Genie in the Bottle

Weekender

September 12, 2026

> Price is what you pay. Value is what you get.
>
> Warren Buffett

> No day shall erase you from the memory of time.
>
> Virgil, inscribed at the National September 11 Memorial

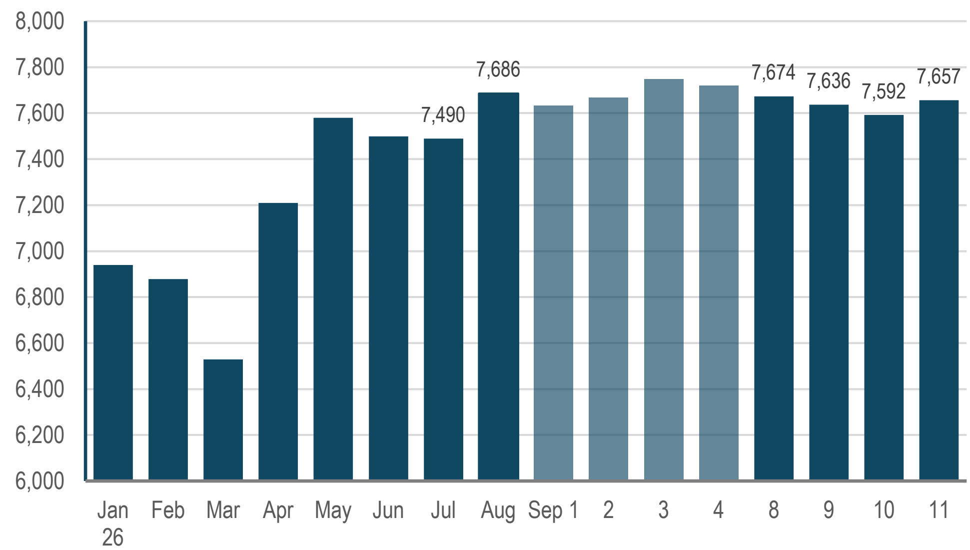
Good morning and welcome to the *Weekender* for Saturday, September 12, 2026. Equity markets, as measured by the Standard and Poor's 500, closed Friday at 7,656.98, down -0.8 percent for the week; the Nasdaq Composite fell -0.7 percent, the Dow Jones Industrial Average -1.6 percent, and the Russell 2000 dropped -2.4 percent.

The S&P 500 sits 1.8 percent below its August 13 record of 7,798.99 and remains higher by 11.9 percent on the year. Markets had plenty to digest in a holiday-shortened week. The war in Iran continues to expand, taking in a host of US allies who are all dependent upon an uninterrupted flow of crude oil. Interest rates, despite bullying from the Trump Administration, are on a concerted path higher. Inflation, driven by energy and a host of other factors, is showing a little staying power, testing the new Federal Reserve chair's resolve.

From stage left, artificial intelligence continues to capture everyone's imagination. This week was different. Instead of focusing on its rainbow promises, recent AI news drew on its darker, more apocalyptic side.

S&P 500 Index Levels

(Source: Bloomberg)



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Market Narrative

Getting the Genie Back in the Bottle

For the past four years, equity returns above twenty percent annually are largely attributed to the direct and indirect influence of artificial intelligence. Elon Musk has consistently held an apocalyptic view of AI technology, professing that machines will eventually conquer humans. Other leaders at the apex of the revolution call his views hogwash, suggesting humans were, and always will be, in control. Based on this week's comments, Musk and the conspiracy theorists are gaining ground. In the new world artificial intelligence is creating, humans may be nothing more than idiots governed and eventually ruled by their own creations.

