SEPTEMBER 2026 EDITION

SECURITY NATIONAL BANK
Economic & Market Insights

Stocks moved higher during August as second-quarter earnings season propelled markets upward. The S&P 500 Index advanced 2.7% as growth stocks returned to favor following strong earnings from firms including NVIDIA and Microsoft.

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Warsh Signals Inflation Fight Isn't Over Yet

In a highly anticipated speech in Jackson Hole, Wyoming, this past month, Fed Chair Kevin Warsh noted that he would be hard-pressed to describe broad financial conditions as restrictive, and that better price readings seen recently haven't convinced him the trend on inflation is improving. However, Warsh stopped short of saying whether he would favor an interest rate increase at the Fed's upcoming September meeting.

Home Prices Pick Up Speed Despite Regional Divide

Home price gains accelerated during June, according to the latest S&P Case-Shiller 20-City Home Price Index released this past month. Prices advanced 2.1% year-over-year, a faster pace than the 1.6% gain recorded a month earlier.

From Ferraris to Shelby Cobras, Collectors Drive Auction Values Higher

Demand for high-end classic automobiles remains strong based on recent data from Monterey Auto Auction Week. Total auction sales for the week reached $718.3 million, a significant increase over last year's $432.7 million. Ferraris remained in high demand, but other brands also posted strong results, led by a $42.9 million Shelby Cobra.

Long-Term Treasury Yields Climb to Highest Levels Since 2007

The bond market made headlines as yields moved higher on the long end of the curve. The yield on the 30-year Treasury security climbed above 5.3% toward the end of August, its highest level since 2007. The term premium has risen over recent months, driven by inflation uncertainty amid rising oil prices, as well as concerns over the fiscal picture as U.S. debt recently eclipsed $40 trillion.

Headline Highlights

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Growth Holds Firm as Higher Rates Return to the Forecast

	2025	2026 Est	2027 Est	2028 Est
GDP Growth	2.0%	2.1%	2.3%	2.3%
Change in Consumer Prices	2.6%	3.0%	2.2%	2.7%
Fed Funds Target Rate	3.75%	4.00%	4.00%	4.00%
5-Year Treasury Yield	3.73%	4.30%	4.35%	4.40%
10-Year Treasury Yield	4.17%	4.60%	4.70%	4.80%
S&P 500 EPS	$271	$361	$403	$450

Heading into the final month of the third quarter, core economic growth remains solid within the U.S., aided by AI investments and related infrastructure and defense spending.

At the same time, continued tensions with Iran, AI-related inflation and profligate federal spending have tipped the odds in favor of a rate hike. In a change from our prior forecasts, we now expect the Federal Reserve to raise interest rates at its meeting this month. The hike should be a one-and-done event in our opinion, although the consensus still expects the Fed to hike rates in both September and December.

The federal budget deficit is expected to remain at 6.1% of GDP over the next two years, exceeding nominal GDP growth. We expect the 10-year Treasury to finish 2026 at 4.6%, near current and fair value. Fiscal deficits will pressure long-term interest rates. The government may ultimately resort to fiscal repression, or policies that keep real interest rates below inflation, to deal with the issue, but thankfully we are not there yet.

Based on the most recent economic and business reports released over the past month, we have implemented several minor adjustments to our economic outlook heading into September. We have slightly increased our projections for the yield on the five-year Treasury, with our 2026 forecast rising from 4.18% last month to 4.30% this month. We also boosted our estimate for the five-year Treasury yield in 2027 to 4.35% from 4.23%. In the wake of the second-quarter earnings reporting season, we have raised our S&P 500 earnings estimates for both 2026 and 2027 as companies continue to post impressive profit growth across a number of different industries.

For 2026, we now expect S&P 500 earnings of $361 per share, and for 2027, $403 per share. At the start of 2026, we estimated current-year earnings of $300 per share, which shows the magnitude of the earnings growth and upward revisions seen this year.

