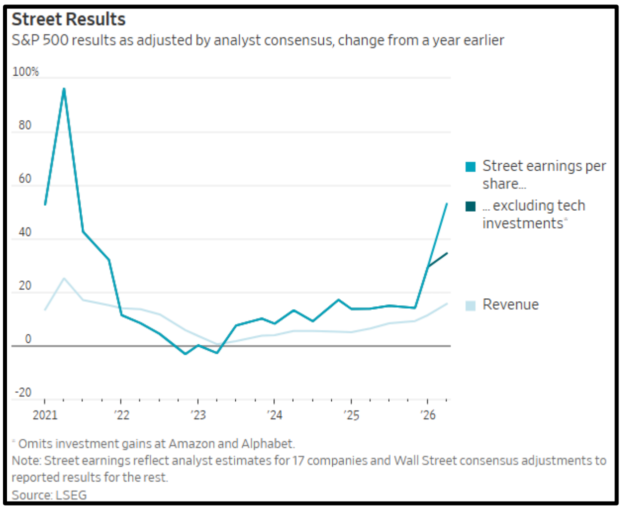
Market Review – September 2026

Optimism

Nvidia closed out the best earnings season in years. The chipmaker posted record quarterly sales of 96.2 billion USD, comfortably above analysts' expectations of 92.3 billion USD, and then told investors to expect 70% revenue growth in its next fiscal year, against a consensus of 45%. That single number is the real story of the summer. Nvidia is a proxy for the entire AI narrative, and it just told the market the weather is getting hotter, not cooler. Market participants loved it.

SP500 Earnings Growth YoY



Source: Wall Street Journal

What makes this earnings season unusual is not that companies beat expectations, they always do; it is that analysts kept raising the bar every single week since the beginning of the year. And roughly 86% of S&P 500 companies beat estimates in the second quarter, the best rate since 2021, with blended earnings growth somewhere around 50%. Set that against the economy those companies supposedly operate in, and the numbers no longer make sense together. US GDP grew at an annualized 1.5% in the second quarter, down from 2.1% in the first. A stock market compounding earnings at ten times the pace of the economy is quite remarkable, unless the state of the economy is understated. Is it the result of strong productivity gains from AI? It is difficult to

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measure today, even though every analyst expects a significant improvement in efficiency in coming years. This is why corporate margins are expected to rise further from their current all-time highs.

Some scrutiny landed on Nvidia's balance sheet. Analysts pressed the company on its habit of financing the very customers who buy its chips, and CFO Colette Kress did not dodge the question; she embraced it. Nvidia is providing up to 500 billion USD in partial guarantees for data-center financing alongside Wall Street's biggest asset managers, a 105 billion USD backstop for an OpenAI lease in Ohio, up to 125 billion USD of residual-value support, and 36 billion USD in sales guarantees to cloud companies buying its chips. Add supplier commitments that more than doubled to 279 billion USD in a single quarter, and you have a company underwriting the demand it reports as revenue.

NVIDIA Failed To Make A New All-Time High

The numbers are quite staggering. "We recognize the scale of this support, and we know some will call this circular financing. «We see it differently," Kress said, arguing the equity returns on that capital will be excellent (WSJ, 26 Aug 2026). Maybe. The comparison that should worry shareholders more is Cisco in 2001, which took a 2.2 billion USD inventory charge when demand it had financed evaporated overnight. Nvidia is not there; demand is real, and margins are still north of 70%, but the balance sheet is now doing double duty as both supplier and lender, and that is a risk for a company this size. It has to be watched closely; any downturn will have a dramatic impact on Nvidia's fundamentals.

Bond market manipulations

If equities have a genuine threat this autumn, it is not AI demand; it is the price of money. The 30-year Treasury yield sits near 5.2%, up from 4.84% at the start of the year and at levels last seen around 2007. July's inflation print came in at 3.4% year-on-year, a touch softer than June, and the labor market delivered a genuine surprise: nonfarm payrolls fell by 23,000 in July, against

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expectations of 80,000 to 95,000 in gains, with the prior two months revised down by another 103,000. Call it a no-hire, no-fire economy. That combination gave markets a moment of relief on rate-hike odds, but it does nothing to solve the real problem: long-term rates are not rising because of inflation expectations; they are rising because corporations are fighting for the same pool of capital at the same time. The budget deficit is close to two trillion USD, and therefore US government financing needs are also elevated.