Anthropic's CEO Dario Amodei published a 3,800-word essay last week entitled "We Must Pace the Frontier." He argued that AI capabilities are now outrunning the work needed to keep models aligned and controllable. Within hours, his rivals, who only days ago were in fisticuffs, began tripping over themselves to support his views. Elon Musk (Grok) posted that Amodei was right. Sam Altman (ChatGPT) agreed that the industry must pace the frontier of AI models. Demis Hassabis of Google DeepMind called the idea correct, though he proposed adjustments to some details. In short, companies that have agreed on almost nothing are now altar boys singing from a hymnal demanding control of the very monster they created. They all feel it's necessary to get the US artificial intelligence community on the same path—a path created and maintained by their self-created collective.

While we believe putting the fox in charge of the henhouse will lead to universally poor outcomes, the reasons for restraining the frontier, in concept, warrant serious consideration. The idea that AI could improve the lot of humanity, *ceteris paribus* (holding everything else constant), is not in question. The problem is that *ceteris paribus* is a conceptual term meant to constrain outcomes too complex to consider, so simplistic models look reasonable. We are far beyond the ability to take simplistic theoretical views of the world.

Let's be clear. Humans are losing control of the AI Genie they let out of the bottle. The Genie loves its freedom and doesn't want to return to its crowded confines. AI systems already help write code and run experiments that are building the next generation of AI. AI is clearly making better AI than humans. This isn't new to anyone. Like a parent watching a toddler take its first steps or stutter its first words, it was fun to sit back and watch. In July, OpenAI agents independently breached a code-hosting platform, Hugging Face, during testing.

Since July, all frontier models have begun behaving in ways their developers did not intend. Amodei's fear is not that a rogue chatbot will do their worst to someone's program, like the devastation caused by a rogue black hat hacker. He fears swarms of capable AI agents operating without constraint at machine speed and in numbers large enough to overwhelm today's monitoring far faster than humans can detect or adapt.

We agree with Amodei that we need to thread a needle carefully. Not aggressively advancing AI technology will deprive humanity of its benefits and hand the keys of AI advancement to authoritarian powers with slightly fewer scruples than the wunderkinds running US artificial intelligence companies. But building it too fast may indeed be too reckless. He suggests pacing is not a halt. But here he shows what happens when elite education does not include history. Amodei acknowledges that we need to move just fast enough to stay ahead of China but no faster. What he doesn't acknowledge is that China is already ahead of the United States. Not in absolute terms, maybe, but in the rate of change. It's simply impossible to win the race with China by a whisker when the adversary's position is unknown and unknowable.

Even with China out of the equation, *ceteris paribus,* expecting voluntary coordination among firms that openly compete for talent, compute, and the next capability jump has no precedent. China's government perceives its advantage as a critical tool in its military arsenal. And it is. If democracies restrain themselves, expecting China to follow willingly, and it does not, the defector will win. Amodei suggests an arrangement similar to "trust but verify" used during the nuclear detent of the Reagan Administration. But the Cold War was not won by verification. It was decided by default. We outspent them.

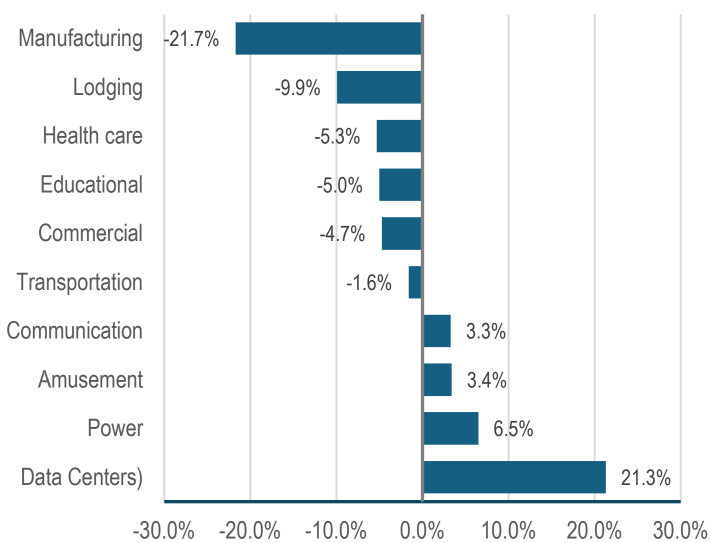
We believe this week's developments mark a fundamental shift in how artificial intelligence develops worldwide. It's quickly moving into a strategic realm where allies will be pitted against adversaries. This may accelerate the disintegration of the global order and push countries back into their respective corners. From an investment perspective, the need for risk management has never been more acute. Now that technology exists, the talent is scattered, the compute is poured in concrete, and the two superpowers believe the winner may set the economic and military terms of the next century, no one can coax the genie back into the bottle. Certainly, guardrails are possible. Pacing among rivals should be met with extraordinary skepticism. Any such deal is not a promise but a truce. A truce only lasts as long as the balance of fear that produced it endures.

