

Market Commentary Q3 2026

The third quarter was characterized by an unusual divergence between resilient equity markets and increasingly difficult conditions in fixed income. The U.S. economy continued to expand at a solid pace associated with productivity growth and artificial intelligence (“AI”) investment. The labor market saw some slowdown in job creation, which caused the unemployment rate to tick up. Oil prices remain elevated as a result of the ongoing tensions in the Middle East and Iran, one of the driving forces behind the inflationary pressure.

In September, the Federal Reserve (“Fed”) voted unanimously (12-0) to raise the benchmark rate by 0.25%. The new target range lies between 3.75% and 4.00%. The combination of strong corporate earnings, continued investment in artificial intelligence infrastructure and resilient

economic activity helped equities absorb the impact of higher interest rates. However, not all equities were treated equally. The quarter demonstrated that a rising market does not necessarily imply broad market participation. Large-cap tech companies remained strong while smaller companies and rate-sensitive sectors felt the pressure.

The S&P 500 gained 2.3% this quarter and the Nasdaq was slightly ahead at 2.6%.¹ Beneath the headline gains, market breadth deteriorated materially. The Russell 2000 fell by 7.2%, while mega-cap names continued to carry the market narrative. At the same time, the 10-year Treasury yield rose sharply, hitting 5.3% and crude oil continued to rise amid geopolitical turmoil.¹

<u>Leading US Indices (Total Return)</u>	<u>1Q'25</u>	<u>2Q'25</u>	<u>3Q'25</u>	<u>4Q'25</u>	<u>1Q'26</u>	<u>2Q'26</u>	<u>3Q'26 (sorted)</u>	<u>TTM</u>
S&P 100 Mega-Cap	-6.0%	12.8%	9.7%	3.3%	-6.9%	15.4%	4.5%	15.9%
S&P/Citigroup Growth	-8.5%	18.9%	9.8%	2.2%	-8.1%	21.9%	3.4%	18.4%
Nasdaq	-10.3%	18.0%	11.4%	2.7%	-7.0%	21.6%	2.6%	19.2%
S&P 500 Total Return	-4.3%	10.9%	8.1%	2.7%	-4.3%	15.2%	2.3%	15.7%
S&P/Citigroup Value	0.3%	3.0%	6.2%	3.2%	0.0%	8.0%	0.9%	12.5%
S&P 400 Mid-Cap	-6.1%	6.7%	5.5%	1.6%	2.5%	14.5%	-6.4%	11.7%
Russell 2000	-9.5%	8.5%	12.4%	2.2%	0.9%	21.5%	-7.2%	16.2%
S&P 600 Small-Cap	-8.9%	4.9%	9.1%	1.7%	3.5%	19.7%	-7.9%	16.0%

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Energy was the clear sector winner for the third quarter, returning 17.2% as crude oil prices surged amid continued tensions.¹ Technology and health care followed, returning 7.2% and 6.5%, respectively.¹ While Communications Services gained 3.6%, the remaining sectors all finished the quarter in negative territory, led lower by Utilities, which declined 12.4%.¹

The sector dispersion illustrates the competing force within the market. Energy benefited directly from higher commodity prices, while Technology continued to benefit from strong earnings expectations and substantial AI-related capital expenditure. Meanwhile, Utilities, Real Estate, and other rate-sensitive sectors faced pressure as the 10-year Treasury yield moved

above 5%. The quarter reinforced the importance of looking beneath the surface of the S&P 500. While the index remained positive, the

average stock faced a considerably more difficult environment.

<u>S&P 500 Sectors (Total Return)</u>	<u>1Q'25</u>	<u>2Q'25</u>	<u>3Q'25</u>	<u>4Q'25</u>	<u>1Q'26</u>	<u>2Q'26</u>	<u>3Q'26 (sorted)</u>	<u>TTM</u>
Energy	10.2%	-8.6%	6.2%	1.5%	38.2%	-13.4%	17.2%	42.4%
Technology	-12.7%	23.7%	13.2%	1.4%	-9.1%	31.8%	7.2%	30.2%
Health Care	6.5%	-7.2%	3.8%	11.7%	-4.9%	8.8%	6.5%	23.0%
Communication Services	-6.2%	18.5%	12.0%	7.3%	-6.9%	8.3%	3.6%	12.1%
S&P 500 Total Return	-4.3%	10.9%	8.1%	2.7%	-4.3%	15.2%	2.3%	15.7%
Financials	3.5%	5.5%	3.2%	2.0%	-9.3%	9.0%	-0.1%	0.7%
Staples	5.2%	1.1%	-2.4%	0.0%	7.7%	0.3%	-1.9%	6.0%
Materials	2.8%	3.1%	3.1%	1.1%	9.7%	2.0%	-2.8%	10.0%
Discretionary	-13.8%	11.5%	9.5%	0.7%	-9.2%	9.3%	-5.1%	-5.2%
Real Estate	3.6%	-0.1%	2.6%	-2.9%	2.8%	8.5%	-5.6%	2.3%
Industrials	-0.2%	12.9%	5.0%	0.9%	4.6%	14.9%	-9.7%	9.5%
Utilities	4.9%	4.3%	7.6%	-1.4%	8.3%	-0.5%	-12.4%	-7.0%

