

MARKET REVIEW & OUTLOOK

2026: A Market Odyssey

3rd Quarter
2026

ECONOMY & MARKETS

In Christopher Nolan's summer blockbuster *The Odyssey*, Odysseus needs ten years, quick wits and uncommon resolve to find his way home to Ithaca. Investors can relate. The market's voyage in 2026 has passed through war in the Middle East, record diesel prices, the highest bond yields in more than two decades and a Federal Reserve that is raising rates again. Yet, like Homer's hero, the market has refused to turn back, and investors who stayed the course have been rewarded.

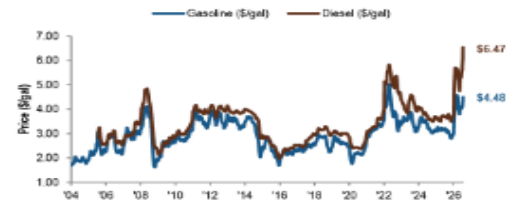
The route has been anything but direct. War with Iran erupted in late February, oil spiked and the S&P 500 fell 4.3% in the first quarter. A ceasefire and booming AI profits then powered a 15.2% second quarter, the best since 2020. The third quarter brought both triumph and trial – a 27th record close of the year for the S&P 500 in August, then a collapsed ceasefire, a 30% jump in oil and a difficult September.

For the third quarter of 2026, the **S&P** advanced 2.3% and the **NASDAQ** gained 2.6% while the **DJIA** fell 2.3%. International markets were mixed with developed markets (**MSCI EAFE**) up 0.8% while emerging markets (**MSCI EM**) slipped 0.4%. Bond prices fell as the 10-year Treasury yield ended the quarter at 5.29%, near its highest level since 2002, and the FOMC raised the fed funds target by 25bp to 3.75-4.00%. As a result, the Bloomberg Aggregate **Bond Index** finished lower by 3.5%.

For the year-to-date period, the **DJIA** is ahead by 7.2% while the **S&P 500** is higher by 12.8%. The **NASDAQ** is up by 16.1% led by AI-related technology stocks. International markets are also positive as the **MSCI EAFE** index is ahead by 10.3% while the **MSCI EM** index is materially higher by 23.4%. With yields up more than a full percentage point this year, the Bloomberg Aggregate **Bond Index** is negative by 2.9%.

Energy has been this voyage's sea monster. The war with Iran is the main culprit: Iran declared the Strait of Hormuz closed again in July, and oil prices jumped roughly 30% during the quarter. Prices at the pump followed (*see below*) – diesel set a record above \$6.50 per gallon in late September while gasoline is near \$4.50. Higher fuel costs act as a tax on consumers and have kept inflation above the Fed's 2% target: August PCE inflation was 3.4% yoy and 3.0% excluding food and energy.

Figure 12: Gasoline and Diesel Prices Weighing on Consumer

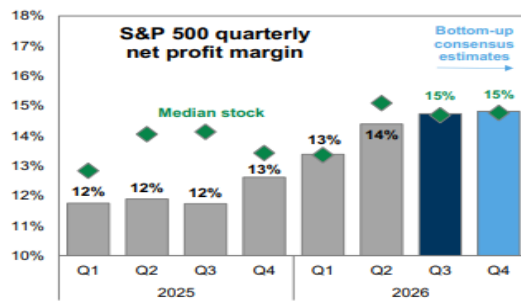


Source: J.P. Morgan Equity Strategy and Global Thematic Research, Bloomberg Finance L.P.

The Fed, under new Chair Kevin Warsh, chose to confront inflation, raising rates on September 16th for the first time since 2023, and its projections point to one more 25bp hike before year-end. So far, the economy has taken it in stride. Second quarter GDP was revised up to 2.2%, the Atlanta Fed GDPNow estimate for the third quarter is 3.7% and unemployment is a low 4.2%. Job growth, however, slowed to just 29,000 in September – which may give the Fed pause – and housing remains weak.

Earnings remain the wind in the market's sails. Goldman Sachs puts second quarter S&P 500 profit growth at 33%, and consensus looks for 27% in the third – a third straight quarter above 25%. Net profit margins (*see below*) have widened from 12% in early 2025 to 14% last quarter, with 15% expected by year-end.

