Market Commentary

As of September 30, 2026

Economy & Market Review

Third Quarter 2026

Market Themes - Fundamentals Remain Supportive

The economic backdrop remains robust as GDP growth for Q2 2026 was revised higher to 2.2%. Much of the strength can be attributed to capex and other AI related spending, but consumer spending also remains strong, supported in large part by a stable labor market. Despite large debt issuance, corporate fundamentals remain strong as profit margins and earnings are at record levels, while leverage remains manageable.

Midterms Bring Volatility but Potential Positive Results

Investors dislike uncertainty. Notably, the anticipation of uncertainty leading into an election can create volatility and cloud the air of whatever else is driving markets. The flip side is that the eventual election results bring clarity that has historically supported market performance. Since 1934, the 12 months following every midterm (all 23) have been positive for U.S. equities, with an average return of 21%.

Return Expectations for Fixed Income are Higher

Bond markets experienced extreme interest rate moves during the third quarter, against a backdrop of sticky inflation, resilient economic growth, government deficit concerns, and shifting monetary policy expectations. The 10-year Treasury yield reached the highest level in over 20 years and now sits closer to the long-term average after decades of low interest rates. While price movement has been painful in the near-term, current starting yields, a reasonably strong indicator of future fixed income performance, put the long-term outlook for fixed income returns at a favorable level.

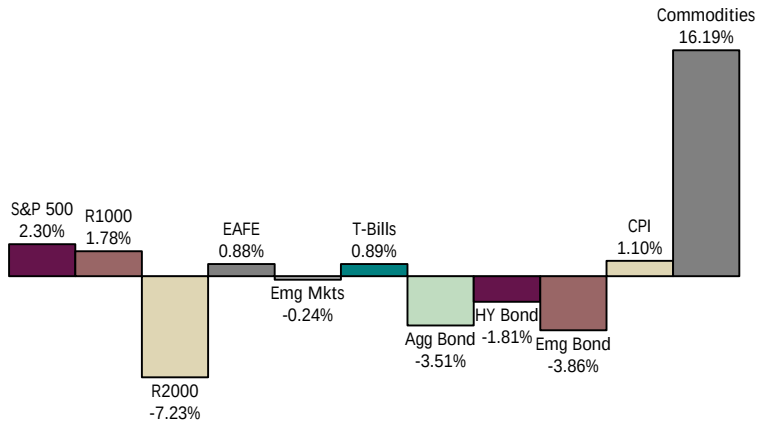
The Coupon Cushion is Supportive

The Federal Reserve hiked interest rates in September, the first time since 2023. With higher yields, the risk/reward trade off in fixed income is skewed positive. Due to the increased cushion from income, the Bloomberg Agg can withstand an approximately 100 basis point move higher in rates and still “break even” over a 12-month period. For context, this cushion was only ~25 basis points at the start of 2022. Conversely, there is meaningful upside potential if rates move lower from here.

