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WEALTH MANAGEMENT

Fall, 2026



Investment Commentary

Q3 2026 Market Summary

Following the second quarter's powerful rally, U.S. equity markets delivered a more mixed third quarter. The S&P 500 and Nasdaq Composite posted modest gains, while the Dow and small-cap Russell 2000 declined. Those headline results also concealed considerable weakness beneath the surface: the equal-weight S&P 500 lost ground, highlighting how heavily the market's gains depended on its largest companies.

Artificial intelligence remained a central investment theme, although leadership shifted within the trade. Semiconductor stocks and several areas tied to AI infrastructure pulled back, while software companies continued recovering from their weak start to the year. Investors remained encouraged by demand for computing power and growing corporate adoption, but increasingly scrutinized monetization, financing arrangements, security risks, and the extraordinary spending required to sustain the buildout.

Geopolitics also returned to the forefront. The U.S.-Iran memorandum of understanding reached in June failed to produce a lasting resolution, and renewed fighting and shipping disruptions pushed energy prices sharply higher. Crude oil rose roughly 30% during the quarter, while diesel prices climbed even more. Energy was the S&P 500's strongest-performing sector, but higher fuel costs renewed challenges for households, businesses, and the inflation outlook.

Total Returns	Q3 2026	YTD 2026
US Stocks		
S&P 500	2.3%	12.8%
S&P 500 Equal Weight	(1.9%)	10.0%
Nasdaq Composite	2.6%	16.1%
Russell 2000	(7.2%)	13.7%
International Stocks		
MSCI World Ex-US	0.8%	12.9%
MSCI Emerging Markets	(2.8%)	23.4%
Fixed Income		
Bloomberg US Agg Bond Index	(3.5%)	(2.9%)
Short-Term Treasuries	0.9%	2.5%
Other		
Gold	3.7%	(3.8%)
Bitcoin	42.3%	(4.6%)

Return figures from FactSet; Q3 2026 and YTD 2026 data as of 9/30/2026

Interest rates added another source of pressure. In September, the Federal Reserve raised its policy rate by a quarter percentage point, its first increase since July 2023. Treasury yields rose sharply across maturities as investors weighed persistent inflation, energy disruptions, and substantial government and private-sector borrowing needs. Rising yields weighed on bond prices and contributed to weakness in rate-sensitive areas, including housing-related stocks, utilities, real estate, and small caps.

Corporate earnings nevertheless provided substantial support. Second-quarter results reported during Q3 showed S&P 500 earnings growing nearly 53% from a year earlier. Although two large technology companies accounted for a significant share of that increase, growth remained above 30% excluding them, and approximately 86% of companies exceeded analysts' earnings estimates.

