Financial Markets This Week

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

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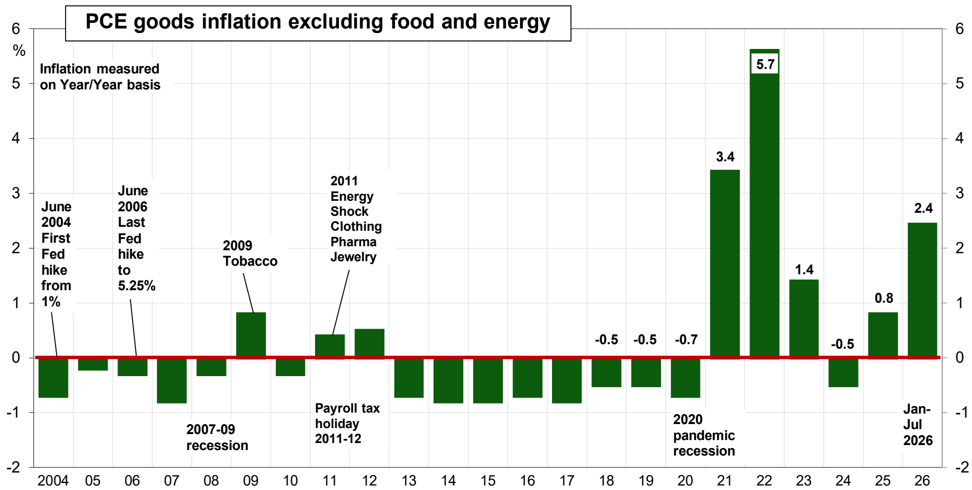
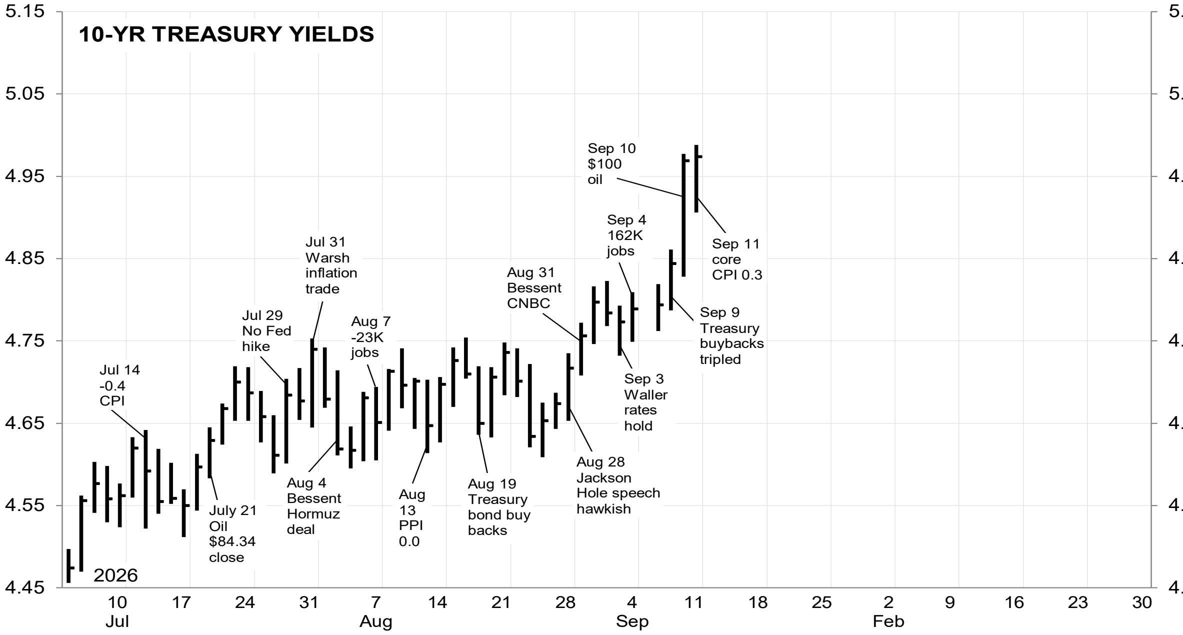
INFLATION GOODS



