

Is Warsh Setting Up A Policy Error?

Fed Chairman Kevin Warsh's recent [Hawkish Pivot](#) raises a troubling question: is he actually worried about inflation, or is he changing his tune to build the Fed's inflation-fighting credibility as it tries to stabilize long-term yields? If the latter, he risks making a policy error if he raises rates.

At his recent Jackson Hole speech, Warsh provided some specific inflation data. For instance, he disaggregated the PCE's 199 components and found 54% rose above 3% over the past year, citing it as evidence of broad-based inflation. We think it's an unusual choice of inflation data, given his prior discussions of inflation metrics. To wit, at his Senate confirmation hearing four months ago, Warsh dismissed headline PCE as *"rough swag"* and a *"scientific wild guess."* He called trimmed-mean PCE, which removes volatile components, the better gauge of *"underlying"* inflation because it strips out one-off noise. The Dallas Fed Mean Trimmed PCE has been hovering around 2.3% for the last five months. The table below walks through five of his quantitative claims and offers a compelling counterpoint.

As a new Fed chair, Warsh is inheriting persistent above-target headline inflation and concerning bond market price activity; he must sound vigilant. It's cheaper to sound hawkish now than to lose inflation-fighting credibility, but doing so risks tightening rates when employment and inflation data don't necessarily justify higher rates.

The bond market's reaction has thus far been positive to his hawkish pivot. Fed rate-hike odds are rising, and the yield curve is flattening. Both suggest investors are taking the rhetoric seriously. The big question, however, is whether he will back up his words with actions and support a rate hike at the September 16 FOMC meeting. The risk is that Warsh puts credibility over proper monetary policy and risks a policy error.

Warsh’s Dubious Inflation Claim: Point vs. Counterpoint

“Over the past 12 months, 54 percent of goods and services in the PCE basket showed price increases above 3 percent... well above the level of 32 percent in the two decades that preceded the pandemic. ... Of goods and services in the PCE basket, 49 percent showed annualized price increases above 3 percent [over the past six months].”

— Kevin Warsh, Federal Reserve Chairman · Jackson Hole keynote, Aug. 28, 2026

WARSH'S POINT	COUNTERPOINT
54% of the 199 PCE components rose above 3% over the past 12 months — above the 32% pre-pandemic norm (though below the 77% pandemic peak).	Trimmed-mean PCE — built to strip out this exact tail-driven dispersion — is 2.28% (July) , flat since March. Median PCE: 2.7%. Core CPI: 2.5%. Warsh himself called headline PCE “rough swag” and endorsed trimmed averages at his April 2026 Senate hearing.
49% of components rose above 3% (annualized) over just the past 6 months — “still quite elevated.”	54% → 49% is a narrowing of price pressure, not a broadening — his own numbers argue deceleration, not persistence.
Headline PCE at 3.7% y/y and 4.1% annualized (6-mo) — both “well above” the 2% target.	Indicator at target: the Dallas Fed's trimmed-mean PCE — the Fed's own “underlying inflation” benchmark — is 2.28% (July 2026) , essentially at the 2% goal — even as core PCE itself runs 3.3%.
Counting “% of components above 3%” weighs all 199 PCE line items equally.	A low-weight item (e.g., motor-vehicle insurance) counts the same as shelter or autos — the exact flaw trimmed-mean/median measures exist to correct.
Frames elevated readings as broad-based, sticky inflation requiring policy focus.	Fed research ties the “excess” mainly to tariff pass-through (effective rate ~11% → <7%, late 2025 – May 2026, already leveling off) plus a narrow AI-capex goods surge — not generalized demand-pull.

