

Financial Markets This Week

25 SEPTEMBER 2026

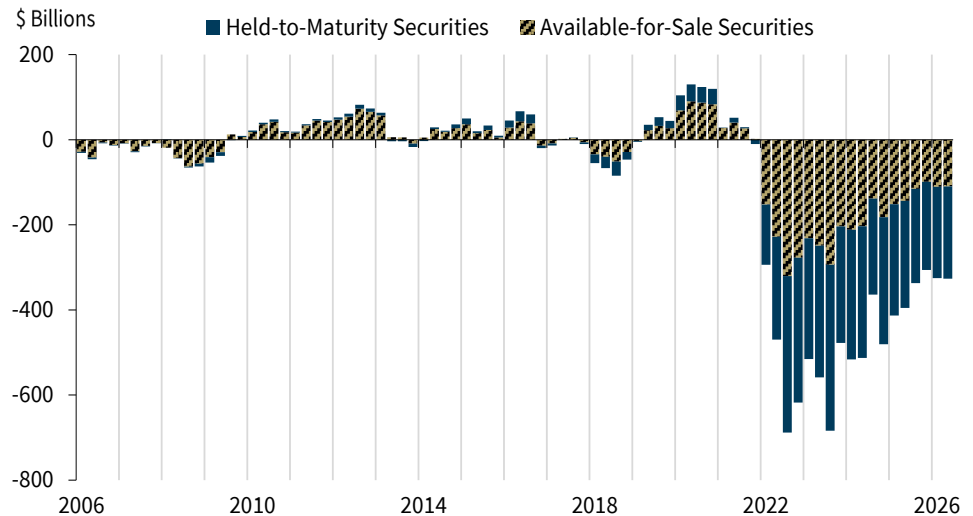
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BANK LENDING 2026

The FDIC has released the quarterly banking profile and it was interesting, although maybe a little late, that they dropped the unrealized (giant) losses on investment securities graph. Instead, this quarter, they replaced the scary chart in \$billions [with one looking](#) less ominous with the losses as a percentage of amortized cost. We prefer the scary chart on

billions and redrew it for them here. We assume losses will grow in the second half of 2026 with the higher Iran-war bond market yields, especially the 7% yields on mortgage-backed securities decreasing the value of these securities and increasing unrealized losses. Total unrealized losses were \$326.7 billion in Q2 2026. Investors are not focused on securities losses with the Invesco KBW Bank ETF (KBWB) closing up 6.7% YTD on Friday. Net operating income for the 4,238 commercial banks and savings institutions was \$324.8 billion in the year-ending Q2 2026. Quarterly income was \$85.9 billion in Q2 2026 and has held fairly steady in recent years after the one quarter of weakness way back in Q4 2023 due to the FDIC special assessment to replenish the Deposit Insurance Fund after the losses from the Silicon Valley Bank and Signature Bank failures earlier in 2023. 3,188 institutions had year-on-year earnings gains in Q2 2026. The number of banks is down sharply to 4,238 in Q2 2026 from 10,102 in 2000, but the number of full-time employees stays close to 2 million. Commercial & industrial bank loans look stagnant from 2023 to 2026 in the table here, but the graph on page 2 shows the sharp jump in C&I loans from the end of 2025 which probably reflects M&A activity. While the July 2026 Senior Loan Officers Survey did not offer much on the specifics, the Fed did cut rates three times in late 2025 to 3.75%. The bank survey, those that responded, said the "somewhat important" reasons for stronger C&I loans were; increased need of customer inventory financing and accounts receivable (9 banks).

Unrealized Gains (Losses) on Investment Securities



FDIC Banks and S&Ls

Q2s	2026	2023	2020	2010	2000
Number	4,238	4,645	5,066	7,830	10,102
Employees	2,034	2,115	2,077	2,034	1,904
Deposits	20,722	18,644	16,962	9,141	4,689
Securities	5,819	5,436	4,515	2,527	1,325
CRE	1,943	1,796	1,545	1,081	503
C&I loans	2,540	2,511	2,696	1,164	1,061
Credit cards	1,189.6	1,027.8	808.1	692.1	234.5
Net income	324.8	296.1	144.3	39.1	83.2