Durable goods inflation is volatile for core consumer goods that subtract out food and energy. Core PCE goods are running 2.4% over January-July 2026. If the Fed wins and inflation is no longer going to be called elevated, then these goods prices need to be unchanged or even negative judging by the historical trend since 2004. Before Trump economic officials came to Washington, core PCE goods inflation was -0.5% in 2024. It could have been worse given the “cost” effect of import tariffs and the energy price shock from the Iran war. Switching to an analysis of the table with its Dec-Dec annual percent changes, PCE core goods inflation is 2.3% YOY in July 2026, and 1.1 percentage points of that is computer software/accessories which jumped 21.2% and account for 5.1% of the $4.788 trillion of nominal core PCE goods expenditures at an annual rate in July. One of the reasons core goods were held down was the surprising 2.9% drop in pharmaceutical prices this year with its large 15.7% weight in the consumers’ core goods purchases, worth about half a percentage point off the top. There are some import tariff effects with Clothing and footwear, Games, toys, and Personal care products seeing 3%-plus increases in July 2026 from a year ago. Inflation’s measurement is complicated if the Fed is judging whether it is heading back down to target fast enough or whether they need to hike rates to 4.0%. PCE is the Fed’s target measure even if CPI core commodities are running just 0.7% in August year-on-year in today’s report. All eyes are on the Fed on September 16, and we are most interested in the forecasts.

	PCE Core Goods Inflation	Year-on-Year Inflation rates							
July PCE $mln	Weight		Dec 2020	Dec 2021	Dec 2022	Dec 2023	Dec 2024	Dec 2025	Jul 2026
2,380,105	0.497	**Durable goods**	1.4	9.2	1.6	-2.2	-1.3	2.0	3.4
401,813	0.084	New vehicles	1.8	11.5	6.9	0.9	-0.4	0.2	0.6
230,166	0.048	Used vehicles	10.1	36.7	-8.5	-1.3	-4.7	1.6	-1.8
138,275	0.029	Motor vehicle parts	0.5	10.4	8.7	-0.9	1.5	3.6	4.1
533,689	0.111	Furnishings	3.5	8.5	4.9	-3.2	-2.3	4.0	0.4
754,015	0.157	Recreational	-1.1	1.1	-1.5	-4.9	-0.8	1.8	8.6
112,129	0.023	Personal computers	0.8	2.8	-5.8	-3.6	-5.1	-0.6	3.9
244,001	0.051	Computer software	-7.2	-3.4	-3.1	-9.9	1.3	4.4	21.2
322,147	0.067	Other durable	-3.6		2.7	0.1	-0.1	1.8	3.5
2,408,174	0.503	**Nondurable goods ex-food/energy**							
599,627	0.125	Clothing and footwear	-4.3	5.7	3.1	1.1	1.2	0.3	3.5
1,808,547	0.378	Other nondurable	-0.2	2.3	5.5	2.6	0.8	2.4	0.5
752,275	0.157	Pharmaceutical	-2.3	0.3	2.6	4.2	0.8	1.6	-2.9
152,007	0.032	Games, toys, hobbies	-3.8	1.9	1.3	-4.4	-3.8	1.5	3.8
121,540	0.025	Pets and related	-1.8	2.7	12.6	3.1	-0.9	1.3	1.7
224,430	0.047	Personal care products	-0.3	0.4	8.1	3.7	0.6	1.8	3.3
207,843	0.043	Household supplies	2.9	4.3	8.9	-1.4	0.6	0.9	-0.8
113,639	0.024	Tobacco	5.1	9.0	5.5	7.8	6.7	6.8	6.7
136,345	0.028	Magazines, newspapers	3.0	4.1	9.1	1.1	0.0	5.3	4.6
4,788,279	1.000	Goods ex-food/energy	0.1	6.2	3.2	0.0	-0.2	2.0	2.3

