THE point

CIO
THE CIO GROUP

EPISODE 46

Nvidia and Warsh Speak, Reducing Market Anxieties

By Steven Wieting and David Bailin

August 30, 2026

Nvidia's shares fell for seven consecutive days (the longest stretch of consecutive losses since 2022), prior to this past week's earnings-driven rebound. Why? Apprehension over future guidance and the perception that investors might sell on the news.

Data suggest global bond and currency markets have recoiled in apprehension over Fed Chair Warsh's debut speech at Jackson Hole. Since early this year, they have traded on perceptions of how the new Fed Chair will guide US monetary policy differently from the past. Uncertainty has made a 3% real yield on long dated TIPS attractive.

US equities are entering a period of greater focus on mid-term elections. History shows stronger returns are likely once results are clear.

With all this anxiety, markets will ultimately reflect profits. Nvidia's results make it clear the AI infrastructure spending boom has not reached its peak. Earnings forecasts for other semiconductor makers and related shares are set for further upward revision.

The true risk for semiconductors and tech hardware is not coming earnings reports, it's that markets very likely overestimate the share of total US corporate profits they will earn in perpetuity (a near record 30% of US market cap recently).

Why Markets Are Higher

World equity markets have ground higher this year despite a new Middle East conflict, record oil market disruption, a rise in bond yields and a resumption of trade wars. (Canada certainly, China/US possibly). It's even possible that Congressional results, and more importantly, legislative control, could be disputed in early November.

So why has the value of US equities risen? The simple factor is record high and rising corporate profits. S&P 500 EPS growth in the first half was stronger than 92% of all quarters since WWII. Most cases of 30% or stronger EPS growth came during the initial rebound after an economic contraction, not during mid-cycle periods. Whatever legitimate fears one has – and we consider interest rates among the strongest challenges – high profits have driven higher share prices (see figures 1-2).

FIGURE 1

S&P 500 vs Quarterly EPS: Estimates Show 16.6% EPS Gain for 2027...

SOURCE: CIO GROUP, HAVER ANALYTICS

FIGURE 2

... Nvidia's 70% revenue growth forecast for next year should push semiconductor, tech hardware and related software EPS estimates up further, globally.

SOURCE: CIO GROUP, HAVER ANALYTICS, BLOOMBERG

Future Profits and Future Appreciation

The drivers of future prices for equities, bonds and broader global assets reflect both known factors and the realization that estimates will be reached (read on).

Warsh: "Applying Discipline"

After months of scathing criticism, Federal Reserve Chair Warsh's speech at the Kansas City Fed's symposium was worthy of praise and deserving of a full read by investors. Warsh highlighted the true limitations of forecasts that investors often gloss over. He highlighted the unusual technological challenges for the economy, investors and policymakers in the near future.

Warsh also explained his unusual reticence to forecast the Fed’s future path. “...I believe when policymakers make quasi-commitments on interest rates through the cycle, we inhibit our own freedom to make the right calls when it's time to decide....we should not indulge a regime in which market participants are looking primarily to the Fed for their next trade.”

Yet on the economy, Warsh wasn’t ambiguous. “While this summer's PCE and CPI readings were better than expected, they do not tell me that underlying (inflation) trends have meaningfully improved. We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do. That's our job, our mandate, and our charge to keep.”

In response to Warsh’s comments Friday, the US dollar rose 0.3% and Fed funds futures market raised the odds of a 25 basis point rate hike on September 16 from 36% to 56%. Yet the broader impact on world financial markets was modest.

After a month of handwringing over Warsh’s harsh inflation warnings coupled with FOMC inaction, markets have been positioning for tougher Fed talk at Jackson Hole. In apprehension, currency traders have been covering short positions in the US dollar and shorting US Treasuries on anticipation of higher rates (see figure 3).

In futures markets, net long positions in the USD and net short-positions in US Treasuries (consistent with higher interest rate expectations) are rising toward the range of historic highs. This is a sign of a “crowded trade” where investors believe the dollar and rates can only go higher, leaving their positions vulnerable to the reverse. In this case, the positioning made it easier for markets to absorb Warsh’s hawkish message.

