

September 2026 Recap

September 2026 Energy Inflation and Higher Interest Rates MONTHLY MARKET COMMENTARY

September's central market story was a connected sequence: the war involving Iran disrupted major energy routes, fuel prices rose, and central banks responded to the added inflation risk with higher interest rates or warnings that rates could rise. That matters because higher energy and borrowing costs can reach household budgets, company profits, government finances, bonds, and stocks at the same time.

The conflict reached markets through energy

The war involving Iran entered its seventh month in September. Early in the month, U.S. forces struck Iranian tankers, Iran's Revolutionary Guard fired missiles at U.S. Navy ships, and Tehran moved to declare a restricted zone outside the Strait of Hormuz, one of the world's most important oil shipping routes. Houthi forces later captured Yemen's port of Mokha and targeted Saudi tankers near the Bab el-Mandeb strait. An Iranian strike on a vessel in Hormuz killed a crew member.

No single event explains the full market reaction. The concern was the combined pressure on the routes that carry crude oil and refined fuels around the world. Diesel prices reached records in the United States, raising costs for trucking, farming, and manufacturing. The administration considered restricting diesel exports, then set the idea aside. Late in the month, Saudi Arabia restarted its East-West pipeline and resumed loading at the Red Sea port of Yanbu, helping Middle East exports recover and easing some of the pressure.

Diplomacy continued without a settlement. During the United Nations General Assembly, Iran proposed reopening Hormuz in return for sanctions relief, access to frozen assets, and an end to hostilities. President Trump rejected that proposal publicly but said negotiations would continue. Both sides were still speaking with mediators near month-end. A route to de-escalation therefore remained possible, but its timing and terms were highly uncertain.

Central banks reacted to the inflation risk

Energy is an input for transportation, production, and many services, so a lasting price increase can spread beyond gasoline and utility bills. Central banks were trying to prevent that first rise in energy costs from feeding into wages, service prices, and expectations of future inflation.

The European Central Bank raised its three main interest rates by one-quarter of a percentage point on September 10. It directly cited inflation pressure from the Middle East conflict. At the same time, it raised its euro-area growth outlook because the economy had held up better than expected. The bank stressed that the outlook was uncertain and that future decisions would depend on incoming data rather than a preset schedule.

The Federal Reserve followed on September 16 with a unanimous one-quarter-point increase, its first rate increase since 2023. The Fed said the economy was expanding at a solid pace, domestic spending was resilient, and inflation remained elevated. It also said uncertainty was high in part because of geopolitical events. Chair Kevin Warsh said inflation had stayed too high for too long. Officials identified fuel costs,

lingering tariff effects, and heavy investment in artificial intelligence as sources of price pressure. Their updated projections left open the possibility of more increases in 2026.

On September 18, the Bank of Japan raised its policy rate to its highest level in more than three decades. Governor Kazuo Ueda described a change from trying to create inflation to trying to keep it from overshooting. Two officials dissented, and the yen weakened, signs that markets did not expect rapid increases. The Bank of England kept its rate unchanged, but three policymakers voted to raise it and the bank warned about inflation. Australia's central bank also raised rates late in the month.

Taken together, these decisions changed the question facing investors. For much of the previous two years, many expected central banks to lower rates gradually. By September, the focus had shifted to how far rates might need to rise to keep the energy shock from becoming a broader and more persistent inflation problem.

Bond markets reset the cost of long-term borrowing

High energy costs, stronger-than-expected business surveys in the United States and Europe, and weak demand at a U.S. Treasury auction helped trigger a sharp global bond selloff during the final full week of September. When investors sell existing bonds, their prices fall and their yields rise. A yield is the return a buyer receives for holding a bond at its current price.

By month-end, yields on long-term U.S. Treasury bonds were at their highest levels in about two decades. Japanese government bond yields also reached levels not seen in decades, while financial stocks were among the weakest parts of the U.S. stock market.

Higher long-term yields affect more than bond investors. They can raise mortgage rates and company borrowing costs, increase the amount governments pay to service debt, and make bonds more competitive with stocks. Some investors read the move as a warning that tighter financial conditions could eventually weaken demand and slow the economy, even though current economic data remained firm.

The U.S. economy looked firm while households felt worse

August payroll growth was the strongest in five months, the unemployment rate held steady, and business surveys showed strong expansion. Consumer inflation, however, accelerated again as gasoline prices rebounded. Those price data strengthened the case for the Fed's September increase.

