Wall Streets Verdict: Warsh Turned Hawkish

Because Warsh doesn?t believe in forward guidance, Friday?s Jackson Hole speech may be the last window investors get into his thinking before the September 16 FOMC meeting. Accordingly, it?s worth spending more time on his speech to see if Wall Streets verdict agrees with our hawkish take in Monday?s Commentary- Warsh Makes A Hawkish Pivot.

It appears our hawkish interpretation of the speech is largely unanimous among Wall Street Analysts. Deutsche Bank called the speech a little surprising and said it ?*lean[ed] in a decidedly hawkish direction*.? Nomura agreed, noting ?*the sensitivity to near-term inflation data is high*? and that Warsh was ?*implying policy may need to react if disinflation is not occurring with speed*.? Wells Fargo?s Gary Schlossberg was very direct in his interpretation. To wit,

> *He?s telling the market, do not expect cuts any time until we have this thing (inflation) completely under control and do prepare yourself for hikes.*

A point we raised was whether the motivation behind his hawkish turn was truly inflation concerns or supporting the bond market. Tiger Brokers? James Ooi framed Warsh?s emphasis on inflation as a credibility move:

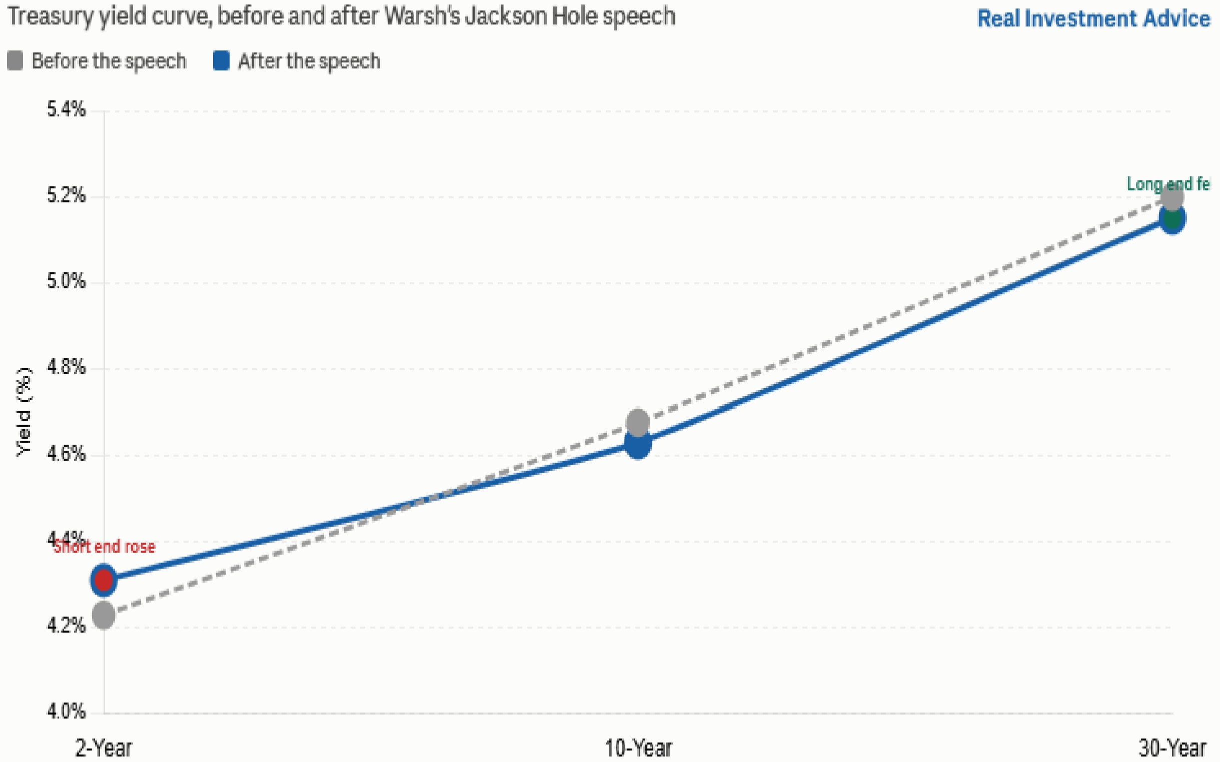
> *Reinforce the Fed?s independence and credibility, reassuring markets that monetary policy will not bend to fiscal pressures*

EY-Parthenon?s Gregory Daco read it similarly as an overdue inflation-credibility repair.

