we wrote on August 7, the Fed was in a comfortable holding pattern. That has changed materially.

Jackson Hole — August 28: Warsh's Hawkish Turn

Warsh used his first Jackson Hole keynote to sharpen his inflation warning substantially. He recommitted to the Fed's 2% PCE target as a "firm, fixed target" and was unambiguous that "short-term interest rates are the predominant tool to achieve the dual mandate" — a direct pushback against any assumption that balance sheet management or AI productivity gains might substitute for rate action.

His key data point: 54% of PCE components had been running above 3% annualized inflation over the past 12 months. "None of these measures are perfect, but they all tell a similar story: Inflation is running above our 2% target," he said.

He also reinforced his anti-guidance posture: "We should not indulge a regime in which market participants are looking primarily to the Fed for their next trade." He called for "a quieter Fed, more purposeful in its communications."

Where Markets Stand Today

Sept. Rate Hike Probability **~87–90%**	30-Year Treasury Yield **~5.38%**	Gold (August) **+14% — strongest month this century**
2-Year Treasury Yield **~4.65% (2-yr high)**	S&P 500 YTD **+12% (2% off Aug. high)**	UoM Sentiment (Sept.) **47.8 — near historic lows**
10-Year Treasury Yield **~4.975%**	Oil Price **Above $100/barrel**	1-Yr Inflation Expectations **4.6% (up from 4.0%)**

Treasury Yields Are at Multi-Year Highs — The Bond Market Is Already Tightening The 10-year Treasury yield is approaching 5% — its highest since October 2023 — and the 30-year is nearing 5.38%, within touching distance of the June 2007 high. The iShares 20+ Year Treasury ETF (TLT) fell to its lowest price since May 2004. Treasury buyback operations have disappointed — the September 10 operation purchased only $5.2 billion of an authorized $6 billion — raising questions about demand at the long end. This bond market pressure is doing some of the Fed's work, but it is also creating a feedback loop: higher yields weigh on equities, housing, and credit conditions simultaneously.

The Structural Lens: Clear View's Unified Investment Outlook

The day-to-day data releases are important. But we believe the more important question is: **what kind of environment are we in, and is today's data moving us closer to a phase transition?**

Our firm's Unified Investment Framework — synthesizing three analytical lenses: the Entropy Trap, Tipping Point theory, and Elliott Wave analysis — provides the structural context that headline-to-headline commentary misses.

Core Thesis: This Is Not a Normal Cycle The global financial system is undergoing a structural phase transition — a generational reorganization with significant implications for traditional portfolio assumptions. Mean-reversion, 60/40 correlations, and standard risk models may be operating on faulty premises. The visible catalyst matters less than the conditions beneath it. Measure conditions, not headlines.

Where We Are: Stage 3 of 5 — Control

Every monetary breakdown across 3,000 years of history follows a structured five-stage progression. Based on current conditions, we assess the system to be firmly in Stage 3.

Stage	Name	Key Signals	Status
1	Money Printing	Central bank expansion, QE, debt monetization	Complete
2	Government Spending	Fiscal stimulus, deficit expansion, entitlement growth	Complete
3	Control	Rate manipulation, regulatory tightening, policy intervention	CURRENT
4	Fracture	Currency stress, institutional credibility loss, cascade risk	Approaching
5	Coercion	Capital controls, forced restructuring, new system imposed	Not Yet

Today's data reinforces Stage 3 dynamics: the Fed is using rate policy as the primary lever of control while facing a structural inflation problem it cannot fully solve with conventional tools (Middle East energy shocks, AI-driven input cost inflation, labor market supply compression from deportations). The conflict between the Treasury's buyback attempts to suppress long yields and the Fed's rate hike signal is a textbook Stage 3 feature — policy actors pulling in competing directions.