4,238 banks in June 2026, 2,034 million employees

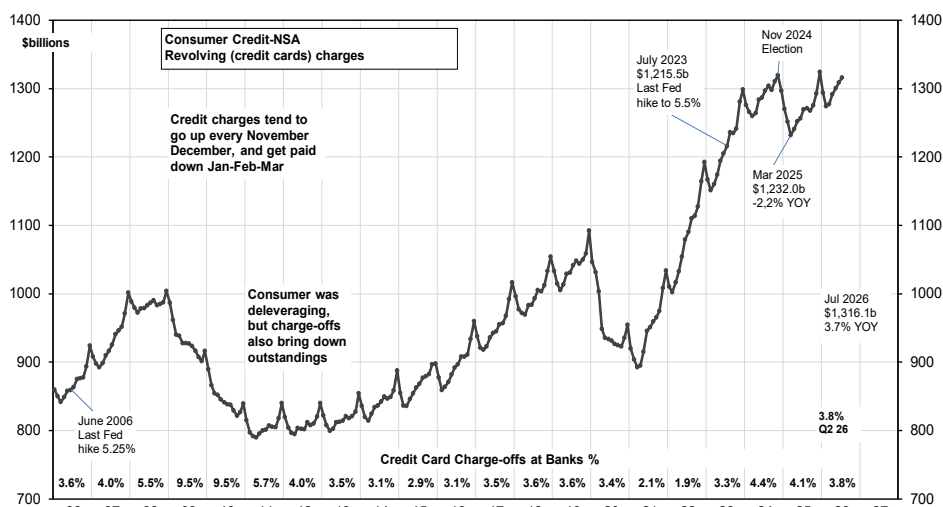
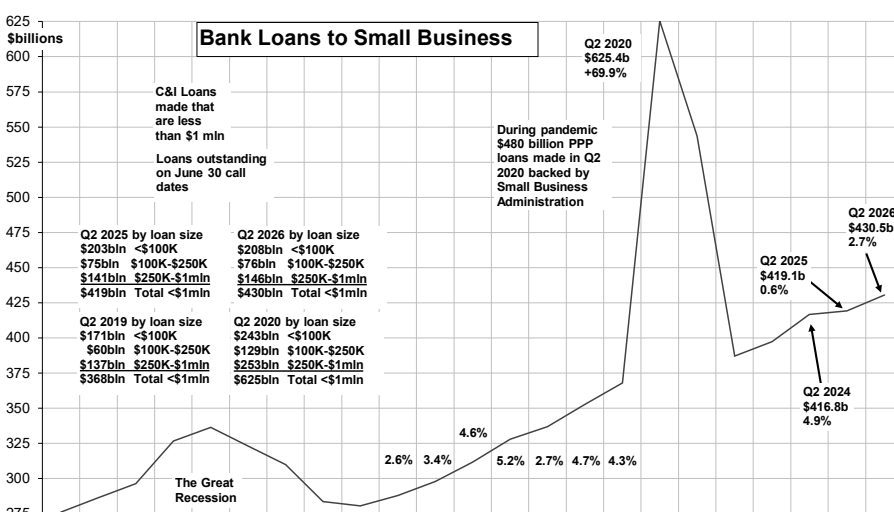
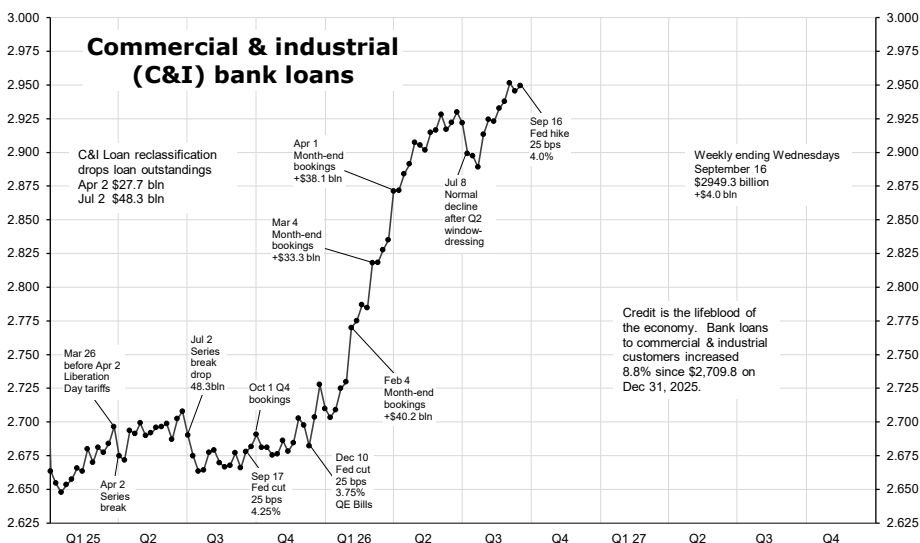
\$20.722 trillion in deposits, \$5,819 billion securities, \$1,943 billion Nonfarm nonresidential loans (CRE), \$2,540 billion C&I loans, \$1,189.6 billion credit card loans to individuals, June 2026

