# Think Strategically

# Testing Fed Chair Warsh's Independence: What September's FOMC Sets in Motion

**September 14, 2026**

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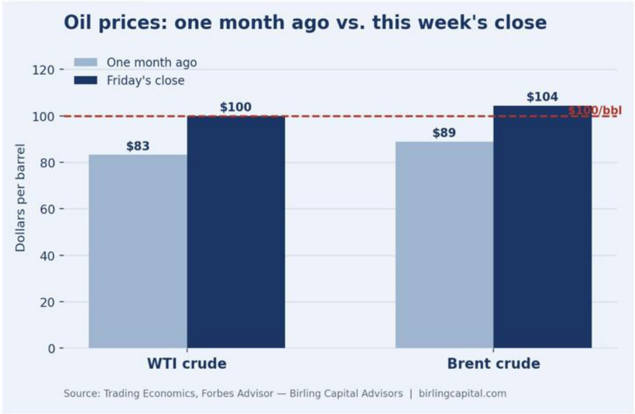
### The Week Ahead




This week, oil prices closed above $100 per barrel as the conflict between the U.S. and Iran remained unresolved, directly affecting both Treasury yields and equity markets. WTI crude ended the week at $99.99 per barrel, representing a decline of 2.43 percent during the session. However, it rose more than 20 percent over the previous month and nearly 60 percent year on year, while Brent closed near $104 and rose about 9 percent for the week despite Friday's drop.

Also, Core CPI inflation rose 0.3 percent month on month in August, the quickest monthly rise since spring, showing that price pressures are no longer limited to energy. In our view, policymakers have little patience left for ignoring inflation linked to a supply shock. Markets have already priced this in: the probability of a rate increase at the Fed's meeting on September 15-16 rose from about 60 percent after the stronger-than-expected jobs report in August to nearly 90 percent after the CPI figure was released.

The Fed is not as far behind the curve as it was when it entered 2022, so any tightening from this point on will be more restrained and gradual than in that previous cycle. Corporate earnings continue to act as a counterbalance, with third-quarter growth forecasts still being raised rather than lowered, even though the Birling PR Stock Index had its worst weekly drop of the year.

This week oil prices moved back above the triple-digit mark, and the dispute between the United States and Iran showed no signs of weakening. As a result, Treasury yields rose, and shares ended the week lower almost everywhere, whether it was among the blue-chip stocks on Wall Street or in Puerto Rico's own stock index. The issue is no longer whether energy should be included in the inflation discussion; rather, it is whether energy alone is sufficient to prompt the Fed to raise rates finally, and by how much the market has already moved the Fed in that direction.

## Wall Street Weekly Update

Throughout the week, the markets all ended lower. The Dow Jones Industrial Average fell by 840.96 points, or 1.57 percent, to 52,573.29. The S&P 500 fell by 61.62 points, or 0.80 percent, to end at 7,656.98. The Nasdaq Composite decreased by 213.95 points, or 0.81 percent, to close at 26,333.04. The Birling PR Stock Index closed at 4,978.61, a fall of 144.96 points, or 2.83 percent, more than three times the percentage decline of the S&P 500. In comparison, the Birling US Bank Index performed better, closing at 10,547.33, down 33.44 points, or 0.32 percent.

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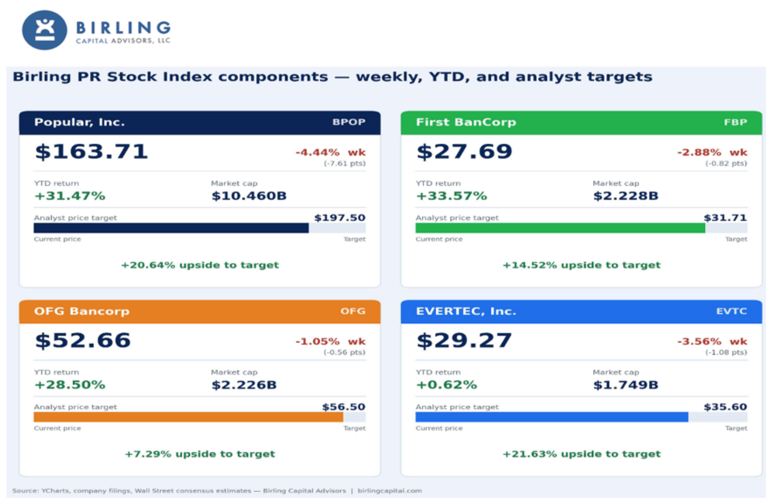
| Wall Street weekly comparison | 9/11/26 | 9/4/26 | Change | YTD return |
|---|---|---|---|---|
| Dow Jones Industrial Average | 52,573.29 | 53,414.25 | -1.57% | 9.23% |
| S&P 500 | 7,656.98 | 7,718.60 | -0.80% | 9.79% |
| Nasdaq Composite | 26,333.04 | 26,546.99 | -0.81% | 11.32% |
| Birling Puerto Rico Stock Index | 4,978.61 | 5,123.57 | -2.83% | 23.44% |
| Birling U.S. Bank Index | 10,547.33 | 10,580.77 | -0.32% | 13.00% |

