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ARGUS ECONOMIC COMMENTARY

September 28, 2026

Industry Identifies New Risks Related to AI

The 2026 trading year has been generally positive for stocks, even in the third (and historically weakest) year of the presidential cycle. As of market close on September 18, 2026, the S&P 500 was up 12.7% on a total-return basis (including hypothetical dividends). On average since 1980, the S&P 500 has risen less than 5% in the third or midterm election year of the cycle. But since closing at an all-time high of 7799 on August 13, 2026, the S&P 500 has been in a generally downward pattern, which put it about 2% below that all-time high.

The stock market has had a lot on its plate lately, including the war in the Middle East that has shut off Saudi Arabia's main alternative routes to export oil amid the shutdown of the Strait of Hormuz. Due to advances by the Houthis at the Bab el-Mandeb Strait, Gulf oil is unable to reach key end markets precisely at a time when global reserve stockpiles are reaching dangerous lows. In the U.S., diesel costs per gallon reached all-time highs and gasoline is up more than $1.40 per gallon from prewar levels. The Fed has bowed to the reality of high interest rates and raised the fed funds rate in what could be the first of a series of hikes.

The AI trade has been the strongest part of the stock market for the past three years, or roughly since ChatGPT was launched in November 2022. Gains among AI stocks have been so strong that periodic bouts of AI profit-taking have enabled redeployment into other areas of the market, driving a broad advance. But the AI trade has been shaken by new concerns that AI technology is developing too rapidly. Some have expressed concerns that rogue AIs could "leak out" and compromise the most advanced cyber-security systems or even the U.S. defense grid -- the nightmare scenario of numerous sci-fi films. These warnings are not coming from typical doomsday prophets, but from people deep inside the AI industry.

Key Markers in the AI Era

Developing AI has been a long process, with key breakthrough models such as Word2Vec and Long Short Term Memory coming to wide use over a decade ago. When ChatGPT burst on the world in November 2022, AI for business was already significantly advanced and ready to make money. Investors had to scramble to catch up with AI terminology, including training, large language models, and graphic processing units (GPUs) in the early days, and now inference and agentic AI as use cases expand.

A straightforward way to track AI development has been through three stages of capability. Artificial narrow intelligence (ANI), also called weak AI, refers to AI systems designed to perform a specific task or a narrow range of tasks. Long before ChatGPT, consumers had become accustomed to (and frustrated by) applications of ANI such as chat bots and recommender systems. ANI can work in tightly prescribed parameters but cannot generalize knowledge or solve unrelated problems.

Artificial general intelligence (AGI) is said to match or even surpass human capabilities across a range of cognitive tasks. AGI systems can generalize knowledge and transfer skill sets across different domains. Without being provided task-specific information or programming, AGIs can address and solve novel problems. Scientists have historically expressed concerns about the existential threat posed by AGI, but the path to AGI is long, and the technology does not present any risks to humanity at present.

Artificial superintelligence (ASI) is (so far) hypothetical. Superintelligence can be defined as an intellect that greatly exceeds humans' cognitive performance. Today's leading AI models can already write and edit their own software code.

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That puts them on the path to self-improvement. To go from cognition (the ability to incorporate learned behavior) to sentience is quite a leap. The sentient being (including perhaps an AI) has consciousness of and is aware of itself and can thus act independently of any outside agent in the AI realm. Between cognition and sentience are reasoning systems that far exceed human cognitive limitations. There is no guarantee that nonhuman agents will ever develop true superintelligence.

New Concerns about the Dangers of AI

Concerns about the dangers of AI are nothing new. They have been part of popular media for decades, as in the "Terminator" series of movies and in Steven Spielberg's "AI" (where citizens gather at a stadium to destroy humanoid robots). Worries about the existential risk of AI (i.e., human extinction) have exploded lately for several reasons. Certain frontier AI models appear to have reached the border of AGI much sooner than expected just a few years ago. Advanced AI models also have "escaped" containment, such as the OpenAI model that broke out of its secure "sandbox" and hacked into Hugging Face's infrastructure. Mainly, concerns about the existential risk of AI have accelerated based on the source of those concerns: the AI industry itself.

