



## ARGUS ECONOMIC COMMENTARY

September 14, 2026

### Chill Pill: Global Tensions Rise but Market Volatility Sinks

The S&P 500 started strong in August before fading in the third week, but still wrested a win in what is historically a so-so stock month. September is now underway and, in keeping with its historical pattern, has been choppy early on. Our analysis of monthly S&P 500 returns going back to 1980 indicates that September is poorest-performing month, shedding on average 0.9% each year.

Much lies in front of the market this September as it transitions from the summer lull to post-Labor Day heightened activity. The war with Iran is mainly at a stalemate, with just enough attacks on tankers to keep traffic through the Strait of Hormuz subdued. Gasoline and diesel prices keep moving higher, threatening further inflation. The Federal Reserve meets in mid-month, with pressure on the Fed to hike rates. The third-quarter earnings season looms. And every other September, campaigning kicks into a higher gear ahead of either a presidential election or the mid-term elections.

Despite the usual September concerns and the pending mid-term elections, market volatility has been subdued. Coming out of Labor Day weekend, the VIX volatility index opened trading at 15.7, remaining below 20 as it has for most of 2026. The stock market's so-called fear gauge is looking more like a greed gauge as investors mainly stay invested for the next leg of the bull market.

#### VIX Volatility Patterns

The VIX, as the CBOE Volatility index is called, is designed to quantify the market's expectations of near-term volatility in the stock market and specifically in the S&P 500. The VIX does not seek to predict the actual direction of the market, but instead is a measure of investors' expectations for the degree of price fluctuation anticipated in the next 30 days. When the VIX is elevated, investors expect significant market vol-

atility or price swings. A low level VIX signals that investors expect a calm and low-volatility market immediately ahead.

The VIX generates a value by analyzing variances in option prices, using both near-term and next-term out-of-the-money call and put options. The VIX formula uses variance in option prices to calculate annualized implied volatility for a hypothetical S&P 500 options with 30 day to expiration. VIX is thus a purely forward-looking mechanism.

Knowing how the VIX works and knowing where it is going next are two different things. The stock market and economic environment appear to be full of uncertainty, which some investors may expect to translate into heightened volatility. The VIX has risen above 20 several times in the year to date, mainly in the period when the war with Iran began. It also has spiked on events in the past several years.

As the stock market fell across March in the first month of the war with Iran, the VIX hit its highest level in a year at 31.04. The VIX also jumped above 20 late in both October and November 2025. The highest level in the VIX in the past five year was 45.3, reached in the final days of March 2025 just before the April 1 "Liberation Day" tariffs were announced. The highest level in the VIX in the past 10 years was 53.5, occurring in the early days of March 2020 as the world was waking up to COVID-19.

After the early-2020 COVID spike, the VIX gradually came down to the 15 level by summer 2021. Inflation, first attributed by the Fed solely to the supply-chain crisis, began to rise, and by 2022 the Fed began its aggressive rate-hiking campaign. The VIX made successively higher highs above 20 from fall 2021 through spring 2022, peaking at 33.9 in April 2022. These spikes were more associated with specific Fed rate hikes than with the general trend in inflation.

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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### High Rates, Higher Earnings Growth

As of early September 2026, the CME FedWatch tool showed a 60% probability of a rate hike when the FOMC meets in mid-September. Argus Chief Market Strategist Mark Arbeter notes that the 2-year Treasury yield, a leading indicator of fed funds, closed just before the Labor Day weekend at 4.37% -- the highest weekly close since January 2025. That puts the 2-year yield 62 to 87 basis points above the fed funds tendency of 3.50%-3.75%. To Mark, that indicates that the Fed "is a few hikes behind" where it should be.

Fed Chairman Kevin Warsh is under pressure from the forces in the market, which argue for a rate hike, and the White House, which said the Fed must cut interest rates or else the President would stop all trade with any country that runs a trade deficit with the U.S. The Fed rarely hikes or cuts rates in a "one and done" scenario; usually, that initial rate hike or rate cut is the first in a series. A series of rate hikes in the current environment of rising energy prices and war uncertainty might be sufficient to push the VIX out of its comfort range.

