James Investment Research, Inc.

Market Commentary

September 2026

Key Insights

- **Earnings Deliver Record Margins on Broad Revenue Growth:** Adjusted for one-time investment gains, S&P 500 profits grew 33.8% year over year, with 86% of companies beating expectations. Margins reached a record 17.0% and revenue grew 15.5%, the fastest since 2021, with every sector contributing, per FactSet.
- **The Breadth Story Is Better Than It Looks:** The 493 S&P 500 companies outside the Magnificent 7 grew profits 31.8% on their own, and revenue advanced across all eleven sectors. August's 2.72% gain for the S&P 500 did lean on the largest names, with the equal-weighted index up 2.06% and the Russell 2000 up 1.01%, but the earnings driving it came from the whole market rather than a narrow group.
- **2026 Is a Value Year, and August Did Not Change That:** Value is up 23.15% against 4.46% for growth, small caps are up 20.19%, and the Magnificent 7 have gained only 4.75% for the year despite adding 4.44% in August. Technology's 29.85% year-to-date advance belongs to chipmakers rather than the mega-cap platforms.
- **Oil Is the Swing Variable:** Crude averaged roughly $92.55 a barrel last quarter against $63.68 a year earlier, a 45% increase that drove Energy profits up 146.3% and the sector up 45.00% for the year. The cost shows up elsewhere: consumer discretionary gained 0.43% in August and is down 1.97% for the year.
- **Yields Are Rising Everywhere at Once, and Not Over Credit:** Chairman Warsh's Jackson Hole comments pushed September hike odds near 70% per Bloomberg, and global sovereign yields hit 3.72%, the highest since mid-2008, with Japanese 10-years at 3% for the first time since 1996. The broad bond index is down 0.31% for the year and long Treasuries down 2.41%.
- **Big Tech Now Competes with the Treasury for Capital:** Net borrowing by large technology firms is tracking toward roughly $200 billion this year, about a quarter of Treasury note and bond issuance. Alphabet paid nearly 6.4% on 30-year debt and Meta data center paper yields over 7.5%, pulling corporate holdings in investment-grade funds to a three-year high of 30%.

Monthly Recap

Stocks had a good month. The S&P 500 gained 2.72% and the Nasdaq rose 3.99%. The big technology names, which have been sitting out most of this year, finally showed up: the Magnificent 7 group added 4.44%.

Energy was the best sector, up 7.41%, followed by technology (+6.36%), health care (+4.92%), and materials (+4.48%). The losers were the parts of the market that hate higher interest rates: utilities fell 4.78%, industrials 2.62%, and real estate 2.13%.

Smaller companies lagged. The Russell 2000 gained just 1.01%, and the equal-weighted S&P 500, which treats every company the same size, rose 2.06% versus 2.72% for the regular index. Translation: the biggest names did most of the work in August.

Elsewhere, commodities jumped 7.30% and gold gained 7.50%. Crypto had a huge month, up 30.32%, though it is still down 15.70% for the year. Bonds were quiet and slightly positive. Overseas markets rose but did not lead. All figures per Bloomberg.

Corporate profits were excellent, but read the fine print

Second-quarter earnings season just wrapped, and the headline number is enormous. S&P 500 profits grew 52.0% from a year ago, the best since 2021, with 86% of companies beating expectations, according to FactSet.

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Two companies distort the whole picture. Alphabet booked a $98 billion paper gain on investments it holds, and Amazon booked a $53.4 billion gain tied to its stake in Anthropic. Neither is money earned from selling products. Strip those two out and profit growth drops to 33.8%.

That is the number worth paying attention to, and it is still very strong. Profit margins hit a record 17.0%, and remain a record even without Alphabet and Amazon. Sales grew 15.5%, the fastest since 2021, and every single sector grew revenue. The other 493 companies in the index grew profits 31.8% on their own. This was not a story about seven stocks carrying everyone.

Oil is the thing to watch

Energy leads the market this year, up 45.00%, and commodities are up 29.18%. The reason is simple: oil averaged about $92.55 a barrel last quarter versus roughly $63.68 a year earlier, a 45% increase per FactSet. Energy company profits rose 146.3% as a result.

