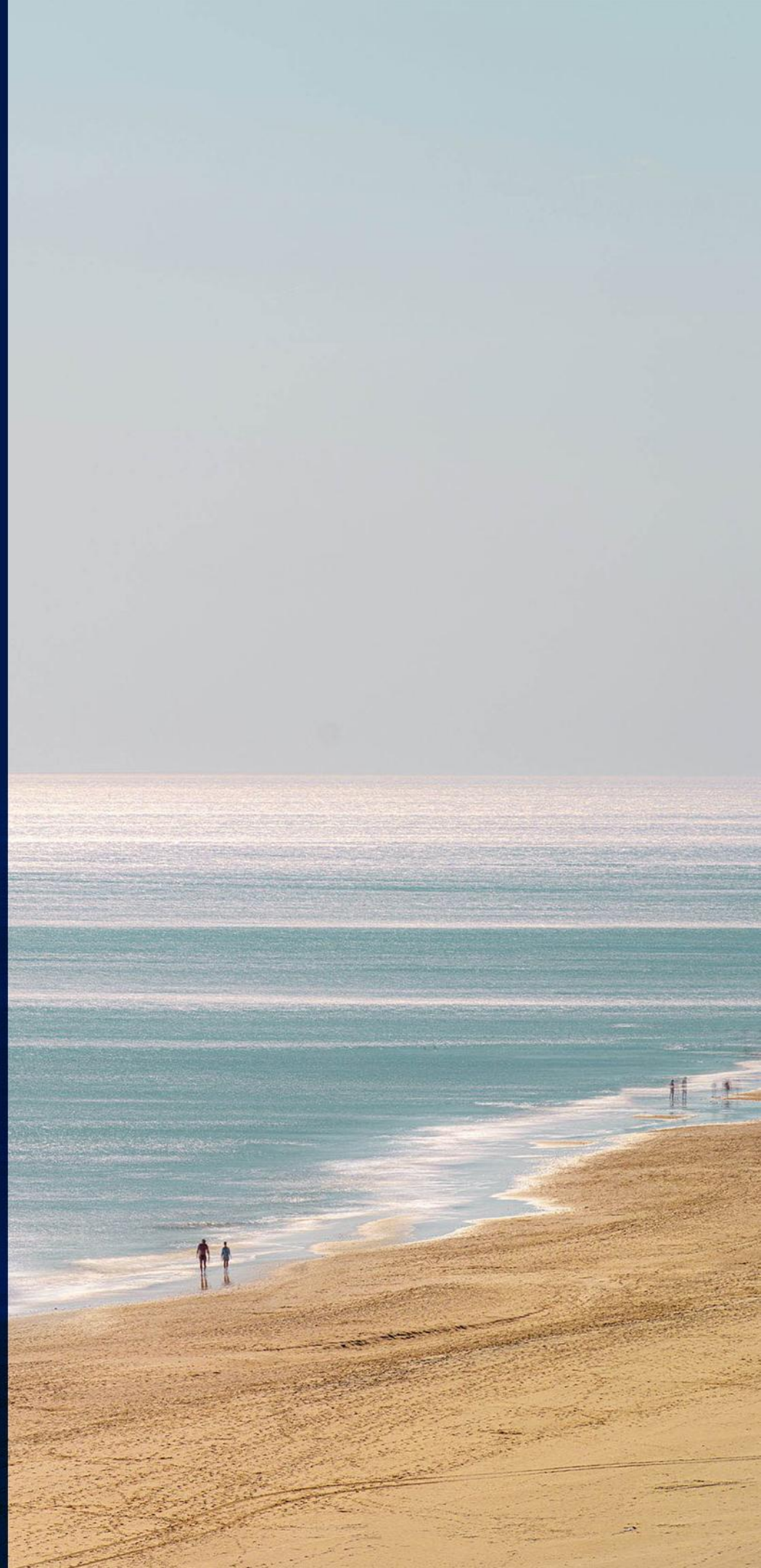


HB Wealth

Monthly Market Monitor

October 2026



Tale of Two Economies Continues, with Policy Becoming a Headwind. The build-out of artificial intelligence (AI) continues to elevate business investment and is resulting in soaring profits, while waning tax refunds and higher borrowing costs threaten to slowdown consumer spending. Policy may remain active source of volatility this autumn as the Treasury and Federal Reserve (Fed) are challenged by high inflation, bloated debt and deficits, and the AI investment boom. Meanwhile, midterms loom, with trade policy and geopolitical strains continuing to frame an uncertain macro backdrop.

Inflation Remains the Primary Challenge amid Growth Surge. Growth has been accompanied by stickier-than-expected inflation, prompting markets to turn their attention to the degree and duration of policy tightening by the Fed. The dual support of fiscal and monetary policy has enabled markets since 2022, so the rate hike cycle and less fiscal impulse could pressure risk assets in the short run, offsetting some of the positive economic backdrop. Geopolitical risks also remain a source of inflation pressure as they create persistent supply chain strains.

Yields Have Suddenly Become a Challenge for Stocks to Overcome. Stocks slid this month as the fed hiked and yields surged, possibly setting equities up for a bumpy ride to close the year. Though hiking cycles haven't usually derailed stocks, they have come with significant drawdowns as markets digest the sea change. Still, earnings remain the core driver of the move higher and valuations could continue to contract as higher rates slow the pace of gains. On that front, fuel prices might prove to be the key risk to watch in 4Q. Surging diesel and gas prices have already caused some near-term cuts to discretionary, staples and industrials stocks and the longer the war in Iran lingers, the greater the downside revision risk.

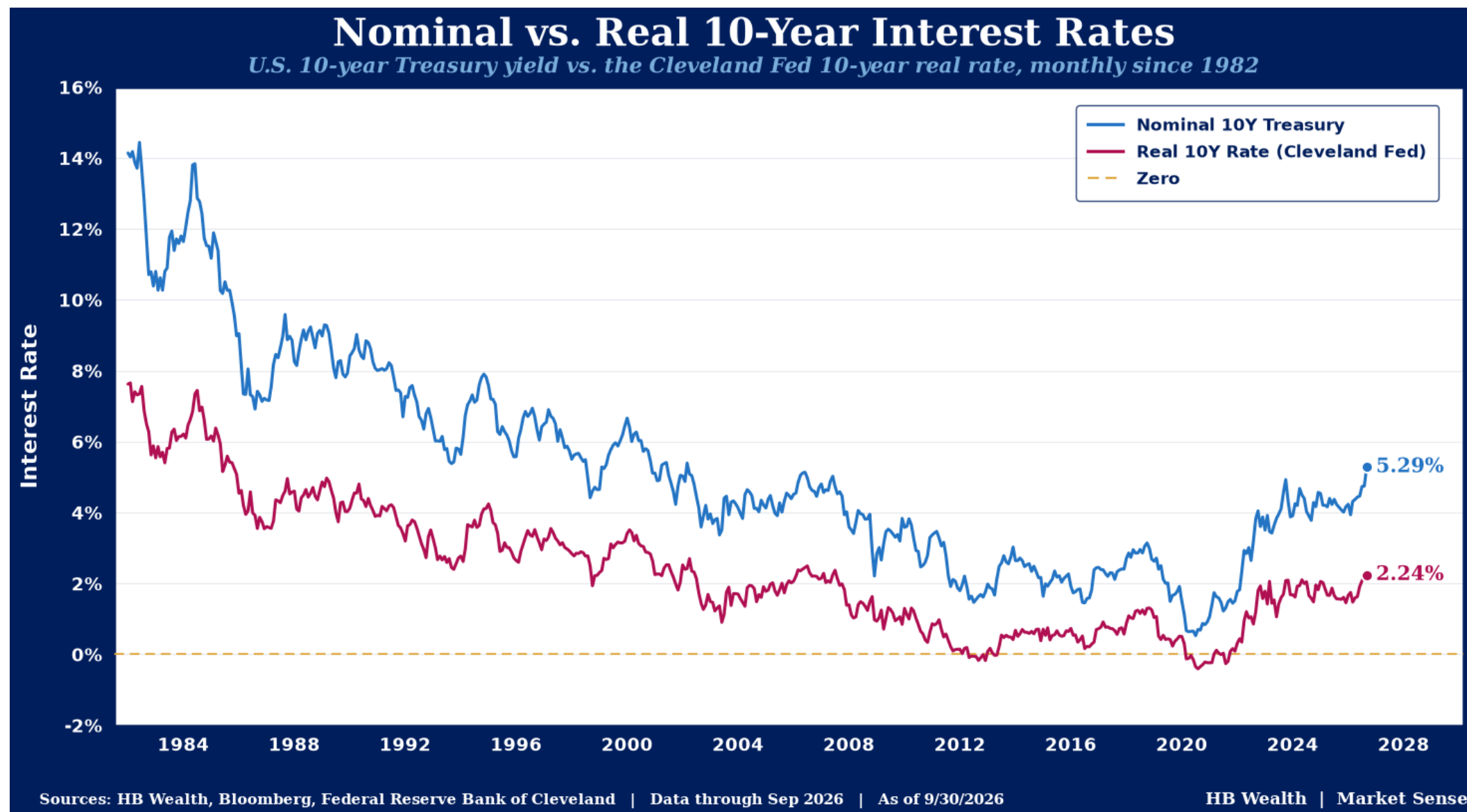
The Brightside of the Bond Market Meltdown. While yields may remain pressured by secular drivers such as fiscal deficits and the debt burden, as well as cyclical pressures from growth and inflation, yields at 5% across the curve offer prospects for a positive return for bonds for the first time in years. The municipals market disruption in September was particularly profound. Corporate credit spread widening has been concentrated in the lowest quality segment of the market.

Chart of the Month: Yields Rise is Real

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Bond markets once again headlined market moves in September as both 10-year and 30-year Treasury yields rose to new multi-year highs and the Fed hiked rates. The rise over the last six months has been extremely rapid, with the 95bps jump in nominal yields in the top 10% of all six-month periods in history going back to 1962. The move has been predominantly driven by a 77bps move in real yields, as the bond markets' impression of inflation has remained notably unchanged.

While inflation expectations from the bond market are notoriously poor indicators of realized inflation in the economy, the move in real yields nonetheless implies that rising growth, bulky supply given the ongoing federal deficit, and competition from corporate issuers are the primary drivers of the bond market at this time. Nominal gross domestic product (GDP) has a history of guiding rates and it is accelerating and on track to rise nearly 6% this year.



Market Sense: Insights from September



Bond Vigilantes are the Captain Now as Fed Finally Capitulates.