Global Market Performance

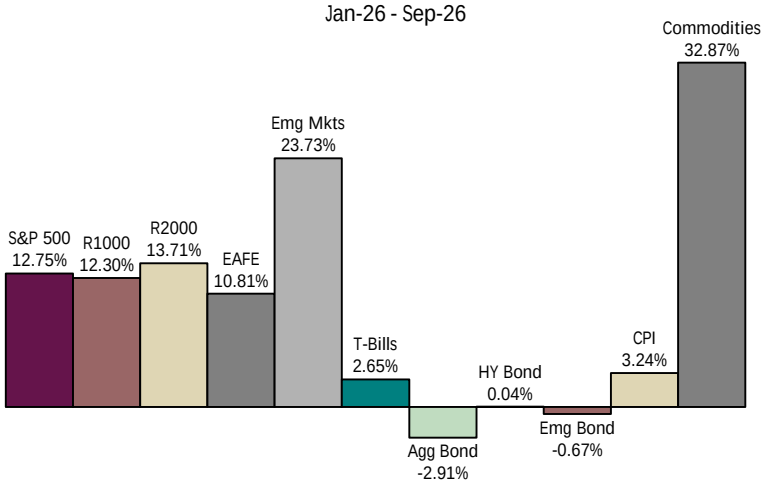
Quarter Performance

Jul-26 - Sep-26



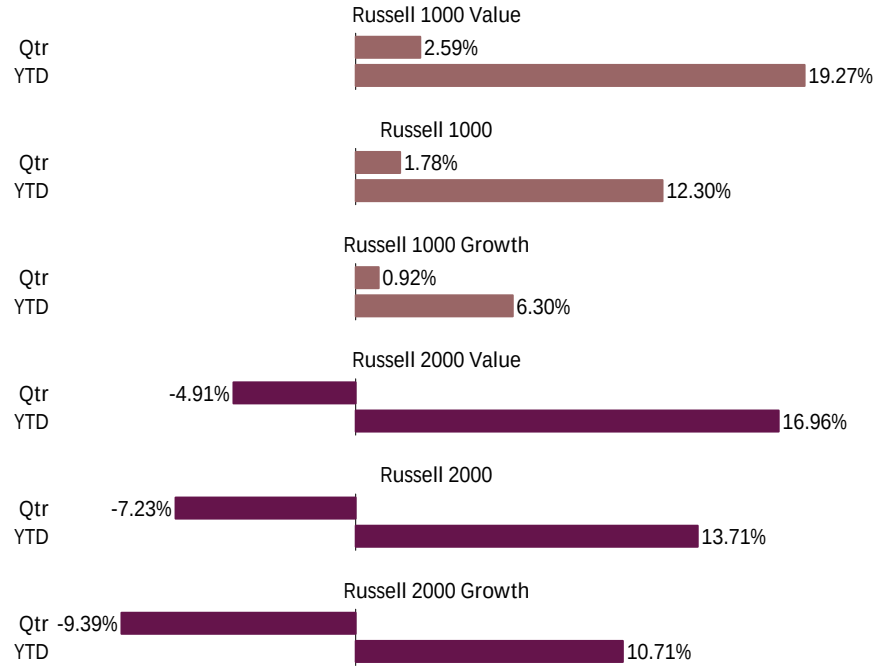
Year to Date Performance

Jan-26 - Sep-26



U.S. Equity Markets

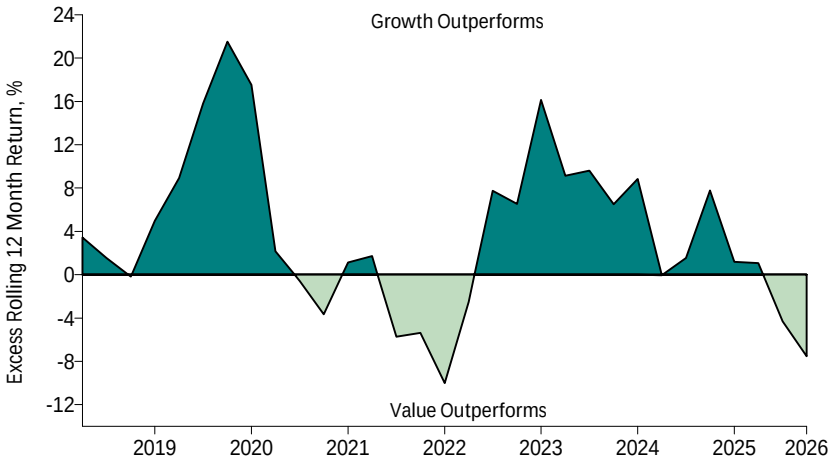
U.S. Equity Style Performance



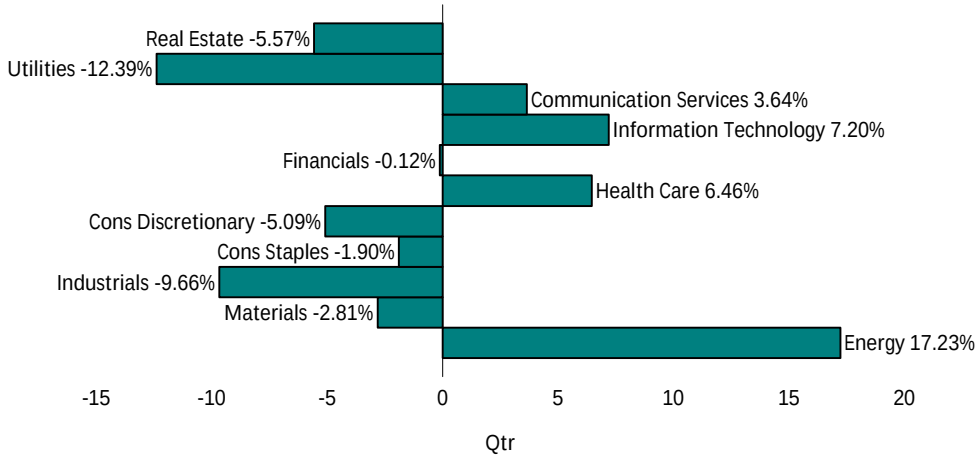
U.S. equities, as marked by the S&P 500, produced a modest gain in the third quarter. Corporate fundamentals remain resilient, helping to provide a solid foundation for the space. Earnings growth and AI related technology were key drivers. Microsoft rose over 30% during the quarter, while Apple, NVIDIA and Meta also produced double digit gains. The energy sector rose over 15%, buoyed by higher oil prices. More interest rate sensitive areas of the market, such as utilities and real estate, declined during the quarter as interest rates jumped higher.

