A Hike Like No Other

We hate to drone on about a Fed rate hike, but we want to stress the risks in the Fed?s 25bps hike, as it is unlike any other hike we have seen in over thirty years. Let?s contrast it with every Fed hiking cycle since 1994.

- 1994: Inflation was trending higher, and already 0.8% above the Fed?s 2% target, and economic growth was running 1.50% above trend.
- 1997: Like 1994, inflation and economic growth were running hot.
- 1999: Inflation was tame, but GDP growth was nearly 3% above trend. Surging stock prices and an overheating economy rightly raised inflationary concerns.
- 2004: Inflation was again in check, but like 1999, growth was strong. Furthermore, monetary policy was very accommodating, with the Fed Funds rate at 1%, which was almost 3% below GDP.
- 2015: GDP was near trend, and inflation was at target; however, monetary policy was extremely easy, with Fed Funds at 0% and the Fed conducting multiple rounds of QE in the years prior.
- 2022: GDP and inflation were both running hot because of extremely easy monetary policy coupled with stimulus-fueled demand and supply-chain shortages.

Today?s starting point is unlike those instances; economic growth is at trend and core CPI inflation is slightly elevated. Furthermore, the recent bump in inflation stems from a geopolitical supply shock, not a demand-driven problem. Monetary policy is already restrictive, with Fed Funds nearly 2% higher than GDP and 10-year real rates at 15-year highs. &#2013266080;

More simply, the Fed is fighting the bond market, not inflation, strong growth, or the normalization of easy monetary policy, as in the past. Given this unique backdrop, where economic fundamentals or the level of monetary policy do not argue for a rate hike, the Fed?s action risks becoming a policy error.

Every Hiking Cycle Since 1993: The Backdrop Compared

Conditions at the start of each cycle vs. today

Real Investment Advice

Cycle Start	Fed Funds Start	Core Inflation	Gap vs. 2% Target	Real GDP Growth	GDP Less Fed Funds Start	Growth vs. ~2.0% Trend	Real 10-Yr Yield
Feb 1994 (Q1)	3.00%	~2.8%	+0.8 pts	3.5%	+0.50 pts	+1.5 pts	~3.0%
Mar 1997 (Q1)	5.25%	~2.7%	+0.7 pts	~4.4%	-0.85 pts	+2.4 pts	~4.0%
Jun 1999 (Q2)	4.75%	~2.1%	+0.1 pts	~4.8%	+0.05 pts	+2.8 pts	~4.0%
Jun 2004 (Q2)	1.00%	~1.9%	-0.1 pts	~3.8%	+2.80 pts	+1.8 pts	~2.2%
Dec 2015 (Q4)	0.00-0.25%	~1.9%	-0.1 pts	~2.0%	+1.88 pts	~in line	~0.6%
Mar 2022 (Q1)	0.00-0.25%	~6.5%	+4.5 pts	4.03%	+3.91 pts	+2.0 pts	~-0.7%
Sep 2026 (now)	3.75-4.00%	~2.4%	+0.4 pts	2.09%	-1.79 pts	~in line	2.50%, ~20-yr high

