



Fourth Quarter 2026 Review and Outlook

Data Points

Stock Market Data @ 9.30.26

DOW Jones Industrial (DIA)	16.79%	3-year average annual return ¹
S&P500 Index (SPY)	22.76%	3-year average annual return ²
NASDAQ Composite (ONEQ)	27.54%	3-year average annual return ³
S&P Small Cap (IJR)	14.75%	3-year average annual return ⁴
MSCI EAFE (EFA)	18.32%	3-year average annual return ⁵

U.S. Market Valuation

S&P 500 Forward P/E Ratio	19.4x ⁶ (as of 8/31/26)
S&P 500 Forward P/E Ratio 30-YR average	17.2x ⁷ (as of 8/31/26)

Interest Rates, Bonds, Federal Reserve Data @ 9.30.26

U.S. Bond Market (AGG)	4.07%	3-year average annual return ⁸
3 Month U.S. Treasury Bill Yield		4.25% ⁹
10 Year U.S. Treasury Bond Yield		5.26% ¹⁰
U.S. Federal Reserve Effective Federal Funds Rate		3.75-4.00% ¹¹

Q3 2026 Review

We heard from a lot of you that you enjoyed the previous writing on the United States and the 250th Anniversary. There is plenty going on from an economic and financial point of view, so we are anxious to get back to our regular format.

Large cap U.S. stocks (i.e., the S&P 500) did post a small advance during the 3rd quarter but were mostly range bound. International stocks posted similar results. Given the backdrop of mid-term elections in the U.S., geopolitical conflict in Ukraine and Iran, and raising interest rates, and we will happily take a small advance in stock prices. Also, there is seasonal weakness in the U.S stock market as, statistically speaking, August and September are among the worst months for stocks.

Bonds did not fare as well in the 3rd quarter. The primary culprit was a rapid increase in interest rates. Remember—rising interest rates are bad for bond prices, while falling interest rates are good for bond prices. Since almost all the long-term return from bonds is from interest, this isn't specifically a paramount concern, but lower prices do reflect on people's monthly statement, so we are sensitive to that.

Most of the media attention is applied to the stock market, but prudent investors pay close attention to the bond market because it can send messages that should not be ignored. We are paying attention here.

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Economic & Market Outlook

Interest Rates & The Bond Market

The Federal Reserve Board increased interest rates at the September meeting—the Federal Open Market Committee voted 12-0 to lift rates by .25%. The primary reason cited is because inflation is still well above their target rate of 2%. Core PCE (the most cited inflation measure) was recently 3.4%. They also signaled another increase—we think it will likely be in December and another .25%.

In their view, the FED's primary job is to control inflation, and the U.S. economy is strong enough to withstand an increase. Historical rate hike cycles show mixed stock market performance, with moderate hikes providing the FED with some flexibility in the future.

Folks are aware of higher interest rates. Mortgage rates are higher, car loans get more expensive, and the cost of lending to businesses goes up. It can end up being a drag on the economy for sure.

What's going on here?

First, a history lesson is in order. Remember the lead up to inflation peaking at 9%+ in 2022 when both former FED chair Powell and former Treasury Secretary Yellen said that inflation was “transitory”? It turns out there are implications for printing trillions of dollars to increase the M2 money supply. We wrote about it at the time. We were not fans of those two at the time and our opinion hasn't changed.

We will likely write extensively in the future about the national debt and excessive spending by the federal government, but we jumped off a fiscal cliff in the aftermath of COVID under the guise of recovery spending. We think the biggest long-term driver of higher inflation and, therefore higher interest rates as they go hand in hand, is excessive U.S. government spending and our national debt.

Inflation was moving lower last year and early this year when the Iranian conflict started. We don't have a problem with the conflict itself in that we can't allow the Iranians to have a nuclear weapon. Every president, both Republicans and Democrats, since Reagan have said that. Of course, the short term result of the conflict is higher oil prices which cause inflation to tick higher.

