Disney's Folly

Weekender

September 26, 2026

A sick society is not merely one in which corruption is practiced, but one that also makes excuses for it.

Fyodor Dostoyevski

The plain fact is that inflation is too high and has been for too long.

Kevin Warsh, September 16, 2026

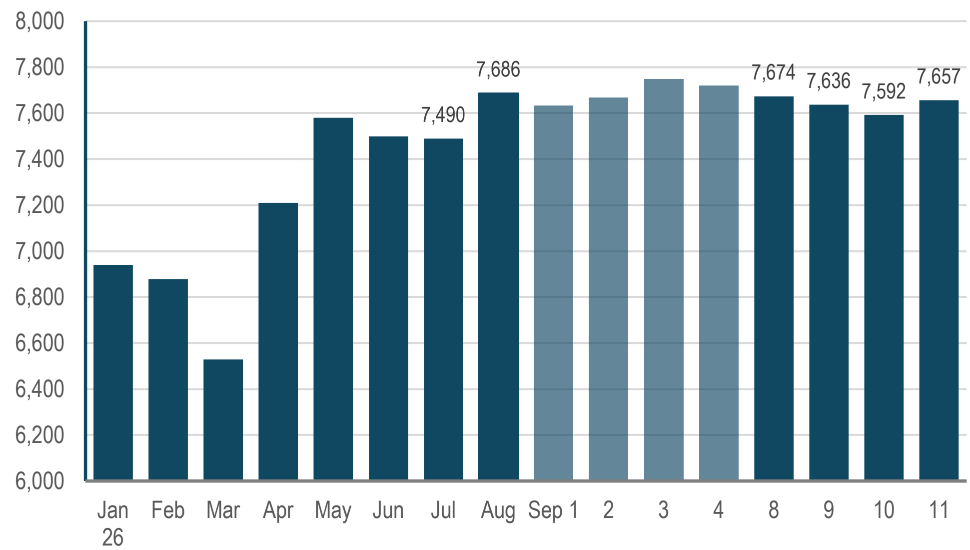
I would be hard-pressed to describe broad financial conditions as restrictive. The Committee widely shared this view, so we removed some accommodation.

Kevin Warsh

Good morning and welcome to the *Weekender* for Saturday, September 26, 2026. Equity markets, as measured by the Standard & Poor's 500, were up 1.2%. Strong weekly equity returns were driven by a pop early in the week. As attractive as the weekly gain ended, the real story was in fixed income markets, where the 30-year US Treasury bond yield closed at 5.5%, a level not seen since May 2004, more than 20 years ago. The same group that brought us here delivered equity gains—the Magnificent Seven. This week, the Magnificent Seven rose 3.1%, while the rest of the S&P 500, excluding the Magnificent Seven, rose 0.9%.

S&P 500 Index Levels

(Source: Bloomberg)



In bullet form, the following data drove markets this week.

- The Federal Reserve raised interest rates even as parts of the economy softened. This was due to rising inflation expectations.
- The ten-year Treasury moved through 5%.
- Oil remained in the 90's.
- Consumer confidence deteriorated.
- Manufacturing output declined.
- But, oddly, retail sales surged, unemployment claims hovered near generational lows, new-home sales jumped, business investment strengthened, and the Atlanta Fed's GDPNow model recently estimated third-quarter economic growth at an extraordinary 5.1% annualized rate. Although detailed numbers are not available, economists expect at least half of economic growth to be directly or indirectly attributed to artificial intelligence.

As the data above support, we are living through a period in which things that normally move together are moving apart. Consumers are spending while telling pollsters they are miserable. Housing is struggling while new-home sales are rising. Artificial intelligence is producing an investment boom while increasing the demand for borrowed money. Inflation is above target while real economic growth remains strong. And outside the United States, the geopolitical institutions created after the Second World War increasingly appear incapable of containing the forces that, without hyperbole, are pulling the world apart.