The Four Measurements — September Reading

Our framework monitors four signals monthly:

Measurement	What It Captures	September Reading
Stress Level	Position on five-stage path	Stage 3 — Control; rate hike imminent
Stress Velocity	Is deterioration accelerating?	Deteriorating — hike odds, yields, energy all moving simultaneously
Stress Acceleration	Is the rate of change itself changing?	Accelerating — August jobs reversed July; CPI re-accelerated
Correlation Convergence	Are separate risks moving together?	Converging — geopolitical (Iran), macro (inflation), and credit (yields) risks aligning

The September reading across all four measurements has **deteriorated** since our August 7 note. Stress velocity and acceleration are both moving in the wrong direction, and correlation convergence — the most dangerous signal — is intensifying.

Tipping Point Watch: Is a Narrative Shift Underway?

The Tipping Point framework asks: **Is a narrative about to tip?** We are watching five signals, and several are flashing amber.

Signal Type	What to Watch	Current Condition
Narrative Saturation	Bad news stops being good news	Approaching — today's market bounced on CPI, but the 'bad news is good news' dynamic is thinning
Connector Events	Policy missteps, credit events, shocks	Active — Iran conflict, failed Treasury buyback, ECB hike all simultaneous
Stickiness Test	Does new data change positioning?	Yes — CPI swung hike odds 20 pts in one session; positioning is reactive
Context Shift	Hard vs. soft data divergence closing	Closing — Michigan Sentiment collapsed to 47.8; matches weak July payrolls

Signal Type	What to Watch	Current Condition
Sentiment Extreme	Complacency at highs; VIX suppressed	Complacency eroding — UoM at near-historic lows; second-lowest reading in 70+ years

The most striking data point in today's release was not the CPI itself — it was the University of Michigan Consumer Sentiment reading of 47.8, well below the 51.0 consensus and the second-lowest reading recorded since the survey's inception over 70 years ago. Sentiment throughout 2026 has languished below anything seen during the Great Recession, the September 11, 2001 attacks, and foreign wars. When sentiment diverges this sharply from asset prices (S&P 500 still up 12% YTD), a reconciliation tends to follow.

The one-year inflation expectation jumped to **4.6%**, up from 4.0% in August. Five-year expectations also ticked higher to 3.4%. Inflation expectations becoming unanchored is precisely the scenario the Fed is most determined to prevent — which is why today's data makes a hike next week nearly certain.

Elliott Wave Positioning: Late Impulse

From a tactical cycle perspective, our framework places current markets in the **Late Impulse** phase — the final push of an upward wave before a corrective sequence begins. The positioning implication is clear: **quality bias; reduce high-beta.**

The S&P 500 is approximately 2% below its mid-August all-time high and is testing its 50-day moving average near 7,590. The 100-day moving average at approximately 7,500 may provide the next support zone. A sustained break below this level could signal the beginning of a corrective wave. The Nasdaq and Russell 2000 are also showing warning signals at key technical junctures.

Late Impulse does **not** mean "sell everything." It means:

- Prioritize quality factors (strong balance sheets, low leverage, consistent earnings)
- Reduce exposure to high-beta, speculative, and momentum-driven positions
- Be alert to the corrective phase entry point — structural re-entry opportunities follow corrections

Portfolio Positioning: The Framework-Implied Stance

Our conditions-based positioning reflects the regime readings above. This is **not a forecast** — it adjusts as measurements change each month.

Asset Class / Theme	Framework Rationale	Bias
Gold	Primary trust asset during system stress; central bank buying accelerated to 100 tonnes/month in June 2026; August saw +14% — strongest month this century	Overweight
Real Assets / Energy	Structural inflation entropy; Iran conflict sustains energy price floor;	Overweight

Asset Class / Theme	Framework Rationale	Bias
	physical inputs to transition infrastructure	
Inflation-Linked Bonds (TIPS)	Fed trapped between growth and prices; Stage 3 supports duration-hedged inflation exposure; 1-yr expectations now 4.6%	Overweight
Short Duration Fixed Income	Reduces duration risk during rate control phase; preserves optionality ahead of potential hike cycle; 2-yr at 4.65%	Overweight
Silver	Higher-beta trust asset with AI, energy transition, and defense industrial demand; asymmetric in inflationary transitions	Tactical Overweight
Quality / Low-Leverage Equities	Elliott late impulse favors quality factor; system brittleness penalizes leverage as rates rise; S&P leadership narrowing	Neutral
High-Beta / Small Cap	Tipping Point risk: narrative shift accelerates de-rating; Russell 2000 underperforming; correlation convergence amplifies drawdowns	Underweight
Long Duration Bonds	Duration risk acute in Stage 3; 30-year near 5.38%; TLT at lowest since 2004; no compensation for structural inflation	Underweight
Concentrated Growth / AI	Correlation convergence risk; Tipping Point saturation in AI narrative; semiconductor volatility confirmed; valuations stretched into rate hike	Underweight