Hyperscalers borrow like nobody's business. Broadcom alone is planning to raise up to 100 billion USD, which would roughly double its existing debt load, and Alphabet recently floated the largest Canadian-dollar bond ever issued after exhausting its dollar-demand capacity. Corporate bond issuance is running at its highest pace ever outside 2020 and 2021. Meta, Microsoft, Amazon and SpaceX are all borrowing by hundreds of billions,

<u>US Treasury 30y Yield To Maturity</u>

This is the context for Scott Bessent's attempt to talk, and buy, his way to lower long-term yields. On 19 August, the Treasury announced it would at least double the size of its long-end "liquidity support buybacks. He started with 2 billion USD and then increased that amount to 4 billion USD per operation, starting 9 September. The announced buybacks add up to about 28 billion USD between now and the day after the midterms, against roughly 300 billion USD of 30-year issuance this year alone. Hence, the size is more theatre than firepower. What matters more is the plumbing: Treasury officials have floated funding some of the buybacks by drawing down the department's roughly 950 billion USD cash in the Treasury General Account rather than issuing new bills, which would make the operation genuinely liquidity-friendly rather than just cosmetic. It is also, pointedly, the same playbook Janet Yellen ran in October 2023, when a similar shift compressed the 30-year yield by 20% in three months. Why is Bessent bothering at all, given that today's yields are not extreme by historical standards? From 1980 to 2002, the 30-year regularly yielded two to six points above nominal GDP growth, and today's term premium remains far from crisis levels even with US debt-to-GDP at record highs. The honest answer is timing: with midterms approaching and a president who wants rates lower, not higher, "average by historical standards" is not the same as politically comfortable right now.

Bessent's old mentor was not impressed. Stanley Druckenmiller, who worked alongside Bessent at Soros Fund Management, published a Wall Street Journal op-ed on 24 August calling the buyback expansion "price management, and a mistake," and warning that "governments defending prices against fundamentals always lose". The 30-year yield dipped from 5.28% to 5.17% on the buyback news alone, before drifting back up. Bessent has indicated his pain threshold, and traders will likely now test his resolve.

Then there is the irony sitting at the center of the whole debate. New Fed chair Kevin Warsh used his first Jackson Hole speech to signal that the central bank "may not be done fighting inflation," insisting, "we must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed, otherwise, we have work to do." Traders lifted the odds of a September hike from 35% to around 60% on the remarks (also because Warsh intentionally used the term “hike” many times in different contexts, to troll the algorithms).

Probability Of A FOMC Rate Hike On Sept. 19

Source: Bloomberg

Warsh has also made a point of wanting markets to do more of the talking, less forward guidance, more discipline, as he put it: "I stand here today committed to a discipline, not to a decision." Meanwhile, his counterpart at Treasury is actively suppressing the one market signal, the long bond, that is supposed to do that talking. The two buddies are telling two opposite things.

The ECB is expected to raise rates again at its 10 September meeting to 2.50% on war- and supply-chain-driven inflation, with market pricing putting the odds near 90%.

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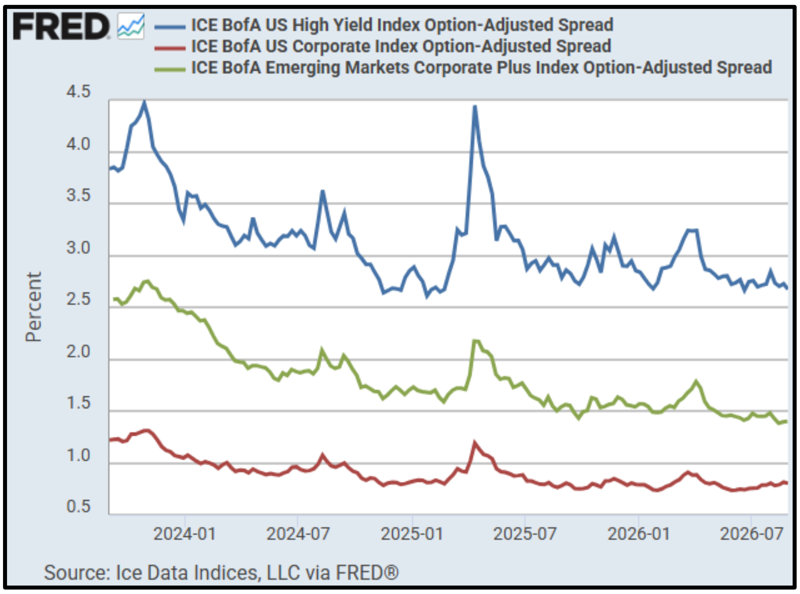
Credit is not blinking, yet

You would expect this fight for capital to show up in corporate bond spreads with higher premiums. It has not. High-yield spreads remain close to their all-time lows, as do investment-grade spreads. Corporate America is borrowing at record volumes and paying almost nothing extra for the privilege, suggesting credit investors are betting on the earnings story rather than on the large amounts of debt issued (to be fair, credit spreads widened a bit for hyperscalers). That is either a sign of genuine corporate health or simply that the pressure is elsewhere, such as in the private credit market, where redemptions and market stress persist, even if not as acute as in June.

