

Economic and Financial Outlook

Fall 2026 | Refreshed from our May 2026 presentation with data through September 24, 2026

By Steve Dunne, CFP, Ph.D., MBA | Cedar Ridge Planning Partners

The Big Picture: The Best of Times, the Worst of Times

Charles Dickens was not an economist, but he would have made a good one in 2026. **The stock market keeps setting records, while Americans feel worse about the economy than at the start of every recession since 1978.**¹ Both things are true at once, and the gap between them is the story of this update.

Since May, a few things have changed in a big way: the Federal Reserve **raised** interest rates instead of holding steady, company profits have grown far faster than expected (thanks mostly to AI and oil companies), and the war with Iran has dragged on longer than hoped. Here is the scorecard.

What we track	Today	In plain English
Oil (WTI, per barrel)	~\$94	Down from ~\$105 in May, but still well above the \$67 pre-war price.
Gasoline (national average)	\$4.48/gal	About \$1.32 more than a year ago. Ouch.
Inflation (CPI, past 12 months)	3.4%	Gasoline is up 27% in a year; most other prices are rising much more slowly.
Paychecks (hourly pay, past 12 months)	+3.1%	Pay is rising a bit slower than prices, so the typical paycheck buys a little less.
Fed interest rate target	3.75%–4.00%	Raised Sept. 16, the first increase since 2023. Another hike is possible in December.
Unemployment rate	4.1%	Still healthy. Jobs are available, though fewer at the entry level.
Economic growth (GDP)	1.5% (Q2)	Slowing. The Fed still projects 2.3% for all of 2026.
Consumer sentiment	47.8	Lower than the start of all six recessions since 1978.
S&P 500 stock index	~7,690	Up roughly 13% this year, with 27+ record highs.
2026 corporate profit growth	~32%	We expected 12–14% in May. Energy and tech did the heavy lifting.

The old joke says economists have predicted nine of the last five recessions. This year the economists are gloomy, consumers are gloomy, and the stock market is out celebrating anyway.

1. Oil and the Iran War: Up the Elevator, Down the Stairs

The Iran conflict is now nearly seven months old. Iran has choked off the **Strait of Hormuz**, a narrow channel that roughly a fifth of the world's oil normally passes through,² and the U.S. has responded with a naval blockade of Iranian ports. Oil peaked near \$118 (Brent) in March, eased after an April ceasefire, and rebounded over the summer when fighting resumed.³

The good news: U.S. and Iranian negotiators are discussing a **phased deal** in which Iran reopens the Strait and the U.S. lifts its blockade. The bad news: neither side wants to give up its leverage first, and one veteran negotiator puts the

¹ University of Michigan Surveys of Consumers, preliminary September 2026 reading; via Advisor Perspectives, "Consumer Sentiment Falls Again in September," Sept. 11, 2026.

² U.S. Energy Information Administration, "World Oil Transit Chokepoints" and "The Strait of Hormuz Is a Chokepoint for 20% of World's Oil" (eia.gov).

³ Wikipedia, "2026 Iran war fuel crisis" (Brent peak of \$118.35 on March 31, 2026; ceasefire announced April 8, 2026), accessed Sept. 2026.

odds of a deal before the November 3 midterms at only about 30%.⁴ As we said in May, oil prices go up on an elevator and come down on the stairs. Because the U.S. is a net energy exporter, prices here should fall faster than elsewhere once the Strait reopens. The key question for investors is the same as in May: *How long will this last?*

2. Inflation and the Fed: The Punch Bowl Is Back on the Table

In May, we expected the Fed to hold rates steady through 2026. Instead, on September 16 the Fed, led by new Chair **Kevin Warsh**, voted 12–0 to **raise** its target rate to 3.75%–4.00%. Warsh’s message was blunt: inflation is too high and has been for too long. The Fed now does not expect to reach its 2% inflation goal until 2029, and markets see a high chance of another increase before year-end.⁵

Why does the Fed matter to you? Think of the Fed as the economy’s thermostat. When things run too hot (prices rising too fast), it raises interest rates, which makes borrowing more expensive and cools spending. When things run cold, it lowers rates. Its main tools are: (1) setting the short-term interest rate banks charge each other, which drives rates on credit cards, car loans and business loans; (2) buying or selling government bonds to add or remove money from the system; (3) communication, since the Fed can move markets just by clearing its throat at a press conference; and (4) the “discount window,” its emergency lending backstop for banks.