The Federal Open Market Committee’s hand was forced to hike this month as yields across tenors climbed north of 5%, and various measures of growth and inflation continued to run hot. Fortunately, signals of economic strength give the central bank some wiggle room for the Fed to attempt to blunt prices. Currently, the market is priced for another hike by the end of the year, followed by up to four in 2027. In [Market Sense](#) on September 15th, we suggest that rising yields are likely to weigh on equity multiples, somewhat offsetting the earnings surge supporting stocks. Likewise, we examine the effects of rate hike cycles on small caps, sectors and factors in [Market Sense](#) from September 17th. Though the Russell 2000’s direction may be dictated by the magnitude of any move in 10-year yields, value stocks have held up best over the past several hiking cycles and real estate, health care and communications struggled the most across capitalizations.

Rising Gas & Diesel Prices are Starting to Bite.

Fuel costs are surging and have begun hitting the earnings outlook for a swath of large cap companies. In our [Market Sense](#) from September 24th, we detail that more than half of S&P 500 industries have faced cuts to 3Q EPS growth forecasts, as higher rates, waning tax refund support and higher fuel prices take a toll. Cuts have been led by the materials, consumer discretionary and staples sectors. Historically, retailers have been most sensitive to changes in diesel prices and surging fuel costs. However, based on the most recent experience in 2022, there’s still significant downside revision and derating risk if costs continue to surge.

IPO Calendar Remains Strong, for Now.

On September 10th we posted in [Market Sense](#) that the IPO calendar for the rest of the year appears exceptionally strong with 2026, having already met 2025’s number of new issues. However, recent market volatility and ongoing rate hikes are adding uncertainty to the outlook with Oura recently delaying their IPO. Nonetheless, the big fish of upcoming IPOs, Anthropic, still looks likely to go public this year, and this could help 2026 challenge the heights of the 2021 surge (the best year for IPOs on record). Recall that most index providers (excluding S&P) changed their rules to “fast-track” mega-cap IPOs, making Anthropic a near lock to enter most major indices in short order. IPO performance this year has been strong, but not strong enough, to raise alarm bells.

Investors De-Risk in September as Fed Drops the Rates Hammer.

September’s stock market performance can only be described as a de-risking as the Fed began a hiking cycle and bond yields surged. All capitalizations fell, though small caps were hit worst, down 5.4%, as the S&P 500 dropped roughly half a percent. Growth stocks rose and value fell in both large and mid-caps, though both styles took it on the chin in the Russell 2000 – hinting the month’s move is mostly about capitalization and risk. Tech was the only sector to post gains in the Russell 3000. Rate-sensitives like financials, real estate and utilities were among the month’s biggest losers, joined by materials and discretionary. Breadth has collapsed, with just 24.5% of US stocks trading above their 50-day moving average – a number that nearly challenges the low in March (20%). Other developed markets and emerging markets also teetered.

Oil Remains Elevated,

Despite Drop on US-Iran Talks and Surge in Dollar. West Texas Intermediate (WTI) crude hit \$105/bbl mid-month and is still just above \$90/bbl – more than 63% above the December low and in the 86th percentile since 1990. Oil is likely to remain extremely headline driven and volatile, and barring an imminent reopening in the Strait of Hormuz, may pressure the consumer outlook into the holiday season. The dollar surged back to test year-to-date highs, pressuring precious metal prices.

Silver Lining in Bonds' Bear Market:

Higher Starting Yield Helps Total Return. Starting yields have historically been a useful indication of longer-term potential returns for fixed income. Even if rates continue to move higher from here, a starting yield of 5% offers investors income to offset the price decline that occurs as rates move higher, improving the total return prospect for bonds ([Market Sense](#)).

Credit Spreads Widen Slightly but Remain Tight.

As expected, the recent volatility has pushed corporate credit spreads out from their near record tight levels, but spreads remain tight based on historical norms, with high yield and investment grade spreads in their relative 16th and 8th long term percentiles, respectively. This, paired with elevated base yields, gives reason to keep notable credit risk on the shortest part of the curve.

Muni Selloff Amplified by Thin Liquidity.

September’s Muni market slumped roughly 5%, marking the largest monthly loss since 1987. The sharp rise in rates has been fueled by moves in the Treasury market driven by inflation concerns as well as fears of a hawkish Federal Reserve. Most municipal bonds still trade over the counter, so sharp moves can be amplified by thinner liquidity. Pairing low liquidity with large fund outflows makes a recipe for an outsized downside move.

Macro Summary: Policy-Palooza?



Policy Taking Center Stage as Midterms Loom. Rising borrowing costs may be the single most important risk to watch as policy shifts from tailwind to headwind in coming months. Monetary policy is tightening as the Fed looks to achieve “price stability” just as fiscal policy support wanes given the ballooning debt and deficit. Trade policy may also continue to make waves as tariffs re-emerge, and geopolitical risks remain evident with oil prices still elevated. Without policy ballast, economic and market outcomes will increasingly depend on AI investment. That investment is increasingly unpopular and could face a political challenge with the midterms.

Economy (and Market) Remains Fueled by AI Investment. The AI investment boom is nearly single-handedly fueling U.S. economic growth. U.S. household consumption had been steady, but spending in the lower-income segment started to show weakness this summer as tax refunds ran out. Economic growth is thus inordinately focused on investment, driven by hyperscalers' race to deploy AI at scale. Net exports detracted from GDP in 2Q, sparking a revival of tariffs.

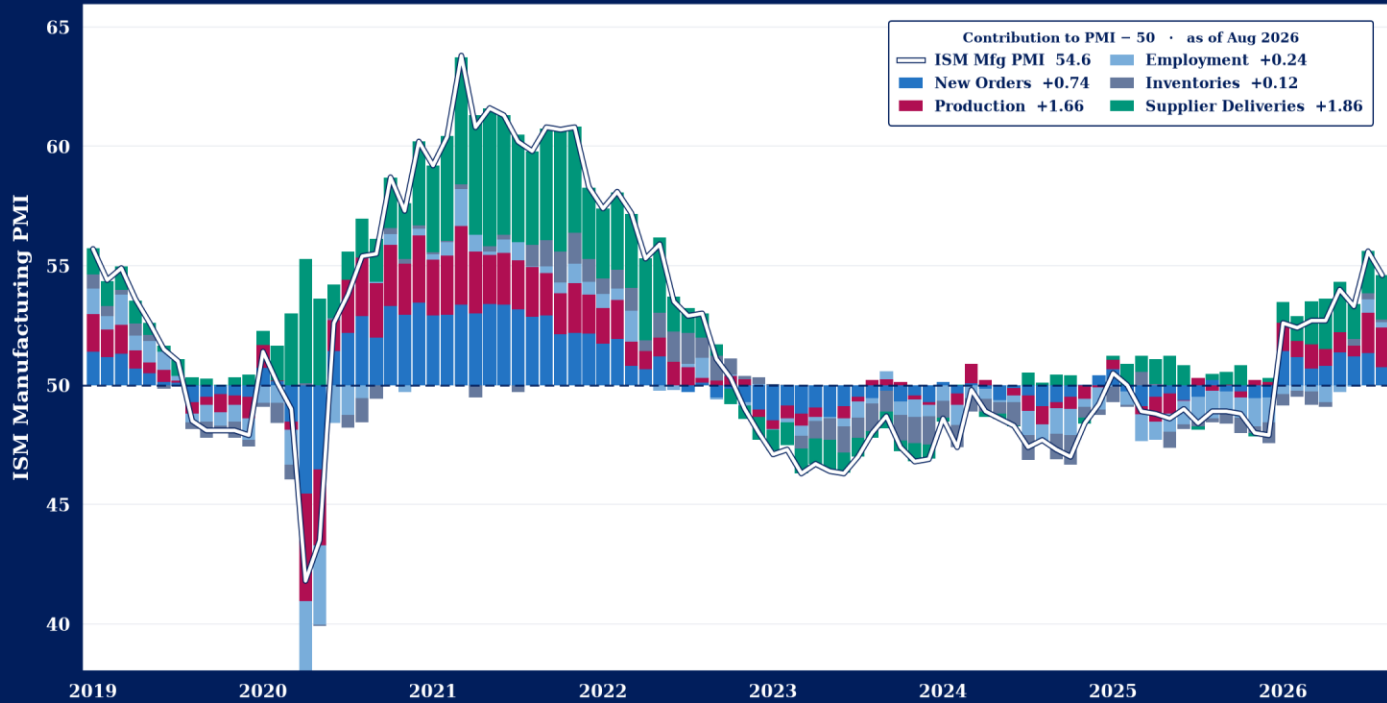
Inflation Remains Uncomfortably High, and It's Weighing on Consumers. Inflation may not be slowing down AI spending, but it is worrying consumers. Price growth remains uncomfortably above the Fed’s target rate, in part due to the AI-fueled mix of economic growth, and this is resulting in depressed consumer sentiment. Commodity prices and financial conditions both remain at levels last recorded in 2022. Even after some modest reprieve this summer, core consumer prices continue to rise at a pace north of 3%.

Tale of Two Economies: Business Sentiment Surging as Consumer Sentiment Sours

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US ISM Manufacturing PMI — Component Drivers

Sub-index contributions to the PMI's deviation from 50, with the headline index traced over the top



Sources: Bloomberg, ISM, HB Wealth | Data through Aug 2026 | As of 9/28/2026

HB Wealth | Market Sense

However, consumer sentiment, as measured by the University of Michigan, remains in a severe slump at a level near all-time lows. This is confirmed by Consumer Confidence from the Conference Board now at a new low as well.

