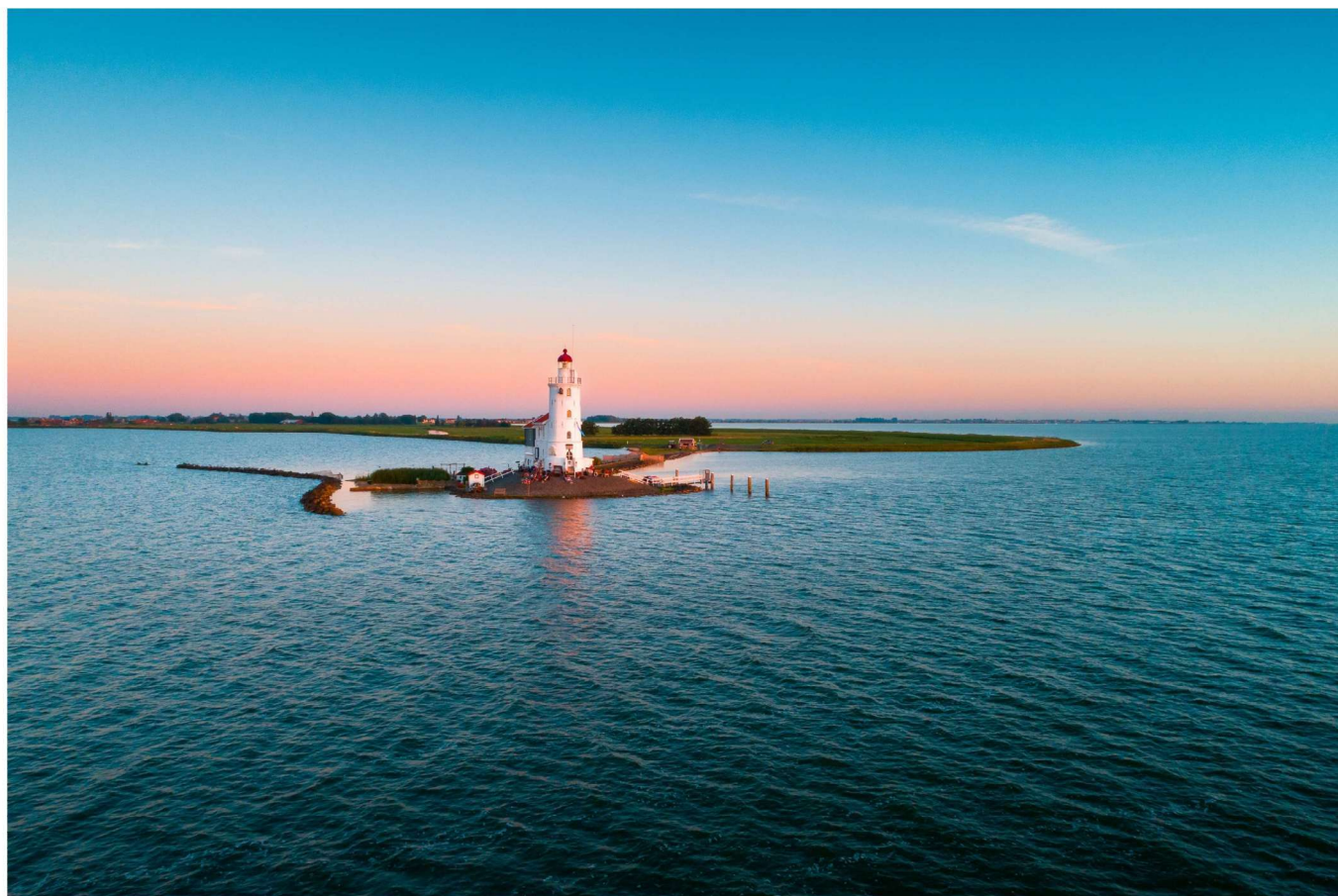




Fear, the Fed & What Comes Next

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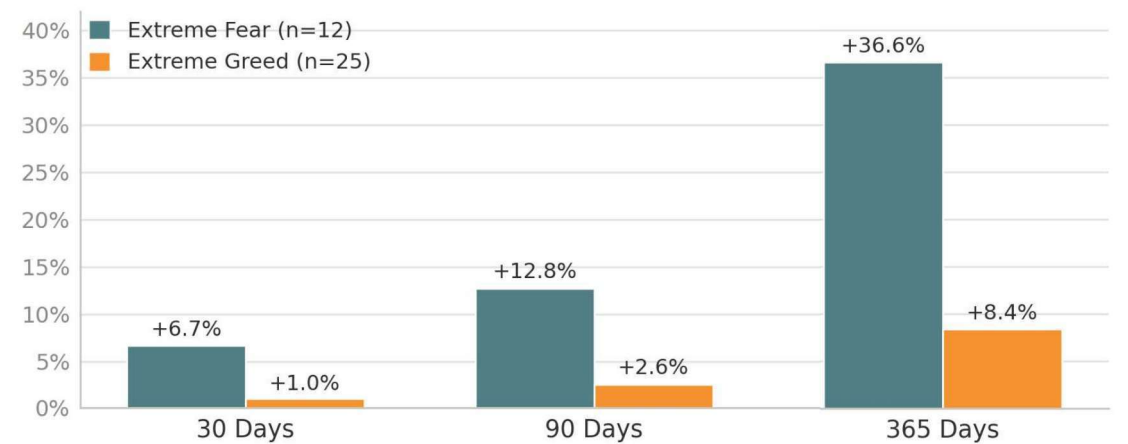
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Sentiment at an Extreme

A -24.5 bull-bear spread has historically been followed by stronger average S&P 500 returns in the periods shown below.

Investor sentiment has moved from cautious to genuinely fearful. Concerns over Fed policy, energy prices, the durability of AI-related capital spending, and geopolitical tension have produced a real wall of worry, and it shows up clearly across every gauge we track. The AAI Investor Sentiment Survey showed bullish sentiment at just 28.8% in the week ended September 16 versus 53.3% bearish — a -24.5 bull-bear spread, the lowest bullish reading since May 2025 and roughly three standard deviations below the survey's long-run average of +6.5. The CNN Fear & Greed Index sits near 30 ("Fear"), and the NAAIM Exposure Index has fallen sharply as well.

The historical observations shown below suggest that periods of extreme fear have, on average, been followed by stronger S&P 500 returns than periods of extreme greed. January 2023's -21.5 reading, and March 2009's record 70.3% bearish reading, both preceded well-above-average six- and twelve-month gains. In the twelve times since 2016 the Fear & Greed Index fell into "Extreme Fear," the S&P 500 went on to gain an average of 36.6% over the next year — every episode finishing positive — versus 8.4% after "Extreme Greed."



Average S&P 500 forward returns following CNN Fear & Greed Index extremes, 2016–2026.
Based on a limited sample of historical observations. Historical results are not indicative of future results.

Sources: AAI Investor Sentiment Survey, week ended September 16, 2026 (aaii.com), CNN Fear & Greed Index (cnn.com/markets/fear-and-greed), NAAIM Exposure Index (naaim.org). Chart data: S&P 500 forward returns following CNN Fear & Greed Index extremes, July 2016–August 2026, based on SPY weekly closing prices (price-only; dividends excluded).

THE FED'S WEDNESDAY MOVE