INTEREST RATES

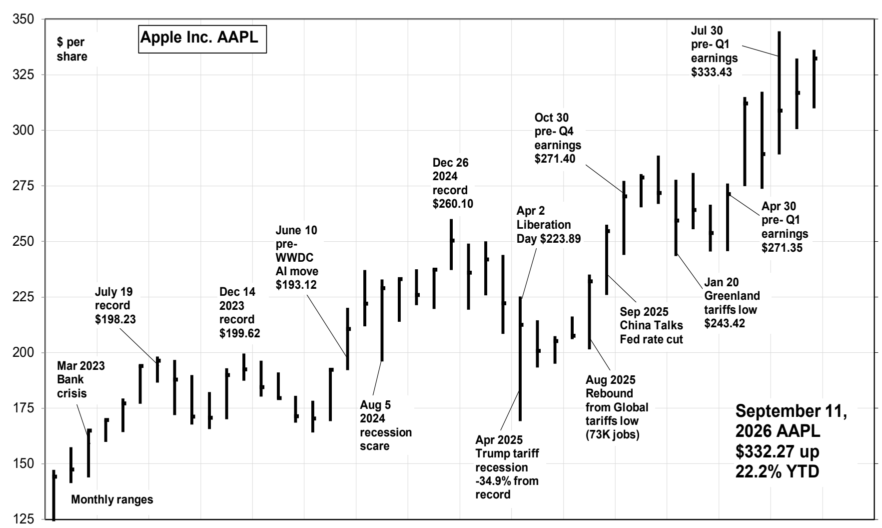


The strange story of Bessent's US Treasury buybacks continued this week with the Treasury announcing Wednesday it was tripling the size to $6 billion. A year ago, in September 2025, the Treasury did buyback operations that included 30-yr bonds twice for only $2 billion each time. Didn't work, poking the bear brings in the bears, and 10-yr yields closed Wednesday 5 bps higher at 4.84%. With crude oil crossing $100 Thursday, an assist from hotter PPI inflation, 10-yr yields jumped 13 bps to 4.97%. There were the normal first of the month 10-yr and 30-yr auctions this week, $39 billion 10-yrs (reopening) on Wednesday, and $22 billion 30-yrs (reopening) on Thursday, auctions that normally go through smoothly without comment. It all ended well with stocks rebounding 0.9% Friday, despite "hotter" 0.3% core CPI and markets guessing a Fed rate hike. Bonds close 4.97% on Friday.

Apple, Inc. (AAPL) up 22.2% YTD, new CEO and foldable phones

The stock collapsed (collapse, relative for tech) 7.4% to $308.91 on July 31 after reporting earnings the night before. It looked especially bad as Amazon jumped 15.3% on its earnings the same day. Apple has fully recovered the loss today as it turns out, and the stock held the 300-dollar line. Market reaction centered on weaker year-year guidance for sales in calendar Q3. China sales fell more than expected to $18.8 billion from $20.5 billion in Q1. All forgiven now despite the launch of a foldable phone this week under new CEO Ternus.

Calendar Year Mln $	Operating Income	Net Sales	iPhone	Greater China
Q2 2026	35,695	109,417	54,252	18,816
Q1 2026	35,885	111,184	56,994	20,497
Q4 2025	50,852	143,756	85,269	25,526
Q3 2025	32,427	102,466	49,025	14,493
Q2 2025	28,202	94,036	44,582	15,369
Q1 2025	29,589	95,359	46,841	16,002
Q4 2024	42,832	124,300	69,138	18,513
Q3 2024	29,591	94,930	46,222	15,033
Q2 2024	25,352	85,777	39,296	14,728