## Update on the Birlng's Puerto Rico Stock Index

The Birlng PR Stock Index is a diffusion index built from four names: Popular, First BanCorp, OFG Bancorp, and EVERTEC, the four publicly traded companies that anchor Puerto Rico's financial and payments sector. The index is a concentrated benchmark by design. Where the Dow spreads risk across thirty names and the S&P 500 across five hundred, this index rises and falls on the fortunes of four, which means a single name's earnings call or a single week's rate repricing carries more weight here than it would almost anywhere else on Wall Street.




That concentration has worked in the index's favor for most of 2026. The index is up 23.44 percent year to date, more than double the S&P 500's comparable return, carried by Popular and First BanCorp's roughly 30-plus percent gains and OFG Bancorp not far behind. EVERTEC has been the exception all year: after diverging sharply downward in mid-May, at one point down nearly 22 percent, it has spent the months since recovering ground and now sits close to flat, essentially the one component that hasn't participated in the broader run.

Bear this in mind as you proceed. Most of the year, the Birling PR Stock Index has beaten the mainland benchmarks, but this week the situation reversed: Puerto Rico's index fell more than the Dow, the S&P, or the mainland bank index, which it is normally compared with. Some of this difference might be explained by the nature of the index itself: as a four-part, bank-focused diffusion index, it reacts more intensely to a single week of rate repricing than a broader benchmark does, and the continued volatility of one of its components this year has made the index more sensitive to price changes than either the Dow or the Birling US Bank Index. The rest of the situation matches the same factors affecting the mainland: since the yield curve is likely to steepen in the run-up to a Fed decision, smaller, more concentrated indices suffer more than more diversified ones, before considering any local, Puerto Rico-specific factor.

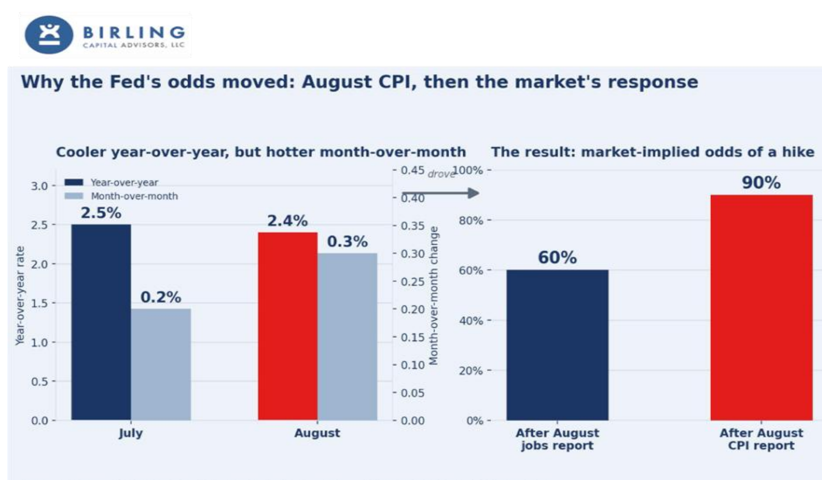
This week, that concentration cut the other way. All four components fell together: Popular down 4.44 percent, First BanCorp down 2.88 percent, OFG Bancorp down 1.05 percent, and EVERTEC down 3.56 percent, and because the index has no buffer from unrelated sectors, that four-for-four decline showed up as a 2.83 percent weekly drop, more than three times the S&P 500's decline over the same week. The same mechanism that made this index outrun the mainland for most of the year is now working in reverse: concentrated exposure amplifies both the winning weeks and the losing ones.

None of that changes the five-year picture, which has been the more useful lens for this index than any single week. Over 2021 through 2025, it posted +43.88 percent, -12.45 percent, +16.12 percent, +8.83 percent, and +8.98 percent, a run that includes one sharp down year and four up years, with 2026 shaping up to be the strongest of the stretch even after this week's pullback.

