

Making Sense

Quarterly Market Review – Q3 2026

October 1, 2026

Global Markets

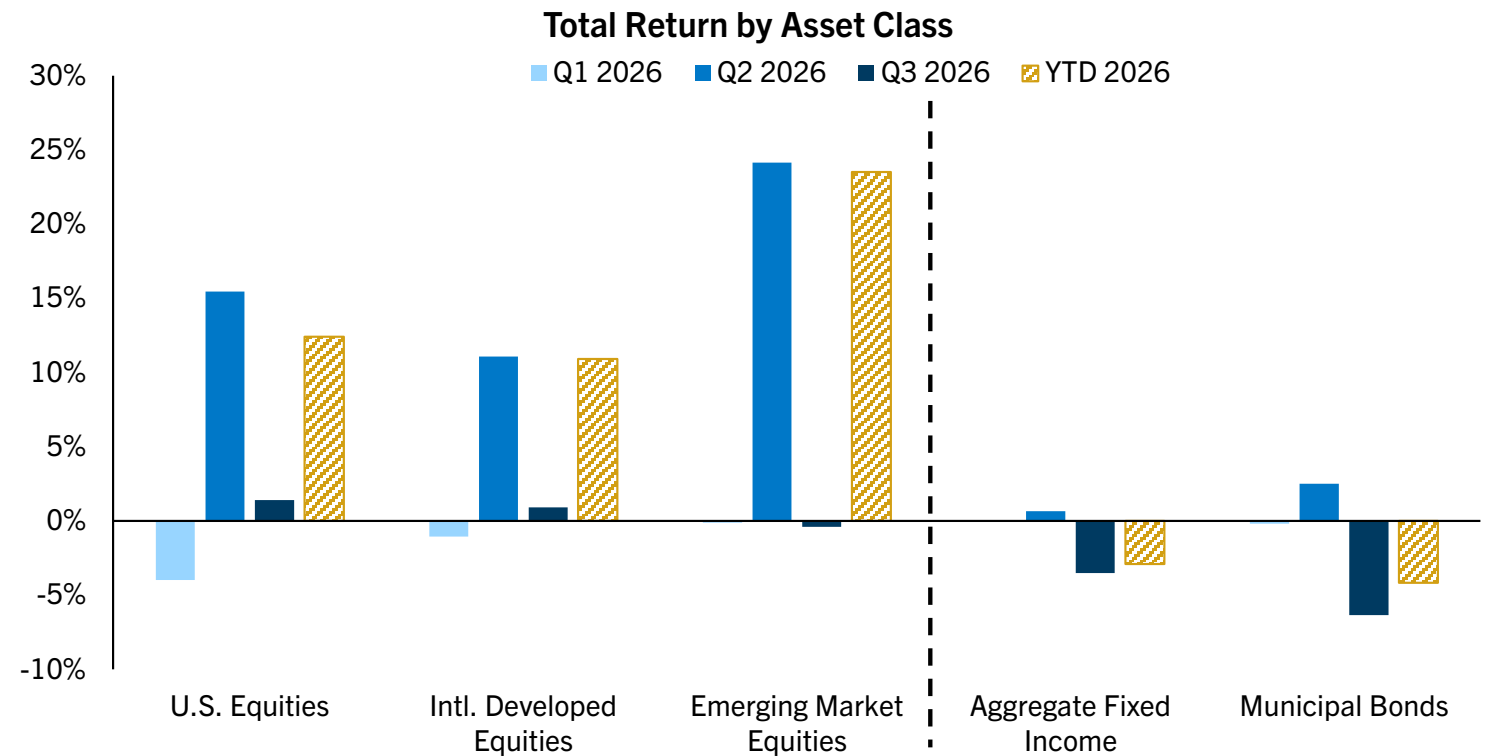
A renewed Federal Reserve tightening cycle, persistent inflation, and a resilient economy pushed global interest rates higher in Q3, driving a substantial decline in fixed income assets over the last three months.

Equity markets posted slight gains in Q3, as large technology stocks offset weakness in other sectors. US equity returns slowed to 1% in the quarter on the back of a robust 15% gain in Q2. International developed markets also gained just 1%, and emerging markets were little changed after a roaring 24% return in the second quarter.