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What To Watch Today

Earnings

- *No earnings reports today*

Economy

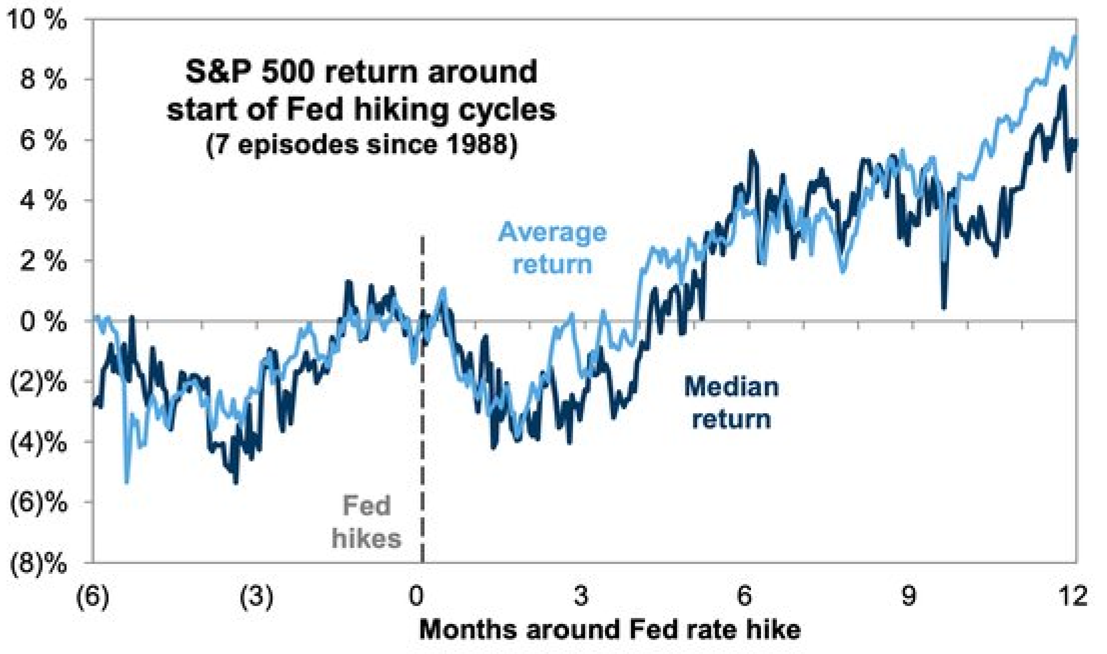
TIME (ET)	RELEASE (PERIOD)	PRIOR	CONSENSUS	FORECAST
9:15 a.m.	Industrial Production, MoM (August)	0.2%	0.2%	0.3%
9:15 a.m.	Manufacturing Production, MoM (August)	n/a	0.2%	0.3%
9:15 a.m.	Capacity Utilization (August)	76.3%	76.3%	76.4%
10:00 a.m.	Conference Board Leading Index, MoM (August)	n/a	0.2%	0.1%
1:00 p.m.	Baker Hughes Rig Count (week of Sept. 18)	n/a	591 total / 450 oil	n/a

Market Trading Update

Yesterday, we walked through the Fed?s quarter-point move&#2013266080;and a dot plot that pushes cuts all the way out to 2028. Today, the question that matters more for your money. What does the market actually do after a first Fed rate hike, and who wins while it happens?

Goldman studied seven tightening cycles back to 1988. The shape repeats. Stocks slide roughly 2% over the first three months, chop through the middle of the year, and finish twelve months out up about 9% on average. LPL?s work across six cycles since 1994 lands in the same neighborhood, with a 6.7% average gain and a 10.7% median. The exhibit below is that whole argument in one picture.

Exhibit 4: US equities typically struggle around the start of Fed tightening cycles