U.S. large cap held up reasonably well amidst the volatility, supported by AI related earnings strength. However, small-cap U.S. was negatively impacted by the shift higher in interest rates. Performance varied considerably by investment style. Russell 1000 Value rose 2.59%, outperforming Russell 1000 Growth, which gained 0.92%. Small-cap stocks struggled across styles, with Russell 2000 Value falling 4.91% and Russell 2000 Growth dropping 9.39%. Concerns over elevated technology valuations, Middle East tensions, and uncertainty surrounding monetary policy remain.

Growth Relative to Value (Russell 1000)

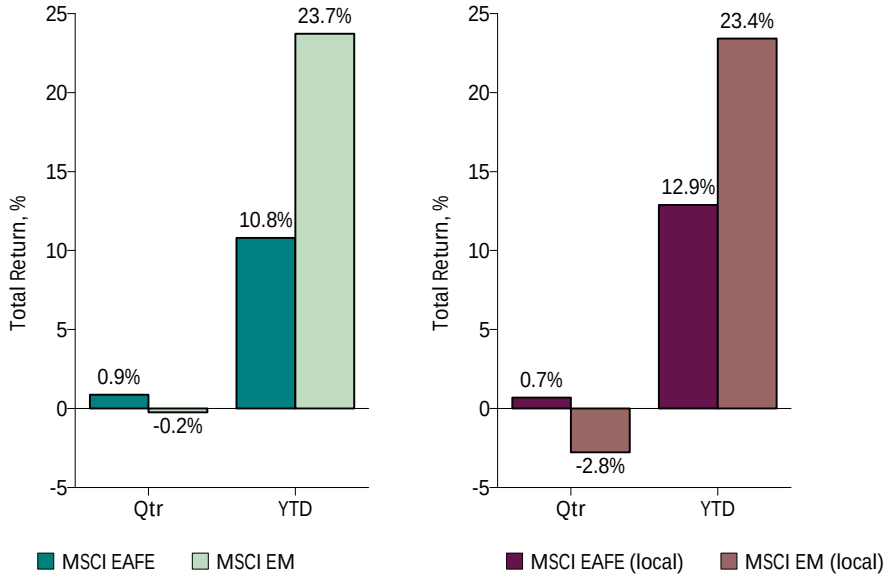


U.S. Equity Sector Performance (S&P 500)