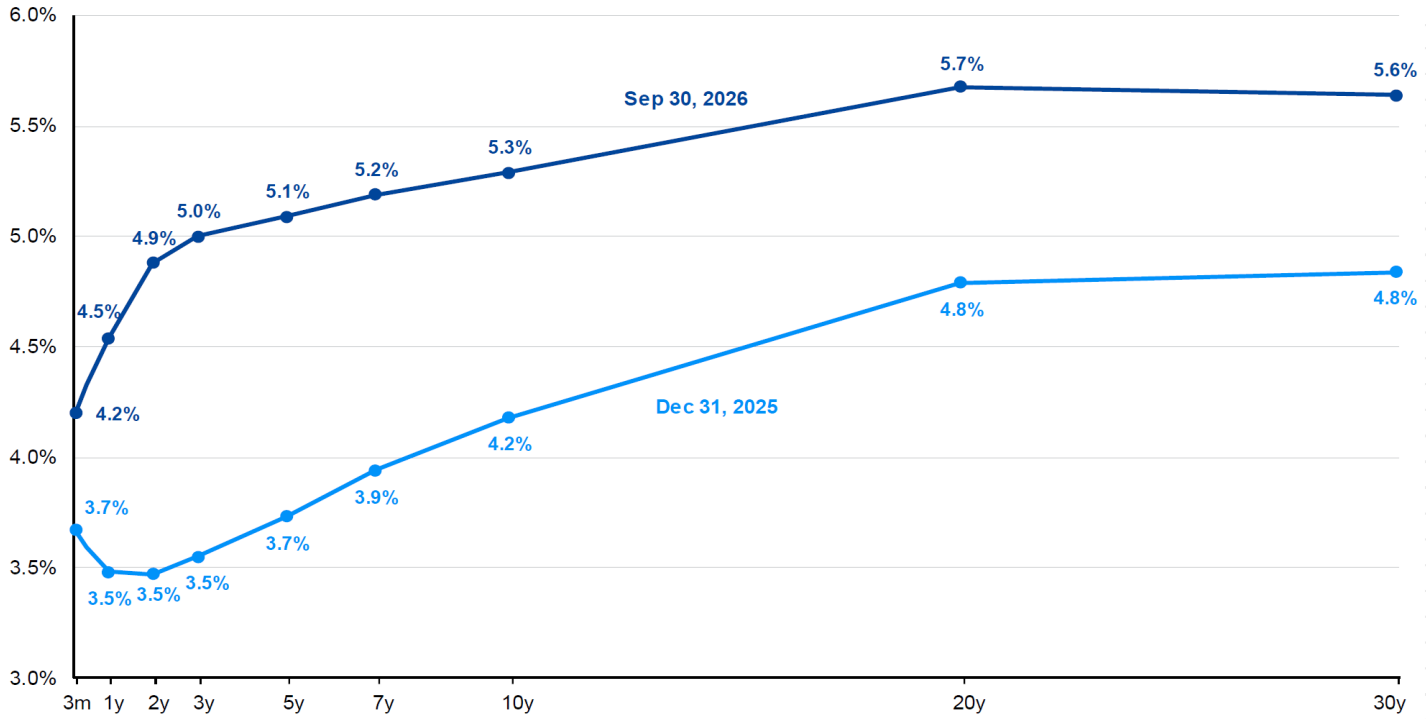
The broader economy continued to expand, with consumer spending holding up despite subdued sentiment and slower hiring. As we discussed last quarter, strength remained uneven, with large companies, wealthier households, and AI-related investment providing substantial support. The quarter therefore ended with a familiar tension: strong profits and resilient spending supported markets, while higher financing costs, renewed energy inflation, and narrower participation made that resilience less broadly shared.

The Bond Market Is Raising the Hurdle

In our August 21 article on the bond market, we examined the rise in long-term yields and its implications for borrowers, stocks, and fixed-income investors. That discussion became even more relevant as the quarter progressed. Treasury yields continued climbing, and September brought the Federal Reserve's first rate increase since July 2023. Together, these developments challenged bond investors and raised financing costs across the economy.

Understanding this rising rate environment requires

U.S. Treasury Yield Curve



Treasury yields rose across maturities between year-end and September, raising borrowing costs and the income available on new bonds. The higher dark-blue line shows that this repricing extends well beyond the short-term rate controlled by the Fed.

Source: J.P. Morgan Asset Management, Guide to the Markets, page 33; FactSet and Federal Reserve. September 30, 2026 versus December 31, 2025.

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distinguishing the interest rate the Fed controls from those the market determines. The Fed directly sets a short-term policy rate. Longer-term Treasury yields incorporate expectations for future monetary policy, economic growth, and inflation, along with the compensation investors demand for committing money over many years. Consequently, long-term rates can rise even when the Fed is holding steady, and they need not decline simply because the Fed eventually eases.

Inflation remains an important influence. Higher energy prices threaten to delay progress toward the Fed's target and can spread through transportation, manufacturing, and household expenses. Inflation also erodes the purchasing power of a bond's fixed payments. Investors therefore demand more compensation when they believe inflation may remain elevated or become less predictable.