Net Operating Income \$324.8 billion (full year ending Q2 2026)

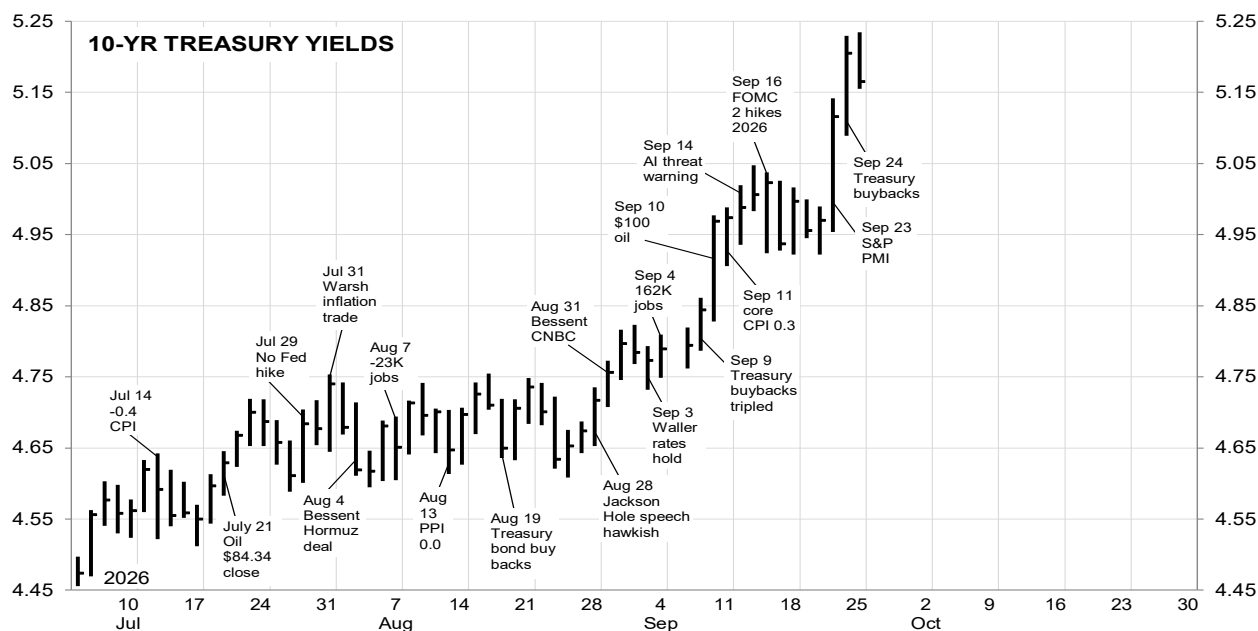
Customer investment in plant or equipment increased (10 banks), customer M&A financing needs increased (8 banks). The bank lending does count as economic stimulus, and it has accelerated since the end of last year. And it is often said that lending to small business is what drives the economy forward. These loans of less than \$1 million are up 2.7% in 2026 from 2025, where lending expanded only 0.6% in the Q2 2025 year with the uncertainty caused by the uneven rollout of Trump 2.0 economic policies including tariffs, along with the Trump tariff recession where the S&P 500 fell as much as 21.3% to the April 7, 2025 low. Which reminds us of the old saying, “you cannot have a recession unless the stock market falls 20%.” Anyway, small business loans are rising steadily, although loans of \$100K-\$200K are unchanged if you are looking for money.

Credit cards have increased \$161.8 billion to \$1.189 trillion over the last three years in the FDIC table. There are always stories that consumers have maxed out their credit cards, but the Fed data on consumer credit is \$1.316 trillion in July which is 3.7% higher than a year ago. Nominal consumption expenditures in GDP were \$22.1

trillion in Q2 2026, a year-to-year increase of 6.3% so it does not look like the reliance on credit is fueling the consumer's purchases. Credit card charge-offs at banks were 3.8% in Q2 2026 comparable to the period under Yellen/Powell when the Fed was normalizing its seven years of zero rates policy, although the Fed rate only got to 2.5% in 2018 before Powell reversed the direction of policy. Stay tuned. The banks look okay and are extending more C&I loans which are supportive of business activity and economic growth in the future.