Both thoughts directly answer our question about the motive being ?*supporting the bond market*.? CNBC went further politically, noting the speech ?*puts Warsh more clearly at odds with Trump?s demand for lower rates*.?

The market?s verdict matches our yield curve flattening observation. Cyrus Amini of Hyphen Wealth Management confirmed ?*the short end of the yield curve rose while the long end moved down,*? calling it ?*consistent with a Fed hike.*? Please see our Tweet of the Day sharing another aspect of the hawkish turn.

Treasury yield curve, before and after Warsh's Jackson Hole speech



Sources: CNBC, Yahoo Finance. Short-end yields rose while long-end yields fell following the speech, a bear flattening move consistent with markets pricing in a higher probability of a near-term hike.

What To Watch Today

Earnings

COMPANY (TICKER)	TIMING	EPS EST.	REV. EST.
Dell Technologies (DELL)	After close, call 4:30 PM ET	$4.95	$45.25B
Palo Alto Networks (PANW)	After close, call 4:30 PM ET	$0.98	$3.35B
Medtronic (MDT)	Before open, 6:45 AM ET	$1.39	$9.47B
MongoDB (MDB)	After close	$1.61	$735M

> Also after the close: GitLab (GTLB) and Credo Technology (CRDO), both worth a look for the software and AI-networking read-through. **Fed speakers:** Barr speaks at 9:05 AM ET. The FOMC is not yet in blackout, and the quiet period ahead of the September 15-16 meeting begins Saturday, September 5.

