

Capital Market Review

As of September 30, 2026

3Q26 Market Recap

The third quarter was a turbulent period for global financial markets. Resurgent inflation, a major global bond market sell-off, and escalating geopolitical conflict in the Middle East clashed with blockbuster corporate earnings. As a result, performance was highly bifurcated among different asset classes.

In the U.S., large cap stocks (S&P 500) posted a modest gain driven largely by robust fundamentals and corporate profits. Given the surge in oil prices amid the U.S./Iran conflict, it's no surprise that the energy sector (+17.2%) led the market. Meanwhile interest rate sensitive areas of the market lagged. U.S. small cap stocks were down -7.2%, while utilities were down -12.4% and the Dow Jones US Select Real Estate index was down -5.7%. See page 7 of this report for additional U.S. stock market return data.

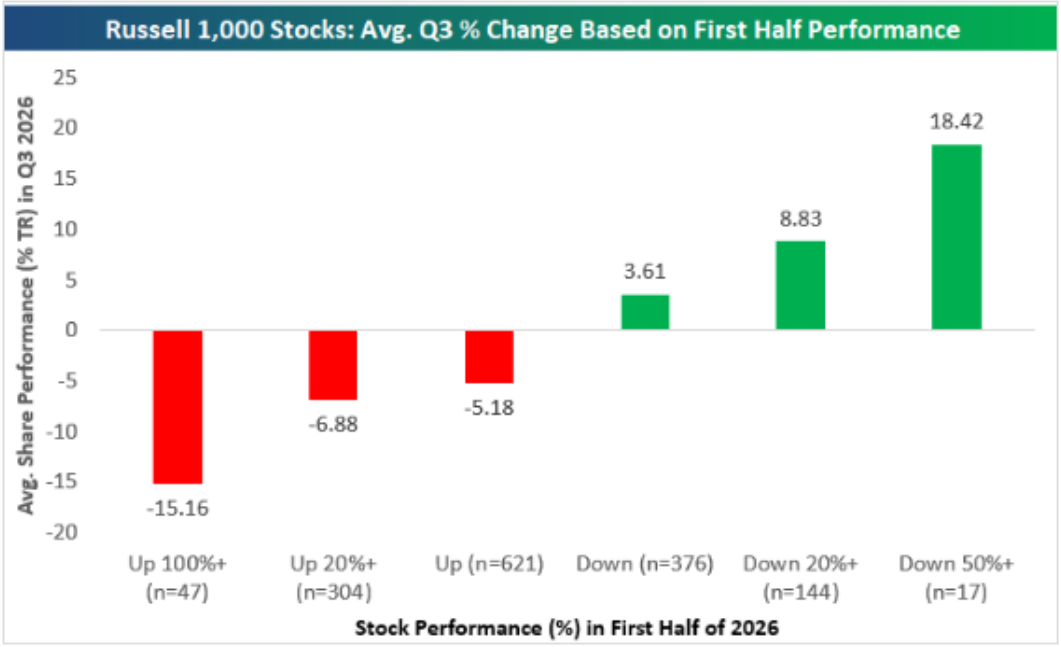
On September 16th, the Federal Reserve raised interest rates by 0.25% for the first time since July 2023. The market is expecting the Fed to hold interest rates steady at their October meeting but raise the Fed Funds rate by another 0.25% in December. Remember, when rates rise, the price of existing bonds decline. Except for bank loans, there's been no place to hide in the bond market during the quarter or year-to-date. See page XX for detailed bond market returns.

3Q performance for International stocks and Emerging Market stocks was rather benign, but both areas are performing well year-to-date. See page 10 for detailed International stock market returns and page 11 for Emerging Markets returns.

At Allium, we monitor several market and economic indicators to guide client portfolios through the various risks and opportunities that the market inevitably brings. Following are a few items that caught our attention during 3Q:

1. The average stock in the large-cap Russell 1000 was down -2.13% in 3Q through 9/29. But when you look at the average stock's 3Q performance vs. its first half performance, you see nearly perfect inverse correlation.

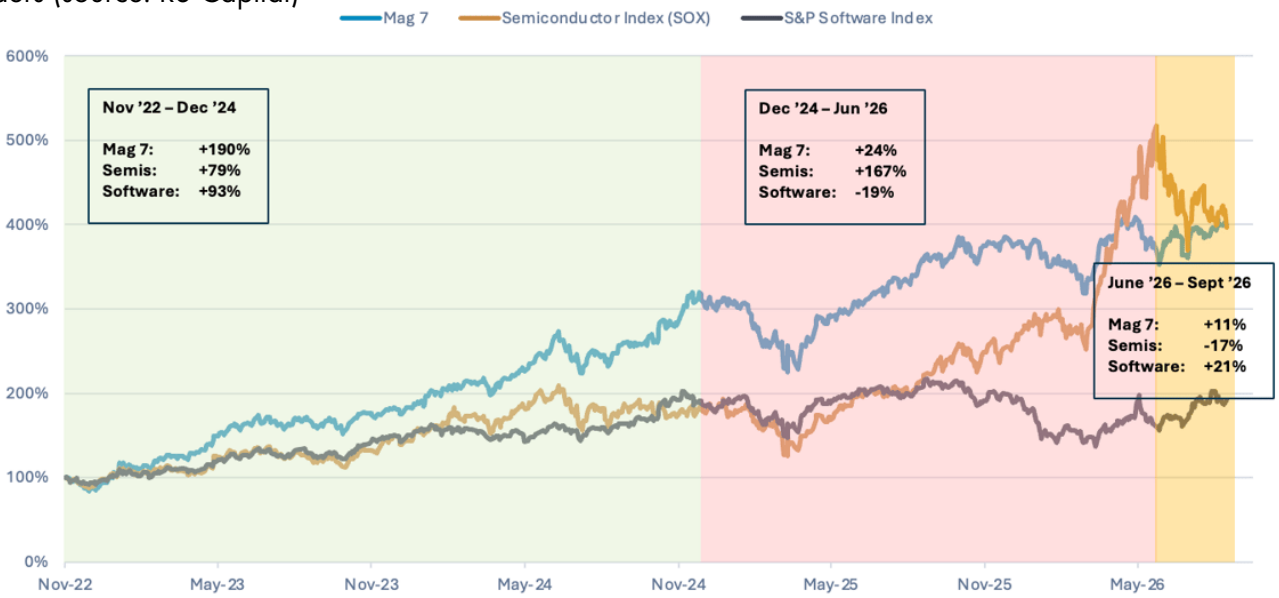
   The roughly 60% of the stocks in the Russell 1000 that were up in the first half were down an average of 5.2% in 3Q, while the roughly 40% of stocks in the index that were down in the first half were up on average 3.6% in 3Q.



