Market Commentary
Third Quarter 2026

RPA
RETIREMENT PLAN ADVISORS
THE FUTURE IS BETTER THAN YOU THINK

MARKET SNAPSHOT

The U.S. economy remains resilient, with stronger-than-expected GDP growth, solid employment data, and continued investment-driven expansion.

The Federal Reserve resumed rate hikes, signaling that inflation remains a priority and that interest rates may stay higher for longer than many investors anticipated.

Long-term Treasury yields surged to multi-decade highs, reflecting strong economic growth, persistent inflation concerns, and increasing government and corporate borrowing needs.

Artificial intelligence remains a powerful market driver, with technology stocks rebounding sharply after a mid-quarter correction and earnings growth continuing to exceed expectations.

Investors should adhere to long-term investing principles such as diversification and not attempt to time the market.

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Market Recap

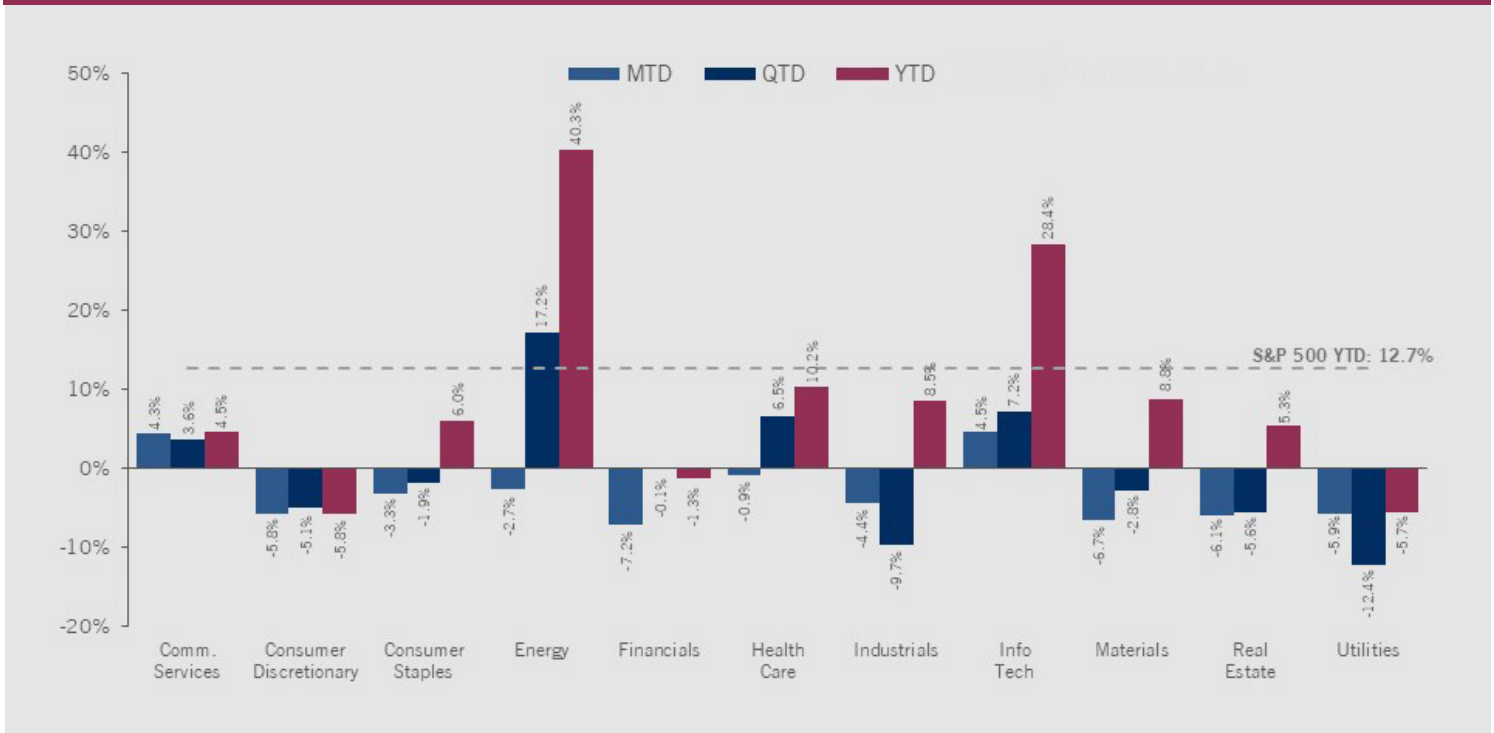
On the surface, the third quarter looks unremarkable. The S&P 500 returned 2.3% and is 12.7% higher for the year, closing the quarter at 7,652 with record highs set along the way. Beneath that modest move, however, was a bond market that took over the narrative. The Federal Reserve raised interest rates for the first time in more than three years, long-term Treasury yields pushed to levels last seen two decades ago, and oil rose by more than a third as the war with Iran reignited. The artificial intelligence trade completed a full round trip.