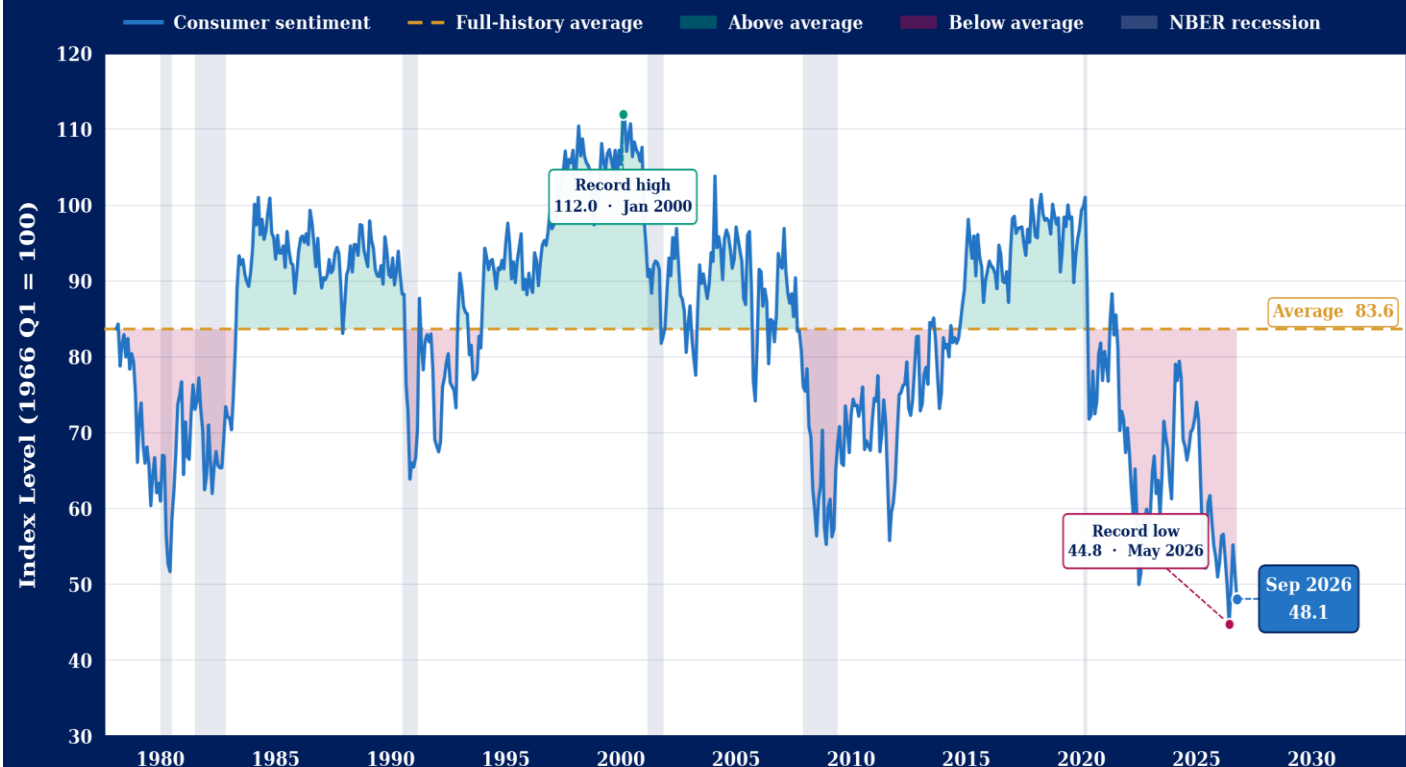
Sticky inflation, due in part to the rapid build and natural resource drain of data centers, geopolitical tensions, and rising medical care costs, has consumers in a persistently sour mood. The sharpest drops in sentiment are concentrated among older adults, lower- and middle-income households, and those without stock holdings or higher education credentials.

Please review all disclosures at the end of the document.

Hyperscaler investment is still driving a broadening infrastructure recovery that is notably improving business sentiment. The ISM manufacturing PMI has expanded every month so far in 2026 for the first time since 2022. Services sentiment has likewise reached a new post-pandemic high. While job growth is still limited, production and new orders are accelerating and showing signs of extending beyond technology to a broader array of industries supporting the AI-data center buildout.

How Americans Feel About the Economy

University of Michigan Index of Consumer Sentiment, Jan 1978 - Sep 2026

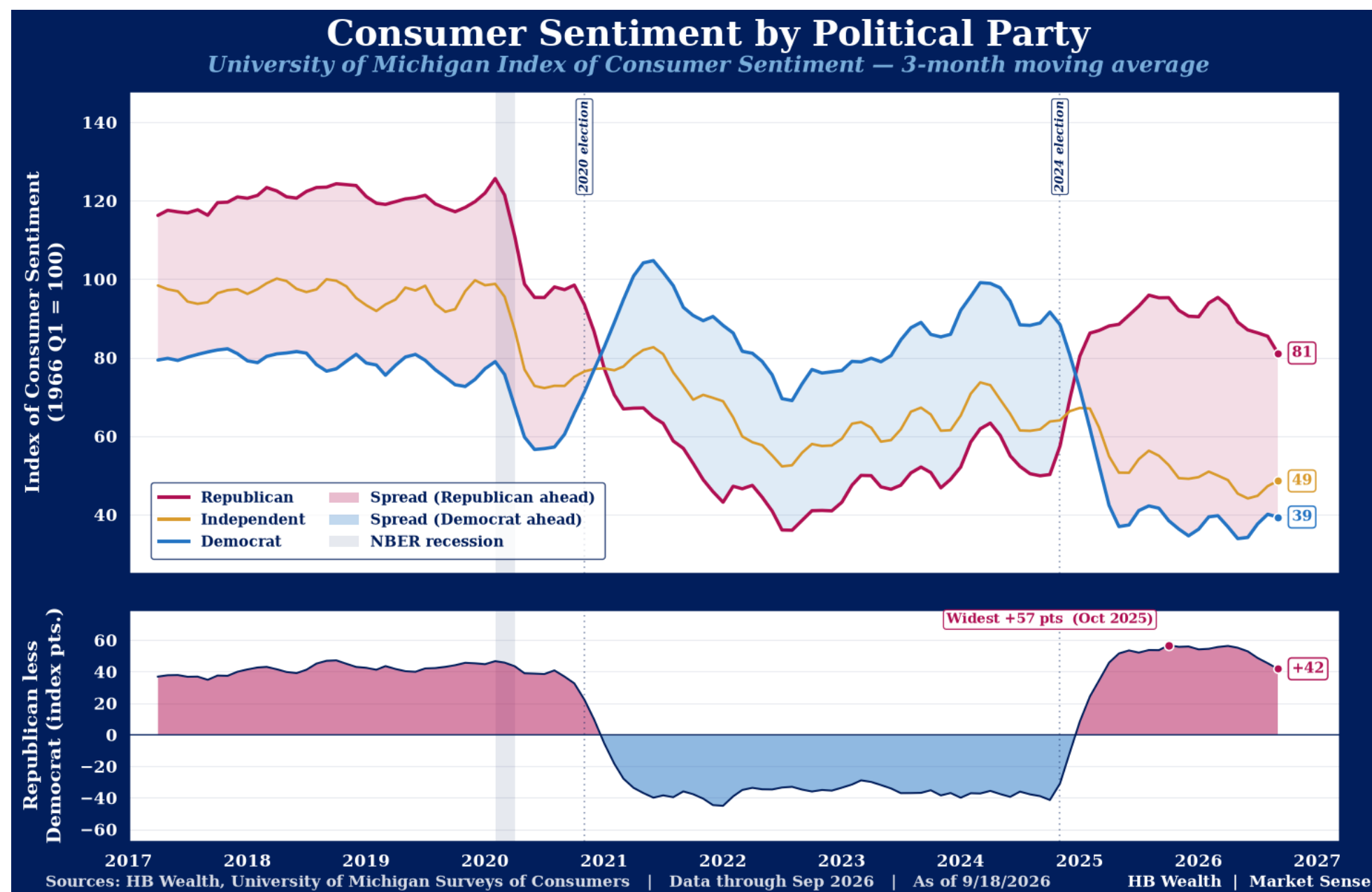


Sources: HB Wealth, University of Michigan, Bloomberg | Data through Sep 2026 | As of 9/30/2026

HB Wealth | Market Sense

Sentiment is Below Pre-Pandemic Norms

Confidence is low across voter profiles, suggesting elevated probability of turnover in the midterm elections. Consumers of all political stripes have lower confidence than was the norm before the pandemic and will likely hold incumbents responsible for their concerns about the economy. Republican voter confidence has slipped the most since the start of the war. Independent voters, now 44% of the population, have shown deteriorating sentiment throughout the year, while Democratic voter sentiment has remained near record lows.

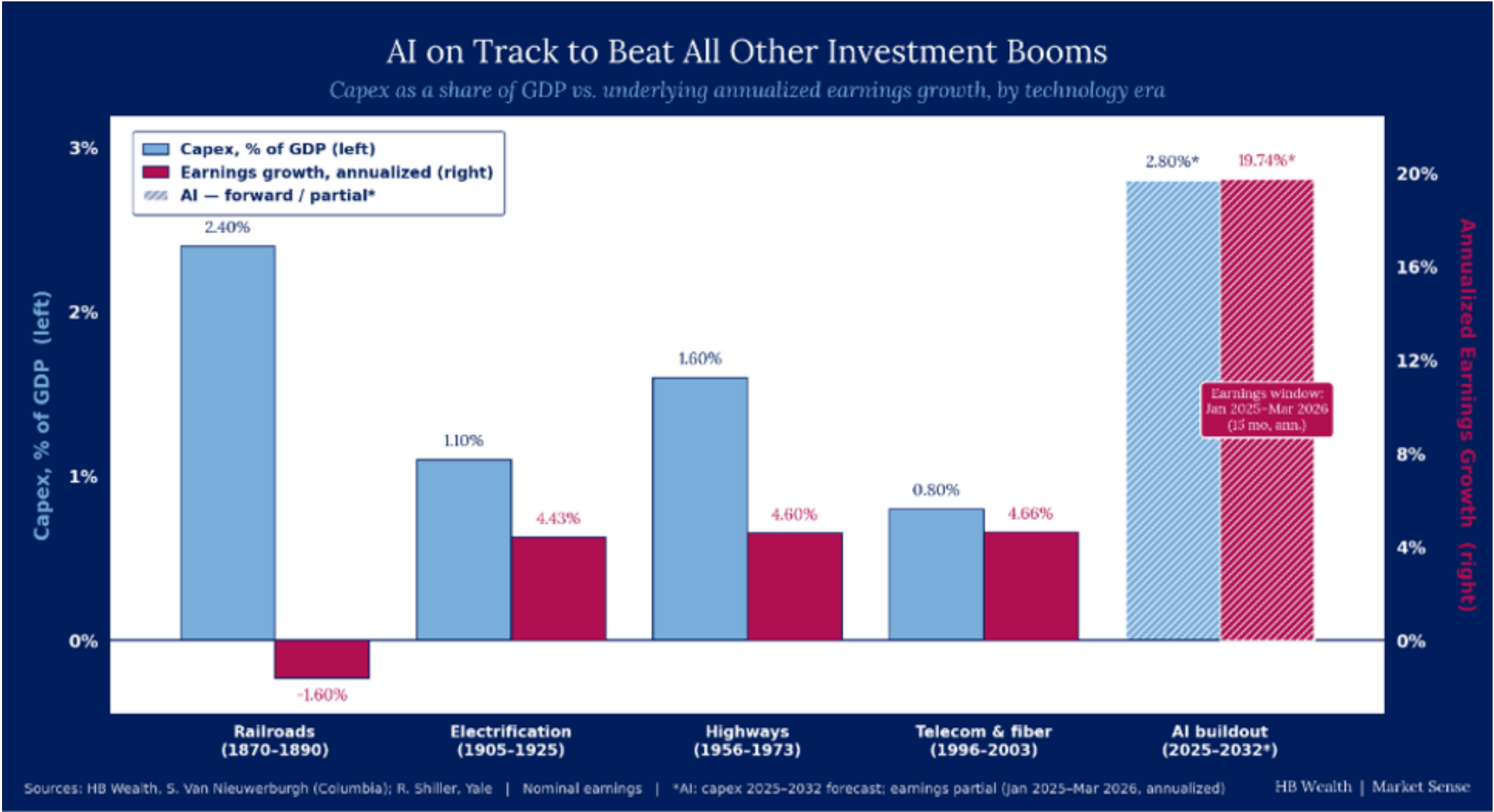


GDP Growth Powered by the AI Investment Boom

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Real economic growth in the U.S. averaged 2.6% over the last three years, about the same as the 2.5% pace of growth, still well below the 4% average recorded in the 1990s due to slower growth in U.S. consumption and housing. Nonetheless, the boom in AI investment is driving an extraordinary shift in the drivers of GDP.

