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The third quarter was notably volatile for stocks and bonds, exacerbated by the war in the Middle East, concerns about the US' government's rising debt levels, and a corresponding increase in interest rates.

Despite these macro uncertainties, the S&P 500 gained 2.3% in Q3 and the tech-heavy Nasdaq returned 2.6%. However, the Dow Jones Industrials Average fell 2.3% in the quarter. These muted returns come on the heels of a historically strong Q2 for stocks. The Information Technology sector and other AI-related stocks experienced bouts of turbulence, driven by profit-taking following record earnings from companies in the AI supply chain, and concerns about surging capital expenditures and rising debt financing. In September, AI stocks were under renewed pressure amid prominent AI figures, including Anthropic CEO Dario Amodei and OpenAI CEO Sam Altman, to slow down frontier model launches amid safety concerns. As a result, the Philadelphia Semiconductor Index lost over 11% in the third quarter, while South Korea's tech-heavy Kospi index shed almost 20%. AI heavyweights showed mixed returns. Microsoft surged 37.5% in the quarter. Meta surged almost 30%, as the company's personal AI agent, Muse, was the number 1 downloaded app in the US within the first few weeks of launching. Meanwhile, Oracle and Broadcom both lost more than 6% in the quarter.

Outside of the US, Q3 performance was uneven. The MSCI EAFE index gained a modest 0.8% in the quarter, while the MSCI Emerging Markets index fell 0.4%. Economic conditions during the quarter reflected uneven growth, energy inflation, and cautious monetary policies. The euro area proved more resilient than expected as Germany and the UK continued to emerge from stagnation. Meanwhile, the ECB raised its policy rate by 25 bps to combat energy-driven inflation. In emerging markets, China's economy was more divided as manufacturing and exports remained resilient, but retail sales, fixed investment and the real estate markets weakened.

US Treasury yields were up across the maturity spectrum during the quarter, with the 10-year Treasury yield up 82 bps to 5.29%. The 10-year yield last reached this level was before the global financial crisis in mid-June 2007. The FOMC met twice during the quarter and increased their overnight rate by 25 bps at the September meeting, targeting a range of 3.75-4.00%. The committee's current median outlook for the end of 2026 is for an additional modest rate increase.

The US debt-to-GDP ratio sits at approximately 127%, placing it second highest among the G7 economies behind only Japan. As a result, the US has among the highest government borrowing costs in the G7 group.

The impasse in the Middle East reignited the surge in crude oil prices. In the third quarter, futures tied to global benchmark Brent soared 42% to \$103.53 per barrel. It marked its third highest quarterly gain in the last decade. Front-month futures tied to the US WTI crude oil rose 30% to \$90.42. Given the wide range of outcomes in the US' conflict with Iran, we expect oil markets to remain volatile.

Third Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	9/30/2026	6/30/2026	% chg	9/30/2025	% chg
DJIA	50,906.05	52,319.20	-2.3%	46,397.89	11.5%
S&P 500	7,651.54	7,499.36	2.3%	6,688.46	15.7%
NASDAQ Composite	26,861.06	26,213.72	2.6%	22,660.01	19.2%
Russell 2000	6,950.91	7,516.31	-7.2%	6,055.28	16.2%

	Date	1 Quarter Ago		1 Year Ago	
	9/30/2026	6/30/2026	% chg	9/30/2025	% chg
Japan Nikkei 225	66,753.72	70,062.32	-1.5%	44,932.63	67.4%
MSCI EM (Emerging Markets)	1,704.87	1,722.89	-0.2%	1,346.05	29.6%
MSCI EAFE	3,125.70	3,116.71	0.9%	2,767.03	16.2%
MSCI AC World	1,134.77	1,120.46	1.7%	984.78	17.2%
FTSE 100	12,492.55	12,269.80	1.9%	10,671.06	46.2%
SSE Composite Index	3,842.19	4,094.40	-5.0%	3,882.78	24.8%

US Equity Sector

	Q3	YTD
Consumer Discretionary	-5.1%	-5.8%
Consumer Staples	-1.9%	6.0%
Energy	17.2%	40.3%
Financials	-0.1%	-1.3%
Health Care	6.5%	10.2%
Industrials	-9.7%	8.5%
Information Tech	7.2%	28.4%
Materials	-2.8%	8.8%
Communication Services	3.6%	4.5%
Utilities	-12.4%	-5.7%