The quarter's internal story was one of divergence. The Nasdaq Composite gained 2.6% and set a record above 27,244 in late September. The Dow Jones Industrial Average, by contrast, fell 2.3%, and the Russell 2000 Index fell 7.2%. International equity markets fared worse in large part thanks to a stronger dollar. European equities fell 1.6% in U.S. dollar terms and emerging-market stocks dropped 0.4%. Japan was the top-performing major market with a return of nearly 6% in dollar terms, much of it attributable to the yen rallying against the dollar.

Sector returns paint an interesting story. As yields surged in September, the financial sector fell more than 7%, its worst month since early 2023, while energy rode the oil shock higher over the quarter and technology benefited from AI optimism. The market began the year broadening out but spent much of the third quarter re-concentrating. The market-cap-weighted S&P 500 was flat in September whereas the equal-weighted version fell 4.8%, and the former is now ahead of its equal-weighted counterpart for the year. Just two of the 11 sectors have year-to-date returns higher than the S&P 500's 12.7%.

The U.S. economy continues to grow and outpace expectations. The labor market stumbled over the summer, with a combined 52,000 jobs added in June and July, but August saw payrolls rebound by 162,000 against expectations of roughly 55,000, while the unemployment rate held at 4.1%. Growth was revised higher for the second quarter, to 2.2% from 1.5%, and for the first quarter, to 2.5% from 2.1%. The economy is being powered in no small part by the largest capital-spending boom in modern history. That resilience is welcome news for earnings, but it is considerably more complicated for the direction of interest rates.

S&P 500 Sector Returns



Source: Morningstar Direct. Data as of 9/30/2026.

The AI trade traveled a real arc this quarter, from unraveling in July to a sharp revival in September. A crowded, leveraged position held by a well-known AI hedge fund triggered a sharp drawdown in July as small losses cascaded, and investors who had spent years rewarding ever-larger capital-spending commitments abruptly began punishing them. Alphabet fell more than 7% on results that beat expectations because its capex guidance jumped, and Meta was treated similarly. Technology stocks slid into their second correction of the year. But once positions were reset, the sector climbed 16.2% from its late-July low into quarter-end and is now up 28.4% for the year, behind only energy.

NVIDIA's late-August results reminded investors of just how significant the current spending is. The company reported revenue of $96 billion, up 106% from a year earlier, with guidance well above expectations, and its nearly 9% surge pulled the entire complex higher despite rising long-term rates. Third-quarter earnings for the S&P 500 are expected to grow roughly 29%, a third consecutive quarter above 25%, led by technology and communication services. Technology earnings growth is expected to reach 65% according to FactSet, which leaves the sector's forward multiple below its five-year average.

Investment Outlook

On September 16, the Federal Open Market Committee raised the federal funds rate by a quarter point to a range of 3.75% to 4%. It was the first increase in more than three years, and it partially reverses the easing cycle of late 2025. Contrary to many expectations prior to his appointment, Fed Chair Kevin Warsh has taken a hawkish stance on inflation and has departed from the Trump administration's desire to lower rates. Hawkish projections appeared in June, the Committee split 9-3 in July with three dissents in favor of a hike, and at Jackson Hole in August Warsh declared bluntly that the Fed had work to do.