This week, the rate curve has steepened sharply: the 2-year Treasury rate is 4.63 percent, the 10-year is 4.98 percent, and the 30-year is 5.36 percent, with the upward slope indicating that markets are pricing in both near-term tightening and long-term inflation risk. The 2-year rate is important because it is a full percentage point above the effective federal funds rate of 3.63 percent, a gap the market usually widens only when it expects the Fed to close it by raising rates rather than simply using words.
Geopolitical risk remains the key issue. On Monday, diplomats from the Gulf Cooperation Council are holding talks with their Iranian counterparts in Oman about setting up a temporary arrangement for shipping through the Strait of Hormuz. This diplomatic move has helped bring oil prices down from the levels they reached at the end of the week. At the same time, the International Energy Agency has cut its forecast of global oil demand in 2026 by 2.5 million barrels per day, the largest annual downward revision since the pandemic, as a result of the adverse effect that higher prices have had on consumption, and OPEC has also reduced its own forecast of demand growth for five consecutive months. Supply-side risks have not disappeared either, since the increased activity by the Houthi group near the Bab al-Mandeb Strait has kept prices at a minimum, even though diplomatic efforts concerning the Strait of Hormuz have provided some alleviation.

Earnings momentum remains. Current estimates for third-quarter S&P 500 earnings growth are 28.5 percent year on year, up from 26.6 percent at the start of the quarter, and total estimated earnings for the index are now 1.5 percent higher than they were on June 30. It is rare for estimates to be revised upwards during a quarter since, in most quarters, they usually decline by about 2 percent on average as the quarter progresses. The energy and information technology sectors drove these upward revisions, as they are the two sectors currently leading the market in relative performance.

## The Main Event: The FOMC versus Trump




The Federal Reserve meets on September 15 and 16, and for the first time in more than a year, it is no longer safe to assume it will hold. The labor market has given the committee no grounds to delay any action: in August, payrolls increased by 162,000, almost three times the consensus forecast of 56,000, with the June and July figures raised together by 55,000 jobs, and unemployment has remained at 4.1 percent. Annual wage growth amounted to 3.1 percent, a rate most members of the Fed see as in line with, not a threat to, the inflation target when productivity gains are taken into account. On its own, that figure raised the chances of a rate hike from about 60 percent to nearly 71 percent. The subsequent CPI report then pushed the probability to about 90 percent.

The core CPI increased by 0.3 percent that month, rising from July's rate, even though the annual core rate dropped to 2.4 percent, the lowest level since 2021, and headline inflation remained at 3.4 percent on an annual basis. This situation—more temperate annual figures alongside a hotter monthly reading—is precisely the kind of data that compels a committee to take a particular action rather than resolve the debate. Furthermore, producer prices in August rose as the Iran conflict drove up wholesale energy costs, suggesting pressure on consumer energy prices may still be working its way through the system.

The committee is not starting from a neutral position, nor is it starting from where it was in 2022. The federal funds target range has remained at 3.50 to 3.75 percent since December 2025 and has been held at that level at each meeting so far this year, with futures markets currently indicating a slow increase to about 4.1 percent by December and nearly 4.5 percent by next September. This represents a much smaller change than was needed during the 2022 cycle, when the Fed moved from near zero to above 5 percent in less than eighteen months. Therefore, a committee adjusting from 3.50 to 3.75 percent toward the lower four percent figures is simply recalibrating, not reversing course.
The gap that now needs to be narrowed is smaller than the one investors faced three years ago, so the tightening process will be briefer and less steep than what they experienced then. This difference should matter more for how investors position themselves over the coming months than any single meeting's outcome

### What changes if the Fed hikes, and what changes if it doesn't

If the committee takes its action on September 16th, the short-term market reaction is likely to be volatile. Still, the medium-term implications will matter more, since a rate hike paired with continued recognition of high inflation would strengthen the Fed's credibility. This factor has, in the past, supported long-duration Treasuries even as equity markets work through the initial impact. The energy and technology sectors, already responsible for this quarter's earnings upward revision, are likely to maintain their leadership. At the same time, highly valued growth companies outside that group and sensitive to interest rate changes will find it harder. Moreover, the rate hike would confirm the approximately one full-point spread that the two-year Treasury has already created over the current funds rate, which could reduce how much higher short-term yields need to become even after the decision is made.