*“Monetary policy should not mechanically react to a jump in headline inflation... tightening into it is **policy error masquerading as prudence.**”*

— James E. Thorne, Chief Market Strategist, Wellington · Altus

Sources: Warsh, Jackson Hole keynote (Aug. 28, 2026) · Dallas Fed Trimmed Mean PCE · Cleveland Fed Median PCE · St. Louis & D allas Fed tariff pass-through research

Real Investment Advice · realinvestmentadvice.com

What To Watch Today

Earnings

COMPANY (TICKER)	TIMING	EPS EST.	REV. EST.
Chewy (CHWY)	Before open	\$0.18 GAAP / \$0.36 adj.	\$3.32B
Core & Main (CNM)	Before open	\$0.92	\$2.14B
Academy Sports + Outdoors (ASO)	Before open	\$2.07	\$1.65B
Signet Jewelers (SIG)	Before open, 7:00 a.m.	\$1.72	\$1.53B
Korn Ferry (KFY)	Before open	\$1.36	\$737.7M
SailPoint (SAIL)	Before open	\$0.08	\$310.4M
American Eagle Outfitters (AEO)	After close, 4:30 p.m.	\$0.22	\$1.37B
Cooper Companies (COO)	After close, 4:15 p.m.	\$1.12	\$1.10B
AeroVironment (AVAV)	After close	\$0.30	\$459.9M

No mega-cap reporters today. Six of the nine are consumer and retail names, so treat the morning slate as a single read on the consumer rather than nine separate stories. SailPoint is the one security-software print worth watching after five straight weeks of software outperforming the Nasdaq 100. Oracle and Adobe report Thursday after the close. Sources: eOption weekly event calendar for September 7–11, 2026, cross-checked against Kiplinger's week-ahead calendar, MarketBeat, and Investing.com; company IR releases confirm timing for SIG, KFY, AEO, COO, AVAV and SAIL.

Economy

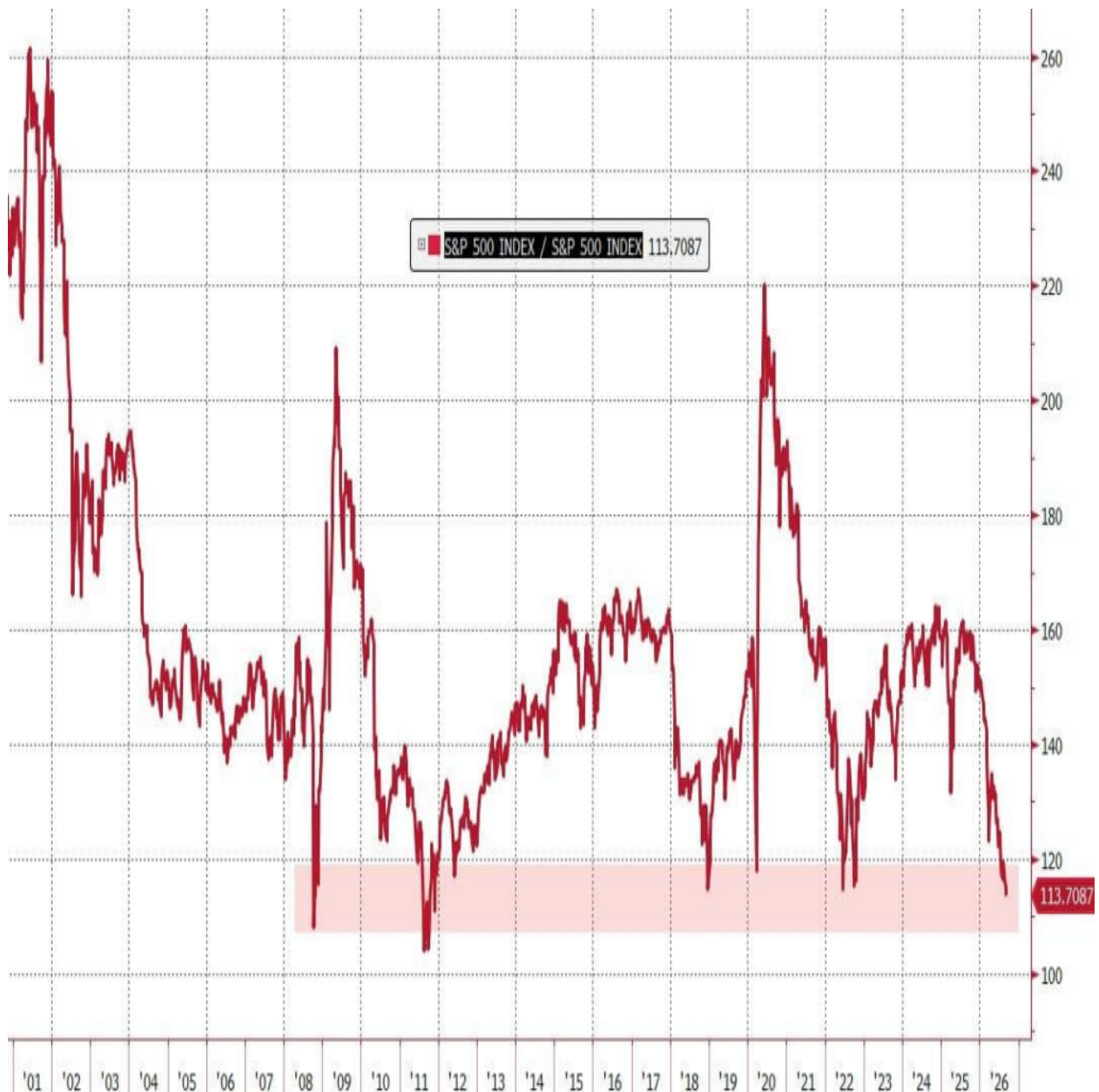
TIME (ET)	RELEASE (PERIOD)	PRIOR	CONSENSUS	FORECAST
7:00 a.m.	MBA Mortgage Applications (week of Sep 4)	0.8%	–	–
7:00 a.m.	MBA 30-Year Mortgage Rate (week of Sep 4)	6.79%	–	–
8:55 a.m.	Redbook Retail Sales, year over year (week of Sep 5)	9.6%	–	–
Effective today	Treasury increases nominal long-end liquidity-support buybacks, 10–20yr and 20–30yr sectors (operation time not published in the announcement)	\$2B/op cap	–	\$4B+/op cap
11:30 a.m.	17-Week Bill Auction	3.855%	–	–
1:00 p.m.	10-Year Note Auction	4.683%	–	–
4:30 p.m.	API Crude Oil Stock Change (week of Sep 4)	–2.6M bbl	–	–