International Equity Markets

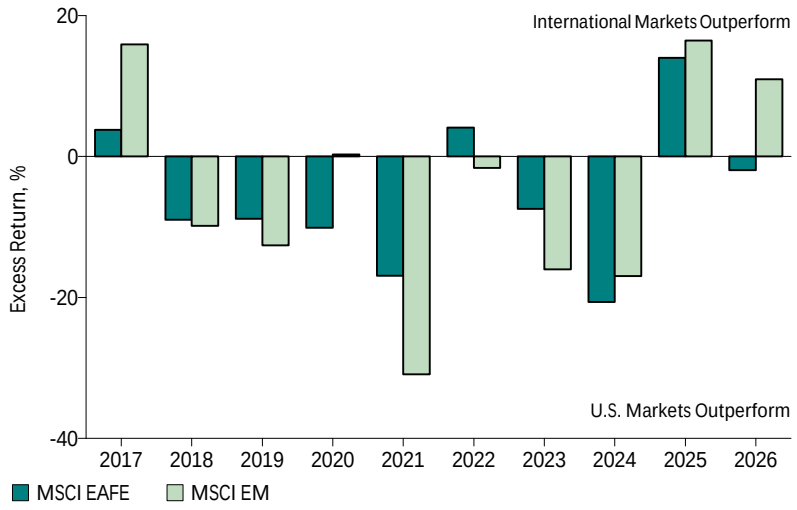
Non-U.S. Equity Performance



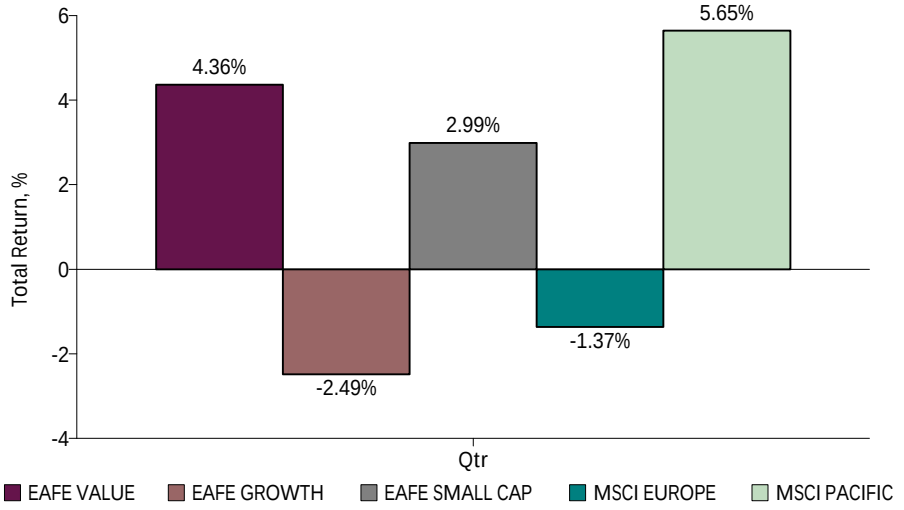
Non-U.S. markets were mixed, generating essentially flat returns for the period. Developed markets were modestly positive while weakness in South Korea was a headwind for emerging markets. Weakness in South Korea was mainly due to the AI chip trade pause following strength earlier in the year. Abroad, small cap was more resilient than the U.S., and value outpaced growth. International developed saw modest gains, while emerging markets slightly declined.

The MSCI EAFE Index (developed) gained 0.9%, while the MSCI Emerging Markets Index declined 0.2%. In local currency terms, EAFE rose 0.7%, whereas emerging markets fell 2.8%, reflecting the impact of currency movements on reported returns. Regional and style performance varied as MSCI Pacific led with a 5.65% gain, followed by EAFE Value at 4.36% and EAFE Small Cap at 2.99%. EAFE Growth declined 2.49%, while MSCI Europe fell 1.37%.

Non-U.S. Equity Returns Relative to U.S. (S&P 500)

