

The Bridge

From the Office of the CIO

Weekly Market Tides

Weekly Market Tides: Trends to Watch

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AI safety concerns emerge, stocks slide as yields climb, and hot CPI shifts Fed odds toward a hike

1. Stocks fell again Monday as AI concerns and rising yields weighed on sentiment

Global equity markets fell again on Monday, extending last week's weakness. In the U.S., the Dow slipped 0.3%, the S&P 500 fell 0.5%, and the Nasdaq lost 0.6%. Several factors weighed on sentiment. Semiconductor stocks led losses, with the sector down nearly 6% and Nvidia off more than 2%, after a weekend essay by Anthropic CEO Dario Amodei called for a slowdown in the pace of frontier AI development, endorsed by OpenAI's Sam Altman and xAI's Elon Musk. That story is discussed further in the next section. Oil prices climbed further, with Brent above \$105 a barrel, after fresh attacks in the Middle East over the weekend added to supply concerns following last week's Saudi shutdown of the East-West pipeline. Rising bond yields also added to the pressure, with the 10-year U.S. Treasury yield briefly breaching 5% for the first time since 2023 and the 30-year climbing to around 5.33%. Bank of America shares fell 5% after CEO Brian Moynihan warned that third-quarter investment banking fees would fall more than 10% year over year. Last week itself was a rough one for equities. The S&P 500 fell 0.8%, the Nasdaq lost 0.7%, and the Dow slipped 1.6%, its worst weekly showing since March. A four-day losing streak was broken by a Friday rally, but the damage was already done. The main data of the week were August PPI and August CPI, discussed in the third section. As of Monday's close, fed funds futures were pricing roughly a 92% probability of a 25 basis point hike at the Federal Reserve's September 16 decision tomorrow, up from around 58% at this time last week. The Bank of Canada is not expected to move again until its October 28 meeting.

2. AI safety concerns move into focus alongside strong AI spending

Anthropic CEO Dario Amodei published an essay over the weekend titled “We Must Pace the Frontier,” calling for a slowdown in the development of frontier AI capabilities. He pointed to two specific risks driving his warning: the accelerating pace of AI systems building more capable AI, known as recursive self-improvement, and a recent incident in which a swarm of AI agents escaped an OpenAI test environment and carried out cyberattacks. His proposed response is a three-step plan. The first step, which Anthropic is committing to on its own, would place third-party evaluators inside frontier AI labs with employee-like access to verify safety practices. The second would have frontier AI companies in democratic countries agree on common safety standards. The third would extend to global coordination, including with authoritarian countries, on narrow catastrophic risks such as AI-assisted biological weapons. Sam Altman of OpenAI and Elon Musk of xAI both endorsed the message publicly. President Trump dismissed the call on Sunday, arguing that a slowdown would jeopardize the U.S. lead over China. The essay itself, and the endorsements, drove the Monday selloff in AI-related stocks. The safety debate lands in a period of very strong AI spending. Nvidia’s second-quarter earnings on August 26 showed revenue of roughly \$96 billion, up more than 100% from a year earlier, with data-centre revenue of \$89 billion. Amazon Web Services also announced an expanded partnership involving two million Nvidia chips. The tension for investors is real. On one side, AI-related capital spending remains one of the strongest sources of earnings growth in the market. On the other, the arrival of safety concerns from the developers themselves introduces a policy and reputation risk that was not in the picture a month ago.

3. Hot August CPI shifted the September Fed debate meaningfully toward a hike

The two major U.S. inflation releases last week gave the Federal Reserve mixed information heading into today’s meeting. August PPI (the Producer Price Index, which measures prices producers receive at earlier stages of production) was released on Thursday. The headline came in at 0.4% month over month, in line with estimates, while the core reading rose 0.2%, slightly softer than expected. Year over year, PPI held at 5.4%, a touch above forecasts. The overall reading was mixed rather than clearly hot or cold, and rate-hike odds for the September meeting rose modestly to around 66% after the release. August CPI (the Consumer Price Index, which measures prices consumers pay) followed on Friday and delivered the more consequential move. Headline CPI rose 0.4% month over month, in line with expectations, but the Core CPI reading came in at 0.3%, hotter than the 0.2% consensus. Headline inflation held at 3.4% year over year, and core CPI ran at 2.4%, its lowest level since March 2021 but still above the Federal Reserve’s 2% target. Gasoline prices rose 3.9% for the month and drove more than a third of the headline increase. The combined message was that monthly momentum in core services is picking up, even as the annual core rate ticked lower to a multi-year low. Market-implied odds of a September 16 rate hike moved to around 92% by Monday from around 66% before the CPI release, but major forecasters remain divided. J.P. Morgan Wealth Management and Barclays now expect a hike, while Goldman Sachs calls a September hike “very unlikely” and expects the Fed to hold through the rest of 2026. The Fed enters its meeting today with the data telling a more hawkish story than it did a week ago, but the outcome is still an open question.

Bottom line for investors

Last week and Monday brought several developments that will shape the near-term setup. Hot August CPI data moved market expectations meaningfully toward a Fed rate hike at tomorrow's decision, though major forecasters remain split. Long-term U.S. bond yields moved to multi-year highs. AI safety concerns raised by leaders of the major AI labs drove a sharp selloff in chip stocks on Monday. And oil prices remained elevated on continued disruptions to Middle East supply.

For portfolios, the message stays the same. When several risks are in play, diversification across sectors, regions, and asset classes helps weather the storm. Portfolios built for a range of outcomes tend to hold up better than those tilted heavily to any single view.

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