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While the Fed's decision in September to raise rates by 0.25% was unanimous, policymakers' internal projections remain mixed regarding how many additional hikes will be required. The key question heading into the fourth quarter is: Has inflation become persistent enough to require further tightening, or is the recent pressure temporary enough that the Fed can pause and let the labor market stabilize?

Korea's KOSPI declined 19.3% following a dramatic rally earlier in the year.¹ Despite the quarterly decline, the index remains up more than 99% over the trailing 12 months, driven by record demand for memory chips and AI related hardware.¹ Japan's Nikkei fell approximately 4.7% while India's Sensex declined 5.2% due to a combination of escalating energy shocks and severe foreign capital outflows.¹

International equity markets experienced significant dispersion during the quarter. South

<u>International Indices (Price Chg)</u>	<u>1Q'25</u>	<u>2Q'25</u>	<u>3Q'25</u>	<u>4Q'25</u>	<u>1Q'26</u>	<u>2Q'26</u>	<u>3Q'26 (sorted)</u>	<u>TTM</u>
Bovespa (Brazil)	8.3%	6.6%	5.3%	10.2%	16.3%	-8.2%	8.3%	27.4%
Hang Seng (Hong Kong)	15.3%	4.1%	11.6%	-4.6%	-3.3%	-7.7%	7.6%	-8.3%
OMX Stockholm 30 (Sweden)	0.4%	0.0%	6.8%	8.3%	1.6%	9.3%	2.1%	22.8%
S&P/TSX (Canada)	0.8%	7.8%	11.8%	5.6%	3.3%	6.4%	1.1%	17.4%
FTSE 100 (UK)	5.0%	2.1%	6.7%	6.2%	2.5%	3.2%	1.0%	13.4%
MSCI AC World	-2.5%	8.8%	7.6%	3.4%	-2.9%	14.7%	0.9%	16.1%
DAX (Germany)	11.0%	5.5%	-0.1%	2.6%	-7.7%	7.7%	0.8%	2.8%
MSCI EAFE	2.2%	3.7%	4.8%	5.8%	-0.5%	10.5%	0.1%	16.5%
All Ordinaries (Australia)	-4.4%	8.9%	4.1%	-1.3%	-3.7%	3.5%	-0.2%	-1.8%
IBEX 35 (Spain)	13.3%	6.5%	10.6%	11.8%	-1.5%	14.2%	-0.2%	25.5%
Swiss Market Index	8.6%	-5.4%	1.6%	9.6%	-3.7%	11.1%	-2.6%	14.2%
Bolsa (Mexico)	6.0%	9.5%	9.5%	2.2%	6.7%	-2.4%	-4.1%	2.1%
Nikkei 225 (Japan)	-10.7%	13.7%	11.0%	12.0%	1.4%	37.2%	-4.7%	48.6%
Sensex (India)	-0.9%	8.0%	-4.0%	6.2%	-15.6%	6.3%	-5.2%	-9.7%
CAC 40 (France)	5.6%	-1.6%	3.0%	3.2%	-4.1%	7.5%	-5.2%	0.9%
Shenzhen SE A Shares (China)	2.4%	3.5%	21.4%	0.5%	0.2%	12.1%	-15.4%	-4.6%
Kospi (South Korea)	3.4%	23.8%	11.5%	23.1%	19.9%	67.8%	-19.3%	99.7%

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Fixed Income was one of the most interesting areas of the market during the quarter. The 10-year Treasury yield rose to 5.3%, while the 30-year yield reached 5.6%.¹ The move represented a substantial repricing of long-duration assets and contributed to a significant increase in long-term yields.

The rise in yields reflected several factors outside of the expectations for a higher

short-term Federal funds rate. Strong economic growth reduced the expectations for future monetary easing. Expected inflation, higher oil prices, and strong corporate borrowing needs increased the demand for long-term financing, and the result was a meaningful increase in premium embedded in longer dated Treasuries.