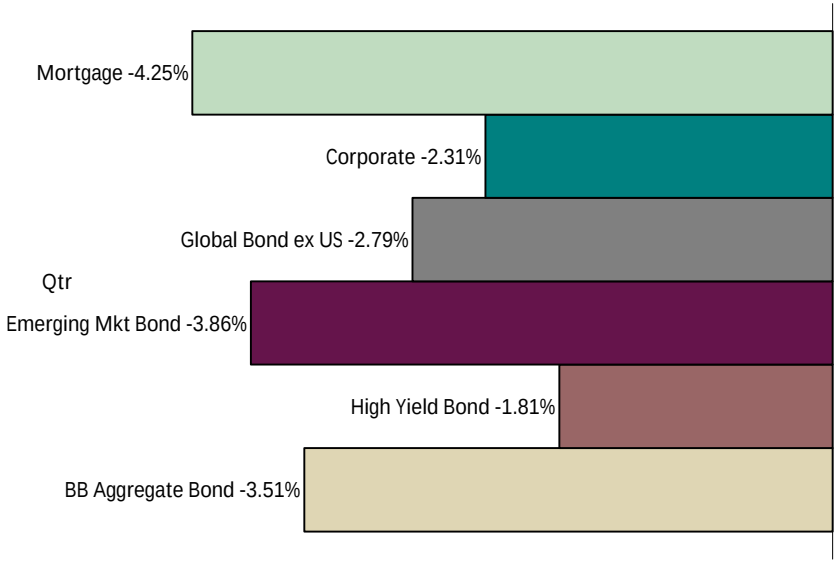


Style and Regional Non-U.S. Equity Performance



Fixed-Income Markets

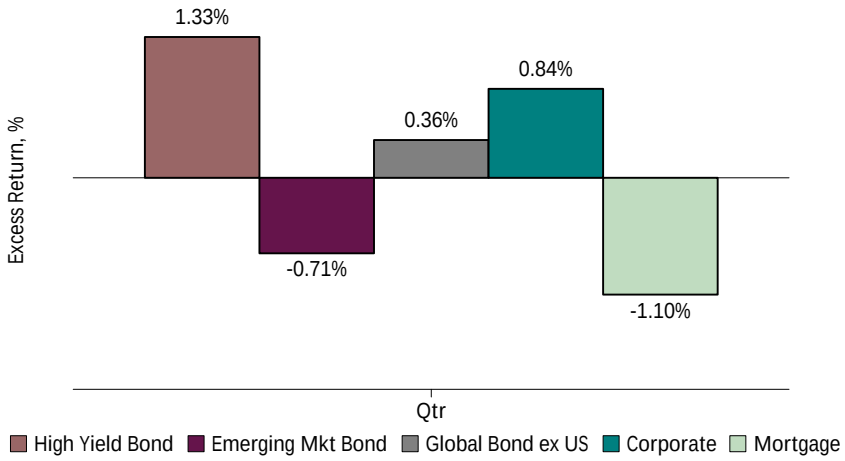
Fixed Income Performance



Fixed income markets struggled as interest rates moved sharply higher during the quarter. The Bloomberg Aggregate Bond Index experienced one of its worst quarterly returns in quite some time. Rates jumped during the third quarter and the U.S. Treasury curve steepened. The Fed hiked rates in September, putting upward pressure on the short end of the curve. While long-end rates moved higher as investors digested several economic crosscurrents including favorable economic growth, government debt levels, and sticky inflation. Long-dated rates experienced a meaningful move higher during the quarter, nearing multi-decade highs. This was a significant headwind for long duration bonds.

Risk-off sentiment late in the quarter pushed corporate credit spreads wider. Lower quality segments were more impacted than higher quality areas of the market as rising rates increased concerns about the potential impact on future borrowing costs. Corporate high yield fell modestly during the quarter as spreads widened and concerns of rising borrowing costs weighed on lower quality bonds.

Excess Performance to Treasuries



Yield Curve

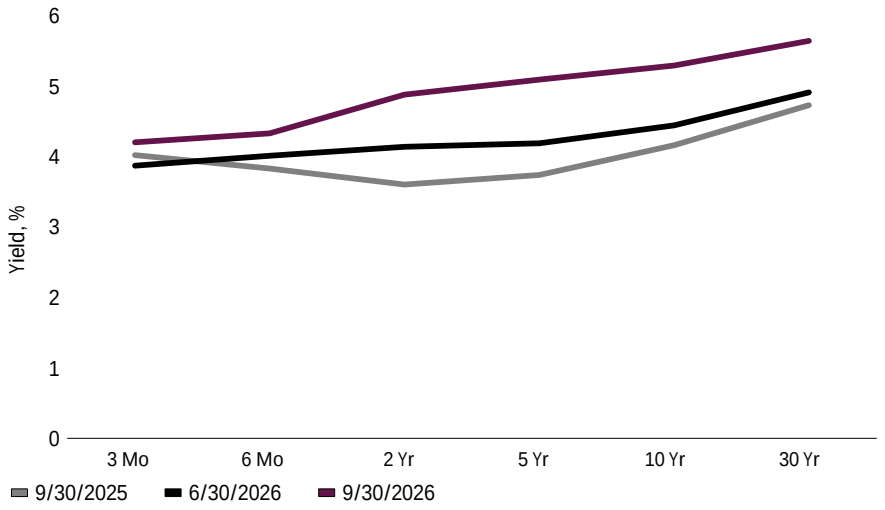


Chart of the Quarter

Post Reconstitution, Technology Cropping Up in Value Indices

Source: Wealthspire Advisors LLC

Technology now makes up 22% of the Russell 1000 Value Index, with Apple and Microsoft accounting for roughly half of that exposure. Recent index reconstitutions reflect evolving markets amid the rapid emergence of artificial intelligence and its potential impact on the market landscape. Businesses that were once growth compounders may face new pressures as competitors emerge.