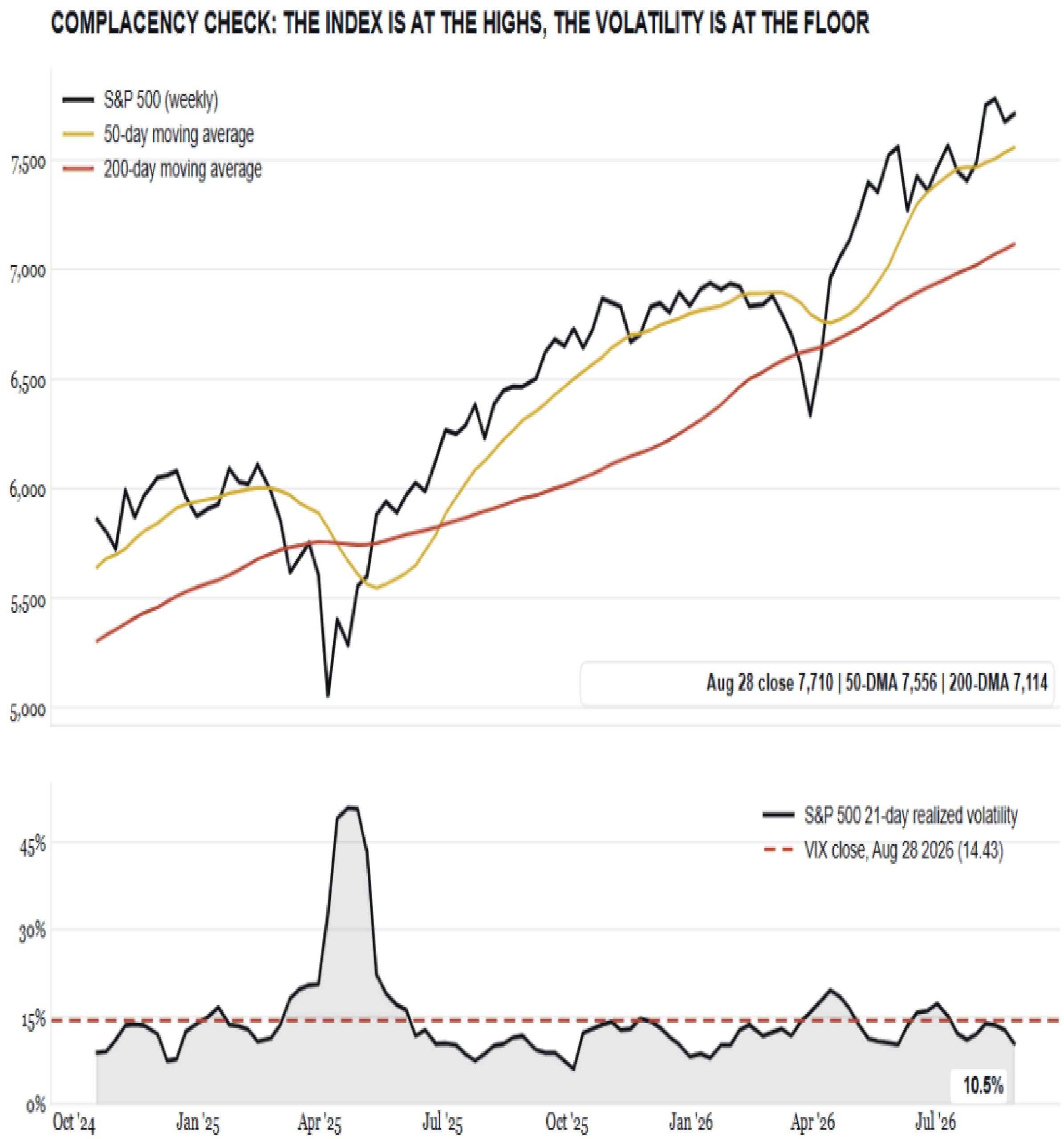
Economy

TIME	RELEASE (PERIOD)	PRIOR	CONSENSUS	FORECAST
9:45 AM	S&P Global US Manufacturing PMI, final (Aug)	53.9	53.2	53.2
10:00 AM	ISM Manufacturing PMI (Aug)	55.6	55.3	55.0
10:00 AM	ISM Manufacturing Prices Paid (Aug)	71.1	72.0	70.0
10:00 AM	ISM Manufacturing Employment (Aug)	52.8	n/a	52.5
10:00 AM	JOLTS Job Openings (Jul)	7.359M	7.39M	7.40M
10:00 AM	Construction Spending, MoM (Jul)	-0.1%	0.2%	-0.2%

Market Trading Update

Yesterday, we noted the market sitting within a stone?s throw of its record while momentum quietly rolled over.&#2013266080;***Warsh Makes A Hawkish Pivot***. Today, I want to put a price on the market complacency heading into September, because the options tape is trading as if drawdowns had been repealed.

Start with what portfolio insurance currently costs. The VIX closed Friday at 14.43, while the S&P 500?s own 21-day realized volatility was 10.5%. Four points of premium are very thin, and Goldman?s derivatives desk sharpens the point with Brian Garrett putting numbers on it. Roughly a third of the S&P carries three-month implied vol in the sub-5th percentile of a six-month lookback. Worse, forward implied pricing is under-realized for the first time in four years. A negative volatility premium isn?t a forecast.&#2013266080;**It?s the market telling you nobody wants the hedge.**

