News

Oil prices leap to their highest since May and drag Wall Street lower

Trader Edward Curran works on the floor of the New York Stock Exchange, Thursday, Aug. 27, 2026, in New York.

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NEW YORK (AP) — Oil prices keep climbing as the war with Iran keeps clogging the global flow of crude, and they leaped Thursday to their highest levels since before the summer. That worsened worries about inflation and cranked up pressure within the bond market, helping to send stocks lower again on Wall Street.

The S&P 500 fell 0.6% for a fourth straight loss, its longest such streak since June, though it's not far from its all-time high set last month. The Dow Jones Industrial Average dropped 316 points, or 0.6%, and the Nasdaq composite sank 0.7%.

Stocks sank under the weight of rising oil prices. Brent crude, the international standard, climbed another 6.3% and briefly topped $108 per barrel for the first time since May before settling at $107.63.

It's jumped from less than $72 in early July as hopes fade that the war with Iran will allow oil to flow freely again from the Middle East anytime soon. President Donald Trump said on Wednesday that oil prices likely won't come down until after the U.S. midterm elections in November.

The jump has vaulted the price for a gallon of regular gasoline to an average of nearly $4.28 across the United States, according to AAA. That's up nearly 34% from a year earlier and is not only costing people more at the pump but also through higher prices for all kinds of products that move by truck to store shelves.

A report on Thursday said inflation at the U.S. wholesale level accelerated to 5.4% last month from 4.8% in July, and retailers could eventually pass such increases in prices onto shoppers. A report is coming on Friday that will show how much inflation U.S. consumers are feeling.

The typical move to rein in high inflation is for the Federal Reserve to raise its main interest rate, the federal funds rate. Such a move then filters out through the rest of the bond market, makes it more expensive for U.S. households and businesses to borrow money, slows the overall economy and undercuts prices for investments. That hopefully would remove some of inflation's fuel.

A report on Thursday suggested the U.S. job market may remain solid, with fewer workers applying for unemployment benefits last week. That could give the Fed more confidence that the economy could withstand higher interest rates.

Following Thursday's reports, traders see a roughly 73% chance the Fed will raise the federal funds rate at its meeting next week. That's up from the 61% probability seen the day before, according to data from CME Group. That's also despite Trump's consistent lobbying for interest rates to go lower rather than higher.

The Fed's counterpart in Europe, the European Central Bank, raised its own interest rates on Thursday in hopes of getting inflation in check. It cited "the conflict in the Middle East" and how it "continues to generate inflation pressures."

It all pushed the yield on the 10-year Treasury up to 4.95% from 4.83% late Wednesday, which is a significant move for the bond market.

It's up from just 3.97% before the war with Iran began and is back to where it was in the autumn of 2023. That was after the Fed cranked the federal funds rate higher to get super-high inflation coming out of the COVID pandemic under better control.

Higher yields mean investors can make more money putting their money into bonds, which can in turn make investors less willing to pay high prices for stocks and other investments that are riskier than bonds.

Some investors see a 5% yield on the 10-year Treasury as the next potential flashpoint. But strategists at Bank of America's Research Investment Committee suggest 7% may be the more important threshold, pointing to peaks for expensive stocks around that point in the past.

In the meantime, the rising 10-year Treasury yield is making mortgages more expensive and hurting the housing industry. One report on Thursday said the average long-term U.S. mortgage rate hit its highest level in over 14 months, while a second one said sales of previously occupied U.S. homes fell in August to their slowest pace in more than a year.

That helped sent stocks of homebuilders lower, including drops of 3.5% for Lennar and 2.4% for D.R. Horton.

Elsewhere on Wall Street, Macy's fell 4.7% even though the retailer reported stronger profit and revenue for the latest quarter than analysts expected. While raising its forecast for earnings this fiscal year, it warned that "there are macroeconomic and geopolitical factors that could influence" how much its customers feel comfortable spending.

Macy's said it received $116 million in tariff refunds from the government — $98 million during the quarter and another $18 million after the quarter ended. Macy's CEO Tony Spring told The Associated Press Thursday that it's using some of the proceeds to lower prices on certain items like furniture and other big-ticket purchases.

All told, the S&P 500 fell 44.66 points to 7,591.70. The Dow Jones Industrial Average dropped 316.56 to 52,064.10, and the Nasdaq composite sank 171.62 to 26,081.72.

In stock markets abroad, indexes slipped across much of Europe and Asia. Hong Kong's Hang Seng dropped 1.3% for one of the world's biggest moves.