Consumer confidence fell to its lowest level since 2014 across age groups, income levels, and political affiliations. Survey respondents pointed to higher prices, energy and mortgage costs, and concern about finding work. Job openings also declined in August, and fewer people said jobs were plentiful. The labor market may therefore have been cooling at the edges even while payroll growth remained solid. The gap between firm activity and worried households was an important tension heading into the fourth quarter.

Other September developments changed the balance of risks

U.S.-China relations improved modestly. President Xi Jinping visited Washington and met with President Trump. The two leaders extended the trade truce into January and agreed to formalize talks about artificial intelligence. The countries then published lists of goods eligible for lower tariffs, including U.S. farm products and medical devices and Chinese household goods. The agreement was limited. China had not always met earlier purchase commitments, and U.S. soybeans were excluded. Even so, the step reduced some uncertainty in the relationship between the world's two largest economies.

Europe faced political and budget pressure. Investors demanded the largest extra yield on French government debt over German debt since the 2012 eurozone crisis. Concerns included France's deficits, its divided parliament, and the 2027 presidential election. An austerity budget due in early October would test the government's ability to rebuild confidence. The growing strength of populist parties in France and Germany also raised longer-term political questions.

The Russia-Ukraine war continued without a clear route to peace. U.S.-brokered talks resumed, but President Vladimir Putin said Russia would weigh its own interests before answering proposals. Long-range attacks by both sides intensified. The war continued to add uncertainty to energy markets and to increase Europe's defense and budget burdens.

China's official surveys showed manufacturing, services, and construction returning to growth in September. The improvement was helped by demand for artificial intelligence hardware and a rebound from summer weather disruptions. Beijing announced mortgage subsidies and more lending support for infrastructure, technology, and small businesses. Economists described the package as targeted rather than broad. Weak household spending and the continuing property downturn remained the main constraints.

Artificial intelligence investment remained a major market force, but confidence in the theme became less stable. Calls from prominent technology leaders for stronger safeguards, and possibly slower development of the most advanced models, helped trigger a sharp decline in semiconductor and data-center-related stocks. The largest technology platforms held up better as investors considered whether slower spending on new capacity could improve their cash flow. The episode showed how much optimism was already built into AI-related share prices and how quickly policy or industry debate could change it.

Congress removed one immediate risk by passing temporary funding that keeps the federal government open through December 11. That pushed the larger spending fight into the session after the November midterm elections, leaving lawmakers only a few weeks to settle full-year funding. With voters focused on affordability, energy prices and the cost of living were likely to remain central campaign issues.

An Every Day Comparison

Think of the energy shock as a higher toll charged on nearly every delivery route: the first bill goes to the truck, ship, farm, or factory, but part of it can eventually show up in the price paid by households. The comparison has limits because companies may absorb some costs, demand may weaken, and energy prices can reverse; the effect is not automatic or equal across the economy.

What matters in practice

October's outlook depended on several connected questions. Could U.S.-Iran talks reopen shipping lanes on durable terms? Would central banks deliver the additional rate increases they had signaled were possible? Would the September U.S. jobs report confirm that the labor market remained resilient? Could France pass a budget that investors considered credible? Third-quarter earnings would also show whether solid business activity or weak consumer confidence was having the larger effect.

For investors, the main trade-off was clear. Strong economic activity could support company earnings, but persistent energy inflation and higher interest rates could raise costs, pressure valuations, and eventually slow demand. The outcome would depend on the duration of the conflict, the response of energy supply, how widely fuel costs spread into other prices, and how forcefully central banks reacted. Periods when geopolitics, inflation, and interest rates move together can be unsettling. A long-term investment plan should still reflect the investor's goals, time horizon, and ability to tolerate losses. This commentary is general information, not individual investment advice. Anyone considering a change should discuss the decision with a financial professional who understands their circumstances.

What September Showed

September showed how a disruption in energy supply can travel through prices, interest rates, bonds, and household finances, while the final outcome still depends on the conflict, energy markets, and central-bank decisions.

Sources

[Reuters](#), [Goldman Sachs Asset Management](#), [Federal Reserve](#), [CNBC](#), [European Central Bank](#), [CNN Business](#), [Deutsche Bank](#), [Reuters](#), [Fortune](#), [Akin Gump](#), [NPR](#)

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