



BIRLING
CAPITAL ADVISORS, LLC

Think Strategically

AI's two faces, a Fed drawing a harder line, and a competitive midterm: four questions converge in September

August 31, 2026

Francisco Rodríguez-Castro, President & CEO

The weakest month for stocks arrives as Nvidia reports its strongest quarter, with the Fed reasserting its inflation line.

September carries a reputation few investors relish, and the data back the reputation up. Since 1950, the S&P 500 has averaged a return of roughly -0.6% to -0.7% in September and finished the month positive only 44% of the time — the only calendar month with a sub-50% hit rate. Zoom in further and the pattern gets worse before it gets better: since 2000, the average September return widens to roughly -1.4%, and the Nasdaq has averaged a -0.9% decline in the month since 1985. Midterm election years have historically compounded the effect, and 2026 is one such year. None of that is a forecast — it is a 75-year base rate that tilts the odds, not a guarantee about any single year — but it is the backdrop against which everything else this month has to be read.

This year, that seasonal headwind is colliding with a genuinely unusual amount of signal. Nvidia just delivered its fifteenth consecutive beat-and-raise quarter and guided to roughly 70% revenue growth for the coming year, nearly 24 points above the 46% consensus estimate, with management explicit that customer demand implies growth closer to 100% and that supply, not appetite, is the binding constraint. At the very same moment, U.S. employers have cut roughly 127,000 technology jobs so far in 2026 — already above all of 2025 combined — and outplacement trackers count roughly 205,000 layoffs nationwide, with AI or automation cited as a direct cause; a total 2025 took 12 months to reach, and 2026 matched it in 8. Layer on a Federal Reserve that used its most closely watched speech of the year, Chair Kevin Warsh's Jackson Hole remarks on August 28, to push implied September rate-hike odds from roughly 35% to roughly 60%; a labor market that just posted its first outright monthly job loss of the cycle, a 23,000-job decline in July against a consensus call for an 83,000-job gain; and a midterm election where national generic-ballot polling has shown Democrats ahead by 6 to 8 points against a House Republicans currently hold by a bare 220-213 margin — and September 2026 is not short on things to resolve. We think all four threads are connected, and worth walking through together.

That collision was visible in real time this past week. The Dow Jones Industrial Average added 0.53% to close at 53,559.76, and the S&P 500 gained 0.49% to 7,711.76, pushing their year-to-date returns to 11.44% and 12.75% respectively — the broad market shrugging off the seasonal script for now. The Nasdaq Composite added to the broad market's gains, rising 0.85% on the week to 26,402.42 as strong earnings from Nvidia and its AI-infrastructure peers reinforced the case for the sector's richest valuations rather than triggering a rotation out of them; the Nasdaq remains up 13.60% year-to-date.

AI's two faces, a Fed drawing a harder line, and a competitive midterm: four questions converge in September

Closer to home, the Birling Puerto Rico Stock Index held essentially flat, slipping 0.03% to 5,054.34, but stays 2026's standout performer with a 27.47% year-to-date gain, while the Birling U.S. Bank Index added 1.12% to 10,388.37 for a 13.49% year-to-date advance. In fixed income, the curve moved in opposite directions on the week: the 2-year Treasury yield rose to 4.34% from 4.24%, a sharp repricing of near-term Fed expectations, while the 10-year eased slightly to 4.73% from 4.74% — long-term rates staying anchored even as short-term policy risk climbed, a flattening move worth watching as the Fed's September 16-17 decision approaches.



