

Scotty C. George
Chief Investment Strategist

October 1, 2026

Always Check Your Dashboard

While the economy maintains a resilient pace of GDP, elevations in producer prices and consumer costs during the year make it clear that inflation is at the heart of all market considerations, both good and bad. For example, specific governmental agencies and core consumer staples have already reported inflation levels above 10% annualized (Department of Energy; farm fuel and fertilizer costs; Department of Education; Agriculture Department; as well as grocery expenses: beef and poultry; etc....). In certain regions of the country these additional "taxes" erode hard-won increases in wages and employment. Assuming a continuation of these pass-through costs, the consumer inflation rate (CPI) might top out at double the rate of constituent core elements before the end of this year.

The Fed has now seen these data through an objective lens and given itself permission to raise interest rates as a tool to quell spending. We agree. Failure to heed the impending disaster that would have occurred if borrowing expanded unabated would have derailed the post-pandemic recovery landscape. Despite the objections of the administration, and the President in particular, leaving rates where they were would have been akin to driving a car with one foot on the accelerator and one foot on the brake. Anyone driving behind someone on the highway exhibiting this kind of contradiction knows that it looks foolish and dangerous. The "hand-picked" Fed Chairman did not back down in the face of withering criticism from an administration that would love for interest rates to come down to unreasonable levels (1%). Knowing all too well that Chairman Warsh was thought to owe a debt of gratitude to the man who nominated him, the markets were in a state of limbo in mid-September, waiting to see if monetary policy would acquiesce, and whether central bankers would have acted quickly enough to avert a cost crunch that would immobilize the economy. Thankfully, he didn't blink.

Recall how only a few years ago, the market was awash with joy over the prospect of fiscal policy that would lower costs? Unfortunately, the seeds are being sown to widen the trade deficit, increase the national debt, broaden inflation, and choke off the very exuberance that corporations and citizens depended upon to plan budget expansion and significant job increases. You can thank an inert Congress for that faux-pas.

It is often argued that, in an age of technological innovation, "productivity" drives profitability. However, we see no such evidence that profits are emanating from anything but price increases...not an increase in demand. Rather, core cost increases derived from inflation and the need to maintain profit margins are the real engines of recent stock market gains. Sector leadership is coming not so much from the new paradigm of technology, but rather from old fashioned price gouging and the need to deliver value for the stakeholders.

Thus, the psychological impact of stagflation leaves investors afraid for their 401-K's and with a kind of perverse post-accidental stare that cedes the market to the speculators who could care less...as long as they are making money. Capitalism at its worst.

Until demand increases, and the collective mood improves, profitability is suspect. The combination of low demand and a high number of job seekers who may have given up looking for work creates a double edged sword that causes capital expenditures to languish. Exacerbated by a slowdown in international trade (exports/imports), real growth rates are far below the forecasts upon which Wall Street analytics for 2026 were based. We know that durable goods orders are a leading indicator for future GDP projections but, in this case, at this time, the picture looks anything but robust.

In the meantime, there *are* pockets of economic successes that are notable by their distinctiveness. Gold and precious commodities, real estate, and AI continue to boom. These data are often pointed to by optimists to support their thesis that the economy is still expanding. And we would concur that there are seismic changes in the economy that are laying the foundation for a bottom left/top right growth pattern. But we would point out that gasoline prices, tuition cost increases, pharmaceutical and healthcare cost increases, foodstuff price increases, and real estate taxes eat away at the "other" data and cause great consternation for individuals and corporations alike. It is what happens *after* these issues are addressed that interests us the most.

Just like the "old economy", the "new economy" is providing investors with significant double-digit portfolio growth. Some are all too happy to take money off the table right now in anticipation of the Iran war's outcome, election results, and earnings season surprises. We, too, have raised significant levels of cash in our client's accounts for the same reasons.