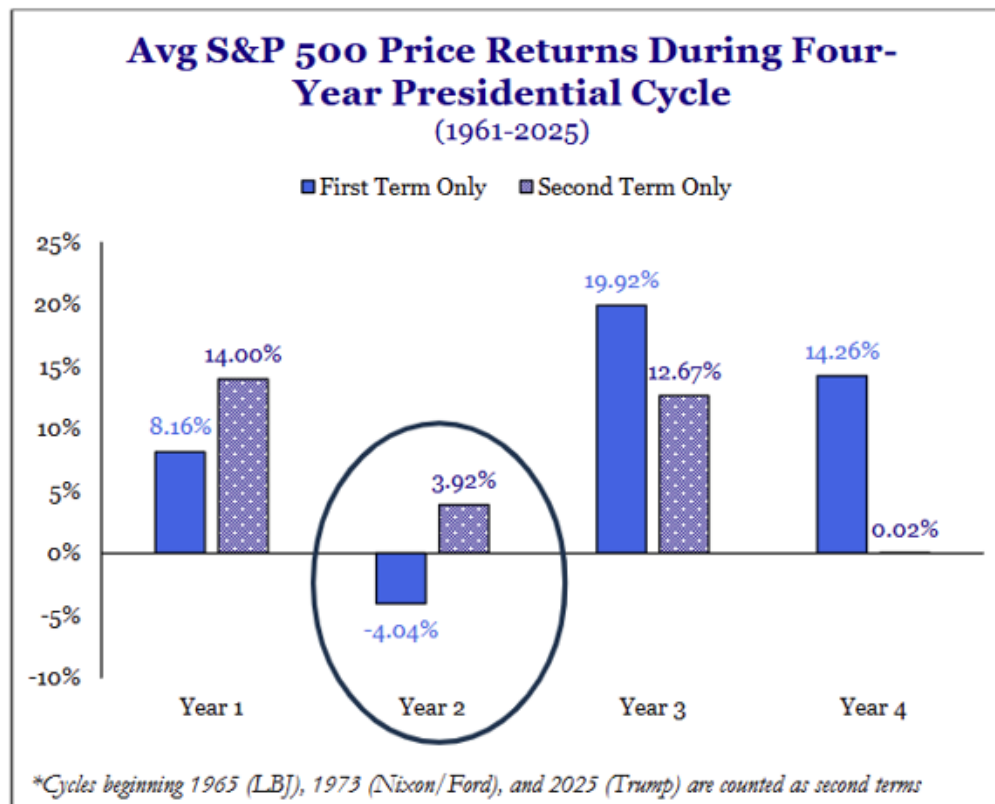
US Yields

	2Q'25	3Q'25	4Q'25	1Q'26	2Q'26	3Q'26	Q/Q Chg (bps)	Y/Y Chg (bps)
Fed Funds Target Rate	4.5	4.3	3.8	3.8	3.8	4.0	25	-25
3-Month T-Bill	4.4	4.0	3.7	3.6	3.9	4.2	33	18
2-Year Note	3.7	3.6	3.5	3.8	4.2	4.9	72	126
5-Year Note	3.8	3.7	3.7	3.9	4.2	5.1	87	133
10-Year Bond	4.2	4.1	4.2	4.3	4.4	5.3	83	113
30-Year Bond	4.8	4.7	4.9	4.9	4.9	5.6	69	90

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Gold continued to demonstrate its role as a diversifying asset during the quarter. Despite a significant increase in Treasury yields, which would ordinarily represent a substantial headwind for a non-income-producing asset,

gold held steady. Geopolitical tensions contributed to global uncertainty, while central banks continued to accumulate gold, with China standing out as the most significant buyer.



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As we move towards year-end, the conversation will shift to the midterm elections. Historically, the S&P 500 performed better in the years following midterm elections than during the midterm year itself. From 1961 to 2025, average price returns in Year 2 were -4.04% during first presidential terms and 3.92% during second terms. In Year 3, those averages rose to 19.92% and 12.67%, respectively.¹ While each election cycle is different, this historical pattern provides perspective on periods of temporary market weakness and reinforces the importance of staying focused on long-term goals.

The quarter provided useful reminders of why maintaining a diversified portfolio is fundamentally important. Energy stocks gained

more than 17%, while Utilities declined more than 12%. Large-cap U.S. equities advanced, while small-cap stocks declined. Gold gained, while long-duration Treasuries experienced significant losses. International markets that had led earlier in the year experienced meaningful corrections.

These rotations are difficult to predict. A portfolio constructed entirely around one quarter's winners can quickly become exposed to the very risks that cause those winners to reverse. Diversification provides exposure to multiple sources of return and varying economic outcomes. Maintaining a long-term allocation allows investors to weather periods of uncertainty with a clear perspective.

To discuss this commentary further, please contact us at 914-825-8630.

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