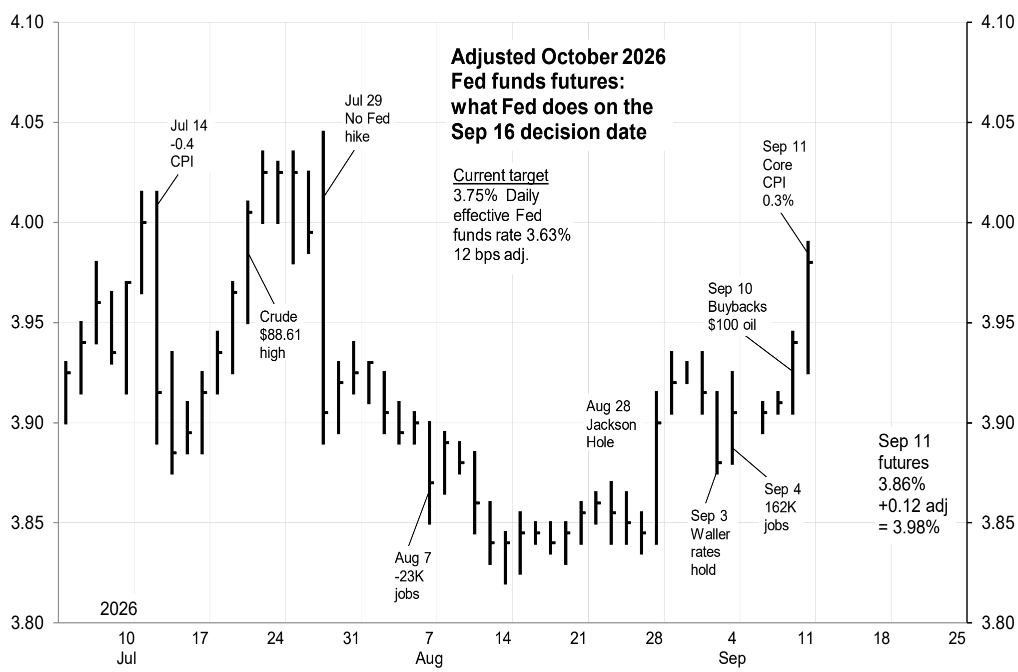


FEDERAL RESERVE POLICY

The Fed meets September 15-16, 2026 to consider its monetary policy. Bond market could probably use a Fed rate hike to call things down. It's only 25 bps to 4.0%. The ECB hiked 25 bps to all of 2.5% on Thursday because it expected inflation to be higher for longer due to the Iran war. But the President wants rate cuts. October Fed funds futures (adjusted) were impressed by 0.3% core CPI Friday moving from 3.93% to 3.99% in seconds after the report. More important than the rate change or not, the interest rate forecasts tell a story about the future direction of rates, and we would hope that policymakers will continue to write down all their forecasts. How long is inflation going to stay above the 2% target, where should the Fed funds rate be positioned to achieve the inflation forecast. Where oh where are neutral interest rates? GDP forecasts if you must. Investors need these. The bottom line is the Fed is not as far behind as Powell was in the inflation fight. But if they hike rates on September 16, our money market fund holdings will bless them.