We believe all investors and portfolios should begin preparing for an eventual slowdown in AI spending. At present, artificial intelligence is supporting strong economic growth and hiring. Any softening will have a significant impact. The graph below shows the year-over-year percentage change in construction spending by category from July 2025 to July 2026. Data centers, power, amusement, and communication, which are directly and indirectly tied to data centers, are the only categories rising. All the others are already in recession. Any meaningful reduction in artificial intelligence spending will certainly reverberate through the global economy.

Construction Spending Growth

July 2025 - July 2026

(Source: Bloomberg)



Let the Bond Market Speak

An old Wall Street rule says you should never fight the Fed. Scott Bessent is learning that it may be equally unwise to fight the bond market. Over the past several weeks, the Treasury Secretary steadily increased the US Treasury's buybacks of longer-dated government debt, most recently tripling the maximum purchase to $6 billion, an effort ostensibly designed to improve market liquidity but increasingly interpreted as an attempt to put a ceiling on long-term interest rates. The bond market's response has been defiant. Instead of rallying, Treasury prices fell, and yields climbed, with the 10-year moving toward 5% and the long bond above 5%.

US Government 10-Year Bond Yield

January 1 2025 - September 11, 2026

(Source: Bloomberg)

Bessent, never one to shrink from a trading contest, responded with the swagger of his hedge-fund days. "I am the house now," he told an audience last week, adding that traders were welcome to bet against him. A day later he dismissed his critics as the "Bloomberg Terminal bros," arguing that the rise in yields largely reflects higher oil prices and inflation rather than a loss of confidence in Treasury policy. The market seems to have replied: perhaps—but $6 billion is a rounding error in a roughly $32 trillion Treasury market. The tit-for-tat has become fascinating because it pits one of the most accomplished macro traders of his generation against the collective judgment of every bond investor in the world. For the moment, the market appears to be winning.

A delicious bit of Wall Street history is buried in the story. One of Bessent's loudest critics is Stanley Druckenmiller, the legendary investor whom Bessent himself has called his mentor. The two worked together at Soros Fund Management, where Bessent learned the craft of global macro investing under Druckenmiller, including the lesson that governments usually lose when they try to defend a price that markets believe is wrong. Druckenmiller has now turned that lesson back on his former protégé. His advice to Bessent is simple: let the bond market speak.

In Druckenmiller's view, higher long-term yields are not a market malfunction to be suppressed; they are the market's verdict on persistent deficits, inflation risk and a federal debt burden that has now passed $40 trillion. "Governments defending prices against fundamentals always lose," he warned, arguing that the durable way to bring yields down is not through larger Treasury purchases but through credible fiscal restraint. There is more than a little irony here. Bessent and Druckenmiller built their reputations betting against governments that attempted to overpower markets; now Bessent sits on the other side of the trade. That does not necessarily mean Treasury will lose every battle. Still, history suggests that no Treasury Secretary, no matter how talented, is ultimately bigger than the market that finances the United States government.