Exhibit 10: S&P 500 quarterly net profit margin
excludes Financials and Utilities; aggregate excludes "other income"



Source: FactSet, Goldman Sachs Global Investment Research

OUTLOOK

As we set course for Q4, recall how Odysseus passed the Sirens: tied to the mast, he could hear their song without steering onto the rocks. Today's Sirens sing two tunes – one urging investors to crowd into a handful of AI leaders, the other to abandon ship over war, rates and the midterm elections. A diversified plan is the investor's mast, especially in a market this divided (*see below*). At quarter-end, the top 10 stocks represented 41% of the S&P 500. Goldman Sachs notes that market breadth is as narrow as it was in 2000; the equal-weighted S&P 500 fell 5% in September while the index slipped just 0.5%.

Exhibit 28: S&P 500 52-week market breadth

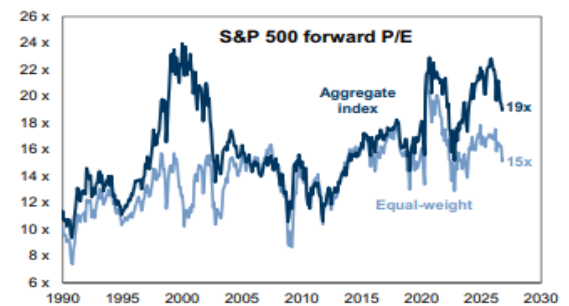


Market breadth is calculated as the difference between the distance of the aggregate S&P 500 Index from its 52-week high and the distance of the median S&P 500 constituent from its 52-week high. When the aggregate index is much closer to its 52-week high than is the median stock, market breadth is narrow.

Source: Goldman Sachs Global Investment Research

The encouraging news is that earnings, not euphoria, have done the heavy lifting. The S&P 500 trades at 19.0X forward earnings according to FactSet, down from 22.8X a year ago and in line with its 10-year average of 19.1X, while the equal-weighted index trades near 15X (*see below*). The market is higher than the start of the year, and cheaper (thanks to AI-related earnings). Higher bond yields remain the most significant risk to valuations, particularly for the highest-multiple stocks.

Exhibit 38: S&P 500 consensus forward 12-month P/E



Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

History favors the patient. CFRA notes that since WWII the fourth quarter of midterm election years has seen the S&P 500 gain an average of 6.4% and rise 85% of the time. The exceptions came when the Fed was beginning to raise rates, as it is today, so expect some choppy seas around the November 3rd election. The good news – corrections, when they come, have always been temporary.

Bond prices fell in the quarter, but the silver lining is income, with Treasury yields at their highest in over two decades. Starting yields have historically been a good guide to what bonds return over the following five years. We continue to favor high quality credits and moderate duration while yields stay volatile.

Small and mid-cap equities gave back some of their first-half gains as interest rates rose and smaller companies lean more on borrowed money. *International equities* – both *developed* and *developing* – remain valuable diversifiers away from the AI trade. We continue to believe that *large-cap domestic companies with higher quality attributes* (high return on equity, strong balance sheets, low debt) are best equipped for higher rates, and they remain core positions in client portfolios. Dividend payers lagged as yields rose, but in a market this narrow their steadiness matters more, not less.

We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance. Expect to see some rebalancing of portfolios during the quarter. After all, Odysseus did not get home by outrunning every storm; he got there by never losing sight of Ithaca.

Enjoy the Fall!

Prune, Don't Uproot: Managing Your Biggest Winners

Year-End Planning for Gains, Gifts and Required Distributions

Many long-time clients own a few stocks that have grown far beyond what anyone planned. Apple, Microsoft or Nvidia shares bought years ago can carry gains of several hundred, even several thousand, percent. In a market this concentrated, one stock can quietly become a quarter of a portfolio. Selling everything feels expensive. Doing nothing feels risky. As any good gardener knows, the answer is usually to prune, not uproot, and year-end is pruning season.

Give shares, not cash. Giving appreciated stock to charity, directly or through a donor-advised fund, avoids the capital gains tax, and the gift is generally deductible at full market value. New rules for 2026 matter here: itemizers can deduct only giving above 0.5% of adjusted gross income, the tax benefit is capped at 35% for those in the top bracket, and non-itemizers may deduct up to \$1,000 (\$2,000 for couples) of cash given directly to charity.

Give from your IRA at 70½ or older. A Qualified Charitable Distribution can send up to \$111,000 per person from an IRA directly to charity in 2026. It counts toward your required minimum distribution, stays out of taxable income and sidesteps the new 0.5% floor. Lower income can also reduce Medicare surcharges (IRMAA) and help preserve the new \$6,000 senior deduction.