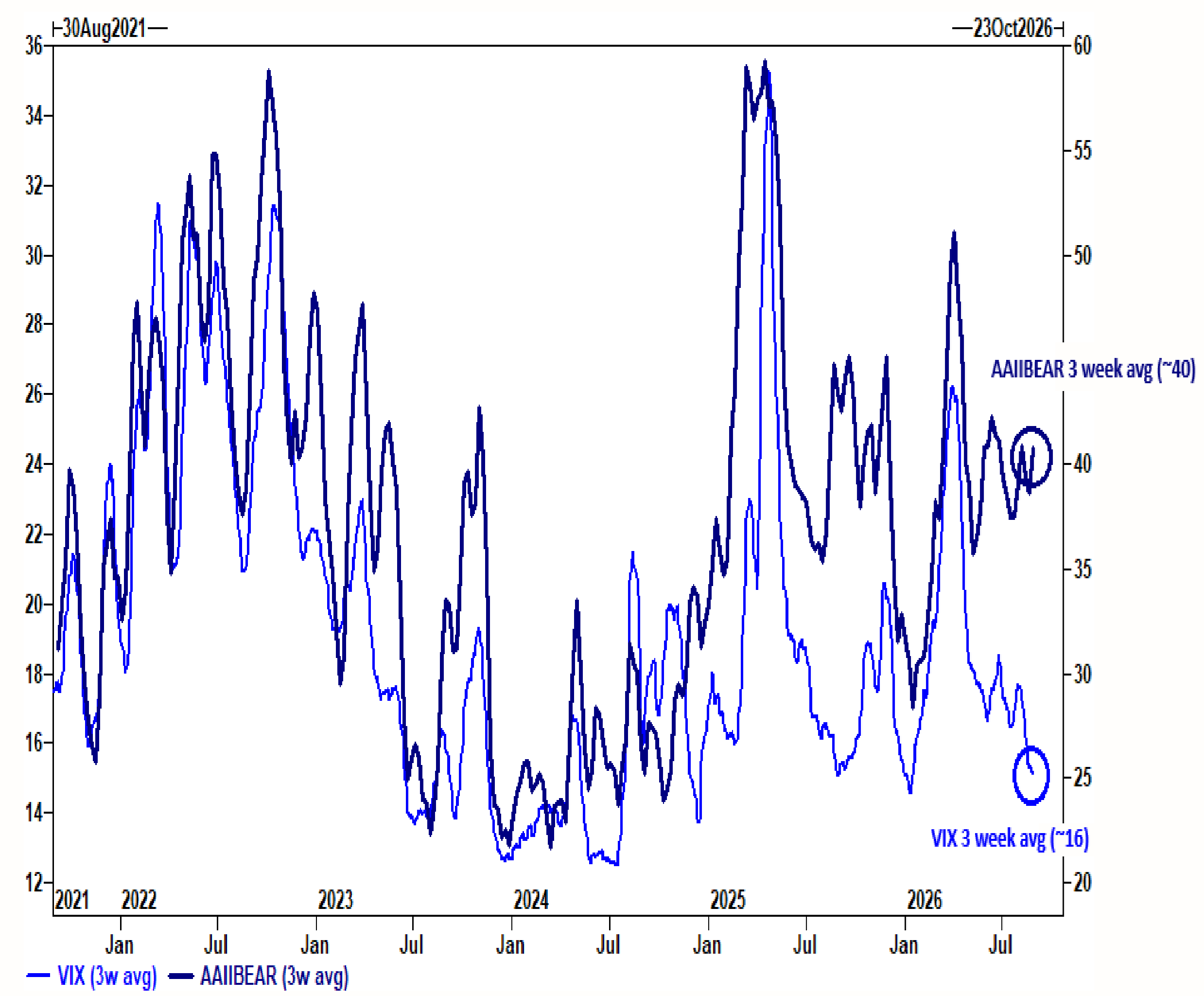


Data as of the close of Friday, August 28, 2026. Source: RIA Advisors

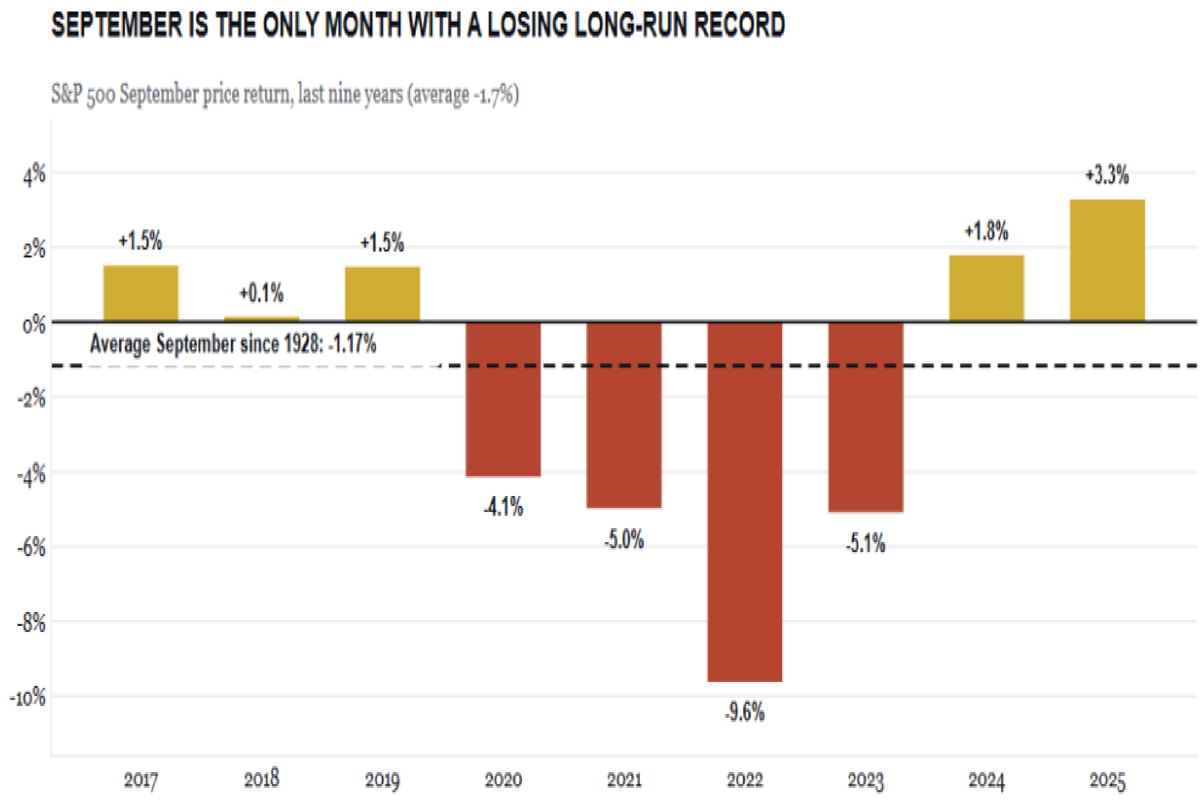
'he index is pressed against its highs while realized volatility sits on the floor. Weekly S&P 500 closes with the 50- and 200-day moving averages, and 21-day realized 'olatility against Friday's VIX close. Data through August 28, 2026.

The single-stock tape agrees. Cboe?s equity put/call ratio printed 0.39 on August 27 and 0.62 on Friday, with the total ratio?s nine-day average near the 13th percentile of its range.&#2013266080; **Everybody is buying calls. Nobody wants to buy puts.**

The pushback can almost write itself, with Garrett?s own work showing AAII bears above 40 alongside a VIX under 20 has been a bullish setup. It has averaged 1.1% over the following month and 2.9% over three, with roughly a 75% hit rate. **Cheap volatility is not a sell signal, and I?m not treating it as one.**



The calendar is less accommodating. Since 1928, the S&P 500 has averaged a 1.17% loss in September, per Bank of America. That?s the only month with a losing long-run record, and it finishes higher just 44% of the time. The last nine Septembers averaged a 1.7% decline.



September returns computed from S&P 500 (SPY) monthly closes, 2017-2025. Long-run average since 1928 per Bank of America. Source: RIA Advisors

Five of the last nine Septembers finished green, so the month is not automatically a loser. The average is what hurts. September price returns computed from S&P 500 (SPY) monthly closes.

Just for reference, the index closed Friday at 7,710, about 2% above its 50-day moving average, which is running at 7,556 and 8.4% above the 200-day at 7,114. A garden-variety reversion to the 50-day is a 2% event. A trip to the 200-day costs 8% and still leaves the bull trend intact. **Neither one breaks anything, but, critically,&#2013266080;they tend to arrive quickly, particularly in a market where investors carry almost no protection.**

We don?t recommend selling into this market, at least not yet. Keep risk controls on, a larger-than-normal cash buffer, and no new exposure until the tape shows clearer intent.