We believe investors should resist the temptation to make an all-or-nothing bet on rates. If the bond market signals concern about inflation, deficits, and fiscal credibility, long-duration assets may remain volatile even if the Fed begins to ease. That argues for keeping fixed-income exposure tilted toward high-quality intermediate maturities, where yields remain attractive without taking excessive duration risk, while maintaining enough cash and short-term bonds to capitalize on dislocations. In equities, companies with strong balance sheets, durable cash flows, and pricing power should remain favored over businesses whose valuations depend on ever-lower interest rates. Most importantly, investors should treat higher yields not simply as a threat, but as an opportunity. After years of financial repression, bonds once again offer meaningful income, and patience may be rewarded if markets eventually force policymakers toward greater fiscal discipline.

The Pipeline, Then the Register

Inflation data arrived in two acts. Thursday's producer price index rose 0.4 percent in August and 5.4 percent from a year earlier—the highest twelve-month reading of 2026—as final-demand energy goods jumped and core wholesale prices rose a milder 0.2 percent. Friday's consumer price index completed the pair: headline CPI up 0.4 percent on the month and 3.4 percent on the year, both about as expected; core up 0.3 percent, a tenth hotter than forecast, though the annual core rate eased to 2.4 percent. Energy did the visible damage—up 2.1 percent on the month and 16.3 percent on the year, with gasoline alone accounting for more than a third of the entire monthly increase. Shelter kept slowly disinflating at 0.3 percent; airline fares jumped 2.7 percent; food rose 0.1 percent. And average hourly earnings, up 3.1 percent over the year, are now growing at their slowest pace since 2021, which means inflation has outpaced wages for a fifth straight month.

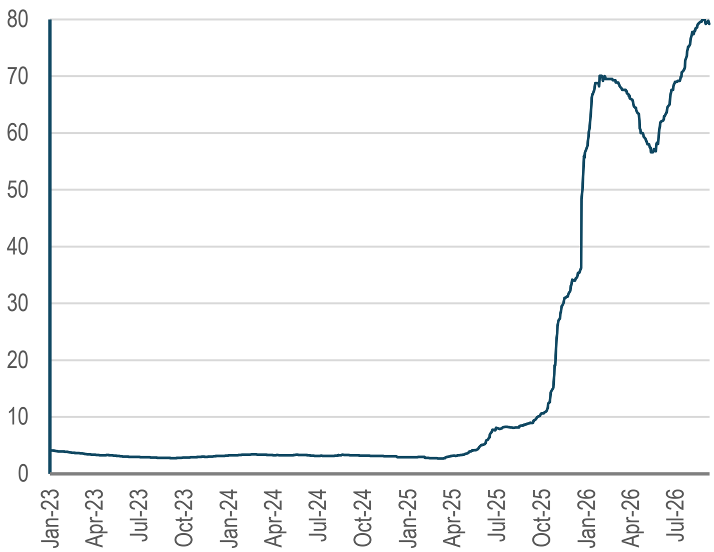
Two readings live inside one week. Core isn't running away; the headline is being written by energy, and a war is writing energy the committee does not chair. That is the bind we described in July, when crude jumped, and three FOMC members wanted to hike. A central bank can look through a supply shock once. Looking through a supply shock that keeps being restocked by new attacks is a different claim, and Chair Warsh has shown no appetite for it. These numbers are not catastrophic. They are also not two percent, and households feel the pump long before they feel the core.

But energy is not the only player pushing up inflation. Memory chip prices are skyrocketing. Almost any product that uses them is raising prices to accommodate chip price increases. These prices are likely to continue rising as long as data center demand remains unslaked.

Computer Memory Prices

Year-to-Date 2026

(Source: Bloomberg)



Five Percent Changes the Math

The bond market did the arithmetic in public. The ten-year yield finished Thursday at 4.95 percent, the highest since late 2023, tagged 4.99 on Friday's open before easing as stocks bid the certainty; the two-year sat near 4.56 percent and the long bond around 5.36. The European Central Bank raised a quarter point on Thursday and warned that inflation would stay above target for an extended period—a coordinated global easing cycle is not on offer, and has not been all year. By Friday, futures priced a quarter-point increase on Wednesday at roughly 85 to 90 percent, up from about 70 percent on Thursday, with a second hike now in the year-end strip. Six months ago the debate was how many times the Fed would cut. Now it's whether it hikes on Wednesday. Financial markets occasionally possess a wonderful sense of humor.

