LANARK FINANCIAL

INVESTMENT STRATEGY STATEMENT | September 1, 2026

September ISS

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Performance Review & Outlook

Equities extended their advance on the back of historic earnings strength, with the S&P 500 up 2.6% in August as 2026 profit growth estimates of roughly 29% continued to outpace price gains and keep valuations in check.

Long-end Treasury yields spiked to a two-decade high above 5.30% mid-month before settling back near 5.25%, as total US national debt crossed the $40 trillion milestone, raising fresh questions about debt service costs and long-run growth.

Marking his 100th day as Fed Chair, Kevin Warsh used his Jackson Hole keynote to warn that sticky inflation could still push the Fed toward a hike, reaffirming the 2% target and putting him at odds with both Bessent and the White House on rates.

The labor market cooled further, with July payrolls falling 23,000 and combined downward revisions stripping 103,000 jobs from the prior two months, even as the unemployment rate ticked down to 4.1% on falling labor-force participation rather than hiring strength.

Inflation progress stalled, with headline CPI at 3.4% and the Fed's preferred PCE gauge holding at 3.7%, both still well above target as renewed Middle East tensions pushed oil back into the mid-$80s and reversed the disinflationary tailwind from energy.

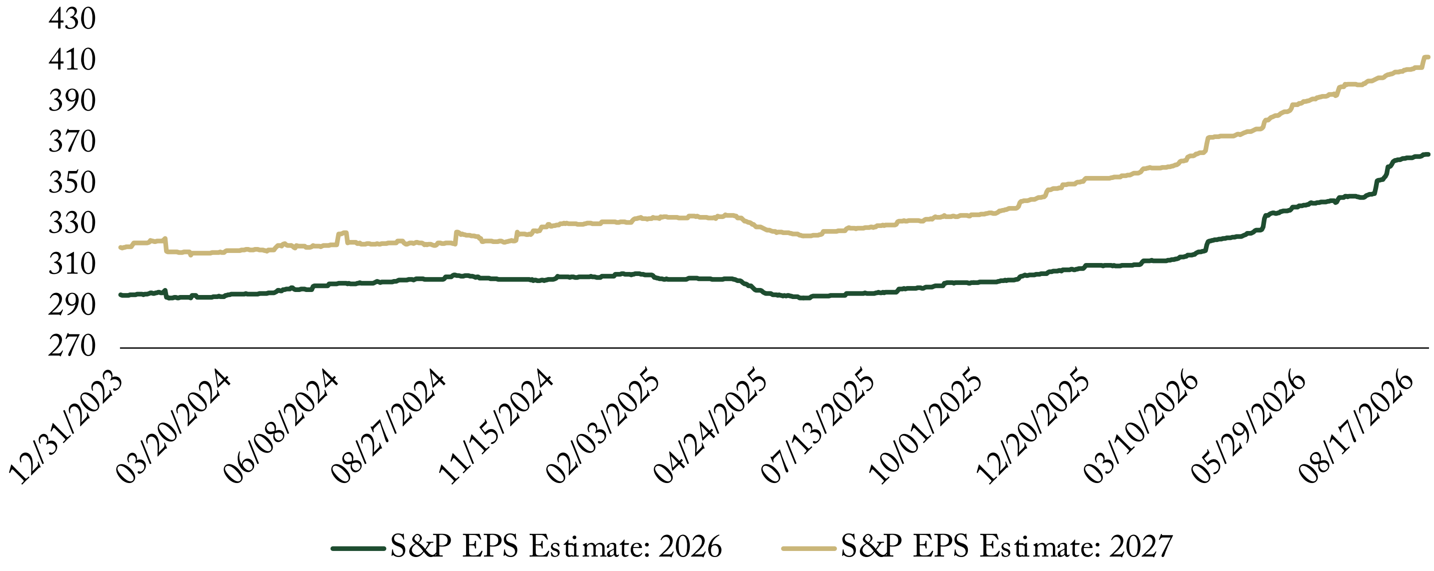
Looking ahead, September brings the Fed back into focus: the August jobs report (9/4) and CPI (9/11) will set the stage for the September 15–16 FOMC meeting, where a Summary of Economic Projections and updated dot plot are due alongside the rate decision.