US & EM Corporate Spreads



Iran, and potential bad news in Ukraine

Bessent's another project this month was Iran. On 24 August, he unveiled what he had billed for days as an "economic D-Day," expanding secondary sanctions across five sectors: digital assets, technology, gold, aviation and shipping, while pointedly stopping short of immediate action against Iran's biggest customers: China, the UAE and Turkey. "We are allowing everyone to remedy bad behavior," Bessent told reporters. The real target is not much of a secret: China buys roughly 90% of Iran's crude exports, and when asked directly whether Chinese banks were fair game, Bessent refused to rule it out, saying anyone who helps turn Iranian oil into money will be targeted (CNBC, 24 Aug 2026). But a planned Trump-Xi meeting and the risk of lifting global oil prices by cutting off discounted Iranian barrels make an actual strike on Chinese banks unlikely in the near term, so this reads more as pressure theatre than policy. As one analyst put it, this is "more of a psychological warfare, aimed at creating a chilling effect". Markets seem to agree: despite a war now nearing its sixth month and the Strait of Hormuz still running well below normal capacity, investor sentiment has barely moved. The physical oil market tells the same story of tension without panic. Distillate stocks are well below their five-year average and refinery crack spreads stay elevated, with gasoline margins up roughly 60% year on year (EIA, Aug 2026). Brent trades in the low 90s USD, comfortably off its April spike above 118 USD but still nowhere near pre-war levels. This Hormuz story could last many more months, adding to inflation worries.

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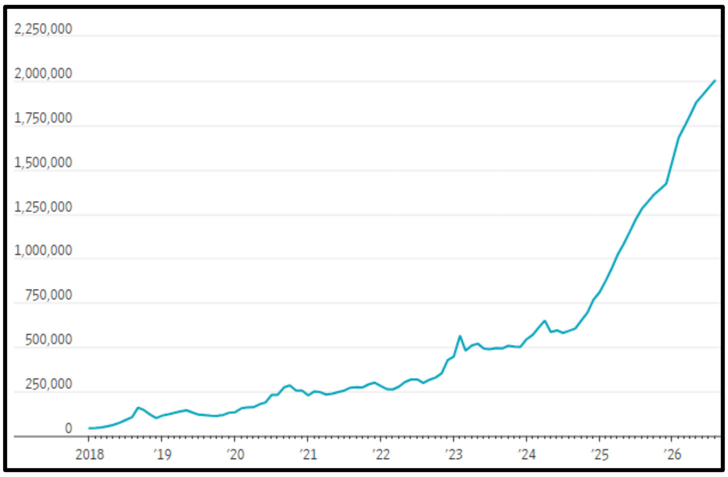
Iranian Rials Per USD, Free Market Rate



Source: Bonbast.com, WSJ

The bigger tail risk sits in Europe. Peace talks between Russia and Ukraine have effectively collapsed, with Kremlin sources telling Bloomberg that Moscow is preparing to intensify missile strikes on Kyiv rather than negotiate further (Bloomberg, 27 Aug 2026). Analysts increasingly describe this as a stalled war and more as Vladimir Putin actively testing NATO's resolve through hybrid pressure on the alliance's eastern flank, on the assumption that the West will hesitate to respond. The risk of a wider war in Europe remains low, but it is increasing.

Gold, Bitcoin, and a weaker dollar soon

Following the Bessent decision on the long end of the yield curve, gold and Bitcoin rose sharply, even if the dollar didn't move a lot. It nevertheless shows that the so-called debasement trade remains alive. Bessent's buyback announcement reignited it: markets read the intervention as an early step toward monetizing the long end, even though that would technically require the Federal Reserve, not the Treasury, since only the Fed can create the reserves needed to do it.

Gold Price Per Oz (USD)

Gold and silver rising sharply is the market telling you it smells where this is headed. Ray Dalio's advice to "buy gold, sell bonds" on August 21st has aged well so far, even if he has been early on this call before. The likely casualty of all this is the dollar, and a weaker greenback may be uncomfortable to say out loud in Washington. Still, it is arguably what an economy needs when it is this reliant on foreign capital and this eager to inflate away its debt.