I am a post-war baby. Born in 1962, I am a bookend to the baby boomers, who ended in 1964. What history I did learn, educated in the California school system, highlighted the power of the global collective, largely monitored and curated by the not-always-invisible hand of the United States of America. Since the end of World War II, the US ensured a curtain of security for the world. Global shipping lanes remained largely open. International institutions supplied a framework—imperfect but recognizable—for resolving disputes. Globalization allowed companies to optimize supply chains around cost rather than security. Capital could move freely. Energy could move freely. Goods could move freely. As an architecture, this global structure worked remarkably well, especially when compared to the haphazard structure that preceded it for hundreds of years.

That architecture is under extraordinary strain.

The Middle East conflict is disrupting energy and shipping. Great-power competition between the United States and China increasingly affects technology, trade, and capital allocation. Governments are subsidizing domestic manufacturing, securing critical minerals, restricting technology transfers and rebuilding defense industries. Supply chains are being designed for resilience rather than merely efficiency. Even UN Secretary-General António Guterres acknowledged this week that the world's mechanisms for collective action are "under growing strain" and that international institutions reflect the power arrangements of a "largely bygone age."

On Wednesday, the president of Argentina stood in the General Assembly hall and told the United Nations to its face that it had become a useless organization whose only purpose is to sustain a caste of "fatally arrogant parasites" masquerading as bureaucrats. Javier Milei's third UN address opened by conceding the nobility of the founding charter, then argued the institution had broken its "sacred covenant," failing at collective security, sheltering dictatorships, permitting terror to flourish, while excelling at telling free peoples how to live. He described the result as a curious mixture of anarchy and tyranny: impotence toward those who break the basic rules, and Orwellian control over the democracies that keep them. He then pressed the Malvinas claim, threatened to exclude any oil company drilling in the disputed waters from Vaca Muerta, and closed by attacking efforts to regulate artificial intelligence. Set aside the rhetoric and the Falklands grievance, which most of the room found tiresome. The substance of the indictment is one that markets have been pricing all year: the postwar architecture no longer does what it was built to do.

Consider the evidence of a single fortnight. A war with Iran is in its seventh month, and the Strait of Hormuz is open only under escort; crude is a hundred dollars because no institution, multilateral or otherwise, can guarantee passage. The two largest economies met in Washington this week, and the summit concluded with a tour of the Archives and no concrete agreement on trade or tariffs. The world's reserve-currency issuer carries debt above $40 trillion and 125 percent of output, and its own Treasury cannot arrest a selloff in its longest bonds. Japan has already intervened to steady the yen once this summer. A sitting head of state can call the UN useless, and the market does not flinch, because it reached the same conclusion quietly some time ago. Milei's speech didn't cause any of this. It was the first time a member said it from the podium.

Argentina itself is an example of the dramatic shift the world is embracing. A commodity exporter with a president who is, whatever else, on the right side of the barrel. We have preferred democratic emerging markets with commodity leverage since August. Nothing said in New York this week argued otherwise. But it would be foolhardy not to begin placing our own risk premium on a world that is increasingly less reliable and less predictable. In market and economic terms, what happens in Argentina is the equivalent of a tempest in a teacup. But it is not an isolated tempest. It's become increasingly generalizable since the overnight sensation of Brexit.

As always, please consult a qualified financial advisor before making any meaningful financial decision. If you would like to speak with someone at Keeler Thomas, please reach out and set an appointment through our website, www.keelerthomas.com.

Market Narrative

The last two letters argued that money has a price again. The data of the past fortnight did not so much confirm that as demand it. The August consumer price index rose 0.4% for the month and held at 3.4% for the year, with gasoline alone responsible for more than a third of the monthly gain; core prices rose a hotter-than-forecast 0.3% even as the annual core rate eased to 2.4%, the lowest since March 2021. The day before, producer prices rose 0.4% and 5.4% over the year, with processed-goods prices up 1.8%, signaling pipeline pressure still upstream. That pairing- headline hot, core drifting down, wholesale costs building- is exactly the profile that lets a central bank hike without admitting it has an inflation problem. It did. On September 16, the Committee moved to 3.75–4.00 percent, its first increase since 2023; the same morning, August retail sales rose 1.2 percent, far exceeding expectations.

