Capitalwise

MARKET & ECONOMIC REVIEW

September

2026

MESSAGE FROM OUR TEAM

Our Mission: Provide our clients with the highest level of service and advice to help build their family's security and prosperity.

We love what we do. We are passionate about the industry and proactive in learning new strategies to deliver the best investments and solutions available in the market.

This monthly update reflects our passion and commitment to learn, share, and operate with authenticity and transparency. The commentary, data, and visuals provided are not intended to be investment advice. Please seek the advice of an independent financial advisor for your personal financial decisions.

> "You only find out who is swimming naked when the tide goes out."
>
> **Warren Buffett**
> **Chairman, Berkshire Hathaway**

Capitalwise

ECONOMIC UPDATES

ECONOMIC UPDATE: **Market Cycle**

AT A GLANCE · LATE-CYCLE EXPANSION

August closed out a market that looks stronger than it feels. Growth is re-accelerating, credit markets are pricing almost no risk, and market leadership is broadening beyond mega-cap tech, all classic late-cycle signals. Underneath, the cracks are showing in the two places that matter most, labor and the consumer. Payrolls turned negative for the first time this year, and consumer sentiment remains depressed. Inflation is still running well above target, which is why Chair Warsh's Fed held rates in July on a 9-3 vote, with the dissents wanting to hike, not cut. This is a cycle that hasn't turned yet, but the runway is getting shorter. The scorecard below breaks down all seven factors.

WHERE WE ARE IN THE CYCLE

Late-Cycle Expansion

The Seven Dots

Each track runs Contraction to Overheating in that factor's own vocabulary. The dot is where it sits today.

Growth
EXPANDING

GDPNow re-accelerated through August, and both ISM surveys are back in solid expansion, services at an eight-month high.

GDPNow Q3 +4.7% · Real GDP YoY +2.1% · ISM Mfg/Svcs 54.6 / 55.4

Inflation
ELEVATED

Core measures cooled a touch in July but are still running 1.3–1.7 points above the Fed's 2% goal.

CPI YoY 3.30% · Core CPI YoY 3.29% · Core PCE YoY 3.34%

Credit
COMPLACENT

Banks aren't tightening, and high yield spreads sit in the richest decile of history, pricing almost no risk premium into a labor market that's visibly cooling.

HY OAS ≈266bp · vs. long-run median ≈450bp · SLOOS C&I tightening 0%

Consumer
WEAKENING

Spending held up in nominal terms but the buffer under it is thin, and sentiment is both depressed and unusually choppy all year.

Retail sales MoM −0.75% · Savings rate 3.0% · UMich sentiment 51.7

Leadership & Breadth
BROADENING

The last quarter flipped the year's script: equal-weight and small caps led while cap-weighted mega-cap tech lost ground.

RSP 3-mo +4.5% · QQQ 3-mo −4.8% · XLE/GDX, Aug +7.4% / +32.9%

Labor Market
COOLING

Payrolls turned negative for the first time this year even as the unemployment rate kept drifting lower, a combination that only makes sense if the labor force itself is shrinking.

Payrolls, Jul −23k · Unemployment 4.1% · Continuing claims 1.74M

Monetary Policy
HOLDING

The Committee held rates in July on a 9-3 vote, and the three dissents wanted to hike, not cut. Chair Warsh has since reiterated that inflation is still too high and that policy is not yet restrictive.

Fed funds 3.50–3.75%, held · Jul vote 9-3, dissents to hike · 10Y−2Y +0.39%

ECONOMIC UPDATE:
What to Double-Click On

There are two sides to every coin. Here are 6 stories where the headline figure might disagree with the underlying thesis.

THE PRINT

4.1%

Unemployment, down from 4.4%

L

LABOR · THE UNDERCURRENT

Payrolls fell 23,000 in July, yet unemployment dropped anyway. That only happens when people leave the workforce, not when more of them get hired. Today's August report lands with forecasts ranging from a 25,000 job loss to a 125,000 job gain.