Times converted from UTC to ET (EDT, UTC–4). Primary: Trading Economics US calendar. Verified against the Treasury announcement of increased long-end buyback sizes effective September 9 and the eOption weekly event calendar for September 7–11, 2026. Holiday shift: the EIA Petroleum Status Report moves off its usual Wednesday slot to Thursday at 12:00 p.m. ET, with EIA Natural Gas at 10:30 a.m. ET Thursday.

Market Trading Update

Yesterday, we walked through what the [2013266080;yield curve is telling us about the Fed and the labor market](#). Today, a chart making the rounds says stocks are cheap. They are not cheap. They are priced on record profit margins that have never been sustained.

Goldman's Tony Pasquariello circulated his post-Labor Day note and saved the punchline for the end. Take the S&P 500's forward price-to-earnings ratio and divide it by forward profit margins. That ratio just printed 113.7, the lowest since the 2011 European crisis and inside the range last visited in the depths of 2008. On its face, that reads like a screaming buy signal.



Now look at the denominator. Forward margins for the index sit at 17.07%, an all-time high, and the move over the past year has been close to vertical. **The ratio isn't low because stocks got cheap. It's low because analysts assume corporate America keeps the most profitable margin structure ever recorded.** The numerator, 19.4 times forward earnings, sits near the top of its 30-year range. Both things are true at once, and only ONE of them shows up in the ratio. Such is the trouble with a ratio that buries its own assumption.



Here is the arithmetic that matters. Hold the multiple at 19.4 times and walk forward margins back to 14%, and the ratio snaps to 138.7. Run it the other way. If margins normalize to 14% and the market still demands that same 113.7 reading, the multiple compresses 18%. Applied to Friday's close of 7,718, that puts the S&P 500 at 6,331. The index bottomed at 6,334 on March 30. I don't publish that as a forecast. I publish it because Bob Farrell's Rule #1 is still undefeated. *"Markets return to the mean over time,"* and margins are a market too.