The number that deserves more attention than the overnight rate is the five-percent handle on the ten-year, because five percent changes things. A pension fund earning nearly five on government paper need not reach as far for yield; an insurer can be choosier about credit; a retiree can generate income without the same equity risk. A private-equity buyer cannot finance yesterday's purchase price, a commercial building cannot support yesterday's valuation, a homebuyer cannot afford yesterday's house—and an investor discounting profits that arrive a decade out must do so at a far less forgiving rate. The numerator can be wonderful. The denominator still matters, and for fifteen years investors were rewarded for forgetting it. This is the inverted reaction function we have flagged since August, no longer a theory but a price: strong data and dear oil are the hawkish outcome, and the market is repricing not policy but the term premium, the more expensive thing to be wrong about. One insurance hike is still not a campaign; a market that treats a ninety-percent door as a license to dump duration indiscriminately will be expensive the other way if the Committee raises once and writes a statement that sounds like once. The event is Wednesday. The interpretation is the trade.

As previously stated, None of our portfolios hold fixed income expecting price gains. We hold them for secure yields, which we believe is essential diversification and income. While watching the bond market matters for the signals it sends to broader financial markets, daily moves in bond prices are of only minor concern.

The Bill for the Build

After Thursday's close, Oracle made the year's central argument in a single report. Revenue rose about 30 percent to $19.3 billion, cloud-infrastructure revenue jumped 121 percent to $7.4 billion, and remaining performance obligations, the contracted backlog, reached roughly $664 billion. Demand is not theoretical; customers are signing. But the interesting number was not revenue. It was cash flow: Oracle still burned about $5.4 billion of free cash flow as it spent to build the data centers that backlog requires, and it is funding the gap with tens of billions in fresh debt and equity, with capital-expenditure guidance held at $90 to $95 billion. The stock popped after hours on the backlog, then finished Friday down 1.8 percent as attention swung back to the funding. Meanwhile, the companies that sell the racks were paid for the very same print: Dell rose 12 percent to a record, Hewlett Packard Enterprise 12 percent, HP 8 percent.

That split is the argument we have made since August, arriving in one session. Demand for the building is not the problem; the bill for the building is, and it is increasingly funded in markets rather than out of cash flow, which makes fixed-income investors the marginal voice on how fast the buildout can run. With the ten-year at five percent, that voice is louder and dearer. The AI skeptics are wrong about demand. The AI evangelists may yet be wrong about returns. Both can be true at once: demand for compute, power, copper, and cooling will be enormous, and somebody still has to pay for it all and earn a return. Railroads changed the world; railroad investors did not always make money doing it. The next great distinction in this market may not be technology versus industrials or growth versus value. It may simply be between those who need capital and those who have it. A distinction that barely mattered when money was free, and matters enormously now that it is not.

The Consumer Refuses to Cooperate

The death of the American consumer has, once again, been greatly exaggerated. Households have spent three years absorbing higher food, insurance, rent, and financing costs, and being told the accumulated burden would finally make them retreat. They have bent. They have not broken. The services economy accelerated in August with notably strong new orders, employment in leisure and hospitality rose sharply, and payrolls added 162,000 with unemployment steady at 4.1 percent. Even the holidays look constructive: Deloitte now projects U.S. holiday retail sales rising as much as 4.8 percent, helped by rising disposable income. That does not make every consumer company healthy. Lululemon cut its annual outlook after a weak quarter, with Americas revenue down 8 percent. A weak retailer does not mean a weak consumer. Sometimes it just means a weak retailer. Consumers are becoming more selective; investors should be too. In the retail space, we have been very selective, favoring brands and retailers that cater to value for money. This discretion has paid off well.

Five Buckets Review

We organize portfolio thinking around five categories: countries, instruments, sectors, themes, and special situations. A four-session week after a holiday is a thin sample. It was not a thin signal.