Wall Street Weekly Update	8/28/26	8/21/26	Change	YTD Return
Dow Jones Industrial Average	53,559.76	53,277.07	0.53%	11.44%
S&P 500	7,711.76	7,674.37	0.49%	12.75%
Nasdaq Composite	26,402.42	26,180.45	0.85%	13.60%
Birling Puerto Rico Stock Index	5,054.34	5,055.85	-0.03%	27.47%
Birling U.S. Bank Index	10,388.37	10,272.96	1.12%	13.49%
U.S. Treasury 10-Year	4.73%	4.74%	-0.21%	12.89%
U.S. Treasury 2-Year	4.34%	4.24%	2.36%	25.07%

AI's first face: the burden of proof shifts to the skeptics

Since ChatGPT's late-2022 debut, Nvidia's quarterly results have doubled as a referendum on the health of the entire AI ecosystem — the company now accounts for roughly a third of technology-sector profits and close to 8% of the S&P 500's market value. Heading into its latest report, skeptics had a reasonable case that spending on AI infrastructure had become genuinely enormous. The results argued the opposite. Nvidia extended its streak of beat-and-raise quarters to fifteen and guided to roughly 70% revenue growth for the coming year, well above the 46% consensus, with management explicit that the real constraint is supply, not demand — customer orders imply growth closer to 100%. A roughly 15% increase in chip pricing, driven by higher memory costs, tells the same story from the other direction: buyers are absorbing higher prices rather than walking away. The debate is also broadening beyond chips. Software results, Salesforce chief among them, pushed back on the idea that AI will cannibalize the software industry. That group has begun clawing back ground it lost to semiconductors over the past year.

AI's other face: the fastest-growing driver of layoffs

Set against that investment story is a labor-market story moving in the opposite direction. Through August, U.S. employers had cut roughly 127,000 technology jobs this year — already more than all of 2025 combined — and outplacement trackers now count roughly 205,000 layoffs nationwide with AI or automation cited as a direct cause. This total took the full year to reach in 2025 and only eight months to match in 2026. Two of the most rigorous outside voices on this question, MIT's Daron Acemoglu and Neil Thompson, land in different places: Acemoglu expects a contained near-term hit — 2%-4% of the workforce over five years, concentrated in routine, cognitive white-collar work such as customer service and back-office processing — but warns the longer-run losses could be considerably larger if AI investment keeps favoring replacement over complementing workers. Thompson describes the more likely near-term pattern as a "rising tide, not a crashing wave": real, uneven churn rather than sudden mass displacement, since capability alone doesn't automate a job — reliability, data access, and cost also have to line up.

Goldman Sachs' own modeling splits the difference usefully: AI substitution is currently subtracting about 25,000 jobs a month from U.S. payrolls, while augmentation is adding back roughly 9,000, for a net drag of about 16,000 jobs a month and a 0.1 percentage-point lift to the unemployment rate — small in

AI's two faces, a Fed drawing a harder line, and a competitive midterm: four questions converge in September

aggregate, but concentrated heavily among entry-level and routine white-collar workers, whose unemployment and wage gaps versus experienced peers have widened noticeably since mid-2025.

Why both faces matter for how you invest

These two AI stories are not really in tension — they are the same investment cycle viewed from two different vantage points, and Wall Street is already pricing them that way. Investors have concentrated their enthusiasm in the AI infrastructure complex, where the earnings benefit is tangible today, while remaining unconvinced that the labor-productivity story has actually shown up in company earnings: only about 2% of S&P 500 firms have tied AI productivity gains to a specific earnings benefit, even though more than half discussed AI's role in productivity on recent calls. We expect that gap to close only gradually, as the market waits for real evidence that labor-productivity gains translate into durable margin improvement, and we think the AI trade broadens beyond infrastructure once that evidence arrives — not before.



The Federal Reserve draws a harder line — and says less about how it gets there

Late August also brought the Fed's Jackson Hole symposium, and Chair Kevin Warsh used it to remove a layer of ambiguity that had built up since July. He reaffirmed the Personal Consumption Expenditures price index as the Fed's primary inflation gauge. He restated that the 2% target is not up for negotiation, while describing an economy that remains resilient — solid consumer spending, healthy business investment and corporate profits, a labor market still consistent with full employment — but with inflation, in his words, "quite elevated." With policy not clearly restrictive and prices above target for more than five years, Warsh signaled the Fed still has work to do.