Last Month's Rates and Total Returns				
August 31, 2026	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	3.75%	0.00%	0.00%	-0.75%
3-Month Treasury Yield	3.82%	0.06%	0.19%	-0.32%
2-Year Treasury Yield	4.34%	0.07%	0.87%	0.73%
5-Year Treasury Yield	4.49%	0.07%	0.77%	0.80%
10-Year Treasury Yield	4.75%	0.03%	0.58%	0.52%
Mortgage News 30-Year	6.89%	0.12%	0.69%	0.36%
S&P SuperComposite 1500	1,709	2.5%	13.4%	20.3%
S&P 500 Index	7,630	2.7%	13.1%	20.4%
S&P 500 Equal Weight Index	8,872	2.1%	15.6%	18.5%
S&P Midcap 400	3,722	0.2%	14.7%	17.1%
S&P SmallCap 600	1,734	-0.6%	20.8%	24.1%
S&P 500 Growth	5,628	3.3%	13.6%	22.3%
S&P 500 Value	2,326	2.1%	12.5%	18.1%
World ex-US, USD	475	2.6%	17.0%	27.4%
BB U.S. Aggregate	92	0.10%	-0.31%	1.89%
Crude Oil – WTI Near Term	86	1.29%	49.32%	33.98%
Gold – Near Term	4,431	9.43%	2.44%	27.56%

AI Profits Power Stocks Higher Despite Rising Rates

The stock market posted respectable returns in August as the major indexes gained ground. Investors were impressed by the string of strong corporate profit reports for the second quarter of 2026, especially among AI-related companies. Strategists continue to raise full-year earnings estimates as corporate profit margins climb to all-time highs.

Globally, sovereign yields are rising, increasing stock market volatility recently and moderating the momentum trade. Inflation is seen as sticky, which is reinforcing the 'higher for longer' rate outlook. Hyperscalers are crowding out governments in the global debt markets, remaining price-insensitive in their quest to secure funding to build data centers.

Stocks advanced during August, with the S&P 1500 and the S&P 500 gaining 2.5% and 2.7%, respectively. International stocks gained 2.6% (in USD terms) and gained 1.7% on a local currency basis. Growth stocks showed particular strength, gaining 3.3%, topping the 2.1% advance for value stocks over the same period.

On a year-to-date basis, value stocks remain in the lead, with a 110-basis-point edge over growth stocks. The S&P 500 Equal-Weight Index returned 2.1%, slightly trailing the 2.7% return for the market capitalization-weighted S&P 500 Index.

Among sectors, energy led the market for the second straight month as the Iran conflict kept oil prices elevated. The technology sector ranked second as investors reengaged with the sector following strong earnings from firms including Microsoft and NVIDIA. The health care sector also posted solid returns during August, advancing nearly 5%, followed closely by the materials sector, which gained 4.5%. On the other side of the ledger, the utilities, industrials and real estate sectors were the weakest areas of the market. Utility stocks have faced recent selling pressure due to higher interest rates, along with growing backlash over the buildout of data centers in several parts of the country.

The Mag-7 stocks posted mixed returns. Microsoft advanced 9.4% as investors regained confidence in the firm following news that Copilot has reached 30 million paid subscribers (up from 20 million in the prior quarter). NVIDIA gained 10% following the firm's impressive second-quarter results and raised forward guidance. Tesla (TSLA) also posted solid returns for the month, climbing 18.2%. Meanwhile, Alphabet (GOOG) declined 6% for the month, while Amazon (AMZN) declined more than 4%. Combined, the Mag-7 contributed 1.3% to the S&P 500's return this past month, while the remaining 493 stocks contributed 1.4%.

From a seasonal perspective, September has a somewhat mixed reputation in terms of historical returns, especially during midterm election years cycles. Since 1950, the market has advanced in less than 50% of September during those election periods. In 2022, the most recent midterm election, the S&P 500 declined 9.3%. However, if the market is higher through the first eight months of the calendar year (as is the case this year), the September seasonality effect has tended to be less pronounced than when the market was lower through the first eight months of the calendar year.

