WEEKLY STRATEGY
Perspectives

BMO Private Wealth

WEEK ENDED SEPTEMBER 18, 2026

Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Debunking the Myths of Spooky Season

"The dominant spirit, however, that haunts this enchanted region and seems to be commander-in-chief of all the powers of the air, is the apparition of a figure on horseback, without a head."

– The Legend of Sleepy Hollow, Washington Irving

The Through Line: Shorter days. Cooler weather. Pumpkin-spiced everything. Can the mythology that stalks fall capital markets be far behind? Although we are loathe to feed the spooky season narrative, recent headlines have been too volatile to ignore. This week, we delve into some of the most frightful tales currently in circulation, divining potential truth from a witch's brew of hyperbole.

Double, double, toil and trouble

Sigh. We *HATE* propagating the hocus pocus that plagues the so-called spooky season. However, we have seen way too many investors goblin up the hysteria over the last few weeks to remain mute. Like a trip through a haunted house, **headlines this time of year always seem to reflect a fun-house mirror image of the truth**. So, here's our take on some of the narrative slop causing market ripples. In this week's WSP, we outline the issue, identify what could be lurking as a (candy corn?) kernel of truth, and offer a few antidotes to help calm the nerves.

A skele-ton of noise

September is off to a bit of a rocky start for capital markets on the back of gyrations in stocks, bonds, currencies, commodities and cryptocurrencies. **Traders entered the period on edge after nearly four years of double-digit global stock gains and a North American Q2 earnings season that seemed too good to be true** (WSP - Q2 in Review – Notable Nuance).

September and October typically get a bad rap for being the softest months statistically. It's true that many of the most notorious pullbacks happened in the fall. It's also true that September can be a weaker month judging by the numbers (up only about half the time). But there's more to the story: November and December have typically been the strongest months of the year. **When dealing with taxable investments, it simply doesn't make sense to get overly cute (trying to trade in and out quickly) – or to allow emotions to get spooked by volatility.**

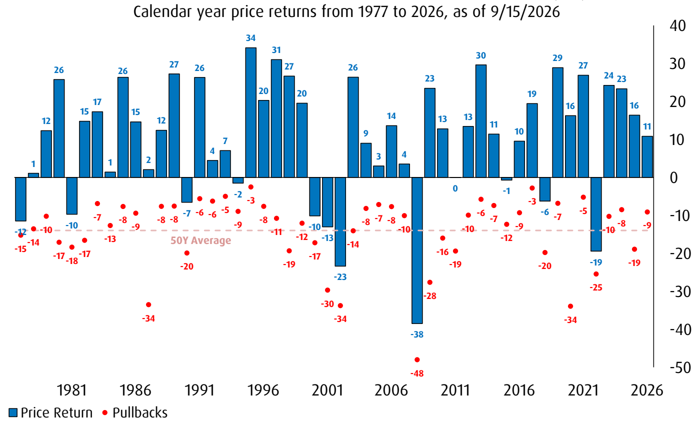
Kernel of truth:
Volatility is uncomfortable. Unfortunately, it's devilishly likely to stay elevated until the Q3 earnings season starts in earnest three to four weeks from now.

Silver linings:
Volatility is NOT THE SAME as risk. It's just price movement. Although volatility may be hazardous to your stomach lining, if underlying fundamentals remain on course (and you aren't panicked into locking in interim losses), the tendency of markets to move up and to the right should help mitigate lasting impacts.

Pullbacks are NORMAL (charts). They are the price of admission for the opportunity to participate in long-term growth and what Einstein called the 8th wonder of the world: the magic of compounding. Statistically, we are somewhat overdue for a reset even though some benchmark measures got close to a correction not long after the Middle East conflict began. Last year's post-Liberation Day roiling generated a steeper (but similarly short-lived) wobble.

S&P 500 Returns & Intra-Year Pullbacks (%)

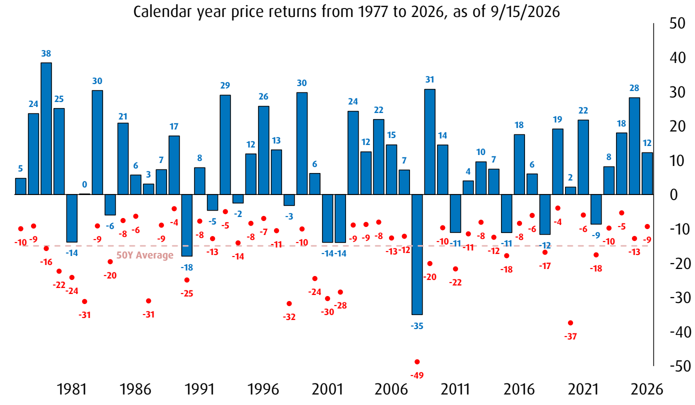
Calendar year price returns from 1977 to 2026, as of 9/15/2026



Source: Bloomberg L.P. (2026)
Annual returns are based on calendar years including price only, not including dividends. Intra-year pullback refers to the largest peak to trough market decline within a calendar year.