Still, a high level of market interest rates is not, in and of itself, a reason for elevated market volatility. In fact, the current low level of the VIX suggests that investors are interpreting higher interest rates as a sign that the economy is growing and demand is strong. While much of the rise in interest rates is no doubt due to war-related energy inflation, prices are also rising across the technology landscape due to insatiable demand for components to support the AI revolution.

The VIX also may be suggesting a calm market due to investors' perception that the stock market, even as it trade near all-time highs, is attractively valued and even relatively inexpensive. Calendar second-quarter 2026 earnings season is 98% complete, and earnings growth for the quarter (adjusted to exclude massive one-time gains) was about 30%. That was in line with first-quarter EPS growth. Expectations for second-half earnings are in the 20% range,

which suggests full-year 2026 earnings growth in the 25% range. Companies are not warning of any kind of earnings cliff and are, in fact, suggesting that in certain parts of the market, earnings growth is actually accelerating due to AI demand. Two-year forward P/E valuations on the S&P 500 are below the five-year historical P/E average despite the multiyear runup in stocks.

### Conclusion

With Labor Day now over, both political parties are shifting into a higher gear as they seek to drive turnout in the typically low-participation mid-terms. Election noise and hoopla threatens to drown out other factors driving the market, including economic data such as the CPI and PPI inflation reports and nonfarm payrolls.

The stock market opened lower in the first trading session after Labor Day. As of the close immediately ahead of the holiday weekend, the S&P 500 was up 13.6% for the 2026 year to date. All of the leading indices are tightly bunched, with the Nasdaq Composite up 14.5% and the Dow Jones Industrial Average up 12.4%. With market interest rates in flux, the Bloomberg Barclays Bond Index is fractionally negative for the year.

When the stock market is up in double-digit percentages nine months into the year, the likelihood is high that stocks will post a double-digit full-year gain. If so, that would mark a fourth consecutive year of double-digit total return on the S&P 500. A strong annual gain would also mean that the market has shaken off the "curse" of the mid-term year, which historically is the worst in the presidential election cycle.

As the final three months wind down, and assuming the stock market is still banking a positive gain, bearish investors will need to capitulate, potentially lending stocks further momentum into year-end. In that environment, the VIX may well remain at a low levels despite the tumult in the geopolitical background.

Jim Kelleher, CFA,  
Director of Research

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# KEY ECONOMIC FORECASTS

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- The \$32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, in May, that AI infrastructure spending is on track to reach \$3 - \$4 trillion annually by the end of this decade.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- Our 2026 gross domestic product growth forecast is 2.1%. Our 2027 forecast is 2.2%. In his keynote speech at the Jackson Hole conference, Federal Reserve Chairman Kevin Warsh said the economy, “Appears to have strengthened. One indicator of strength is how well an economy holds up to shocks. On that score, both Main Street and Wall Street have been remarkably resilient,” Mr. Warsh said.
- Argus expects S&P 500 EPS to rise almost 25% to \$340 in 2026 and increase about 15% to \$390 in 2027. EPS is helped by an increase in operating margins to about 19% this year. Growing tech giants such as MSFT and NVDA have higher margins than Dow stalwarts such as Walmart and Caterpillar. Argus expects the S&P 500 to trade in a range of 6,900-8,450 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949. It rounds to 7.4% from 6.7% in January. Unemployment is low at 4.1%. Inflation remains elevated, but CPI did ease to 3.4% in July from 3.5% in June.
- Gasoline prices above \$4.00 a gallon are straining consumers pre-holiday spending. Inflation will be a key issue in fall elections for control of Congress. Looking ahead to 2027, the EIA outlook calls for a recovery in oil supply and ultimately a surplus. If that’s the case, West Texas Intermediate likely will resume its secular downtrend. Our preliminary 2027 outlook is \$70 a barrel down from \$80 in 2026.
- The yield on the 10-year Treasury bond has risen to 4.80% from 3.95%, on February 27, before the escalation of the conflict with Iran. The 10-year has a bigger and more direct effect on the economy than an equivalent move in the fed funds rate. We expect the 10-year to yield to range from 4.00-5.00% this year. Our forecast range for 2027 is 3.85-4.85%.
- Gold, the ancient safe-haven asset is likely to remain at high levels, in a range of \$4,000 - \$6,000 in 2026, amid global uncertainty and concerns about the budget deficit.
- The Federal Open Market Committee voted 9-3 in July to maintain the federal funds target at 3.5%-3.75%. Argus Fixed Income Strategist Kevin Heal expects the Fed to maintain the current funds target in 2026 and cut rates by 25 basis points in the second half of 2027. We expect the dollar to be to be flat-to-firmer over the next 12 months helped by demand for shares of innovative U.S. companies.
- What could go right? Low unemployment, strong S&P 500 earnings, ongoing innovation, spending by wealthy consumers, massive capital investment in Artificial Intelligence, and productivity gains.
- Risks: Higher interest rates, increasing borrowing by AI companies, a weak housing market, inflation/ strains on affordability, hostilities with Iran, and U.S. budget deficits raising national debt.