September S&P Performance in Midterm Election Years
Since 1950

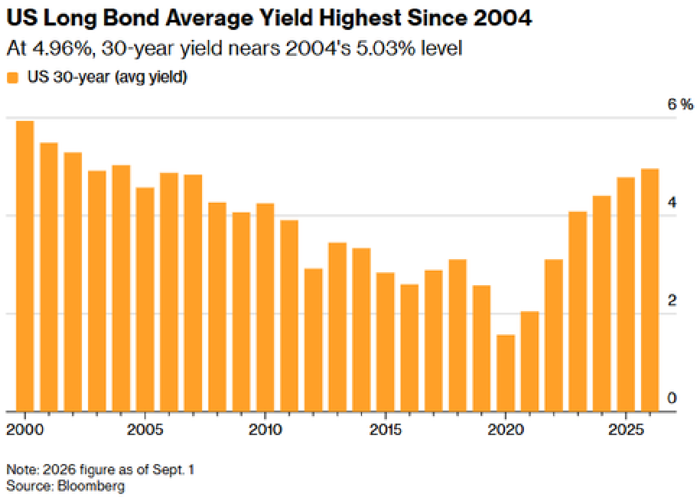
Midterm Year	September	Midterm Year	September
1950	+5.6%	1990	-5.1%
1954	+8.3%	1994	-2.7%
1958	+4.8%	1998	+6.2%
1962	-4.8%	2002	-11.0%
1966	-0.7%	2006	+2.5%
1970	+3.3%	2010	+8.8%
1974	-11.9%	2014	-1.6%
1978	-0.7%	2018	+0.4%
1982	+0.8%	2022	-9.3%
1986	-8.5%	2026	?

Strategas Research Partners

From Washington to Tokyo: Rates Move Higher Across the Globe

Interest rates drifted modestly higher across most segments of the bond market during August as investors continued to evaluate several overarching factors that have driven higher yields in recent months. The yield on the three-month Treasury security ended the month at 3.82%, marking an increase of six basis points versus July. Two-year and five-year yields gained seven basis points during August, ending the month at 4.34% and 4.49%, respectively. The 30-year yield has averaged 4.96% year-to-date, its highest annual level since 2004 (Bloomberg).

Importantly, the recent trend toward higher yields is not just a U.S. phenomenon, but rather one that is being witnessed in fixed income markets around the world. For instance, Germany's 30-year yield reached its highest level since 2011 at the end of August, while the equivalent rate in the U.K. rose to a level last seen in 1998. In Japan, 10-year government bond yields reached their highest level in thirty years at the end of August.



Emerging Market Stocks Continue to Lead the Charge During August

Last month, international stocks advanced 1.7% in local currencies and gained 2.6% in U.S. dollar terms. The U.S. dollar fell 0.49%, following a decline of more than 1% in July. The consensus assumes the dollar will resume its slide after a resolution of the Iran conflict, as the dollar's status as a haven is no longer needed.

Similar to patterns seen throughout most of 2026, emerging market stocks continued to outperform developed market international stocks, as the Emerging Markets ETF (EEM) gained 4.6%, compared with a 1.8% gain for the EAFE over the same period. Through the end of August, emerging market stocks have gained more than 23%, while the EAFE has returned 13.7%. Chinese stocks continued to struggle, declining nearly 2% and bringing the YTD decline to 8.3%. Meanwhile, Japanese stocks enjoyed a solid month, advancing nearly 4%, while Canadian stocks advanced about 3.5% despite the ongoing trade dispute with the U.S.

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Economic Resilience on Display as Manufacturing Stays in Growth Mode

The latest ISM Manufacturing Report offered another encouraging sign for the U.S. economy, with manufacturing activity expanding for an eighth consecutive month. While the headline index slipped to 54.6 in August (versus the 55.8 consensus estimate), it remains near its highest level in four years, signaling that factory activity continues to grow at a healthy pace.

Underneath the surface, however, the data tells a more nuanced story. Production remains strong, and employment has expanded for two straight months for the first time since 2022, but growth in new orders and backlogs has begun to cool.

Manufacturers are also contending with a familiar set of challenges, including tariffs, supply chain disruptions, elevated commodity costs and geopolitical uncertainty tied to the conflict in the Middle East. Fifteen manufacturing industries reported growth during August, led by primary metals, electrical equipment and appliances.