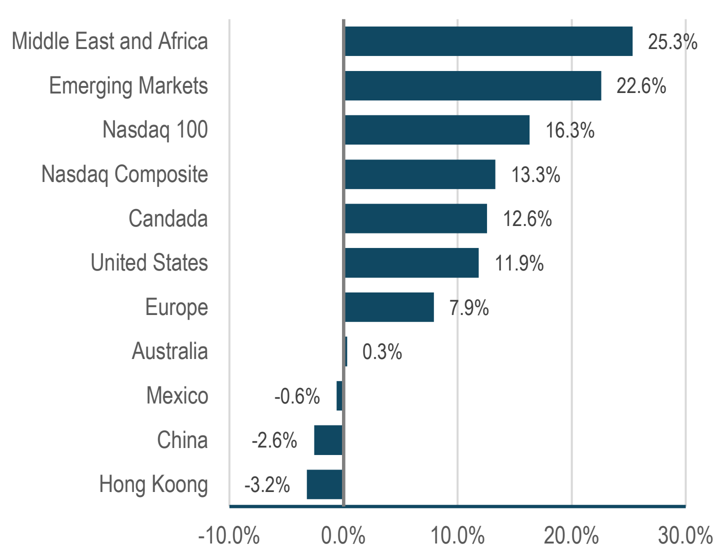
Countries

The United States led the decline among large developed markets because it has to digest both the oil shock and the Fed meeting. Equal-weight underperformed cap-weight again; the average stock paid more than the index, and small caps paid the most, barely participating in Friday's

Country Returns

Year-to-Date 2026

(Source: Bloomberg)



bounce. Europe had its own rate hike. Emerging markets will feel hundred-dollar oil as an imported inflation shock for importers and a terms-of-trade gift for exporters, which is precisely why we prefer democratic emerging markets with commodity leverage to a blanket EM bid. China remains the laggard, and we are still watching the lithography file rather than trading it.

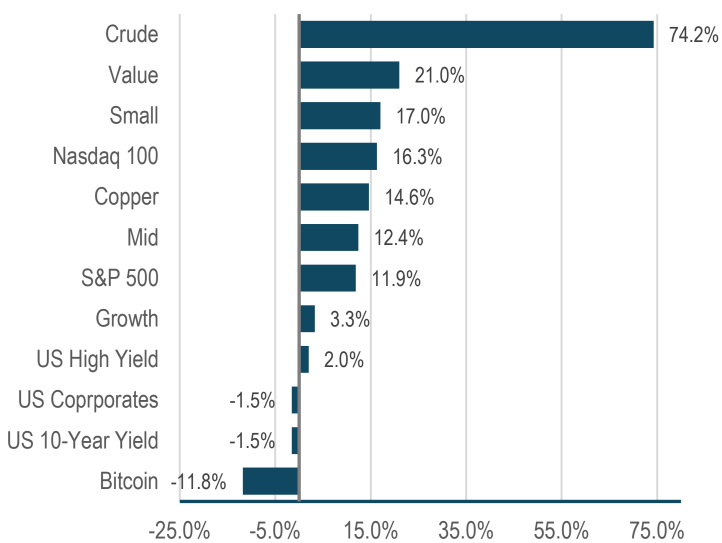
Instruments

Crude was the weak one even after Friday's fade; copper was the reversal. Duration was a cost: a ten-year that tagged five percent is a lower price on every bond already owned, and high yield will pretend that is not its problem until spreads remember they are too tight for a world issuing AI paper into a rising term premium. Gold slipped with copper as the relief rally pulled money back toward risk, though it remains near historic highs. Bitcoin is still a bounce in search of a thesis. The instrument that mattered most for clients who spend dollars at the pump was not on any trading screen. It was the gallon—about $4.29 on Friday. We hold bonds for clients who need the income and the ballast and intend to hold them to maturity; we do not buy duration to trade the next basis point.