INTEREST RATES

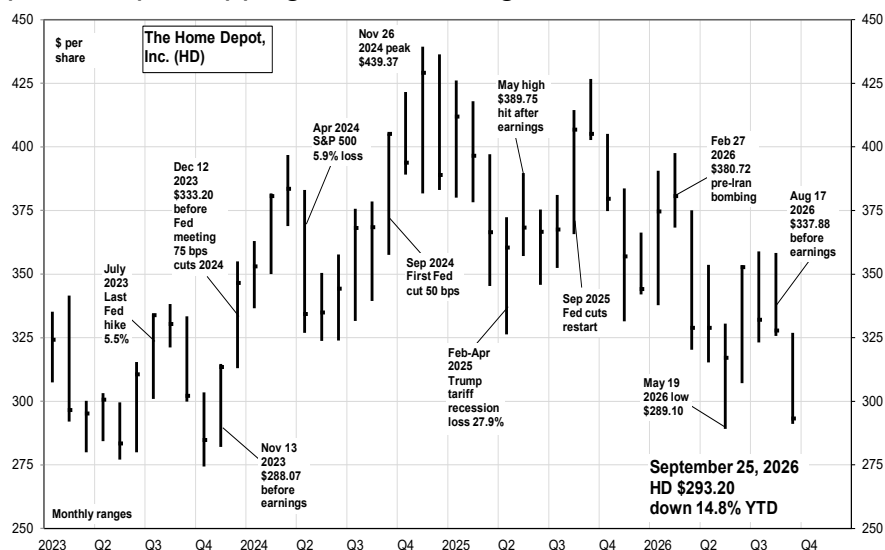


Stocks soared 1.5% on Monday helped along by lower crude oil and Meta's 11.3% jump on having its Muse AI agent app the download champion in the Apple Store. That good fortune for the market stalled with a surprising bond yield rally on Wednesday set off by stronger PMI data from S&P of all things. Anecdotal data of business sentiment like this always seems a little suspect to us. At 945am ET Wednesday 10-yr yields were around 5.01% and closed at 5.12% for the day. Thursday yields soared further, perhaps some hedging of losses, oil prices, but the Treasury buybacks seemed to draw in the sharks with Treasury announcing at 2pm ET it had bought just \$4 billion of 20-30 year debt and not the \$6 billion in the press release at 11am ET on Wednesday. It's only once a month for 20-30 years, and in September 2025 the 20-30 year "liquidity" buy back was just \$2 billion.

The Home Depot, Inc. (HD) down 14.8% YTD

Earnings released August 18, 2026 before the bell, the broader market declined that day, a Walmart 9.2% stock selloff two days later over fears for the consumer did not help much. Sales for the spring/summer quarter of \$47.861 billion, 5.7% higher than a year ago, but the company kept its full year guidance. Operating income of \$6.839 billion, the company said tariff refunds dropped its cost of goods sold by \$685 million. The stock price keeps dropping as the housing market suffers a new blow from the return of 7% mortgages.

\$mIn	Operating	Average	Retail
Quarter	Net sales	Income	Ticket Sales NSA
8.2.26	47,861	6,839	\$92.50 46,922
5.3.26	41,765	4,981	\$92.76 40,429
2.1.26	38,198	3,849	\$91.28 36,580
11.2.25	41,352	5,353	\$90.39 40,948
8.3.25	45,277	6,555	\$90.01 44,602
5.4.25	39,856	5,133	\$90.71 38,793
2.2.25	39,704	4,495	\$89.11 36,545
10.27.24	40,217	5,418	\$88.65 42,435
7.28.24	43,175	6,534	\$89.90 45,080
4.28.24	36,418	5,079	\$90.68 38,862
1.28.24	34,786	4,143	\$88.87 36,170
Retail sales building material/garden qtr avg NSA			