Equity Market Overview

Earnings Momentum Continues to Support the Rally

Corporate profits have been a standout this year, and the strength goes a long way toward explaining equity market performance. S&P 500 earnings are on pace to grow roughly 29% in 2026, among the fastest paces of profit growth this far into an economic expansion outside of a post-recession rebound. Consensus estimates call for another 15% in earnings growth next year, underscoring that this isn't viewed as a one-time bump but a durable trend.

S&P 500 Earnings Estimates

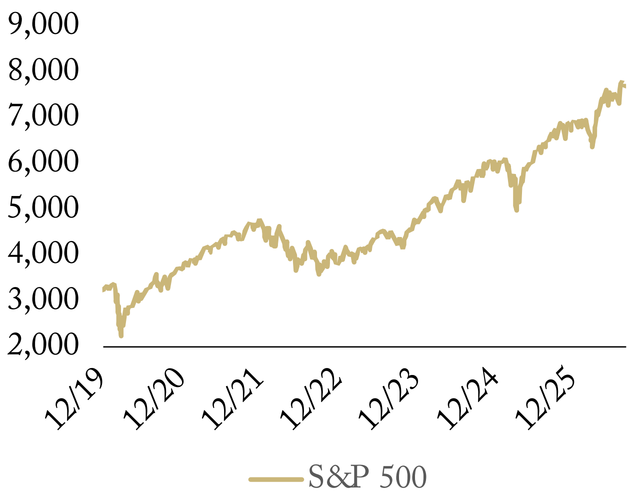


Importantly, the earnings story has broadened well beyond the AI-exposed mega-caps that dominated the narrative over the past few years. Growth is increasingly showing up in value names and small caps as well, a sign that the expansion in corporate profitability is becoming more self-sustaining rather than concentrated in a handful of stocks.

What stands out is that estimates have moved higher throughout the year rather than lower, with analysts raising forward earnings forecasts by roughly 24% year-to-date, even as the index's price gains have lagged behind. That combination, stronger profits and a market that hasn't fully priced them in, has actually left valuations more reasonable than one might expect given how far stocks have climbed.

> The S&P 500 currently trades around 19.6x forward earnings, in line with its 5-year average.

S&P 500 Price Index



We view this as a constructive underpinning for equities heading into year-end. Earnings, not multiple expansion, have been doing the heavy lifting, which tends to be a healthier foundation for a sustained advance. That said, positioning data suggests the rally isn't overcrowded and institutional exposure remains below year-ago levels, leaving room for further participation if the profit trend holds.