FIGURE 3

Rising Short Positions in US Treasuries and Foreign Currencies Pre-Jackson Hole

SOURCE: CIO GROUP, HAVER ANALYTICS

As we discussed two weeks ago, it is not the Fed's job to befriend investors. The best long-term outcomes for the US economy may be served with a somewhat restrictive policy during a boom period, even one as narrow as today's AI boom. This is despite some slowing in the labor market and consumer demand.

Attractive Real Yields

Fundamentally, we think US Treasury investors are now being rewarded with the highest real yields since the late 1990s (see figure 4). Treasury returns have fallen this year, but we would expect long bonds to be a critical defense asset when the AI boom has peaked.

FIGURE 4

US Treasury 30-Year TIPS Yield Excluding Inflation Compensation

SOURCE CIO GROUP, HAVER ANALYTICS

Elections Are Next

While investors face event risk at some level each day, US mid-term elections are a predictable one with months of apprehension ahead.

In the US economy, control of Congress or control of the White House does not dictate economic outcomes. This is even with a level of government intervention in the economy not seen for at least 50 years. But the possibility of political and social disputes over the election results are a new feature of the landscape following the 2016 election. This may cause investors to shy from risk before Tuesday, November 3.

The long history of mid-term election apprehension and relief is shown in figure 5. While the three-month window prior to mid-terms shows only a slightly less positive skew than average for US equity returns, the 90% positive results post election is a convincing statistic. It suggests that political clarity is better for investor psychology than uncertainty.

Of course, actual outcomes varied widely over the decades and were driven by the fundamentals of the time. The returns for the two three-month periods also overlap historically clear seasonal patterns which favor stronger equity returns around the beginning of a new year.

FIGURE 5

US Mid-Term Election

Midterm	President	S&P 500 3-mo. pre-election	S&P 500 3-mo. post-election	2nd term President House and Senate Control	Control of Congress changed?
1950	Harry Truman	5.20%	13.60%	Yes*	No
1954	Dwight Eisenhower	2.60%	15.20%	No	Yes — House & Senate → Dem.
1958	Dwight Eisenhower	7.60%	6.80%	No	No
1962	John F. Kennedy	1.00%	13.80%	No	No
1966	Lyndon B. Johnson	−3.6%	8.70%	Yes*	No
1970	Richard Nixon	9.30%	14.70%	No	No
1974	Gerald Ford	−5.3%	5.10%	No	No
1978	Jimmy Carter	−9.4%	3.50%	No	No
1982	Ronald Reagan	26.20%	4.20%	No	No
1986	Ronald Reagan	4.30%	13.60%	No	Yes — Senate → Dem.
1990	George H.W. Bush	−6.8%	14.90%	No	No
1994	Bill Clinton	1.70%	3.30%	No	Yes — House & Senate → Rep.
1998	Bill Clinton	−0.1%	14.50%	No	No
2002	George W. Bush	9.70%	−7.8%	No	Yes — Senate → Rep.
2006	George W. Bush	8.40%	4.90%	Yes	Yes — House & Senate → Dem.
2010	Barack Obama	6.00%	9.30%	No	Yes — House → Rep.
2014	Barack Obama	3.80%	1.50%	No	Yes — Senate → Rep.
2018	Donald Trump	−3.3%	−0.9%	No	Yes — House → Dem.
2022	Joe Biden	−7.5%	7.60%	No	Yes — House → Rep.
2026		TBD			
	Average	**2.6%**	**7.70%**		
	cases positive	**63.2%**	**89.5%**		