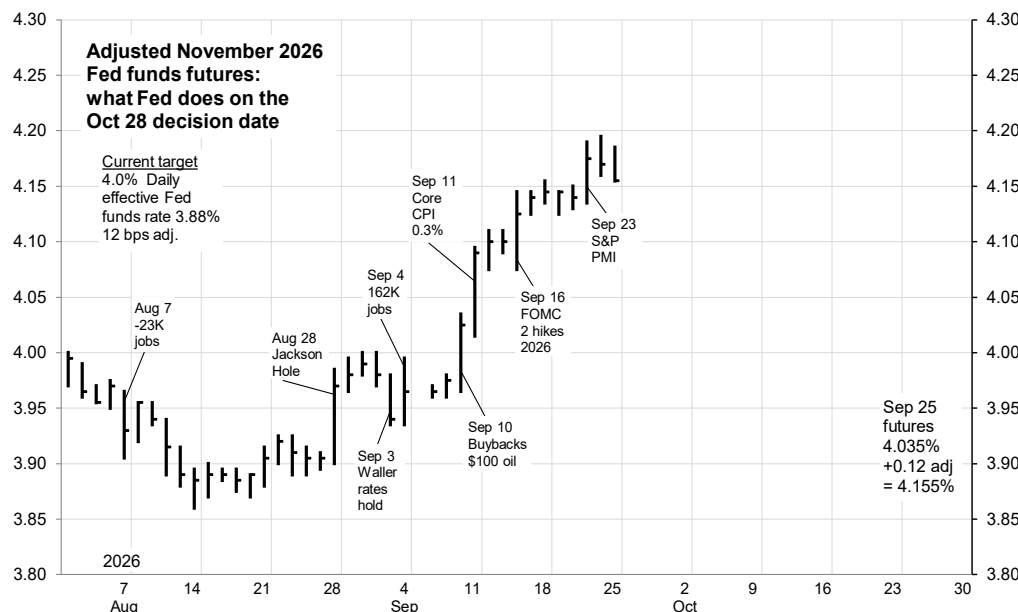


FEDERAL RESERVE POLICY

The Fed meets October 27-28, 2026 to consider its monetary policy. We were thinking that Fed funds futures would be the key to guessing at Fed policy changes at the FOMC meetings going forward as Fed officials would speak out less in the new Warsh era. Wrong. Too many Fed officials to count have come out since the September 16 decision talking up the need for a second rate hike this year, validating the FOMC dot-plot rate forecasts, and even more rate hikes down the road as energy prices have not receded as much as they thought and the risks of higher inflation for longer are growing. Looking back at the September 16 Warsh Fed conference, the one question about, how come last year, Warsh said the Powell Fed was going to make a big mistake by deciding the economy was too strong to justify lower interest rates, and now today, Warsh was raising rates in part due to economic strength. What happened? Warsh did not remember the context of his comment back then, and said that inflation was the problem now, not a stronger economy per se... but it looks like his regime-change criticism of the Fed a year ago helped him win the Fed Chair job, and now he could go his own way and raise rates, not lower rates as White House economic officials speaking on behalf of the president want to see happen. Interesting.

Selected Fed assets and liabilities						Change from 3/11/20 to Sep 23
Fed H.4.1 statistical release billions, Wednesday data	23-Sep	16-Sep	9-Sep	2-Sep	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4558.332	4554.450	4552.337	4552.347	2523.031	2035.301
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1910.409	1913.523	1913.585	1913.585	1371.846	538.563
Repurchase agreements	0.001	0.255	0.006	0.000	242.375	-242.374
Primary credit (Discount Window)	6.235	6.879	5.838	5.282	0.011	6.224
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	0.015	0.016	0.016	0.016		
Main Street Lending Program	0.872	0.871	0.895	0.895		
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	0.072	0.094	0.101	0.132	0.058	0.014
Federal Reserve Total Assets	6799.5	6798.3	6792.4	6788.9	4360.0	2439.510
3-month-Libor-% SOFR %	3.87	3.62	3.64	3.65	1.15	2.720
Factors draining reserves						
Currency in circulation	2482.383	2483.040	2486.422	2482.031	1818.957	663.426
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	947.317	991.708	843.705	944.364	372.337	574.980
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	0.461	5.375	0.432	0.525	1.325	-0.864
Federal Reserve Liabilities	3829.614	3876.772	3755.886	3859.662	2580.036	1249.578
Reserve Balances (Net Liquidity)	2969.922	2921.536	3036.508	2929.285	1779.990	1189.932
Treasuries within 15 days	131.913	140.626	97.839	93.581	21.427	110.486
Treasuries 16 to 90 days	368.918	360.938	398.609	399.688	221.961	146.957
Treasuries 91 days to 1 year	531.946	527.324	529.763	532.944	378.403	153.543
Treasuries over 1-yr to 5 years	1426.912	1426.916	1427.474	1427.478	915.101	511.811
Treasuries over 5-yr to 10 years	473.532	473.533	473.534	473.534	327.906	145.626
Treasuries over 10-years	1625.110	1625.114	1625.117	1625.121	658.232	966.878
Note: QT starts June 1, 2022						
U.S. Treasury securities	1218.432	0.000	-1218.432	-1218.432		
Mortgage-backed securities (MBS)	793.861	0.000	-793.861	-793.861		
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					Long Term
	2026	2027	2028	2029	
Fed funds	4.1	4.1	3.9	3.6	3.2
PCE inflation	3.7	2.3	2.1	2.0	2.0
Core inflation	3.4	2.5	2.2	2.0	
Unemployed	4.1	4.1	4.1	4.1	4.2
GDP	2.3	2.4	2.2	2.1	2.0
September 2026 median Fed forecasts					



A second hike to 4.25% discounted by December.