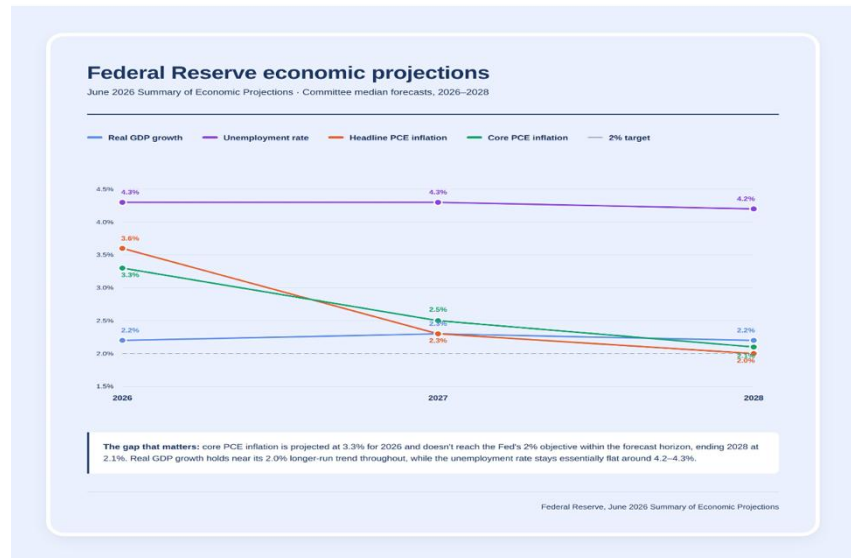
Given current rates, the FOMC has held the federal funds rate at 3.50%-3.75% since its last cut in December 2025, and it stayed there again at the July meeting. Warsh, in his first meeting as chair back in June, broke with 14 years of precedent and declined to submit his own dot to the Fed's quarterly Summary of Economic Projections, saying he prefers to let conditions speak for themselves rather than pre-commit the Committee to a path. The other 18 participants split almost evenly: nine projected at least one hike in 2026, six of those projected more than one, and nine projected rates unchanged or lower by year-end — a genuine committee-level disagreement, not the near-unanimous consensus the dot plot has usually shown in prior cycles.

A deliberate shift toward less guidance, not more. It is worth being explicit about what kind of clarity Warsh actually delivered at Jackson Hole, because it sits alongside a broader philosophy of communicating less, not more. At that same June meeting, the Fed paired Warsh's dot-plot abstention with a stripped-down policy statement that dropped the Committee's standard forward-guidance language entirely — a break sharp enough that rate-hike odds jumped from 35% to 57% within 48 hours of the meeting alone, before Jackson Hole ever happened. Warsh, a longtime critic of forward guidance as a policy tool, has argued publicly that pre-committing to a rate path boxes the Committee in and forces it to either follow through on stale guidance or unsettle markets by breaking from it. He has since

AI's two faces, a Fed drawing a harder line, and a competitive midterm: four questions converge in September

launched five internal task forces — covering Communications, the Balance Sheet, Data Sources, Productivity and Jobs, and the Inflation Framework — expected to report recommendations later this year, and is reportedly considering reducing the number of FOMC meetings held annually. The practical effect is that the dot plot and the Committee's Summary of Economic Projections are now carrying more of the Fed's signal than they used to, precisely because the chair has pulled back from adding his own voice on top of them. Jackson Hole was clear on the destination — 2% core PCE, non-negotiable — while staying deliberately vague on the route, which is exactly the combination Warsh's communications philosophy is designed to produce.

What the Committee is projecting. That same June Summary of Economic Projections put real GDP growth at 2.2% for 2026, 2.3% for 2027, 2.2% for 2028, and 2.0% in the longer run; the unemployment rate at 4.3% for 2026 and 2027, easing to 4.2% by 2028; headline PCE inflation at 3.6% for 2026, cooling to 2.3% in 2027 and 2.0% by 2028; and core PCE at 3.3% for 2026, 2.5% for 2027, and 2.1% by 2028 — a path that has the Fed's own preferred gauge sitting above target through the end of next year even in the Committee's own base case. Measured against July's actual reading of 3.3% core PCE, the data are tracking that projection almost exactly, which is precisely why Warsh's Jackson Hole remarks read as a genuine warning rather than routine language: the Fed's own forecast doesn't get back to target until 2028, and a Committee that is already split on hikes has little room to look past two more years of above-target prints.