We tend to think the Iranian conflict will conclude after the midterm elections with the result being an open Strait of Hormuz and a moderating of oil prices. If that happens, we expect inflation to trend lower into 2027 and that would potentially allow the FED to decrease interest rates.

We are sensitive to folks seeing bond prices go down. However, we like to again remind bond investors that almost all the long-term return from bonds is from interest. We have faith long-term in the bond market as it is vital to the operation of our financial system. If interest rates decline in 2027, bond investors will be rewarded with higher prices. We will be watching this closely.

Mid-Terms & Geopolitical Risk

Obviously, the two main geopolitical events to watch are the mid-term elections and the ongoing Iranian Conflict. If history is any indication, we would expect the Republicans to lose Congressional seats in November—the party not in control of the White House almost always gains seats in the House in the mid-terms.¹² We tend to think the Senate is likely to remain in Republican hands but will be extremely tight whichever side wins. In other words, no matter which way it turns out, we don't expect either side to have control by very much. Gridlock anyone?

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How do financial markets perform with split control in D.C. and how have markets done historically after mid-term elections? First, from a long-term perspective, using elections as a primary guiding force to investment decisions is a losing proposition. In fact, the average annual S&P 500 difference between a split Congress vs. a unified Congress is only about 2% with both historical averages very much in line with long-term trends.¹³

Second, it is well known that mid-term election years often produce elevated levels of market volatility and below average returns. For this year, volatility has been elevated at times, but returns have been good at 13.02% through the end of September on the S&P500 index. Since 1950, market performance after the mid-term has, on average, exceeded the long-term averages.¹⁴ In short, we don't expect much fallout after the mid-terms regardless of who wins.

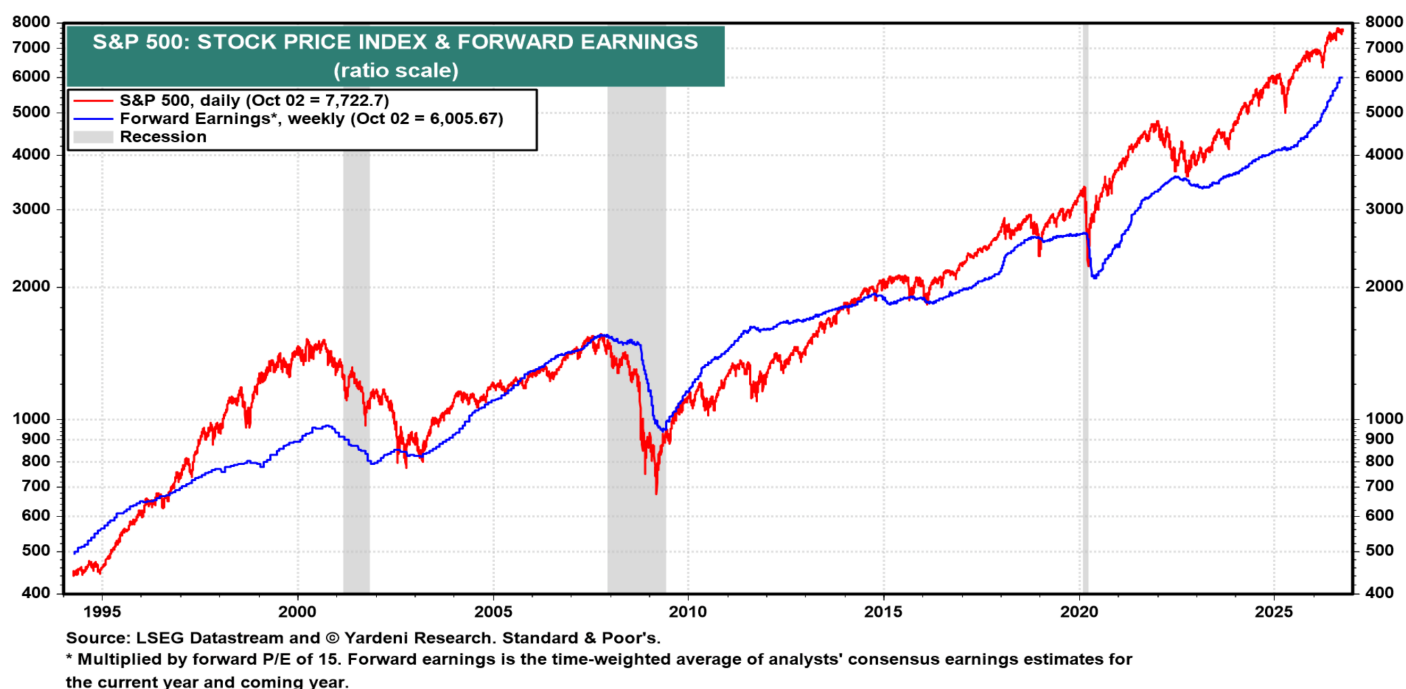
We have already mentioned the Iranian conflicts impact on inflation. We don't have a perfect crystal ball to know when that will end and where oil prices go from here. We do believe there is a role the media is playing in terms of how oil prices and inflation are being perceived. West Texas Intermediate (WTI) has traded above \$100 per barrel for a total of 31 days this year as of this writing. Almost all of that can be attributed to the Iranian conflict. It may surprise you to know what in 2022, WTI traded above \$100 per barrel for a total of 87 days. This is hardly noticed by the media. In no way are we diminishing high gas prices drag on folk's pocketbook. Rather, we are trying to add some historical perspective.