Fed funds futures call Fed policy

Current target: Sep 25 -- 4.00%

Rate+0.12	Contract	Fed decision dates
4.155	Nov 2026	Oct 28
4.365	Jan 2027	Adds Dec 9*
4.475	Feb 2027	Adds Jan 27
4.650	Apr 2027	Adds Mar 17*
*Jan 2027 could be 4 days at a new rate		
*Apr 2027 could be 2 days at a new rate		

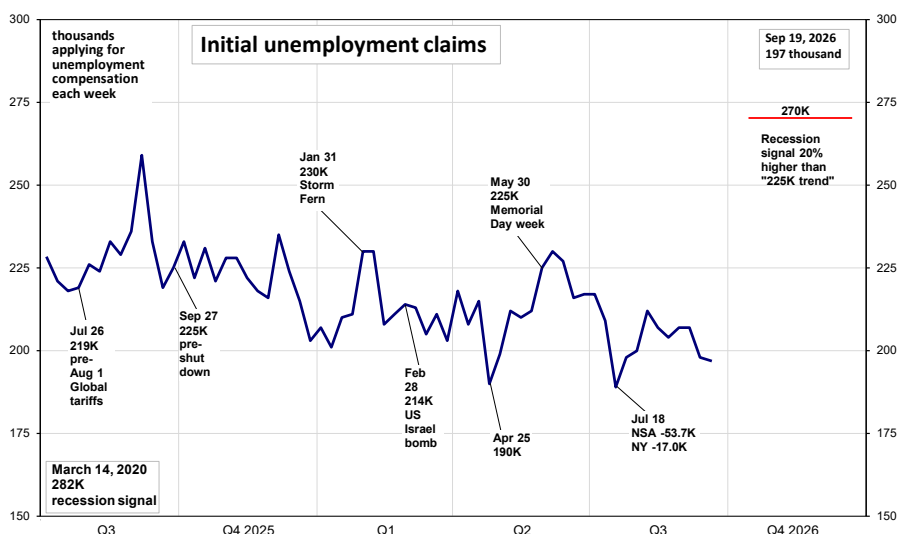
Next up: August PCE inflation Wednesday, September 30 830am ET

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

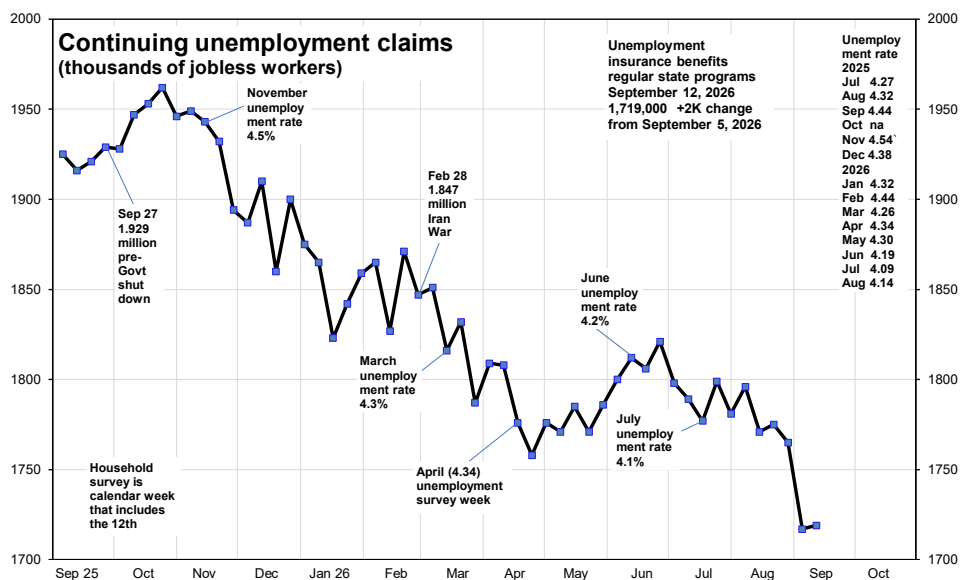
OTHER ECONOMIC NEWS

Job layoffs low again (Thursday)

Breaking economy news. First time jobless claims fell 1K to 197K in the September 19 week, showing a complete lack of labor market stress. Continuing claims were little changed at 1.719 million in the July 12 week, after collapsing the week before. These figures are falling so rapidly it suggests another big payroll employment number may be on the horizon, Friday, October 2, after last month's surprise 162K jobs number for August. The 162K looked exaggerated, but perhaps hiring is picking up after all.