How the bond market has reacted. Futures pricing for a September rate hike jumped to roughly 60% from about 35% before the speech. The move has been visible across the curve: the 10-year Treasury yield closed at 4.73% on August 28, an 18-month high and well above the sub-4% level it held before the U.S.-Iran conflict escalated in late February, while the 2-year note — more sensitive to near-term Fed expectations — closed at 4.34%, and the 30-year touched a 19-year high near 5.32% earlier in August before settling just under 5.3%. The 30-year fixed mortgage rate has held in the mid-6.60s%, per Freddie Mac's weekly survey, with the 10-year higher but with less volatility, and most housing economists expect it to stay above 6% through year-end. A Fed seen as credible on inflation helps cap the long end of the curve, which matters more for mortgages and corporate borrowing than short rates do, and the 10-year yield — even at 4.73% — remains within the broad range it has held since 2023 and below the economy's roughly 6.5% nominal GDP growth rate. That is not, in our view, an active threat to earnings or valuations, even if it continues to act as a modest constraint on multiples.

What to watch at the September meeting. The FOMC meets September 16-17, and it will do so with one more jobs report (September 4) and one more CPI print in hand, alongside a fresh Summary of Economic Projections and, potentially, Warsh's first dot of his tenure. A hike would be the Fed's first since it began cutting in September 2024, and — given the current 60/40 market split — either outcome should be treated as a close call rather than a foregone conclusion. We would watch the dispersion in the new dot plot as closely as the decision itself: a Committee that remains this divided is signaling that policy will stay

meeting-by-meeting and data-dependent well into 2027, not that a hiking or cutting cycle has decisively begun.

Beneath the headlines: jobs and inflation tell a mixed story

Jobs. July payrolls fell by 23,000 — a sharp miss against a consensus call for an 83,000 gain — while the Bureau of Labor Statistics also cut its May and June estimates by a combined 103,000. The unemployment rate held at 4.1%, and the composition matters: health care and construction kept adding jobs, while government and leisure and hospitality shed them. It is worth asking how much of that softness is due to broad economic cooling versus the AI-related displacement described above; the honest answer is that both are likely contributing, and the September 4 report will carry outsized weight in sorting out which force is dominant.

Inflation. Headline CPI eased for a second straight month to 3.4% year-over-year in July, with core CPI down to 2.5%, its lowest reading in five months. The Fed's preferred gauge tells a stickier story: core PCE held at 3.3% year-over-year, with headline PCE unchanged at 3.7%, as tariff-related costs continue working into core goods prices. Disinflation has not reversed, but it has stalled well above target — precisely the kind of ambiguity that makes the September rate decision a genuine coin flip rather than a formality.

A genuinely competitive midterm

Markets will also have to digest a midterm election that looks closer than the last two cycles. Republicans currently hold a narrow 220-213 House majority and a 53-47 Senate edge. Still, national generic-ballot polling through August has shown Democrats ahead by roughly 6 to 8 points, and most independent forecasting models now favor a Democratic takeover of the House, with the Senate closer to a toss-up. History offers two reassurances here: the president's party has lost House seats in nearly every midterm for a century, so current polling fits a well-worn base rate rather than an anomaly, and election-related market weakness has tended to be short-lived, fading once the range of plausible policy outcomes becomes clear. For Puerto Rico specifically, congressional control shapes the pace of federal disaster and infrastructure funding and the political appetite for addressing PROMESA oversight and Section 936's legacy — worth tracking alongside the island's own BPO and back-office sector, which sits squarely in the occupational categories most exposed to AI substitution.

