TrustPoint

Issue No. 55

Market Point

Third Quarter of 2026

Quarterly Economic and Market Commentary by the Trust Point Investment Team

An Overview of the Third Quarter of 2026

The global economy continued to show resilience through the third quarter of 2026 despite persistent inflation, rising energy prices and geopolitical uncertainty. Strong corporate earnings supported equity markets, even as market leadership narrowed, while higher bond yields created opportunities for long-term investors. As uncertainty persists, diversification and a disciplined investment approach remain essential. Read on for our perspective and how portfolios are positioned for the months ahead.

For more information, scan this QR code or visit www.trustpointinc.com/market-point/.

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An Economic and Market Update from Trust Point

TRUSTPOINT

Q3 2026

During the third quarter of 2026, the global economy continued to grow despite elevated energy prices, persistent inflation, and geopolitical uncertainty. Oil prices rose again after a brief early summer retreat, complicating the outlook for consumers, businesses, and central banks. Yet consumer spending and investment remained resilient. With U.S. midterm elections approaching, investors face another source of uncertainty. Together, these developments reinforce the importance of a measured investment approach, with attention to inflation and interest rates while maintaining diversified portfolios focused on long-term goals.

KEY ECONOMIC DATA

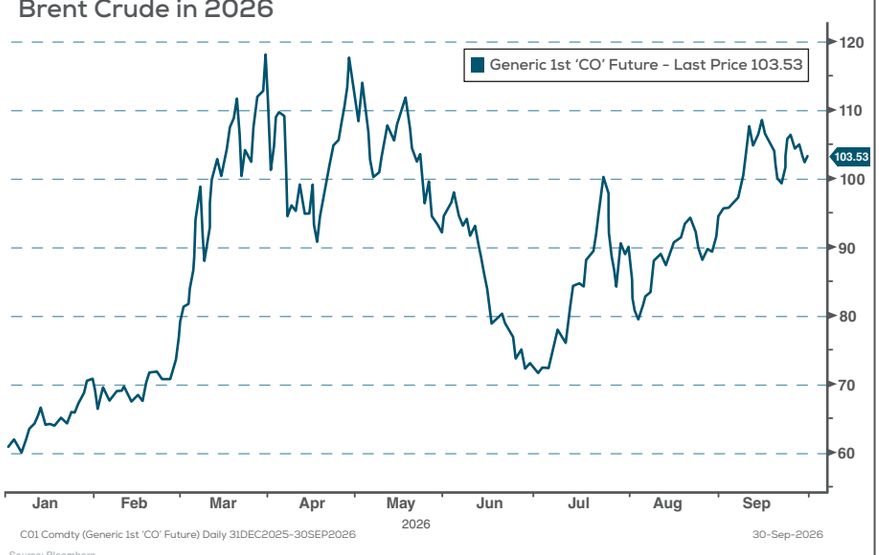
	As of	Actual	3 Mos. Ago	1 Year Ago
Dollar Index Level	Sept	101.5	101.2	97.8
U.S. Economic Activity				
ISM Manufacturing (>50 = Expansion)	Sept	54.5	53.3	48.9
ISM Non-Manufacturing (>50 = Expansion)	Sept	54.9	54.0	50.3
Non-Farm Payrolls	Sept	29k	31k	76k
Unemployment Rate	Sept	4.2%	4.2%	4.4%
CPI Ex-Food & Energy (yoy)	Aug	2.4%	2.9%	3.1%
Global Economic Activity				
JP Morgan Global Manufacturing Index (>50 = Expansion)	Sept	53.0	52.2	50.7
JP Morgan Global Services Index (>50 = Expansion)	Sept	54.5	51.7	52.9

Source: Bloomberg

Energy Prices Put Inflation and Central Banks Back in Focus

Energy markets remained a key driver of the inflation outlook during the third quarter. After easing in June, Brent crude rose as global oil inventories declined and supply disruptions tied to the conflict involving Iran persisted (Chart 1). Higher fuel costs put pressure on household budgets and increase transportation and production expenses for businesses. The longer energy prices stay elevated, the greater the risk that businesses pass those costs on to consumers through higher prices for other goods and services. As everyday expenses rise, workers may also seek higher wages to protect their purchasing power, adding another potential source of cost pressure for employers. Because these effects can take time to appear, central banks are watching for signs that energy costs are contributing to broader inflation. In September, the Federal Reserve raised its policy rate by a quarter percentage point, citing inflation that remained above its 2% goal. For investors, how long energy prices remain elevated is an important consideration. Sustained higher prices could weigh on consumer spending and corporate earnings while keeping interest rates higher for longer than expected.