Net, net, jobless claims are not just low again this week. The longer that company layoffs continue to be near 2026 lows, the evidence is mounting that the economy is accelerating its demand for workers and this sign of economic strength will show up with remarkable GDP growth this quarter. The number of Americans on the nation's unemployment rolls collecting benefits has



plummeted and the odds are increasing that last month's 162 thousand payroll jobs figure was not an outlier. Somehow the labor markets have shaken off the geopolitical uncertainties where joblessness is not expected to be a negative for growth going forward. It is a race against time perhaps as energy prices have kicked up again as the Iran war stretches on and the economy could always suffer through a soft patch in demand. But in mid-September the economy seems to be firing on all cylinders in part due to the extraordinary capex expenditures on AI. Stay tuned.

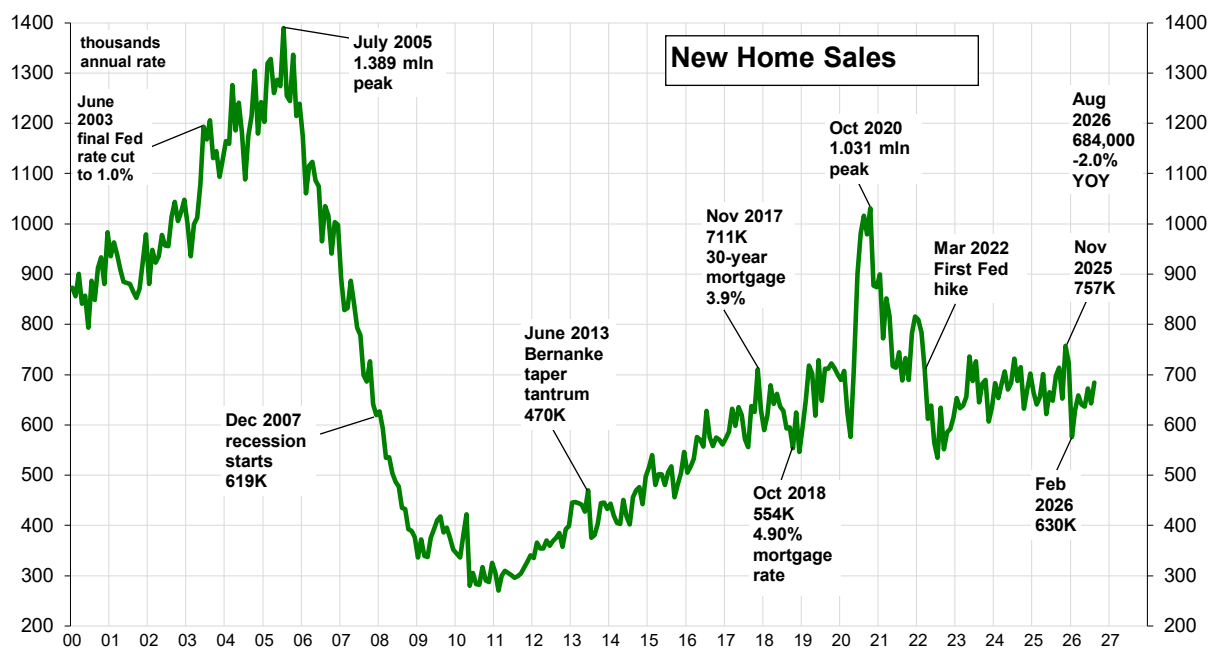
New home sales 2026 high (Thursday)

Breaking economy news. New home sales rose 6.4% to 684K in August. Sales have remained below 700K ever since that odd surge to 757K in November 2025, which maybe was in response to the Fed restarting its rate cuts last year in September. Median prices, we don't know how to treat this as the figures say August was \$393,700 versus \$428,600 for the full year 2023. Paints a dismal story unlike other home price indexes.

Net, net, new home sales registered a new 2026 high fueled by sales in the Midwest and in the South where lower priced homes picked up market share as the housing affordability crisis hits home. New home sales are leading existing home sales because sales activity is counted earlier at the time of an initial sales

contract, but the sharp improvement may tail off when new homebuyers face off against the bond market sell-off's 7% mortgage rates in September. Stay tuned. Home improvement stores are not seeing increased business as new home sales are not setting records relative to past years. New home sales were 686 thousand in 2024 and 678 thousand in 2025, so the 6.4% jump in August 2026 to 684 thousand is just more of the same trend.