Fiscal conditions add another source of uncertainty. Substantial federal deficits require ongoing Treasury issuance, while higher yields gradually increase the government's interest expense as debt matures and is refinanced. Investors must absorb that supply alongside borrowing from other sectors. The "term premium"—the additional compensation investors require to hold longer-term bonds—reflects some of this uncertainty. After years when that premium was unusually low, lending for a decade or more has become a proposition investors increasingly expect to be paid for.

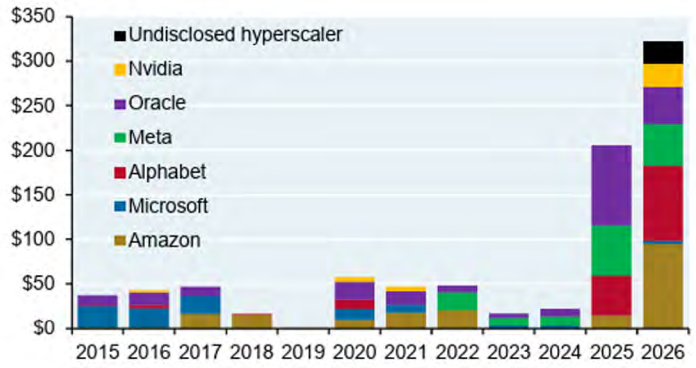
The government also faces growing competition for capital. Technology companies are investing extraordinary sums in data centers, chips, electrical infrastructure, and power generation. Their substantial cash flows finance much of this spending, but debt issuance has become an increasingly important part of the equation. These investments may ultimately lift productivity and support economic growth. In the meantime, they add to the financing that capital markets must provide.

For equity investors, both *why* rates are rising and *how fast* they're rising matter. Higher yields associated with improving growth can accompany stronger revenues and profits, helping stocks absorb a higher cost of capital. Increases driven primarily by inflation or fiscal concerns can be more difficult because they raise financing costs without necessarily improving companies' earnings prospects. Higher bond yields also give investors a more competitive alternative to stocks, making elevated equity valuations harder to sustain without continued earnings growth.

The pace of adjustment also matters. Gradual Fed increases give households and businesses more time to

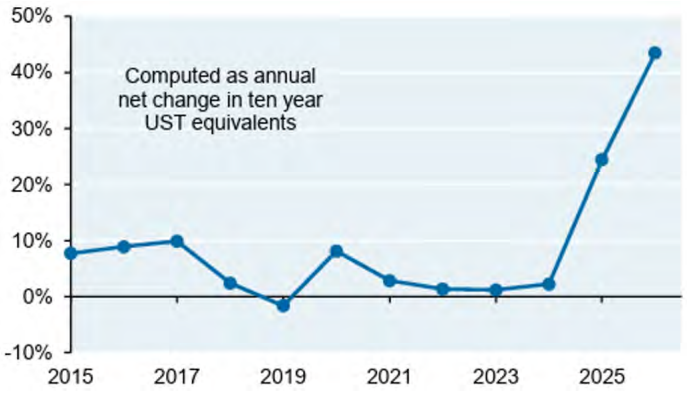
5 Hyperscalers & NVDA New Investment Grade Debt + SPVs

Billion US$



Hyperscaler + NVDA 10 yr+ Debt Issuance (incl. SPVs) as Percent of Treasury Bond Issuance