What is good for oil companies is a cost for everyone else. Consumer discretionary stocks, which depend on shoppers having spare cash, gained only 0.43% in August and are down 1.97% for the year. If oil keeps climbing, that pressure spreads to more companies through higher shipping, fuel, and input costs.

The bigger surprise: This has been a value year

Step back from August and 2026 looks nothing like recent years. Value stocks are up 23.15% while growth stocks are up just 4.46%. The Magnificent 7 group is up only 4.75% for the year. Smaller companies are up 20.19%, beating the big index.

Technology is still up 29.85% for the year, but that has been driven by chipmakers rather than the familiar mega-cap platforms. August's tech bounce looks like a good month inside a year that has favored a very different set of stocks.

Are stocks expensive?

Slightly less than they were. Prices rose 3.1% since the end of June, but profit forecasts rose 7.4%, which actually made stocks cheaper on a relative basis. The S&P 500 now trades at 19.6 times expected earnings for the next year, below its five-year average of 19.9 and a little above its ten-year average of 19.0. Company guidance for the current quarter is unusually upbeat, with 63 companies raising expectations against 35 lowering them.

The one thing that has not been fixed

Long-term bonds are still struggling. The broad bond index is down 0.31% for the year and long-term Treasuries are down 2.41%. Bond investors are demanding more compensation, which usually signals worry about inflation staying high. Stocks have been able to ignore this because profits have grown fast enough to justify prices. That works until profit growth slows, and forecasts already call for growth to fall from 31.2% this year to 14.4% next year, per FactSet.

Topic of the Month: Why bond yields are rising everywhere at once?

Government borrowing costs are climbing across the developed world at the same time. Three forces are behind it: a central bank that has turned tougher on inflation, a war premium in oil, and a longer-running rise in what investors charge to lend money for a long time. Adding to the pressure, the largest technology companies are now borrowing on a scale that competes directly with governments for the same pool of savings.

This is not a story about anyone doubting that the U.S. government will pay its debts. It is a story about price. The following is our view on what is driving global yield increases and what that means for a normal portfolio.

1. The immediate trigger: A hawkish Fed and higher oil

On August 28, Federal Reserve ("Fed") Chairman Kevin Warsh said in his Jackson Hole speech that broad financial conditions were not restrictive and that the Fed remained committed to returning inflation to its 2% target. Markets took that seriously. Traders now put the odds of a rate increase at the September Federal Open Market Committee ("FOMC") meeting near 70 percent, according to Bloomberg. Only weeks earlier, markets had assigned much lower odds to a hike.

At the same time, renewed conflict between the United States and Iran has raised the risk of disruption to oil shipments through the Strait of Hormuz. Higher oil prices feed directly into inflation, which reinforces the case for higher interest rates.

The result has been a synchronized jump in yields worldwide. The Bloomberg gauge of global sovereign bonds reached 3.72 percent, its highest level since mid-2008. Japanese 10-year yields touched 3 percent for the first time since 1996, United Kingdom 30-year yields hit their highest since 1998, and Australian 10-year yields reached levels last seen in 2011.

Why this matters to you: bond prices move opposite to yields. When yields rise, the bonds and bond funds in your portfolio lose value, even though the bonds themselves are still paying interest as promised.

2. The deeper shift: Investors want more to lend long

For decades, Treasuries commanded a safety premium. Investors accepted lower yields because Treasuries were the deepest and most liquid market in the world, carried virtually no default risk, and sat at the center of global finance.

That premium has narrowed, particularly at longer maturities, but it has not vanished. Treasuries remain the benchmark safe dollar asset, and corporate bonds still yield more because investors must be paid for credit and liquidity risk.

What has changed is the price of time. Investors now demand more to lend to the government for 10 or 30 years than they did a decade ago, a reflection of stubborn inflation, wide deficits, heavy issuance, and an uncertain path for rates.

Two related changes stand out

First, Treasuries have stopped acting reliably as insurance. In a normal market, when stocks fall, bonds rise, cushioning the portfolio. The inflation shock that began in 2022 produced periods of positive stock-bond correlation, meaning stocks and bonds fell together, which reduced the diversification investors had come to expect. The classic 60/40 portfolio was less protective than its history suggested.