US Equity Style

	Q3	YTD
Russell 1000 Value	2.6%	19.3%
Russell 1000 Growth	0.9%	6.3%
Russell 2000 Value	-4.9%	17.0%
Russell 2000 Growth	-9.4%	10.7%

Commodity Prices

	Sep 2026	Dec 2025	1 Yr. Ago
Gold	4,186.70	4,341.10	3,873.20
Crude Oil	90.42	57.42	62.37
UD Dollar Index	101.19	98.05	97.45
Commodity Index	141.79	109.69	104.63



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September's nonfarm payrolls report came in weaker than expected. The US economy added 29,000 jobs last month, with unemployment rising to 4.2%. The Dow Jones consensus projected an 84,000 increase in jobs, and unemployment was expected to hold steady at 4.1%.

Inflation remains above the Federal Reserve's long-run target of 2%, with CPI coming in at 3.4% year-over-year in the most recent reading. Along with the latest jobs numbers, inflation is critical in influencing the Fed's decisions. Despite the still-above-target inflation, there is some concern that rising treasury yields could negatively impact the economy. As such, the Fed is taking a measured approach to further rate increases. As such, October rate-hike probability fell to just 14% according to the CME's FedWatch.

Rising prices have bolstered US household spending, which grew 6.1% through the 12 months through August, up from annual growth of 4.3% at the end of 2025. Americans are spending more on food, travel, furniture, Halloween décor and most anything else - in spite of rising gasoline prices.

The US dollar index was marginally higher by the end of Q3. The dollar index was trading around 101, up 3% year-to-date, as rising global bond yields have been driving investors to safe haven assets like the US dollar.

We are at the start of the third quarter earnings season. After a record second quarter, when S&P 500 EPS grew 52.5% year-over-year, analysts have revised Q3 EPS estimates higher to 29.1%. If this is the actual growth rate for the quarter, it will mark the third-straight quarter of earnings growth above 25% for the index. By the sector, all eleven sectors are expected to deliver year-over-year earnings growth, led by energy, information technology, and communication services. The S&P 500's forward P/E peaked at 23x in October 2025 and has fallen to 19x, no longer at extreme vs. history. Looking ahead, we expect earnings growth, instead of multiple expansion, will dominate market returns.

US Treasury Bond Yields

	Sep '26	Dec '25	1 Yr. Ago
90 Day	4.12	3.63	3.94
2 Year	4.87	3.48	3.61
5 Year	5.07	3.73	3.74
10 Year	5.27	4.17	4.15
30 Year	5.62	4.84	4.73

Exchange Rates

	Sep'26	Dec'25	1 Year Ago
Euro per U.S. Dollar	0.880	0.851	0.851
British Pounds per U.S. Dollar	0.753	0.743	0.743
China Renminbi per U.S. Dollar	6.705	6.988	7.118
Indian Rupee per U.S. Dollar	95.828	89.879	88.789
Japanese Yen per U.S. Dollar	157.135	156.745	147.685

Interest Rates

	Sep 2026	Dec 2025	1 Yr. Ago
Prime Rate	7.00	6.75	7.25
Federal Funds Rates	4.33	4.33	4.33
30 Year Fixed Mortgage Rate	7.28	6.15	6.34

Economic Data

	Sep '26	Dec '25	Sep '25
Unemployment Rate	4.10	4.40	4.40
Avg Single Family Home	401,600	401,600	401,600

Even as the S&P 500 is near its all-time high, only one-third of stocks in the index are trading above their 50-day moving average currently. Given the narrow market leadership, the equal-weighted version of the S&P 500 has been trounced by the capitalization-weighted version over the trailing one, three, and five years. Such a performance gap has widened further since the release of ChatGPT in November 2022, which significantly propelled AI-exposed names, many of which are large cap stocks. We view the divergence in stock returns within the broad index as an opportunity to select high-quality securities with attractive risk/reward.

Global equity markets have remained volatile through the first nine months of 2026, as conflict in the Middle East, macroeconomic uncertainty, and worries about the longevity of the artificial intelligence boom sparked turbulence in various asset classes. As we approach the final three months of 2026, we expect the breakthrough innovations powered by AI to support structurally higher growth through 2026 and beyond.

With the 10-year US Treasury yield hitting its highest point since the Great Financial Crisis, there are attractive opportunities in fixed income, especially in investment grade municipal bonds with tax-equivalent yields of 8-9%. As we navigate market uncertainties, our investment professionals continue to see opportunities, which include quality assets at attractive prices. We look forward to continuing our partnership and providing investment insights and solution for 2026 and beyond.

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