Source: Bespoke Investment Group

Recap continued…

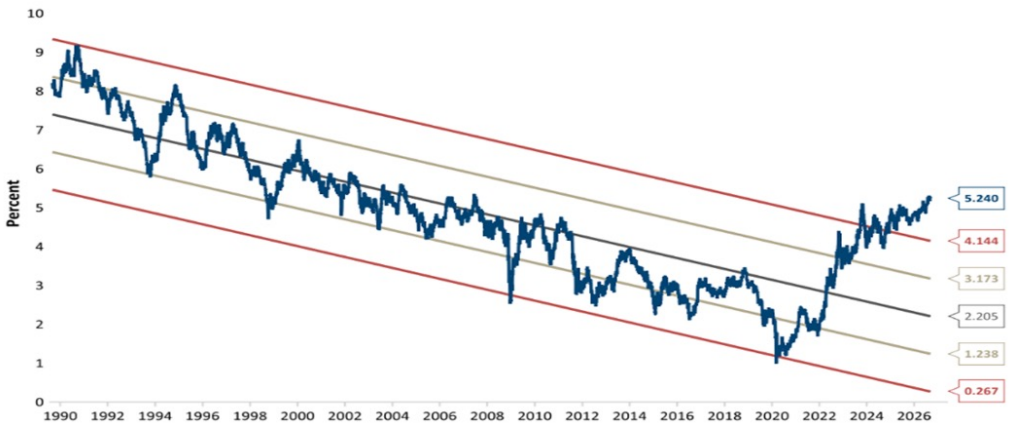
2. S&P 500 Performance: Tale of 3 Leaders (source: RS Capital)



Source: Bloomberg. Data range: 11/30/2022 – 9/11/2026.

There have been stock market rallies in three stages since the launch of ChatGPT in November 2022. The initial stage in 2023/2024 was Mag-7. The consensus was the hyperscalers are going to win AI. They were going to be the engine behind it, and that's where the profits would accrue. In late 2024, everyone's minds changed. The hyperscalers stopped going up, and the semiconductors became 20% of the S&P 500 following the biggest semiconductor rally in history. And then this year, it switched again. The semis are now reporting blowout numbers, yet the stocks are falling while software stocks are rebounding. Now, the market seems to have become convinced that it will be the enterprise SaaS companies who sell the most AI apps and they will be the winners.

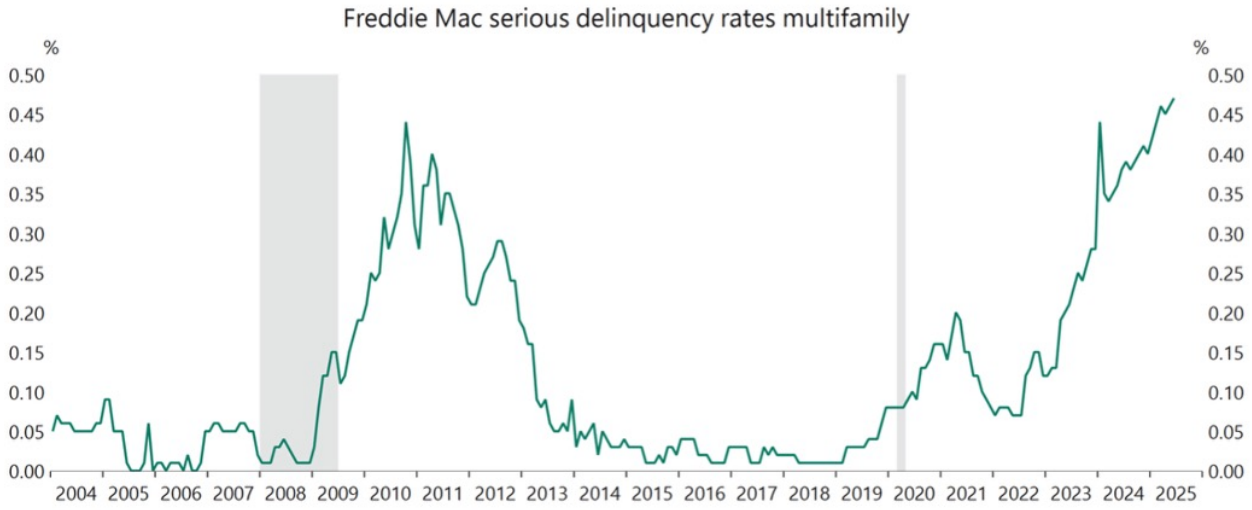
3. 30-Year Treasury Yields have broken out of a long downward channel.



Source: Doubleline, Macrobond, U.S. Department of Treasury. As of Sept 7, 2026.

Recap continued…

4. Delinquency rates on multifamily housing (think apartments) are higher now than they were at the post-GFC peak.



Sources: Bloomberg, Macrobond, Apollo Chief Economist. Data as of Sep 1, 2026.

5. Warren Buffett stepped down as Chairman of Berkshire Hathaway on September 18, 2026. The Legend retires. Job well done!

So far this year, we've seen markets down (Q1), markets up (Q2) and markets flat (Q3). At Allium, we strive to give our clients financial peace of mind by providing in-depth financial planning that leads to thoughtful portfolio management designed to weather whatever the markets bring.

On the following pages, please see our Quarterly Capital Markets Review. Reach out anytime with questions or if we can be of service.

Scott Thompson, CIO and your Allium Team

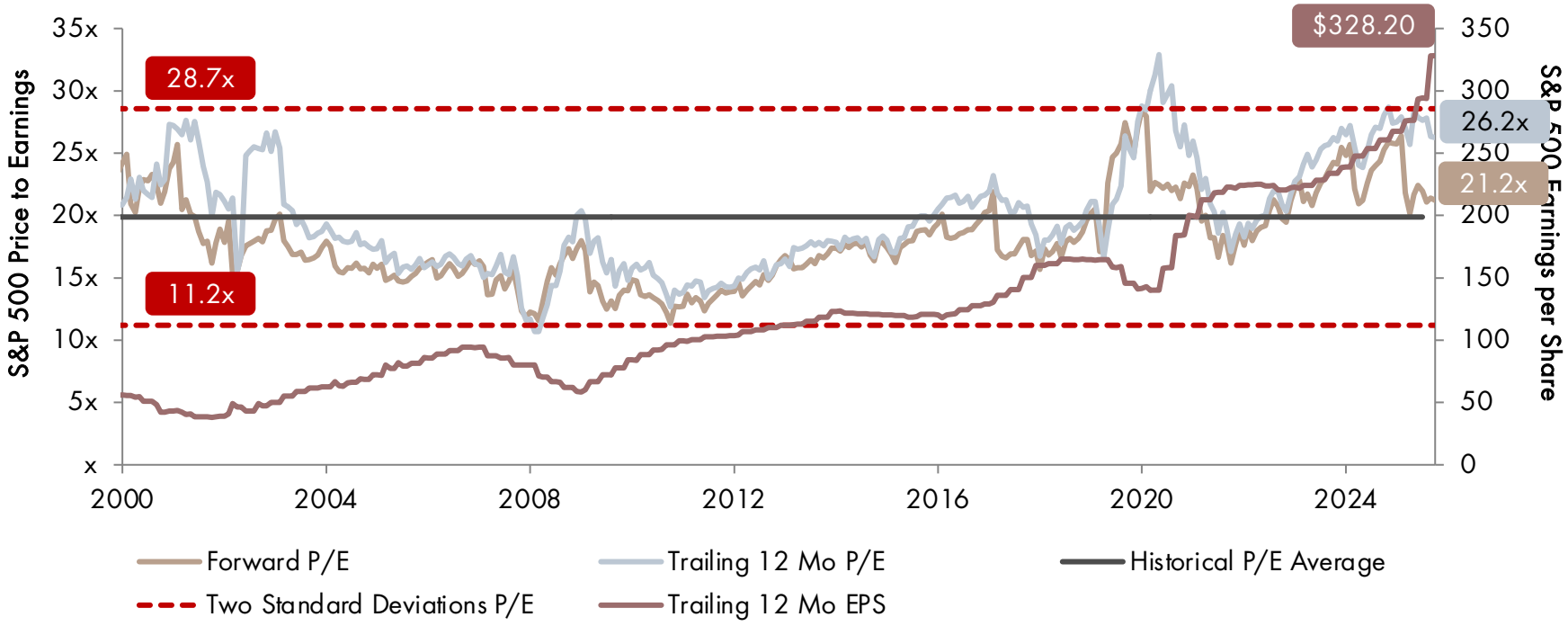
Market Dashboard[1] – As of September 30, 2026