Selected Fed assets and liabilities Fed H.4.1 statistical release billions, Wednesday data	9-Sep	2-Sep	26-Aug	19-Aug	3/11/20*	Change from 3/11/20 to Sep 9
Factors adding reserves						
U.S. Treasury securities	4552.337	4552.347	4546.169	4542.228	2523.031	2029.306
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1913.585	1913.585	1913.585	1930.728	1371.846	541.739
Repurchase agreements	0.006	0.000	0.003	0.001	242.375	-242.369
Primary credit (Discount Window)	5.838	5.282	4.890	5.038	0.011	5.827
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.016	0.016	0.016	0.016		
Main Street Lending Program	0.895	0.895	0.894	0.727		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.101	0.132	0.121	0.123	0.058	0.043
Federal Reserve Total Assets	6792.4	6788.9	6782.6	6797.4	4360.0	2432.368
~~3-month Libor %~~ SOFR %	3.64	3.65	3.64	3.62	1.15	2.490
Factors draining reserves						
Currency in circulation	2486.422	2482.031	2478.052	2475.537	1818.957	667.465
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	843.705	944.364	959.435	936.406	372.337	471.368
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	0.432	0.525	0.702	0.317	1.325	-0.893
Federal Reserve Liabilities	3755.886	3859.662	3865.795	3866.586	2580.036	1175.850
Reserve Balances (Net Liquidity)	3036.508	2929.285	2916.824	2930.817	1779.990	1256.518
Treasuries within 15 days	97.839	93.581	113.163	116.943	21.427	76.412
Treasuries 16 to 90 days	398.609	399.688	368.124	361.022	221.961	176.648
Treasuries 91 days to 1 year	529.763	532.944	537.361	536.473	378.403	151.360
Treasuries over 1-yr to 5 years	1427.474	1427.478	1434.042	1434.175	915.101	512.373
Treasuries over 5-yrs to 10 years	473.534	473.534	471.393	471.415	327.906	145.628
Treasuries over 10-years	1625.117	1625.121	1622.087	1622.201	658.232	966.885
Note: QT starts June 1, 2022	Change	Change	9/2/2026	6/1/2022		
U.S. Treasury securities	-5770.779	-1218.432	4552.347	5770.779		
Mortgage-backed securities (MBS)	-2707.446	-793.861	1913.585	2707.446		
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2026	2027	2028	Long Term
Fed funds	3.8	3.6	3.4	3.1
PCE inflation	3.6	2.3	2.0	2.0
Core inflation	3.3	2.5	2.1	
Unemployed	4.3	4.3	4.2	4.2
GDP	2.2	2.3	2.2	2.0
June 2026 median Fed forecasts				



A second hike to 4.25% discounted by December. Warsh wanted the job.

Fed funds futures call Fed policy		
Current target: Sep 11 -- 3.75%		
Rate+0.12	Contract	Fed decision dates
3.980	Oct 2026	Sep 16*
4.260	Jan 2027	Adds Oct 28, Dec 9*
4.345	Feb 2027	Adds Jan 27
*Oct 2026 could be 3 days at a new rate		
*Jan 2027 could be 4 days at a new rate		

Next up: August PCE inflation Wednesday, September 30 830am ET

Monthly	2026							2025						
% Changes	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
Core CPI inflation	0.3	0.2	0.0	0.2	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2
Core PCE inflation		0.2	0.1	0.4	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Core PCE YOY		3.3	3.3	3.5	3.3	3.3	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8
Core CPI YOY	2.4	2.5	2.6	2.8	2.7	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9

OTHER ECONOMIC NEWS

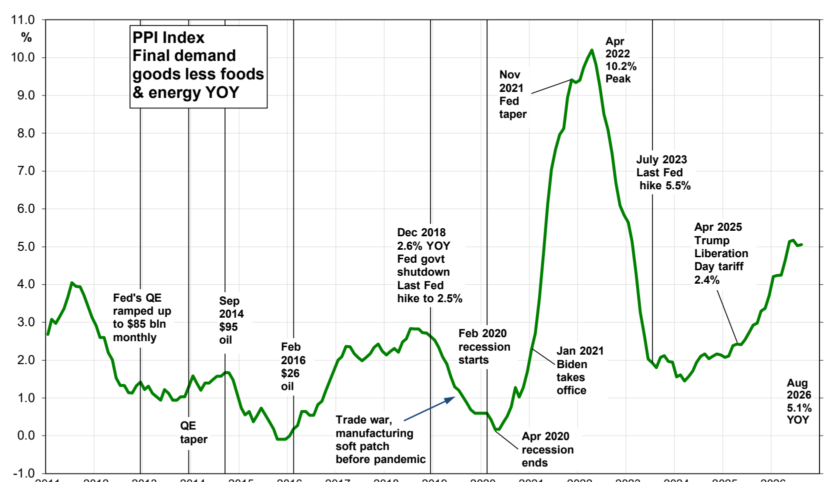
PPI is hot (Thursday)

