

# Hamilton-Bates Market Update

*September 21, 2026*

**September is Historically  
the Worst Month—Not  
So Far This Year**

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October has the reputation as the scariest month for the financial markets—with historic crashes in 1929 and 1987. But it's actually September that has been the markets' weakest month, with an average loss of nearly 1%. The strongest months, November and December, average gains of over 1%. We have not yet seen the normal weakness of this period; rather, the selling has been beneath the surface. The transportation sector is down over 10% even as technology shows a small gain. So money is moving around beneath the surface so to speak. The catalyst has been interest rates, which have been rising. The reason for that is the energy market, where oil spiked again as hopes for an Iran deal faded; and Iran-backed rebel groups escalated attacks against oil infrastructure.

## **Earnings, Economy, Energy and Interest Rates**

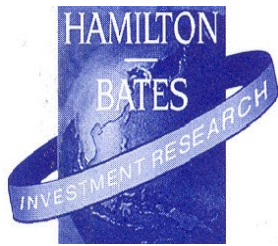
Earnings remain robust, with S&P earnings growing by 30% so far this year, well ahead of the gains in the index. This has meant that the P/E multiple for the S&P has dropped this year even as the market rallied. Part of this could be because the lion's share of the earnings growth came from the AI buildout—and there could be doubts of that growth lasting. The other issue keeping P/E's in check is rising rates. Once again we see how rates affect nearly everything—now putting a lid on P/E's as investors are unwilling to continue to pay up for earnings.

The Fed moved on rates this month, raising rates by a quarter of a point. This was largely expected in response to rising inflation pressures. The problem is that inflation is spreading beyond just oil prices, and in some ways hiking rates really won't do anything to ease the pressures that are building. The expansion of the theater of conflict is not something that the Fed is equipped to handle. A ballistic missile at Riyadh and a fire at the Saudi capital's fuel depot are not the kind of thing that rate hikes fix. The Fed can raise rates every meeting from here to spring, but it can't reopen a pipeline, or make a tanker insurable in

Hormuz. It also can't make the Houthis' stop their assault up the Yemen coast. This is an inflationary storm the central bank cannot hike its way out of, because the source of it are missiles, not a consumer with a credit card. The average consumer is nearly universally struggling with the spike in energy prices and reports have said even higher end consumers are trading down to compensate. We suspect there will be a deal of some sort, although the real problem is Diesel and that depends on Russian output which has been curtailed thanks to Ukrainian drone attacks. We believe things will moderate beyond the mid-term elections as we think Iran is trying to exert as much pressure as it can ahead of those, while the Administration wants to avoid escalation to avoid another price spike.

## **Stock Market Outlook and Portfolio Strategy**

There continues to be turbulence beneath the surface of calm markets. As of this writing the S&P 500 index is up 3% while the equal weight S&P 500 is down 3%. Furthermore, only the technology sector is up among the major S&P sector groups. Concentrated buying in big-tech has held up the index so far this month. Most of the selling has been rotational with money moving out of one or more sectors to go into another—namely technology. The end of September and the first week of October is the teeth of the weakness that normally exhibits itself during this period of the mid-term election cycle. A little bit of weakness would be preferred and offer an opportunity to get into those sectors and areas that have been beaten down. We are finding value on an individual stock and sector basis even as the broad S&P has held up. We believe once we are past the mid-terms, the market will move up in earnest, as it has done in virtually every case this past century. **Underlying economic growth remains strong, the job market hasn't shown weakness yet, and earnings are robust. This is a combination that favors stocks.**