Asset Class	Quarterly Commentary	3Q26	YTD
Domestic Stock *(S&P 500 Index)*	• U.S. stock markets were positive for the quarter but lagged the Q2 rally due to continued geopolitical concerns. Mega-cap tech stocks and companies involved in the AI buildout continue to headline returns in U.S. equity markets. • Energy and Information Technology led all sectors. After declining in Q2, Energy prices increased sharply due to renewed conflict in the Middle East. AI-related capital spending has continued, driving returns within the technology sector. Similarly to Q2, Utilities posted negative results as rising bond yields dampened their safety appeal.	2.3%	12.7%
International Stock *(EAFE Index)*	• International developed stocks posted gains in 3Q, trailing U.S. stocks. The Asia Pacific region remained a bright spot for international developed returns. • The European Central Bank raised rates by 25 basis points in September, which impacted returns across Europe. The U.K. led developed nations in Europe while France was the leading detractor due to fiscal concerns.	0.8%	10.3%
Emerging Market Stock *(MSCI Emerging Markets Index)*	• Following an exceptionally strong 2Q, emerging markets posted a marginally negative return during Q3. The AI and semiconductor-fueled rallies that drove performance in the first half of the year eased in 3Q. • Korea, an initial beneficiary of the semiconductor rally, posted negative results for Q3 amid a pullback in its tech-concentrated market. Brazil and Taiwan led the index.	(0.4%)	23.4%
Bonds *(Bloomberg U.S. Aggregate Index)*	• The Agg posted its weakest quarter since 2022 as Treasury yields rapidly increased. The 2-year Treasury yield rose 71 basis points over the quarter. The 10-year jumped 81 basis points to 5.28% on 9/30/2026, its highest level since 2002.	(3.5%)	(2.9%)
Interest Rates	• The Fed raised interest rates by 25 basis points in September, moving the target policy rate to 3.75%-4.00%. This was the 1st rate hike since July 2023. • The 10-year yield rose 0.81%, (81 basis points) over the quarter, from 4.47% to 5.28%		

Currencies	USD/EUR	USD/JPY	USD/GBP	USD/CNY	USDX (DXY)
3Q26	0.8%	(3.2%)	0.0%	(1.2%)	0.3%
YTD	3.7%	0.4%	1.6%	(4.0%)	3.2%

[1]LCG Associates

U.S. Stock Market – Historical Valuation and Sensitivity



S&P 500 Index

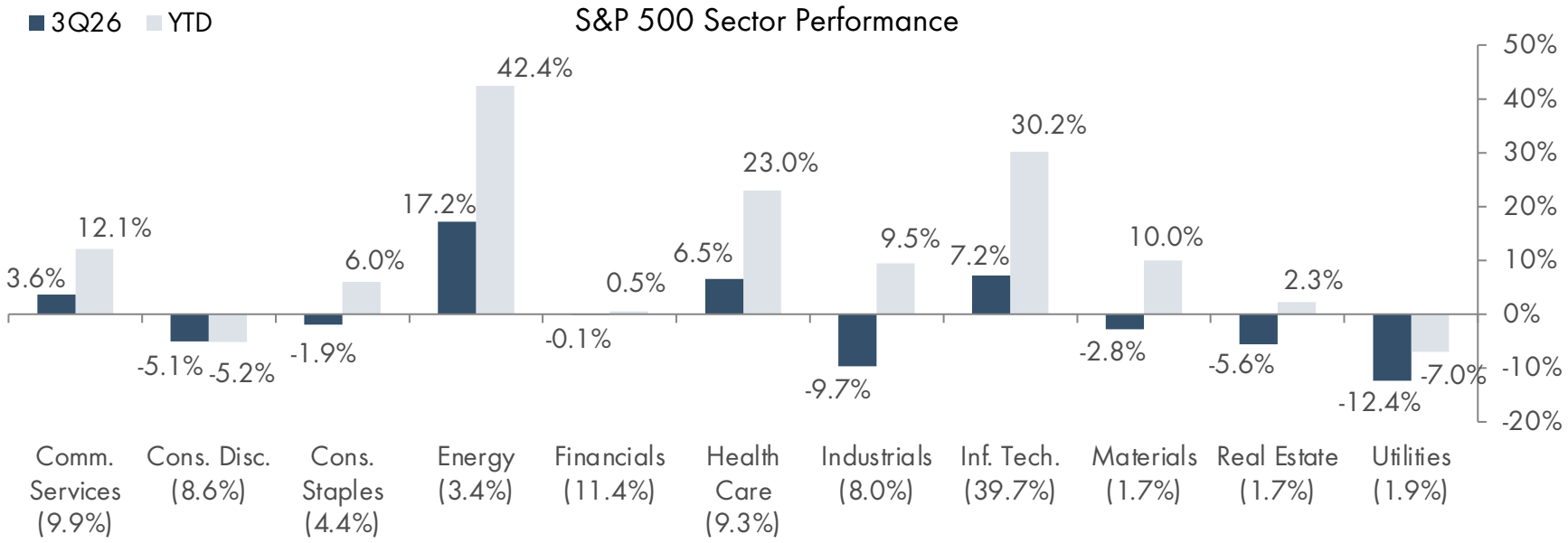
	Price	Trailing P/E
September 30, 2026,	7,651.54	26.2x
August 13, 2026,	7,798.99 (all time high)	29.0x
November 4, 2016,	2,085.18 (10-year low)	19.0x