WHAT A MARGIN REVERSION DOES TO THE "CHEAP" SIGNAL

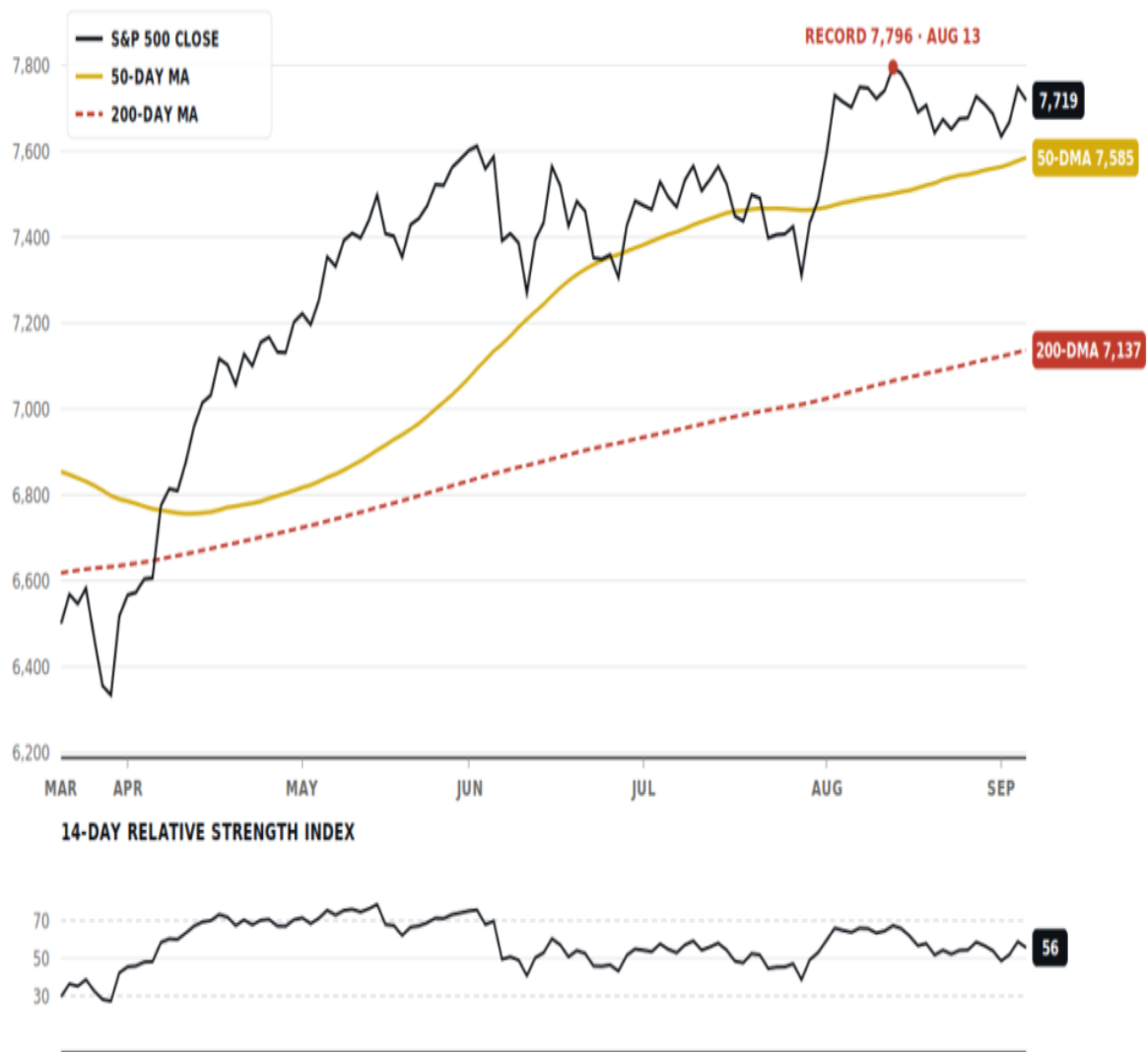
FORWARD MARGIN ASSUMPTION	RATIO IF THE 19.4X P/E HOLDS	P/E IF THE 113.7 RATIO HOLDS	IMPLIED S&P 500	CHANGE FROM FRIDAY
17.07% (today's record)	113.7	19.42	7,719	0.0%
16.00%	121.3	18.20	7,235	-6.3%
15.00%	129.4	17.06	6,783	-12.1%
14.00%	138.7	15.92	6,331	-18.0%
13.00%	149.3	14.79	5,878	-23.8%

Arithmetic on a 19.4153x forward P/E and a 17.07% forward margin, applied to the September 4, 2026 S&P 500 close of 7,718.78. Source: RIA Advisors.