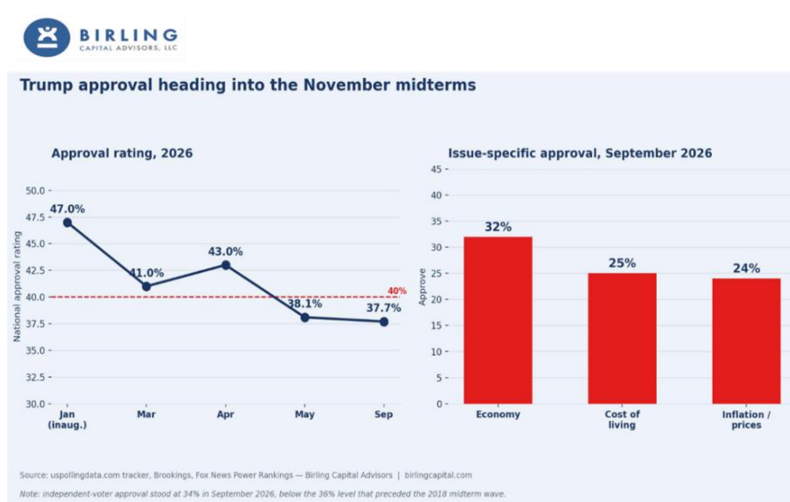
If the committee decides to hold because oil-related inflation constitutes a supply shock which is better left to work its way through the system, the more immediate relief will be seen in the yields and in the sectors that have underperformed this quarter—namely the industrial and consumer discretionary sectors—as well as in the prospect of the rally spreading beyond the large-capitalization companies. The problem is that holding at this point has its own cost: after a year of keeping interest rates steady. At the same time, inflation has remained above target, and wage and payroll data have given the committee reasons for caution rather than concern; holding despite a 90-basis-point increase would once again raise doubts about how much the committee is willing to overlook.

Puerto Rico has a calendar that includes a second factor to monitor alongside the Fed. LUMA's filing on its August SAIDI is due around September 20, a few days after the FOMC's decision, and any further decline in power-grid reliability increases the local cost side of the inflation equation even as the Fed considers it at the national level. The two pieces of information—one a rate decision and the other an infrastructure filing—will appear within a week of each other and should be read together, not separately.

## The Final Word: Trump, Midterms & Reality


The road ahead is narrower than the headlines suggest. It's not simply a repeat of the situation in 2022: the Fed is starting with a smaller gap, and in August the labor market added six times as many jobs as expected. The next development will be less about whether the Fed will move by a quarter of a point on September 16 and more about whether oil-driven inflation—continuing in a market where the IEA expects demand to fall by 2.5 million barrels a day even though supply risks associated with Hormuz remain—turns out to be temporary or structural over the next two quarters. Until that question is answered, the more sustainable approach is the one that doesn't require predicting the outcome: focus on balance-sheet strength, remain diversified across sectors and styles, and let the data from October show how much further the recalibration needs to go.

Earnings are the only factor not affected by any of this. At the start of the third quarter, analysts had been expecting S&P 500 profits to increase by 26.6 percent compared with the previous year; today that figure is 28.5 percent, having been raised rather than lowered even though this month oil prices, Treasury yields, and uncertainty about the Fed have all been working against the market. The fact that the estimate has moved in this direction is unusual; in an ordinary quarter, forecasts tend to go down rather than up as the quarter moves on, and this points to the underlying business rather than the news coverage. While a decision by the Fed can shift prices for a week, an earnings base that keeps being revised upwards usually determines where prices end up once the decision is over.




The political schedule includes one more point that investors ought not to overlook. Current national polls show the president's approval rating below 38 percent, independents being at about 34 percent—a figure which has in the past been followed by major losses in the midterms—and his ratings on inflation and the cost of living are in the mid-20s, much lower than his overall assessment of the economy.

The political stakes are more personal than usual. Campaigning during the **Trumpapalooza Midterm Convention**, President Trump told supporters, **"What I really want you to do is pretend that I'm on the ballot. Just come and vote."** Whether that message lands may hinge on pocketbook issues the Fed is about to weigh in on directly, and the numbers heading into that test are not encouraging. National approval on the economy sits at just 32 percent, with inflation and cost of living even weaker at 24 and 25 percent, the softest marks of the president's term and worse than his overall approval rating. Independent-voter approval has slipped to 34 percent, below the 36 percent level that preceded the 2018 midterm wave, historically a warning sign for the party in power.

Against this background, Warsh may choose not to act, seven weeks before voting day. A rate hike would let him show the independence from the White House that financial markets generally regard as credible. But if he held the rate, after this month's pressure campaign, it would signal that the new Fed chair had yielded to a president deeply concerned about November. That's what gives the September 15-16 decision more than its usual weight: a hike would land on top of the exact issue voters already rate worst, seven weeks before they decide control of the House and Senate, while a hold would invite the opposite charge, that the central bank bent to political pressure rather than defending its independence. Either path narrows the room for a clean outcome, for markets and for the party asking voters to treat this election as a referendum on him.

As Former Fed Chair Paul Volcker put it: **"Credibility is an enormous asset. Once earned, it must not be frittered away".**

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