On pace to be the largest in U.S. history, AI investment is elevating revenues for suppliers and driving tech’s contribution to GDP growth to levels beyond those of prior investment surges such as the telecom/fiber buildout of the late 1990s and the railroad boom of the late 1800s.

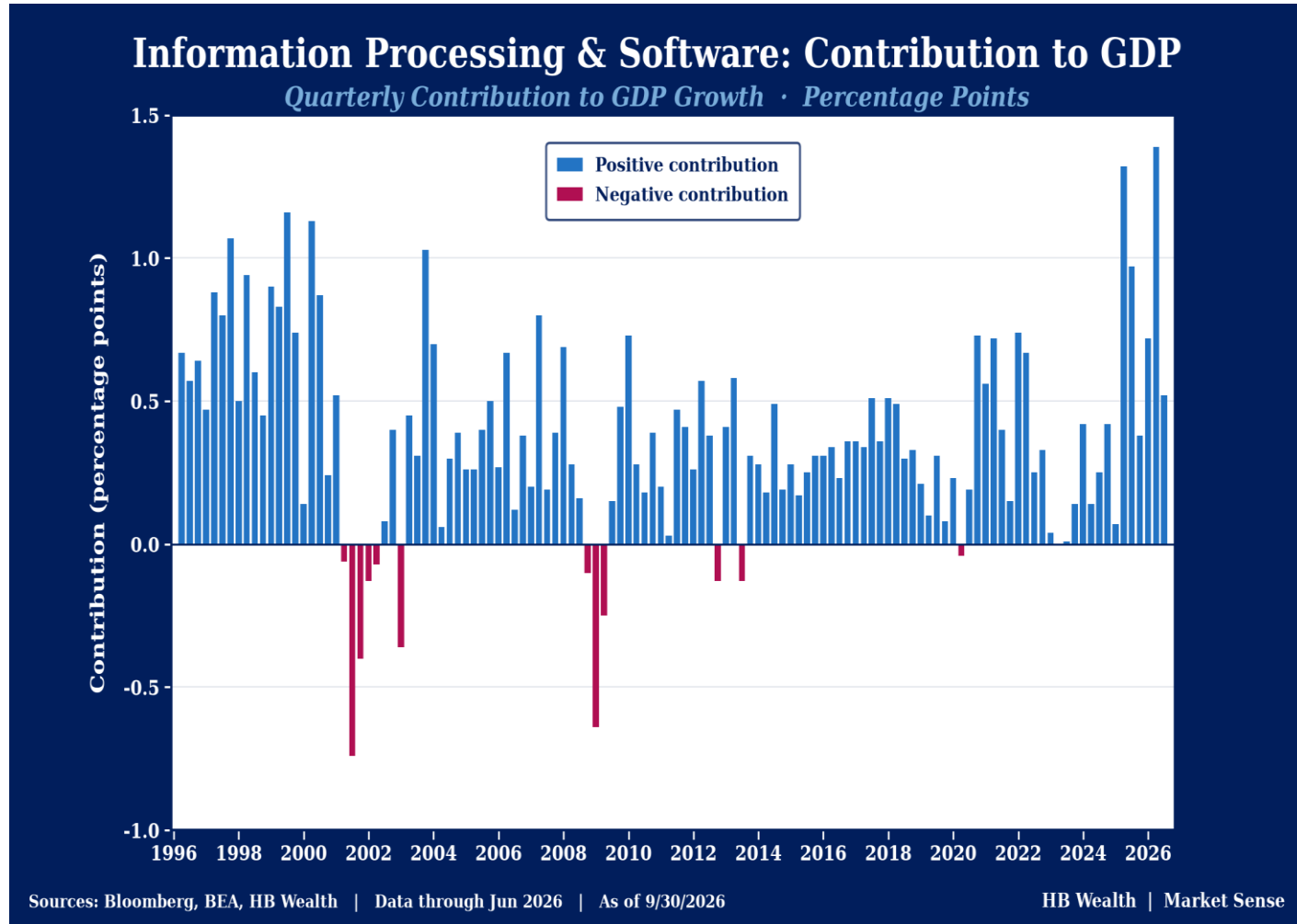
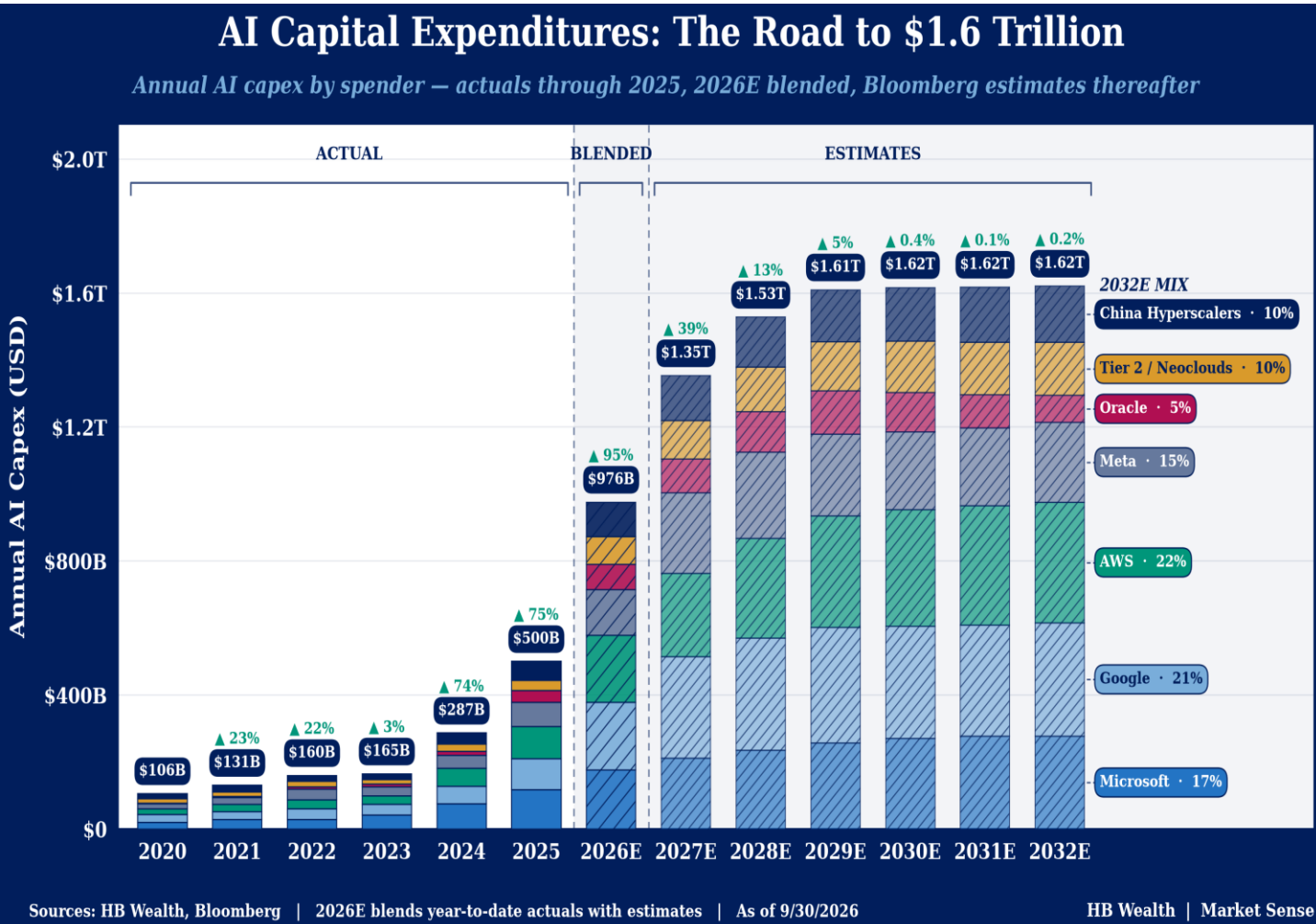


AI Spending is Driving Investment to New Highs

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While GDP hasn't changed much relative to its pre-pandemic trend, the shift in mix is extraordinary as hyperscaler capital spending is driving growth. Information processing and software investment grew at an average year-over-year pace of nearly 17% and drove nearly half of U.S. GDP growth in four of the last five quarters.