The tape gives you no help here. The index closed Friday at 7,718, less than 1% off the August 13 record of 7,796 and 1.8% above a rising 50-day average near 7,585. The 200-day sits well below at 7,137. RSI is a middling 56, and the MACD has rolled under its signal line. The VIX hasn't closed outside a 14 to 17 band in 25 straight sessions.

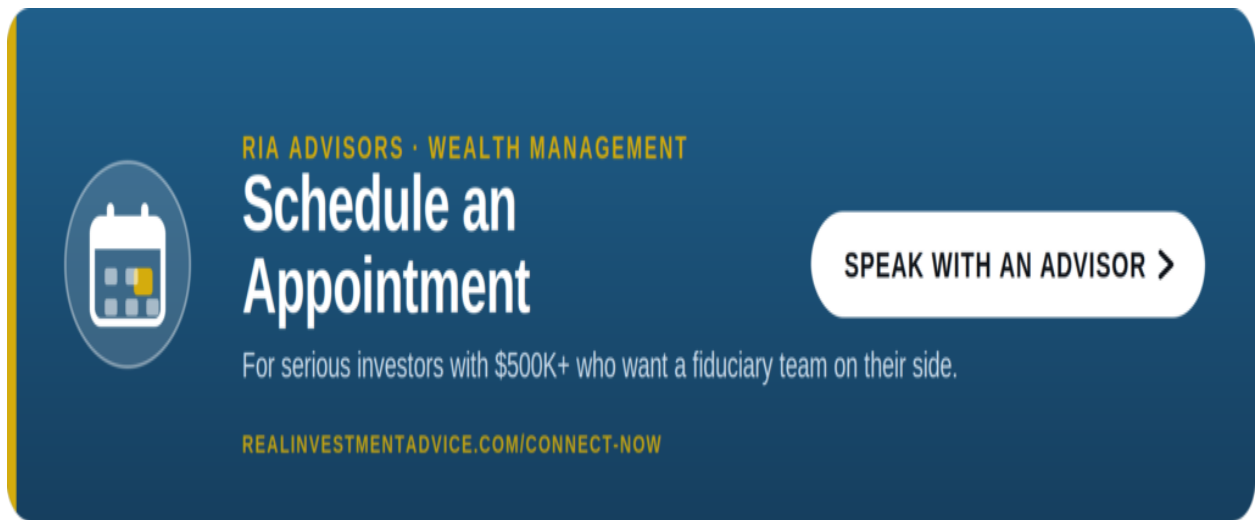
S&P 500: 1% FROM A RECORD, 8% ABOVE THE 200-DAY

Daily close with 50- and 200-day moving averages, 14-day RSI below. March 20, 2026 through September 4, 2026.



S&P 500 derived from SPY daily closes $\times 10.02191167$. Data as of the September 4, 2026 close. Source: RIA Advisors, Massive Market Data.

So here is the posture. We suggest leaving the cash and Treasury buffer alone into Friday's CPI print rather than chasing a tape this extended. Pasquariello's advice was to collect cheap convexity while the market offers it, and he's right about that. **When protection costs this little and record profit margins are doing all the work in the bull case, you don't have to sell what's working. You hedge it.** The market will re-price those margins eventually, and it won't send a calendar invite.

A dark blue banner with a yellow vertical bar on the left. On the left is a white calendar icon with a yellow square. To its right, the text "RIA ADVISORS · WEALTH MANAGEMENT" is in yellow, followed by "Schedule an Appointment" in large white font. Below that is the text "For serious investors with \$500K+ who want a fiduciary team on their side." in white. At the bottom is the URL "REALINVESTMENTADVICE.COM/CONNECT-NOW" in yellow. On the right is a white button with the text "SPEAK WITH AN ADVISOR >" in dark blue.