Chart 1: From Relief to Renewed Upward Pressure: Brent Crude in 2026



Source: Bloomberg

A Resilient Global Economy Faces an Uneven Outlook

Despite higher energy prices, inflation, and continued geopolitical uncertainty, the global economy has demonstrated resilience. The International Monetary Fund projects global growth of 3.0% in 2026 and 3.4% in 2027 (Chart 2), supported in part by demand tied to technology and AI investment. In the United States, the Federal Reserve describes economic activity as expanding at a solid pace, with resilient domestic spending and robust capital investment. That strength, however, is not evenly shared. Higher energy costs place greater pressure on countries that import fuel and on households with less room in their budgets to absorb price increases. Businesses also differ in their ability to pass higher costs along to customers, making profit margins an important indicator to watch. This combination of steady growth and persistent inflation creates a more complicated investment environment: corporate earnings can continue to grow, but the benefits may vary substantially across regions, sectors, and industries. Maintaining a balanced and selective investment approach across markets and asset classes can help investors navigate this uneven environment.

Chart 2: Global Growth Continues Despite Headwinds

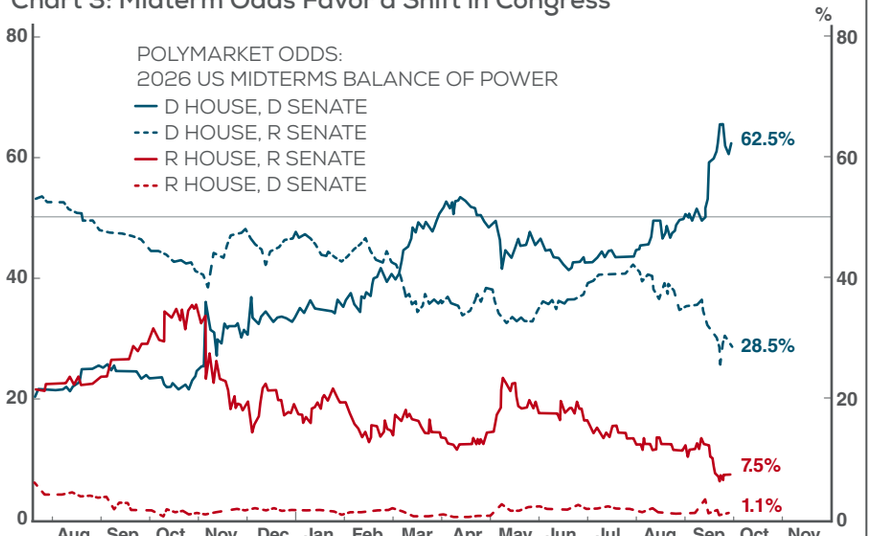
(Real GDP, annual percent change)	PROJECTIONS 2026	2027
World Output	3.0	3.4
Advanced Economies	1.7	1.8
United States	2.3	2.2
Euro Area	0.9	1.2
Germany	0.7	1.0
France	0.6	0.9
Italy	0.5	0.5
Spain	2.1	1.8
Japan	0.6	0.7
United Kingdom	1.0	1.3
Canada	1.1	1.7
Other Advanced Economies	2.8	2.3

Source: International Monetary Fund

Midterm Elections: Keep the Longer View

As November's midterms approach, investors are weighing the possibility of a change in control of Congress (Chart 3). If control of the House, the Senate, or both shifts, increased oversight and divided government could make major new legislation harder to pass. However, translating those potential political outcomes into investment implications is far less straightforward. Election headlines can influence stocks in the short term, but past midterm years have shown no consistent pattern of returns. As a result, the election calendar alone offers little guidance for long-term investment decisions. Markets may also anticipate potential policy changes well before Election Day, meaning some expectations could already be reflected in stock prices. Inflation, interest rates, economic growth, and corporate earnings often have a more direct effect on investment returns. For long-term investors, staying focused on these fundamental drivers and maintaining a disciplined investment approach may be more valuable than attempting to adjust portfolios based on election expectations or outcomes.