But the fundamental story going forward is obscured by a generational psychological imperative not to let "it" happen to us. Thus, even a growing economy is not sufficient to generate unabated enthusiasm in the face of so many unknowns. The effect upon P/E growth by core levels of inflation has thus far been too onerous to show any meaningful impact. But we know it's there, and that is why market enthusiasm is muted.

The headlines are focusing on glorifying a *new era* for investors, even as the quantitative integers continue to stall. Whether we admit it or not, the simple arithmetic behind earnings progressions just isn't there so long as the burden is paid by the end-user (consumer). It smacks of gangsterism when we are being asked to hand over our hard earned money for table scraps while corporations register record profits. Something like this hasn't been seen since the Great Depression over a century ago.

Bear in mind that the market always has some kind of upside bias...even if it's hard to discern at the moment. We call this *leading, laggard, and neutral* indices. Sometimes, the daily volatility of the averages renders a long-term bias almost meaningless, hiding the distinction between value and growth stocks. What we would find helpful is some sort of recalibration from which the data can be properly evaluated, good from bad, and it looks as if we are getting that sell-off during the latter part of the third quarter. From that standpoint, when everyone is "down" on the market, it's easier to find suitable buy-point inflections.

Strategy

Portfolio wealth creation is but one of the guideposts we use to evaluate success. As earnings driven investors we always seek valuation expansion from *unit volume growth, sales increases*, and *socially responsible profit gains*. What's good for society is usually also good for the pocketbook. Knowing that the stock markets and the economy are not one and the same is key to understanding the differences in data. For example, while we highlighted AI earlier in this text, it too has the feel of the early stage dot.com era. These emerging technologies are now, and will be, right for future generations, but it might be the wrong time to jump in with both feet. It is too early to discern the pretenders from the survivors knowing that a shake-up is bound to occur over time. We also pause when we hear the creators of this technology warn us about the dangers within. After all, discussing the extinction of the human race is not to be taken lightly. This is part of the evolution of any new technology and it requires incredible focus and patience for investors to adhere to strict methodology when allocating money for their future. These opportunities are not distinctly black or white, up or down, good or bad; they are quite subtle. Unfortunately, we see too many people treat the exercise as a game of one-upmanship, trying to best their neighbors as quickly as possible. However, your next door neighbor's new car parked in his driveway is hardly a barometer of strict fundamental and quantitative economic method. Please take a deep breath before committing serious money to the unknown.

This unfortunate trend of "price-driven earnings" (rather than demand-driven) is shunting aside the traditional role of consumer choice and "building a better mousetrap" economics. Sectors such as Energy, Healthcare, and Basic Materials emblazon the perception that the hole is getting deeper and defensiveness is winning. We are indeed in a New Paradigm....*one which rewards inactivity and lack of imagination by corporations, as long as the customer is willing to pay the freight for those business' past profligate spending*. In retrospect, legislators and businessmen failed to look beyond the current quarter's balance sheet. That failure persists even now and is the underpinning of people's exasperation with their financial situation.

Pragmatism is not defined by the drama of an earnings report. Instead, a moral and social ethos that is designed to solve problems is what advances earnings patterns deep into the future.

Conclusion

Yet, despite all that has come before, we are not downbeat about economic/market prospects. Rather, as stated earlier, the ability to separate the two is what emboldens us. Opportunity and need abound. Venture capital is at its highest activity rate in decades. Against this background, fixed income and small capitalization companies can flourish as competition to the stagnant large cap market. Reformers in government can bring newer and bolder solutions to the environment, healthcare, and affordability issues. For practical purposes, those who adapt to a changing global dynamic improve their prospects dramatically. Successful economies respond to the world around them; the self-absorbed or the powerful are too busy trying to stop it.

As the title of this missive implies, whenever you see a yellow light illuminated on your dashboard, pay attention to the warning signals.

Suggested Balanced Account Asset Allocation, Q4, 2026

Equity:	48%
Fixed Income:	38%
Cash:	14%

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.

Alexander Capital L.P., 10 Drs James Parker Blvd, Suite 202 Red Bank, New Jersey 07701 646-564-2299