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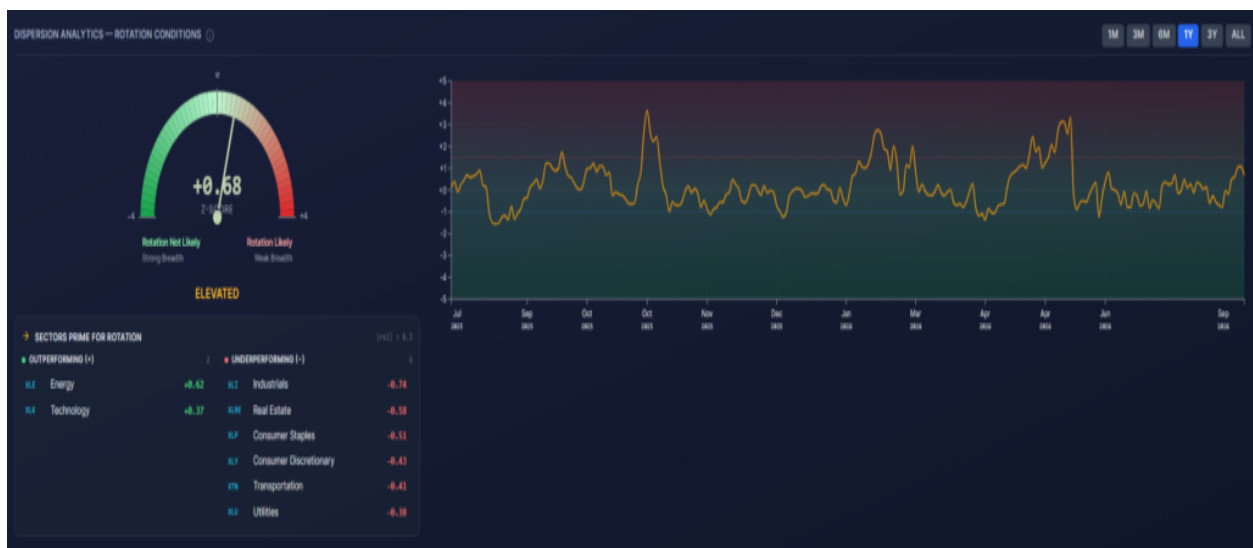
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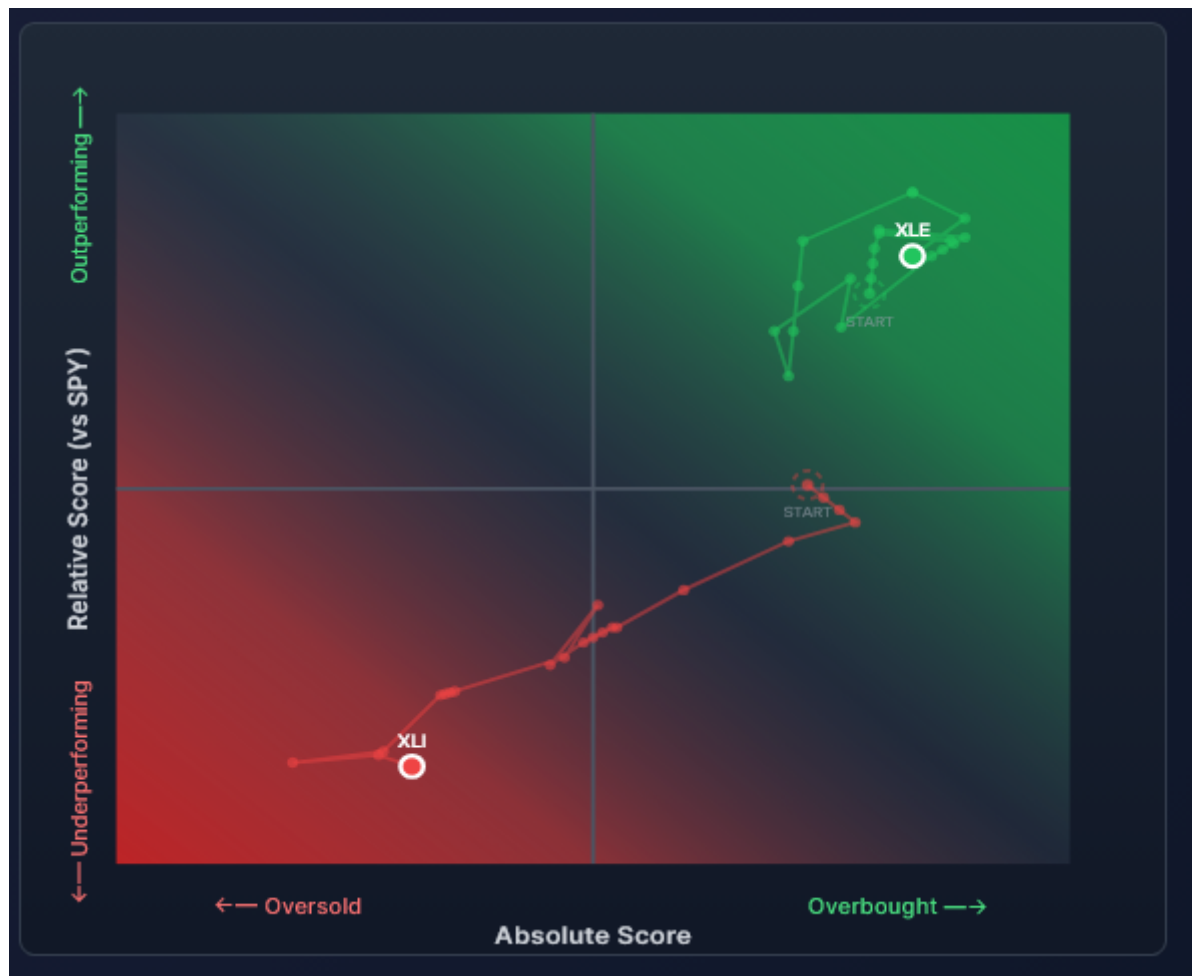
Dispersion Creeps Into The Market