Percent



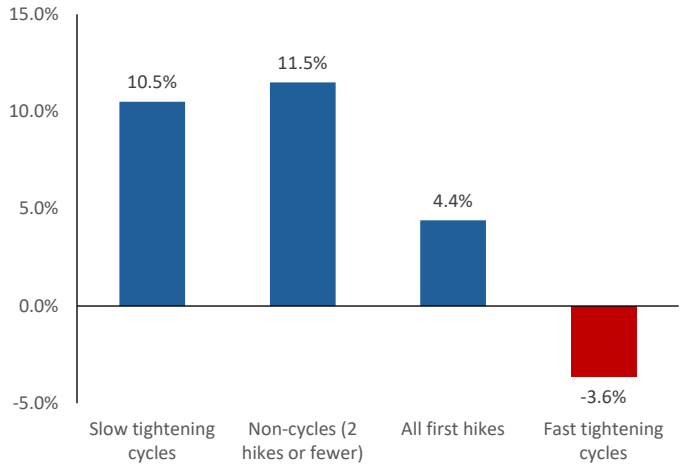
Large technology companies are borrowing substantially more to finance the AI buildout. That demand adds to the capital markets' financing burden alongside government borrowing, although this chart does not establish how much it has contributed to higher Treasury yields.

Source: Bloomberg and J.P. Morgan Asset Management; August 31 and September 8, 2026. Includes financing through separate project entities; the right panel adjusts issuance to ten-year Treasury equivalents for comparison.

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adapt, while rapid tightening can impose a sharper adjustment in financing costs. The historical analysis illustrated below shows that the S&P 500 delivered stronger average price returns over the year following the first hike in slow cycles than in fast ones. Outcomes varied considerably, and gradual tightening still carried risk. Nevertheless, the comparison reinforces why we watch both the economic conditions prompting rate increases and the speed at which policy changes.

Speed is the Variable: Stocks Absorbed Slow Hiking Cycles, Not Fast Ones



Average S&P 500 price gain in the first year after a cycle's first rate hike, by cycle speed, 1946-present. A "fast" cycle hiked at almost every meeting on averagel a "slow" cycle waited at least one meeting between hikes; a "non-cycle" is two or fewer hikes before a cut.

Stocks have historically fared better when the Fed raised rates gradually. The S&P 500 averaged a 10.5% price gain in the year after the first hike in slow cycles, compared with a 3.6% decline in fast cycles. These averages illustrate why the pace matters; individual outcomes varied.

Source: RiverFront Investment Group, September 22, 2026, using Ned Davis Research chart S859 (copyright 2026 NDR, Inc.); history from 1946. Price returns exclude dividends. Past performance does not guarantee future results.

For bond investors, this environment offers a corresponding trade-off. Rising yields have hurt existing bond prices, especially at longer maturities, while improving the income available on newly invested money. Longer-duration bonds can lock in that income and appreciate substantially if yields fall. They also expose investors to larger price declines if rates continue rising.

Our fixed-income focus continues to favor short-to-intermediate maturities, where we see an attractive balance of income, stability, and flexibility. Longer-duration bonds can still provide valuable diversification when growth weakens and inflation subsides, but their protection is less dependable when inflation drives the market's difficulties. We therefore remain deliberate about how much interest-rate risk we assume, rather than relying on a particular forecast to make the allocation work.

(For a fuller discussion, please see our August 21 article, The Bond Market Is Sending a Message.)

Consumers Are Spending, but the Cushion Is Thinning

Higher borrowing costs and energy prices are reaching households whose ability to absorb them varies considerably. As we discussed last quarter, aggregate consumer spending can remain healthy even when many families feel financially constrained. Higher-income households benefit from stronger balance sheets and rising asset values, while those with less financial flexibility devote more of their income to necessities. That divide remains important, but the question now is how much longer spending can hold up as purchasing power comes under pressure.

This is where the "marginal consumer" matters. The term describes households whose next purchase is especially sensitive to a change in income, prices, or access to credit. Their decisions can influence whether sales at a retailer or restaurant grow or contract, even while total spending remains solid. A household need not lose a job to reduce discretionary purchases. Higher fuel bills, slower pay growth, or an increasingly expensive credit-card balance can be enough.