THE PRINT

51.7

UMich sentiment, cycle low territory

C

CONSUMER · THE UNDERCURRENT

Older adults, lower and middle-income households, and people who don't hold stocks all saw lower scores. Sentiment surveys continue to contradict spending and growth. However, there may be reason to believe that the K shaped economy has more to do with it.

THE PRINT

266bp

High yield OAS, richest decile on record

$

CREDIT · THE UNDERCURRENT

High-yield spreads keep tightening even as warnings pile up. Jamie Dimon says margin debt has never been higher, citing a hedge fund forced to liquidate during August's AI selloff. Marc Rowan has warned of a private-credit shakeout since March. Neither shows up in a 266bp print.

THE PRINT

9-3

FOMC hold vote, July 29

%

RATES · THE UNDERCURRENT

Hammack, Kashkari, and Logan each dissented in July in favor of a rate hike. The narrative has quickly shifted from rate cuts to a 50% chance of a September rate hike. Kevin Warsh repeated in Jackson Hole that the policy is not currently restrictive and inflation is too high. Hawkish tone.

THE PRINT

-0.7%

Weakest sector on the page, August

M

MUNIS · THE UNDERCURRENT

The municipal bond market saw negative returns on the back of record supply in the month of August. However, we saw a very healthy $4.35 billion of inflows for muni bond funds during the month. Investors aren't scared of the supply, they're capitalizing on the starting yield.

THE PRINT

122.78%

Return difference between the top and bottom performing stocks in the IGV

E

EQUITIES · THE UNDERCURRENT

After the SaaS-pocalypse at the beginning of the year, stocks within the iShares Software ETF have diverged: those leaning into AI, like Atlassian (+92.2% in August), are outperforming, while those who missed the mark, like AppLovin (-20.2%) or Cipher (-30.6%), lag behind.

Capitalwise

MARKET UPDATES

MARKET UPDATE: **Equity**

Equity Breakdown

2022	2023	2024	2025	YTD	August
XLE 64.4%	XLK 56.0%	XLC 34.7%	XLK 24.6%	XLE 45.0%	XLE 7.4%
XLU 1.4%	XLC 52.8%	XLF 30.5%	XLC 23.1%	XLK 29.9%	XLK 6.4%
XLP -0.8%	XLY 39.6%	XLY 26.5%	XLI 19.3%	XLB 17.1%	XLV 4.9%
XLV -2.1%	SPY 26.2%	SPY 24.9%	SPY 17.7%	XLI 13.5%	XLB 4.5%
XLI -5.6%	XLI 18.1%	XLU 23.3%	XLU 16.0%	SPY 13.1%	XLC 3.0%
XLF -10.6%	XLB 12.5%	XLK 21.6%	XLF 14.9%	XLV 11.1%	SPY 2.7%
XLB -12.3%	XLRE 12.4%	XLI 17.3%	XLV 14.5%	XLRE 11.0%	XLF 1.4%
SPY -18.2%	XLF 12.0%	XLP 12.2%	XLB 9.9%	XLP 10.8%	XLY 0.4%
XLRE -26.3%	XLV 2.1%	XLE 5.5%	XLE 7.9%	XLF 6.3%	XLP -0.1%
XLK -27.8%	XLE -0.6%	XLRE 5.1%	XLY 7.4%	XLU 0.2%	XLRE -2.1%
XLY -36.4%	XLP -0.8%	XLV 2.5%	XLRE 2.6%	XLY -2.0%	XLI -2.6%
XLC -37.7%	XLU -7.2%	XLB 0.1%	XLP 1.5%	XLC -4.8%	XLU -4.8%

Cyclical

XLB	Materials
XLY	Consumer Cyclical
XLF	Financials
XLRE	Real Estate

Defensive

XLP	Consumer Staples
XLV	Health Care
XLU	Utilities

SPY	S&P 500

Sensitive

XLC	Comm. Services
XLE	Energy
XLI	Industrials
XLK	Information Tech.