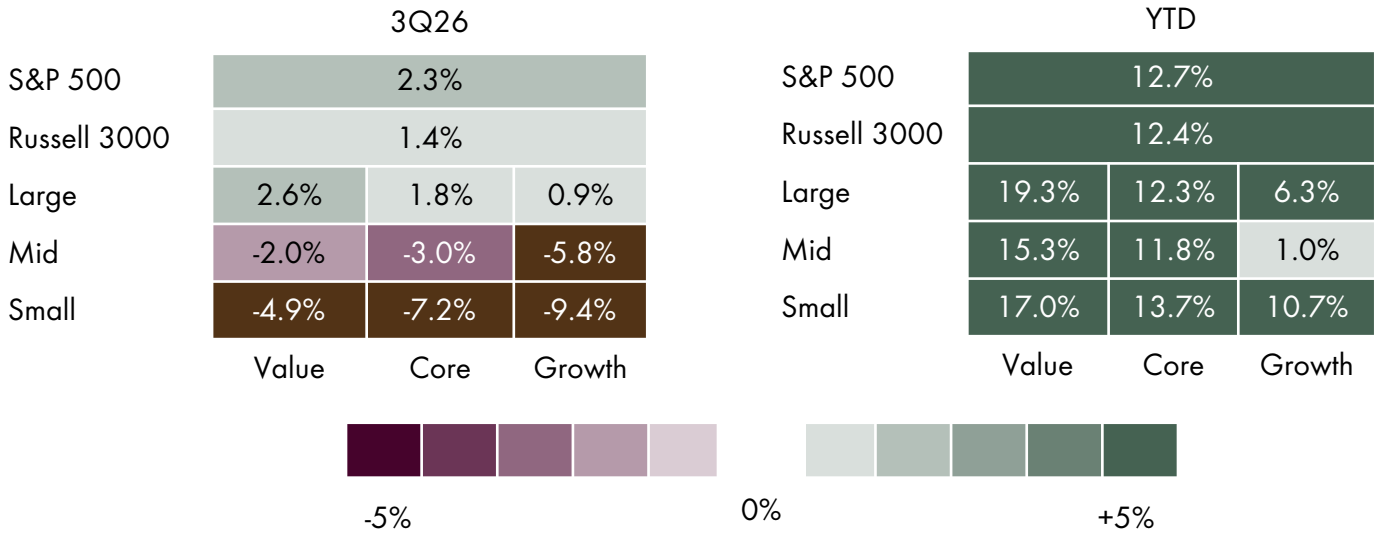
S&P 500 Equal Weight Index

	Price	Trailing P/E
September 30, 2026,	8,429.42	20.2x
August 13, 2026,	9,017.75 (all time high)	20.7x
March 23, 2020,	2,921.93 (10-year low)	11.5x

Source: Bloomberg; [1]9/30/26 EPS at given growth rate

U.S. Stock Market – sector and style





Source: Bloomberg, S&P, Russell

Russell Indices: Growth or Value?

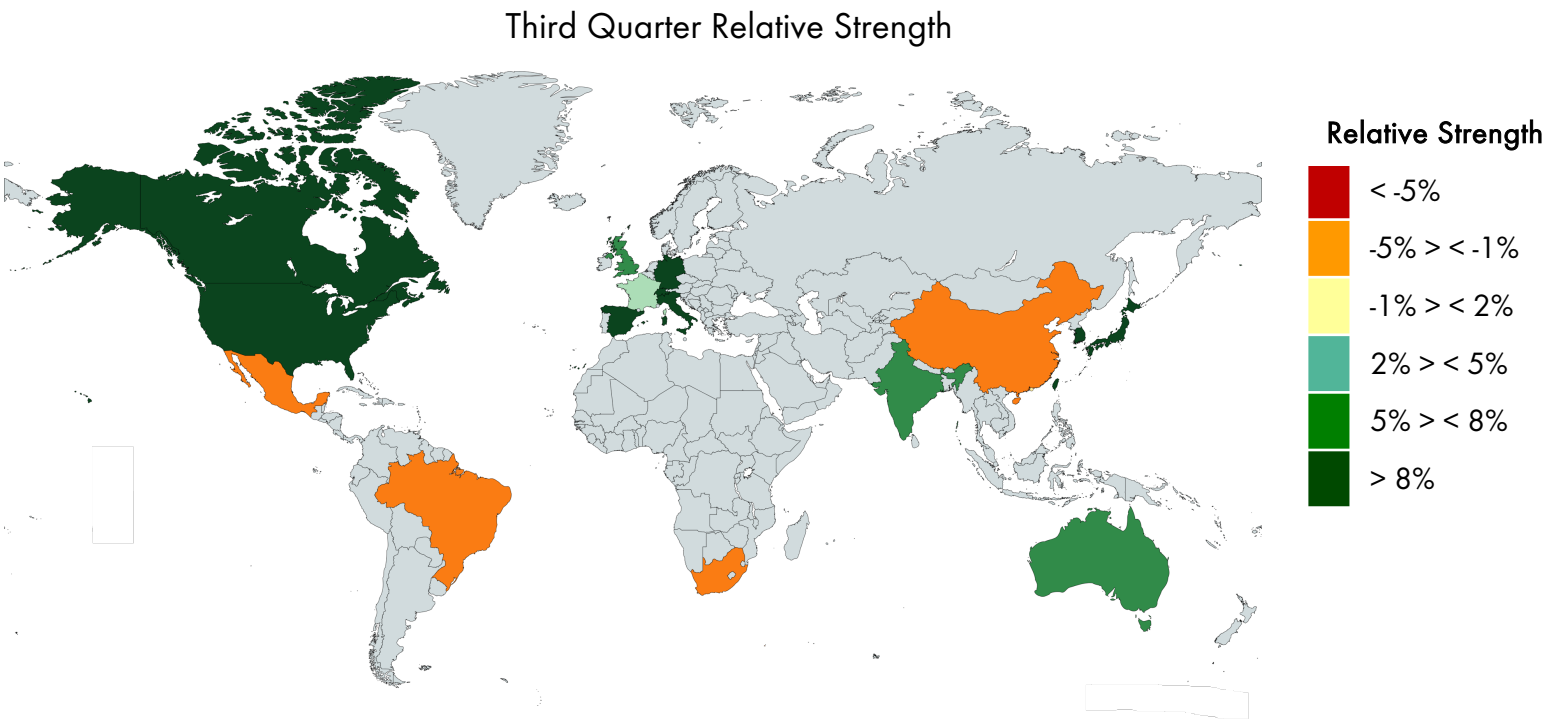
Due to Russell's June reconstitution, *Amazon, Apple, and Microsoft* became the top Russell 1000 Value Index holdings. Additionally, Information Technology became the largest sector (~20%).

As of 9/30/26	Russell 1000 Value		S&P 500 Value		Morningstar US Large Cap Value (formerly CRSP)	
1	Amazon	6.1%	Apple Inc.	8.3%	Micron Technology	3.9%
2	Apple Inc.	6.1%	Amazon	3.9%	JPMorgan Chase	3.5%
3	Microsoft	5.2%	Exxon Mobil	2.3%	Berkshire Hathaway	2.9%
4	Berkshire Hathaway	2.6%	Intel	2.1%	Exxon Mobil	2.4%
5	JPMorgan Chase	2.4%	Walmart	1.6%	Johnson & Johnson	2.3%
6	Exxon Mobil	1.8%	Costco	1.4%	Walmart	1.7%
7	Johnson & Johnson	1.8%	Chevron	1.4%	AbbVie	1.7%
8	Intel	1.5%	Tesla	1.3%	Bank of America	1.4%
9	AbbVie	1.2%	Merck	1.2%	Cisco Systems	1.4%
10	Cisco Systems	1.2%	Bank of America	1.2%	Chevron	1.4%
Top 10 Total		29.8%		24.7%		22.7%
3Q26 Return		2.6%		0.9%		-0.5%

Shaded names are Magnificent 7 stocks (Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia, Tesla). Top 10 holdings and returns as of 9/30/2026, except Morningstar holdings are as of 8/31/2026.

Source: Bloomberg, IWD, IVE, and VTV serve as index proxies.