The labor market helps explain both the resilience and the pressure. Unemployment remains low, and layoffs have been relatively contained, providing an important foundation for spending. Hiring, however, has slowed,

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and workers have fewer opportunities to improve their pay by changing jobs. Employers can retain staff without competing as aggressively for new workers, limiting employees' bargaining power.

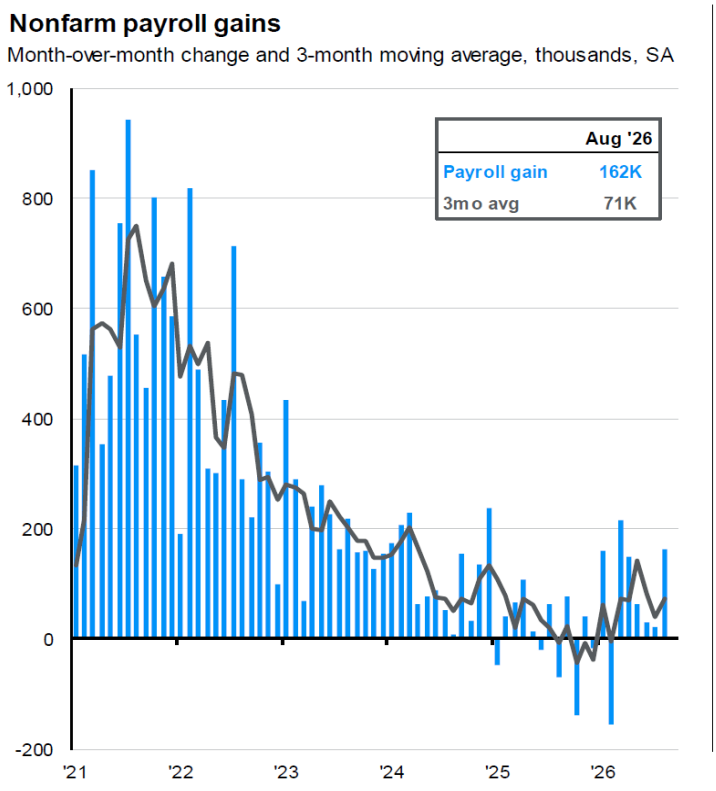
Data released shortly after quarter-end illustrated that tension. September's employment report showed average hourly earnings rising just 0.1% for the month and 3.0% over the preceding year. With August consumer inflation running at 3.4%, wage growth was struggling to keep pace with living costs. September's inflation release will determine the precise real-wage result, but the recent pattern points to pressure on purchasing power.

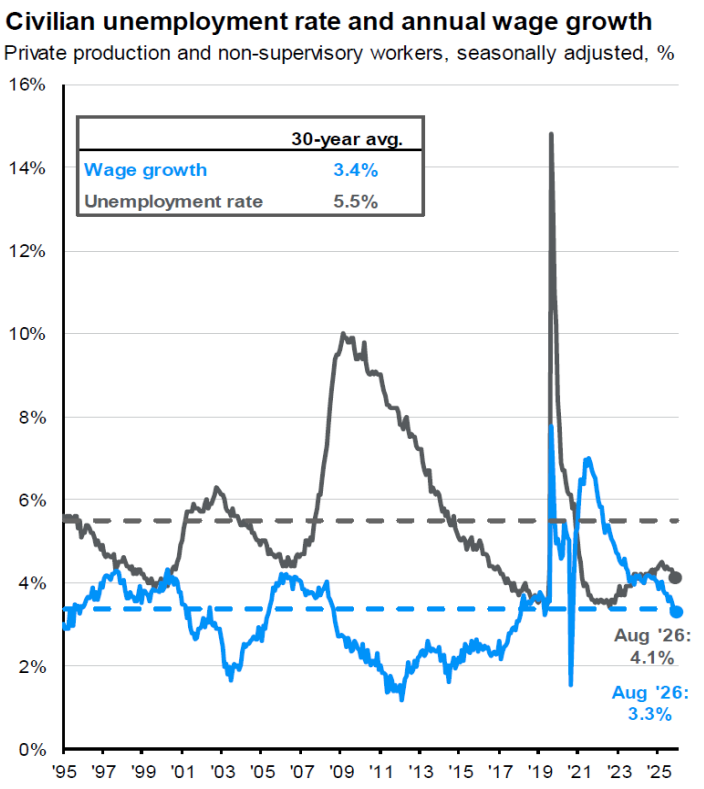
Slower hiring also requires some context. An aging population and reduced immigration have slowed labor-supply growth, meaning the economy may need fewer additional jobs to keep unemployment stable than it did in earlier expansions. Modest payroll gains alone do not signal an approaching recession, yet low unemployment can coexist with a difficult environment for workers seeking a new position or a meaningful raise.