Recently, performance has increasingly diverged across sectors. For instance, the first graph below shows widening gaps in relative performance across sectors. Note that, excluding energy (XLE), the absolute scores are not that different. However, the relative scores (y-axis) are diverging.

The second graphic, coming soon in the newest version of SimpleVisor, quantifies this divergence, also known in market parlance as dispersion. Our new indicator tracks the differences between the sectors in both graph form and via the gauge. As the graph shows, it has recently climbed, albeit not to concerning levels. Below the gauge, industrials are the weakest sector on a relative basis, while energy is the strongest. For those looking for a rotation trade, those two sectors are worth tracking.

The third graphic, another new feature, allows us to pick specific stocks and ETFs and track their scores. As we show, energy has been stuck in the upper quadrant, outperforming on an absolute and relative basis due to high oil prices. At the same time, industrials have steadily moved deeper into the bottom left quadrant, likely due to weakening economic data and higher oil prices. The relative performance seems overdone, and a rotation is likely, but we caution that such a rotation likely hinges on the Iranian conflict cooling off and energy prices falling.





Investing Myths Dismantled (Chapter 4 of 5)

From your first day as an investor, you are handed a scoreboard. The S&P 500 index. If you beat it, you win; but if you trail it, for any one of a million different reasons, you lose. Wall Street loves this scoreboard because a scoreboard keeps you comparing, and comparing keeps you moving your money, chasing whichever fund topped the index last year.

Perhaps it is inevitable that, as social animals, we have an urge to compare ourselves with one another. Such is particularly the case since the rise of social media, where we are constantly bombarded by images of how well everyone else seems to be doing. Here is an example.

Assume your boss gave you a new Mercedes as a yearly bonus. You would be thrilled until you learned everyone in the office got two. Now you are upset because on a relative basis, you got less than everyone else. However, are you deprived on an absolute basis by getting a Mercedes?

Comparison-created unhappiness and insecurity are pervasive.

Social media is full of images of people showing off their lavish lifestyles, giving you something to compare to. It is unsurprising that repeated studies show that social media users are terminally unhappy.

The flaw of human nature is that whatever we have is enough, until we see someone else who has more.