Second, deficits now move the market. The federal deficit is running near 6 percent of gross domestic product ("GDP") in peacetime, and total debt has crossed $40 trillion. When the government announces it needs to borrow more than expected, yields jump immediately. The reason is supply rather than solvency. More bonds have to find buyers, and buyers set the clearing price. Investors are not pricing the risk of not being repaid; they are pricing the volume of paper coming at them and the inflation that may accompany it.

Treasury Secretary Scott Bessent has doubled the size of the government's bond buybacks, in which the Treasury purchases previously issued securities back from investors. The Treasury frames the program as maintenance of market liquidity, a way to keep trading orderly in older bonds that change hands less often. Many market participants read it as something else, an attempt to calm the long end of the curve, the segment made up of longer-dated bonds. Either way, the mechanics are limited. A buyback does not reduce the national debt. It swaps older, less liquid securities for current ones, changing which bonds investors hold rather than how many exist or what inflation will do to their value. Yields returned to their prior levels within a day or two. Until the supply of new issuance or the inflation outlook changes, the long end will keep pricing itself.

3. Big Tech is now competing with the government for your money

Big Technology companies issuing long term debt is the newest piece of the story but maybe the least understood.

Cloud companies are building artificial intelligence infrastructure at an extraordinary pace, with spending projected to reach $1.2 trillion by 2027. They are funding much of it with borrowed money. Net borrowing by large technology firms is on track for roughly $200 billion this year, equal to about a quarter of everything the Treasury is issuing in notes and bonds.

To attract buyers, these companies are paying up. Alphabet issued 30-year debt at nearly 6.4 percent, more than a full percentage point above comparable Treasuries. Debt tied to Meta data centers pays roughly 7 percent. Faced with that choice, professional bond managers have sold Treasuries to buy corporate bonds, pushing corporate holdings in investment-grade bond funds to a three-year high of 30 percent.

The artificial intelligence ("AI") buildout is also feeding inflation in the near term. A severe memory chip shortage has raised hardware prices, with Amazon lifting some prices by as much as 60 percent and Apple raising base iPad pricing by more than 40 percent. Data centers consume enormous quantities of copper, which has helped push the metal to record highs. These costs make the Fed's 2 percent inflation target harder to reach, which keeps rates higher for longer.

4. What this means for a normal portfolio

Higher yields are painful for bonds already owned, but they are good news for money being invested today. Although below their 2023-24 peak, short-term Treasuries and money-market funds continue to offer yields well above the levels that prevailed for much of the prior several years, with far less price risk than long-dated bonds.

Three practical takeaways:

- Investors should not count on bonds to offset equity losses in the next drawdown. That relationship has broken down and may stay broken while inflation is the dominant risk.
- The risk in long-dated Treasuries is price, not credit. A 30-year Treasury loses far more market value than a two-year Treasury when yields rise. If held to maturity, it pays its scheduled coupons and returns its stated principal in full. For investors prioritizing near-term stability, the short end offers less duration risk, meaning prices move less sharply if rates rise further.
- Corporate bonds are paying real premiums, but not for free. The extra yield on AI-related debt compensates for genuine uncertainty about whether that spending will earn a return, which is a risk Treasuries do not carry.

The bond market is not broken, and it is not questioning the creditworthiness of the U.S. government. It is charging more for time, and that repricing is not finished.

Conclusion

August delivered a solid month within a year that has rewarded a very different set of stocks than investors have grown accustomed to. The S&P 500 gained 2.72 percent and technology finally participated, but the leadership underneath remains value, energy, and smaller companies, per Bloomberg. Second-quarter earnings supported the advance on their own merits. Even excluding the paper gains at Alphabet and Amazon, profits grew 33.8 percent on record margins of 17.0 percent, with revenue growth in every sector, according to FactSet. Valuations improved modestly as estimates rose faster than prices, leaving the index at 19.6 times forward earnings, below its five-year average.

The constraint is the one the market has been willing to ignore. Long-term yields are rising across the developed world at once, driven by a firmer Fed, a war premium in oil, and a growing supply of both government and corporate paper competing for the same savings. Equities have absorbed that repricing because profit growth has been strong enough to justify it. With consensus calling for growth to slow from 31.2 percent this year to 14.4 percent next, that cushion is thinner heading into the fourth quarter.

Sincerely,

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