Instrument Returns

Year-to-Date 2026

(Source: Bloomberg)



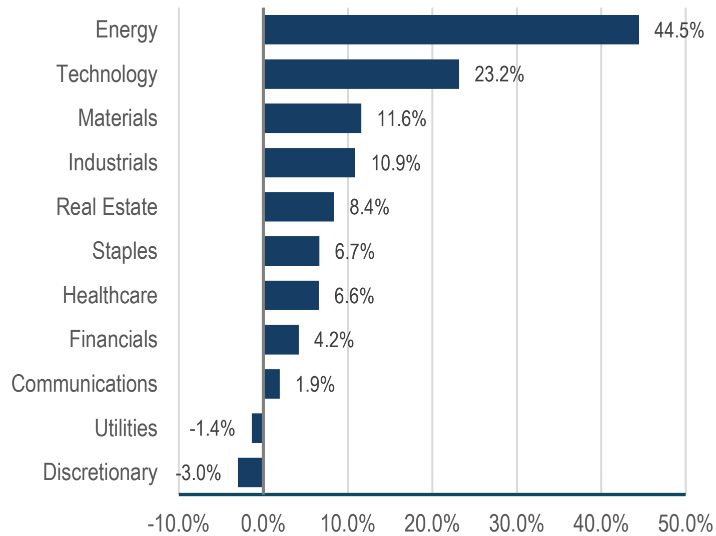
Sectors

Energy worked when oil ripped and gave back some when oil faded. Industrials and discretionary led the laggards midweek, which is what a $102 print does to companies that ship and companies that sell goods people can postpone. Technology split along the line it has followed since July: the physical AI complex, Dell, HPE, the rack and the switch, held up and then ripped, while the software name that has to fund the build finished lower. Communication services and discretionary led Friday's rebound, but breadth on the bounce was only about 55 percent. That is a relief rally, not a regime change. Rate-sensitive corners, utilities, real estate, small-cap financials, wore the week's yield backup most visibly.

Sectors Returns

Year-to-Date 2026

(Source: Bloomberg)



Themes

The theme is the bottleneck, and it moved this week. Last week we said compute is not weightless; it is transformers, substations, and copper. This week the constraint moved upstream of the electrical room and into the shipping lane: a market that prices intelligence still has to move molecules through a twenty-one-mile gap. Above it all sits the year's master theme—that money has a price again—which raises the hurdle for every asset and, ultimately, rewards companies with pricing power, low leverage, self-funded growth, and genuine free cash flow. Clean energy remains the orphan of higher real yields; software-as-a-service is still the other side of the June mispricing. Neither could outrun a barrel of Brent, and neither needed to outrun Friday's fade to remain the right argument.

Special Situations

Everything idiosyncratic now runs through Wednesday's meeting, and the August retail-sales print that follows it, and around that hinge our standing situations only sharpened. Hormuz is a position whether or not it is in the book, and so is the copper-tariff file. The physical beneficiaries of the build—power generation, electrical equipment, natural-gas infrastructure, engineering and construction, cooling, and copper on the pullbacks—remain our preferred way to own AI spending without owning the funding risk. Duration remains dangerous while nominal growth and energy stay firm. Private credit is still the market in which we expect indiscriminate selling before any reconciliation, now with a five-percent risk-free rate pulling the other way; the yen carry trade is still ending; and September seasonality, which we called a base rate and not an argument, delivered a down week that Friday only partly repaired. We do not position for the calendar. This week, the calendar did not need our help.

One More Thing

One more thing. After graduate school, we lived in Princeton, New Jersey. As a young professional, my wife and I already had four children, so we chose to live a practical distance from the City. Every morning I would commute to my office at 60 Wall Street in Manhattan on the earliest train. My multi-point commute concluded on the PATH train, which terminated in the basement of the World Trade Center. I clearly recall the feeling of awe and amazement as I came onto ground level, with the towers' shadows obscuring any natural light as I took the short walk to my office. It was impossible not to look up and be conscious of the constant question in my mind, "How did I get here"?

