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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 19, 2026**

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Last week's S&P 500 Index: +0.4%

A weaker jobs report clouds the Fed's timing

Key takeaways

- With inflation high and the path for oil prices murky, investors have increasingly expected the Federal Reserve (Fed) to raise interest rates. July's weak jobs and retail sales reports cloud the path forward for rates, but inflation remains a key focus.
- We believe volatility in inflation and in rates is likely to remain high, increasing risks for bond investors. We prefer to limit exposure to these risks through investment in shorter term bonds.

One of the most difficult challenges we face in life is balancing competing priorities. Prioritizing one goal, even when warranted, often means less focus on another. This issue isn't limited to our personal lives. It's the very same challenge the Fed finds itself in through its dual mandate: keeping inflation under control while supporting maximum sustainable employment.

With inflation still above the Fed's target, energy prices vulnerable to Middle East-related supply shocks and accelerating rents and medical care costs, the Fed is understandably focusing on inflation, and investors are pricing in rate hikes. Hiking rates would help slow inflation but would weigh on the economy. However, a resilient jobs market and strong economic growth could withstand modest rate hikes. Against that backdrop, the Fed could justify keeping its focus on inflation even as it monitors the jobs market.

July's jobs and retail sales reports shifted some attention back to the employment side of the dual mandate. While the unemployment rate fell to 4.1%, job growth slowed, fewer people were looking for work, and hiring in previous months was revised lower. Retail sales reported on August 12 were also weak. These reports are more likely signs of a pause than of growing economic weakness, but they introduce questions and uncertainties.

Namely: can the economy still absorb potentially higher borrowing costs? Recent Fed commentary has remained focused on returning inflation to its 2% target. Still, the latest inflation data did not show the increase some had feared. While the data may complicate the timing of the Fed's next move, it does little to change our broader view. Inflation remains elevated, economic growth remains resilient, and the risks for rates remain tilted higher. We now see the Fed delivering two rate hikes over the coming year. This may continue to make the environment unfavorable for long-term bonds.

Just as the Fed must balance competing priorities, investors should focus on balancing risk and reward. We believe today's bond market still favors shorter-term over longer-term bonds. While longer-term bonds offer somewhat higher yields, they also have greater exposure to the level of interest rates at a time when inflation remains a concern. In our view, investors do not need to reach for long-term bonds to find attractive income opportunities. Short-term investment-grade corporate bonds continue to offer a compelling combination of yield, lower sensitivity to interest-rate changes, and less exposure to the risks facing longer-term bonds.

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