

CLIENT BRIEFING

ECONOMIC COMMENTARY | Q3 | 2026

The S&P 500 gained 2.3% in the third quarter, but that result tells only part of the story. A relatively small group of large companies helped lift the index, while many smaller stocks struggled. Investors remained enthusiastic about artificial intelligence and its potential to improve productivity, even as they questioned how much of today's spending on AI infrastructure will ultimately pay off.

Developed international stocks edged up 0.3%, and broad emerging-market stocks gained 1.1% for the quarter. Both remained ahead for the year, underscoring the value of looking beyond U.S. stocks even when their quarterly gains are modest.

Natural resources stocks were another bright spot, gaining 8.0% during the quarter. Rising energy prices helped that part of the market, although they also renewed concerns about inflation. It was a reminder that the same development can benefit some investments while creating challenges for others.

The more consequential change for many portfolios came from interest rates. The 10-year U.S. Treasury yield rose from 4.44% at the start of the quarter to 5.29% at its end. Because bond prices generally fall when yields rise, the broad U.S. bond market declined about 3.5% during the quarter. Higher rates also made borrowing more expensive for businesses and put pressure on parts of the stock market outside the largest companies.

Several forces contributed to the rise in yields. Conflict involving Iran pushed oil prices higher and renewed concern about inflation. The Federal Reserve raised its benchmark interest rate by a quarter percentage point in September. Resilient economic growth and questions about federal borrowing also weighed on the bond market. We cannot know which of these pressures will persist, so I would be cautious about making investment decisions that depend on rates moving quickly in either direction.

There is a constructive side to higher yields: bonds purchased today offer more income than they did when rates were lower. At the same time, strong earnings expectations give stocks a reason to advance if companies deliver on them. AI may create substantial opportunities, but its benefits and investment returns are unlikely to be shared equally among the companies building it and those using it.

What does this mean for your plan? I believe in keeping an appropriate balance between income and long-term growth, with investments chosen for the role they play in your financial plan. Periods like this are a useful reminder that a headline market index may look calm even when conditions beneath it are changing. We will continue to review your holdings, income needs, and risk exposure as those conditions evolve.

As always, please reach out if a change in your circumstances warrants a conversation

Sources:

1. TOPS, *Third Quarter 2026 Market Commentary*
2. U.S. Treasury, Daily Treasury Rates
3. Federal Reserve, September 16, 2026 FOMC statement

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