What we ARE doing is taking Garrett?s conclusion literally. When implied trades under realized, hedges are marked down, and the cheapest week to buy insurance is the week nobody wants it. Rebalance winners back to target, lift portfolio quality, and put the protection on now rather than after the market makes you want it. Such is the nature of complacency. **It never feels like a risk until the bill arrives.**

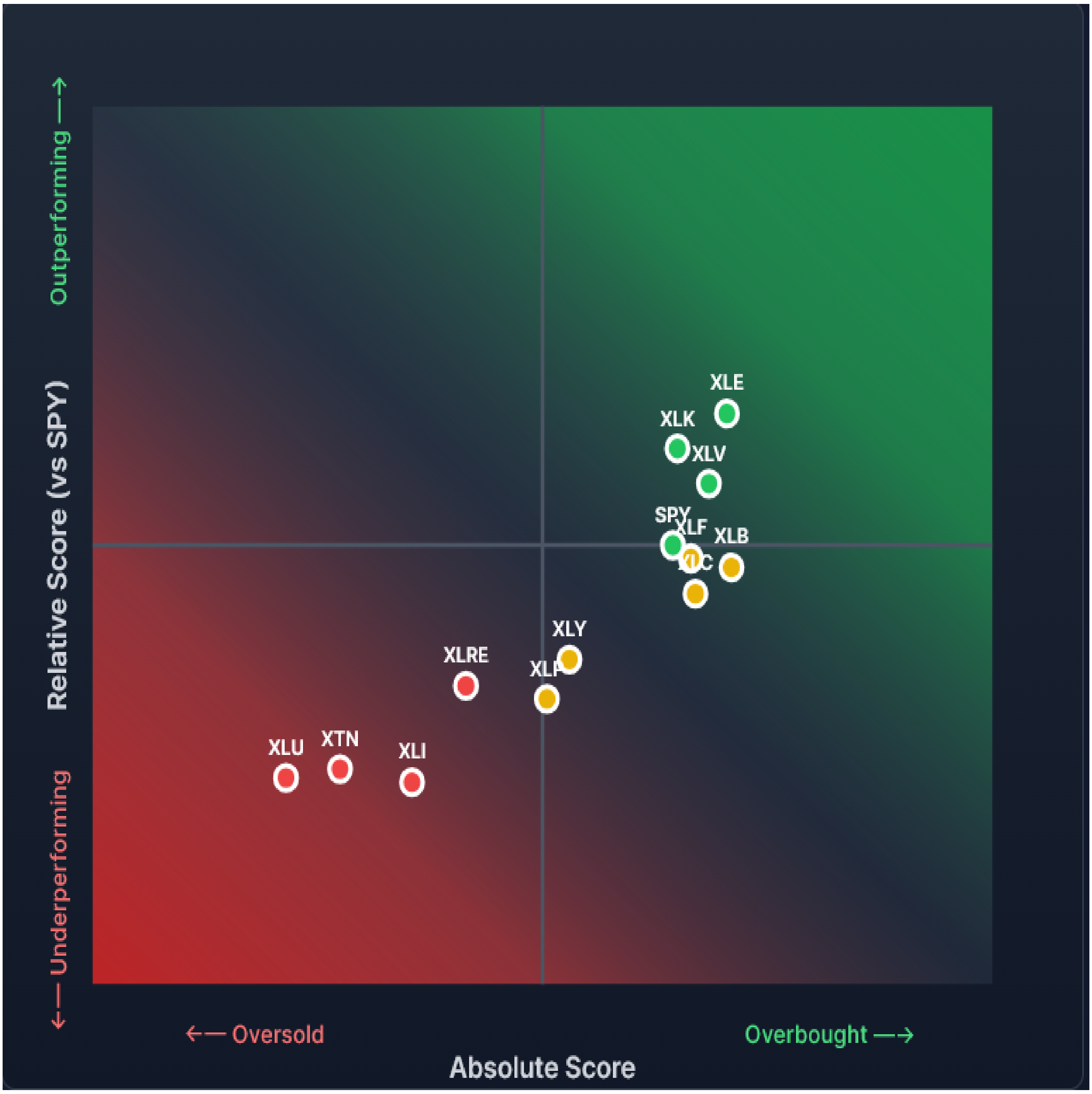
Growth Leads The Pack

Breadth remains decent, with the relative scores and the range of scores not too far apart. That said, we are seeing signs that more speculative, growth-fueled stocks are gaining favor. For instance, ARKK, Cathie Wood?s Innovation ETF, tends to own high-beta stocks that offer the potential for substantial growth as well as high valuations has the second-highest relative score.