Chart 3: Midterm Odds Favor a Shift in Congress



Source: BCA Research, Polymarket

Note: Latest Data as of 9/30/2026

An Equity Market Update from Trust Point

TRUSTPOINT

Q3 2026

After a strong second quarter, rising oil prices and interest rates weighed heavily on global equities in Q3, causing market participation to narrow significantly as a small group of mega-cap stocks drove most index gains while many other stocks lagged. Despite these economic challenges, corporate earnings remained a key source of market support. At the same time, higher interest rates and growing concerns about AI safety, regulation, and monetization limited valuation expansion, leaving future market gains increasingly dependent on continued earnings growth and stabilizing interest rates.

EQUITY BENCHMARK TABLE

Major U.S. Equity Index Level	Quarter-End	3 Mos. Ago	1 Year Ago	3 Years Ago	5 Years Ago
S&P 500	7,652	7,499	6,688	4,288	4,308
Dow Jones Industrial Average	50,906	52,319	46,398	33,508	33,844
NASDAQ	26,861	26,214	22,660	13,219	14,449

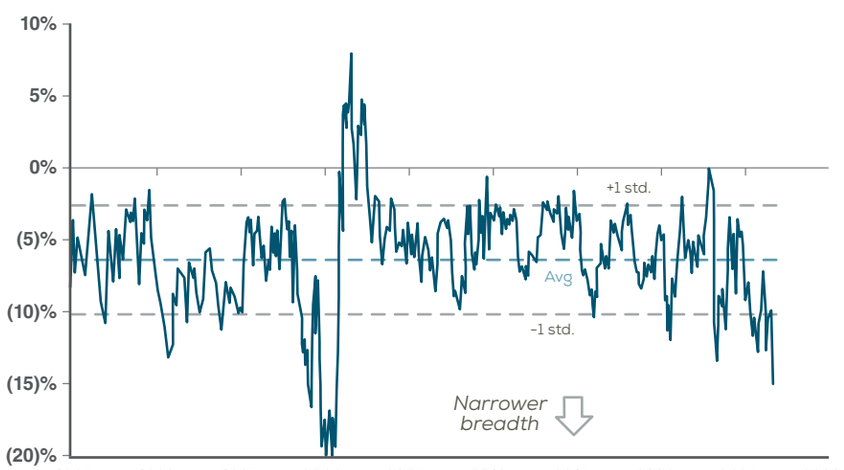
Equity Returns (%)	3 Month	YTD	1 Year	3 Year (Ann)	5 Year (Ann)
US Large Cap Growth	0.9%	6.3%	7.5%	24.3%	13.7%
US Large Cap Value	2.6%	19.3%	23.8%	20.1%	11.9%
US Mid Cap Growth	-5.8%	1.0%	-2.7%	15.4%	4.9%
US Mid Cap Value	-2.0%	15.3%	16.9%	17.5%	9.3%
US Small Cap Growth	-9.4%	10.7%	12.1%	17.6%	4.7%
US Small Cap Value	-4.9%	17.0%	20.8%	17.9%	7.8%
International Large Cap Developed (US Dollar)	0.8%	10.3%	15.7%	18.4%	9.3%
International Small/Mid Cap Developed (US Dollar)	2.9%	10.8%	13.7%	18.2%	5.8%
Emerging Market (US Dollar)	-0.4%	23.4%	29.2%	24.1%	8.9%

Source: Bloomberg, Morningstar

Macro Headwinds Constrain Market Participation in Q3

Following a robust Q2 that delivered strong overall returns while mega-cap stocks temporarily lagged the broader market, Q3 saw a significant shift in market dynamics. A simultaneous increase in both oil prices and interest rates pressured global equities and significantly narrowed market participation. In the U.S., these headwinds weighted on the average stock, pushing market breadth near record lows (Chart 4), while a handful of mega-cap stocks drove much of the market's gains. This narrow market participation extended beyond the U.S. Emerging markets experienced an even greater divergence between index performance and individual stock returns. The headline emerging markets (EM) index outpaced its average constituent by nearly 20% year-to-date through the end of Q3. This significant gap reflects the concentration of the index, as just three dominant stocks (Taiwan Semiconductor, Samsung, and SK Hynix) now account for almost 30% of the entire EM index weighting.