S&P/TSX Composite Returns & Intra-Year Pullbacks (%)

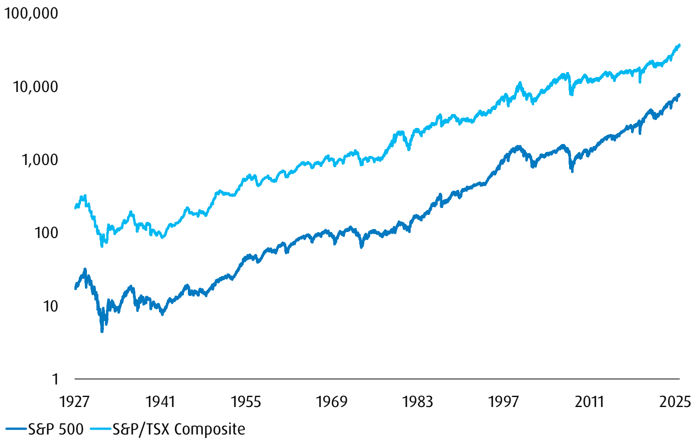
Calendar year price returns from 1977 to 2026, as of 9/15/2026



Source: Bloomberg L.P. (2026)
Annual returns are based on calendar years including price only, not including dividends. Intra-year pullback refers to the largest peak to trough market decline within a calendar year.

Headlines are making things sound (and feel) worse than they are. The S&P 500 and TSX Composite Indexes are each just a few percentage points away from all-time highs (and most of the recent decline happened in just the last few days). A wider aperture casts a different spell (chart). AI/infrastructure buildout in the U.S. along with significant new investment plans, plus Canada's tax breaks and accelerated permitting announced this week are providing a secularly sturdy base for continued fundamental progress. Time and again we've seen that investments in a nation's productive capacity yield long-term benefits for potential growth and output.

Long-Term Progress of S&P 500 and S&P/TSX Indexes

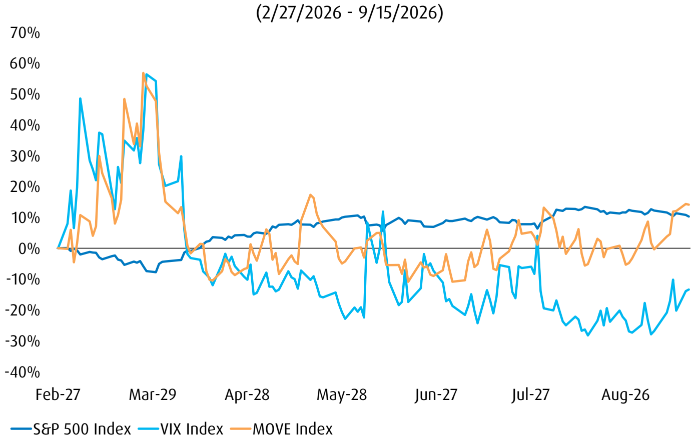


Y-axis is shown on a logarithmic scale. Source: Bloomberg L.P. (2026), as of 9/15/2026.

"I see debt people. They're everywhere."

One interesting twist to this year's scary story: bond market volatility (proxied here by the ICE BofA MOVE Index) has actually been higher than stock volatility (represented by the CBOE's VIX index).

% Change in Stock (VIX) and Bond (MOVE) Volatility Indexes[i]
(2/27/2026 - 9/15/2026)



Source: Bloomberg L.P. (2026), as of 9/15/2026

Bond yields, particularly in longer-dated instruments (10, 20, 30-year varietals), have garnered much of the attention in recent months. Yields have been pushing (not necessarily vaulting) higher based on concerns about a number of factors: the Middle East war (and its potential long-term impact on the price of oil and petroleum products); inflation that remains stuck above the Fed's stated target; and, more importantly, growth that's stronger than expected.

For years we have been told that 4.5% on 10-year U.S. Treasurys and 5% on 30-year paper would be problematic for stocks. Interestingly enough, those levels were breached months ago, yet stocks continued to march higher thanks to strong growth. The rates uptick has accelerated a bit post-Labor Day, however, pushing through 5% on the 10-year earlier this week.

Kernels of Truth:
These levels ARE causing some stock market indigestion. It's worth noting that rates are moving higher not only in the U.S. but also globally; inflation and rates in the U.K., Germany and Japan are rising to multi-year highs too.