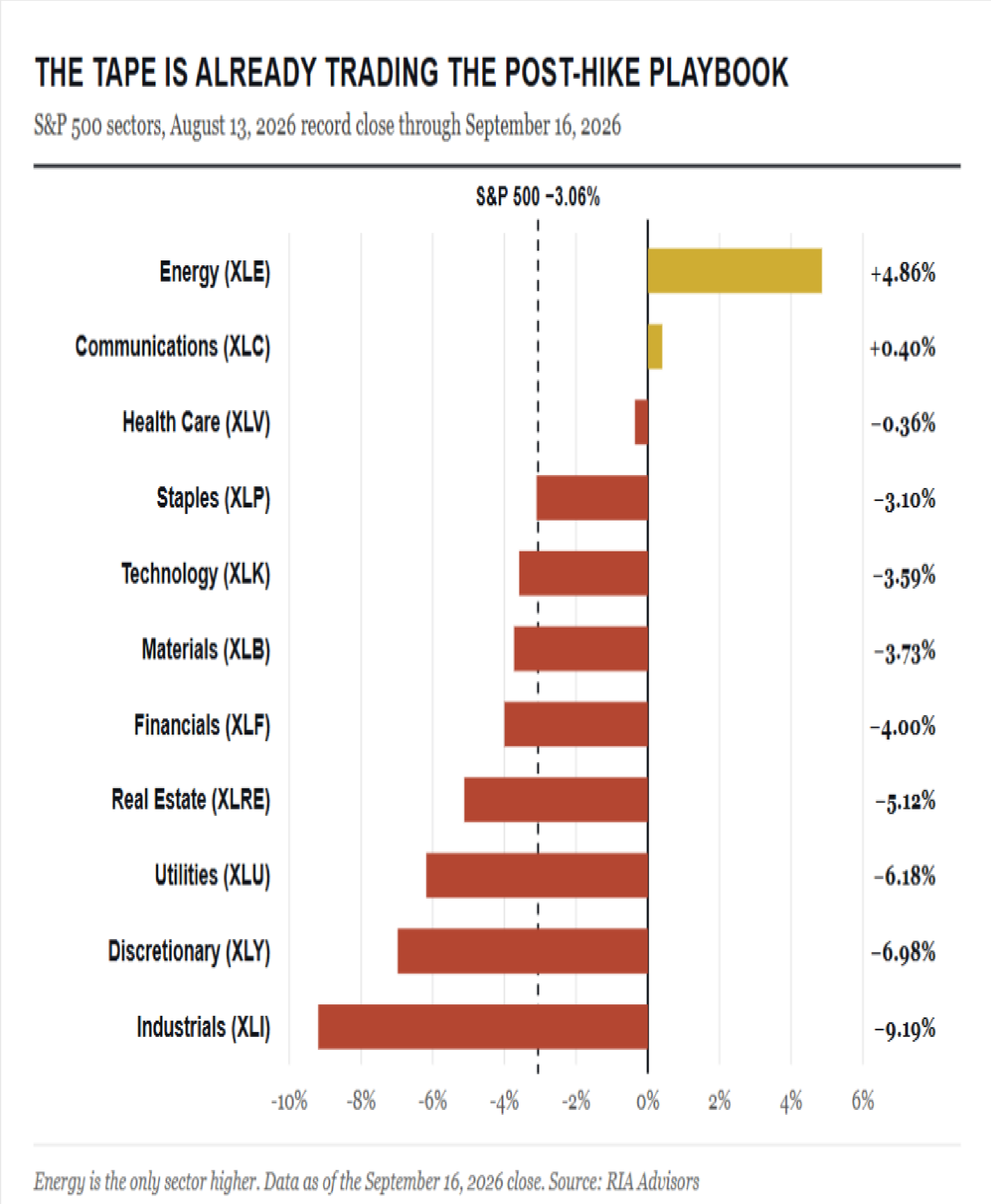


Source: Goldman Sachs Global Investment Research

The *?a hike just ended the bull market?* argument has a problem, and so does the all-clear crowd. Schwab?s data show that the average maximum drawdown in that first year is 14%, and 12% in the first six months. Both camps are right, which is the uncomfortable part. The twelve-month number usually ends up fine, but living through the middle of it rarely does. Back in June, the Fed?s own projections put 2027 at 3.6%. That number is now 4.1%.

Sector leadership is where this becomes actionable, and the history is unusually specific. Barclays studied five cycles since February 1994. Three months after the first hike, the S&P 500 fell 3.9% at the median, the Russell 2000 fell 7.2%, and financials were worst at a median 8.4% loss.&#2013266080;**Energy was the ONLY sector with a positive median return.** &#2013266080;Value beat growth, and the gap was widest in small caps.

Now look at what our market has already done since the August 13 record close. Energy is up 4.86% and is the only sector higher. Industrials are down 9.19%. Small caps have lost 6.45% against the index?s 3.06%. Value is off 2.91%, growth is down 4.07%, and high beta has lost more than twice as much as low volatility.&#2013266080;**That is the historical template running in real time, before the second hike even arrives.**



S&P 500 sector returns from the August 13, 2026 record close through the September 16, 2026 close. Source: RIA Advisors, data via Massive Market Data.

The tape agrees. The index closed Wednesday at 7,552, roughly 3.1% below the August 13 record near 7,796, just under its 50-day moving average around 7,607, and still 5.4% above a rising 200-day near 7,170. A 14-day RSI near 40 is soft, not washed out.

We continue to hold quality and value over high beta, and are letting the cash buffer earn 4% while we wait. Such is the discipline a hiking cycle demands. Don?t sell the hike. Sell the crowding, and the 200-day average is where all this gets decided.

AI Productivity Gains Enter The Economy

Per The Wall Street Journal, Novo Nordisk announced that it will use Anthropic?s science-specific platform, Claude Science, to speed up drug discovery, strengthen software development, and better automate its production processes. This partnership is the latest in a series of pharmaceutical/AI partnerships that include Eli Lilly, Merck, and Roche. We write about this because it shows AI?s economic benefits aren?t just about the massive expansion of data centers and chip demand that frequently garner headlines.