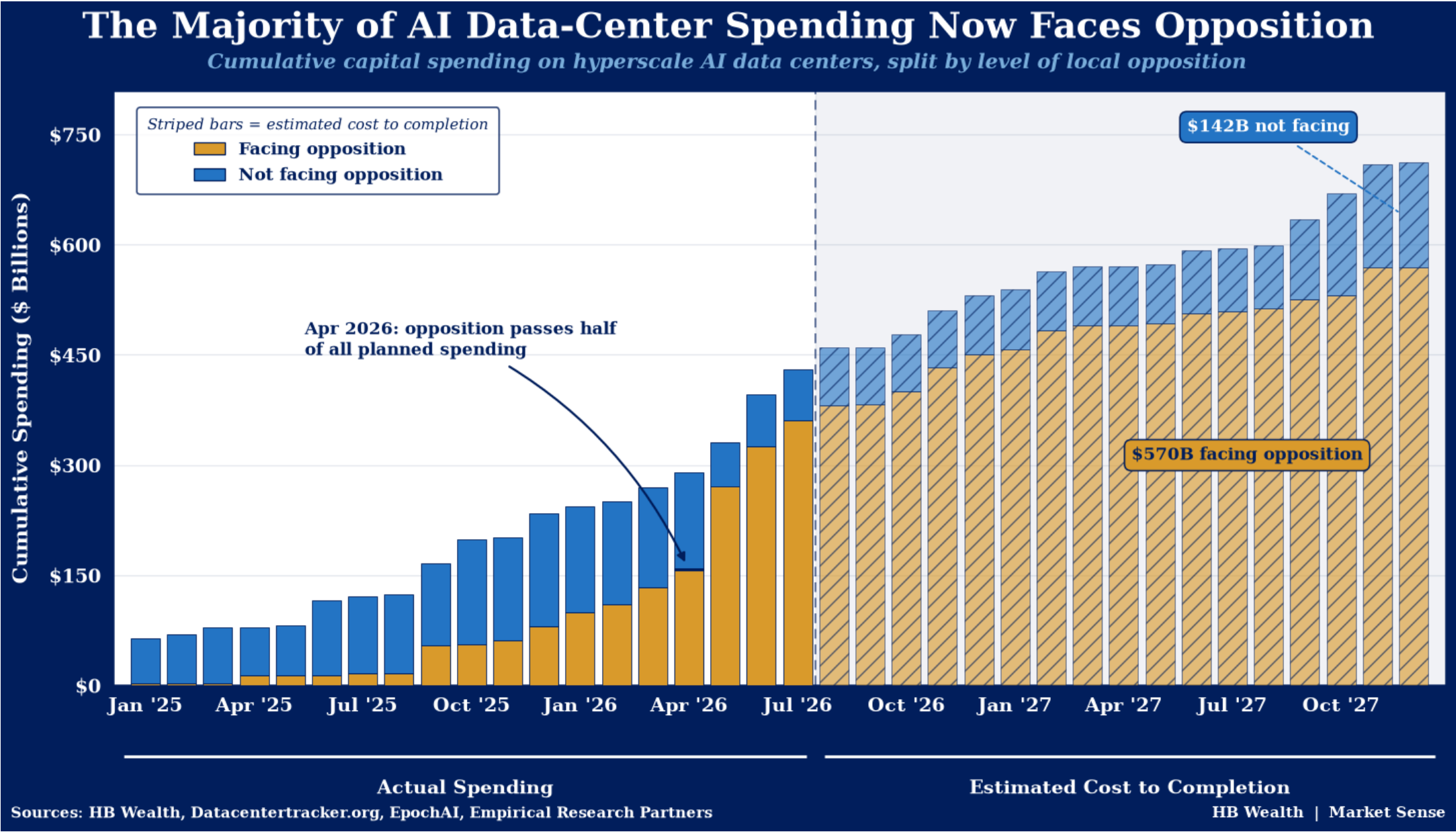
Microsoft, Alphabet, Amazon, Meta, Oracle, and CoreWeave combined are now expected to spend well over \$800 billion dollars in 2026 and \$1 trillion+ each of the next four years.



Data Centers May Be in Focus During Midterms

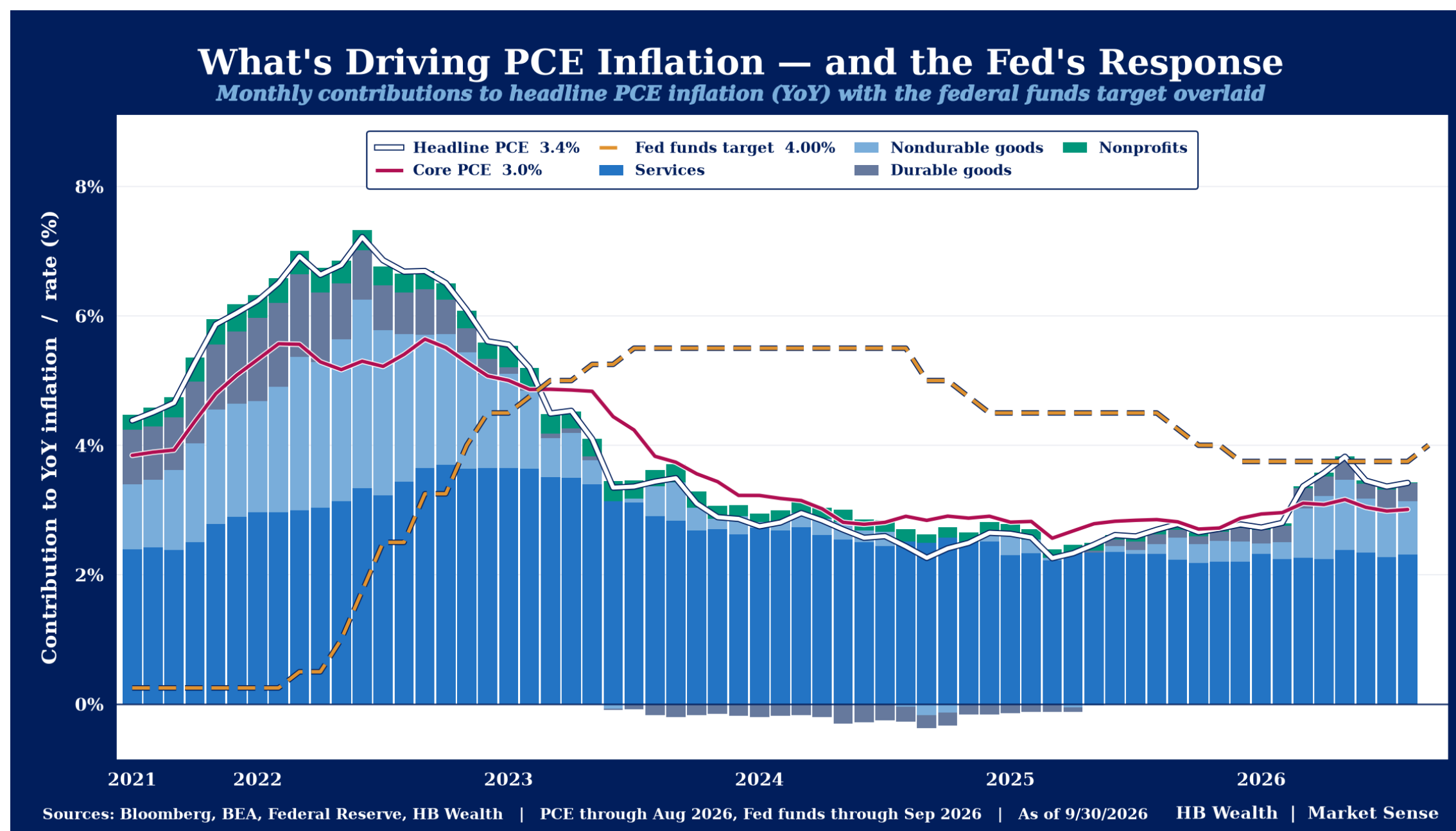
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AI Investment may start to hit political speed bumps and promises to be a hot topic in midterm election season. A year ago, less than half of data center spending was contested, but today more than 80% of planned spending is facing local opposition. Given the fact that investment in data centers is the predominant driver of economic growth, any policy-imposed construction slowdown may have a negative impact on economic and earnings growth prospects.



Inflation: Consumer Prices are on the Rise

After easing for most of the last few years, consumer price inflation has reaccelerated in 2026. Inflation in energy prices has been particularly rapid, reflecting the wartime acceleration in oil prices, but recent price gains extend beyond the pump. Core consumer prices (excluding food and energy) have accelerated at an average pace of 3.3% since April. Excluding housing and energy, core services price gains are approaching 4% and have not been below 3% since early 2021. These sticky prices are likely to continue to force the Fed's hand to raise interest rates, as core inflation has been above the Fed's target for 66 consecutive months.



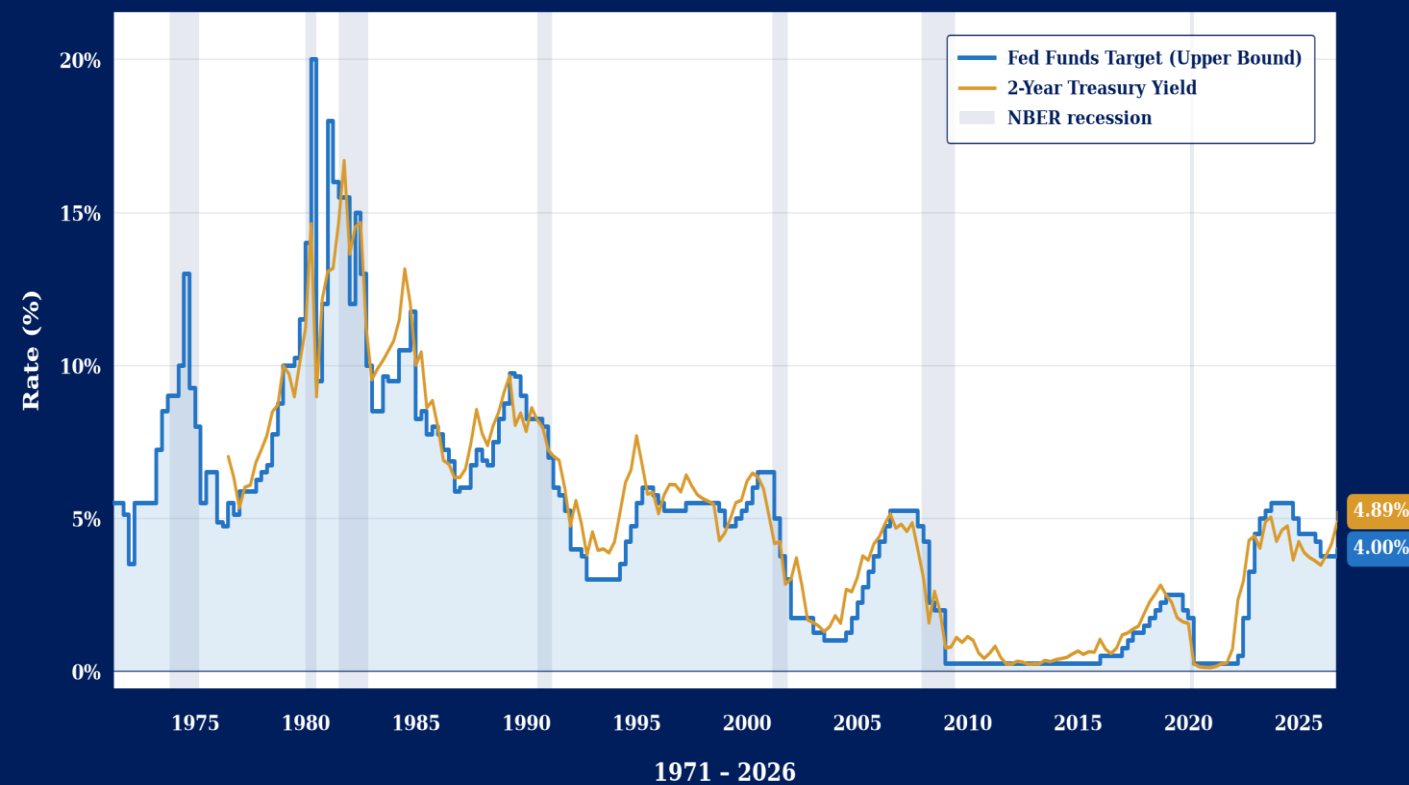
Monetary Policy

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Monetary policy at the Fed is making waves in markets, as the Fed hiked rates in September for the first time since 2022. After the easing cycle in 2024-2025, several measures suggest the Fed's policy rate is still technically too "easy" at its current level, even after the September hike. The 2-year Treasury yield is at 4.89%, still 89 basis points above the Fed funds rate, and the Taylor rule suggests a policy rate of 6.41% would better account for the current pace of growth and inflation.