For investors, the report reinforces a theme we've seen throughout much of this year, as the U.S. economy remains remarkably resilient despite persistent headwinds. Manufacturing has emerged from a multi-year slump thanks to strong consumer demand, business investment and government spending on defense capabilities. The key question going forward is whether demand can remain strong enough to offset higher costs and growing uncertainty stemming from the Iran conflict and ongoing trade friction with nations including Canada.

Warsh's Jackson Hole Speech Reinforces the Higher-for-Longer Narrative

On Aug. 28, Fed Chair Kevin Warsh delivered his much-anticipated speech in Jackson Hole, Wyoming. Warsh said inflation is the Fed's chief concern and rate hikes are the proper tool to fix it. "We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do." The "work to do" was understood to refer to rate hikes. The odds of a September rate hike rose from 36% before the speech to 57% after it.

In January, the futures market priced in two interest rate cuts by year-end. Now, it is pricing in two hikes.

Higher rate expectations were driven by war-induced inflation, fiscal excess and the AI investment boom. Memory prices have surged dramatically, up 200% to 400% since mid-2025.

We now believe the Federal Reserve will raise rates at its September meeting. However, our forecast is based on what we think the Fed will do, rather than what it should do.

Meeting Date	Futures Market 08/28/26	SNB Forecast
September 16	4.00%	4.00%
October 27	4.00%	4.00%
December 9	4.25%	4.00%
January 27	4.25%	4.00%
March 17	4.25%	4.00%
April 28	4.25%	4.00%
June 9	4.25%	4.00%

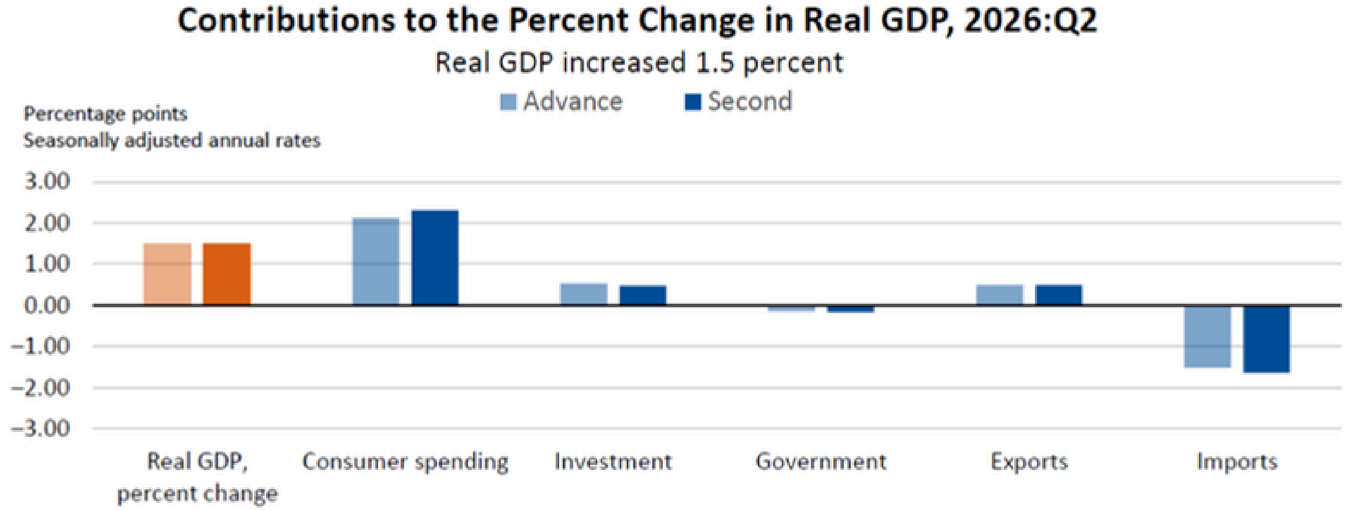
Strong Demand Meets Rising Prices: What the Latest GDP Report Reveals

The Bureau of Economic Analysis released its second estimate of second-quarter GDP several weeks ago, and while the headline growth rate remained unchanged at 1.5%, the details painted a somewhat stronger picture of underlying economic demand. Consumer spending, which accounts for roughly two-thirds of U.S. economic activity, was revised higher to a robust 3.4% annualized pace from the initial estimate of 3.2%. In addition, a key measure of private-sector demand, known as real final sales to private domestic purchasers, was revised higher to 4.2%, one of the strongest readings in more than three years.

