Summary

Economic data included the employment situation report showing stronger payroll growth than expected, as well as gains in job openings and ISM services, which offset a decline in ISM manufacturing.

Equities were flattish on the week in the U.S., coupled with mixed results in foreign markets. Bonds were down for the most part, as yields rose for a variety of reasons. Commodities gained, along with another spike in the price of crude oil.

Economic Notes

(0/+) The **ISM Manufacturing PMI index** for August declined by -1.0 point to 54.6, ending below the expected lesser decline to 55.2. While it fell back from a four-year high, manufacturing PMI saw eight straight months of expansion, represented by readings over 50. By segment, new orders fell by -3 points to 54, as did production by a few tenths to 58, and employment by -2 points to 51. Prices paid were steady at a still-high 71 level. The press release acknowledged the continued growth, although the pace had "lost ground" in a few areas like new orders, with prices and supply chain pressures mentioned the most by respondents, including "challenges in commodities heavily consumed by AI," "great uncertainty" over the end of the Iran conflict, as well as "another round" of tariff policy. By contrast, the final **S&P Global Manufacturing PMI** for August was revised up by 0.5 of a point to 53.9, above expectations. The components of output, new orders, and employment all were revised up by a point or so, remaining in expansion. Input prices were revised down a point to 65, while output prices were revised up a half-point to 59, each remaining solidly expansionary. Overall, manufacturing has benefitted from the AI infrastructure boom, although inflation has remained a steady downward force for most of this year.

(+) The **ISM Services PMI index** for August rose by 1.3 points to 55.4, further into expansion, and outpacing the 54.1 expected. Underlying components were strong as well, with new orders up by 4 points to 61, and gains also in business activity, inventories, and employment (although the latter remained just within contraction at 48). Prices paid rose another 2 points to 73, the highest level in four years, and pointed to continued inflation pressures in services sectors as well. As with manufacturing, "tariffs and the Middle East conflict" were the most noted issues impacting supply chains, but came along with "positive summer seasonality," which seemed to benefit accommodation/food services/arts and entertainment/recreation, which were some of the stronger groups during the month, in keeping with normal trends. The final August **S&P Global Services PMI** was revised down by -0.3 of a point to 56.5, short of expectations, but remained at its highest level since Dec. 2024. Employment was revised up by a few tenths to over 53, in expansion, while input and output price revisions were mixed, but ending in the upper 50s—expansionary, but not as much so as the ISM survey.

(-/0) **Construction spending** declined by -0.5% in July, relative to the flat result expected. The primary driver was a -3% drop in private single-family residential, while non-residential rose by a tenth. However, as construction costs declined by -0.7% for the month, real spending actually rose by 0.2%.

(0) **JOLTS** job openings rose by 89k in July to 7,271k, but came in below the 7,313k expected, and was coupled with a downward revision of -177k for June. Gains were strongest in manufacturing (79k, mostly in durable goods) and state/local government (50k), while the largest declines were in transportation/warehousing/utilities (-67k) and professional/business services (-65k). The job openings rate rose by 0.1% to 4.4%, while the hiring rate declined by -0.2% to 3.2%. On the departure side, the layoff and quits rates each fell by a tenth to 1.0% and 1.9%, respectively.

(0) **Initial jobless claims** for the Aug. 29 ending week rose by 2k to 206k, just above the 205k expected. Continuing claims for the Aug. 22 week rose by 8k to 1.779 mil., below the 1.784 mil. median forecast. Claims rose the most in the largest states, as would be expected, but data otherwise didn't show any negative trends, pointing to an uneventful labor market from a layoff standpoint, with claims remaining within recent ranges.

(+) The employment situation report for August came in as a bit of a surprise, as **nonfarm payrolls** rose by 162k, far stronger than the 55k expected. It also included upward revisions for June (by 11k, from 20k to 31k) and July (by 44k, reversing a decline of -23k to a gain of 21k). Per the BLS, August employment rose in segments like food/drinking places (59k) and local government education (42k), several of which reversed recent declines likely unaccounted for by regular seasonal adjustments, as well as gains in health care (28k), construction (22k), and manufacturing (16k). On the weaker side were drops in information (-23k) and financial activities (-11k). The U-3 **unemployment rate** ticked up by a fraction, but on a rounded basis remained unchanged at 4.1%, staying quite low, while the U-6 underemployment rate declined by -0.2% to 7.7%, as household employment and the size of the labor force both rose for the month, although the participation rate remains a half-percent below levels from January. **Average hourly earnings** rose by 0.3% for the month, taking the year-over-year gain to 3.1%. The **average workweek length** rose by 0.1 to 34.4 hours.

