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Wealth Management

2026Q3 Market Commentary

3rd Quarter Review: It was a tale of two very different stories that drove a wide dispersion in returns across all sectors of both the Bond and Stock market. A historic rise in long term interest rates, rising oil prices and inflation battered the Bond market and Small cap stocks. The 10-year Treasury yield climbed 87 basis points, to 5.29%, the largest quarterly increase since 2009 and the highest level since just before the 2007 financial crisis. The move followed a renewed surge in energy prices, a hawkish turn at the Federal Reserve, and continued onslaught of new corporate bonds issuance for AI capital spending. But likely the biggest factor pushing rates higher came from the unwind of the Yen-Carry trade which was accelerated by the Bank of Japan's rate hikes. (The differential forces leveraged investors to sell high-yielding assets to repay cheap-Yen loans.) The other big story is the continuing 'renaissance-like-growth' in technology, manufacturing, and infrastructure being driven by the expansion of AI and SI (super-intelligence). The rate of change is exponential, impacting nearly every part of the economy; and as a result, it continues to be the main driver for earnings growth particularly in the large cap growth space. Net, it was a good news/bad news quarter that drove different markets and sectors in opposite directions.

Index Returns:	3rd Quarter	YTD		3rd Quarter	YTD		3rd Quarter	YTD
S&P 500 (SPY)	2.52%	12.71%	U.S. Growth (QQQ)	2.12%	21.20%	U.S. Short Bond (BSV)	-0.89%	-0.42%
S&P 500 Equal Weight (RSP)	-2.16%	9.88%	U.S. Value (VTV)	-0.13%	14.85%	Intermediate Aggregate Bond (AGG)	-3.35%	-2.78%
Foreign Developed (MAIIX)	1.14%	10.13%	Small Blend (IWM)	-6.92%	13.65%	High Yield Bond (HYG)	-1.98%	-0.34%

Market Outlook: The bifurcation of the economy and markets will likely continue until the uncertainty of the direction of oil prices and inflation reverse. Short term interest rates should move higher as the Fed plays catch-up with the bond market which is already pricing in at least 3 more rate hikes. And long term rates could continue to be pressured from rising debt issuance from both the Treasury and corporate borrowing, and more of the Yen-carry trade unwind. But there is **good news**. Despite these significant headwinds, the **economy is actually accelerating**. Exceptional strong growth in US manufacturing, infrastructure, and technology are significant drivers for positive and accelerating economic growth. The Atlanta Fed is now expecting GDP to accelerate from 2.2% in 2026Q2 to 3.7% in 2026Q3. Growth should translate into corporate earnings growth which will support rising stock prices. And when there is a resolution/solution to the oil issues, it will be a significant positive to an already resilient economy. In the meantime, these strong cross-currents will continue to bring volatility both within and across market sectors, but net the direction looks positive.

Strategy Performance: The investment strategy is a two pronged approach. For bonds, duration has intentionally been kept short term to avoid much of the price decline seen from rapidly rising rates. However, if rates continue to rise significantly higher and we feel the market has moved too much, duration could be extended. For stocks, the strategy is intentionally diversified across the Large cap sectors as both the Value and Growth sectors have alternated market leadership. However, the Growth weighting remains the dominant position in the stock strategy. The market is fluid, telling of short term emotions, and rapidly changing. So it is prudent to assess the fundamentals from a big picture perspective and not be overly influenced by the day-to-day headlines.