



Market Overview

Third Quarter
2026



Field Notes: A Market Overview from the Fall Flyaway

Field Notes: Where We Left Off

Every autumn, one of the largest movements of life on Earth passes over our heads while most of us sleep. Between early September and late October, billions of birds head south, the great majority of them flying at night and steering by the stars and the Earth's magnetic field. Researchers at the Cornell Lab of Ornithology now track this movement with the same weather radar that forecasts our rain; on an average night at the height of fall migration, roughly 400 million birds are aloft over the United States at once. To the birder at the edge of a field at dawn, the evidence is simpler: trees that were quiet yesterday are alive with warblers this morning. The movement happens in the dark. The results show up at first light.

The third quarter of 2026 unfolded in much of the same way. Enormous forces moved through markets — a collapsed ceasefire sent oil back above \$100 a barrel, the Federal Reserve's first rate increase in three years, and the worst quarter for municipal bonds in over 40 years. In the face of these events, the S&P 500 set new all-time highs along the way and finished within about 1% of its peak. We approach this update the way a patient birder approaches a season: not by reacting to any single sighting, but by reading the radar, keeping careful field notes, and remembering that our families are on a journey measured in generations, not quarters.

In June, we described U.S. equities as priced closer to perfection than to opportunity. We wrote that a market at record highs is not inherently a market near a top, but that valuations of 20 to 21 times forward earnings and a newly hawkish Federal Reserve and uncertainty in the Middle East leading to elevated volatility more likely. Both halves of that view were tested. Volatility did arrive, just not where most investors were looking. Stocks absorbed the quarter's shocks; bonds bore most of them resulting in a return of the historical relationship between stocks and bonds.

High Flyers: U.S. Equities Hold Their Altitude

The S&P 500 returned 2.3% in the third quarter, bringing its year-to-date return to 12.8%, and the Nasdaq Composite gained 2.6%.¹ The steady headline masked real turbulence. After a strong August, leadership narrowed sharply in September as Treasury yields surged. The small-cap Russell 2000 gave back 7.2% for the quarter after gaining more than 21% in the prior quarter, and only four of the S&P 500's eleven sectors outpaced the index. Energy led with a 17.2% gain as crude oil climbed, followed by Technology (+7.2%) and Health

Care (+6.5%), while rate-sensitive Utilities (-12.4%), Industrials (-9.7%), and Real Estate (-5.6%) sold off. Like a starling murmuration, which appears to move as a single body even though each bird responds only to its nearest neighbors, an index can disguise what is happening from within. With Technology continuing to be close to 40% of the S&P 500, the index increasingly reflects the flight path of its largest members rather than that of the average company in the United States.

The quarter's most important development for equity investors, however, was a constructive one: valuations fell while prices rose. S&P 500 companies are expected to report third-quarter earnings growth of roughly 29.5%, a third straight quarter above 25%, and analysts raised estimates during the quarter, the opposite of the usual pattern, as a record number of companies issued positive guidance. The index's forward price-to-earnings ratio slipped to roughly 19x, down from 20x in June and now slightly below its five- and ten-year averages.²

At the end of the third quarter, the market was higher in price but cheaper relative to what its companies earn. That does not promise a smooth flight moving forward. Growth at this pace sets a high bar, and recent research from Goldman Sachs estimates that AI infrastructure beneficiaries will drive roughly half of this year's earnings growth.³ But the foundation under this market remains earnings, not purely investor enthusiasm.

Confusing Fall Warblers: International Markets

In Roger Tory Peterson's "A Field Guide to the Birds", he shared his affectionate dread of the "confusing fall warblers," species that trade bright spring plumage for drab autumn feathers that make them maddeningly hard to tell apart. International markets wore that look this quarter. Developed international stocks (MSCI EAFE) gained 0.8% and emerging markets slipped 0.4%, with South Korea (-9.6%) and India (-5.6%) giving back part of strong second-quarter gains. The Fed was not alone in tightening, either; the European Central Bank and the Bank of Japan each raised rates for the second time this year. A disruptive coloration does not change the species, though. Emerging markets remain up more than 23% year to date and developed markets more than 10%, both ahead of the S&P 500 over the past twelve months. A portfolio built for multiple generations should not depend on any single country's flight path and that is why we consistently emphasize the need for proper diversification and a strong strategic asset allocation.

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¹ FactSet, as reported in Cetera Investment Management, "Quarterly Recap," October 1, 2026. Index figures are total returns for the quarter ended September 30, 2026.

