Eagle Strategies LLC

The Eagle Edge

Quarterly

MARKET & ECONOMIC OUTLOOK

Insights from Multi-Asset Solutions' Portfolio Managers

Quarter ending
SEPTEMBER | 2026

On the Radar Screen

1. **The price of peace.** Diplomacy with Iran has stalled about as often as it has advanced, and the Strait of Hormuz remains the biggest single swing factor for oil, inflation and bond yields. A durable settlement, or real progress toward ending the war in Ukraine, would ease energy prices and take pressure off the Fed.
2. **Guidance, not results.** Third-quarter earnings season opens in mid-October, and we expect companies to clear the bar comfortably. What they say about the quarters ahead matters more, particularly any change to AI capital spending plans.
3. **The Fed's next move.** Having resumed hiking in September, the Fed has left the door open to more. Whether it walks through that door this fall will go a long way toward determining whether bond yields have peaked.
4. **The job market.** Hiring has been firm enough to keep the Fed leaning toward tighter policy. A clear break in either direction would quickly reset expectations for rates.
5. **Midterms.** November's elections will shape the fiscal outlook for the next two years, and the bond market is already asking pointed questions about deficits. The lame duck session that follows has a habit of producing surprises.
6. **Tariffs.** Trade policy remains a source of shocks rather than stability. A new round of levies would add to price pressures just as the Fed is trying to get ahead of them.

"It's not an optical illusion; it just looks like one." – Phil White

Rates up, stocks up. Go figure. By any conventional reckoning, this should have been a miserable quarter. Treasury yields climbed to levels not seen since before the Great Financial Crisis, and bond portfolios bled. There were three culprits: The Fed stopped being coy and resumed hiking; Washington and the companies racing to build out AI infrastructure both borrowed heavily; and, the economy grew briskly enough in nominal terms that lending to it for a decade or more at the yields on offer had begun to look like charity. The textbooks say stocks should have buckled under higher funding costs, but the textbooks, it would seem, don't read earnings reports.

A stock is a claim on nominal growth; a bond is its victim. Revenues grew handsomely, profits beat even hopeful forecasts, and, most tellingly, companies raised their outlooks at a pace rarely seen. Record margins owe less to a productivity miracle than to a simpler trick (although productivity gains are also helping): prices rising faster than wage bills, a lovely business model while it lasts. Nor did equities escape entirely unscathed. Valuations compressed, and the rate-sensitive corners of the market (housing, small caps, utilities, real estate) took their lumps. The index held up largely on technology and energy, and it is increasingly a bet on AI with an oil well out back. The earnings outlook remains bright, and that is ultimately what investors pay for. It's just worth a little less than it was three months ago.

"Climate is what we expect, weather is what we get." – A.J. Herbertson. Inflation has run above the Fed's target for the better part of six years, and never for lack of a fresh excuse. First came pandemic supply snarls, doused in more stimulus than the patient required. Then Russia invaded Ukraine, Washington built the tallest tariff wall in nearly a century, and war with Iran shut the world's most

important oil chokepoint. Each shock pushed prices higher, and each was reasonably expected to pass. Markets have taken that view: expectations for where inflation settles a few years out have scarcely budged, even as the monthly readings stayed stubbornly warm.

That calm rests on two pillars. The first is that high prices are their own cure. Chipmakers are racing to add memory capacity in an industry that has never once failed to overbuild, and new wells from Guyana to Argentina's Vaca Muerta are adding barrels well outside the Gulf's reach. The second is faith that the Fed will act before a passing storm becomes a change in climate, and in September it did just that. One caveat: the storms keep coming, and services inflation has stayed warm without their help. At some point a string of one-offs stops being one-off. For now the anchor holds, but it isn't free. Investors are paying for it with the higher real yields.

"Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist." – Kenneth Boulding. The AI buildout has become the economy's main engine, and it is running headlong into the physical world. Data centers need power the grid can't yet deliver, land that neighbors are less and less willing to sell, and water in places with little to spare. Permitting fights have become routine, and even the frontier labs are openly musing about slowing the pace of development. Capital spending, and the megacap earnings riding on it, cannot compound at today's rates indefinitely, and any hint that the hyperscalers are trimming plans will likely rattle markets. We'd treat that as noise.

Consider what a speed limit actually does. When supply is constrained and demand is not, whoever already owns the scarce inputs (the powered sites, the chips, the fabs) gets paid more for them, not less. A slower buildout also pushes capital toward the highest returns rather than wherever the next shovel fits, and that discipline is how booms avoid becoming busts. Demand, meanwhile, shows no sign of flagging; every token that can be produced will be consumed. The real risk is not too little appetite but too much competition, with falling prices handing the spoils to users rather than builders. That is a question of who wins, not whether the prize is real.

"There are few assets so bad that they can't get cheap enough to be a bargain." – Howard Marks. We continue to favor stocks over bonds, expressing that preference through a blend of mid and large cap US companies and exposure to an emerging markets complex closely tied to the technology supply chain. Our reasoning is simple. The economy is humming across nearly every measure we follow, from consumer spending and business investment to employee retention and corporate confidence, and rising revenues paired with fatter margins set the stage for another strong earnings season.

Our view of bonds has warmed considerably, if only because they've become so much cheaper. Yields now pay investors handsomely to wait, and the selling has the look of a market that has run too far, too fast. We have not yet extended duration beyond neutral as of this writing in the final days of September, but our finger is resting on the trigger. For the first time in a long while, bonds offer something worth owning rather than something to be endured.

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