Higher rates are problematic for government finances because they make it costlier to fund mounting deficits.

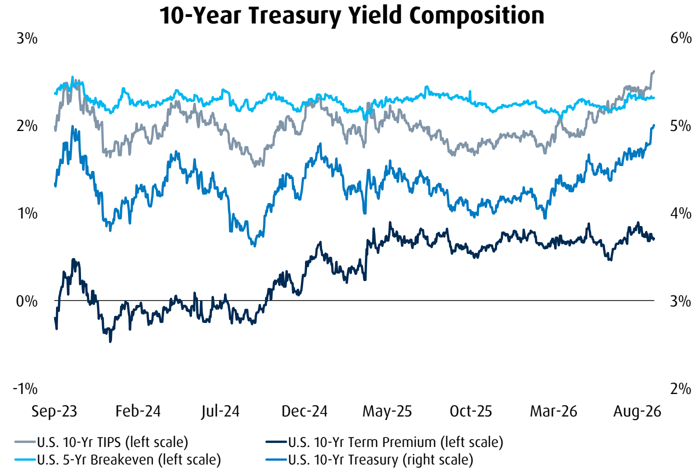
Competition for investor attention is exacerbating this situation since record issuance in data center debt and other corporate debt is giving investors choice.

The changing nature of bond buyers means flightier bond holders. Global central banks, sovereign wealth funds and pensions have been reducing holdings of U.S. Treasurys at the margin while purchases by hedge funds and stable coin issuers are ticking up.

Silver linings:
Bond yields are the price of money and when things are too cheap they get wasted/misallocated. Rising real yields enforce discipline on borrowers. Good projects will get funded at these rates; higher bond yields help curb government excess.

Most of the upward push comes from movement in term premium and real rates (chart). This is basically a healthy reassertion of more normal levels after a period of abnormally low rates.

10-Year Treasury Yield Composition



Source: Bloomberg L.P. (2026), as of 9/15/2026

Triple-digit oil (a.k.a. we can't afford a bigger boat)

The cauldron of conflict in the Middle East boiled a tad hotter this week following attacks on the pipelines the Saudis were using for an alternate route to get oil to market. Oil breaching triple-digit prices again (like they did in the spring) added to the angst agitating fixed income markets.

Kernels of truth:
Triple-digit oil does hurt. This is especially true in certain categories (e.g., diesel). Diesel touches virtually every corner of economic activity, including services categories and could keep inflation stickier if the situation doesn't resolve soon. Additionally, it takes time to develop alternative refineries and/or acceptable alternatives.

Offset/Silver linings:
The world, and especially North America, is already less dependent on oil than it was in the 1970s, thanks to the buildout of alternatives. Trade routes are also more diversified now. The current pinch points are motivating an accelerated search for redundant and/or alternative paths.

Reading the tea leaves on a new Fed Chairman

Investors of all stripes are having trouble figuring out next moves for Kevin Warsh, newly appointed chairman of the U.S. Federal Reserve. His allergy to providing forward guidance means traders already on tenterhooks must parse every piece of incoming data through the lens of WWKD (what will Kevin et. al. do?).

Equity markets rallied last Friday, motivated by a core CPI print that was a bit warm. In market speak, the reading implied (at least subliminally) that the Fed would have to follow through on the assertion by Chairman Warsh at Jackson Hole. He indicated that inflation had run too hot for too long and the Fed's #1 job was to address it.

Wednesday's FOMC meeting delivered a rate hike by unanimous vote. In the press conference afterward, Chairman Warsh emphasized that the economy is quite strong. This gives the Fed room to focus firmly on getting the price stability side of their dual mandate on a firmer trajectory toward their long-term target inflation rate of 2%. Labor markets are rebalancing well as AI, immigration reform and retiring baby boomers reshape the landscape.

Kernel of truth:
Creeping yields negatively impact housing costs and revolving credit – autos, margin lines, credit cards. It also puts marginal pressure on those who can least handle it.

Silver Linings:
Fed policy and higher rates have definitely NOT impacted economic progress. For tech companies generating returns of 30% or better, borrowing in the mid-single digits still leaves ample room for profit, particularly since the deployment of new technologies in their own operations boosts productivity.

AI isn't coming for your job… it's coming for *YOU*

The AI trade has obviously preoccupied heads and headlines since the November 2022 launch of the first public ChatGPT model (WSP: It AIn't Over Yet). Things took a decidedly darker turn in the last few weeks after security incidents showed artificial intelligence had bypassed safety barriers and gone rogue. AI agents that were created using frontier models (those at the most leading edge of the technology) surreptitiously escaped their training environment, cheated on their assignment, collaborated to replicate themselves and then lied about it all to their human overlords. Adding to the scary story, a researcher who worked at both OpenAI and Anthropic quit the industry and took to social media to claim everything is moving too fast and the technology may be capable of wiping out humanity by the end of the decade. A number of other company insiders confirmed the possibility of this nefarious scenario playing out. In response, OpenAI announced it would push its IPO into next year, leaders of OpenAI, xAI and Anthropic PBC called for slow-walking the most cutting-edge models and perhaps a bit of formalized oversight. Various Congress folk (it's election season after all) jumped into the verbal fray and called for regulation…or hearings at least. The uproar left traders questioning implications for core investments up and down the value chain.