Novo CEO Mike Doustdar framed the benefits of the partnership as follows plainly:

> *AI can help us increase productivity in R&D and compress the path from research to marketed product. But beyond this, AI tools can also offer completely new scientific opportunities and aid reasoning and understanding of human biology and drug mechanics.*

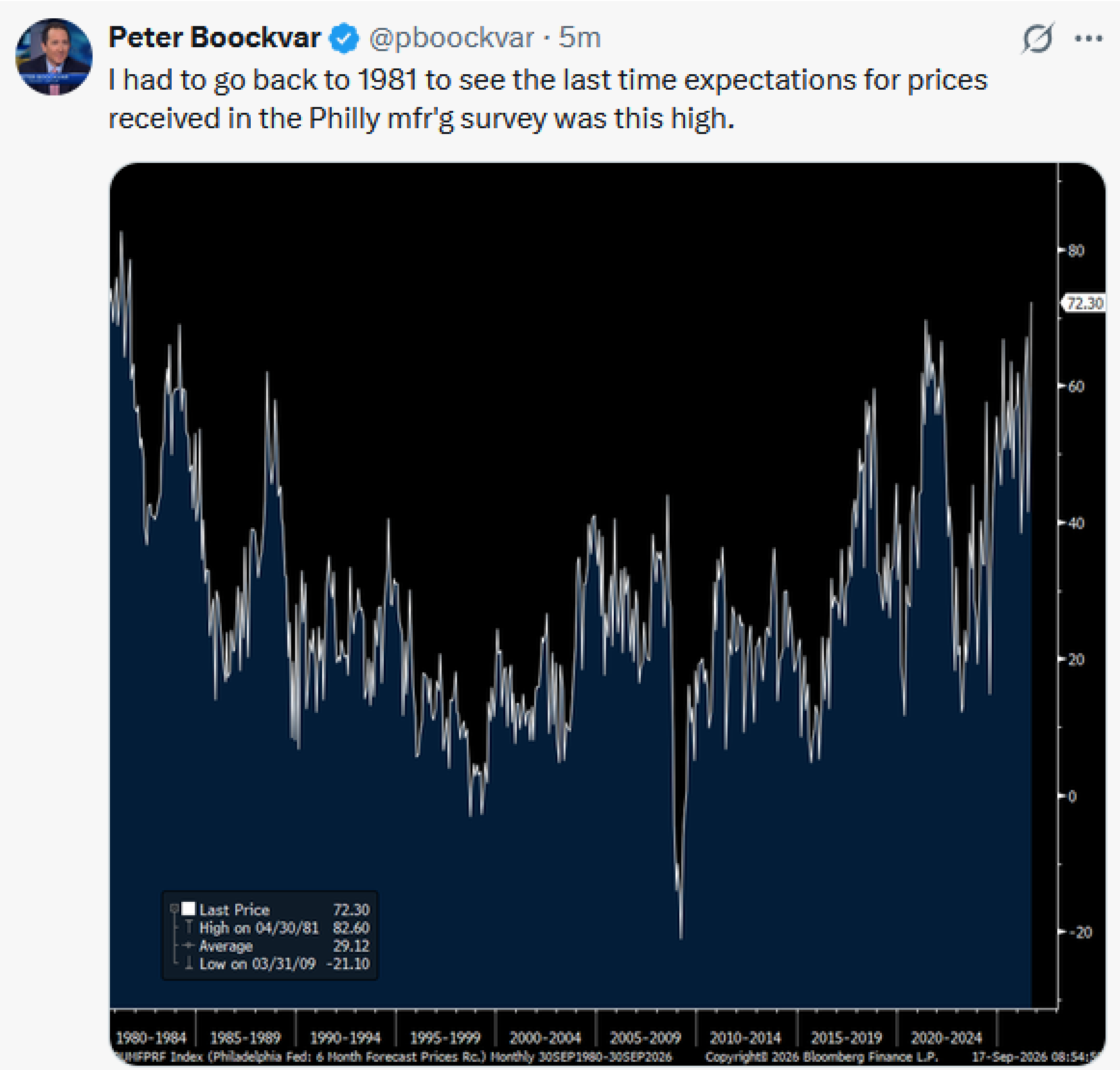
The question bugging investors is when AI benefits will hit the bottom line of the non-technology sectors. While only one small example, the Novo and Anthropic partnership shows how AI is starting to spread throughout the economy.

To be fair, AI has not produced an FDA-approved drug, and most of its benefits so far come from automation rather than drug or cure discovery itself. Ipsen?s CEO David Lowe captured the dual benefit directly:

> *You can leverage AI on both sides, on creating more sales, being faster, finding more patients, and on the other side, becoming more efficient and being able, therefore, to do more with less.*

The combination of faster revenue generation and lower cost structure simultaneously is the productivity unlock that will show up in corporate earnings and in GDP.

Tweet of the Day



New UPDATED Trading Rules With Desktop Printout

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