A former Fed chair once described the job as taking away the punch bowl just as the party gets going.⁶ This month, the Fed took the punch bowl away while the stock market was still dancing on the table.

The “S-word”: stagflation. The worry is a mix of stubborn inflation and a slowing economy, which is what the 1970s looked like. It is hard on stocks (profits get squeezed) and hard on bonds (rising rates push bond prices down). We are not there, but the ingredients are on the counter: expensive energy, tariffs, a shrinking pool of skilled workers, and consumers who expect higher prices (year-ahead inflation expectations jumped to 4.6% in September).⁷

3. Tariffs: New Name, Same Price Tag

In February, the Supreme Court struck down the tariffs imposed under emergency powers.⁸ They were quickly replaced by a temporary 10% global tariff, and when that expired on July 24, by new tariffs of roughly **10%–12.5% on about 60 countries** (and about 37.5% in total on many Chinese goods).⁹ Tariffs work a bit like a restaurant “service fee”: the menu says someone else is paying for it, but it still shows up on your bill.

4. Corporate Profits and AI: The Engine Room

Company profits are the main reason stocks keep rising. S&P 500 earnings are now expected to grow about **32% in 2026**, more than double our May estimate.¹⁰ Oil companies are the biggest winners (third-quarter earnings roughly doubling), with technology close behind.¹¹ Meanwhile, the largest tech companies plan to spend around **\$700 billion**

⁴ Reuters, “US and Iran discuss phased deal to reopen Hormuz and end US blockade, sources say,” Sept. 24, 2026 (as published by U.S. News & World Report and Allgemeiner). Odds estimate attributed to former U.S. negotiator Dennis Ross.

⁵ Board of Governors of the Federal Reserve System, FOMC Statement, Sept. 16, 2026; Charles Schwab, “Fed Hikes in 12-0 Vote, Commits to Inflation Fight,” Sept. 2026 (Summary of Economic Projections and remarks by Chair Kevin Warsh).

⁶ William McChesney Martin Jr., Chairman of the Federal Reserve, address to the Investment Bankers Association of America, Oct. 19, 1955.

⁷ University of Michigan Surveys of Consumers, preliminary September 2026 reading; via Advisor Perspectives, “Consumer Sentiment Falls Again in September,” Sept. 11, 2026.

⁸ WilmerHale, “Supreme Court Strikes Down IEEPA Tariffs—What Now?,” Feb. 20, 2026.

⁹ Honigman LLP, “Section 122 Tariffs Expire for Many Imports, But New Section 301 Forced-Labor Tariffs on 60 Economies Replace Them, Effective July 24, 2026.”

¹⁰ FactSet, Earnings Insight, Sept. 18, 2026 (calendar-year 2026 estimated S&P 500 earnings growth of 31.8%). May estimate from S. Dunne, “Economic and Financial Outlook,” May 2026.

¹¹ FactSet, Earnings Insight, Sept. 18, 2026 (Energy sector Q3 2026 estimated earnings growth of 109.6%; 67% of S&P 500 companies cited “AI” on Q2 2026 earnings calls).

this year, mostly on AI data centers,¹² and two-thirds of S&P 500 companies mentioned AI on their latest earnings calls.

Update on the “Magnificent Seven” (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla): in May they had come back down to earth after an early-2026 selloff. They have since roared back to **all-time highs** and now make up well over 30% of the entire S&P 500.¹³ That is great if you own them, and a concentration risk if that is *all* you own.

AI and jobs. AI is making businesses more efficient, but it is also reshaping work, especially white-collar and entry-level jobs. The “information” sector lost 23,000 jobs in August alone,¹⁴ and new college graduates no longer have a guaranteed “golden ticket.” History offers some comfort: spreadsheets were supposed to eliminate accountants, and we ended up with more of them. (Full disclosure: the AI tools on our own desks have been remarkably helpful, and so far none has asked for a corner office.)