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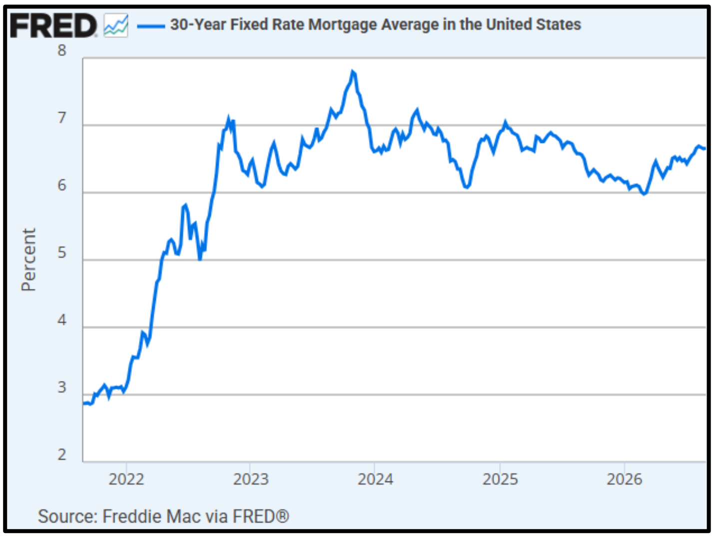
As mentioned earlier, there is a mechanical detail worth highlighting here, because it explains how the government can influence the capital market. When the Treasury buys back its own bonds, it has two ways to pay for it. It can issue fresh bills to fund the purchase, which is roughly neutral for market liquidity, or it can draw down its cash balance at the Fed, which injects liquidity directly. Bessent has a view on this question: he criticized his predecessor Janet Yellen for leaning too heavily on short-term bill issuance, and now, in office, he appears to be doing something similar, just with a cash-account twist she did not have available at this scale. Either way, the Treasury cannot create bank reserves on its own; the true monetization of the long end still runs through Kevin Warsh's building, not Bessent's. The Treasury Department is playing a dangerous game, because there was no need to signal that 4.75% on the 10-year and 5.25% on the 30-year Treasury bond were kind of too high. If the goal is to micromanage long-term mortgage rates ahead of the midterm elections, it will fail.

US 30Y Mortgage Rate



News from Paris

The French presidential election, due to hold its first round on 18 April 2027, will lead to a rise in risk premium for French assets. Marine Le Pen leads every published poll with roughly 35-38% of first-round voting intentions, having declared her candidacy after her embezzlement conviction was upheld on appeal. On the left, Jean-Luc Mélenchon is polling between 13% and 17% and, in several scenarios, edges out the fractured centrist and moderate-right field for the second qualifying spot, recreating the 2002 nightmare in reverse, a run-off between two extremes with no centrist safety net. The bond market is not waiting for the vote to find out. The 10-year OAT-Bund spread is widening, with Natixis calling OATs "pre-stressed" even before any further political premium gets added. It will probably get worse before it gets better. The first round of the election is eight months away; a lot can still happen, but one should expect underperformance of French assets in the coming months.

Source: Bloomberg

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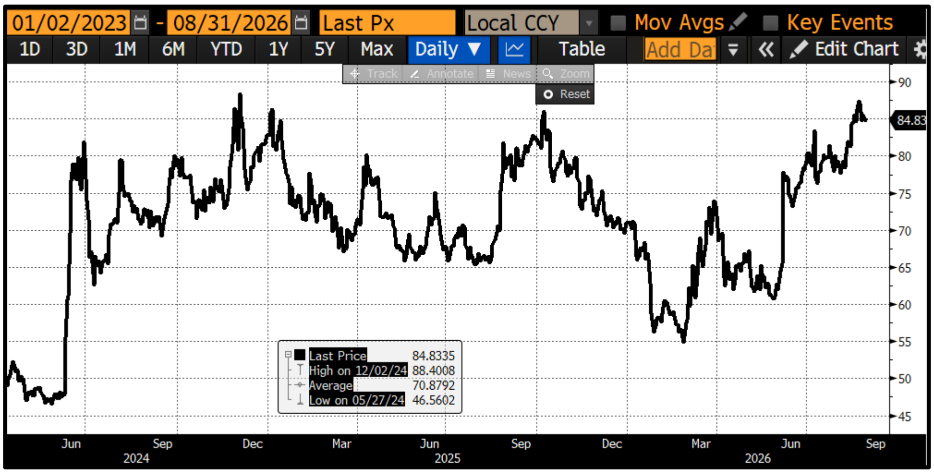
<u>**Spread 10Y OAT-10Y Bund In Basis Points**</u>



The trend is your friend

Long-term rates are heading higher because the need for capital is currently gigantic, and the bond market will keep testing Bessent's resolve well past September.

Gold and Bitcoin's simultaneous rally is proof that the debasement trade is alive and well; we remain firmly in a fiscal-dominance regime, where monetary policy increasingly bends to the government's financing needs rather than the other way around.

Equities remain in a bullish mode, as valuations have come down even as prices rise, because earnings grew faster than share prices this summer. This is good news, even if the clouds around the circular economy are still lingering. Currently, this is not a concern, as it is for the cost of capital in a rising interest-rate environment.

Between Iran, Russia, the Fed and the Treasury, there is no shortage of things that could go wrong. But for now, the background remains bullish.

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