Energy prices rebounded sharply in Q3 and remained relatively elevated, with crude oil closing the quarter at \$90. Prices for diesel and gasoline remained substantially higher and contributed to a firmer inflation outlook.

Fixed income markets delivered substantial losses in Q3 as interest rates climbed to their highest levels in decades. Aggregate fixed income declined 4% in the quarter, and municipal bonds fell 6%.

Equities were subdued and fixed income declined in Q3



Source: Bloomberg. Note: Chart data represents Russell 3000, MSCI EAFE, MSCI EM, Bloomberg Aggregate Bond, Bloomberg Municipal Bond. Data as of 9/30/2026.

US Equity Performance

Large-cap stocks carried US equities to modest gains in Q3 as mid- and small-cap stocks posted declines. Performance also favored value over growth, with value stocks outperforming across the size spectrum during the quarter. Year to date, value has maintained its sizable lead over growth, particularly among large-cap stocks, marking a notable shift from the large-cap growth leadership that characterized much of the past several quarters.

Large-cap stocks carried US equities to slight gains in Q3

Quarter-to-Date US Equity Returns As of 09/30/2026			
	Value	Blend	Growth
Large	4.4%	3.0%	1.4%
Mid	-2.0%	-3.0%	-5.8%
Small	-4.8%	-7.2%	-9.4%

Year-To-Date 2026 US Equity Returns As of 9/30/2026			
	Value	Blend	Growth
Large	20.7%	12.3%	6.9%
Mid	15.3%	11.8%	1.0%
Small	17.2%	13.9%	10.8%

US Equity Performance

The S&P 500 gained 2% in the third quarter on the back of a powerful 15% increase in Q2. A more uncertain geopolitical outlook and higher interest rates weighed on the index, but at the same time over 75% of trading days ended at or within 2% of an all-time high.

Another robust earnings season pushed expected 2026 operating earnings-per-share growth above 30%. The surge in earnings growth has pushed valuations lower, with the S&P 500's 12-month forward price-to-earnings ratio dropping to 19.2x from 22.2x at the start of the year.

In light of stronger earnings, expanding profit margins, and a resilient economy, we recently raised our 12-month-ahead S&P 500 price target to 8,300 from 8,000. We remain cautiously constructive on US equities and continue to monitor key risks, including above-target inflation and a rapidly evolving artificial intelligence landscape.