Smaller-cap, mid-cap, and value stocks are generally lagging the market, with relative scores below zero. However, most of their absolute scores are above zero, telling us they are likely in upward trends; thus, they are rising with the market but not keeping up.

As shown in the second graphic, the sector map shows a little more divergence in scores. Energy, Technology, and Healthcare are leading the market. This points to higher oil prices and a renewed focus on growth and higher beta stocks. Recent news from Merck and Moderna on customized cancer treatments pushed the entire healthcare sector higher. Transportation stocks, utilities, real estate, and industrials are weaker. General weakness in real estate and utilities is likely due to higher yields. However, weakness in industrials and transportation stocks signals concerns about rising economic pressures.

VanEck Gold Miners ETF GDX	+0.54	+0.46
ARK Innovation ETF ARKK	+0.67	+0.40
Vanguard Mega Cap Growth ETF MGK	+0.31	+0.34
Invesco BuyBack Achievers ETF PKW	+0.40	+0.14
iShares MSCI Emerging Markets ETF EEM	+0.44	+0.13
iShares S&P 500 Growth ETF IVW	+0.28	+0.11
Invesco S&P 500 High Beta ETF SPHB	+0.21	+0.03
S&P 500 (Benchmark) SPY	+0.29	+0.00
Vanguard U.S. Quality Factor ETF VFQY	+0.31	-0.03
Invesco S&P 500 Equal Weight ETF RSP	+0.32	-0.08
iShares MSCI EAFE ETF EFA	+0.32	-0.11
Vanguard FTSE Developed Markets ETF VEA	+0.26	-0.11
Vanguard Small-Cap Growth ETF VBK	+0.11	-0.19
Vanguard Value ETF VTV	+0.27	-0.19
First Trust Dow Jones Select MicroCap ETF FDM	+0.02	-0.30
Vanguard Small-Cap Value ETF VBR	+0.11	-0.33
SPDR S&P 400 Mid Cap Growth ETF MDYG	+0.04	-0.34
iShares Russell 2000 ETF IWM	+0.07	-0.39
SPDR S&P MidCap 400 ETF MDY	+0.00	-0.43
Vanguard High Dividend Yield ETF VYM	+0.20	-0.45
iShares MSCI USA Momentum Factor ETF MTUM	-0.20	-0.46
Invesco S&P 500 Low Volatility ETF SPLV	-0.33	-0.46
SPDR S&P 400 Mid Cap Value ETF MDYV	-0.07	-0.52