This week filled in the rest of the picture, and none of it argued for a pause. Initial jobless claims fell to 197,000, one of the lowest readings since 1969. The flash purchasing managers' surveys were the shock of the fortnight: manufacturing printed 57.0 against a 53.6 forecast and services 58.7 against 55.8, both consistent with an economy running at a five-year high, with input costs rising at the steepest rate in four years on fuel and transport. Durable goods were flat in August, but orders for nondefense capital goods excluding aircraft, the cleanest read on business investment, rose 1.6 percent, triple the forecast. Business is not waiting for cheaper money.

Housing is the one sector paying the full bill. Starts fell to a 1.275 million pace in August, the lowest since last October, with multifamily down 22.5%. New-home sales rebounded 6.4% to 684,000, but the median price of $393,700 is 5.8 percent below a year ago, and inventory sits at 8.5 months' supply. Builders are selling with price and rate buydowns. Households are paying their bills too, at least in mood: the final Michigan sentiment index came in at 48.1, up marginally from the 47.8 preliminary, but the worst in four months, with year-ahead inflation expectations at 4.6%, the highest since June, and the five-year measure edging to 3.4%. The gap between what consumers do (spend) and what they say (despair) is now the widest we can recall.

Right now, the biggest boogeyman from higher interest rates is showing up in the commercial and retail office sector, where marquee buildings in major metropolitan areas are selling for pennies on the dollar. While the knock-on effect has not yet been felt, related debt is being written down and off by large lenders, many of which were private credit funds. We believe a serious reckoning in private equity is imminent. Arguments like "our funds have much better underwriting standards" may pacify investors for now; a tipping point is forming where guilt by association will push that sector into broad declines, even if unjustified.

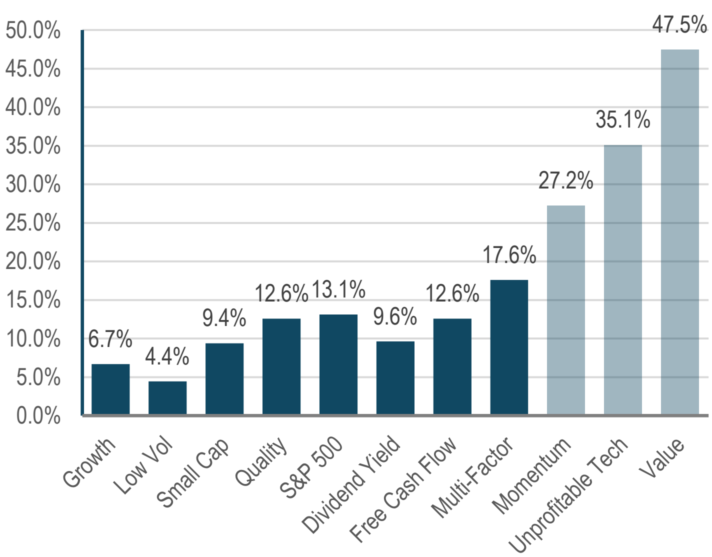
Value and Growth

Value, as an instrument and investment factor, has led by a large margin since the beginning of the year. To some extent, this reflects a broader rotation from growth. Heightened market volatility and a shift away from mega-cap concentration have favored lower valuations and quality fundamentals, with the rotation underpinned by supportive fiscal and monetary policy, a broad-based recovery in economic activity, and a broadening of AI investment into infrastructure-related sectors like industrials. Inflation and rates are secondary drivers. Value companies are shorter-duration assets that generate a greater share of profits sooner, making them less sensitive to rate fluctuations, and the Fed's more hawkish tone and resurgent inflation concerns in June swung momentum back toward value after growth briefly reclaimed leadership in April and May. Geopolitics are reinforcing the trade, with the Iran conflict and Strait of Hormuz disruption lifting energy and materials, sectors that dominate value indexes.