Trim gradually and use losses. Selling a slice each year spreads out the tax bill. This year's declines in bonds and rate-sensitive stocks may offer losses to offset gains. Expect to see increased tax-loss harvesting over the next month or so as we take advantage of any unrealized losses that can be used to offset realized gains ... particularly after this year's bond sell-off.

Keep the right shares. Shares held for life generally receive a step-up in cost basis for heirs. For some clients, that makes the lowest-cost shares the ones to keep and higher-cost shares the ones to sell first.

Mind the calendar. Required distributions are generally due by December 31. Medicare open enrollment runs October 15 to December 7, and the standard Part B premium is projected at \$209.50 a month for 2027. The 2027 Social Security cost-of-living adjustment will be announced October 14; forecasters expect about 3.5%.

If you hold a large position, ask us for a one-page map of which shares to keep, give and trim before December.

Share the Planning: Who Else Knows the Plan?

Cerulli Associates estimates that \$124 trillion will change hands in the U.S. through 2048, and that about \$54 trillion of it will pass first to a surviving spouse, overwhelmingly to women. Behind those numbers is a personal question. If something happened to you tomorrow, would your spouse, or the son or daughter who would step in, know where everything is and whom to call?

Too often the plan is excellent but lives in one person's head. The goal is a checklist, not a crisis:

- A current list of accounts and where each is held
- Names and numbers for your NDS advisor, attorney and accountant
- Your will, trusts, powers of attorney and health care proxy, and where they are kept
- Beneficiary designations that match your wishes today
- A secure way for someone you trust to reach passwords and online accounts - a paper copy (preferably typed) placed with your estate planning documents (or in a safe) is ideal.
- A short letter, in your own words, about what matters most

You don't have to share every number to share the plan. Many families start by simply introducing a spouse or adult child to our team, so the first conversation is not in a moment of grief. Share the load. Share the planning. Share the advice. Bring a spouse, son or daughter to your next review, and we will make it a family meeting.

Must be 70 1/2
or older for
QCDs

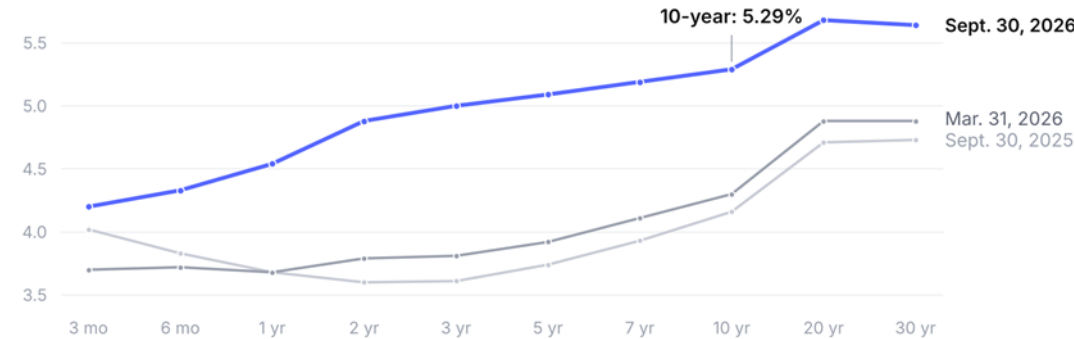
A checklist,
not a crisis

Small Caps and
the Dow Lagged
in Q3

3 rd QUARTER 2026 SCOREBOARD			
Index	Close	3 rd Quarter % Change	Year-to-Date % Change
DJIA	50906.0	-2.3	7.2
S&P 500	7651.5	2.3	12.8
NASDAQ	26861.1	2.6	16.1
Russell 2000	2796.9	-7.2	13.7
MSCI EAFE	11700.6	0.8	10.3
3 Month T-Bill	4.20%	Fed Funds Rate	3.75% - 4.00%
5 Year T-Note	5.09%	Prime Rate	7.00%
10 Year T-Note	5.29%	Gold	\$4155.60
30 Year T-Note	5.64%	Oil	\$90.42

Gold rose about 4% in Q3, but remains lower for the year.
Oil prices jumped 30.1% in Q3 and are up 57.5% year-to-date

Treasury yield curve: now, six months ago and one year ago
Yield by maturity, percent



Source: U.S. Department of the Treasury, daily par yield curve rates.

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Yields Rose
Across the
Curve