Chart 4: S&P 500 Market Breadth Has Plunged

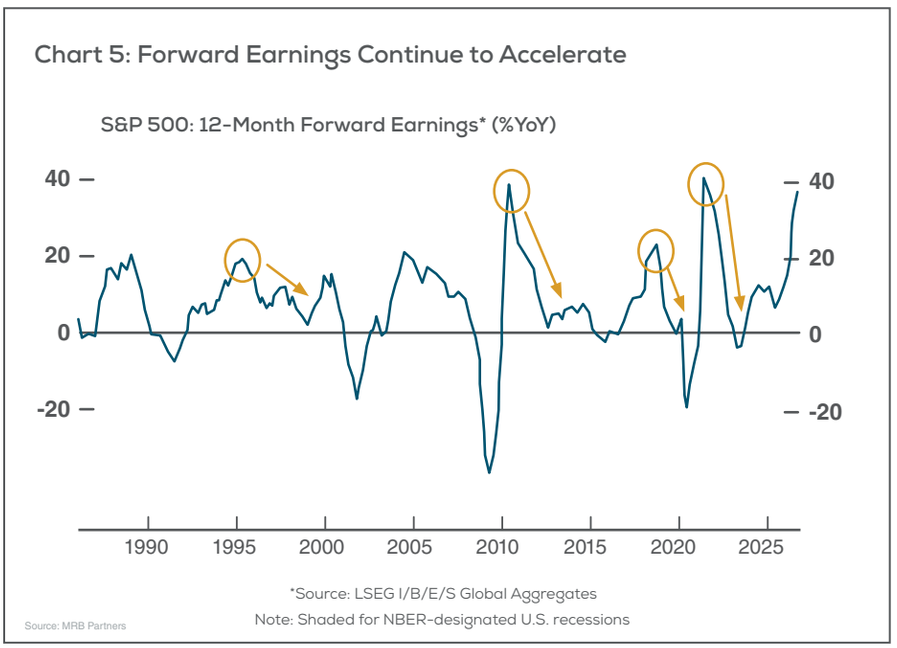


Market breadth calculated as the difference between the aggregate index and median stock respective distances from 52-week highs.

Source: Goldman Sachs Global Investment Research

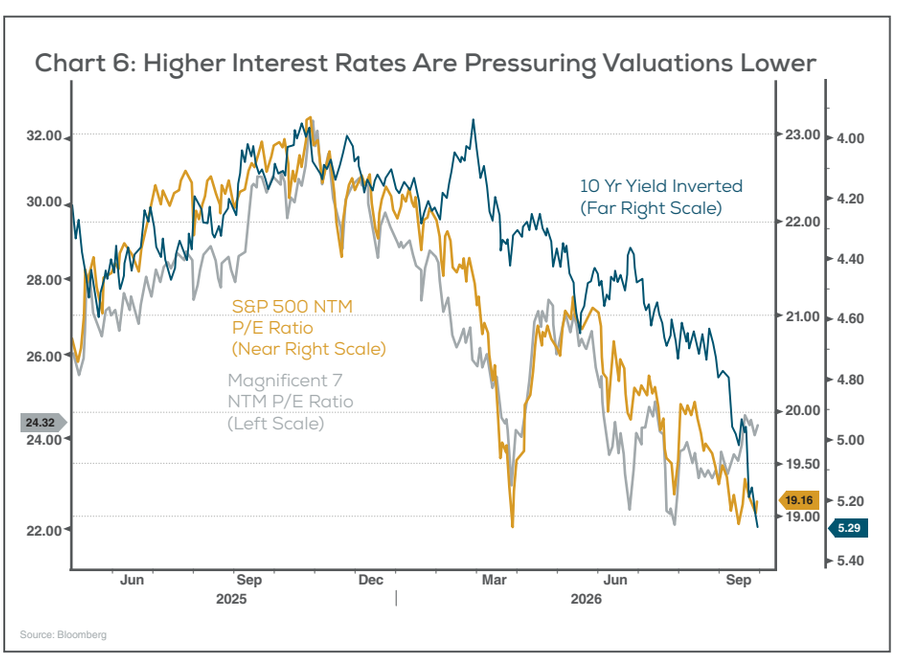
Corporate Earnings Continue to Be the Engine for The Market