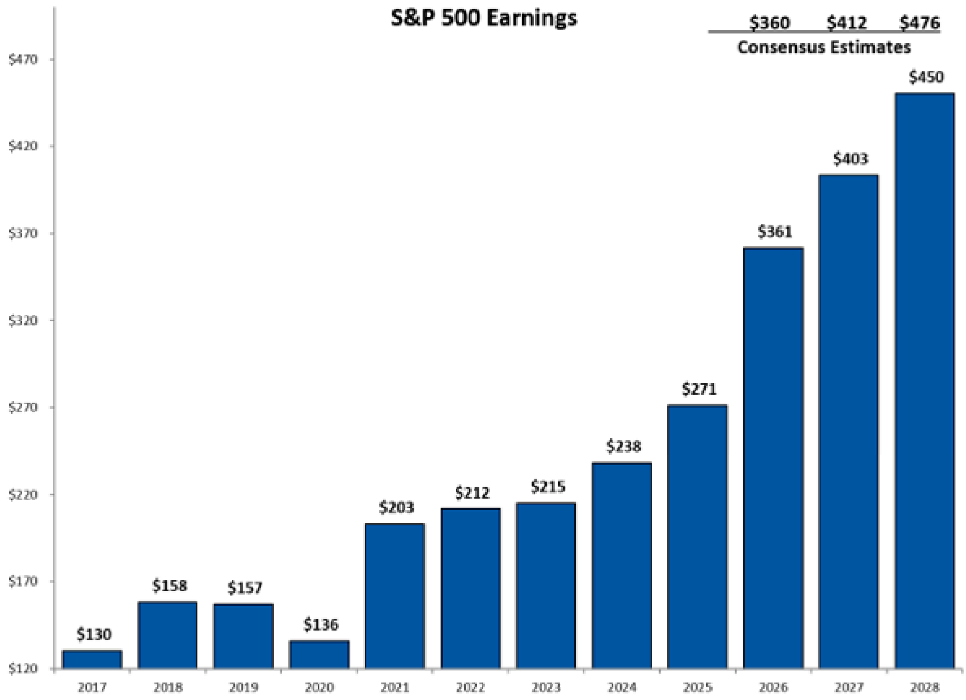
Business spending also remained strong, with spending on structures, equipment and intellectual property rising at an annualized rate of 8.5% (versus the 8.4% rate initially estimated).

Meanwhile, the latest data from the BEA also highlighted a less encouraging trend on the inflation front. The Personal Consumption Expenditures (PCE) Price Index, the Federal Reserve's preferred measure of inflation, was revised upward to an annualized 5.3% pace during the quarter from the previously reported 5.1%.

Core PCE, which excludes food and energy prices, was also revised higher to 3.6% from the 3.4% rate initially reported. While economic growth remains positive, these hotter inflation readings suggest price pressures continue to linger.



GDP Gross domestic product
Note. Imports are a subtraction in the calculation of GDP. An increase in imports results in a negative contribution to GDP, and a decrease in imports results in a positive contribution to GDP.
U.S. Bureau of Economic Analysis



Corporate Profits Shine as Margins Climb to New Highs

On March 31, analysts forecast healthy year-over-year earnings growth of 18%. For reference, this is twice the historical average growth rate typically seen for corporate profits. With 97% of companies having reported results for the second quarter of 2026, the blended EPS growth rate is an astounding 52%.

Alphabet (GOOGL), Amazon (AMZN) and Microsoft have disclosed $155 billion in gains from their Anthropic and other AI investments this past quarter. Assuming a 20% tax rate, the gains equate to $14 of this quarter's $100 S&P 500 2Q26 earnings. After removing these non-recurring gains, earnings still grew an impressive 37% year over year in the latest quarter, roughly four times higher than historical growth rates.

Corporate earnings growth continues to impress.