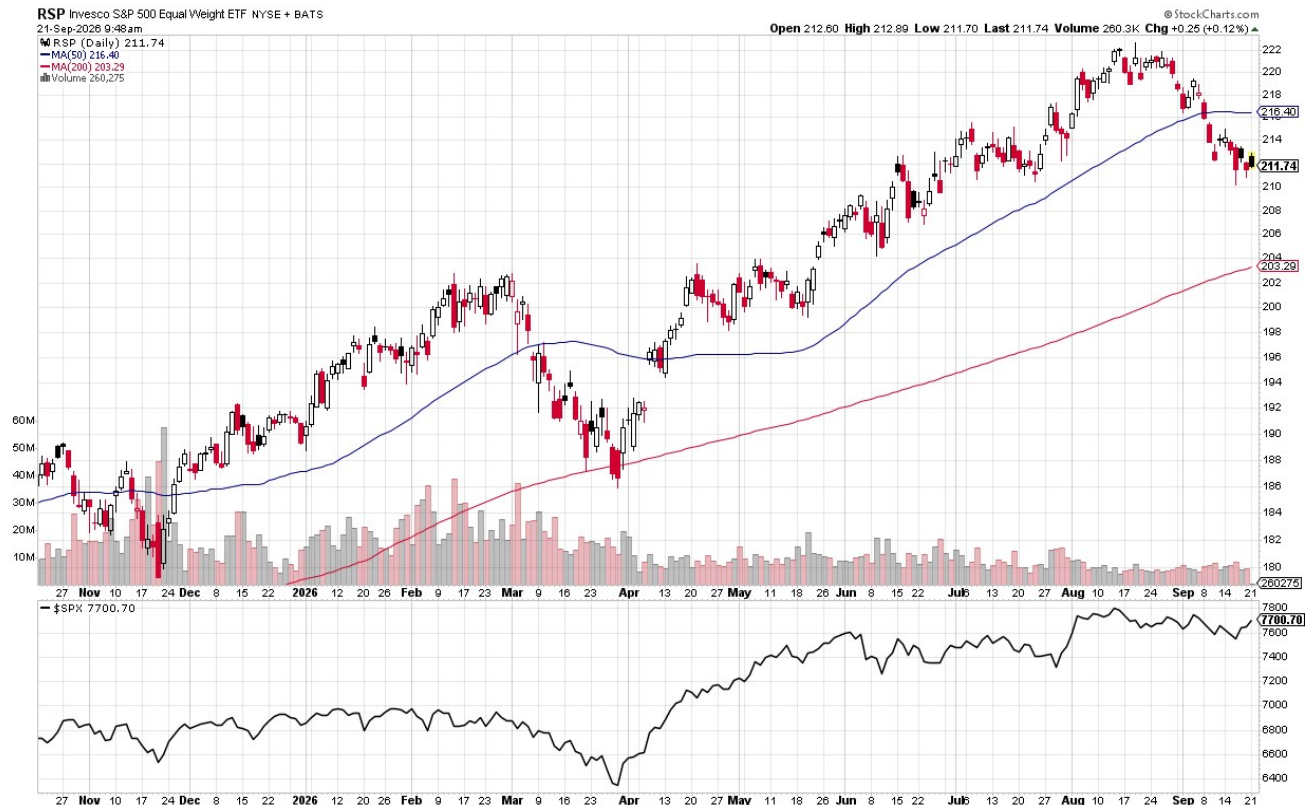
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Held Up**

## Equal Weight S&P Index vs Capital Weighted S&P



### S&P 500 Cap-Weighted Index Holding Up Much Better Than the Equal Weighted Index

September is the weakest month historically, with an average return of -0.60%. There is an average drawdown of 5-6% during the month. So far this year the cap-weighted index has held up well, supported by inflows into the Mag-7 stocks. This has concentrated gains in just the top 5-10 names in the index.

The average stock has struggled this month, exhibiting normal September weakness. The chart above shows the equal-weighted S&P 500, where each stock holds the same weight in the index. It has dropped by about 5% this month. The middle line in black is the cap-weighted S&P 500, where the top 10 names hold about a 40% weight in the index. It is hardly showing a blip as money has flowed into a few mega-cap names. This is largely due to the rise in yields, which puts pressure on many sectors of the economy, while the large-cap tech names at the top of the S&P have been largely unaffected by rising yields.

**The months after the mid-term election have historically been great for the stock market, so we will be adding to portfolios in anticipation of that rally.**