# CURRENT ECONOMIC RELEASES

## Current Economic Releases

| Date   | Release                 | Month     | Previous Report     | Argus Estimate | Street Estimate | Actual              |
|--------|-------------------------|-----------|---------------------|----------------|-----------------|---------------------|
| 3-Sep  | Trade Balance           | July      | <b>-\$71.2 Bln.</b> | -\$75.0 Bln.   | -\$90.0 Bln.    | <b>-\$88.6 Bln.</b> |
|        | ISM Services Index      | August    | 54.1                | 54.5           | 54.1            | <b>55.4</b>         |
| 4-Sep  | Nonfarm Payrolls        | August    | <b>21K</b>          | 50K            | 58K             | <b>162K</b>         |
|        | Unemployment Rate       | August    | 4.1%                | 4.1%           | 4.1%            | <b>4.1%</b>         |
|        | Average Weekly Hours    | August    | 34.3                | 34.3           | 34.3            | <b>34.4</b>         |
|        | Average Hourly Earnings | August    | 3.2%                | 3.2%           | 3.0%            | <b>3.1%</b>         |
| 10-Sep | PPI Final Demand        | August    | 4.7%                | 5.2%           | NA              | NA                  |
|        | PPI ex-Food & Energy    | August    | 4.2%                | 4.6%           | NA              | NA                  |
|        | Existing Home Sales     | August    | 4.06 Mln.           | 4.10 Mln.      | 3.98 Mln.       | NA                  |
|        | Wholesale Inventories   | July      | 4.2%                | 5.7%           | NA              | NA                  |
| 11-Sep | Consumer Price Index    | August    | 3.4%                | 3.4%           | 3.4%            | NA                  |
|        | CPI ex-Food & Energy    | August    | 2.5%                | 2.4%           | 2.4%            | NA                  |
|        | U. Michigan Sentiment   | September | 51.7                | 51.0           | 51.0            | NA                  |
| 16-Sep | Retail Sales            | August    | 5.0%                | 5.2%           | NA              | NA                  |
|        | Retail Sales ex-autos   | August    | 5.8%                | 5.6%           | NA              | NA                  |
|        | Import Price Index      | August    | 5.9%                | 6.5%           | NA              | NA                  |
|        | Business Inventories    | July      | 3.0%                | 4.2%           | NA              | NA                  |
| 17-Sep | Housing Starts          | August    | 1,239K              | 1,300K         | 1,322K          | NA                  |
| 18-Sep | Industrial Production   | August    | 1.1%                | 1.7%           | NA              | NA                  |
|        | Capacity Utilization    | August    | 76.3%               | 76.5%          | NA              | NA                  |
|        | Leading Index           | August    | 0.2%                | -0.1%          | NA              | NA                  |

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