August Index and Sector Performance

+2.6%	S&P 500
+1.3%	Dow Jones Industrial Avg.
+3.9%	Nasdaq Composite

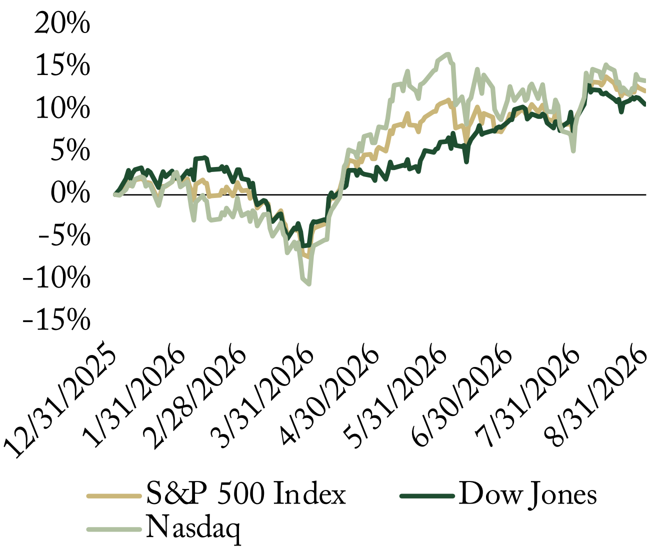
Outperforming Sectors

+6.5%	Energy
+6.2%	Technology
+5.8%	Materials

Underperforming Sectors

-5.2%	Utilities
-2.7%	Industrials
-2.2%	Real Estate

Index Returns YTD

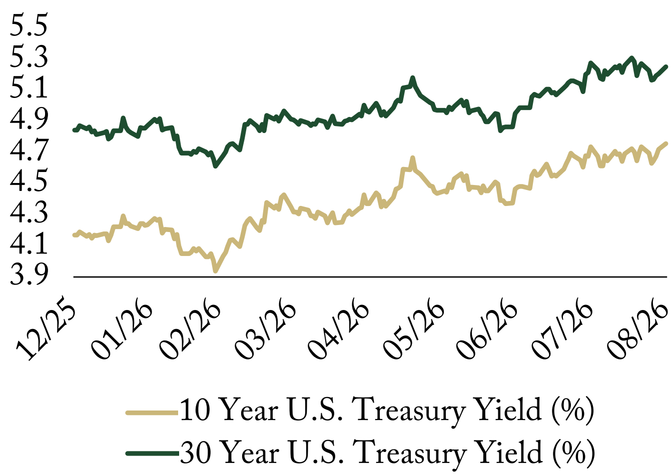


Fixed Income Market Overview

> In a month filled with market-moving news, the U.S. bond market finished right about where it started.

The 10-year U.S. Treasury began and ended August around the 4.75% level, and the 30-year long bond around 5.25% — virtually unchanged on net, though the calm was hard-won: the 30-year spiked to a two-decade high above 5.30% mid-month before retreating.

10 and 30 -Year Treasury Yield



A new set of opposing forces emerged in interest rate markets this month. Treasury Secretary Scott Bessent announced that the Treasury would "at least double" its buyback program, targeting the longer end of the yield curve in an attempt to lower long-term yields. Bond markets reacted, but quickly leveled off as the reality set in that the buybacks were hardly enough to make a dent in the overall debt market. Conversely, the July FOMC meeting minutes, released this month, revealed sticky inflation and a fractured 9–3 vote, with three regional Fed presidents voting to raise rates. These opposing forces set the stage for a highly anticipated Economic Policy Symposium, held annually by the Federal Reserve in Jackson Hole, WY.

> Marking his 100th day as Federal Reserve Chairman, Kevin Warsh took the stage in Jackson Hole to deliver his keynote address on the last Friday of the month.

Warsh used the speech to answer critics of his July FOMC press conference, who had painted his words as unclear and indirect on the direction of interest rate policy. Coming off a hotter-than-expected headline PCE reading earlier in the week — the Fed's preferred inflation gauge, at 3.7% — Warsh delivered a clear warning that sticky inflation could push the Fed toward a rate hike. That put him in direct conflict with both Bessent's attempt to lower long-term rates and President Trump's often-stated mandate for lower rates. Warsh reaffirmed the Fed's 2% PCE goal as a "firm, fixed target." As the Federal Reserve heads toward its September FOMC meeting, Warsh's speech raised the stakes for a rate hike.

> While the surge of bond market news did little to move interest rates on net, it was coupled with a major headline: the total U.S. national debt crossed the $40 trillion milestone.

The team at Lanark Asset Management frequently discusses this staggering figure, and we hold several views on its effects — particularly on debt service coverage and the country's ability to keep growing GDP with such a large number hanging over the nation's head. While opinions differ across the team, the milestone has forced us to confront one primary question: what does a debt load this size mean for the future? The obvious answer is higher inflation and higher interest rates. But we must also reckon with a longer horizon — if this debt is not addressed as a nation, the real effects of today's spending may be felt most acutely 20 to 30 years from now, by future generations.

> As we enter September, all eyes will be on the Federal Reserve and its path forward on rates.