August Winners

- Energy was the runaway leader (XLE +7.4%) again! The sector is up a blistering 21.1% over the last two months as Brent crude rocketed from the high $60s to the low $90s once Iran's 60-day ceasefire expired, then held those gains as things stabilized. Refiners poured gasoline (sorry) on the fire with record-setting Q2 earnings calls and even bolder forward guidance, giving the group a second engine on top of the crude move itself and stretching its runaway 2026 lead to roughly +45% YTD.
- SAAS made a comeback in August with IGV (+16.3%) jumping on the back of companies like Salesforce (+40.0%), Palantir (+51.5%), and ServiceNow (+33.1) proving that artificial intelligence can be a tailwind not extinction for some software giants.
- Goldminers (GDX +32.9%) had their best month since April of 2020 on the back of the debasement trade after the national debt surpassed $40 trillion and the Treasury doubled its buyback cap for longer-dated debt.

August Losers

- Former high flyers Figma (-39.2%), The Trade Desk (-37.1%), Super Micro Computer (-29.6%), and Circle (-28.1%) suffered in the bullish month as earnings, valuations, and rotations punished companies that can't keep up with steep growth expectations.
- Utilities (-4.8%) and Real Estate (-2.1%) both gave back July gains as the 10-year Treasury rate spiked to 2023 levels, pressuring these defensive names.

Summary

The headline numbers undersell how much sorting happened underneath them this month. August wasn't a "risk-on, buy everything" rally; it was a market getting a lot pickier about which version of the AI trade it was willing to pay for. The names that could point to actual revenue and margin from artificial intelligence (Salesforce, Palantir, ServiceNow) got rewarded, while richly valued names running on story and multiple expansion alone (Figma, Trade Desk, Super Micro, Circle) got repriced hard, in some cases losing a third of their value in a month the broader market was green.

That same "prove it" mentality showed up in hard assets, too. Energy didn't just bounce on the ceasefire headline; it held the move because refiners backed it up with the earnings; gold's surge wasn't a one-off panic trade; it tracked directly with a $40 trillion national debt figure and the Treasury leaning harder on its own buyback program. Both were investors putting money behind a thesis rather than chasing a headline.

The common thread on the loser side was the bond market. The same move in the 10-year that pressured yield plays like utilities and real estate is arguably fueling the debasement trade in gold. Worth watching whether that tension eases or intensifies heading into September.

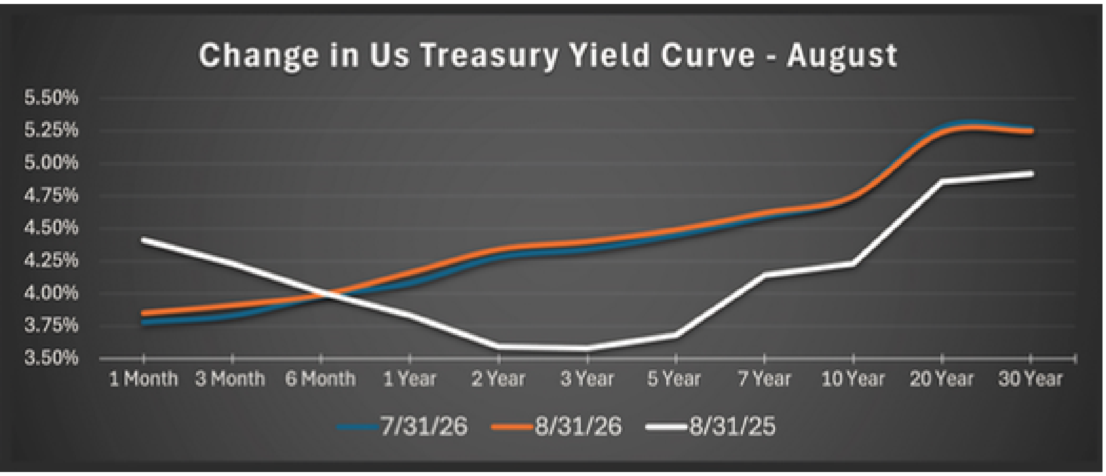
	August	YTD	1 Year
S&P 500	2.7%	13.1%	20.4%
Dow Jones	1.5%	11.8%	18.6%
Nasdaq Composite	4.0%	13.9%	23.6%