At the end of the prior week, preliminary benchmark revisions reduced payroll growth from Apr. 2025-Mar. 2026 by -79k (-7k/mo.), falling below expectations for a revision upward, and taking the currently used 25k jobs/mo. count down to 18k jobs/mo. (although a positive revision is still expected in its final form later). The difficulties in measurement appear to be in no small part due to the undercounting of 'unauthorized workers,' related to dramatic changes in immigration patterns in recent years. However, per some research work by Goldman Sachs, it also appears that the -1% drop in the labor force participation rate was at least partially due to a ramp-up in retirements, residual seasonality for younger workers in the age 16-24 cohort, as well as volatility in other cohorts, so the measurement of payroll sample data continues to be a challenge in real-time, with revisions common and increasingly dramatic.

In an earlier release, the final nonfarm **productivity** report for Q2 was unrevised, showing a 1.4% annualized quarter-over-quarter increase. The year-over-year rate as of Q2 was similarly unchanged at 2.2%, running just above the 2.1% annualized rate of productivity since the last pre-pandemic quarter of Q4-2019, and well above the prior cycle's 1.6% pace. (Hopes for an AI-driven productivity cycle in coming years remain high by many.) **Unit labor costs**, on the other hand, were revised down by a tenth to an annualized 1.2% for Q2, while the year-over-year rate was unchanged at 1.4%.

Question of the Week

What have seasonal effects told us about market behavior this time of year?

Historically, the market evolution from the end of August through just after Labor Day has been marked by an uptick in volume as Wall Street gets 'back to work,' so to speak. As is often the case after vacations end, the market mood has traditionally started off grumpier as well, although it's historically tended to recover with time. Seasonal tendencies in financial markets have been tracked for decades, but as they represent averages of many long-term observations, they haven't always manifested every year as expected, and can certainly disappoint if relied upon. As such, they shouldn't be taken as predictions, of course, but rather as just a reading of history without rational or consistent explanations necessarily.

Looking back at monthly Morningstar/Ibbotson Associates/S&P 500 data for the 100 years from 1926 through 2025, U.S. large cap stocks earned an annualized total return of 10.5%, with a standard deviation of 18.5%. As stock prices have tended to grow along with the economy, as opposed to shrink, each calendar month saw a bias towards positive returns, in keeping with the 63% batting average of the 1200 total months over that span.

Despite 11 of the 12 calendar months seeing positive returns, the month of September has been an outlier, and while 51% of Septembers have earned positive returns, it's the only month with a negative total return on average (-11% when using an annualized rate, a form that helps magnify the differences between months). Perhaps a bit of that seasonal effect is related to fiscal year-end and other portfolio rebalancing effects, but regardless of the reasons, these types of tendencies can be self-fulling for investors if the media brings up reminders of these track records, which can take hold as market expectations.

If there's any light at the end of the tunnel, it's that the fourth quarter is right around the corner. Q4 has been the strongest-performing quarter, at just under an annualized 15%. While October has been one of the more volatile months, with notable sharp historical drawdown events (including the infamous 1929, 1987 and 2008), overall returns for the month have been positive over the 100-year span (even if returns were only just under an annualized 6%). Moreover, it's dwarfed by November and December having earned the 2nd and 3rd-strongest monthly annualized returns of 19-20% each. (July interestingly has the best.) The two have also seen positive returns 68% and 77% of the time, respectively, being the strongest two months. Those go along with the famed 'Santa Claus rally' that investors hope for around the Holidays, coinciding perhaps with optimism about the coming year.

In fact, winter generally (defined as November to April) has experienced almost twice the returns of summer (May to October), earning an annualized 13% versus 8%, hence the oft-quoted but perhaps overly-dramatic market maxim 'Sell in May and go away.' Based on the four-year election cycle, while 'year 2,' or mid-term, election years (e.g., 2026) provide the weakest returns of the four (at 6% annualized, although the weeks after mid-terms have tended to outshine the weeks prior), 'year 3' (e.g., 2027) has fared the strongest, earning an annualized 17%. Other historically relevant indicators have included the 'January effect,' defined by whether or not a full calendar year performs in the same direction (positive or negative) as does January—which it does 70% of the time. When the two have moved in the same direction, markets saw annualized 13% returns, as opposed to 5% in years when they did not. There have been other measured metrics around Presidential and Congressional party affiliation, but results have been mixed, and some appear to be driven by strong outliers (like the 1930s). Perhaps more closely-followed by many, years when the Super

Bowl winner originated from the NFC or original pre-1970 NFL have solidly outperformed years with an AFC winner, although the effect has eroded since the late 1990s, so the hype around the indicator has faded.