The vote deserves as much attention as the move. The September hike passed 12-0, a unanimous decision from a Committee that was fractured two months earlier, and over the explicit objections of the White House. Whatever one thinks of the policy, the

signal is clear: this Fed has united around the view that the inflation fight is unfinished. The projections sharpened the message. The median projection for the funds rate at year-end rose to 4.1%, implying at least one more hike at one of the two remaining meetings, and the 2027 median sits at the same level, pointing to rates that go up and stay higher rather than a quick round trip.

Fed Funds Target Rate vs. U.S. Treasury Yields

Source: Bloomberg LP. Data as of 9/30/2026.

The Fed delivered its most hawkish act in years into inflation data that promptly cooled, albeit partly because of methodology changes. The Bureau of Economic Analysis's annual revisions, released in September's final week, rewrote how several categories of services inflation are measured and applied the changes retroactively across five years. July's core PCE reading was revised to 3.0% from 3.3%, and August held at 3.0% compared to expectations above 3.3%, while headline inflation came in at 3.4%. Even the friendlier methodology leaves core inflation a full point above the 2% target, with services categories near 4%, and September's data will carry the surge in oil prices.

The bond market repriced at the long end. The 10-year Treasury yield ended the quarter at 5.29%, within sight of its 2007 highs, after rising more than half a percentage point in September alone. The 30-year closed at 5.63%, a level last seen in 2002, and a majority of respondents to a late-September Bloomberg survey expect it to trade above 6% before year-end. The curve bear-steepened over the quarter, with long-term yields rising more than short-term yields.

We are not convinced this is only about inflation. Long-term inflation expectations, measured by market break-evens, remain reasonably anchored, and the move has overwhelmingly been in real yields. The economy is simply running hotter than the consensus believed, with nominal growth around 7% and the major technology platforms deploying roughly $600 billion of capital spending this year, mostly on AI infrastructure. Supply is adding pressure as well. The federal deficit is running at around $2 trillion, slightly more than 6% of GDP, and the same AI buildout is increasingly financed in the bond market. According to BCA Research, AI-related debt now makes up more than 30% of net Treasury issuance. Every dollar absorbed by hyperscaler debt is a dollar not bidding for Treasuries, which should force yields higher to clear the market.

Closing Thoughts

The fourth quarter arrives with a full calendar. Third-quarter earnings season begins in mid-October against that 29% growth expectation. The Federal Reserve meets October 27-28, a week before the midterm elections on November 3, and again in early December. The continuing resolution that averted a government shutdown only funds the government through December 11.

On the Fed, the market has begun the quarter assuming an October rate pause is more likely than not and assuming a December hike as the base case. We generally agree with this, though feel the October meeting is a coin flip at this time. The softer late-September inflation data took some of the urgency out of an October hike, and the proximity of the midterms argues against politicizing any move. We would not expect a pivot to easing on any horizon. This Fed has told us its priority is inflation and acted on it.

We will keep our thoughts on the midterm elections brief. Betting markets currently favor the Democrats in both chambers. Markets have historically been comfortable with divided government, which tends to freeze the policy status quo, and either controlling party has been happy to spend. With the deficit and the long end of the yield curve now central to the outlook, the election's most important market consequence may be what it signals about the fiscal trajectory. We will be watching the bond market's reaction more closely than the stock market's. Beyond that, we hold to our long-standing view: portfolios should not be positioned on political predictions. Vote at the polls, not in your portfolio.

Zooming back out, nominal growth is running around 7%, inflation is stuck near 3%, a united Fed is hiking rates, and both the Treasury and the AI hyperscalers are competing for capital. Stack those up and it's not much of a mystery why rates are touching multi-decade highs. We don't think anything is broken. The economy is simply strong enough to handle a higher cost of capital, and markets are repricing.

The market environment remains constructive. A strong economy that is fueling strong earnings calls for staying fully invested, but continuing to be diversified is prudent. There is still a meaningful amount of concentration at the top of the market, as well as a single theme driving the economy forward. We witnessed a broadening opportunity set to start the year, but markets again narrowed in the quarter. Our eyes remain on the bond market. As rates move higher, they become more attractive, both as current yield and as potential ballast for portfolios.