If we are right in our previous speculation that the conflict could come to an end after the mid-terms, we should see a moderation of oil prices. We will be watching this, and the potential for fallout, very carefully in the coming months.

U.S. Stock Market & Economy

The U.S. stock market faces headwinds that include inflation, interest rates, and geopolitical risk. Despite that, underlying strength in the economy to include strong corporate earnings growth supports a bullish outlook.

There is a strong correlation between corporate earnings (profits) and stock prices. If earnings are going up, the stock market tends to go up. The chart from Yardeni shows S&P500 earnings compared to the value of the S&P500 index. As you can see, the market tends to do well when earnings are rising.



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The biggest factor behind the surge in current earnings growth is the unprecedented Artificial Intelligence (AI) infrastructure buildout. It is among the biggest rollouts in history, far exceeding the telecom buildout of 1996 to 2003 and the railroad construction of 1870 to 1890. Even more compelling is the fact that all the evidence says we are still early in the AI infrastructure buildout.

According to Columbia professor Stijn Nieuwerburgh, railroad spending was an average of 2.24% of GDP between 1870 and 1890 and telecom was 1.1% of GDP between 1996 to 2003. Average annual AI infrastructure spending as a percentage of GDP is projected to be 3.63% between 2025 and 2032. Considering GDP in 2025 was \$30 trillion, that is approximately \$1 trillion plus in spending each year between now and 2032.

Do you get it now?

In September, 2nd Quarter GDP data was revised up 0.7% to 2.2%.¹⁵ Current projections are that 3rd Quarter GDP growth will be 3.7%.¹⁶ These are not recessionary numbers. U.S. growth is impressively outpacing other developed nations. 2026 GDP growth in Canada is projected to be 1.5%. The U.K. and Germany are at .8%. Japan is at .7%.

There should be no mistake in understanding the fact that the U.S. leads the world in technology and, therefore, GDP growth. Believe it or not, the U.S. has lower regulatory barriers and a lower tax burden when compared to the rest of the developed world. That's why Microsoft, Google, Nvidia, and Amazon are all in the U.S. and not somewhere else. Our markets are "freer" and have less bureaucratic interference when compared to others. This is the single best argument we can make about embracing capitalism and moving away from socialism.

The U.S. labor market is also defying expectations. The latest jobs report released in early September showed the economy added 162,000 jobs in August. This was three times higher than consensus estimates. A healthy labor market is important because people with jobs bring additional income into the economy. The most recently published unemployment rate is 4.1%. Economists consider this to be "full employment"—in other words, everyone who wants a job has one.