We will be watching the markets closely into the Fed's decision, and continuing to monitor this year's debt milestone, the rising cost of servicing it, and the effect of higher interest rates on the economy — today and in the years to come.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	August	YTD	12-Month
S&P 500	7,686.14	2.7%	13.1%	20.3%
Dow Industrials (DJIA)	53,185.9	1.5%	11.8%	18.6%
Nasdaq	26,370.89	4.0%	13.9%	23.6%
Russell 2000	2,956.452	1.0%	20.2%	26.6%
U.S. 2yr Treasury	4.3415	1.6%	25.0%	20.0%
U.S. 10yr Treasury	4.75	1.6%	14.0%	12.3%
Gold (NY Spot $/oz)	4,437.38	9.1%	2.7%	28.7%
Silver (NY Spot $/oz)	66.5751	15.3%	-7.1%	67.6%
Copper ($/metric ton)	668.75	4.4%	13.2%	40.6%
Oil (WTI Spot/bbl)	85.76	1.5%	49.4%	34.0%
Oil (Brent Spot/bbl)	90.49	-0.3%	48.7%	32.8%
Natural Gas ($/mmBtu)	2.935	7.7%	-20.4%	-2.1%

Data as of August 31, 2026. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
The labor market weakened further in July. Nonfarm payrolls fell 23,000, against a consensus for a gain of roughly 80,000, and June was revised down to a 20,000 gain. Revisions again carried the larger story: May was cut 66,000 to 63,000 and June trimmed 37,000, removing a combined 103,000 jobs from the prior two months. The losses were concentrated in local government education, which shed 50,000 positions, and retail trade, which lost 19,000, while health care continued to add workers and private payrolls managed a modest 30,000 gain as government employment fell 53,000. The unemployment rate ticked down to 4.1% from 4.2%, but as in recent months the decline was not a sign of strength: labor-force participation slipped to 61.4%, a level not seen in more than five years, and is down 0.7 percentage point since January — fewer people looking for work, not more people finding it, drove the rate lower. Average hourly earnings rose just two cents and cooled to 3.2% year over year, the slowest pace since May 2021.

Initial Jobless Claims
Weekly claims continued to describe a low-firing but low-hiring labor market. For the week ending August 22, initial jobless claims fell 4,000 to a seasonally adjusted 203,000, below estimates and holding near the multi-decade lows touched in July. Continuing claims — a gauge of how long the unemployed stay out of work — eased to 1.778 million but remained in the somewhat elevated range that held through the summer. The pattern squares with the payroll data: separations remain scarce, but those who do lose jobs are taking longer to find new ones — the signature of a labor market cooling through slower hiring rather than rising layoffs.

HOUSING MARKET

House Prices
Home-price appreciation firmed modestly in June while remaining negative in real terms. The S&P Case-Shiller U.S. National Home Price Index posted a 1.5% annual gain, up from 1.2% in May, and the 10-City Composite rose 2.9% year over year, up from 2.4%. On a seasonally adjusted monthly basis the National, 10-City, and 20-City indices gained 0.1%, 0.3%, and 0.2%, respectively. For the 13th consecutive month, home prices declined in real terms, with June's 3.5% inflation running roughly two percentage points above the national index's nominal gain. Regional divergence remained wide: Chicago again led at 6.9% year over year, while Seattle was the weakest at -2.0%, a spread of nearly nine percentage points. With 30-year mortgage rates holding near 6.5%, affordability continued to cap demand even as nominal prices stabilized.