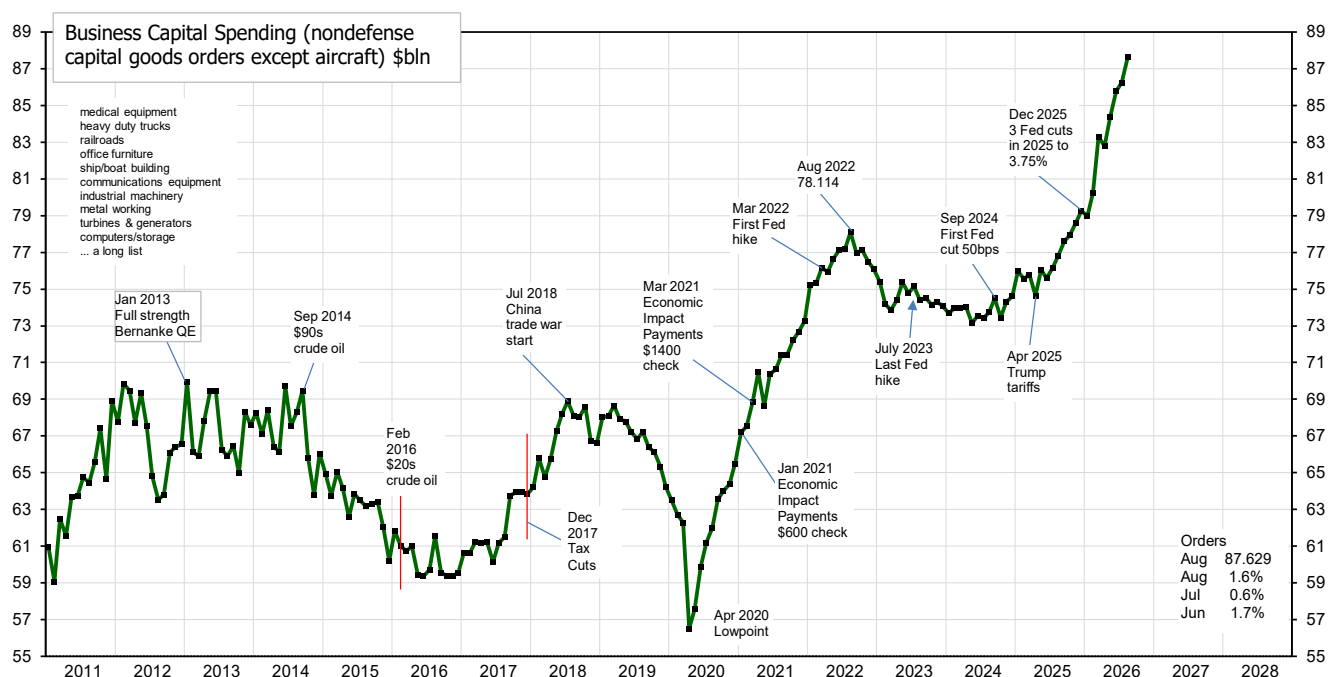
New Home Sales						Median Price \$
	Total	Northeast	Midwest	South	West	
2023 Year	666	33	68	412	153	428,600
2024 Year	686	34	80	413	158	420,300
2025 Year	678	33	82	412	150	417,400
May 2026	636	29	85	390	132	414,300
Jun	672	31	78	438	125	406,400
Jul	643	36	53	422	132	392,200
Aug	684	23	98	451	112	393,700
Thousands at Seasonally Adjusted Annual Rate						



Investment spending runs flat out (Friday)

Breaking economy news. Durable goods orders were unchanged at \$338.6 billion in August. Nondefense capital goods orders ex-aircraft is a proxy for business investment in equipment which rose 1.6% in August to \$87.629 billion for the month, and July was revised from flat to an increase of 0.6%. Business equipment investment in real GDP added 0.8 percentage points to growth in Q1 2026 and 0.7 percentage points to 1.5% real GDP in Q2 2026. The second quarter data will be finalized next Wednesday, September 30. Seems like the Q3 2026 equipment investment could be big, although Atlanta Fed GDPNow says just 1.0 percentage point.

Net, net, the investment spending boom related to the AI buildout shows no sign of slowing down and the economy really has the wind at its back now with real GDP running all out in the current quarter. Electrical equipment, machinery and computers are all in high demand with manufacturers literally seeing a flood of new orders. The AI investment boom is real and it is carrying the economy along with it. The only risk for the economy is that eventually all the equipment expenditures and data centers will be completed and the catalyst for growth after this AI bubble stops inflating is not certain. Investment spending is considered a growth accelerator, but eventually the music will stop. No wonder the President doesn't want to put guardrails on AI. Investment spending tied to it is lifting the economy into the stratosphere. Stay tuned. Equipment purchases have not seen a run like this since the period after the pandemic recession and a good part of that was simply recovery back to square one.



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