So, all this good news must mean that stocks are expensive, right? Well, not so fast. If we consider market valuation levels over the last 5, 10 and 30 years, the data suggests that while the S&P 500 isn't cheap, it is not super expensive either.¹⁷¹⁸ As previously noted, the forward P/E is currently at 19.4 while the 30 year average has been 17.2.

All this taken together provides us with a degree of confidence that markets still have the capacity to move higher in the short to medium term. Should a correction occur, we would likely consider that a buying opportunity.

Final Thoughts

When we think of the stock market we think of a giant game of tug of war. Will the Bulls out pull the Bears? As you can tell, we tend to think the Bulls will win over the short to medium term.

There are several things in the economy and stock market that warrant concern. As the old saying goes, there is a wall of worry for the stock market to climb. Additionally, it is important to remember that the stock market doesn't move in a straight line. There are declines, valleys, increases, and peaks in every cycle. We think Warren Buffett was right when he said, "the stock market is a mechanism for transferring wealth from the impatient to the patient".¹⁹ We encourage folks to be patient, ignore the hysteria and hype, and to focus on their own unique goals and situation.

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Many of you have been very kind to send family, friends, and colleagues our way for advice and consultation. We appreciate your trust and confidence. We are always looking to expand and grow our business, so we welcome those introductions.

We hope that you have a wonderful end to 2026!

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and there is no guarantee of future results. All indices are unmanaged and may not be invested into directly. The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Stock investing includes risks, including fluctuating prices and loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

¹ <https://www.morningstar.com/etfs/arcx/dia/performance> The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

² <https://www.morningstar.com/etfs/arcx/spy/performance> The S&P500 is comprised of 500 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

³ <https://www.morningstar.com/etfs/xnas/oneq/performance> The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indexes are unmanaged and cannot be invested in directly.

⁴ <https://www.morningstar.com/etfs/arcx/ijr/performance> The S&P Small Cap 600 Index is an unmanaged index generally representative of the market for the stocks of small capitalization U.S. companies. Indexes are unmanaged and cannot be invested in directly.

⁵ <https://www.morningstar.com/etfs/arcx/efa/performance> The MSCI EAFE Index is an unmanaged index generally representative of the market for the stocks of international companies. Indexes are unmanaged and cannot be invested in directly.

⁶ Global Market Insights Strategy Team. "Market Insights: Guide to the Markets®". J.P. Morgan Asset Management. Page 5. August 31, 2026.

⁷ Ibid.

⁸ <https://www.morningstar.com/etfs/arcx/agg/performance> The Bloomberg U.S. Aggregate Bond Index is an unmanaged index generally representative of the market for the fixed income securities in the U.S. Indexes are unmanaged and cannot be invested in directly.

⁹ https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=202609

¹⁰ Ibid.

¹¹ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

¹² "The President's Party Typically Loses Seats in Congress-and Market Know It". Guide to Midterm Elections. The Capital Group. Page 3. 2026.

¹³ "Control of Congress Has Had Little Impact on Investment Returns". Guide to Midterm Elections. The Capital Group. Page 7. 2026.

¹⁴ "Markets Usually Bounced Back Strongly After Elections". Guide to Midterm Elections. The Capital Group. Page 6. 2026.

¹⁵ <https://www.bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-2nd>

¹⁶ <https://www.atlantafed.org/research-and-data/data/gdpnow>

¹⁷ Global Market Insights Strategy Team. "Market Insights: Guide to the Markets®". J.P. Morgan Asset Management. Page 5. August 31, 2026.

¹⁸ Butters, John. "Earnings Insight". FactSet Research Systems, Inc. Page 32. September 25, 2026.

¹⁹ <https://www.forbes.com/sites/johnbuckingham/2024/09/26/warren-buffett-has-it-righttime-in-the-market-trumps-market-timing/>