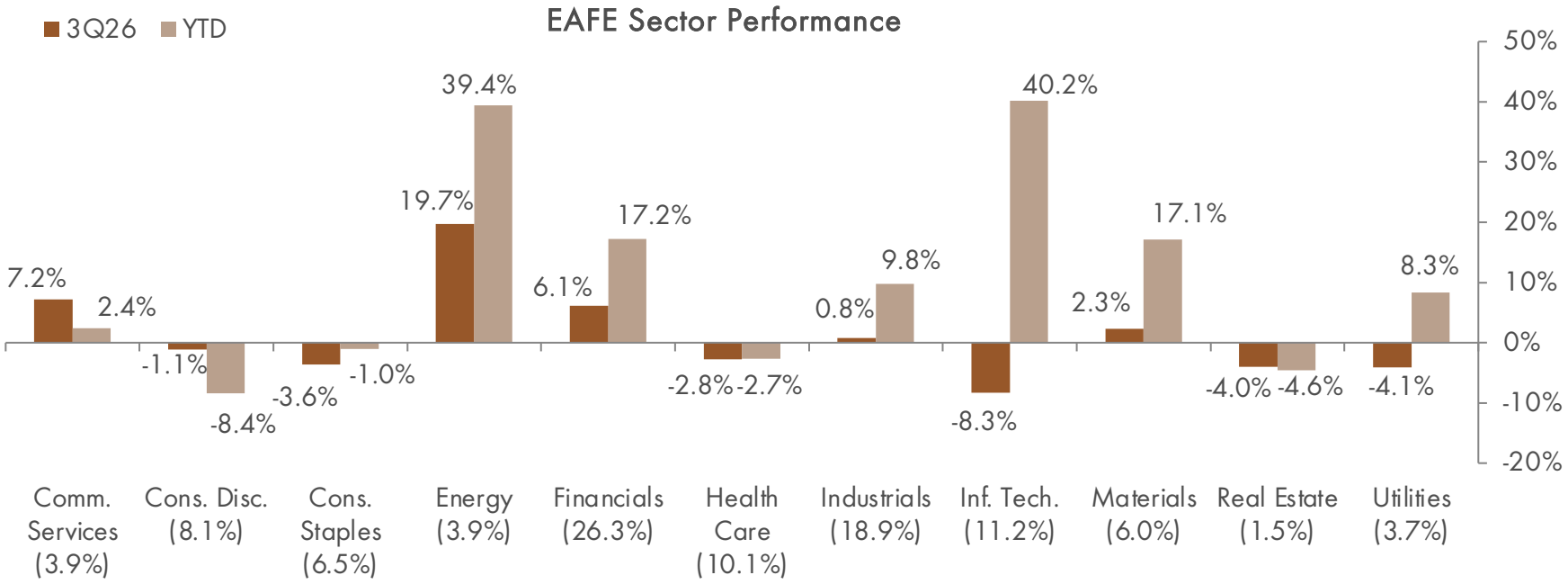
Global stock returns

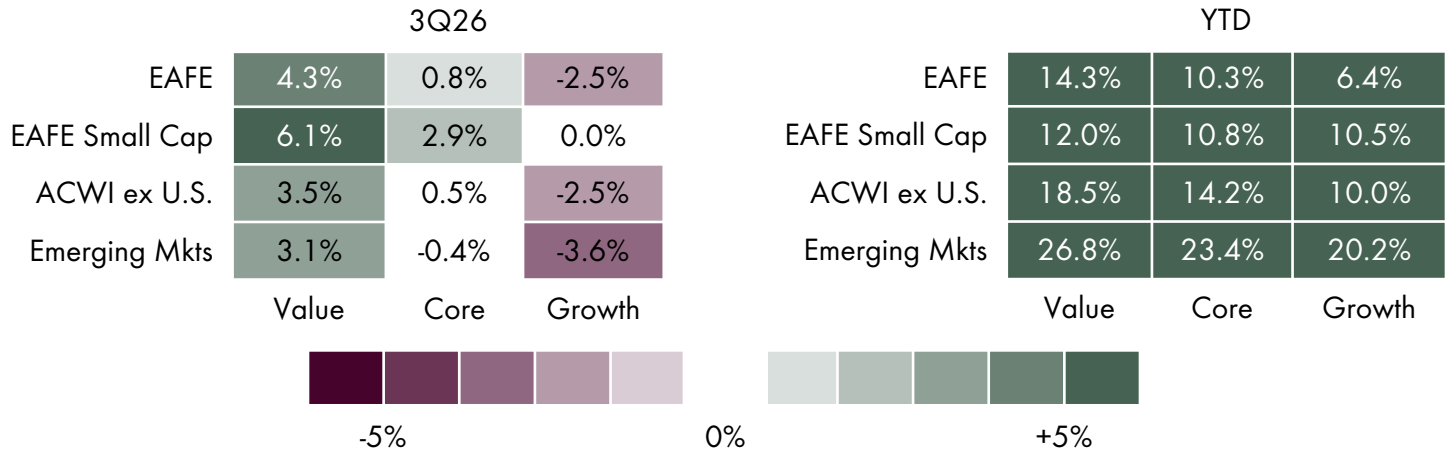


	3Q26		YTD	
	Local Return	USD Return	Local Return	USD Return
International Developed Markets Index				
MSCI EAFE Index	0.6%	0.8%	12.4%	10.3%
Emerging Markets Index				
MSCI EM Index	(2.9)%	(0.4%)	23.1%	23.4%

Source: Bloomberg, mapchart.net

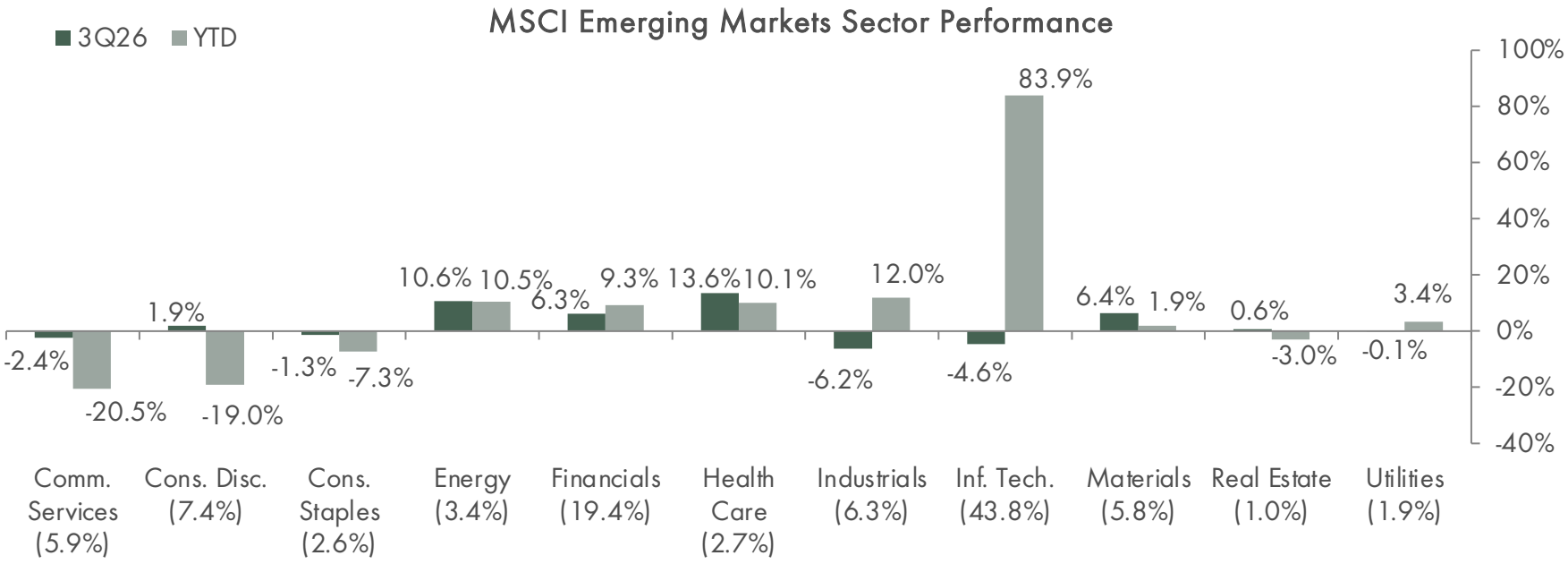
International Stock Market – sector and style