A Policy Debate to Watch

If core PCE falls materially before this hike could reasonably affect inflation, that would support our view that the hike was a mistake.

Two caveats: these are tendencies drawn from a small number of episodes, not laws — 2008, 2015, and Q4 2018 all saw sharp bounces off oversold sentiment before markets found a real bottom. And sentiment measures psychology, not fundamentals — which is why the Fed's rate path matters more than any survey.

To us, equity and bond investors are arguably over-reacting to Wednesday's hike. Nobody wants inflation, but it looks more like investors and policymakers have simply lost patience than that the data demands tightening today. Core PCE is running at 3.4% against core CPI at 2.35% — a gap that is substantially methodological — and Goldman's own analysis points to core PCE falling in the months ahead. If the two measures converge as expected, tightening now looks like a mistake.

The Fed itself has said policy works with long and variable lags. Fed Governor Christopher Waller has put recent lags at nine to twelve months, which would place the earliest visible impact of Wednesday's hike around mid-to-late 2027. If core PCE falls 100bp before then, we would not attribute the full decline to this week's hike; in our view, that would support the case that the hike was a policy error.

If core PCE starts printing with a '2' handle in early 2027, it will suggest the inflation hawks were simply impatient. Between stretched sentiment and a Fed that may be tightening into a cost shock, we see more reason for discipline than retreat — and we'll be watching both closely into next year.

Sources: 2008, 2015, and Q4 2018 characterizations based on S&P 500 historical price data. Core PCE (3.4%) and core CPI (2.35%) figures and referenced analysis: Goldman Sachs Global Investment Research, September 2026. Fed policy-lag estimate: Federal Reserve Governor Christopher Waller, cited in Federal Reserve Bank of St. Louis, "Examining Long and Variable Lags in Monetary Policy," May 2023.



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