September seasonality, in context

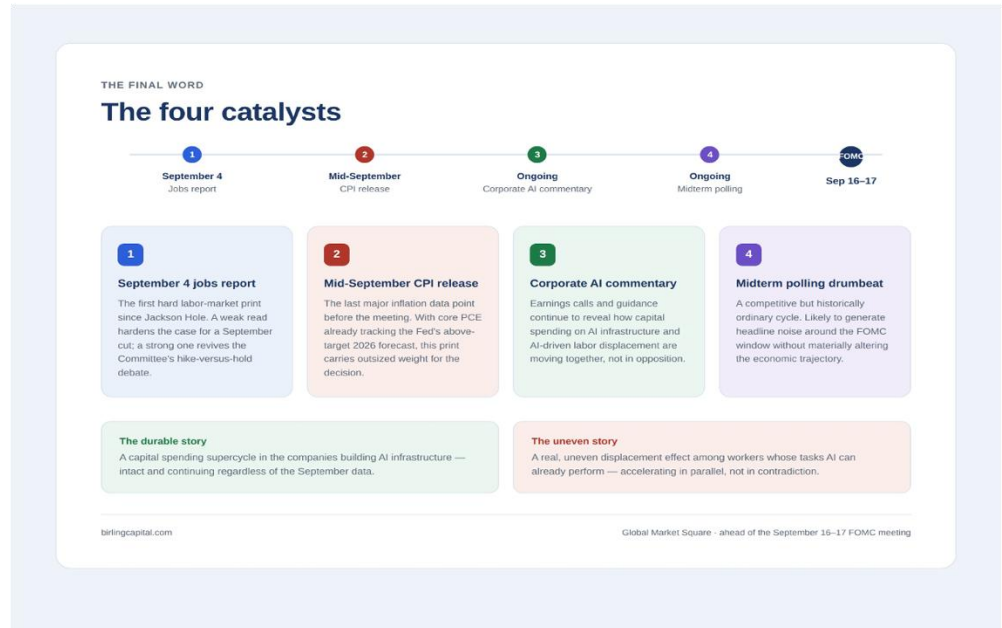
September's poor seasonal record is real — the weakest month of the year on average since 1945, an effect that has historically been amplified in midterm years — but seasonality is a tendency, not a forecast. The weakest Septembers and Octobers on record arrived when markets were already under pressure or the economy was visibly deteriorating; that is not today's setup, with credit spreads tight, financial conditions loose, volatility low, and corporate earnings growth still running at an unusually fast clip. We would keep a combination of AI-related and cyclical exposure in place: U.S. large-cap equities, emerging-market stocks and the S&P 500 communication services sector for AI participation; U.S. mid-caps, international developed value equities and the S&P 500 industrials sector for cyclical exposure tied to a still-resilient economy.

The Final Word: The Four Catalysts

Four catalysts will do most of the talking between now and the September 16-17 FOMC meeting: the September 4 jobs report, the mid-September CPI release, continued corporate commentary on AI's impact on labor and earnings, and the drumbeat of midterm polling. None of them changes our core view — that AI-driven capital spending remains intact even as AI-driven labor displacement accelerates in parallel, that the Fed is genuinely data-dependent rather than predetermined to hike, and that a competitive but historically ordinary midterm cycle is more likely to add short-term noise than to derail the broader trend. The investors and employers who come through September in the best shape will be the ones who can hold both AI stories in mind at once: a durable investment supercycle in the companies building the technology, and a real, uneven displacement effect among the workers whose tasks it can already perform.



BIRLING
CAPITAL ADVISORS, LLC



Francisco Rodríguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817, San Juan, PR 00922 • 787.247.2500 • 787.645.8430

Think Strategically © is a publication prepared by Birling Capital LLC and is a summary of certain recent geopolitical, economic, market and other developments that may be of interest to clients of Birling Capital LLC. This report is intended for general information purposes only, is not a complete summary of the matters referred to, and does not represent investment, legal, regulatory or tax advice. Recipients of this report are cautioned to seek appropriate professional advice regarding any of the matters discussed in this report considering the recipients' own situation. Birling Capital does not undertake to keep the recipients of this report advised of future developments or of changes in any of the matters discussed in this report. Birling Capital. The man and log symbol and Birling Capital are among the registered trademarks of Birling Capital. All rights reserved.

AI's two faces, a Fed drawing a harder line, and a competitive midterm: four questions converge in September