² FactSet, "S&P 500 Earnings Season Preview: Q3 2026," October 2, 2026; FactSet, "Record-High Number of S&P 500 Companies Issuing Positive EPS Guidance for Q3," October 5, 2026.

³ Goldman Sachs Research, "The S&P 500 Is Forecast to Climb as Earnings Growth Powers Stocks Higher," May 2026.

S&P 500 Index Highlight

Four Years on the Wing: The Bull Market Keeps Soaring

Price gain since October 12, 2022 low: +118.3%



Source: Bloomberg. S&P 500 Index daily closing prices, Oct 13, 2021 – Oct 12, 2026. Price return only; excludes dividends. Past performance is not indicative of future results.

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Headwinds Aloft: Oil, Inflation, and the Federal Reserve

In the Fall, many birds wait on the ground for a cold front and the north winds behind it rather than burn their reserves flying into a headwind. Markets had no such option this quarter. The fragile interim U.S.-Iran ceasefire that had pulled Brent crude into the low \$70s by June broke down in July, renewed attacks disrupted shipping through the Strait of Hormuz, and a coordinated 400-million-barrel release from G7 strategic reserves provided little relief. Brent moved back above \$100 by mid-September, and the S&P GSCI Crude Oil Index gained 30% for the quarter.⁴

Higher energy prices flowed directly into inflation readings in the U.S. Consumer prices rose 3.4% from a year earlier in August, with gasoline up more than 27%, even as core inflation eased to 2.4%.⁵ On September 16, the Federal Reserve voted unanimously to raise its policy rate by a quarter point to 3.75%-4.00%, its first hike since July 2023 and the first under Chair Kevin Warsh. The FOMC's median projection pointed to one more before rate hike before year-end.⁶ The repricing toward a more hawkish tone and potential future hikes we flagged in June proved accurate. Since then, however, a crosswind has emerged: employers added just 29,000 jobs in September, unemployment ticked up to 4.2%, and wage growth of 3.0% now trails inflation.⁷ The broader economy remains sturdy, with Q2 GDP up 2.2% and final sales to private domestic purchasers up 4.6%, but the Fed now has firm inflation on one side and a potentially cooling labor market on the other.

⁴ See note 2.

⁵ U.S. Bureau of Labor Statistics, *Consumer Price Index for August 2026* (released September 11, 2026) and *The Employment Situation for September 2026* (released October 2, 2026).

⁶ Federal Open Market Committee statement and Summary of Economic Projections, September 16, 2026; J.P. Morgan, "Federal Reserve raises rates, officials signal one more hike in 2026."

⁷ Morningstar, "How Bond Funds Performed in Q3 2026," October 2026 (Morningstar US Core Bond Index); Bloomberg index returns per note 2.

⁸ Nuveen, "Muni Minute: After the worst quarter since 1981, what comes next?" October 5, 2026. Taxable-equivalent yield assumes the 37% top federal rate plus the 3.8% net investment income tax.

A Crowded Roost: Big Tech Borrows at the Long End

When a huge flock settles on one roost, latecomers must jostle for space. The long end of the bond market has become that roost. To fund the AI buildout, the largest technology companies (Alphabet, Amazon, Meta, Microsoft, and Oracle) issued about \$220 billion of high-quality bonds this year through mid-August, much of it maturing in 30 years or more, including a rare 100-year bond. Their share of investment-grade issuance has jumped from about 2% to an expected 9%, and roughly a third of this year's investment-grade supply has come in long maturities.

Absorbing that much supply has a price. The extra yield these companies pay over Treasuries has widened by about 0.30 percentage points this year, versus almost no change for the broader corporate market, with most of the widening in the longest bonds. The borrowing wave may also have helped push long-term Treasury yields higher. These are strong companies, but a 30-year bond tied to an uncertain payoff on AI spending carries a lot of interest-rate risk for modest extra pay. We see better value in shorter maturities.

A Season of Molting: Fixed Income and Municipal Bonds

Many songbirds replace their feathers in late summer, just before they migrate. It is a costly and vulnerable stretch, but a bird that skips its molt faces the long journey south on worn-out wings. Fixed income went through its own molt this quarter as the 10-year Treasury yield rose roughly 85 basis points to 5.29%, and the 30-year closed near 5.64%, levels not seen in roughly two decades. The Bloomberg U.S. Aggregate Bond Index fell 3.5% and longer dated Treasuries fell 8% leading to the core bond market's worst quarter since 2022.⁸ This was a rate story rather than a credit story: spreads stayed relatively stable, and high yield (-1.8%) outperformed investment-grade corporates (-3.7%) on shorter duration. The canary we are watching sits at the lowest-quality end of the market, where CCC spreads widened and broader high-yield spreads began drifting wider in late September.