Source: Bloomberg, MSCI

Emerging Markets Stock Market – sector and style



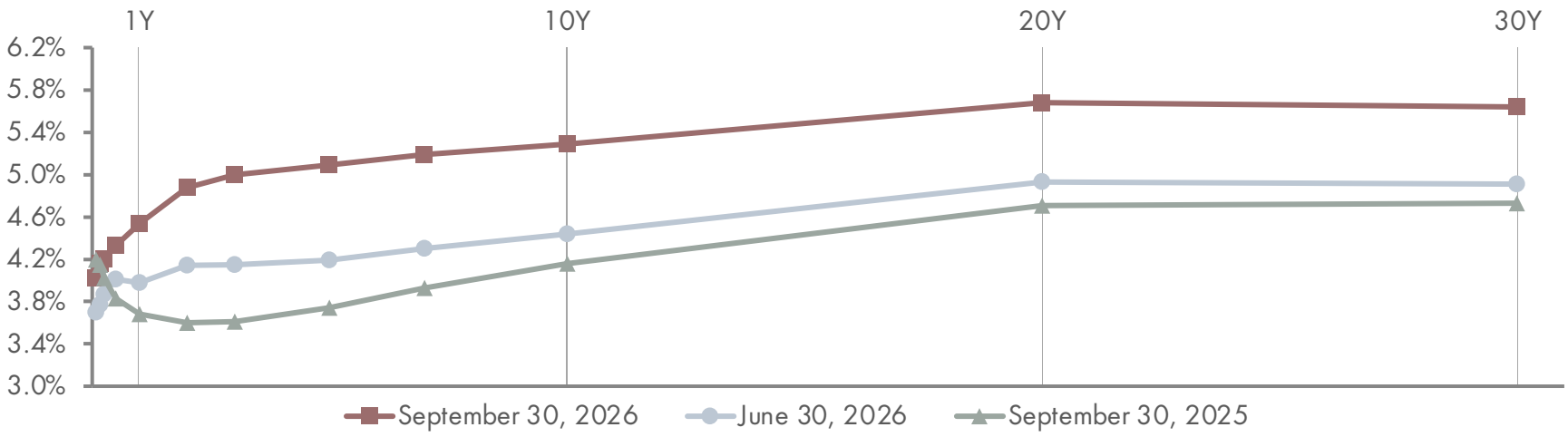
	3Q26		
MSCI Emerging Markets	-0.4%		
EM Large Cap	2.9%	-0.9%	-4.3%
EM Mid Cap	4.1%	2.0%	-0.2%
EM Small Cap	-0.2%	0.2%	0.7%
	Value	Core	Growth

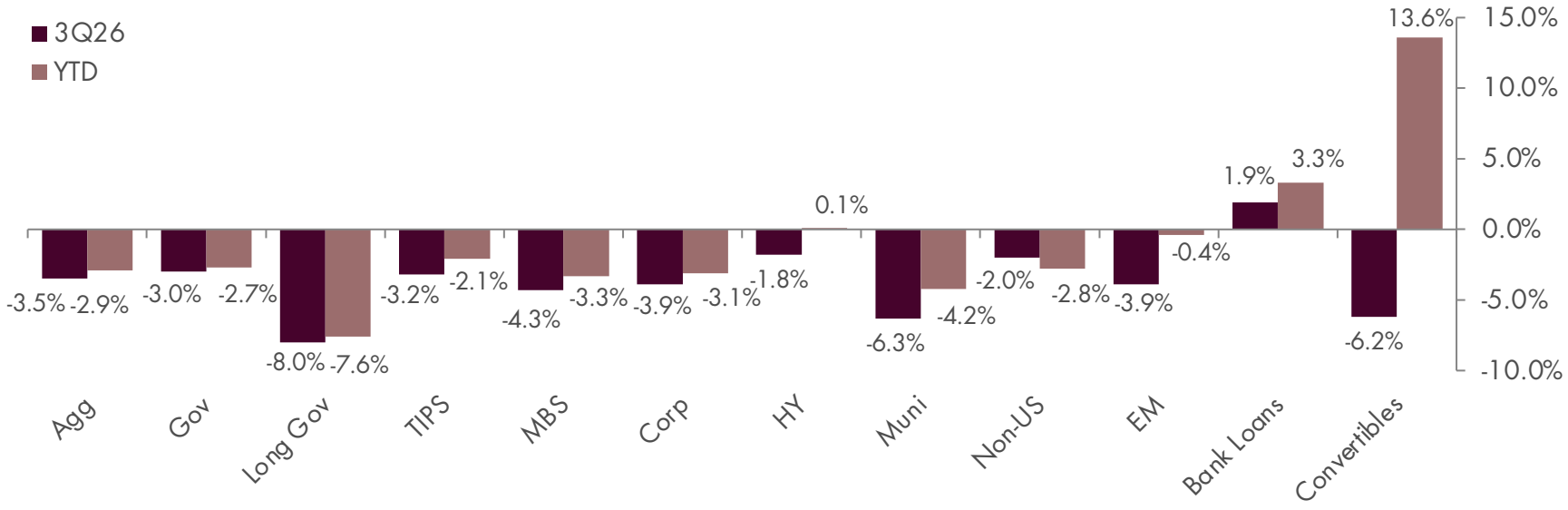
	YTD		
MSCI Emerging Markets	23.4%		
EM Large Cap	26.3%	23.6%	21.1%
EM Mid Cap	29.0%	22.9%	17.2%
EM Small Cap	13.6%	13.2%	12.7%
	Value	Core	Growth