The S&P 500 saw moderate gains in Q3



Source: Bloomberg
Data as of: 10/1/2026

Fixed Income

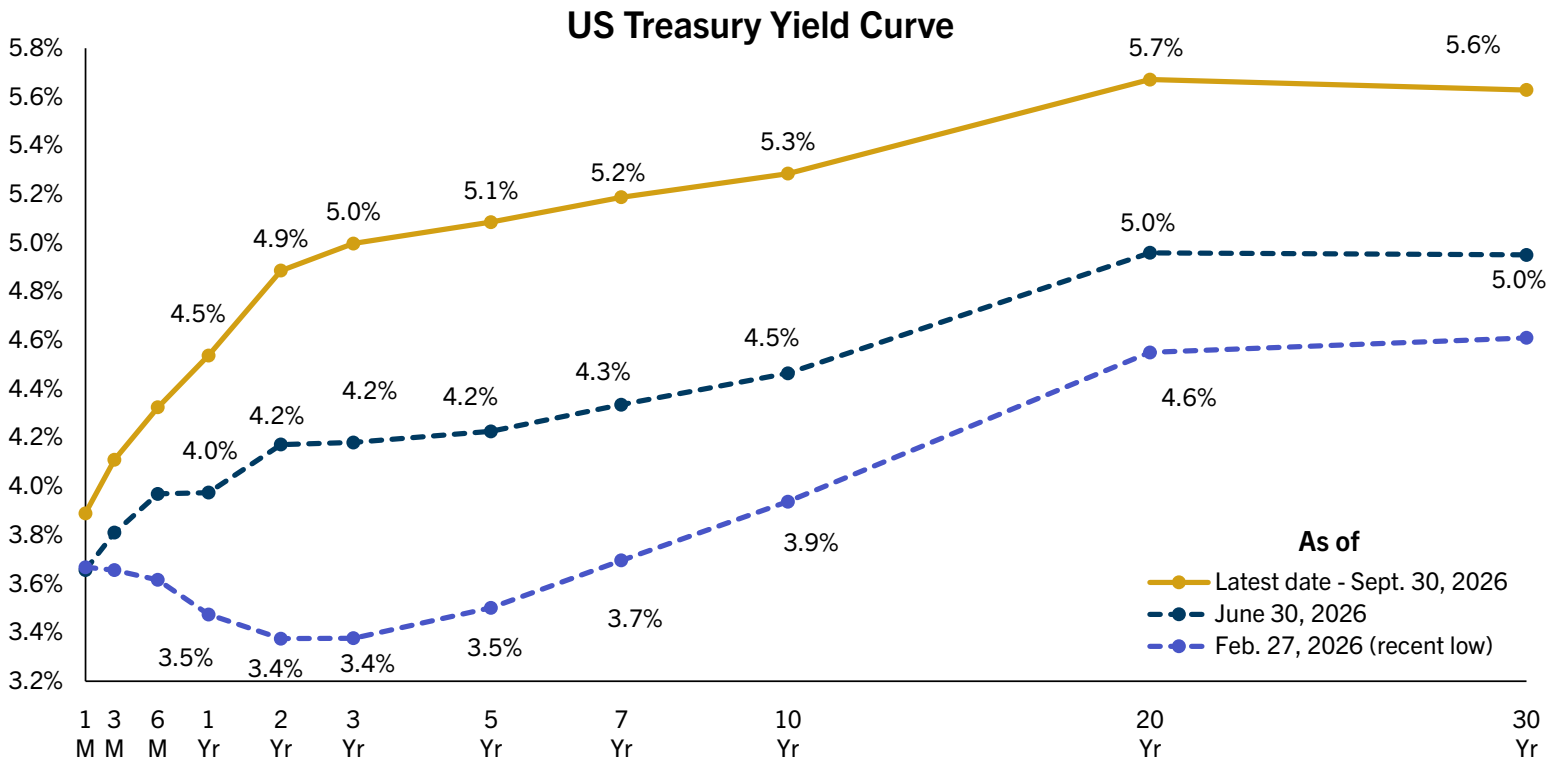
Treasury yields advanced substantially further in Q3 after already rising sharply in the first half of the year. Longer-term yields on 10-year and 30-year securities are now well above 5% and near their highest levels in 25 years. Several factors drove this shift, and only one of them is central bank policy.

First, the economy has remained resilient and inflation has stayed elevated. For several quarters, a prevailing narrative among commentators and policymakers has been that the economy is relatively fragile. The last few months have told a different story, which is that the economy is running hot and prices continue to rise at too fast of a pace.

Second, investment demand and debt issuance are booming. Not only are AI hyperscaler firms powering economic activity, but also their surging debt issuance is competing with Treasuries in fixed income markets.

Third, the Federal Reserve has commenced a new tightening cycle. Markets now expect around four quarter-point interest rate increases over the next year, whereas at the start of the year the expectation was for the Fed to cut rates.

Yields remain elevated, especially at the short end



Source: Bloomberg. Data as of 9/30/2026

Fixed Income

Fixed income posted substantial losses during the quarter as Treasury yields climbed to their highest levels in 25 years.

The 10-year Treasury yield closed the quarter at 5.3%, about 0.8 percentage points higher than three months ago. Yields rose even more sharply for municipal bonds (+1.2pp to 4.8%) and high yield corporate bonds (+1.2pp to 8.4%).

We think bond yields present an attractive entry point for fixed income in well-balanced portfolios in a way they have not in many years.

