

Market Review & Outlook

October 2026

Last Wednesday closed the books on an extraordinary quarter. A 40% rebound in Brent crude oil, record-high diesel prices, bond yields at 20-year highs and ongoing concerns about a potential AI bubble gave investors no shortage of reasons to retrench. Nonetheless, global stocks were able to navigate that wall of worry and reach fresh record highs during the quarter. Stocks weren't exactly booming – the S&P 500 rose only 2.3% – but considering the dismal backdrop and coming on the heels of a strong second quarter, that's not too shabby. It was

more than a quarter have dropped 10% or more, and small-cap stocks declined sharply during the quarter. According to Goldman Sachs, early 2000 and January 1973 are the only other times market breadth has been as narrow as it has been over the past month. While history never repeats exactly, periods of unusually narrow leadership can make the market more vulnerable if expectations for the largest companies weaken or if financial conditions tighten further.

The outlook is further complicated by the ongoing wars in Ukraine and especially the Middle East, which continue to pressure the oil and refined product markets. At the beginning of the year, the Consumer Price Index (CPI) was 2.4% and falling, and the Fed was expected to cut rates two or three times. Instead, with August CPI at 3.4% for the second consecutive month, the Fed raised its target range by 25 basis points to 3.75%–4.00% in September, and futures-market

pricing at quarter-end implied a roughly 80% chance of another hike before year-end.

The combination of higher oil prices, solid growth, and rising rate expectations has driven a sharp rise in interest rates not only here but in Europe and Japan. Energy-price shocks complicate monetary policy because they can lift inflation while restraining real activity. Even so, the economy appears to be gaining strength: second-quarter GDP was revised up to 2.2% from 1.5%, and Treasury and global government bond yields reached multi-decade highs after

Index	Sept. 2026	3rd Qtr. Perf.	Year to Date	One Year Perf.	Description (what the index is comprised of)
S&P 500	-0.35%	2.30%	12.75%	15.74%	Large Cap US Stocks
DJ Industrial Average	-4.12%	-2.34%	7.19%	11.50%	Large Cap US Stocks
Nasdaq Composite	1.93%	2.61%	16.09%	19.25%	Large & Midcap US Tech Stocks
Russell 1000 Growth	2.16%	0.92%	6.30%	7.50%	Large Cap US Growth Stocks
Russell 1000 Value	-3.13%	2.61%	19.27%	23.81%	Large Cap US Value Stocks
Russell 2000 Growth	-5.31%	-9.39%	10.71%	12.05%	Small Cap US Growth Stocks
Russell 2000 Value	-5.20%	-4.91%	16.96%	20.77%	Small Cap US Value Stocks
MSCI EAFE	-3.05%	0.81%	10.33%	15.69%	Foreign Developed Market Stocks
MSCI Emerging Markets	-0.56%	-0.37%	23.38%	29.22%	Emerging Markets Stocks
S&P US High Yield Corporate Bd	-2.36%	-1.80%	0.16%	1.40%	US High Yield Corporate Bonds
Bloomberg US Aggregate Bond Index	-2.61%	-3.51%	-2.91%	-1.84%	US Treasuries, mortgage-backed, investment grade corporate bonds

only in August that the S&P 500 and MSCI All Country World Index reached new highs, and the tech-heavy Nasdaq hit a new high just last week. For a more detailed look at how various asset classes performed over the past year, please refer to the table above.

Second-quarter earnings, reported throughout the third quarter, rose a stunning 53.7% year over year, the strongest growth since 2021, and helped support the market's resilience. Below the surface, however, conditions are murkier. More than 40% of S&P 500 constituents are down for the year,

Market Review & Outlook

October 2026

reports showed US and European business activity accelerating at the fastest pace in years, with input prices still rising.

Rates, inflation, and the economy

Higher rates affect the economy gradually, raising borrowing costs for mortgages, autos, credit cards, business investment, and corporate refinancing. Companies with heavy debt or near-term refinancing needs, along with small caps, commercial real estate, and housing-related industries, are generally most exposed. The Fed's challenge is that inflation has proven sticky while growth remains resilient: its September projections showed 2026 PCE inflation of 3.7% and core PCE of 3.4%, well above its 2% target, leaving little room to ease if growth slows. If long-term yields keep rising because investors demand more compensation for inflation, deficits, and heavy Treasury issuance, rather than because of stronger growth, the implications for both bonds and stocks become more challenging.

The midterm-election backdrop

The November 3 midterms, in which all 435 House seats and 35 Senate seats are contested, add another source of potential volatility. Markets tend to focus less on the result than on their policy implications for taxes, spending, tariffs, regulation, and energy. Divided government could reduce the odds of sweeping legislative change, but it could also bring contentious budget negotiations and shutdown or debt-limit threats. Historically, growth, inflation, earnings, and interest rates have mattered more to long-term returns than which party controls Washington, so we would caution against making broad portfolio changes based on political forecasts.

The outlook for stocks

We remain cautiously constructive, though the outlook is more conditional than earlier

in the year. Higher rates can compress valuation multiples, especially for companies whose profits lie further in the future, and they make high-quality bonds more competitive with stocks. Still, higher rates do not automatically produce a bear market; equities can continue to advance if growth and earnings hold up. The key question is whether rising yields reflect a healthy economy or a growing headwind from persistent inflation and tighter financial conditions.

Investors should be prepared for more uneven returns and periods of elevated volatility. Higher bond yields now offer more meaningful income and ballast, and diversification across equity styles, market capitalizations, geographies, and fixed-income sectors remains prudent while leadership is narrow and policy uncertainty is elevated. We will continue to monitor inflation, long-term rates, credit conditions, and earnings. In this environment, discipline, diversification, and realistic return expectations are likely to matter more than they have in some time.

Investing involves the risk of loss that clients should be prepared to bear. If you have a general administrative question about your account, please contact our customer service at 800-535-4253 option 1. If you would like to set up an investment consultation, please contact our customer service line or send us an email at advisors@wespac.net. We would be happy to schedule a call or Zoom meeting to discuss your portfolio.