All graphs generated internally with data from YCharts, see footnotes for data disclosure.

MARKET UPDATE: **Bonds**

Fixed Income Breakdown

US Treasury Yield	31-Aug Yield	Change in Yield MoM	Change in Yield YoY
SWVXX	3.53%	1 bps	-82 bps
1 Month	3.85%	7 bps	-56 bps
3 Month	3.91%	8 bps	-32 bps
6 Month	3.99%	1 bps	-2 bps
1 year	4.16%	8 bps	33 bps
2 Year	4.34%	6 bps	75 bps
3 Year	4.40%	6 bps	82 bps
5 Year	4.49%	4 bps	81 bps
7 Year	4.62%	3 bps	48 bps
10 Year	4.75%	bps	52 bps
30 Year	5.25%	-2 bps	33 bps



Fixed Income Total Return

August 2026

Credit Quality	Duration: Short	Duration: Interm.	Duration: Long
High	0.15%	0.14%	0.55%
Med	0.14%	0.15%	0.22%
Low	0.67%	0.60%	0.63%

YTD

Credit Quality	Duration: Short	Duration: Interm.	Duration: Long
High	0.57%	-0.39%	-2.75%
Med	0.94%	-0.41%	-2.26%
Low	2.48%	2.48%	2.48%

Fixed Income Sector Total Returns

Sector	August	YTD
Treasury Bond	0.2%	-0.7%
TIPS	0.0%	0.6%
Corporate Bond	0.1%	-0.7%
Corporate High Yield	0.8%	2.5%
Floating Rate	0.4%	2.9%
MBS	0.3%	-0.1%
CMBS	0.0%	0.3%
CLO AAA	0.4%	3.2%
Municipal Bond	-0.7%	-0.3%
Emerging Market Bond	0.5%	1.2%

All graphs generated by FRED or generated internally with data from YCharts, see footnotes for data disclosure.

State of the Bond Market

Fear has slowly been entering the bond market, as warnings about historically tight spreads have piled up all summer. A few key stories broke in the month of August, putting the bond traders on the front page:

- **Surging Yields →** Globally, yields rose in the month of August, but domestically we saw yields rise on the back of inflation, debt, Treasury intervention, and a hawkish tone from the new Fed Chair.
- **Stubborn Inflation → Record U.S. Debt →** In our 25th consecutive year operating our government at a deficit, it is no surprise that our debt is growing, but on August 20th, we surpassed $40 trillion, which seemed to be an emotional figure for the bond market.
- **Government Intervention →** The Treasury Secretary tried putting a band-aid on a bullet hole, as the $2 billion increase in buybacks should precede the $628 billion in bond sales the Treasury must conduct in Q4 2026 to refinance its debt.
- **AI-related Bond Competition →** Corporate bond issuance is expected to surpass $2.4 trillion by year-end, which would be a record, with $400 to $550 billion of that expected to be investment-grade bonds linked to AI, competing with Treasuries as spreads remain at generational lows.

Municipal Bonds set an all-time August issuance record, nearly $60 billion across 873 deals, as issuers rushed to lock in rates ahead of feared autumn hikes. The curve steepened sharply: short yields fell 2–10 bps while 15–30 year yields rose 9–19 bps. Demand held firm, with steady weekly inflows absorbing the heavy calendar, and credit strengthened further as Moody's upgraded Illinois to A1. On total return, Munis remain ahead of Treasuries year-to-date despite the losing month.