Factor Performance

Year-to-Date 2026

(Source: Bloomberg)



Another driver is valuation discipline reasserting itself after a six-year growth run. Investors have become more valuation-sensitive and less tolerant of earnings disappointments, with little tolerance for anything that deviates from expectations, which puts disproportionate pressure on higher-multiple growth stocks. Even with stellar earnings growth, AI anxieties are punishing upside capex surprises more than upside revenue results are being rewarded. Index mechanics amplified the result: technology stocks classified as value have outperformed growth-classified tech by nearly 70% this year, largely because names like Micron screened cheap on trailing fundamentals before their earnings exploded. The Russell 1000 Value Index has returned roughly 32% over the past year, so part of "value's" win is that value benchmarks happened to own the right semiconductors at the right time.

We believe investors should be cautious about reading more into the "value" rotation than a move toward quality names and an energy play. The quality rotation is durable and warranted. Investors should trim growth exposure in favor of quality. But the energy premium is likely to have been traded away over the next year in ways no one expects. Venezuela will rise, oil prices will become geographical and less global, and prices will settle closer to Venezuela's lifting costs.

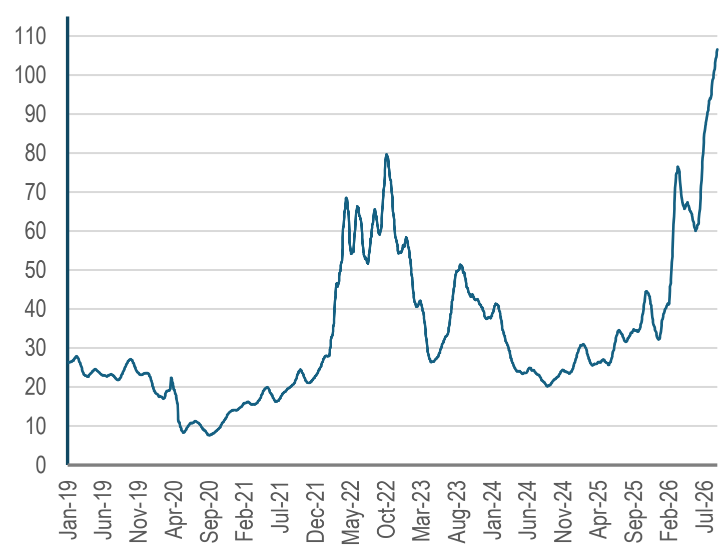
Oil Gives a Little Back

Crude spent the first half of the week extending its surge and the second exhaling after Saudi Arabia said it could restore half its damaged east–west pipeline within days and began routing barrels through Hormuz with U.S. help. While crude settled around $93 per barrel this week, nothing suggests a cure is forthcoming. Crude is still up more than twenty percent in two and a half weeks, gasoline is still above four dollars, and the war grinds into its seventh month. Ukraine's increasingly successful attacks on Russian energy infrastructure continue to pressure European production while crude stockpiles around the world are falling to the point that operating buffers are about to be breached, which will generate regional shortages, nervousness, and much more conservative consumer behavior. The crack spread on diesel is another interesting example, having just hit an all-time high.

Diesel Crack Spread

January 2019 - September 2026

(Source: Bloomberg)