Fed Funds Target vs. 2-Year Treasury Yield

The market's forward view against the Fed's policy setting — quarterly, Mar 1971 - Sep 2026

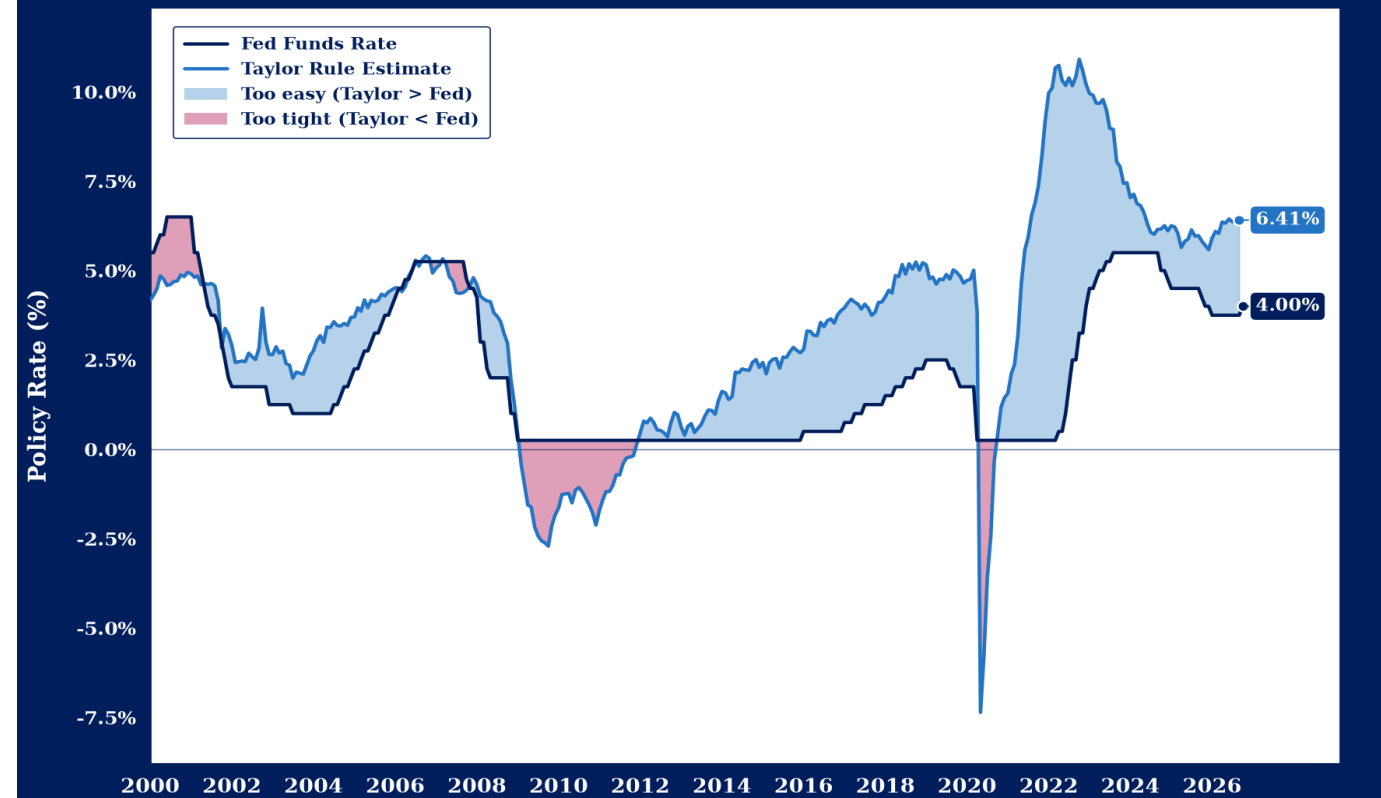


Sources: HB Wealth, Bloomberg, Federal Reserve | Data through Sep 30, 2026 | As of 9/30/2026

HB Wealth | Market Sense

Taylor Rule vs. Fed Funds Rate

The gap between the rule-implied rate and actual policy — shaded by whether policy is too easy or too tight

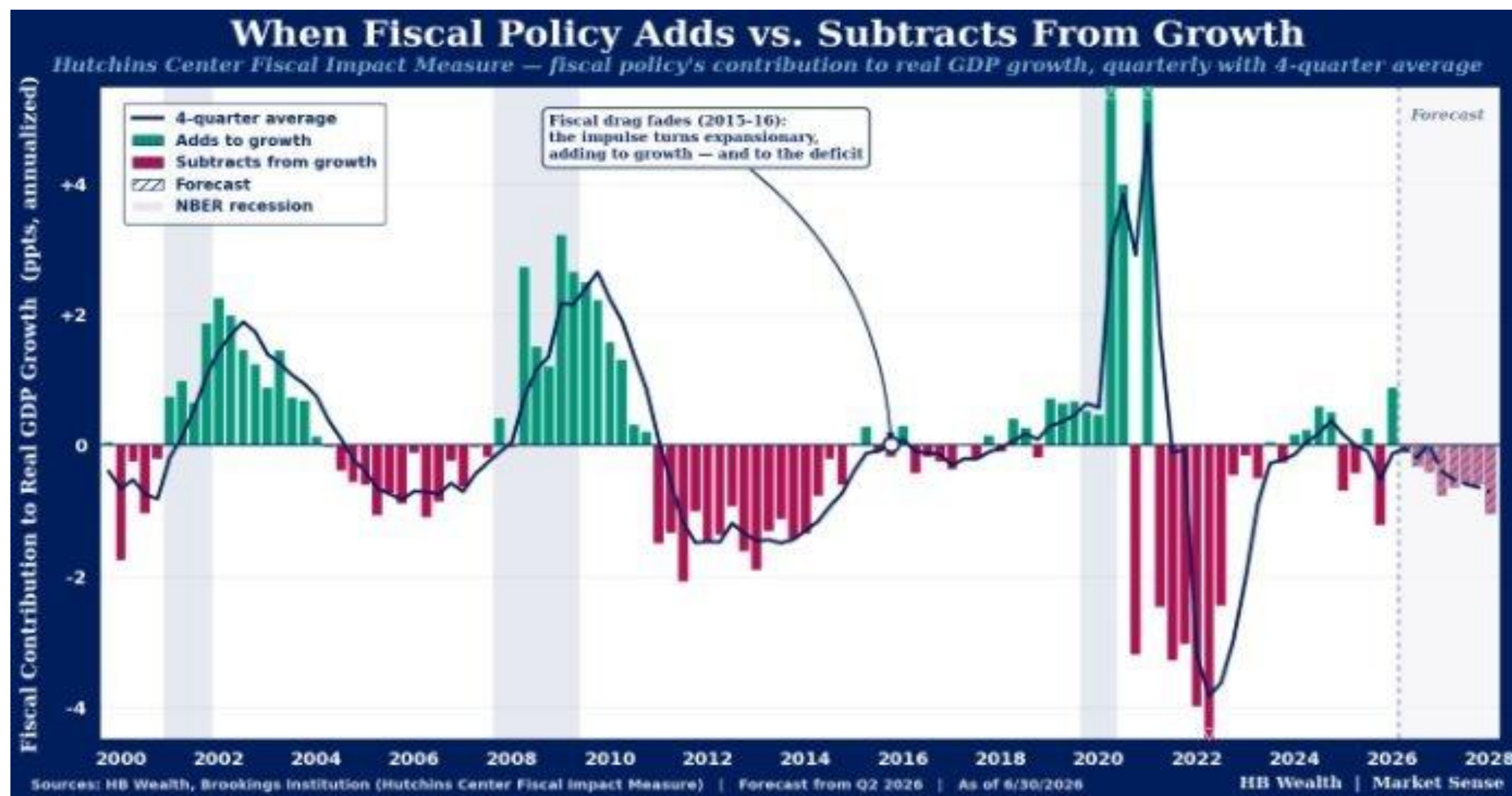


Sources: HB Wealth, Bloomberg | Fed funds through Sep 2026, Taylor rule through Aug 2026 | As of 9/30/2026 HB Wealth | Market Sense

Fiscal Policy Has Been Adding to Growth

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The Federal Budget deficit is still about 6% of GDP, bigger than any post-1970 recession deficit except for the Great Financial Crisis and COVID-19 recession. Nonetheless, fiscal expenditure expanded in 6 of the last 9 quarters, and the 2025 tax reform contributed nearly half a percentage point to growth in the first half of 2026. The mismatch between federal spending and revenues appears likely to become a constraint on spending, particularly if a mixed-party Congress emerges after the midterms. Federal, state, and local purchases are expected to contract in the year ahead, more consistent with economic expansions.



