MV CAPITAL MANAGEMENT

Weekly Market Flash

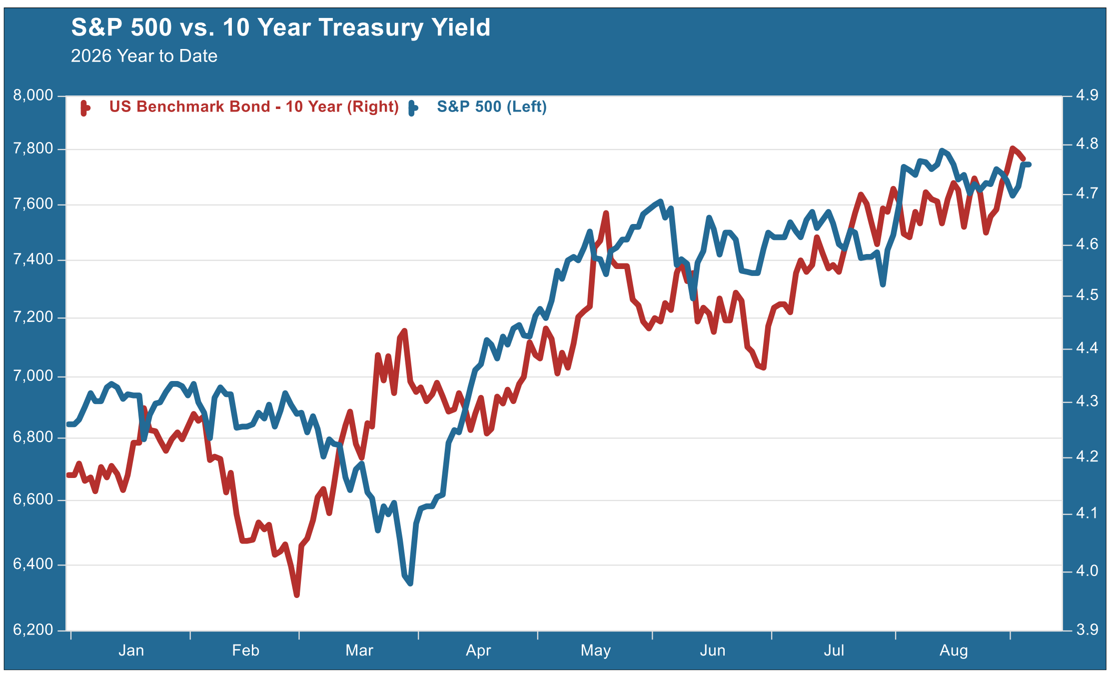
September In Funland

September 4, 2026

Labor Day weekend is here, and many of us will relish the opportunity for a couple more days of summer fun at the beach, this particularly true given that the current weather in the Mid-Atlantic is more typical of sweltering midsummer days than providing any hint of fall being around the corner. While at the beach, our kids and grandkids will make a beeline for those Funland parks along the boardwalks of Ocean City, Rehoboth or wherever, and those Funlands serve as a helpful metaphor for the month of September writ large as applied to financial markets. Whether the stomach-churning ups and downs of the roller coasters, or the haunted houses or halls of shape-shifting mirrors, September has always had plenty of thrills and chills and reality-distortion acts to beguile investors.

One Trend, Many Opinions

All the more so this year, because observers of the market have questions. Many, many questions about why bond yields are at multi-decade highs, at the same time that equities are near their own record highs.



Source: MVF Research, FactSet

To put it another way, yields on the 10-year Treasury note (shown in crimson on the above chart) have registered a percentage gain of around 23 percent from their lows just before the start of the war in the Middle East, at the end of February, to the present. That's a bit gain (remember always that a gain in bond yields means a decline in bond prices), and it puts the 10-year yield at its highest level since 2007. A sharp rise in interest rates is normally bad news for stocks for a variety of reasons: the implication of higher inflation, a higher cost of capital in valuing future cash flows, a higher bar for earnings yields (i.e., earnings per share divided by the stock price) to be attractive relative to fixed income yields.

But not this time. After idling in neutral for much of the summer, share prices took off in August and have notched impressive gains for much of the first few days of September as well. Those of a bullish persuasion opine that this is just a natural outcome of higher growth expectations, with investors confident that robust economic growth will justify higher expected returns in a wide spectrum of asset classes. On the other side of the mammalian imagery, the bears argue that higher yields on assets that are supposed to be a proxy for the "risk-free rate" reflect concerns about US dollar debasement and an inclination, especially by foreign public-sector institutions, to back their bags and seek returns elsewhere. Case in point: Japanese financial institutions, who for decades have sought returns outside the meager offerings in their home country, now have the opportunity to hold long-dated Japanese government bonds with a three percent coupon, a level last seen in 1996.

It All Comes Back to AI

We imagine there is some truth to be found in most of these opinions from the Pollyannas and the Cassandras alike. But there is one theme that in our opinion is deeply embedded in both the stock and bond markets today, and that is artificial intelligence. On the stock side, need we say more? There are currently eleven companies on the S&P 500 with market capitalizations of $1 trillion or more, and collectively these eleven companies make up around 40 percent of the index's total market cap. Only one of those companies – Eli Lilly – is not a tech name (we consider Amazon and Tesla to be "tech companies," for example, even though they are officially considered part of the consumer discretionary sector). Now, among the ten remaining companies there are different AI storylines, from memory chip suppliers like Micron to the hyperscalers of Microsoft, Amazon, Alphabet and Meta and then the granddaddy of all, Nvidia, which appears to have earned a new sobriquet of "central bank for AI." But with all that market cap weight behind them, whither these companies go, so goes the S&P 500.

And in the bond market? Once upon a time, the cash-rich tech companies building out AI infrastructure did so mostly from their own cash flows, but those days are gone. Alphabet, to cite one example, reported negative free cash flow in its most recent quarterly financial filing. At the end of last year the company had positive free cash flow of $24 billion. Alphabet and the other hyperscalers collectively have issued around $200 billion in corporate bonds so far this year. In the AI ecosystem as a whole, the debt total for the year to date is around $500 billion, and analysts expect it will rise to more than $1 trillion per year in the next several years. That's a lot of new debt supply coming into the market, and it is competing with new debt issuances from the government and from other private sources. Higher yields are a natural outcome of higher supply.

What all of this seems to mean is that AI is increasingly the driving force in just about everything: in stock price performance, in the bond market, in economic growth prospects overall. The "AI story" is no longer just a cute way to describe the impact of an exciting (and, to many, frightening) new technology on a handful of stocks. It is increasingly the only real story that matters in markets and the economy. The uncertainty that surrounds this proposition is likely to keep investors on edge and, like wondering what's going to pop out around the next corner in those haunted houses at Funland, give them goosebumps.

Masood Vojdani	***Arian Vojdani***	***Katrina Lamb, CFA***
President & CEO	*Principal & Investment Adviser*	*Head of Investment Strategy & Research*

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