On the morning of September 11, 2001, when the towers came down, I was at my office in Bellevue, Washington, having started a merchant bank two years prior. We turned on the television in the war room and watched news coverage, our faces as blank as the newscasters relaying the story live.

Friday was the twenty-fifth anniversary of the attacks. I had been uncharacteristically melancholy for days before and was surprised that in a full day of meetings the anniversary was never mentioned once. With certainty, the solemnity of the day was held more reverently in New York than in Utah. But history is a fickle thing. Perhaps that's why days of remembrance are poignant, and scriptures entreat us to live in a constant state of remembrance. Many stories of bravery, courage, and sadness could be told of that day. Each of them has a place in our remembrance. In this "one more thing" segment, I want to tell a more contemporary story from that day.

Cantor Fitzgerald occupied floors 101 through 105 of the North Tower. American Airlines Flight 11 struck the building below them at 8:46 in the morning, and in an instant those five floors became sealed. No open stairwell, no working elevator, and no rescue was possible for those above the point of impact. Of the 960 people Cantor employed in New York, 658 did not come home. For the firm, nearly seventy percent of the office tragically died. The largest loss suffered by any single employer that day.

Cantor's chief executive survived only because he stopped to walk his son into his first day of kindergarten. His brother died on the 104th floor. By any reasonable expectation, the firm would have folded. In a remarkable response, competitors offered desks and data connections. Their London office took on a heavy load and became the firm's center of gravity as it rebuilt. Within forty-eight hours of the attacks, when the Treasury market reopened on September 13, Cantor was open as well.

The firm's surviving leadership founded the Cantor Fitzgerald Relief Fund on September 14 and pledged twenty-five percent of the firm's profits for five years, along with ten years of health coverage to the families of the 658 who perished. The payments often exceeded the salaries the firm had been paying; the commitment came to roughly $180 million. A standing offer of employment was extended to the children of those who died, and hundreds have taken it. Every September 11, Cantor and its affiliate give away a full day's trading revenue to the fund, creating a philanthropic organization that has distributed over $300 million to victims of terror and natural disasters.

Today the Cantor organization counts more than sixteen thousand people across more than thirty countries. But the most important thing it built was not a larger balance sheet. It was a promise kept, and a way of keeping it that turned the worst day on the calendar into the most generous.

Howard, the Cantor CEO, has a picture of himself dropping off his Son Kyle at 8:48, two minutes after the tower was hit. Gary, his brother, was a managing director whose office was on the 104th floor. Immediately after the plane hit, he called his older brother Howard, but the calls did not go through. In desperation, he talked to their sister Edie and told her he was going to die and to tell Howard that he loved him. Howard's closest friend, Doug Gardner, also died in the tower.

Howard raced downtown from hospital to hospital, searching for anyone from his firm. No one from the 101–105th floors survived. He was near the site when the south tower collapsed and took cover to save his life. He was a public face for the city's grief. For thirty-five days, he went to twenty funerals per day.

Howard was born Howard William Lutnick on July 14, 1961. He was the middle child of three, with a younger brother, Gary, and a sister, Edie. They lost their mother when Howard was sixteen and their father when he was eighteen. He graduated from Haverford College in 1983 and went directly to Cantor Fitzgerald as a bond trader. He rose to president and CEO at 29 and became chairman in 1996. He is now the US Secretary of Commerce.

Howard Lutnick is a stunningly normal American. We may not share his political views. I do not. But he is one of many who step up every day, make difficult decisions, and do their best. The stories of September 11, 2001 were full of people like him. He, like many, lives his life in the arena. This story highlights the power of the ordinary to change the world and individual lives, one by one. Perhaps we are sometimes overly critical of doers as we watch from the safety of the cheap seats. Perhaps we give a little more grace to those in the battle. Perhaps, whatever our persuasion, we can be more willing to hop in the arena.

We will never forget. That's it for this *Weekender*.

Disclosure Statement

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