Source: Bloomberg, MSCI

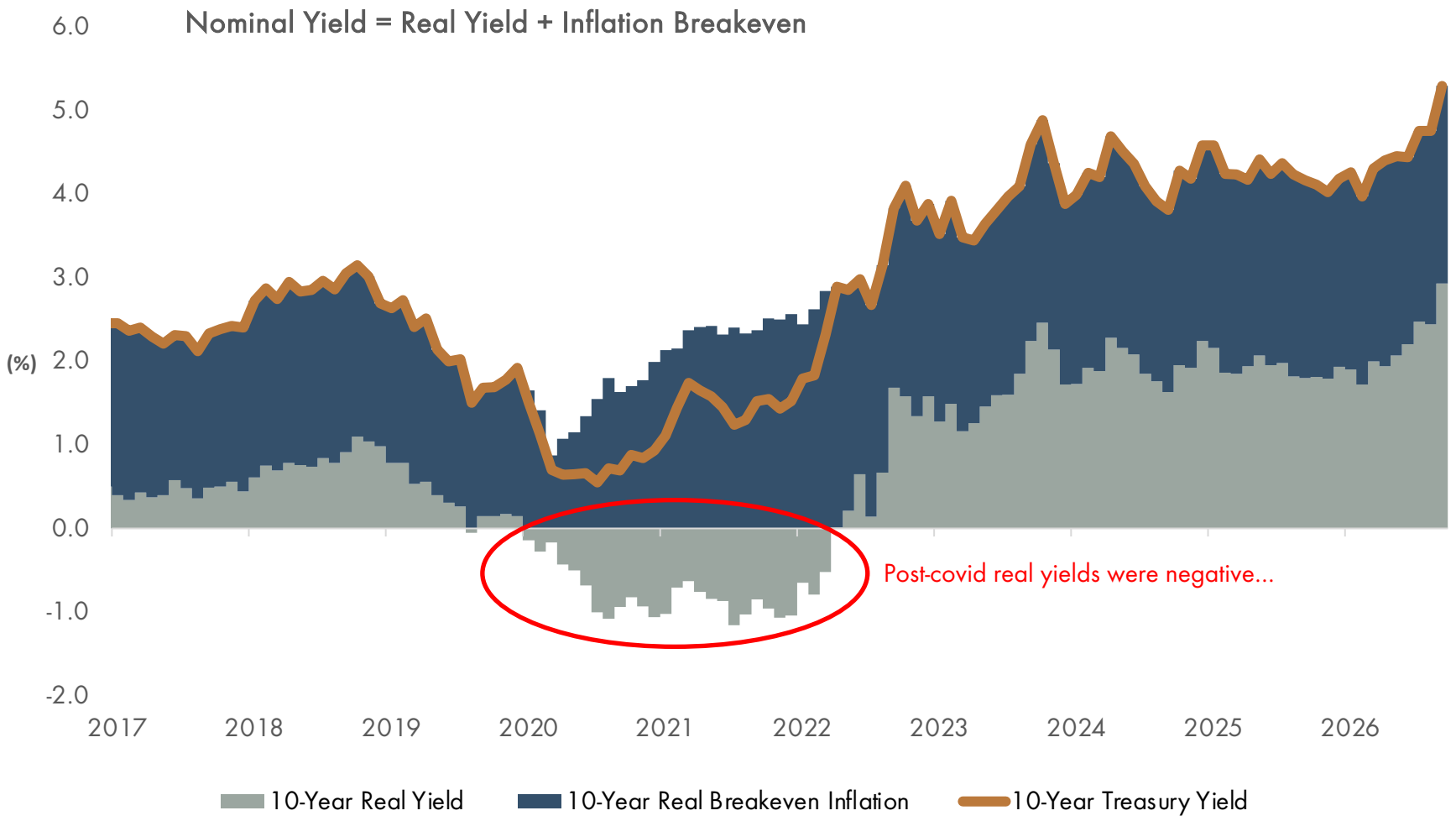
Treasury yield curve and bond sector returns





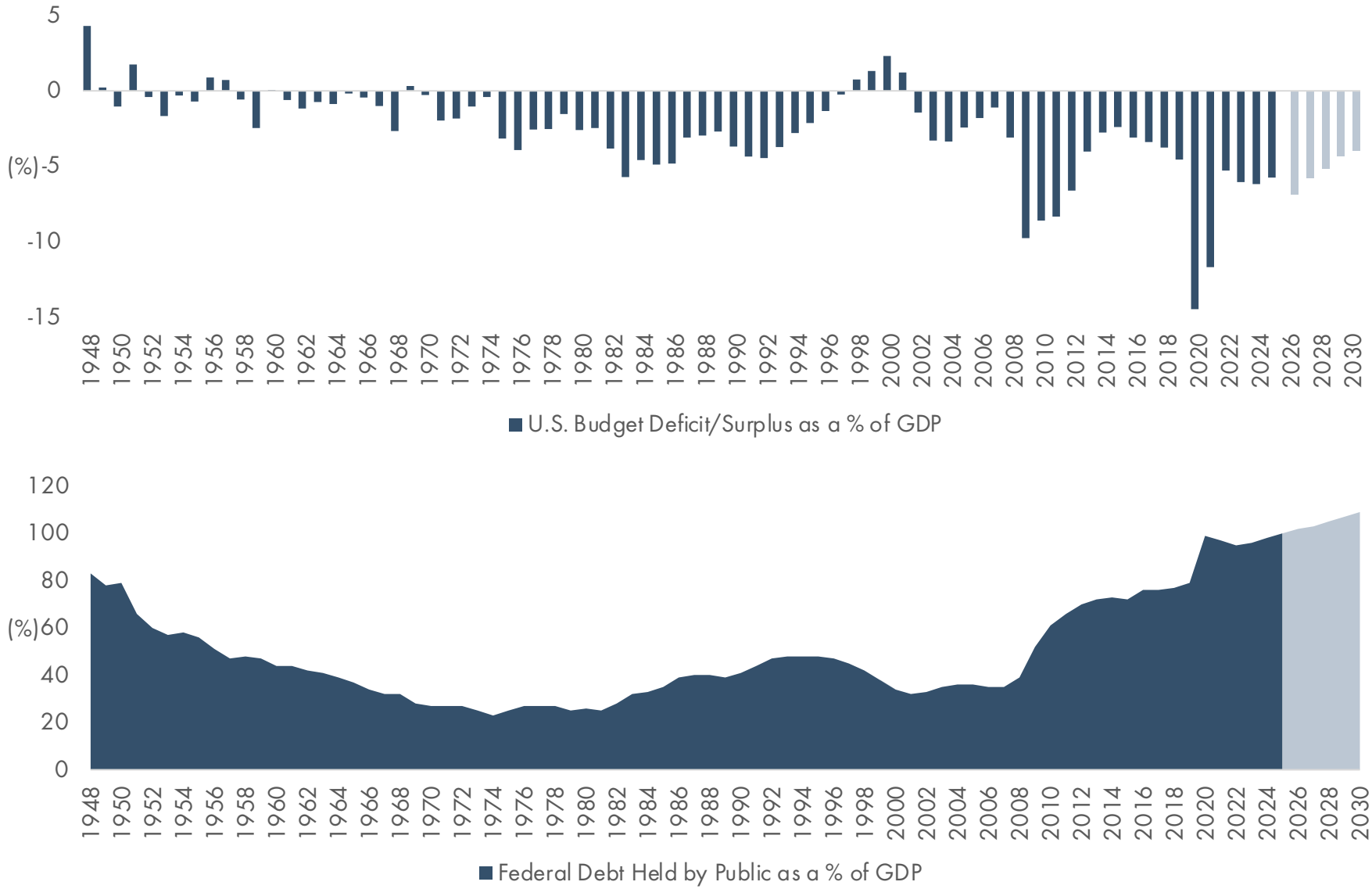
Source: U.S. Treasury, Bloomberg

Bonds: higher real yields driving opportunity



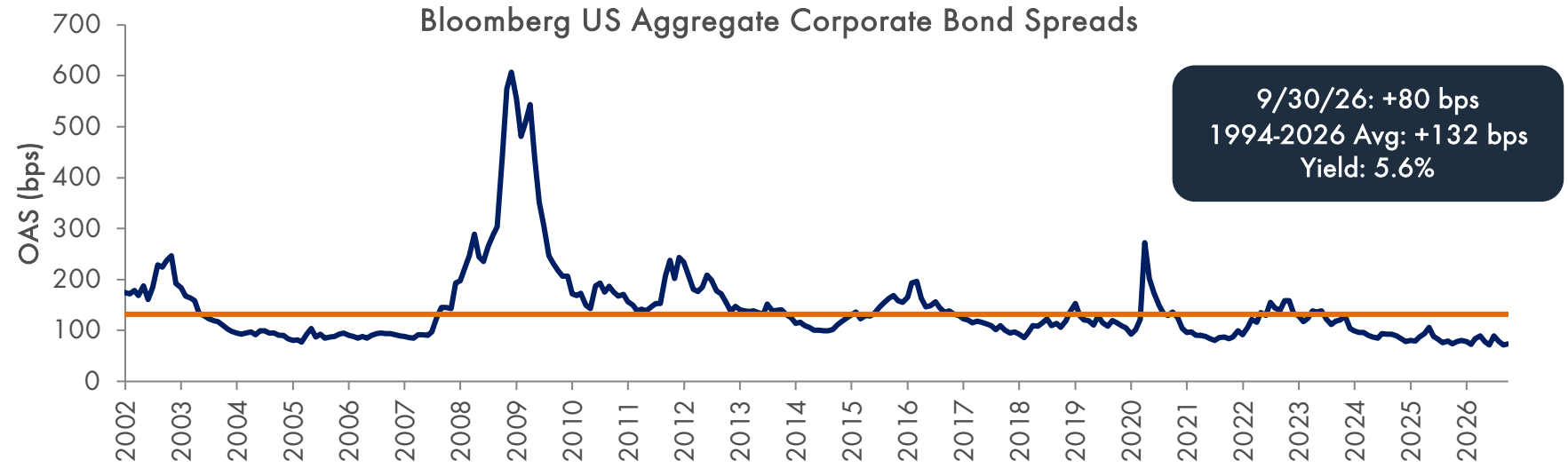
Source: Federal Reserve Bank of St. Louis

