

Macro Pulse for August 30

- Fed chair Kevin Warsh used his first Jackson Hole speech to reinforce that the inflation fight is not over. While he highlighted AI as a potential boost to growth and productivity, he noted that inflation remains too high, financial conditions do not look restrictive, and the Fed has a responsibility to act. Markets read the speech as hawkish, raising expectations for a 2026 rate hike and flattening the Treasury curve. With the next Fed meeting on September 16, policymakers will receive another jobs report and inflation print before making their decision.
- Long end yields moved lower this week following Treasury comments that it could tap its general account to fund additional Treasury buyback operations. Despite this announcement, the 10-year yield continued to push higher through much of the week. In our view, these measures matter more for signal than for size, demonstrating Treasury's willingness to try to keep yields contained. That said, we expect rates to remain elevated and more volatile given inflation pressures, elevated sovereign and corporate debt issuance, and uncertainty around the path of policy.

A fresh view on volatility

Markets are navigating a complicated backdrop. The Treasury market has been coping with a selloff and renewed concerns around sovereign debt issuance. Higher rates are pervasive across developed economies. Within equities, the AI trade continues to experience shifts in leadership under the surface. Yet despite these pressures, the broader U.S. stock market has remained remarkably calm.

We've found that this quiet at the equity index level masks a much more volatile market underneath – much like a duck swimming calmly to the surface observer, as its flippers move frantically beneath. Individual stocks are moving sharply, just often in opposite directions.

In this week's note, we look at what is keeping headline volatility contained and why a calm market is not necessarily a low-risk market.

A quiet index can hide a lot of movement

Most investors think about volatility based on daily moves in the S&P 500, or the level of the VIX (volatility index). But both can make the market look calmer than what is happening beneath the surface.

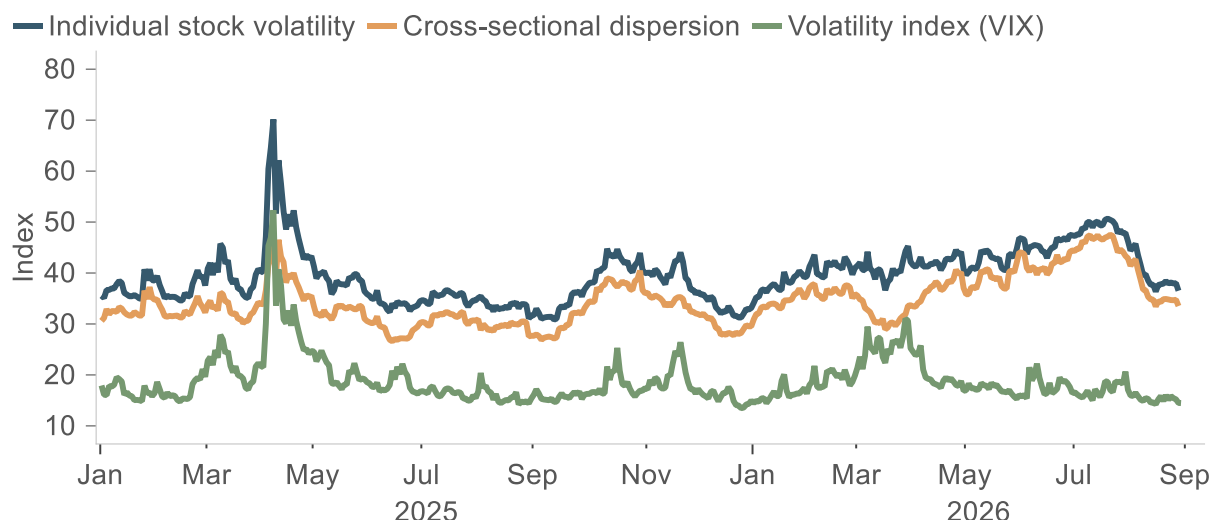
The S&P 500 is an index made up of many individual stocks. If one large stock rises while another falls by a similar amount, both companies have experienced significant volatility, even though the index finishes the day with price level roughly unchanged.

That is where dispersion comes in. Dispersion measures how differently individual stocks are performing relative to one another. Perhaps counterintuitively, the wider the gap between the market's winners and losers, the more those moves can offset each other at the index level.

The VIX index reflects the difference between individual stock volatility and dispersion across stocks at a given point in time, also known as cross-sectional dispersion. When high individual stock volatility is matched by high cross-sectional wide dispersion, the VIX remains contained and the market appears quieter than it is.

Offsetting stock moves are keeping the VIX contained

The VIX index is the difference between individual stock volatility and cross-sectional dispersion. The two have tracked each other, allowing large but opposing stock moves to offset and keep the VIX contained.



Sources: New York Life Investment Management, Global Market Strategy, Bloomberg, Macrobond, August 2026.

A market of winners and losers

This dynamic makes sense in today's environment. Investors are drawing sharper distinctions between companies benefiting from AI investment and those at risk for disruption, as well as between businesses that can absorb higher interest rates and those that are more vulnerable.

The result is larger moves in individual stocks, and a wider gap between winners and losers, without necessarily producing large moves in the overall market. A quiet index, therefore, does not mean investors are comfortable or that risk has disappeared. It may simply mean the winners and losers are balancing each other out.

In some ways, that can be a healthy sign. In periods of stress, stocks often move together as investors focus more on broad risks than on company fundamentals. This is when correlations tend to rise. Today's moves suggest investors are paying attention to differences in earnings, balance sheets, and business models. **But regardless of the verdict on index health, today's volatility creates a strong case for active management and security selection.**

Portfolio strategy

High dispersion strengthens the case for active management. When the gap between winners and losers widens, company fundamentals matter more and skilled managers have greater opportunity to add value through security selection.

It also reinforces the importance of diversification. Simply owning more securities does not necessarily make a portfolio more diversified if those investments share the same underlying exposures. U.S. equities offer a good example. Tech leadership, once concentrated in large cap stocks, is increasingly extending into small cap



equities, eroding the power of diversifying away from the tech theme via market cap. We see greater diversification potential in ex-U.S. developed market equities, and in select high-quality sectors that are more cushioned against swings in AI leadership. Financials, for example, offer differentiated exposure and potential resilience in a higher rates environment.

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