Fixed income yields have moved sharply higher

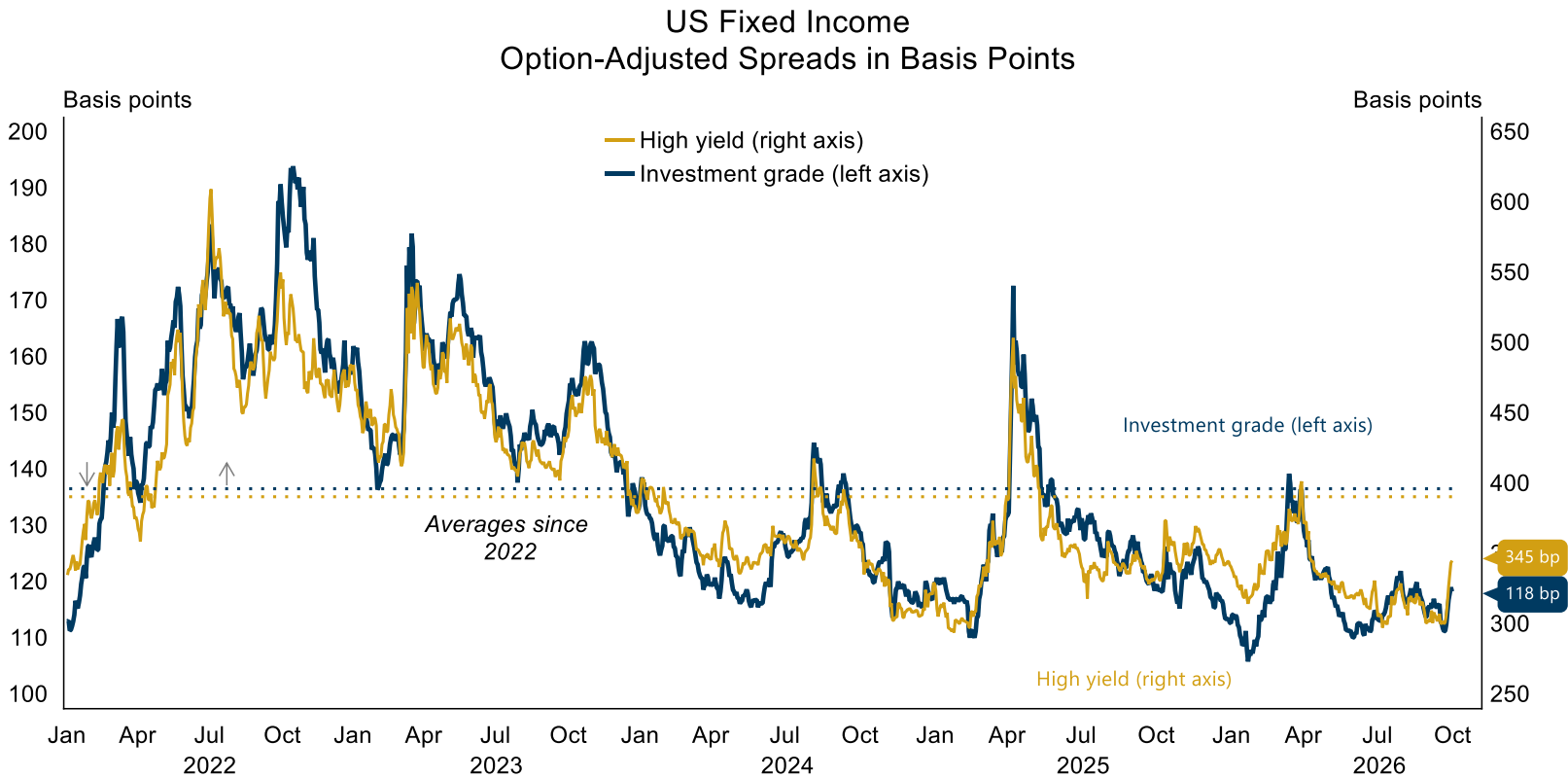
US Fixed Income Indices		
Index	Yield-to-Worst	
	As of	
	9/30/2026	6/30/2026
2-Year Treasury	4.9%	4.2%
10-Year Treasury	5.3%	4.5%
Aggregate Bond	5.6%	4.7%
Intermediate Government/Credit	5.3%	4.4%
Municipal Bond	4.8%	3.6%
Investment Grade Corporate Bond	6.0%	5.2%
High Yield Corporate Bond	8.4%	7.2%

Fixed Income

Treasury yields have risen sharply, but the spreads of corporate bond yields over Treasuries have not widened very notably. This tightness in spreads underscores the relatively benign credit environment despite concerns in the market around private credit and AI-related risk in certain segments in the economy.

Credit spreads serve as a useful proxy for perceived market risk. While fixed income markets are not currently pricing in any immediate dislocation, it is worth monitoring closely as the macro environment continues to evolve.

Corporate credit spreads remained at tight levels



Source: Bloomberg
Data as of: 9/30/2026

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