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Jackson Hole, forward guidance and a fidgety August

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Wall Street has a habit of treating August as a month off, and the Federal Reserve likewise has its own summer ritual. In 1982, the Kansas City Fed moved its annual economics conference to Jackson Hole, Wyoming, after learning that Paul Volcker, then chairman, could be lured anywhere that offered good fly fishing in late August. This August, nobody in the markets got much of a vacation.

The headline numbers were pleasant enough. The S&P 500 gained 2.6 percent to close at 7,686 for its best August since 2021. The Dow rose 1.3 percent for a fifth consecutive monthly gain, and crossed 54,000 for the first time on Aug. 4. The Nasdaq climbed 3.9 percent. Through August, the S&P 500 was up 12.3 percent, the Nasdaq 13.5 percent, the Dow 10.7 percent and the Russell 2000 index of smaller companies 19.1 percent.

Last month, I described how borrowed money turned a dip in Seoul into a rout, knocking South Korea's version of the S&P 500, the KOSPI index, down 10.8 percent in a day and taking American chipmaker stocks with it. The rebound took two weeks. By mid-August the KOSPI had climbed more than 20 percent from its late-July low, and the chipmaker stocks followed. Then on Aug. 26, Nvidia reported quarterly revenue of \$96.2 billion, more than double a year earlier, with enough chips in the pipeline to grow 70 percent more next year. Investors who held on through July caught the recovery in August. Those who were sold out by margin calls in July watched it from the sidelines.

The other comeback belonged to software. In March, fear took hold that artificial intelligence would eat the software industry, and the sector was sold as if every company in it was doomed. I argued in April that the sorting had to be done company by company: proprietary data, reliability, the friction of switching systems and the mix of customers would decide who survived. The market spent the summer doing that sorting. The leading software index has rallied 46 percent from its April low, including 16 percent in August alone. Not every software company will thrive in the AI era, but the market has stopped pricing them as if none will.

Earnings explain much of this. Second-quarter profits for the S&P 500 grew roughly 50 percent from a year earlier, the fastest pace since 2021, on revenue growth of 15 percent. Enormous one-time investment gains at Alphabet and Amazon inflated the total, yet even so, 86 percent of companies beat expectations, well above the norm. But there is something interesting worth remembering: because profits grew faster than prices, the S&P 500 trades at about 20 times the next 12 months of expected earnings, roughly its five-year average. A market at record highs is not necessarily a market at record prices.

Oil had a reversal of its own, falling from about \$97 a barrel at the end of July to \$79 on Aug. 4 on hopes that the Strait of Hormuz would reopen. Tanker traffic stayed well below prewar levels, and on the final weekend of the month American forces struck Iranian rocket launchers preparing to mine the waterway. Brent ended August back above \$90. Energy stocks were the month's best sector, up 7 percent, with technology close behind. Utilities and industrials fell.

The inflation news was mixed in the way that makes central bankers nervous. The Fed's preferred inflation gauge, the PCE index, rose 3.7 percent for the 12 months through July, and the core rate, which excludes food and energy, was 3.3 percent. Gasoline costs 25 percent more than a year ago.

That brings us back to Wyoming. On Aug. 28, Kevin Warsh's 100th day as chairman, he used his first Jackson Hole address to call the 2 percent inflation target "firm" and to say that softer summer readings "do not tell me that underlying trends have meaningfully improved." Then he said something more consequential. Forward guidance, the practice of telling markets in advance what the Fed intends to do, creates "ambiguity in the name of clarity." Investors, he said, should be "tracking real information" rather than parsing the Fed's hints. "I stand here today committed to a discipline, not to a decision."

Some history helps. The Fed turned to promising its future moves after 2008, when short-term rates hit zero and the only tool left was a pledge to keep them there. The pledge worked, and it became a habit. Statements grew to hundreds of words, and every official published a rate forecast in the famous dot plot. Warsh, who skipped the dot plot at his first meeting and cut the July statement to 130 words, is dismantling that habit. A central bank that promises its next move, he argues, must keep the promise even when the data says otherwise.

The market took the message with less drama than it took Jerome Powell's warning from the same podium in 2022, which sank the S&P 500 3.4 percent in a day. This time the index slipped a quarter of a percent, and interest rates reacted. The 10-year Treasury yield ended the month at 4.75 percent, highest since early 2025, and the odds of a September rate hike, about one in three before the speech, moved to better than even. The August jobs report gave the hawks more to work with: employers added 162,000 jobs in August, triple the forecast and five times the prior year's monthly

average, with unemployment steady at 4.1 percent. A central bank facing 3.7 percent inflation and a resurgent labor market will find patience hard to defend when it meets in September.

For the long-term investor, a Fed that stops forecasting itself is less of a problem than it sounds. Guessing the next quarter point was never the ordinary investor's edge. It's the one August demonstrated both in Seoul and in software: owning good businesses outright, spread widely enough that no single misstep matters, and letting the market come to its senses on its own schedule. Long-term rates near 5 percent will keep a lid on what investors pay for speculative promises. That is fine. Companies with strong balance sheets, recurring revenues and robust free cash flow do not need cheap money to grow. Warsh closed his speech with a line from the late test pilot Chuck Yeager: "At the moment of truth, there are either reasons or results." Investors can hold their portfolios to the same standard.

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