Economic Overview

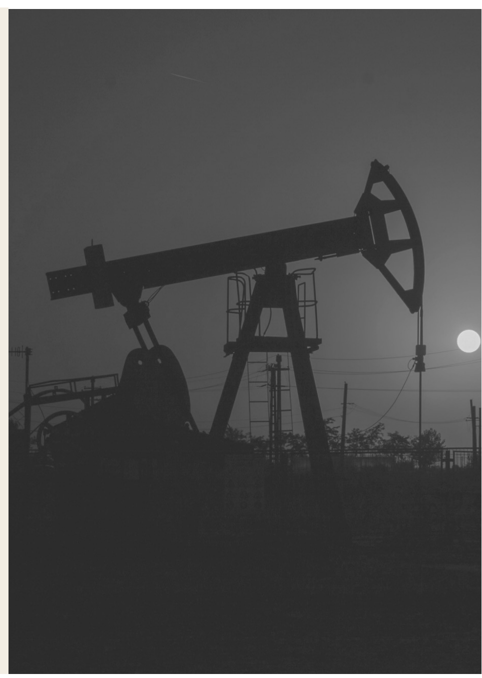
Key Economic Indicators

PERSONAL INCOME & SPENDING

Personal Income & Spending
Income outpaced spending in July. Personal income increased $115.1 billion, or 0.4%, and disposable personal income rose $125.9 billion, or 0.5% — a step up from June's pace. Personal consumption expenditures rose a more modest $36.3 billion, or 0.2%, as an $86.2 billion increase in services was partly offset by a $49.9 billion decline in goods. Adjusted for inflation, real spending was essentially flat, up less than 0.1% and a clear deceleration from June. The personal saving rate edged up to 3.0%. The split — incomes accelerating while real outlays stalled — points to a consumer growing more cautious even as the means to spend improved.

CONSUMER SENTIMENT

University of Michigan Consumer Sentiment
The University of Michigan's final sentiment index fell to 51.7 in August from 55.2 in July, a roughly 6% decline that ended two straight months of improvement and left sentiment about 11% below its year-ago level. Both components softened — current conditions slipped to 51.9 and expectations to 51.5 — with households' outlook for business conditions deteriorating sharply over both the one- and five-year horizons, and the decline was broad-based across demographic and political lines. More encouraging on the inflation front: year-ahead inflation expectations eased to 4.0% from 4.2%, the lowest since March, while long-run expectations held at 3.3% for a third consecutive month. Even so, both remain historically elevated, and the survey pointed to renewed anxiety over the cost of living as gasoline stayed above $4 a gallon through the month amid persistent Middle East tensions.



Economic Overview

Key Economic Indicators

ECONOMIC GROWTH

GDP Growth

The second estimate of second-quarter GDP left headline growth unrevised at an annualized 1.5%, below the 2.1% first-quarter pace — but, as we noted last month, the composition remains far stronger than the top line. Real final sales to private domestic purchasers, the cleanest read on underlying demand, were revised up to 4.2% from the 3.9% advance figure, and consumer spending was marked up to an annualized 3.4% from 3.2%. The upward revision to spending was itself partly offset by an upward revision to imports — the same AI-driven import surge that weighed on the headline in the advance release. Supporting the firmer read, real gross domestic income rose 2.2%, and the average of real GDP and GDI came in at 1.8%; corporate profits increased $400.9 billion in the quarter. The message is the one we flagged with the advance data: the soft headline understates an economy in which private demand is running well above 1.5%.

INFLATION

Consumer Price Index (CPI)

Headline inflation stayed contained in July, but the improvement stalled. The Consumer Price Index rose 0.1% for the month and eased to 3.4% year over year from 3.5%, while core CPI rose 0.2% and slowed to 2.5% from 2.6%. Shelter rose just 0.1% yet still accounted for roughly two-thirds of the monthly increase, and energy fell 1.5%, extending June's relief. The annual readings drifted lower, but the monthly pace turned up from June's outright decline — a reminder that the energy-driven disinflation earlier this summer is fading rather than broadening.

Personal Consumption Expenditures (PCE) Price Index

The Fed's preferred gauge told the same story of stalled progress. The headline PCE price index rose 0.2% and held at 3.7% year over year, while core PCE also rose 0.2% and held at 3.3% — both unchanged from June and both well above the 2% target. With oil having rebounded through the summer as Middle East tensions persisted, the disinflation that energy delivered in June now looks temporary rather than durable.

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Disclosures