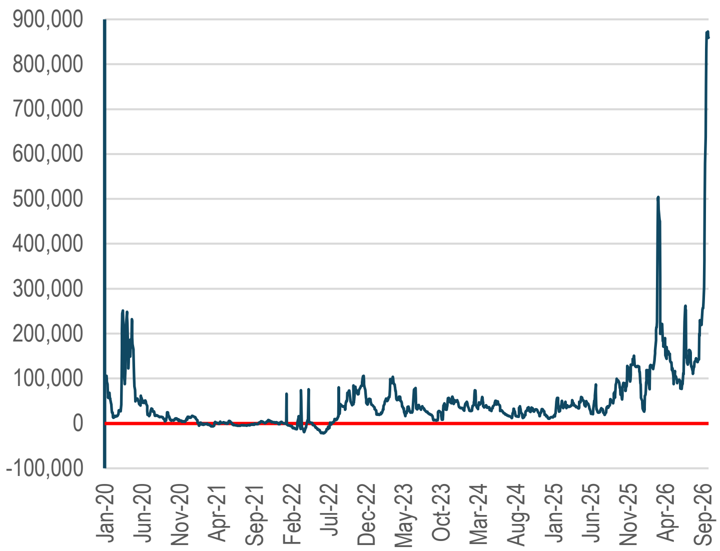


Spot rates for shipping crude from the Gulf have also just hit all-time highs. China depends heavily on imported crude and is strongly affected by current energy markets. US consumers pay an international price for energy, but the supply-and-demand dynamic differs sharply from China's. US energy markets are self-sufficient, meaning US production meets demand. In addition, Venezuelan production, which is quickly returning to historical levels, has been hitting markets for the last few months, and the United States has been importing.

Freight Rates

January 2020 - September 2026

(Source: Bloomberg)



We are very concerned about the global energy complex. Handicapping a potential future outcome is impossible. On the positive side, Iran could lose its ability to foist a nuclear weapon on another sovereign nation. But that possibility remains highly uncertain, and the cost to bring it about would be very dear on the negative side: Armageddon, which, among many of Iran's dominant clerics, is their God-given responsibility. Those are the tail risks, and the most likely outcomes lie somewhere in the middle. But the middle is not particularly positive or likely. Iran's governing structure seems diverse and ideological, making any appeal to real diplomacy unlikely to stick. Attacking their neighbors is drawing battle lines likely to harden positions and make diplomacy less likely to be pursued and never reliable.

Five Buckets Review

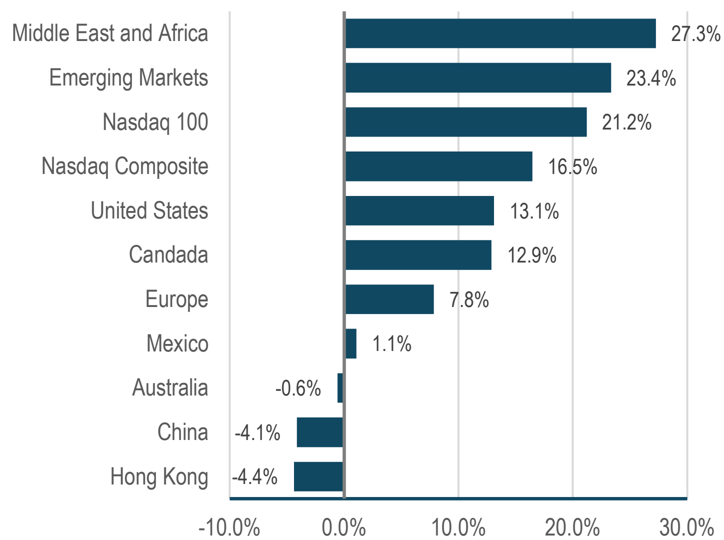
Five categories—countries, instruments, sectors, themes, and special situations. A week the whole book had to price a single decision.

Countries. The United States led lower for a second week under the weight of its own yields, and the market must digest a curve entirely above five percent. Europe's surveys firmed, Japan's inflation kept the Bank of Japan on a hiking path, and the dollar strengthened anyway. China gained nothing from the summit. Argentina reminded everyone why exporters of the barrel trade differently from importers; our preference for democratic, commodity-levered emerging markets stands.