*Sucession of Deceased President

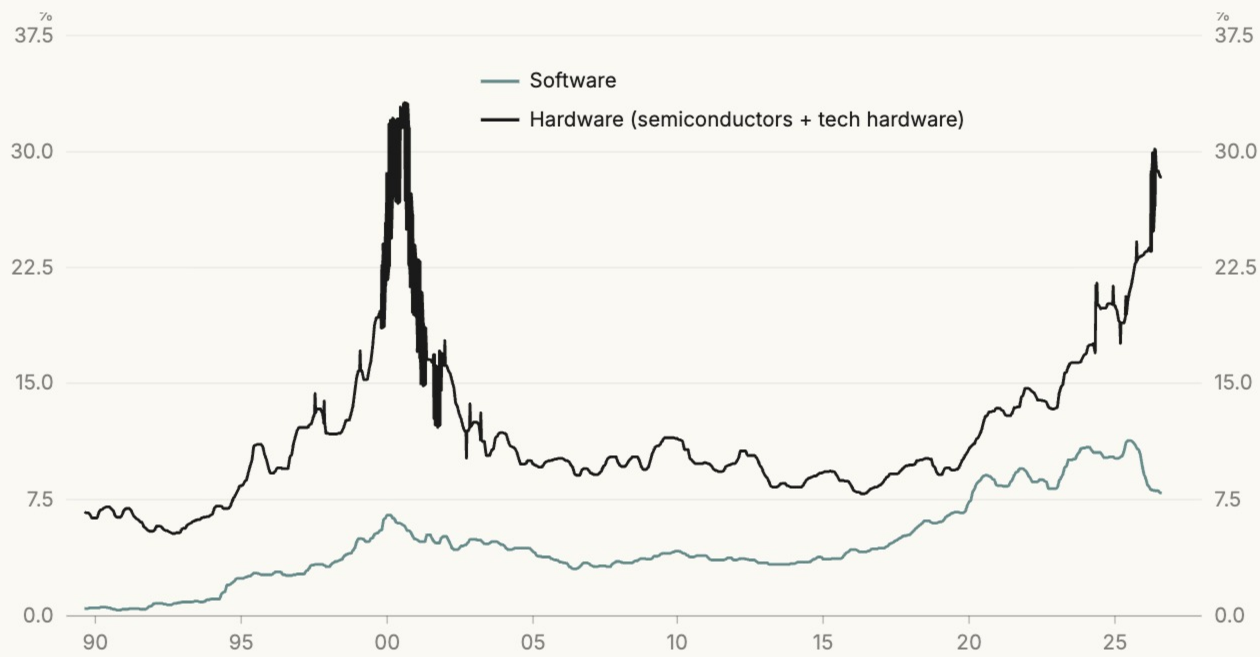
Is a Rise in Profits Enough to Stay Overweight Tech?

Nvidia's report on the immediate state of AI demand is consistent with overweight tech positions in both hardware and software, with strong results for cyber-security also a standout. As we show in figure 2, if Nvidia's sales indeed rise 70% in the coming year, estimates for a 48% gain for semiconductor industry EPS next year are highly likely to rise further.

This does not mean EPS will always rise. But it is consistent with our sense that shying away from tech is premature for investors in a tactical time frame. This is despite our belief that investors overestimate the share of total future corporate profits semiconductors and tech hardware will sustain in the longer run (see figure 6).

FIGURE 6

S&P Hardware (incl Semis) and Software Share of Total S&P 500 Market Cap (%)



SOURCE: CIO GROUP, HAVER ANALYTICS

Important Information

This material has been prepared by CIO Capital Group, LLC ("CIO Group") for informational purposes only and does not constitute investment advice or an offer to buy or sell any security or the solicitation of an offer to buy any security or investment advisory service. All opinions are subject to change without notice. Past performance is not indicative of future results. Investment returns may vary significantly over time. Indexes are unmanaged, are not available for direct investment, and do not reflect the deduction of fees or expenses. This material has been prepared without regard to the specific investment objectives, financial situation, or particular needs of any individual investor.

CIO Group believes that the information obtained from third party sources contained herein is reliable, but no representation or warranty is made regarding its accuracy or completeness. CIO Group accepts no responsibility or liability (including for indirect, consequential, or incidental damages) for any error, omission, or inaccuracy in such information and for results obtained from its use.

Certain information contained herein constitutes 'forward-looking statements' which are based on current expectations, estimates, projections, and beliefs. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. Any forecasts, projections, estimates, or market expectations are based on current assumption and should not be considered guarantees of future events or investment results.

References to portfolio positioning, asset allocation, sectors, or investment strategies reflect CIO Group's views as of the date of publication and should not be interpreted as recommendations to purchase or sell any particular security or investment strategy.