Breaking economy news. PPI rose 0.4% in August as energy prices picked back up, after falling in June/July, as the war with Iran restarted. Old-fashioned PPI in the years before they tried to bolt-on a services component is rising. Final demand goods less foods and energy rose 0.4% the most since May. Looks like all prices are up with energy prices helping to push through some increases. Energy will be worse in next month's report with crude oil prices rising above $100 a barrel. Final demand goods less foods and energy, call them core PPI goods, increased 5.1% from year ago levels. Core goods had been rising 2.4% YOY in April 2025 with the Trump Liberation Day tariffs and the current peak was 5.2% in June this year versus 10.2% YOY in April 2022 during the Russia Ukraine Powell inflation outbreak. The Fed did not lift rates from the 0.25% bottom until March 2022. Current rates of 3.75% are already in neutral.

Monthly % SA		Final demand goods				Final demand services			
2026	Total final demand	Total	Foods	Energy	**Less foods and energy	Total	Trade	Transportation and warehousing	Other
Jan	0.6	-0.1	-1.3	-1.7	0.7	0.9	2.0	1.0	0.3
Feb	0.5	1.0	2.3	2.0	0.4	0.3	-0.3	0.8	0.5
Mar	0.8	2.0	-0.6	10.5	0.4	0.3	0.5	2.2	0.0
Apr	1.1	1.9	0.3	7.1	0.7	0.8	1.5	3.7	0.1
May	0.5	2.2	0.6	8.2	0.7	-0.2	-2.7	2.2	0.7
Jun	-0.1	-1.4	-0.6	-6.8	0.2	0.5	1.2	-0.3	0.2
Jul	0.1	-0.4	-0.9	-1.8	0.2	0.2	-0.1	-1.1	0.5
Aug	0.4	1.1	0.1	4.2	0.4	0.1	-0.2	2.3	0.0

**Final demand goods, less foods and energy is old-fashioned PPI

Net, net, today's PPI inflation report does nothing to turn down the warnings about the inflation threats the economy faces, especially if you are an inflation hawk with an itchy trigger finger at the Federal Reserve. Core goods PPI jumped 0.4% in August, the most since 0.7% in May. The labor market isn't helping the inflation outlook either with jobless claims at bare minimum levels in a sign of economic strength.



The Treasury market had already come untethered with 10-year yields increasing to new 2026 highs this morning before PPI after the President's $1 trillion ask last night perhaps, promising every American $5,000 if his team wins the elections. This is just the latest sign of the $40 trillion national debt continuing to move in the wrong direction with Federal government outlays increasing more than income tax receipts. Bond traders might just give today's 30-yr auction a pass after a week of volatile trading unless dealers can move yields high enough to bring investor interest. Stay tuned. Inflation is hot while Treasury debt is not. Bet on it.

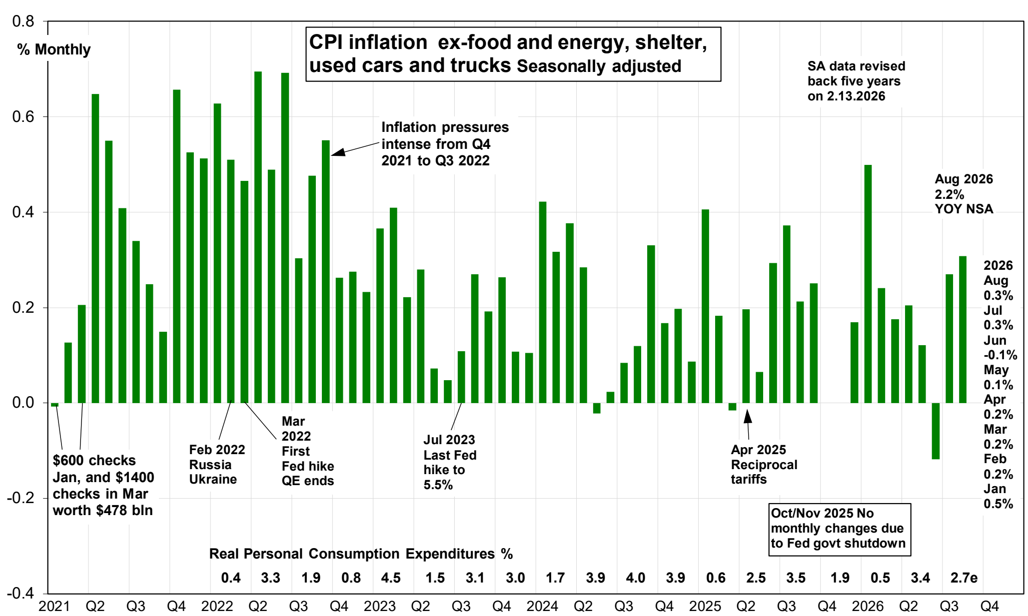
Core CPI 0.3% in August (Friday)