As always, we appreciate your continued confidence and trust.

Best regards,

Retirement Plan Advisors

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Market Indicators
Third Quarter 2026

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S&P Sectors

	QTR	YTD	1Y	5Y
S&P Technology Select Sector TR USD	2.84	36.48	39.57	22.25
S&P Financial Select Sector TR USD	-0.12	-1.30	0.69	9.23
S&P Consumer Disc Select Sector TR USD	-7.02	-8.25	-8.39	4.88
S&P Health Care Select Sector TR USD	6.46	10.15	23.02	7.57
S&P Industrial Select Sector TR USD	-9.66	8.54	9.50	13.06
S&P Cons Staples Select Sector TR USD	-2.40	5.77	5.68	6.07
S&P Energy Select Sector TR USD	16.27	40.20	41.58	23.08
S&P Utilities Select Sector TR USD	-12.39	-5.65	-6.97	7.57
S&P Real Estate Select Sector TR USD	-6.29	3.86	0.53	1.83
S&P Materials Select Sector TR USD	-3.83	8.84	10.65	6.42
S&P Cmmncton Svces Select Sector TR USD	3.84	-4.83	-5.05	7.91

Market Returns

	QTR	YTD	1Y	5Y	10Y
S&P 500	2.30	12.75	15.74	13.79	15.33
Russell Mid Cap	-3.00	11.84	12.02	8.04	11.17
Russell 2000	-7.23	13.71	16.20	6.34	9.84
MSCI EAFE	0.81	10.33	15.69	9.32	9.07
MSCI Emerging Markets	-0.37	23.38	29.22	8.94	9.09
BBgBarc U.S. Agg Bond	-3.51	-2.91	-1.84	-0.64	1.14
High Yield	-1.82	0.10	1.41	3.61	5.05

Value / Growth Returns

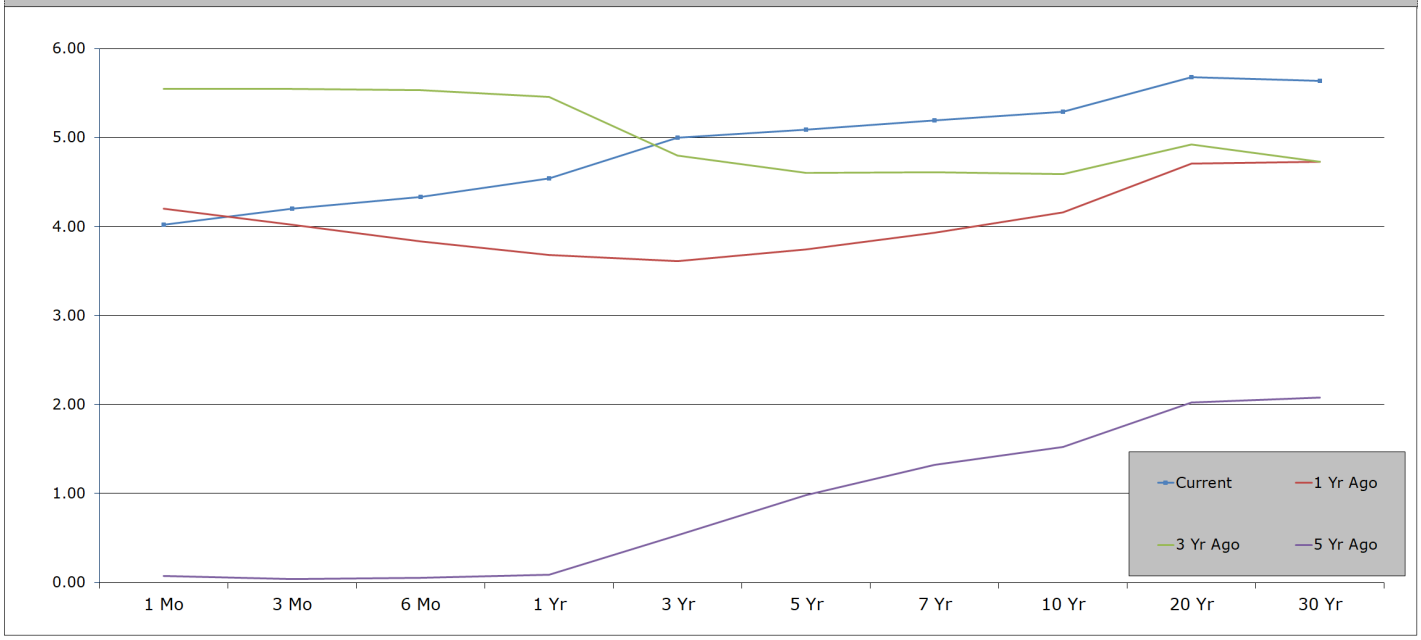
	YTD			Previous Calendar Year		
	Large	Mid	Small	Large	Mid	Small
Value	9.01	6.00	12.05	13.19	7.58	4.32
Growth	15.86	13.65	14.35	22.18	7.46	5.37