Municipal bonds had a historically difficult quarter. The Bloomberg Municipal Bond Index fell 6.35%, its worst quarter since 1981, including a 4.36% drop in September, the worst month since 2008, as record issuance collided with rising yields and fund outflows.⁹ Municipal credit itself remains sound, with state and local tax revenues up roughly 5.75% in the first half of the year.

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We want to be direct about how we read this. This setback is not a defeat. Bond prices fell because yields rose, and starting yield has historically been one of the most reliable guides to what high-quality bonds go on to earn. For top-bracket investors, municipal yields now equate to a taxable-equivalent yield above 8%, the highest in nearly two decades. Because municipal bond interest is generally exempt from federal income tax, a tax-free yield is worth far more than it looks. The taxable-equivalent yield answers a simple question: what would a taxable bond have to pay to leave you with the same income after taxes? For families in the top federal tax bracket, today's answers are striking:

High-Quality Municipal Bond	Tax-Free Yield	Taxable-Equivalent Yield
5-Year	3.8%	6.4%
10-Year	4.2%	7.1%
30-Year	5.3%	8.9%

Put another way, a top-bracket investor keeps only about 3.1% of a 5.3% Treasury yield after federal taxes but keeps all 4.2% from a comparable 10-year municipal bond. The selloff also lets us harvest losses, reinvesting in similar bonds at higher yields while banking losses to offset gains elsewhere.

The Long Migration: Positioning for Year-End and the Multiple Generations Ahead

German ornithologists have a word, Zugunruhe, for the restlessness caged migratory birds show as their season approaches. Investors feel a version of it after quarters like this one, and the weeks ahead offer plenty of reasons. Third-quarter earnings season, an end-of-October Fed meeting at which markets now lean toward a pause, continued uncertainty in the Strait of Hormuz, and the November 3 midterm elections. Election seasons tend to be volatile, but since 1950 the S&P 500 has been higher one year after every midterm election, with an average gain near 15%.¹⁰ Earlier this year, J.P. Morgan and Goldman Sachs raised their year-end S&P 500 targets to 7,800 and 8,000, modestly above quarter-end levels near 7,650, though we weigh earnings far more heavily than any single forecast.

Flying in Formation: Prudent Diversification for the Long Journey

Geese migrating in a V take turns at the front, so no single bird bears the full force of the wind for long, and the flock travels farther together than any bird could alone. A diversified portfolio works the same way. This year, leadership has rotated among international stocks, energy, and technology. We do not need to forecast every shift in the wind; we need a portfolio with the reserves to complete the crossing. In practice, that means rebalancing to strategic targets, trimming equities near record highs, using harvested losses to stay tax-efficient, maintaining the real assets that proved their worth when inflation returned, and pacing private market commitments so no family relies on an exit that could be gated.

It also means building ballast: the high-quality bonds that hold steady when stocks wobble and provide cash when opportunities appear. Shorter-duration bonds (those that mature sooner and are less sensitive to rate swings), and municipal bonds in particular, now offer unusually good pay for the risk taken. September's selloff hit shorter maturities hardest, so a five-year municipal bond now yields about 3.8% tax-free, roughly 6.4% on a taxable-equivalent basis for top-bracket families, with about a third of the interest-rate sensitivity of a 30-year bond. Rather than reach for the crowded long end, we are adding these shorter, high-quality bonds where they fit each family's needs.

Every winter since 1900, volunteers have fanned out for the Audubon Christmas Bird Count; this December marks the 127th. Because the counting never stopped, scientists can now see patterns no single season would reveal. Multi-generational wealth works the same way. The headlines of any one quarter will fade. What endures is a disciplined process, carried from one generation to the next, that steers by the stars rather than by the weather on any given night.

We value the trust you place in our team and remain committed to helping you navigate the season ahead. As always, we welcome the opportunity to discuss any questions you may have about your portfolio, your year-end planning, or this update.

¹⁰ Advisor Perspectives, "Weak September Seasonals Precede Strong Midterm Trends," September 4, 2026; CNBC, June 24, 2026 (J.P. Morgan target); Goldman Sachs Research, May 26, 2026 (Goldman Sachs target).

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