For the Federal Reserve, slower wage growth may ease concern about persistent inflation in labor-intensive services. For households, the same development can make everyday expenses harder to manage. This tension is particularly acute when higher energy costs absorb income that otherwise might have gone toward discretionary purchases.

Consumers have continued to find ways to spend, supported by employment income, tax refunds, wealth gains, and access to credit. Those supports have different limits. Asset appreciation provides little relief to households with few investments, while borrowing to

Labor Market Dynamics





Hiring and wage growth have slowed while unemployment remains low. Employment continues to support spending, but fewer opportunities for better pay leave households with less flexibility to absorb higher living costs.

Source: J.P. Morgan Asset Management, Guide to the Markets, page 18; BLS and FactSet, as of October 2, 2026. The chart's wage series covers production and nonsupervisory workers (3.3% annual growth in September); the text's 3.0% figure covers all employees.

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cover recurring expenses adds interest costs to an already constrained budget.

We are therefore watching the durability of spending, including whether households increasingly rely on credit or sacrifice savings to maintain it. Resilient consumption remains a reason for confidence in the expansion. The experience of consumers with the least cushion is nevertheless an important signal of where and when that resilience could begin to weaken.

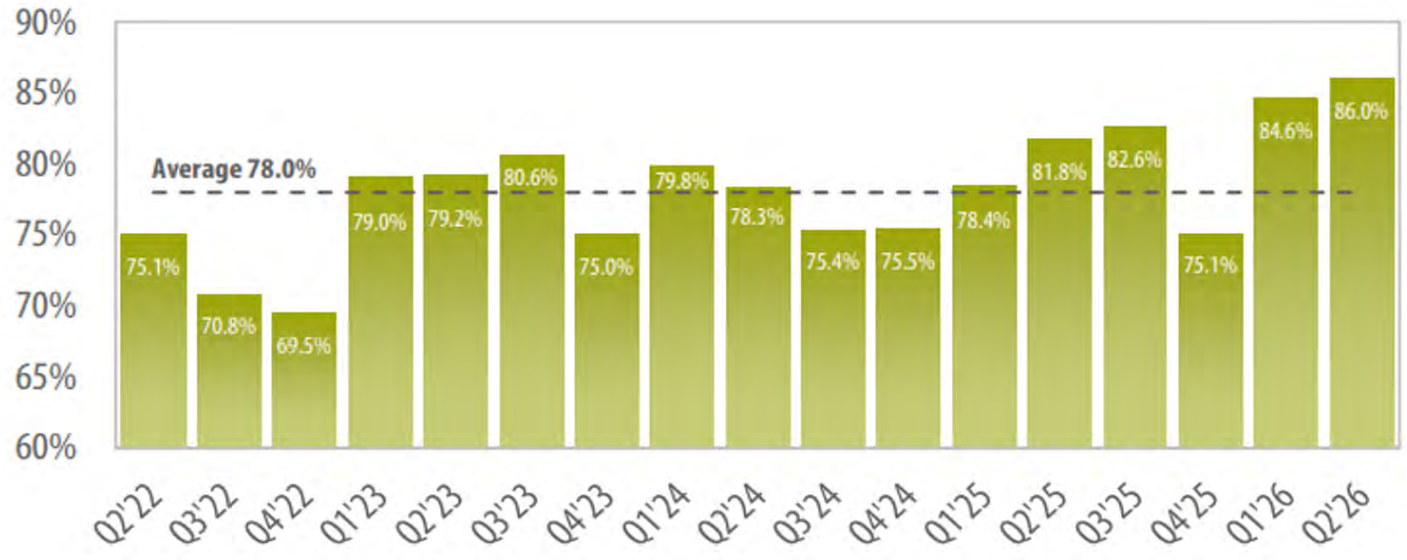
Strong Earnings and Narrower Leadership

Pressure on household budgets does not translate evenly into corporate profits. Large public companies serve different customers, operate across international markets, and often have greater financial flexibility than smaller businesses. The stock market can therefore deliver healthy earnings growth even when many households' economic experience is less favorable.