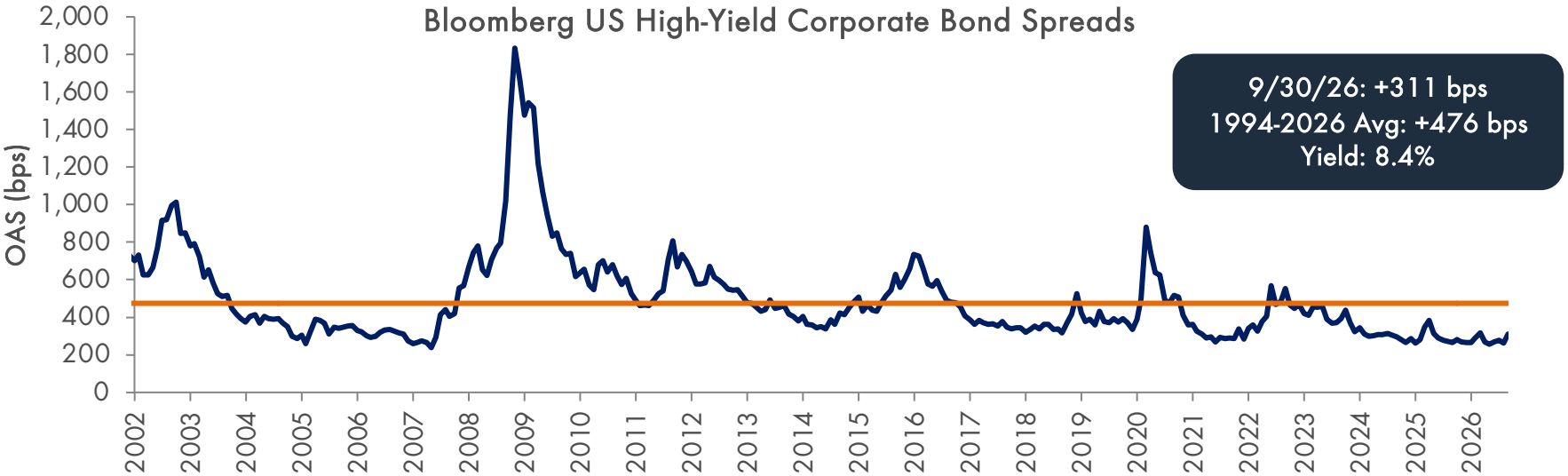
Deficit spending boosting Treasury yields



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office, Office of Management and Budget. **Light blue data represents projections.**

Bond yield spreads





Source: Bloomberg

Tactical positioning 3Q26

Asset Class	Underweight Overweight Neutral to Target	Comments
Cash	Neutral	Consider Treasury Bills/Notes
Short Term	Neutral	
Total Return	Underweight	Duration risk not being rewarded; consider global bonds; underweight high-yield as spreads are historically tight
Credit Alternatives	Overweight	Spreads are significantly wider than traditional bonds
Large Cap	Neutral	
Mid Cap	Neutral	
Small Cap	Neutral	
International	Neutral	
Emerging Markets	Underweight	Expect continued higher volatility
Growth Alternatives	Overweight	High stock valuations and tight credit spreads could provide pockets of dislocation; consider convertible bonds
Private Equity	Neutral	Merger and acquisition activity has grown; IPO markets are seeing better momentum; exit activity has picked up
Private Real Estate	Neutral	Could help protect against inflation; potential pockets of dislocation

Annual Total Returns of Key Asset Classes as of 3Q26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	YTD	15 Year Annlzd
Best	Emg Mkts 37.3	Inflation 1.9	US Large Cap 31.5	US Small Cap 20.0	Real Estate 41.3	Inflation 6.5	US Large Cap 26.3	US Large Cap 25.0	Emg Mkts 33.6	Emg Mkts 23.4	US Large Cap 15.7
	Intl Stocks 27.2	US Bonds 0.0	US Mid Cap 30.5	US Large Cap 18.4	US Large Cap 28.7	Growth Alts (5.8)	US Mid Cap 17.2	US Mid Cap 15.3	Intl Stocks 32.4	Intl Stocks 14.2	US Mid Cap 13.0
	US Large Cap 21.8	Real Estate (4.0)	Real Estate 28.7	Emg Mkts 18.3	US Mid Cap 22.6	US Bonds- (13.0)	US Small Cap 16.9	Growth Alts 14.8	US Large Cap 17.9	US Small Cap 13.7	US Small Cap 11.8
	US Mid Cap 18.5	US Large Cap (4.4)	US Small Cap 25.5	US Mid Cap 17.1	US Small Cap 14.8	Intl Stocks (16.0)	Intl Stocks 15.6	US Small Cap 11.5	US Small Cap 12.8	US Large Cap 12.7	Real Estate 8.8
	US Small Cap 14.6	Growth Alts (4.6)	Intl Stocks 21.5	Intl Stocks 10.7	Growth Alts 8.3	US Mid Cap (17.3)	Real Estate 11.4	Emg Mkts 7.5	US Mid Cap 10.6	US Mid Cap 11.8	Intl Stocks 8.2
	Growth Alts 13.4	US Mid Cap (9.1)	Emg Mkts 18.4	Growth Alts 7.9	Intl Stocks 7.8	US Large Cap (18.1)	Growth Alts 10.9	Intl Stocks 5.5	Growth Alts 10.3	Growth Alts 9.2	Emg Mkts 7.0
	Real Estate 8.7	US Small Cap (11.0)	Growth Alts 12.2	US Bonds 7.5	Inflation 7.0	Emg Mkts (20.1)	Emg Mkts 9.8	Real Estate 4.9	US Bonds 7.3	Real Estate 7.9	Growth Alts 5.9
	US Bonds 3.5	Intl Stocks (14.2)	US Bonds 8.7	Inflation 1.4	US Bonds (1.5)	US Small Cap (20.4)	US Bonds 5.5	Inflation 2.9	Inflation 2.7	US Bonds (2.9)	US Bonds 1.8
Worst	Inflation 2.1	Emg Mkts (14.6)	Inflation 2.3	Real Estate (5.1)	Emg Mkts (2.5)	Real Estate (24.9)	Inflation 3.4	US Bonds 1.3	Real Estate 2.3		

Source: Morningstar

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