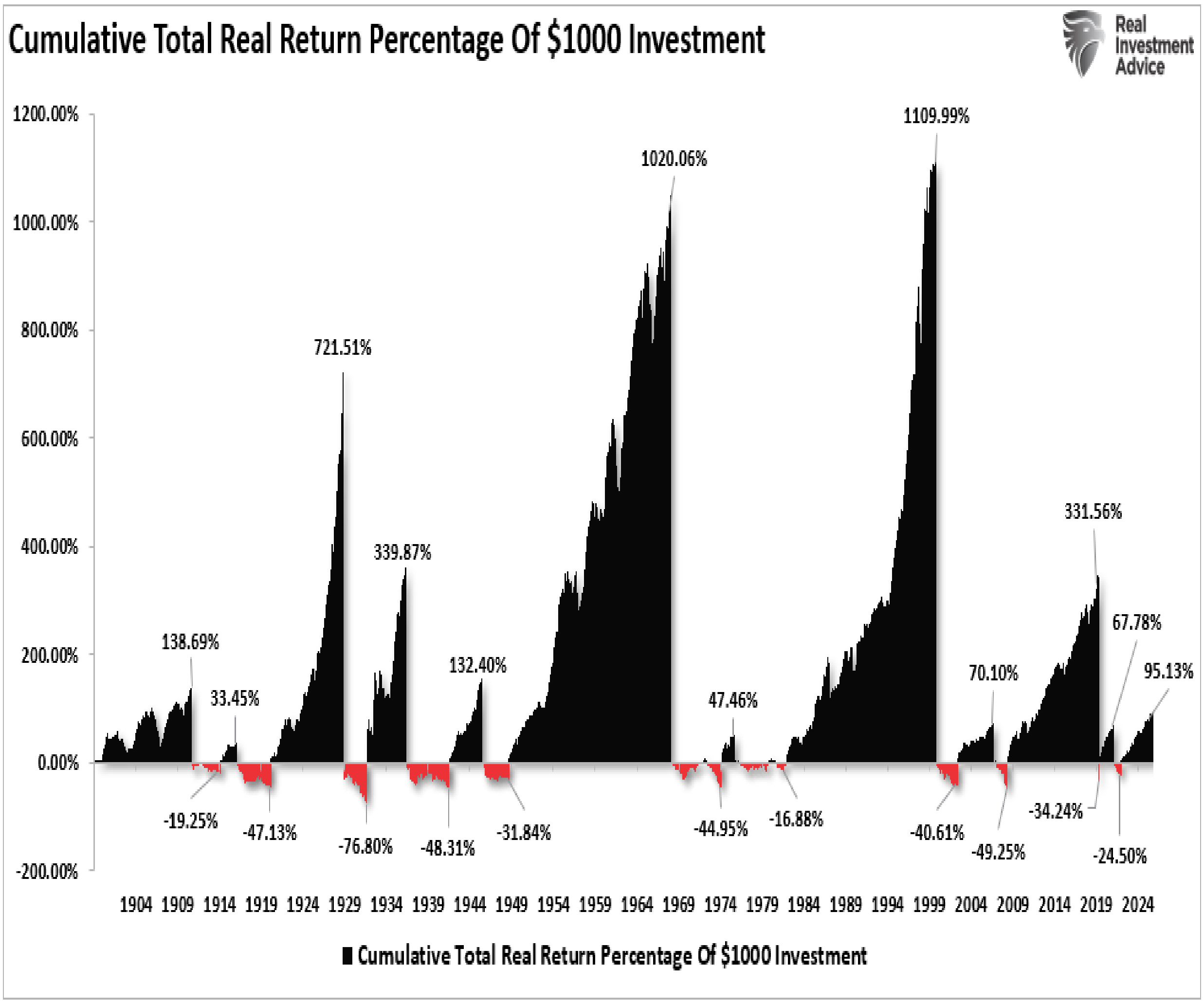
Loss: Why Crashes, Timing and Valuations Matter- Part 3 of 5

The first two articles in this series were about behavior. How to think like an investor instead of a speculator, and how to keep your own wiring and your own training from robbing you. This one is about arithmetic. Cold, unemotional, undefeated arithmetic. Underneath every good decision and every bad one sits a layer of math that does not care how you feel, and Wall Street would very much prefer you never do it in your head.

There are three numbers that decide most of your investing life. What a loss actually costs you to recover. What the price you pay today does to your future returns. And what happens when a bad stretch arrives at the wrong moment in your life? Let?s do the math Wall Street skips, one number at a time.

The Math Of Loss

At some point, you have probably seen a version of the reassuring chart below of a century of market history in which bull markets tower over bear markets, crashes look like tiny notches on a soaring line, and the caption tells you to relax and stay fully invested because it all works out. It is undoubtedly one of the most popular charts in finance, and it sells an illusion of safety.



Before you believe the sales pitch that goes along with it, you should ask yourself two simple questions. If staying fully invested through everything is so obviously correct, why does no legendary investor actually do it?

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Tweet of the Day

Nick Timiraos @NickTimiraos · 23h

The Fed's default had been to hold unless the data argued for a hike. After **Warsh**'s Jackson Hole speech, several former central bankers think he flipped the script: the data will have to give the Fed a reason not to move next month.

If data and developments do not give an out, this would leave a choice between a hold that revives July's bond-market queasiness and a hike that cuts against what the president who appointed Warsh wants, weeks before the midterms.

New UPDATED Trading Rules With Desktop Printout

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