It's important to provide another reminder that historical tendencies are not set in stone, and can sometimes run in unexpected directions. But history does provide interesting things to watch, with long-term averages overall having worked out well over time for investors willing to stay on for the ride.

Market Notes

Period ending 9/4/2026	**1 Week %**	**YTD %**
DJIA	-0.16	12.39
S&P 500	0.13	13.65
NASDAQ	0.42	14.51
Russell 2000	0.15	20.83
MSCI-EAFE	-0.16	14.08
MSCI-EM	0.26	24.61
Bloomberg U.S. Aggregate	-0.18	-0.40

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2025	3.67	3.47	3.73	4.18	4.84
8/28/2026	3.90	4.34	4.48	4.73	5.22
9/4/2026	3.91	4.37	4.54	4.78	5.24

U.S. stocks ended flattish on net in the pre-holiday last week of summer. By sector, gains in energy (along with a rise in oil prices) as well as utilities and technology (led by Nvidia, buying AI platform Hugging Face) were offset by declines in consumer discretionary, materials, industrials, and consumer staples. Real estate also pulled back as yields rose.

The week started on a negative note due to several back-and-forth military strikes between the U.S. and Iran the prior weekend, the first meaningful exchanges in several weeks. Additionally, the U.S. and Canada continue to spar around trade and tariff terms. Both ongoing issues tie into market assumptions of continuing inflation and ultimately higher interest rates, which have been weighing on sentiment in the background for several weeks. Fed Governor Waller's comments mid-week that "we are finally seeing some signs of disinflation" and implying he'd be fine with holding policy rates steady helped sentiment a bit, although a strong Friday jobs report offset a bit of that pointing to signs of a rate hike again. On the other hand, the President threatened to stop trade with countries with a U.S. trade deficit unless the Fed cuts, which added more complexity into the assessment.

Foreign stocks were mixed last week, with gains of over a percent in Japan, at least in U.S. dollar terms, and emerging markets offset by declines in Europe. Within EM, gains in Brazil, as economic growth came in stronger than expected, along with strength in technology-oriented South Korea and Taiwan being the standouts.

Bonds pulled back as yields again rose, not helped by commodity prices fueling fears of sustained inflation, as well as interpretations of Fed Chair Warsh's comments leading to higher odds of a Sept. Fed hike. Floating rate bank loans were the sole exception, seeing gains. Unhedged local foreign bonds benefitted from a weaker U.S. dollar.

Commodities fared well overall last week, with strong gains in energy, while smaller gains in industrial metals offset small declines in agriculture and precious metals. Crude oil prices rose just under 10% again last week to $91/barrel, due to ramped-up military activity in the Middle East between the U.S. and Iran, as well as missile/drone fire upon Kuwait and Israeli threats against Iranian infrastructure.

Have a good week.

Ryan M. Long, CFA
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Sources: Palouse Capital Management, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, Oilprice.com, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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FAQs

- **How does Redstone Capital Management approach market uncertainty?**

  Redstone Capital Management helps clients view market uncertainty through the lens of their broader financial plan. The focus is on aligning investment decisions with goals, risk tolerance, time horizon, and long-term priorities.

- **How does Redstone help clients evaluate investment risk?**

Redstone helps clients consider investment risk in relation to their full financial picture, including planning needs, income goals, liquidity, taxes, and long-term objectives. The goal is to make investment decisions with context rather than reaction.

- **Why does financial planning matter during volatile markets?**

  Financial planning can help investors understand whether market volatility changes the long-term plan or simply creates short-term noise. A plan provides a framework for evaluating decisions with discipline.

- **How does Redstone connect investment strategy with long-term goals?**

  Redstone's approach connects portfolio decisions with each client's broader planning needs, including cash flow, retirement objectives, risk tolerance, and time horizon. Investments are considered as part of a larger financial picture.

- **What makes a planning-based investment approach different?**

  A planning-based approach begins with the investor's goals and constraints before determining how a portfolio should be positioned. It considers both market opportunities and the investor's personal financial needs.

- **Should investors react to short-term market news?**

  Short-term news can be important, but it should not automatically drive major portfolio decisions. Investors are generally better served by reviewing market developments within the context of their goals, risk tolerance, liquidity needs, and time horizon.

- **How can investors stay disciplined during market volatility?**

  A written investment plan can help investors avoid making emotional decisions during volatile periods. Discipline often comes from understanding why a portfolio is positioned the way it is and how it supports long-term objectives.

- **When should investors revisit their financial plan?**

  Investors may want to revisit their plan after major life changes, meaningful market moves, tax-law changes, changes in income, or shifts in retirement goals. Regular reviews can help confirm whether the plan remains aligned with current priorities.