Benchmarks by size/style – Large Value: S&P500 Value; Large Growth: S&P500 Growth; Mid Value: S&P400 Value; Mid Growth: S&P400 Growth; Small Value: S&P600 Value; Small Growth: S&P600 Growth

Index Characteristics

	NTM P/E	Div Yld	Earn Yld
S&P 500	19.66	0.99	5.09%
Russell Mid Cap	15.51	1.19	6.45%
Russell 2000	13.20	0.98	7.58%
MSCI EAFE	14.07	3.24	7.11%
MSCI Emerging Markets	9.38	1.67	10.66%

Long-Term Outlook on Treasury Yield Curve



Source: Morningstar

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Periodic Table

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Source Data: Total, Yearly Return

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Best	REITs 9.45	Emerging Mkts Eq 18.22	US Small Cap 38.82	REITs 28.73	REITs 4.40	US Small Cap 21.31	Emerging Mkts Eq 37.28	Cash 1.85	US Large Cap 31.43	US Large Cap 20.96	REITs 42.29	Cmdty 16.09	US Large Cap 26.53	US Large Cap 24.51	Emerging Mkts Eq 33.57
	US Bonds 7.84	REITs 18.05	US Mid Cap 34.76	US Large Cap 13.24	US Large Cap 0.92	US Mid Cap 13.80	Intl Dev Eq 25.03	US Bonds 0.01	US Mid Cap 30.54	US Small Cap 19.96	Cmdty 27.11	Cash 1.66	Intl Dev Eq 18.24	US Mid Cap 15.34	Intl Dev Eq 31.22
	US Large Cap 1.50	Intl Dev Eq 17.32	US Large Cap 33.11	US Mid Cap 13.22	US Bonds 0.55	US Large Cap 12.05	US Large Cap 21.69	REITs -2.12	REITs 29.22	Emerging Mkts Eq 18.31	US Large Cap 26.45	US Bonds -13.01	US Mid Cap 17.23	US Small Cap 11.54	US Large Cap 17.37
	Cash 0.04	US Mid Cap 17.28	Intl Dev Eq 22.78	US Bonds 5.97	Cash 0.04	Cmdty 11.77	US Mid Cap 18.52	US Large Cap -4.78	US Small Cap 25.52	US Mid Cap 17.10	US Mid Cap 22.58	Intl Dev Eq -14.45	US Small Cap 16.93	Emerging Mkts Eq 7.50	Cmdty 15.77
	US Mid Cap -1.55	US Large Cap 16.42	Cash 0.10	US Small Cap 4.89	Intl Dev Eq -0.81	Emerging Mkts Eq 11.19	US Small Cap 14.65	US Mid Cap -9.06	Intl Dev Eq 22.01	Intl Dev Eq 7.82	US Small Cap 14.82	US Mid Cap -17.32	REITs 11.28	Cmdty 5.38	US Small Cap 12.81
	US Small Cap -4.18	US Small Cap 16.35	REITs -0.53	Cash 0.03	US Mid Cap -2.44	REITs 5.52	REITs 9.23	US Small Cap -11.01	Emerging Mkts Eq 18.44	US Bonds 7.51	Intl Dev Eq 11.26	US Large Cap -19.13	Emerging Mkts Eq 9.83	Cash 5.09	US Mid Cap 10.60
	Intl Dev Eq -12.14	US Bonds 4.21	US Bonds -2.02	Emerging Mkts Eq -2.19	US Small Cap -4.41	US Bonds 2.65	US Bonds 3.54	Cmdty -11.25	US Bonds 8.72	Cash 0.36	Cash 0.04	Emerging Mkts Eq -20.09	US Bonds 5.53	REITs 4.55	US Bonds 7.30
	Cmdty -13.32	Cash 0.08	Emerging Mkts Eq -2.60	Intl Dev Eq -4.90	Emerging Mkts Eq -14.92	Intl Dev Eq 1.00	Cmdty 1.70	Intl Dev Eq -13.79	Cmdty 7.69	REITs -2.77	US Bonds -1.54	US Small Cap -20.44	Cash 5.01	Intl Dev Eq 3.82	Cash 4.15
Worst	Emerging Mkts Eq -18.42	Cmdty -1.06	Cmdty -9.52	Cmdty -17.01	Cmdty -24.66	Cash 0.27	Cash 0.87	Emerging Mkts Eq -14.58	Cash 2.11	Cmdty -3.12	Emerging Mkts Eq -2.54	REITs -24.99	Cmdty -7.91	US Bonds 1.25	REITs 3.06

