Virginia Investment Pool
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MARKET UPDATE

September 2026

Your three-minute snapshot of the U.S. economy including highlights, indicators, and economic trends and data that matter to public finance officials.

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Persistent Pressure

The Federal Reserve operates under a dual mandate from Congress to promote maximum employment and stable prices. Yet, five years after the pandemic, inflation remains above the Fed's 2% target. A combination of pandemic-era fiscal stimulus, the economic reopening, supply-chain disruptions, labor shortages, tariffs, and, more recently, an energy shock stemming from the conflict in Iran has contributed to continued price pressures. The Consumer Price Index rose 3.4% over the 12 months through August, underscoring the challenge policymakers continue to face.

Against this backdrop, Fed officials have become increasingly attentive to the risk that elevated inflation could become more persistent. The central question is how long policymakers can look through largely external shocks that have contributed to higher prices. The concern is that sustained above-target inflation could become increasingly reflected in wage demands, business pricing decisions, and consumer expectations. If inflation expectations were to become less firmly anchored, restoring price stability could require a more restrictive—and potentially more economically costly—policy response.

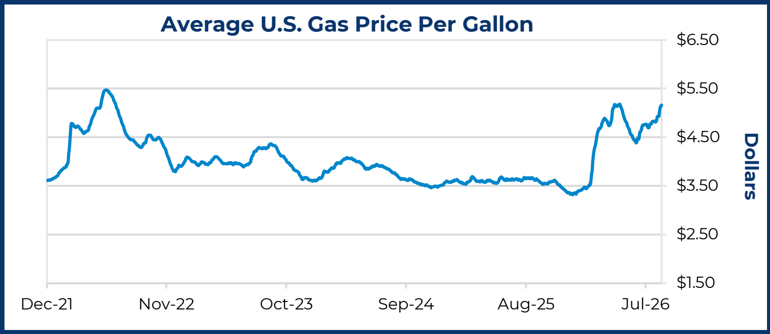
For now, the post-pandemic "low-fire, low-hire" dynamic has helped keep the labor market relatively stable, allowing the Fed to maintain a focus on inflation while monitoring employment conditions. At its September meeting, the Fed unanimously raised the federal funds target range by 25 basis points, signaling that the persistence of inflationary pressures warranted a modestly less accommodative policy stance. As Chair Warsh put it, the Fed has "reduced a dose of accommodation." The key question for markets is whether this adjustment proves to be a one-time move or the beginning of a broader tightening cycle. With the labor market relatively balanced, policymakers appear to have some room to keep inflation at the forefront of their decision-making process.

The path of inflation therefore remains a critical variable for monetary policy. Further evidence of moderating price pressures would give the Fed greater flexibility, while persistent inflation could keep interest rates higher for longer and weigh on economic activity. The most constructive outcome would be for inflation to continue moving toward the Fed's target without a meaningful deterioration in employment or economic growth. If that balance can be achieved, the economy could gradually move toward an environment of greater price stability, healthy employment, and, over time, lower interest rates—providing a supportive backdrop for financial markets and the broader economy.

DATA POINT

What We're Watching This Month

Daily average prices for retail gasoline provided by AAA. The index includes prices of regular, mid-grade and premium gasoline, as well as diesel fuel, from gas stations across the U.S.

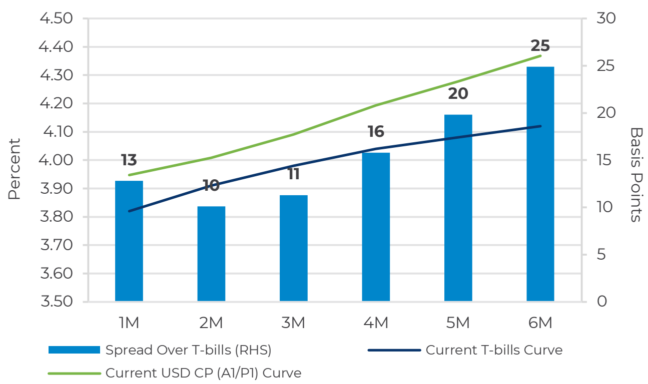


Economic Indicators

DATA	PERIOD	PRIOR VALUE	CURRENT VALUE
Fed Funds Target	9/16/2026	3.75%	4.00%
Consumer Price Index (YoY)	8/31/2026	3.40%	3.40%
U.S. Unemployment	8/31/2026	4.10%	4.10%
Home Price Index	6/30/2026	1.65%	2.10%
Non-Farm Payrolls	8/31/2026	21K	162K
Retail Sales	8/31/2026	-0.60%	1.20%
Consumer Confidence	8/31/2026	90.2	89.4
GDP QoQ	6/30/2026	2.10%	1.50%

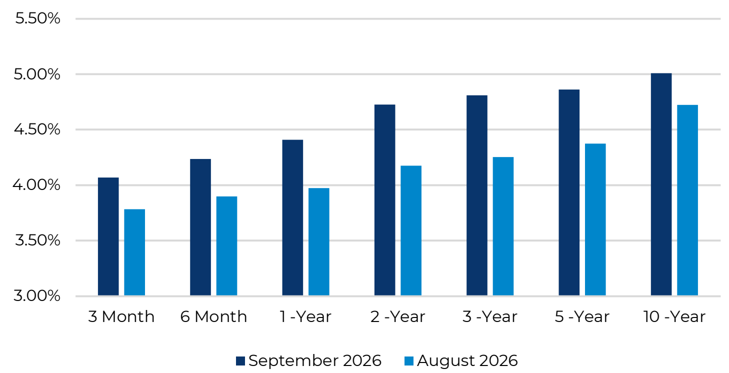
Source: Bloomberg

U.S. Money Market Curves



Source: Bloomberg

Historical Treasury Yields



Source: Bloomberg

Treasury Yields

Maturity	9/16/26	8/17/26	Change
3 Month	4.069%	3.782%	0.287%
6 Month	4.235%	3.899%	0.336%
1-Year	4.409%	3.973%	0.436%
2-Year	4.725%	4.175%	0.550%
3-Year	4.808%	4.253%	0.556%
5-Year	4.862%	4.375%	0.488%
10-Year	5.008%	4.722%	0.286%
30-Year	5.351%	5.306%	0.045%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

Maturity	9/16/26	8/17/26	Change
1 Month	3.876%	3.705%	0.170%
3 Month	4.064%	3.842%	0.223%
6 Month	4.329%	4.033%	0.296%
9 Month	4.488%	4.172%	0.316%

Source: Bloomberg

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