Country Returns

Year-to-Date 2026

(Source: Bloomberg)

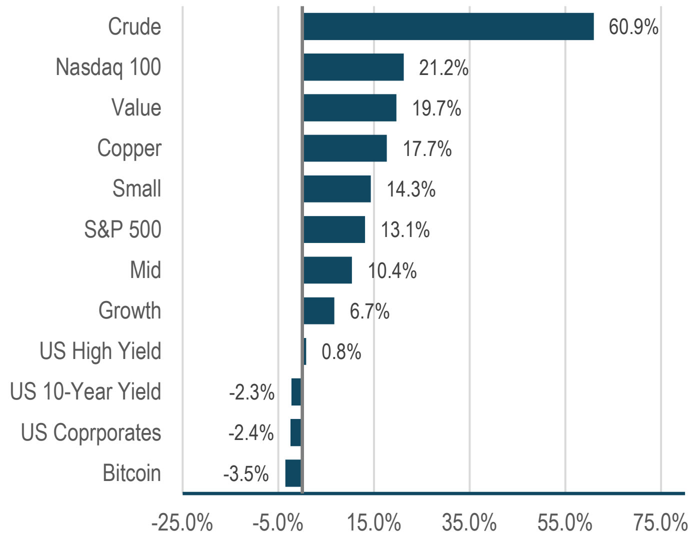


Instruments. The long bond was the instrument of the fortnight and set a twenty-two-year high; the thirty-year at five and a half is the number to remember. Crude and yields rose together, an unusual and unwelcome combination; gold held; the dollar firmed; bitcoin remains a bounce in search of a thesis. We hold bonds for clients who need stability or income and intend to hold them to maturity, so price does not trouble us—but we would not buy duration for capital gains here. At four percent overnight, cash is an allocation again, not a parking lot.

Instrument Returns

Year-to-Date 2026

(Source: Bloomberg)

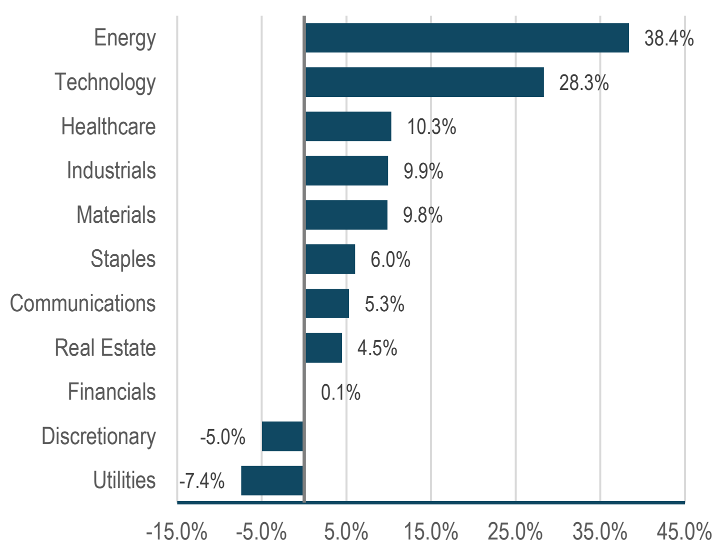


Sectors. Housing and homebuilders are paying the full price of the cycle, buying sales with concessions as starts fall to an eleven-month low. Financials remain caught between a curve they like and a credit cycle they do not. Energy tracked crude higher. Technology was the relief valve again—sorting between balance sheets that can fund the build at four percent and those that merely promise to continue —and this week's infrastructure deals landed on the right side of it. Consumer discretionary is where the sentiment survey finally shows up in prices.

Sectors Returns

Year-to-Date 2026

(Source: Bloomberg)