US Bonds
Cash
Intl Dev Eq
US Large Cap
US Mid Cap
US Small Cap
REITs
Cmdty
Emerging Mkts Eq

Source: Morningstar Direct

RPA Periodic Table of Investment Returns

RPA's Periodic Table of Investment Returns illustrates annual returns for eight asset classes and cash equivalents, ranked from best to worst performance for each calendar year. Each asset class is color-coded to simplify performance tracking over time. Below we detail the widely used, industry-standard market indices and benchmarks that we use as proxies for each asset class.

US Bonds (Bloomberg US Agg Bond TR USD)	The index measures the performance of investment-grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related, and corporate securities; MBS (agency fixed-rate and hybrid ARM passthroughs); ABS; and CMBS. It rolls up into other Bloomberg flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high-yield and emerging-markets debt.
US Large Cap (Russell 1000 TR USD)	The index measures the performance of the large-cap segment of US equity securities. It is a subset of the Russell 3000 index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.
REITs (FTSE Nareit Real Estate 50 TR)	The index measures the performance of the 50 largest REITs by market cap. A REIT is a company that owns, and in most cases, operates income-producing real estate.
Cash (USTREAS T-Bill Auction Ave 1 Mon)	The index measures the performance of the average investment rate of US T-Bills securities with the maturity of one month.
US Mid Cap (Russell Mid Cap TR USD)	The index measures the performance of the mid-cap segment of the US equity universe. It is a subset of the Russell 1000 index and includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The index represents approximately 31% of the total market capitalization of the Russell 1000 companies.
Cmdty (Bloomberg Commodity TR USD)	The index measures the performance of future contracts on physical commodities which traded on US exchanges and the London Metal Exchange. The commodity weightings are based on production and liquidity, subject to weighting restrictions applied annually.
Intl Dev Eq (MSCI EAFE NR USD)	The index measures the performance of the large- and mid-cap segments of developed markets, excluding the US and Canada equity securities. It is free float-adjusted market-capitalization weighted.
US Small Cap (Russell 2000 TR USD)	The index measures the performance of the small-cap segment of the US equity universe. It is a subset of the Russell 3000 and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell indexes. Russell® is a trademark of Russell Investment Group.
Emerging Mkts Eq (MSCI EM NR USD)	The index measures the performance of the large- and mid-cap segments of emerging-market equity securities. It is free float-adjusted market-capitalization weighted.

Source: Morningstar Direct