A critical pillar supporting equity markets has been the continued strength of corporate fundamentals. Recent data shows that U.S. large-cap forward earnings growth rates have reached elevated levels (Chart 5), similar to those typically seen during strong economic recoveries rather than later stages of the economic cycle. Crucially, this fundamental strength is beginning to extend beyond large-cap stocks. After a prolonged downturn, domestic small-cap earnings growth is showing signs of a sharp recovery. International earnings growth presents a more fragmented picture. Europe's relatively limited exposure to AI-related growth has contributed to slower corporate earnings in recent years, although recent trends indicate improvement. In contrast, select developing markets with significant AI exposure have experienced stronger earnings growth. While these elevated growth rates are unlikely to continue indefinitely, there currently appears to be no clear near-team catalyst for a significant slowdown. Instead, Wall Street analysts have steadily revised forward earnings estimates higher, providing fundamental support for current equity valuations heading into the final months of the year.



Higher Interest Rates and AI Safety Fears Push Down Market Valuations

While earnings growth has provided a strong foundation for equities, higher interest rates and growing investor scrutiny of artificial intelligence have limited further valuation expansion. Rising bond yields have increased the discount rate used to value future corporate earnings, placing pressure on growth-oriented stocks whose valuations depend heavily on earnings expected further into the future. At the same time, mounting concerns around AI safety, regulatory oversight, infrastructure constraints, and the pace of monetization have raised questions about the outlook for some of the market's most highly valued AI-related companies. These concerns have not been severe enough to derail the broader earnings narrative, but they have contributed to periodic market volatility and reduced investors' willingness to pay increasingly higher multiples. As a result, equity valuations remain largely supported by underlying earnings growth rather than investors paying higher multiples for those earnings. Looking ahead, a sustained moderation in interest rates, coupled with increasing confidence that AI adoption can translate into sustainable earnings growth, would likely provide the conditions necessary for valuations to move higher and support broader market participation.



A Fixed Income Update from Trust Point

TRUSTPOINT

Q3 2026

The third quarter of 2026 marked a significant turning point for fixed income markets. The yield on the 10-year U.S. Treasury rose from 4.47% at the start of the quarter to 5.28% by late September, its highest level in more than two decades. The move reflects a broader shift in interest rate expectations driven by stronger economic growth, a more restrictive Federal Reserve, and increasing concerns about fiscal policy. While rising rates have created short-term price pressure across bond markets, they have also led to some of the most attractive yields investors have seen in years. We believe the current environment presents an attractive opportunity for long-term investors.