In summary, August was the month tight spreads finally met a wall of fear. Yields rose globally, but the domestic move had a distinctly homegrown cast: sticky core inflation still running above 3%, a debt load that crossed $40 trillion in our 25th straight deficit year, a new Fed Chair signaling hawkishness rather than cuts, and a Treasury reaching for a bigger buyback program ahead of a historic $628 billion Q4 refunding. Layer on a record year for corporate issuance, $2.4 trillion and counting, with $400–550 billion of that AI-related investment-grade paper now competing directly with Treasuries for buyers, and it's easy to see why the curve is steepening even with spreads at generational lows. Munis felt the same pressure: record August supply, a steeper curve, and a losing month on total return. But demand never wavered, and munis still led Treasuries year-to-date. Despite all of this, fund flows remain strong as starting yields haven't looked this attractive in a long time.

SUMMARY

Key Takeaways from our Centralized Investment Committee

01

The Vanishing Workforce

Payrolls and unemployment are declining together, signaling a shrinking workforce.

02

Energy's Encore

XLE +7.4% in August, pushing its two-month gain to 21.1% as Brent crude surged past $90.

03

Muni Buyers Aren't Scared

Municipal bonds posted negative returns on record August supply, yet muni funds pulled in $4.35 billion of inflows.

DISCLOSURES

Commentary in this update reflects the opinions of Capitalwise & Victory Financial Group based on our observations of economic data. Charts listed are provided for informational purposes only. The information provided is subject to change and is not intended to be solicitation to buy or sell any securities. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Capitalwise & Victory Financial Group hold five core convictions to investment management that help guide how portfolios are constructed. The performance results shown are a subset of investments extracted from Victory Financial Group portfolios. All returns are calculated net of fees. All investments carry some level of risk, and it's important to understand that past performance is not indicative of future results. While we believe the information presented here to be accurate, it is the responsibility of the account owner to verify its accuracy. Accurate information for listed investments may rely entirely on the timely receipt of accurate information from your custodian. The information provided is subject to change and is not intended to be solicitation to buy or sell any securities. If you have any questions or require further clarification, please do not hesitate to contact us.

Investment advisory services offered through Victory Financial Group LLC.

Footnotes:
(1) Credit to the Bureau of Economic Analysis at bea.gov for all data provided in this row
(2) Credit to the Bureau of Labor Statistics at bls.gov for all data provided in this row
(3) Credit to the St Louis Federal Reserve at fred.stlouisfed.org for all data in this row
(4) All data used in charts and graphs on a publicly traded security was collected from public sources such as Google Finance – google.com/finance, Yahoo Finance – finance.yahoo, Morningstar.com, Bureau of Economic Analysis (1), Bureau of Labor Statistics (2).
(5) The securities listed in this chart are securities used to create Victory Financial Group portfolio strategies. Securities in blue are equities. Securities in yellow and orange are fixed income.
(6) Ycharts owns all of its data for the purpose of investment research not investment advice, please see further disclosure at ycharts.com/disclosure
(7) Chart and Data credit to Trading Economics and their data compilation from National Statistics and the World Bank

Benchmarks: All portfolio performance returns are collected via composite analytics of actual client accounts provided by yCharts. Associated benchmarks are built on a combination of the Russell 3000, MSCI ACWI ex US, Bloomberg Aggregate Bond, and Bloomberg Muni Bond. The international to equity weight is tiered off an 80% domestic weight and a 20% international weight. Asset allocation starts with 100% equity and reduces by 20% with each subsequent risk model.

Investment advisory services offered through Victory Financial Group, LLC (“VFG”), an SEC Registered Investment Adviser.

CONTACT

Capitalwise
802 W 17 St. Unit 200
Houston, TX 77008

capitalwise.com
contactus@capitalwise.com
(713) 219-9820