Dec 25 Weight	CPI inflation	Jun 2026	Jul 2026	Aug 2026	YOY % Aug 2026
		Monthly Percent Changes			
100.0	Total	-0.4	0.1	0.4	3.4
13.698	Food	0.2	0.1	0.1	2.7
8.325	Food at home	0.2	-0.1	0.0	2.2
5.373	Food away from home	0.2	0.3	0.3	3.4
6.383	Energy	-5.7	-1.5	2.1	16.3
2.895	Gasoline	-9.7	-2.9	3.9	27.4
79.919	Ex-food & energy	0.0	0.2	0.3	2.4
3.838	New vehicles	0.0	0.1	0.3	0.6
2.759	Used cars/trucks	-0.2	0.4	0.4	-2.3
2.368	Clothing	-0.6	0.1	0.0	3.6
1.489	Medical care goods	-0.2	-0.6	-0.2	-2.7
35.625	Shelter	0.1	0.1	0.3	3.0
26.204	Owner equiv. rent	0.2	0.3	0.2	3.1
6.315	Transportation	-0.3	0.3	0.5	2.4
6.935	Medical care services	-0.1	0.6	-0.2	2.5
	Special: Where inflation might come back down to				
60.744	Services ex-energy	0.0	0.2	0.3	3.0
19.176	Commodities (core)	-0.1	0.2	0.1	0.7

Breaking economy news. August CPI inflation, headline 0.4% and 3.4% year-year, and core 0.3% and 2.4% year-year. Core was supposed to be 0.2%, it was 0.2% or less in the months of May through July, and that was all it took for October Fed funds futures to discount a 25 bps rate hike at next week's Fed meeting. There were interesting market notes floating around like how the 5.9% jump in wireless phone service was responsible for a tenth of the three tenths core CPI increase, so it would have been 0.2%, but nothing seemed to change Fed funds futures' assessment. We did not find the figure that worrisome as there are other unexplained goings on with July core PCE inflation running 3.3% with August core CPI down at 2.4% which is unusual. PCE inflation will be revised lower with some new changes coming later this month for the August data. On the other hand, Greenspan's old series on core CPI less shelter and used vehicles is higher the last two months at 0.3% which is new.

Net, net, inflation beat the estimates for core CPI prices by a tenth, and traders sold immediately on the news, but pull back the tarp and you can see that the disinflation trend is still on track for now. Core CPI year-on-year was 2.4% in August which is the best reading this year even if it is modestly lower than 2.5% in July. Import tariffs hit goods prices first, and commodities less food and energy commodities rose only 0.1% in August which is a modest increase of 0.7% from a year ago.

Stay tuned. Fed officials may have the inflation data they need to postpone the calls of some members to hike interest rates next week. Fed officials always say they do what is needed regardless of politics, but with the midterm elections ahead and the Fed funds rate at neutral, the urgency to move now to a more restrictive policy is not a compelling one. This still looks like an energy price shock where watching and waiting is the recommended course of action in the Fed's playbook, at least for a time. The Iran war continues and energy prices are higher which may spread to other CPI goods and services in the months to come. But for now, the fact that core CPI rose 0.3% (0.29) and not the market's expectation of 0.2%, seems not to be enough to tip the scales for a Fed interest rate hike next week.



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