Therefore, it should be unsurprising that comparison in financial markets can lead to awful decisions, so investors have trouble being patient and letting whatever process they have work for them. Chasing that scoreboard does not just set you up for disappointment. It makes you behave badly. You lag the index for a year, so you fire your fund and chase last year's winner, usually right before it reverts to the mean. You buy high and sell low on a permanent loop, all in the name of keeping up with a number.

But here is the part you may not know ? the scoreboard you are comparing yourself to is rigged, and not in your favor.

*?There are many reasons why you shouldn't chase an index over time and why you see statistics such as ?80% of all funds underperform the S&P 500? in any given year. **The impact of share buybacks, substitutions, lack of taxes, no trading costs, and replacement all contribute to the index's outperformance over those investing real dollars who do not receive the same advantages.** More importantly, any portfolio allocated differently than the benchmark to provide for lower volatility, income, or long-term financial planning and capital preservation will also underperform the index. Therefore, comparing your portfolio to the S&P 500 is inherently ?apples to oranges? and will always lead to disappointing outcomes. ? ? [Absolute vs Relative Returns](#)*

[READ MORE?](#)

THE INDEX		YOU
Its losers	Deleted and replaced for free.	You hold them, and pay to sell.
Taxes	Pays none.	Owed on every realized gain.
Trading costs	None.	Spreads and commissions, every trade.
Cash and income	Needs none.	You need both along the way.
The finish line	Never retires.	Has a date the money is needed.



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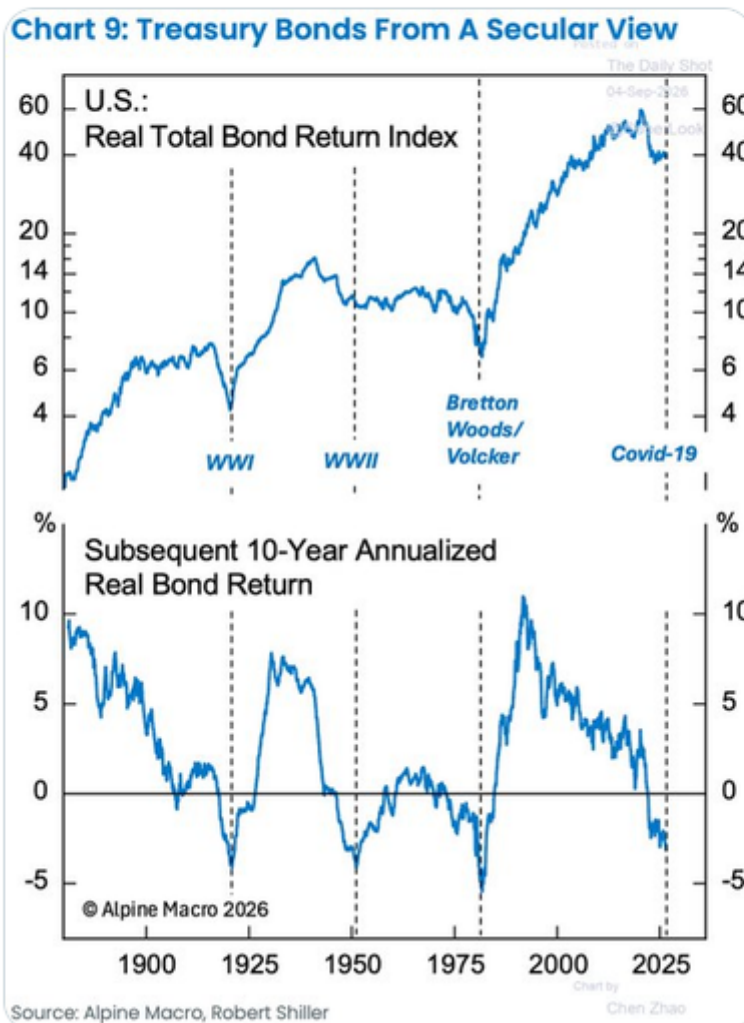


Lance Roberts  @LanceRoberts · Sep 4



From a secular viewpoint, the odds of rising long-term returns in US Treasury bonds are much greater than those of a continued decline, according to Alpine Macro.

h/t @SoberLook



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