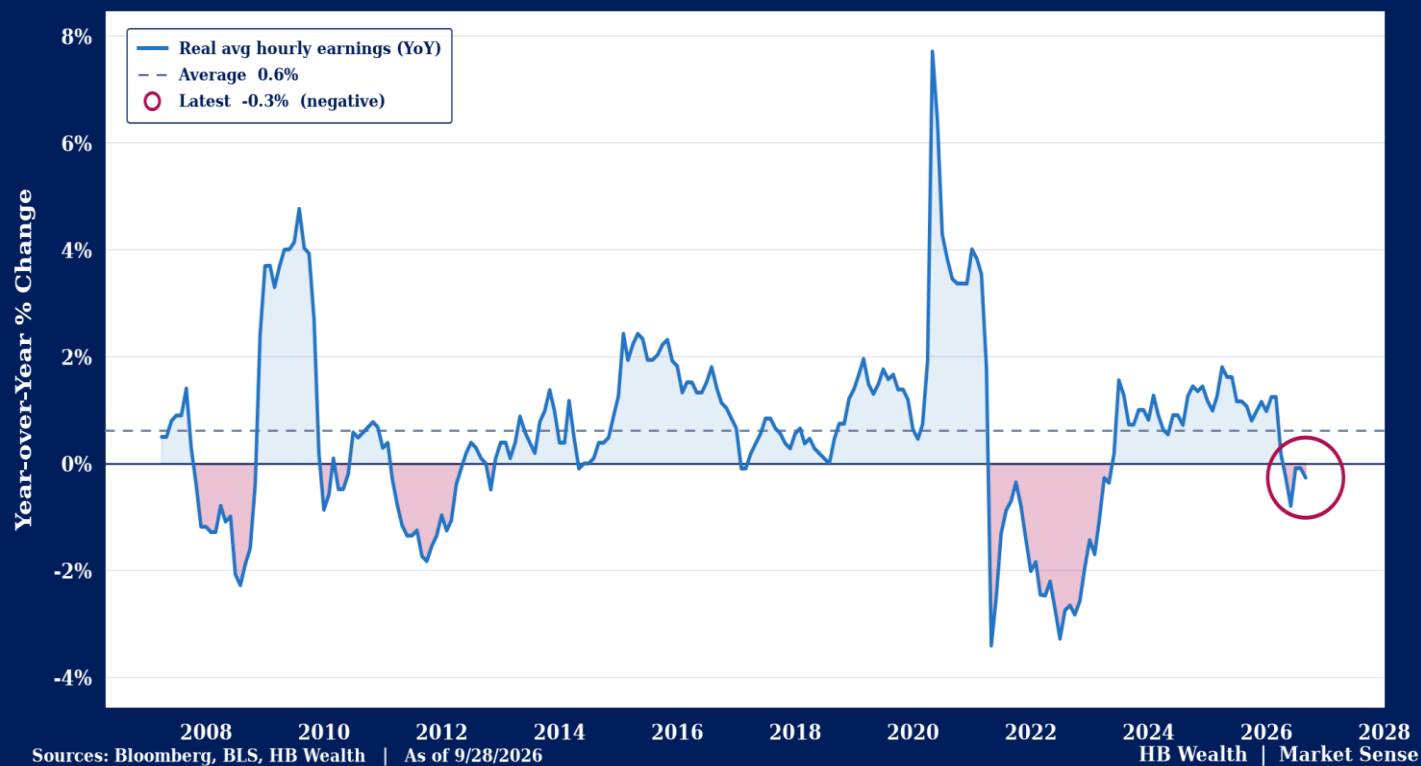
Consumer Outlook Limited by Prices



Resolution of conflict in the Middle East could help ease the U.S. consumer's pain at the pump, but wage growth and housing activity are core to the consumer outlook, and neither is offering much of a boost to the mood at this time. Job growth has improved so far in 2026 after a struggle in 2025, but the average monthly gain is still just about half as strong as the long-term average job gain during economic expansions. Wage growth is thus too slow to offset price inflation, resulting in negative real average hourly earnings growth this year for the second time in the post-pandemic era. Meanwhile, housing affordability remains extremely low, and a lack of transaction activity is weighing on consumption trends.

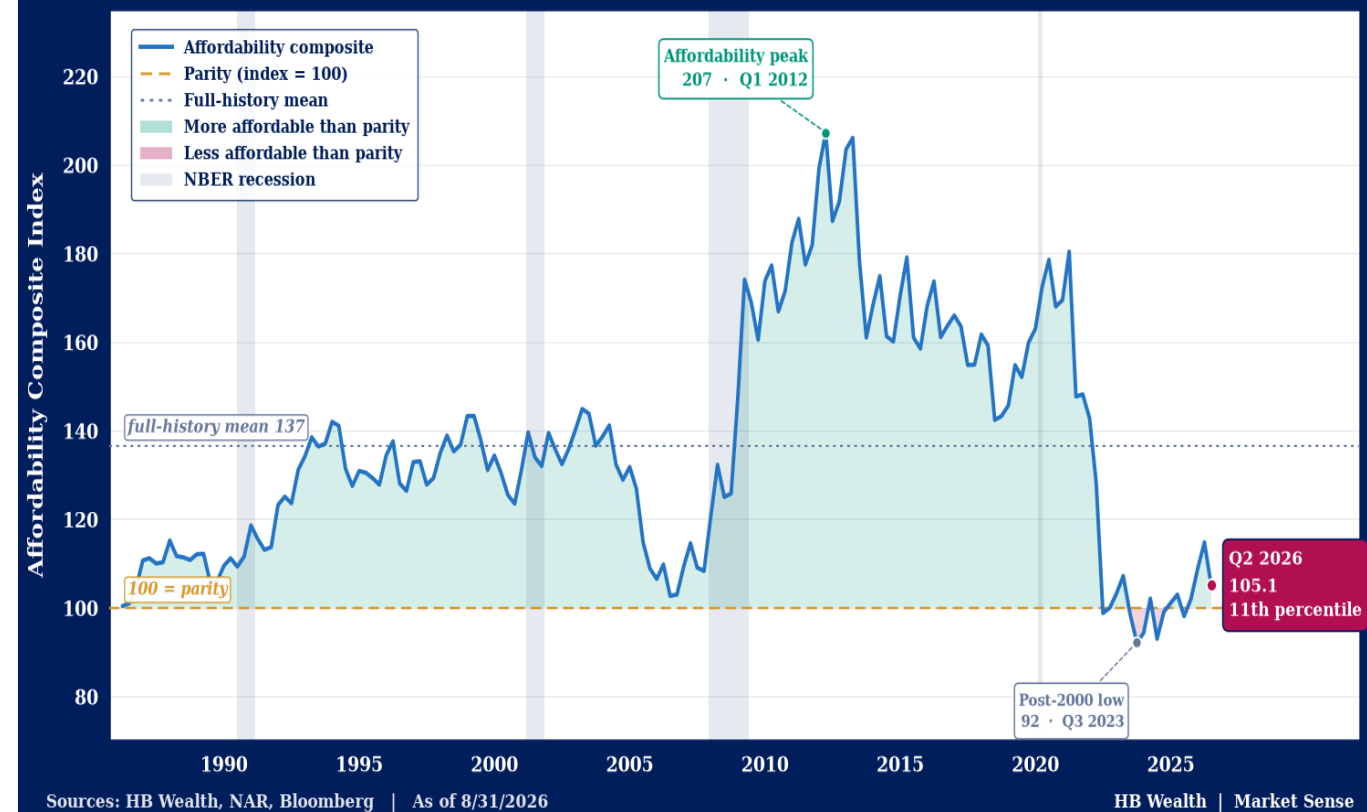
U.S. Real Average Hourly Earnings

Year-over-Year % Change · 1982-84 Dollars, Seasonally Adjusted



Housing Affordability Remains Near Four-Decade Lows

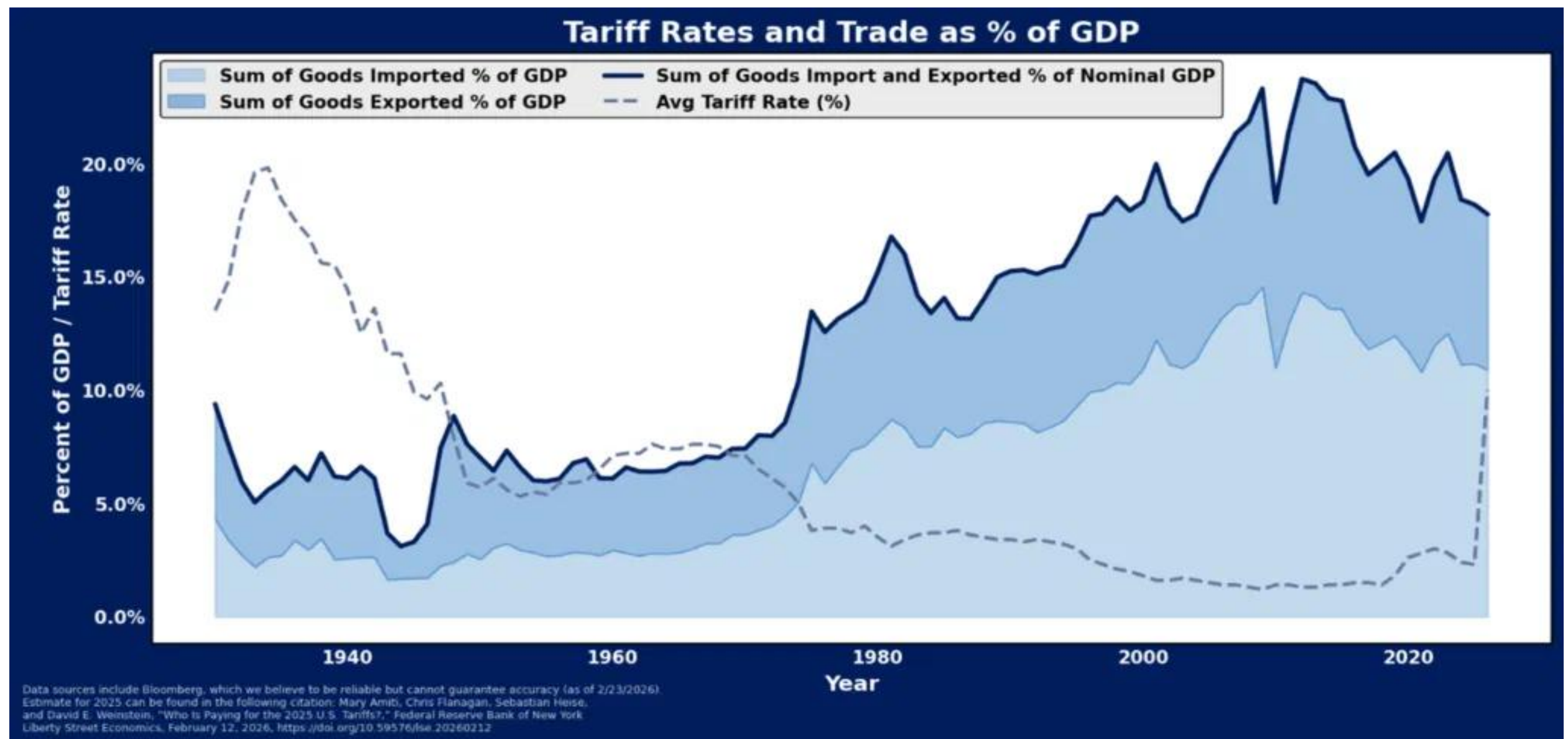
NAR Housing Affordability Composite — 100 means the median family income exactly qualifies for the median-priced home



