



CAPITAL INVESTMENT COUNSEL

The Columns

September 2026

Inflation's hard to avoid. I can't escape the Consumer Price Index (CPI). And then there's "Core" CPI. For Core, the government strips out the "volatile food and energy sector." It makes me laugh every time. If you don't eat anything or drive anywhere, you're golden. Reminds me of a line hedge fund trader, Todd Harrison, used to say referring to Core CPI: "Stripping out beer and donuts, I only weigh 175." Core CPI tells us what exactly? Food and energy are things we touch every day and lately, we're all feeling it. Case in point, I hit a new restaurant over the weekend and pulled up the menu on Google Maps first. Draft beer at \$5, my night was made! Then I realized the menu was two years old. Inflation's a persistent beast. Which brings us to last week's Federal Reserve Open Market Committee decision. Why did new chair Kevin Warsh raise rates?

I'm interested because I'm not sure that higher rates will fix the inflation problem. This past March, the 30-Year US Treasury yielded 4.5%. Since then, it grew wings and flew to 5.3%. That doesn't sound like much on paper. In bond market terms though, that's YELLING in all caps. Meanwhile, the oil supply shock has gas priced like it's 2023 again. I remember filling up outside of Charlotte back then at \$4.75 a gallon thinking this is horrible. I had a déjà vu last weekend when I filled up in Boone at \$4.95: make it stop haha.

Think it through. Will higher interest rates move more oil through the strait? Or will they just put a sleeper hold on an already sluggish housing market and squeeze consumers? Sure, the economy is still growing at a 2% clip, but inflation's been sticky at 3%. Dig into the CPI and a good chunk of the late-summer inflation traces back to tariffs and higher gas prices. Higher interest rates aren't likely to help there either.

Here's how the path could play out. The Fed raised because they felt like they "needed" to do something, so the Federal Funds rate is now 4.00%. Let's channel Scrooge and the Ghost of Christmas *Yet to Come*-this is all offered in the "might happen" instead of "will happen." Higher rates squeeze margins and sales. This in turn could send unemployment higher and slow things down further. No one wants that as the fix. The economy may already be tapping the brakes and here's what we're seeing.

Last month we flagged three sectors starting to slow: the infrastructure builders (PAVE), the heavy industrials (XLI) and the transportation stocks, led by Old Dominion (ODFL). This trio led the market higher last October when the headlines were still negative. In 2026 they're doing the opposite. The headlines are fine, but when these three head lower, I believe them.

Last month's Columns covered from July to late August. During that run, the S&P was up 4% but XLI was down 2%, PAVE down 3% and ODFL down 13%. That's not what you like to see.

Since August 25th, the selloff picked up pace. PAVE dropped another 5% as of this writing, XLI down an additional 6% and ODFL down another 12%. Some of that's from the threat of higher rates. My read is this: the industrial heart of America represented by these three isn't happy right now.

A few weekends back, Open AI (maker of Chat GPT) and Anthropic (Claude's overlord) discussed pumping the brakes on cutting edge AI work. The following Monday, September 14th, semiconductor stocks dropped 4%. That drop felt like a knee jerk reaction. Dig deeper and we find the market has been dropping breadcrumbs since June. Let's see where they take us.

Semiconductors peaked June 22 and then dropped 18%. Three days later, 30-Year US Treasury rates began a move that ran from 4.8% on June 25th to 5.3% this week. Remember, in bond market terms, that's YELLING.

That's a 19 year high for yields. 2007 was a long time ago. The iPhone 1 released in June that year. Netflix started a streaming service and people wondered if they would make it. Maybe the recent headlines we're worried about are nearer the end than the beginning. The AI slowdown headlines didn't cause the big moves; it simply provided the headlines.

You know the stories. Rapidly rising rates are damaging the market. Or the AI pullback is hurting the semiconductors. From where I sit, a lot of that has already happened since late June. Ironically as I write this on Monday, September 21, the semi's are rallying hard, up 4% on the day.

I'm not calling for an immediate bounce for the overall market from these levels but maybe the biggest part of the damage in the semiconductors and interest rates has already happened. Before you get too negative, let's remember no semi orders got canceled on the AI-slowdown news. Google's still planning to spend up to \$205 billion on AI capex (capital expenditures) this year. There's plenty of talk. But my read is the AI race is one that nobody can afford to back off from, which means the spending continues and that might provide an earnings tailwind over the next year.

Let's finish September with a positive. I love mid-term years, lots of volatility and chances to buy my favorite companies on pullbacks. August and September have been tricky, but that lean time may be over soon. My mid-term database says the historically strongest two months of the year are on deck. Since 1950 in mid-term election years, the S&P has averaged a 3% gain in October and 2.8% in November. All that positivity with Halloween and Thanksgiving thrown in as a bonus. October will be full of earnings so keep in mind that any initial sell-off in your favorites may be held in check by the positive seasonal tailwind.

One last personal positive I'm grateful for: September 1st marked my 39th anniversary at Capital. What a ride and the end is nowhere in sight! Thank you to the King, Richard K. Bryant, who took a chance back in 1987 on a guy with a haircut like a rock drummer. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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