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Q3 2026 Market Commentary

Markets Hit Records Despite Rising Bond Yields and Higher Oil Prices

Markets were volatile again throughout the third quarter, but stocks still managed to advance, as strong corporate earnings growth and a resilient economy pushed the S&P 500 and NASDAQ to new all-time highs despite a rebound in oil prices and a surge in U.S. Treasury yields. A.I. companies, specifically within the infrastructure segment, came under scrutiny in July as most companies linked to this technology declined rapidly as markets seemed worried about the sharp rise in these assets over the last several months. Regardless of these concerns, Microsoft and Amazon posted strong earnings and reported some acceleration in revenues from their A.I. investments. This moved the S&P starkly higher at the end of July and into August. During mid-August, the S&P 500 hit new all-time highs, but momentum quickly deflated as inflation remained sticky and would likely require the Federal Reserve to raise interest rates at their September meeting. Notwithstanding, the S&P 500 posted a positive return for August. September was volatile as Iran and the United States remained in conflict but also expanded beyond the borders of Iran into Saudi Arabia. In addition, the Fed officially raised rates by 25 basis points as economic growth remained strong and inflation continued to be elevated. The markets cooled down in late September as the market was slightly negative. Overall, the S&P 500 gained 2.30% during the quarter and was remarkably resilient over the last three months even as Brent oil prices surged to $114/barrel and Treasury yields spiked to levels not seen in nearly 20 years as the 10-Year hit 5.29%.

- The U.S. economy is estimated to have grown 2.2% during the quarter.
- The unemployment rate registered at 4.2% in September, unchanged from the June reading.
- US labor market added 29,000 new jobs in September.
- Inflation slightly decreased to 3.4% in August after registering at 3.5% in June.
- Fed Funds Rate rose 25 basis points after September 2026 meeting, with a target of 3.75-4.00%.
- ISM Manufacturing PMI registered at 54.5 in September, slightly higher than the 53.3 reading in June.
- The Labor Force Participation Rate was 61.8% in September, a slight increase from June.
- The U.S. dollar rallied slightly against most currencies during the quarter, however, remains at historically weak levels.

- U.S. equities ended the quarter up 2.30%, as measured by the S&P 500 Index.
  - Energy, Information Technology and Health Care were the top sectors, returning 17.23%, 7.20% and 6.46% respectively.
  - The worst performing sectors were Utilities, Industrials, and Real Estate, returning -12.39%, -9.66%, and -5.57% respectively.
  - Brent crude oil ended the quarter at $114/barrel, rising from $85/barrel at the end of June 2026.
  - Value outperformed Growth, with the Russell 1000 Value up 2.61% and the Russell 1000 Growth up 0.92%.
  - Large Caps outperformed Small Caps and Mid-Caps, with the Russell 1000 up 1.80%, Russell 2000 down -7.23%, and Russell Mid-Caps down -3.00%.

- Interest rates mostly moved swiftly higher over the quarter. The yield on the 2 Year Treasury jumped 74 bps to 4.88% while the 10-Year Treasury increased 85 bps to end at 5.29%.1 Month Treasuries rose from 3.70% to 4.02%.

- The Bloomberg U.S. Aggregate Bond Index ended the quarter down -3.51%, with the Bloomberg Short Term Treasury up 0.89% and mortgage-backed securities posted a negative return of -4.25%. High yield corporates outperformed investment grade, with the Bloomberg U.S. Corporate High Yield Index down -1.82% versus the U.S. Corporate Index for the quarter down -3.94%.

- The ECB raised rates while the BOE held rates steady during the quarter.
  - Eurozone inflation rose to 3.8% in September after clocking in at 2.8% in June.
  - The ECB raised its target rate of 2.50% during the quarter.
  - The BOE held rates steady in the quarter of 2026 with a 3.75% target.

International equity markets posted positive returns in Developed Markets while Emerging Markets were negative.

- Developed markets underperformed the U.S.
  - MSCI EAFE USD was up 0.81% with Singapore returning 13.43%, Norway 11.47%, and Ireland 9.86%.
  - Japan rose 5.96% during the quarter while MSCI Europe USD was down -1.65%, with Denmark returning -6.92%, Switzerland -5.69%, and France -5.52%.
- Emerging market equities underperformed developed markets, with the MSCI EM USD down -0.37% for the quarter.
  - EM Leaders included Poland, Columbia, and Greece, respectively returning 17.23%, 17.22%, and 15.42%.
  - EM Laggards included Korea, Argentina, and India returning -9.57%, -8.66%, and -5.61% respectively.
- In non-U.S. equity markets, value outperformed growth for the quarter. Value has outpaced growth the last five calendar years.
  - MSCI ACWI ex USA Value up 3.50% versus the MSCI ACWI ex USA Growth down -2.47%.

Geopolitical risks domestically and abroad loom over the global economy.

- Tensions remain elevated as the U.S. and Iran conflict continues with no clear resolution.
- A.I. continues to eliminate jobs and its impact on the economy is yet to be known.
- Further rate hike(s) in 2026 and possibly 2027 due to stubborn inflation.
- Impact of higher oil prices and interest rates on consumers is unclear as economy continues to grow.

Returns are total return, computed from Morningstar Direct and include the S&P 500, Bloomberg Aggregate Bond Indexes, Bloomberg High Yield Index, various MSCI and Russell Indexes. Economic data is taken from The Federal Reserve, Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Housing Finance Agency, EIA, and BMO.