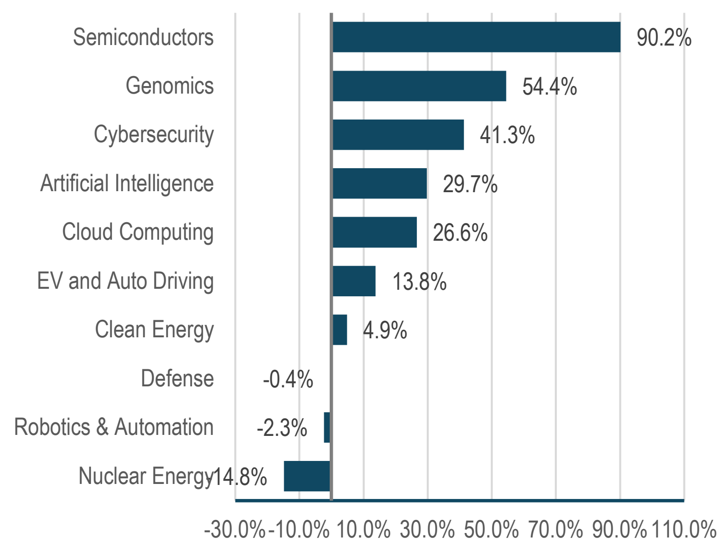


Themes. Money has a price, the world has a risk premium, and the two compound. Wednesday's yield move on a PMI print is what that looks like. The AI build is real, expensive, and increasingly a question of financing rather than demand. The fracturing order rewards the tangible: power, metals, fuel, and the countries that produce them. Clean energy stays the orphan of high real yields. Inflation expectations at 4.6 percent are the theme the Fed will not be able to ignore.

Theme Returns

Year-to-Date 2026

(Source: Bloomberg)



Special Situations. October 28 is now live; the market has moved from "December, probably" to "October, possibly," and next Friday's jobs report and Wednesday's PCE will decide it. A diesel export ban would be a special situation of the first order for refiners and for global fuel markets alike. The private-credit reckoning we have flagged sharpens with every basis point on the risk-free rate.

One More Thing

One more thing. In 1928, on a train somewhere between New York and Los Angeles, a young animator sat with the worst news of his career. His distributor had just poached most of his staff and taken his one successful character, Oswald the Lucky Rabbit, which he didn't own and couldn't get back. Walt Disney had already buried one studio in bankruptcy in Kansas City a few years before; now the second had been gutted. By the time the train reached California, he had begun sketching a replacement—a mouse. We do not remember Oswald. The point is not that Disney got lucky on a train; it is that the mouse existed only because the rabbit was lost, and that a man who had already failed twice met the loss as a prompt rather than a verdict.

That became the pattern of his life. When he proposed the first feature-length animated film, the industry called it “Disney’s Folly” and waited for the ruin; Snow White instead rewrote what the medium could do. When Disneyland opened in 1955, the asphalt was still soft, rides stalled, counterfeit tickets flooded the gates, and a heat wave melted the afternoon into what the staff came to call Black Sunday. Disney did not treat the park as finished and defend it. He treated it as a first draft—“Disneyland will never be completed,” he liked to say, “as long as there is imagination left in the world.” He had a whole disposition folded into one phrase: it was, he said, kind of fun to do the impossible.

He was not alone in this, only unusually cheerful about it. Edison ran through thousands of filaments before one held its light, and he spoke of the failures as results—each one a fact he now owned. James Dyson built five thousand one hundred and twenty-six prototypes of his vacuum that did not work before the one that did, and he has said the failures were the interesting part, because each told him something a success never could. What these people share is not genius so much as a particular relationship with failure. They did not brace against it and hope to avoid it; they industrialized it—made it small, frequent, cheap, and informative—so that being wrong became the ordinary cost of eventually being right. Failure was tuition, paid in installments, for an education available no other way.

In the end, this is an investor’s discipline as much as an artist’s. A portfolio is a set of experiments running at once; a career is another; a life is the largest one of all. The task is never to avoid being wrong—the world changes too fast and too often for that, and the oldest truth in these pages is that nothing endures but change. The task is to structure the experiments so that no single failure can end the game, and to keep running them long enough for the rare, outsized success to arrive and pay for all the rest. That is what position sizing is really for, along with diversification and the humility to cut a loss while it is still small. Disney said we keep moving forward because curiosity keeps leading us down new paths—and the mice and the castles are all downstream of a man who was willing, again and again, to begin. The people who embrace change are not the ones who feel no fear of it. They are the ones who have decided, in advance, to treat every loss as the first sketch of the next big thing.

Thats it for this *Weekender*. Have a wonderful week.

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