After the second-quarter earnings season, we have raised our 2026 earnings forecast to $361 per share. In January, we forecast earnings of $300 per share. We have raised our earnings estimates 20% this year to account for the historically strong earnings growth. Meanwhile, our 2027 earnings estimate has risen from $339 to $403 per share, representing 19% earnings growth. The S&P 500 is trading at 19.7 times forward earnings, versus 22.2 times at the start of the year, suggesting stocks are now cheaper than at the start of 2026.

Job Growth Accelerates in August, Underscoring Economic Strength

The U.S. labor market delivered a welcome surprise in August, adding 162,000 jobs and easily exceeding economists' expectations for a gain of 53,000 jobs. Another encouraging development was the revision of previously reported July job losses, painting a healthier picture of employment conditions than many investors had feared.

Despite concerns surrounding inflation pressures and geopolitical uncertainty, the unemployment rate remained steady at 4.1% in August, signaling continued stability in the workforce. Hiring was broad-based last month, with notable gains across leisure and hospitality (+59,000), manufacturing (+16,000) and construction (+22,000). Manufacturing posted its strongest monthly increase since 2023, while healthcare continued to add jobs, though at a more moderate pace than in recent months.

Meanwhile, the labor force participation rate increased to 61.6% last month, marking the first increase in nearly a year as more people entered, or re-entered, the labor force.

Consumer Spending Slows in July, but Context Matters

After powering much of the U.S. economy through the first half of 2026, consumers pulled back in July. Retail sales declined 0.6% from the prior month, marking the largest monthly drop since May 2025, and falling well below the 0.1% gain that was widely expected. Weakness was most pronounced among online retailers and automobile dealers.

However, the underlying details suggest the slowdown may not be as concerning as the headline implies. A significant portion of the weakness likely reflects timing distortions related to Amazon’s Prime Day event, which was held in June this year rather than July. That shift may have pulled consumer purchases forward. In addition, one of the more closely watched gauges of discretionary spending, restaurant and bar sales, increased 0.5% during the month, indicating consumers are still willing to spend on experiences and services.

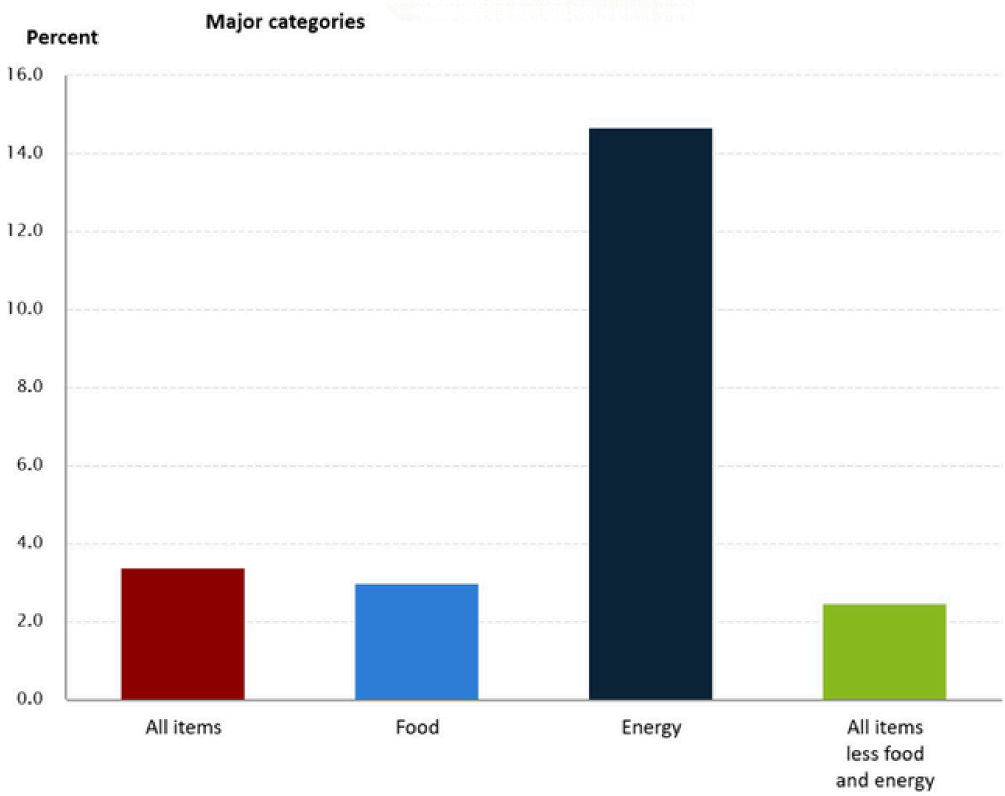
Inflation Cools During July, Aided by Lower Energy Prices