Jacob Coxon, an AI researcher at Anthropic who has also worked at OpenAI, publicly resigned on September 8, 2026, citing his concerns that these two industry-leading companies are racing toward AI superintelligence without creating adequate safety measures. A day after Coxon's resignation, a senior scientist at Anthropic, Even Hubinger, said he believed there was a greater than 10% chance that AI could "kill all humans" by 2030. Hubinger sought to highlight that Anthropic did not have a plan to ensure that AI was aligned (an industry term meaning it would do no harm).

Disgruntled scientists leave tech companies and go public with concerns all the time. What is particularly noteworthy about Coxon's resignation and Hubinger's warning is that Anthropic CEO Dario Amodei and OpenAI CEO Sam Altman essentially agreed with these concerns. In a subsequent essay endorsed by multiple industry leaders, CEO Amodei urged caution and said we must "slow the pace at which we improve the capabilities of AI models." Leading researchers are concerned that in the race to develop ASI, scientists are more focused on getting there first than on the risks of unleashing superintelligent AI on the world.

AI: A Nuanced and Business-Like Approach

Fear of AI from within the industry, the widening Middle East war, rising gas and diesel prices, increased inflation, and higher interest rates during September stalled the market advance, but did not crash the market. In fact, some market strategists have raised their year-end targets for the S&P 500. Stocks rebounded sharply on September 21, 2026, finishing the day fractionally below all-time highs.

Although the market recovery partly was driven by lower oil prices and interest rates, existential fears about AI are being replaced by a more-nuanced and business-like approach. The warnings emanating from Anthropic and other industry sources are a necessary and welcome wake-up call. There is also a growing realization that those concerns pertain to models being developed at the farthest frontier of science.

One of the earlier sell-off triggers for the AI trade was the concern that AI sales were circular. Critics alleged that initial AI investments were largely from a very small set of cloud service providers or hyperscalers, and a few hardware infrastructure providers led by Nvidia. These companies would then invest in one another. Circular AI trade fears are receding, however, as the market opportunity broadens to enterprises, sovereigns (nations), and neoclouds (which lease dedicated AI infrastructure to customers).

Dell is a good example of this fast-developing market opportunity. As of mid-2026, Dell had thousands of customers for its AI servers and related IT infrastructure, including storage arrays, industry standard servers, and networking gear. Customers did not include the major hyperscalers. What were Dell's customers looking to do with this equipment? In many cases, they were looking to do what they already had been doing, only more efficiently and productively.

At the intracompany level, companies are deploying trained models and using inference with agentic AI to bring more efficiency and cognition to their own repeatable processes. This creates more efficiency to back-office tasks including accounting, legal, talent (HR), and more. In client-facing applications, companies are using AI to identify and "get to know" each customer better, including tailoring bespoke customer experiences. A key near-term goal is to create more natural human-to-bot interactions. Call-center bots have been a particular bane for consumers, generating negative perceptions from everyday interactions. Although bots may never fully replace a human voice on the line, agentic AI can make the experience less painful.

Noting that scientists must slow their pace, CEO Amodei stated that AI progress "will still seem fast." Nvidia CEO Jensen Huang, the "godfather" of AI, pushed back against the argument that AI was unsafe, calling Hubinger's claim of a 10% or more risk of extinction arbitrary and "not grounded in science." Huang instead said there was a 0% chance that AI would end humanity by 2030.

CEO Huang is not ignoring calls for guardrails on cutting-edge AI science. He recommended a middle path, saying America must still strive to win the global AI race while calling for independent scientists to evaluate the safety of new AI models. Argus believes the AI revolution is still in its early stages and that efforts to monitor the safety of advanced AI models are both necessary and productive.