FIXED INCOME BENCHMARK TABLE

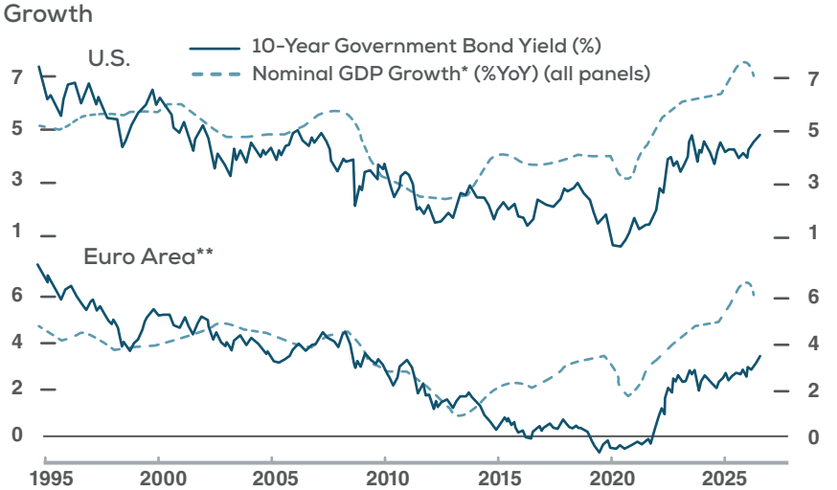
U.S. Yields (%)	Quarter-End	3 Mos. Ago	1 Year Ago	3 Years Ago	5 Years Ago
3 Month T-Bill	4.1%	3.8%	3.9%	5.4%	0.0%
2 Yr US Treasury	4.9%	4.2%	3.6%	5.0%	0.3%
10 Yr US Treasury	5.3%	4.5%	4.2%	4.6%	1.5%
Fixed Income Returns (%)	**3 Month**	**YTD**	**1 Year**	**3 Year (Ann)**	**5 Year (Ann)**
US Intermediate Treasuries	-3.8%	-4.0%	-2.9%	3.3%	-1.1%
US Treasury Inflation Protected Sec.	-3.2%	-2.1%	-2.0%	3.8%	0.0%
US Mortgages	-4.3%	-3.3%	-1.7%	4.5%	-0.4%
US Short-Intermediate T/E Munis	-4.1%	-3.1%	-2.1%	2.7%	0.5%
US Investment Grade Corporates	-3.9%	-3.1%	-2.3%	5.0%	-0.5%
US Senior Bank Loans	1.9%	3.3%	4.5%	7.0%	6.2%
US High Yield	-1.8%	0.0%	1.4%	7.9%	3.6%
Int'l Bonds Ex-US (Hedged)	-1.8%	-0.2%	0.3%	4.3%	1.0%
Int'l Bonds (Unhedged)	-2.5%	-2.7%	-2.4%	3.8%	-1.9%
Emerging Market Debt (US Dollar)	-4.2%	-2.2%	0.8%	8.6%	1.3%

Source: Bloomberg, Morningstar

Stronger Growth Driving Higher Yields

One of the primary drivers behind rising interest rates has been the resilience of U.S. and global economic growth. Across developed economies, nominal GDP growth has exceeded expectations. Over time, government bond yields tend to track the broader economic cycle and have historically moved in line with nominal GDP growth (Chart 7). For much of the period from 2010 to 2020, Treasury yields remained well below nominal GDP growth as quantitative easing and near-zero interest rate policies kept borrowing costs unusually low. These extraordinary monetary measures following the Great Financial Crisis distorted the historical relationship between economic growth and interest rates, creating an environment of unusually low borrowing costs for more than a decade. That relationship has been gradually returning to historical norms, as investors demand higher yields amid stronger-than-expected economic activity. While current interest rate levels represent a significant adjustment from the ultra-low-rate environment of the past decade, they remain broadly consistent with their historical relationship with nominal GDP growth.

Chart 7: Bond Yields Have Risen with the Underlying Trend in Growth



* 5-year moving average: source: U.S. Bureau of Economic Analysis, Eurostat, Japanese Cabinet Office

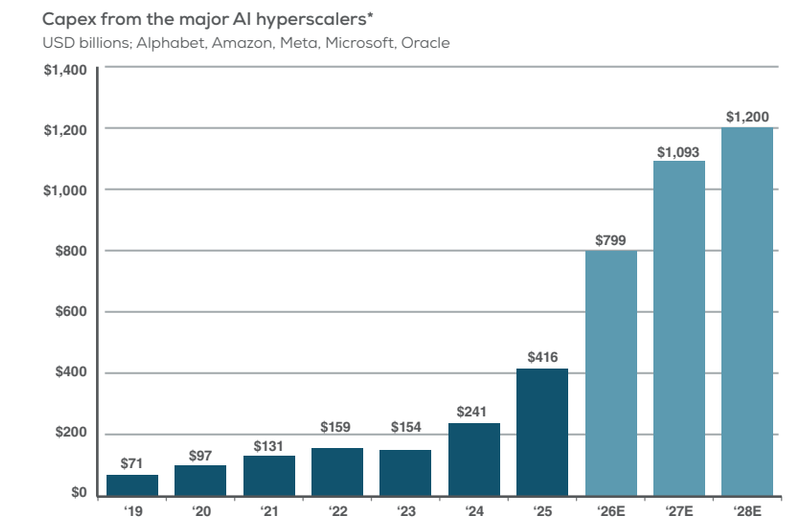
** Historical GDP data is a GDP-weighted aggregate of France, Germany and Spain