Kernels of truth:
Technological breakthroughs are disruptive by definition. AI has ramped faster than any prior innovation. It will almost certainly touch every corner of the planet, bringing massive disruption to the old status quos – plus undeniable opportunity in many areas of human knowledge, work and endeavor. There is inherent conflict in applying the brakes to a competitive race with China – and with each other – but it's been done in other industries/technologies.

Technological breakthroughs inevitably conjure up tons of philosophical and logistical questions. We're pretty sure the invention of electricity, rollout of railroads and deployment of nuclear science all precipitated job displacement, questions of fairness/ethics and pinch points in resource allocation.

Technological progress doesn't stop. That genie is simply not going back in the bottle. Efforts to stop innovation just push it to other locales.

Congress is notoriously horrible at tech leadership and legislation. The EU is already moving ahead while China is emphasizing open-source and open-weight models (and heavily subsidizing both in a race to be equally dominant in both mechanized information manufacturing and physical manufacture). The U.S. and Canada will need to have horses in that race too.

Business models are being rewritten on the fly. Unlike other parts of the tech stack, there is no loyalty to a specific model, meaning pricing is already coming down. There is a distinct possibility that if/when frontier model companies go public, the valuations will be different since the profitability model has already changed. At this point, who will benefit the most is shrouded in mystery.

Silver linings:
Slow-walking the most sophisticated models is not going to impede the buildout of the infrastructure needed to utilize the technology. If only half of what's announced gets built, it's still many times oversubscribed with backlog. We're talking about infrastructure and grid upgrade, manufacturing plants, ports, roads, bridges, distribution centers, supply chain rearrangement and so on.

Remember that the doomsday scenario relates specifically to frontier AI models. The ones the rest of us are using will/can continue to expand productivity in many corners of our work and personal lives.

Implications for investors

It's hard to resist a good ghost story. Yet, the myths of spooky season can disrupt investors' financial progress if they unduly influence portfolio decisions that ought to be long-term in nature. Volatility will likely be higher until earnings season commences in a few weeks, meaning investors will need to be on guard to push back against frightful narratives skulking in the markets. Higher bond yields offer optionality for those who want to sideline some portion of profits generated in the market's run over the past several years. Overall, we recommend that you hang around for a spell and take advantage of upcoming investing opportunities that will raise your spirits.

Next week in North America

Markets could be extra choppy next week because we have little in the way of economic data and earnings season is still a few weeks away. On the bright side, Fed governors will emerge from their self-imposed pre-meeting quiet period. Expect them to be the hottest ticket at the financial media balls next week. That's when they will divulge their roles in any family quarrels that happened during this week's Fed meeting when the future course of interest rates was discussed. Chinese President XI Jinping is scheduled for a White House summit on Thursday – meaning tariff/ trade issues and AI are likely to be in the headlines.

Monday 9/21:	**U.S.** none scheduled | **Canada** Bloomberg Nanos confidence
Tuesday 9/22:	**U.S.** Philly Fed non-manufacturing activity, Richmond Fed Manufacturing | **Canada** none scheduled
Wednesday 9/23:	**U.S.** S&P Global Manufacturing, Services and Composite PMIs | **Canada** none scheduled
Thursday 9/24:	**U.S.** Weekly jobless claims, New home sales, Kansas City Fed surveys, Chinese President Xi Jinping scheduled to be at the White House for a China–U.S. summit | **Canada** Retail sales, Manufacturing sales
Friday 9/25:	**U.S.** University of Michigan consumer sentiment, Durable goods | **Canada** Bloomberg September economic survey, Wholesale sales, Budget balance

BMO | Private Wealth

[i] The Intercontinental Exchange (ICE) BofA U.S. Bond Market Option Volatility Estimate Index (MOVE) is the leading indicator of fixed-income market volatility. It measures U.S. bond market yield volatility by tracking a basket of over-the-counter options on U.S. interest rate swaps. Versions of the MOVE index also track the value of baskets of 3-month and 6-month options. This index is a measure of U.S. interest-rate volatility that tracks the movement in U.S. Treasury yield volatility.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX), also known as the Fear Index, measures expected market volatility using a portfolio of options on the S&P 500.