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MARKETS AND ECONOMY

Schwab Market Perspective

Our point of view on recent market and economic activity.

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This month, our experts discuss how Federal Reserve tightening has historically affected the markets; whether European stocks might be worth a second look; and the news from the most recent Federal Open Market Committee (FOMC) meeting. We provide the supporting documentation for all claims summarized below in the linked articles.

U.S. stocks and economy: How have rate hikes historically affected the markets?

- Federal Reserve tightening has historically brought near-term volatility, but equities tended to often recover after early drawdowns.
- The pace matters: slow hiking cycles have historically produced milder market declines and stronger economic outcomes than fast cycles.
- A resilient labor market and firm coincident indicators support a gradual Fed approach, with volatility potentially creating opportunities for disciplined investors.

Global stocks and economy: Are European stocks worth a second look?

- Global growth has picked up and Europe's market is cyclically oriented, with 62% of the MSCI Europe Index in economically sensitive cyclical sectors as of August 31, 2026.
- European earnings have rebounded and broadened: STOXX Europe 600 earnings grew 23.9% in the second quarter of 2026, and 2026-27 estimates are being revised higher according to Bloomberg data.
- Valuations are less demanding than the U.S., and Europe's total-yield edge is widening as artificial intelligence (AI) capital spending drains U.S. hyperscaler free cash flow. Hyperscalers are companies that design, own, and operate a large portion of data center networks to provide cloud computing at scale.
- Europe may add diversification to a portfolio of U.S. equities, with a lower concentration in the top 10 companies in the MSCI Europe Index relative to the top 10 stocks in the S&P 500 index, and a falling correlation to U.S. stocks.
- But risks could include slower global growth, a tightening of liquidity conditions, a stronger U.S. dollar, geopolitical tensions, energy-price shocks, and structural challenges within the eurozone.

Fixed income: Fed hikes rates for the first time since 2023

- Fed policymakers unanimously voted to raise rates 25 basis points, the first hike since 2023, at the September FOMC meeting.
- Major indexes initially rose on the news, while Treasury yields flattened with the 10-year Treasury yield near 19-year highs. But after Fed Chairman Kevin Warsh spoke at his press conference, major indexes surrendered earlier gains and then plunged with half an hour left in the session.
- In addition, 16 members of the FOMC expect at least one more rate hike this year, according to the Fed's Summary of Economic Projections, also known as the "dot plot."
- This isn't likely to be "one-and-done" for hikes, as the Fed rarely hikes or cuts a single time, but it likely also isn't the start of an extended hiking cycle.