Holding the Line | 09.11.2026

Stocks continue to face growing challenges but are still holding up remarkably well. The S&P 500 sits less than 2% off its all-time high against a backdrop of war, rising inflation, and the Federal Reserve on the verge of raising interest rates. Investment in artificial intelligence (AI) is driving a surge in profit growth, helping investors look past these risks. However, war-driven inflationary pressures are putting the Fed in a difficult position and increasing the risk that it may take actions that unintentionally slow the economy.

Hopes for de-escalation in Iran have faded quickly. Despite the administration's push toward limiting Iran's participation in the global economy, tensions continue to rise, with control of the Strait of Hormuz remaining a key sticking point that neither side appears willing to concede. Over the past week, Iran stepped up attacks on commercial vessels and increasingly targeted U.S. military assets, while the United States responded with additional strikes on Iranian defenses and energy infrastructure. At the same time, the Iranian-backed Houthis in Yemen are positioning to disrupt vital alternative routes through the Red Sea and have at least temporarily closed the Saudi East-West pipeline. Oil prices have climbed back above $100 per barrel, suggesting a path toward de-escalation is becoming harder to identify.

Those concerns were reinforced by August's Consumer Price Index (CPI) report, a key measure of inflation. The report showed inflation rose 3.4% from a year ago, while core inflation, which excludes food and energy, increased 2.4%. Both figures were in line with expectations but remain above the Fed's 2% target. So far, the pressure remains largely confined to fuel prices, but the Fed is concerned it could spread more broadly as businesses pass higher transportation costs on to consumers. With crude back above $100 per barrel in September, that risk appears to be growing.

Investors quickly recognized the implications. Following the CPI release, markets increasingly expected the Fed to raise rates at this week's September meeting. The concern is not necessarily another quarter-point increase, but the possibility that policymakers are forced to respond to inflation driven more by geopolitics than consumer and business spending. Raising rates will not end the war in Iran, and the combination of higher interest rates and rising prices at the pump could be a tough pill for consumers to swallow. In an economy driven largely by consumer spending, that is a risk worth paying attention to.

For now, the market appears willing to give the economy the benefit of the doubt. Investment in artificial intelligence has become an important counterweight to many of the economy's challenges. It has already fueled a meaningful acceleration in earnings growth and helped markets remain resilient despite rising geopolitical and inflation risks. As higher interest rates and energy costs place increasing pressure on consumers, AI-driven growth is crucial. If companies can continue turning AI investments into higher earnings and productivity gains, the economy may prove more resilient than many expect. For now, that remains the bet investors are making.

Thanks,
Preston May, CBE® | Macro & Policy Strategist