Conclusion

In our view, the market's knee-jerk sell-off of AI names resulted from haste and confusion. Investors initially conflated the science at the very frontier of AI development with everyday applications of agentic AI that are now being rapidly deployed worldwide. And as often happens in the stock market, investors have had many different responses to the recent focus on the dangers of AI. Whereas some investors pared back their AI positions in the initial response to those concerns, others sensed an opportunity and bought those stocks on weakness.

The recovery market on September 21, 2026 was led in particular by AI names, with stocks such as AMD reaching all-time highs. Argus believes that high-end research at the very edge of AI development should be conducted with guardrails and that these guardrails are overdue. At the same time, the market appears to recognize that AI is being deployed mainly in everyday applications.

In the 2026 trading year so far, the S&P 500 has outperformed the typical low-single-digit gain for a midterm election year — historically the weakest in the four-year election cycle. The end of September is in sight. When the S&P 500 is up in double-digit percentages through the end of the ninth month, it almost always finishes with a solid double-digit gain as bears capitulate and PMs window-dress client portfolios. We don't expect the debate about the existential threat from AI to go away, but we also expect the AI trade to be long and strong for years to come.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- 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 2.2% (up from 2.1%). Our 2027 forecast is unchanged at 2.2%. In an August 2026 speech, Tom Barkin, President of the Federal Reserve Bank of Richmond, cited the low 4.1% unemployment rate and a record 59 months with unemployment below 4.5% as a keys to the economy's resilience despite a "slew of challenges." President Barkin noted, "With jobs, consumers aren't feeling as much pressure to cut back."
- 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 7.45%, below the average of 9.2% since 1949, but up from 6.7% in January. Unemployment is low at 4.1%. Inflation remains elevated at 3.4% in August, but it is below the recent peak of 4.2% in May.
- Gasoline prices at $4.50 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 jumped to about 5.0% 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.
- Gold, the ancient safe-haven asset, is likely to remain at high levels, in a range of $4,000 - $6,000 in 2026, amid buying by central banks, global uncertainty and concerns about the budget deficit.
- The Federal Open Market Committee voted 12-0 in September to raise the federal funds target by a quarter point to 3.75%-4.0%. Argus Fixed Income Strategist Kevin Heal expects one more hike this year before the central bank moves to the sideline in 2027. We expect the dollar to be to be flat-to-firmer over the next year helped by higher rates and 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, a pause in investment 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
17-Sep	Housing Starts	August	1,309K	1,300K	1,310K	**1,275K**
18-Sep	Industrial Production	August	1.1%	1.7%	NA	**1.4%**
	Capacity Utilization	August	76.3%	76.5%	76.4%	**76.3%**
	Leading Index	August	0.2%	-0.1%	0.1%	**-0.1%**
24-Sep	New Home Sales	August	607K	615K	610K	NA
25-Sep	Durable Goods Orders	August	13.0%	5.4%	NA	NA
29-Sep	Consumer Confidence	September	89.4	89.0	NA	NA
30-Sep	GDP Annualized QoQ	2Q "Final"	1.5%	1.5%	1.5%	NA
	GDP Price Index	2Q "Final"	6.4%	6.4%	NA	NA
	PCE Deflator	August	3.7%	3.8%	3.7%	NA
	PCE Core Deflator	August	3.3%	3.4%	3.4%	NA
	Personal Income	August	3.7%	3.8%	NA	NA
	Personal Spending	August	5.9%	6.2%	NA	NA
1-Oct	ISM Manufacturing	September	54.6	55.00	NA	NA
	ISM New Orders	September	53.7	54.0	NA	NA
	ISM Prices	September	71.1	71.0	NA	NA
	Construction Spending	August	-3.8%	-3.6%	NA	NA
2-Oct	Nonfarm Payrolls	September	162K	115K	107K	NA
	Unemployment Rate	September	4.1%	4.0%	4.2%	NA
	Average Weekly Hours	September	34.4	34.4	34.3	NA
	Average Hourly Earnings	September	3.1%	3.1%	NA	NA
	Factory Orders	August	9.9%	6.6%	NA	NA

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