Periodic Table of Investment Returns

Axia Advisory

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	3Q26 YTD	Annualized Return
Small Cap Stocks 21.31%	Emerging Mkt Stocks 37.75%	Real Estate 8.35%	Large Cap Stocks 31.43%	Gold 24.61%	Commodities 27.11%	Commodities 16.09%	Large Cap Stocks 26.53%	Gold 25.53%	Gold 67.41%	Commodities 32.87%	8.14
High Yield 17.49%	International Stocks 27.77%	3-month T-Bills 1.87%	Small Cap Stocks 25.52%	Large Cap Stocks 20.96%	Large Cap Stocks 26.45%	Real Estate 7.45%	Small Cap Stocks 16.93%	Large Cap Stocks 24.51%	Emerging Mkt Stocks 34.36%	Emerging Mkt Stocks 23.73%	10.38
Large Cap Stocks 12.05%	Large Cap Stocks 21.69%	US Bonds 0.01%	International Stocks 22.13%	Small Cap Stocks 19.96%	Real Estate 22.18%	3-month T-Bills 1.46%	International Stocks 16.21%	Small Cap Stocks 11.54%	International Stocks 33.11%	International Stocks 14.66%	9.69
Commodities 11.77%	Small Cap Stocks 14.65%	Commodities (11.25)%	Emerging Mkt Stocks 18.90%	Emerging Mkt Stocks 18.69%	Small Cap Stocks 14.82%	Gold 0.44%	Gold 14.59%	High Yield 8.20%	Large Cap Stocks 17.37%	Small Cap Stocks 13.71%	10.23
Emerging Mkt Stocks 11.60%	Gold 12.66%	Small Cap Stocks (11.01)%	Gold 18.43%	60/40 Blended Index 12.24%	60/40 Blended Index 10.05%	High Yield (11.22)%	High Yield 13.46%	Emerging Mkt Stocks 8.05%	Commodities 15.77%	Large Cap Stocks 12.30%	14.74
Real Estate 8.76%	60/40 Blended Index 12.07%	Large Cap Stocks (4.78)%	60/40 Blended Index 16.47%	International Stocks 11.13%	International Stocks 8.29%	60/40 Blended Index (11.35)%	60/40 Blended Index 13.42%	International Stocks 6.09%	Small Cap Stocks 12.81%	60/40 Blended Index 6.79%	7.71
Gold 8.10%	Intl/EM Bonds 10.41%	60/40 Blended Index (3.71)%	High Yield 14.41%	Intl/EM Bonds 7.90%	High Yield 5.36%	US Bonds (13.01)%	Emerging Mkt Stocks 10.27%	Commodities 5.38%	60/40 Blended Index 12.68%	Real Estate 4.52%	4.88
60/40 Blended Index 7.85%	Real Estate 7.62%	Intl/EM Bonds (3.17)%	Intl/EM Bonds 9.98%	US Bonds 7.51%	3-month T-Bills 0.05%	International Stocks (15.57)%	Intl/EM Bonds 8.40%	3-month T-Bills 5.25%	Intl/EM Bonds 11.62%	3-month T-Bills 2.65%	2.27
Intl/EM Bonds 5.77%	High Yield 7.48%	High Yield (2.26)%	US Bonds 8.72%	High Yield 6.17%	Gold (4.33)%	Intl/EM Bonds (18.17)%	US Bonds 5.53%	US Bonds 1.25%	High Yield 8.50%	High Yield 0.04%	5.99
International Stocks 5.01%	US Bonds 3.54%	Gold (0.93)%	Commodities 7.69%	Real Estate 1.18%	Intl/EM Bonds (4.44)%	Large Cap Stocks (19.13)%	3-month T-Bills 5.01%	Intl/EM Bonds 1.04%	3-month T-Bills 4.18%	Intl/EM Bonds (1.59)%	2.19
US Bonds 2.65%	Commodities 1.70%	Emerging Mkt Stocks (14.25)%	Real Estate 5.34%	3-month T-Bills 0.67%	Emerging Mkt Stocks (2.22)%	Emerging Mkt Stocks (19.74)%	Real Estate (12.02)%	Real Estate (1.44)%	Real Estate 3.77%	US Bonds (2.91)%	1.59
3-month T-Bills 0.33%	3-month T-Bills 0.86%	International Stocks (13.78)%	3-month T-Bills 2.28%	Commodities (3.12)%	US Bonds (1.54)%	Small Cap Stocks (20.44)%	Commodities (7.91)%	Real Estate (1.44)%	3-month T-Bills 4.18%	Gold (-4.38)%	13.60