Source: MRB Partners

Competition For Capital Intensifies

Another important factor supporting higher yields has been the surge in capital spending related to artificial intelligence. Significant investments in AI infrastructure have increased demand for capital and introduced a new dynamic to the bond market. Capital expenditures by the largest technology companies are expected to approach $800 billion this year and could exceed $1 trillion annually in the years ahead (Chart 8). Funding these investments has required substantial debt issuance, contributing to record levels of investment-grade corporate bond issuance. Unlike previous years when many large technology firms generated excess cash and repurchased significant amounts of their own stock, they are now increasingly turning to credit markets to help finance their growth initiatives. At the same time, corporate borrowing is occurring alongside increased U.S. Treasury issuance, as the federal government finances persistent deficits and rising interest costs. The combined increase in public and private sector borrowing has heightened competition for investor capital, adding upward pressure on bond yields.

Chart 8: Soaring Capex has Led to Record Corporate Issuance

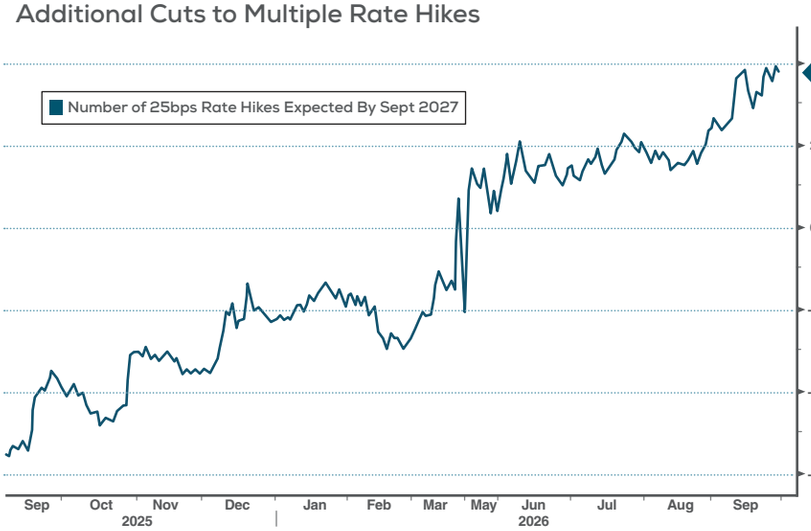


Source: JPM Guide to the Markets

Bond Market is Pricing a Higher-for-Longer Rate Environment

The combination of above-trend economic growth and persistent fiscal deficits has contributed to inflation remaining above the Federal Reserve's target for an extended period. More recently, higher energy prices linked to tensions in the Middle East have added to inflationary pressures, complicating the Fed's efforts to bring inflation back to its 2% target. In the United States, Federal Reserve Chair Kevin Warsh has emphasized the importance of maintaining the Fed's inflation-fighting credibility. In September, the Fed delivered its first rate increase since 2023 and signaled the potential for further tightening ahead. As a result, bond markets have significantly adjusted expectations for monetary policy. Earlier this year, investors anticipated additional rate cuts. By the end of September, market expectations had shifted toward further rate hikes and a prolonged period of restrictive policy (Chart 9). This shift in expectations has been a key driver of higher bond yields. With yields at their highest levels since 2007, investors are receiving more attractive compensation for taking on interest-rate risk. We believe the current environment presents an attractive opportunity for long-term investors, and our portfolios have modestly extended duration to take advantage of improved yields and attractive opportunities across the bond market.

Chart 9: Market Expectations Have Quickly Shifted from Additional Cuts to Multiple Rate Hikes



Source: Bloomberg

Market Point

Market Point is a quarterly market commentary offering insights on economic conditions and updates on equity and fixed income markets. It's one of the many ways our Investment Management team supports you in making informed decisions, reflecting our mission: ***To Simplify & Secure Your Wealth***.

The individuals contributing to Market Point include Nolan Gaffney, CFA®; Steve Brudos; Matthew Wittenberg; Christine Doll; Brandon Hellenbrand, CFA®; Yan Arsenault, CFA®, CAIA®; Randy Van Rooyen, CFA®, CEPA®; and Nicholas Brandt. **If you have questions or are interested in learning more, give us a call to start the conversation.**



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