5. Consumers Are Stretched, and the Economy Is K-Shaped

Picture the letter **K**. The upper arm is households with homes, investments and retirement accounts; rising markets and property values are lifting them. The lower arm is households living paycheck to paycheck, where pay is not keeping up with prices and credit cards are covering the gap.

- **Debt:** Credit card balances hit a record \$1.26 trillion. About 4.7% of household debt is delinquent (down slightly from 4.8%), but new late payments on car loans and credit cards remain elevated.¹⁵
- **Confidence:** Consumer sentiment of 47.8 sits in the bottom 1% of readings in the survey’s history.¹⁶
- **And yet we keep spending:** Restaurants and bars added 59,000 jobs in August.¹⁷ Apparently Americans prefer to be gloomy over appetizers.

One structural force keeps supporting stocks: with traditional pensions largely gone, paychecks now flow automatically into 401(k)s and IRAs, and from there into the stock market, month after month. Getting into the market is easy; getting out can trigger capital gains taxes, which rewards patient, long-term holding.

6. Uncertainty in Washington

Policy remains unpredictable. Some analysts compare the administration’s approach, especially on tariffs, to President Nixon’s “Madman Theory”: keep everyone guessing. We also remain concerned about a broader loss of confidence in U.S. institutions, including barriers to free trade, questions about ethics and the rule of law, immigration policy, and a Congress and Supreme Court that have often deferred to the executive branch. One encouraging sign: the Fed’s September decision showed it is still willing to act independently. Our takeaway is unchanged: **tune out the headlines and invest on fundamentals.**

¹² 24/7 Wall St., “Hyperscalers Hit \$700 Billion in 2026 AI Spending Plans,” May 1, 2026.

¹³ 24/7 Wall St., “Magnificent Seven Hit All Time High,” Sept. 22, 2026; Forbes, “S&P 500’s Weight in Mag 7 Stocks Passes 30%,” September 2026.

¹⁴ U.S. Bureau of Labor Statistics, The Employment Situation, August 2026, released Sept. 4, 2026.

¹⁵ Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, Q2 2026, Aug. 11, 2026. Prior 4.8% rate (Q4 2025) from S. Dunne, “Economic and Financial Outlook,” May 2026.

¹⁶ University of Michigan Surveys of Consumers, preliminary September 2026 reading; via Advisor Perspectives, “Consumer Sentiment Falls Again in September,” Sept. 11, 2026.

¹⁷ U.S. Bureau of Labor Statistics, The Employment Situation, August 2026, released Sept. 4, 2026.

7. How We Are Positioning Portfolios

✓ Favor (Overweight)	⚠ Be Cautious (Underweight)
Diversified portfolios (lower risk)	Portfolios concentrated in a few stocks (higher risk)
Income investments: bonds, notes, dividends, rents, option premiums	Growth stocks, including the Magnificent Seven and AI stocks at record prices
Electric utilities and consumer staples (steady, “boring is beautiful”)	Callable structured notes
European defense stocks	Precious metals at elevated prices (gold is near \$4,400/oz)

Our guiding rule: **hedge against the risks you know, and diversify against the risks you don’t.** Or, as grandma put it, don’t put all your eggs in one basket, especially a basket built by seven tech companies.

The Bottom Line

The economy is holding up, profits are strong and jobs are available, but inflation, oil, tariffs and a Fed that is raising rates again all argue for **balance over bravado**. A Hormuz deal would be the single biggest piece of good news on the horizon, while more Fed hikes are the biggest known risk. In uncertain times, the benefit of informed, disciplined decision-making has never been greater. As always, we are happy to talk through what any of this means for you.

About the Author

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This material is entirely my own, drawing on decades of experience as a practicing economist. The structure, the content, and the key ideas are mine alone. I partner with Anthropic’s AI, Claude, to turn my direction, notes, and reading into organized prose: Claude drafted and revised the text under my guidance, located and cited current market data, and produced this formatted document. The analysis, judgment, and final word remain mine.

Standing Sources Consulted

Beyond the works cited above, the judgments in this paper are informed by publications I read regularly and to which I subscribe:

- The Economist
- The New York Times
- The Washington Post
- Bloomberg Businessweek
- Bloomberg — Odd Lots
- Financial Advisor Magazine
- American Economic Review
- First Trust Data Watch
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