Earnings results reported during the third quarter reinforced that distinction. As noted in our recap, second-quarter earnings grew exceptionally quickly, and approximately 86% of S&P 500 companies exceeded analysts' estimates (versus an average beat rate of 78%). Revenue growth was also strong, indicating that the improvement extended beyond cost reductions alone. These results provided meaningful support for equities as interest rates rose.

Strong results, however, do not eliminate the importance of expectations. A company can grow profits substantially and still disappoint investors if its stock price already assumes an even better outcome. Higher bond yields make that calculation more demanding by increasing the return available from competing investments. Investors consequently weigh whether stocks offer enough additional expected return to compensate for their greater risk. (You may have heard this additional compensation referred to as the "equity risk premium.") Sustaining elevated valuations therefore requires confidence in both the level and durability of future earnings. The same standard applies to AI: adoption must translate into additional revenue, improved efficiency, and attractive returns on investment to justify the capital committed and prices investors pay.

Percent of S&P 500 Companies That Beat Their Quarterly Earnings Estimates



Approximately 86% of S&P 500 companies beat earnings estimates for the second quarter, exceeding the chart's 78% average. Those results, reported during Q3, helped support stocks as borrowing costs rose.

Source: FactSet Research Systems. Q2 2026 beat rate based on 487 company results; average spans Q2 2022–Q2 2026.

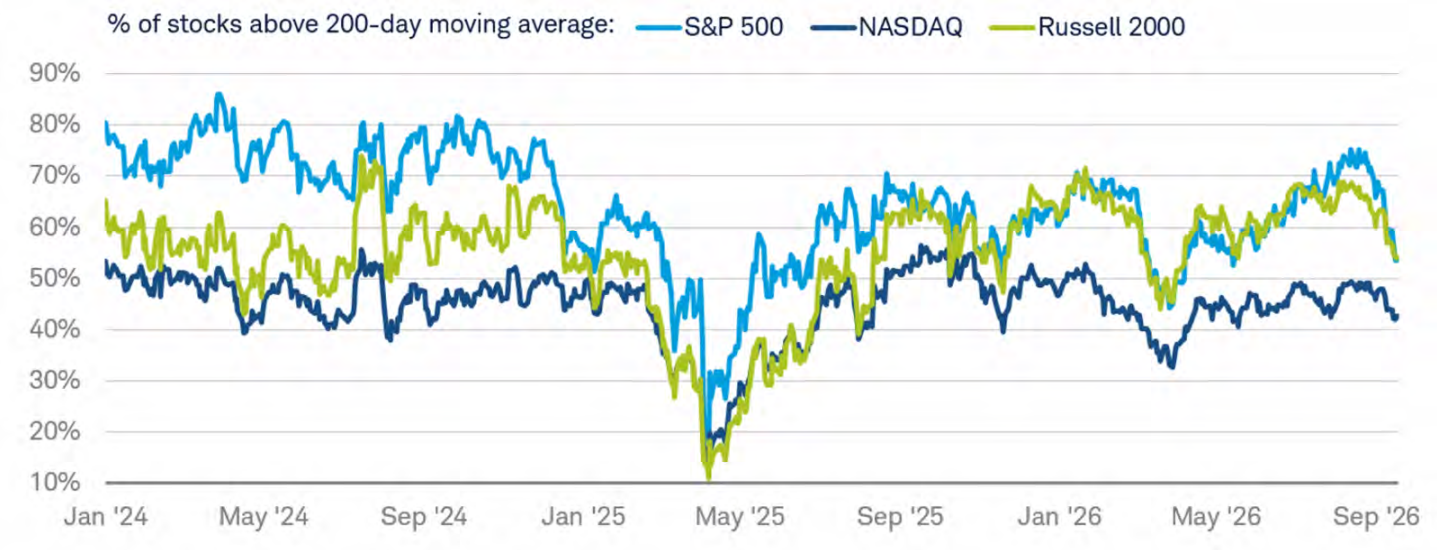
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Market participation offered another reason for selectivity. The S&P 500 advanced during Q3, while its equal-weight counterpart declined. By quarter-end, only about one-quarter of S&P 500 constituents traded above their 50-day moving averages, down from roughly two-thirds at the end of June. That measure captures recent price momentum rather than business quality, but it illustrates how little the headline index gain reflected the experience of the typical stock.