On Gold specifically: Goldman Sachs Research expects central banks to buy an average of 50 tonnes of gold per month in 2026, up from an average of 17 tonnes per month before 2022. Central bank purchases accelerated to 100 tonnes per month in June 2026, with China's central bank the largest identifiable buyer. This structural central bank demand provides a floor to gold even as Warsh's hawkish pivot temporarily reversed August's gains.

A Note on the Framework's Philosophical Divide Elliott Wave assumes the financial system always recovers — that every correction is followed by a new impulse higher. The Entropy Trap challenges this assumption during genuine phase transitions: the old equilibrium may not return, and the new mean may be structurally different from the old one. We believe we are in a period where both frameworks are partially correct — tactically, waves persist; structurally, the mean itself is shifting. Do not assume mean-reversion in a system that may be transitioning to a new mean.

Key Dates and Triggers

Date	Event	What to Watch
Sept. 16–17	FOMC Meeting (Decision Sept. 17)	~87–90% probability of 25 bps hike; dot plot and press conference critical
Sept. 17	Fed Dot Plot Release	Will Warsh submit estimates? How many hikes projected for 2026–27?
Sept. 19	Bank of England Decision	Hold expected at 3.75%; vote split watched for global policy signal
Sept. 30	August PCE Release (BEA)	Fed's preferred gauge; will core CPI's 0.3% feed into PCE meaningfully?
Oct. 2	Hourly Wages Report	Wage growth trajectory — 3.3% YoY; moderation vs. labor scarcity dynamic
Oct. 14	September CPI Release	Energy trajectory post-Iran conflict; will gasoline spike persist?
Oct./Dec.	Potential Additional Fed Hike	Bank of America projects three hikes total; market pricing extends through year-end

Our Perspective: The Bigger Picture

Headlines vs. Conditions: Measure the Right Thing The temptation is to react to each data release as if it changes the fundamental picture. It rarely does. What matters is whether the underlying **conditions** — stress velocity, correlation convergence, policy trajectory — are deteriorating or stabilizing. As of September 11, 2026, conditions have deteriorated since our last note. The system is more stressed, not less.

What this means practically:

- A 25 bps hike next Wednesday is now the base case. It is likely already partially priced into financial markets. The more important question is what the dot plot and Warsh's press conference signal about **subsequent** moves. Bank of America is projecting three hikes total; if that narrative gains traction, long-duration bonds face further headwinds.
- The **real** inflation problem is not today's 3.4% headline — it is the **breadth** of pressures across PCE components (54% above 3% over the past year) combined with commodity indices running nearly 50% above year-ago levels. Energy is the visible catalyst, but services and shelter are the structural stickiness the Fed hasn't fully solved in five years.
- Consumer sentiment at 47.8 — below levels seen during the Great Recession — is a data point that deserves more attention than it is receiving. Asset prices have remained resilient on AI and earnings momentum, but sentiment and spending are beginning to crack. Inflation-adjusted consumer spending **stalled** in July (the month of the PCE release). A consumer who feels poorer is a risk to growth in Q4.
- The **Unified Framework** read for September is clear: Stage 3 Control dynamics are intensifying, stress velocity is deteriorating, and correlation convergence is at its highest since early 2026. This is precisely the environment where the old rules — 60/40 diversification, mean-reversion assumptions, growth-at-any-price — are most likely to fail.

We are not forecasting a crisis. We are **measuring** conditions and positioning accordingly. The monthly review process — Entropy Stress Reading, Tipping Point Scan, Elliott Wave Positioning, Portfolio Alignment, and Trigger Calendar — remains our discipline. Conditions dictate positioning; headlines do not.