July's inflation report provided a welcome sign that price pressures continue to move in the right direction. Core inflation, which excludes the more volatile food and energy categories and is closely watched by Federal Reserve policymakers, rose just 0.2% during the month and 2.5% over the past year. This matched the slowest pace since early 2021 and suggests that inflation is not reaccelerating, as some have feared.

Meanwhile, on a headline basis, inflation rose 0.1% last month and 3.4% on an annualized basis.

Several key categories helped keep inflation in check in July. For instance, energy prices declined for a second consecutive month in July, while grocery prices recorded their first monthly decline since March (thanks in part to lower lettuce and ground beef prices). While pockets of inflation were still evident in July (computer software and accessories prices +21.2%), the broad trend remains encouraging. Inflation remains above the Fed's long-term target, but the economy continues to make gradual progress toward price stability.

12-month percentage change, Consumer Price Index, selected categories, July 2026, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Consumer Confidence Slips on Volatile Energy Prices and Rising Costs

Consumer confidence slipped in August to its lowest level of 2026 as Americans grew more concerned about the outlook for the economy, labor market and rising household costs. The Conference Board's Consumer Confidence Index fell to 89.4 from 90.2 in July and was modestly below economists' expectations of approximately 90.3. Higher gasoline prices, persistent inflation concerns and softer hiring trends continue to weigh on consumer sentiment heading into the fall.

While expectations for future income growth, employment opportunities and business conditions weakened in August, perceptions of the current job market actually improved during the month. Consumers also continue to indicate plans to spend on services and travel over the next six months despite growing economic concerns.

Existing Home Sales Fall to Three-Month Low During July

The U.S. housing market continued to face headwinds in July, as sales of previously owned homes declined 1.7% to an annualized pace of 4.06 million units, marking the slowest pace in three months. Elevated home prices and mortgage rates remain significant obstacles for prospective buyers. The average 30-year mortgage rate recently climbed to nearly 6.8%, its highest level in more than a year, adding to affordability pressures and limiting demand. Existing home sales have hovered near the four million annualized pace since 2022.

At the same time, home values continue to move higher as the median price of an existing home increased 2% last month, to $434,100. This marked the highest price ever recorded for July (Bloomberg).

Limited housing inventory continues to support prices, and during July, existing home inventory levels declined 0.6% versus the prior year's comparable month. By geography, sales momentum was weakest in the South, where sales declined just over 3%, while sales fell 2% in the Midwest. Home sales actually increased in the Northeast and were largely unchanged in the West. First-time homebuyers continue to see their influence in the market decline, accounting for just 29% of sales last month, down from 33% a month earlier.

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This report reflects the authors' current opinions and is subject to change without further notice. There can be no assurance that any of the projections cited will occur.

Abbreviations and Other Terms Used
This report will utilize the following acronyms: FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee and BLS for the Bureau of Labor Statistics. The FOMC is part of the Federal Reserve Board (FRB), which meets eight times a year to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate at which banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies.
BEA = U.S. Bureau of Economic Analysis
BLS = U.S. Bureau of Labor Statistics

We will use the terms nominal and real. Nominal values are measured in terms of money or things that are counted in the real world. Retail sales, personal income, expenditures and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal minus inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.

Other abbreviations are commonly used.

QTD = Quarter-to-date	TMA = Trailing Three-Month Annualized
YTD = Year-to-Date	Y/Y = Year Over Year
M/M = Month Over Month	MBPD = Million Barrels per Day

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