Narrow leadership does not automatically signal an impending decline. (Put another way, if you fled equities every time breadth narrowed over the last four years, you likely underperformed significantly.) Today's largest companies generate substantial profits, and their influence partly reflects their economic success. Concentration does, however, leave the index more dependent on a smaller group continuing to meet demanding expectations. Investors should also distinguish an index containing hundreds of companies from a portfolio whose returns are evenly distributed among them.

Our approach is to participate in earnings growth while remaining attentive to valuation and concentration. We continue to monitor whether appreciation has allowed particular holdings or investment themes to assume a larger role than intended, balancing any adjustments against taxes and client objectives. Strong profits support a constructive outlook; narrower leadership makes selectivity and portfolio discipline especially important.

Highly Rotational Market with Soft Spots Worth Watching



Fewer stocks were participating in the market's advance by mid-September. The recent declines in the share trading above their longer-term average prices help explain why strong headline indexes can conceal weakness across many individual stocks.

Source: Charles Schwab and Bloomberg, through September 18, 2026. This chart uses 200-day moving averages; the quarter-end figures in the text use the shorter 50-day measure.

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Closing Thoughts

The third quarter offered reasons for confidence alongside reminders of the risks. Corporate profits remained strong, consumers continued spending, and investment in new technology supported activity. Higher financing costs and pressure on household purchasing power nevertheless warrant attention, particularly when market gains depend on a relatively narrow group of companies.

Those same economic pressures will also help shape November's midterm elections and the policy outlook for 2027. Household purchasing power matters at the ballot box as well as at the checkout counter. A shift toward divided government could make additional fiscal stimulus harder to enact, potentially leaving consumers with less support as earlier tax benefits fade. Congressional gridlock, however, would not resolve the persistent deficits weighing on the bond market. The election therefore adds uncertainty to the outlook for both consumer spending and government borrowing, even as its eventual policy implications remain to be seen.

These economic and policy uncertainties reinforce our emphasis on continued participation in long-term growth, supported by deliberate portfolio choices. Attractive bond income deserves consideration alongside the duration risk required to earn it. Equity exposure should reflect both the opportunities ahead and the concentration that past gains may have created. Diversification remains valuable, especially when holdings in different sectors depend on the same underlying investment theme.

As year-end approaches, please reach out to your advisor if you would like to review your allocation, upcoming cash needs, or tax-planning opportunities. Those personal considerations remain the foundation of a sound investment plan, even as the economic backdrop evolves.

We wish you and your family an enjoyable fall.



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