Tariffs Re-emerge with Rising Trade Deficit

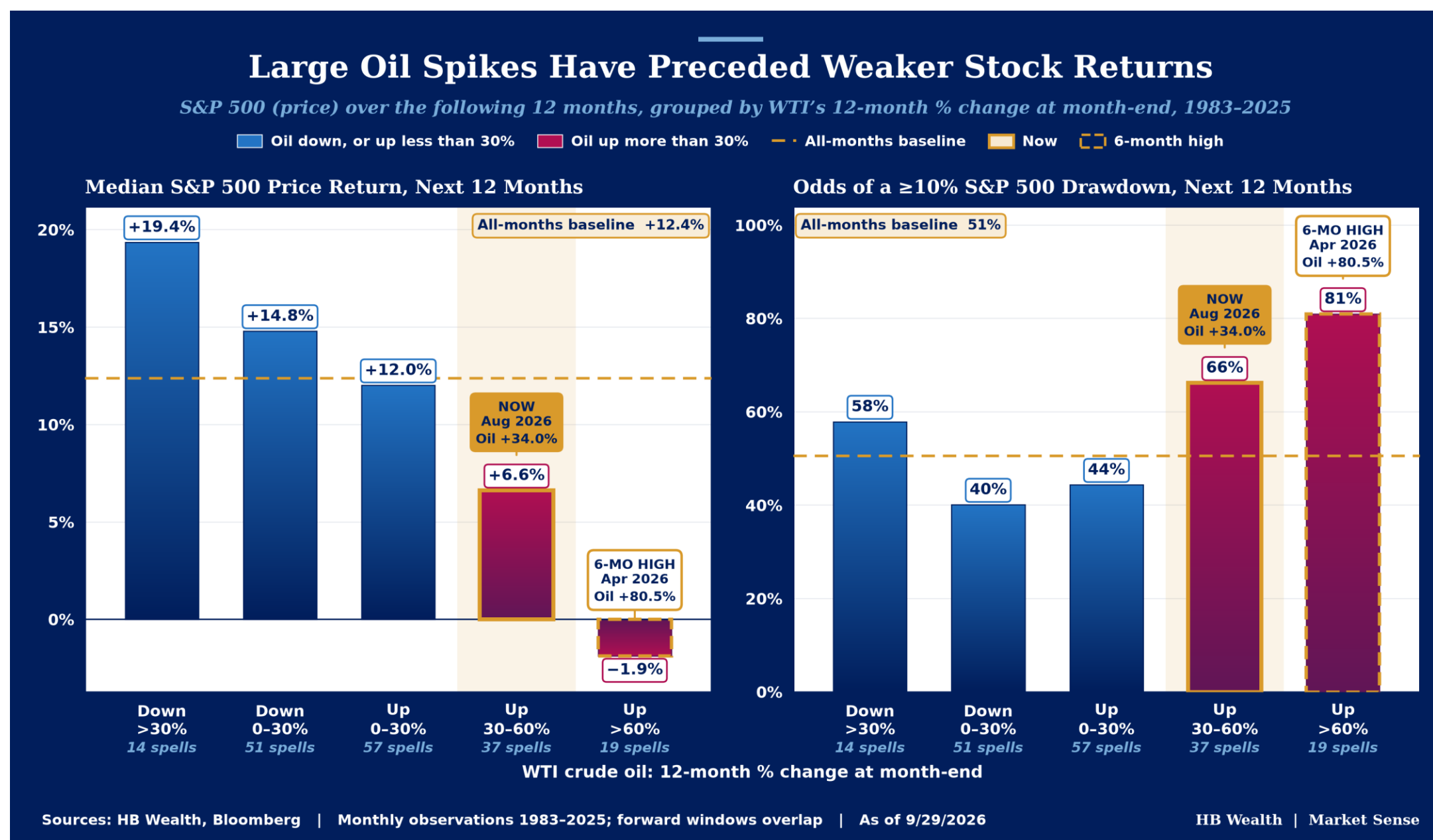
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Tariffs may remain a source of long-term tension for the economy and financial markets. Levies were ultimately lower than feared in 2025, and the Supreme Court ruled IEEPA tariffs unconstitutional in February, resulting in a temporary tailwind for corporate profits as companies clawed back some of the \$165 billion due. However, the trade deficit has widened over the last 18 months to \$1.8 trillion and is sparking renewed tariff efforts by the Trump administration. The latest tariffs, enacted under Section 301 of the Trade Act, include broad 10% to 12.5% import taxes on more than 80 trading partners, which may bring the rate to its highest level in more than 80 years.



Geopolitical Risks Remain Evident in Oil Price

The economy and financial markets have held up well in the face of the oil price shock. However, history suggests the elevated cost of fuel remains a risk to the outlook that should not be overlooked. On average, oil price surges of at least 30% increase the probability of market weakness and tend to slow down market returns. Steady AI investment has managed to mask underlying weaknesses that are emerging from fuel-related strains so far, but the surge in diesel prices has already resulted in some cuts to earnings forecasts for the 3Q earnings season.



Equity Summary: Stocks Slide as Rates Rise



Surge in Rates Leads to Turbulence in Stocks. Bond yields climbed sharply this month, helping to force the Fed into a new rate-hike cycle as inflation remains stubbornly high -- pressuring stocks broadly, with small caps sliding the most in a clear de-risking. Only tech persistently worked across capitalizations as faith in the AI-fueled earnings advance remains unwavering.

Fuel Costs are Taking a Bite out of the Outlook Too. Gas and Diesel prices surged this summer as the Iran war continues to linger, and it's finally starting to show up in the outlook for a swath of stocks. Consumer discretionary and staples are at the epicenter, with both facing downside revision risk should prices remain elevated, along with portions of industrials.

Meet the New Congress, Same as the Old Congress (for Stocks). Midterm elections are rapidly approaching, but if history is any guide, it shouldn't change stocks' trajectory. On average, the third year of the election cycle (as 2027 will be) saw the S&P 500 rise 16.5%.

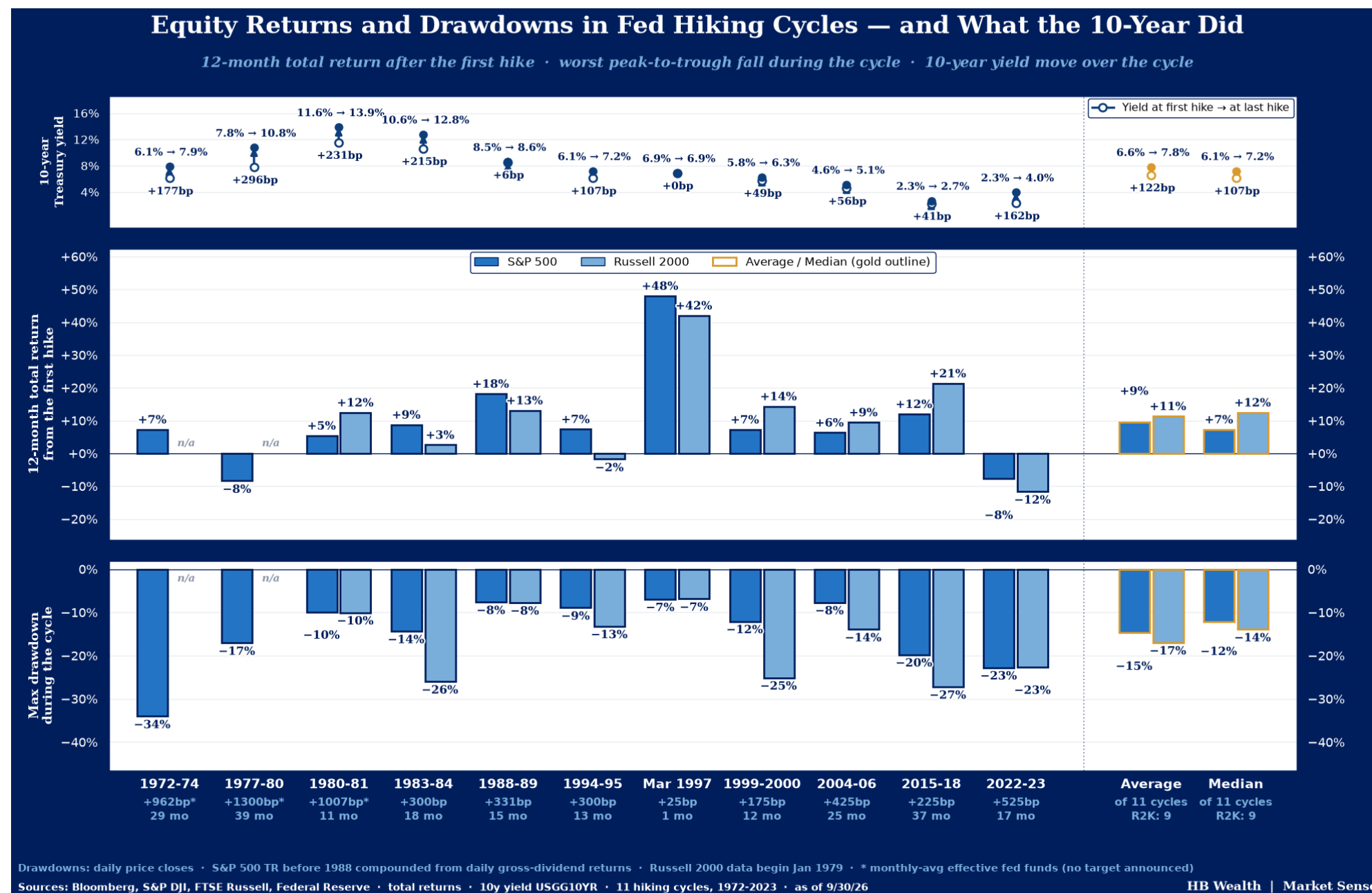
Valuations Continue to Normalize as Rates Rise. Valuations continue to slide as rates pressure returns and earnings surge. S&P 500 multiples are below our Fair Value Model's output, and as long as the consensus outlook remains intact, valuations should remain tame.

Earnings Season is Back on Tap for October. Consensus forecasts for 3Q remain robust, and fundamental tailwinds supporting the S&P's 493 remain in place through 1Q27. However, for the broadening trade to continue, those hurdles will likely have to be leaped – a tall task given nearly the highest bar for the group on record.

Higher Rates Aren't Always Bad for Small

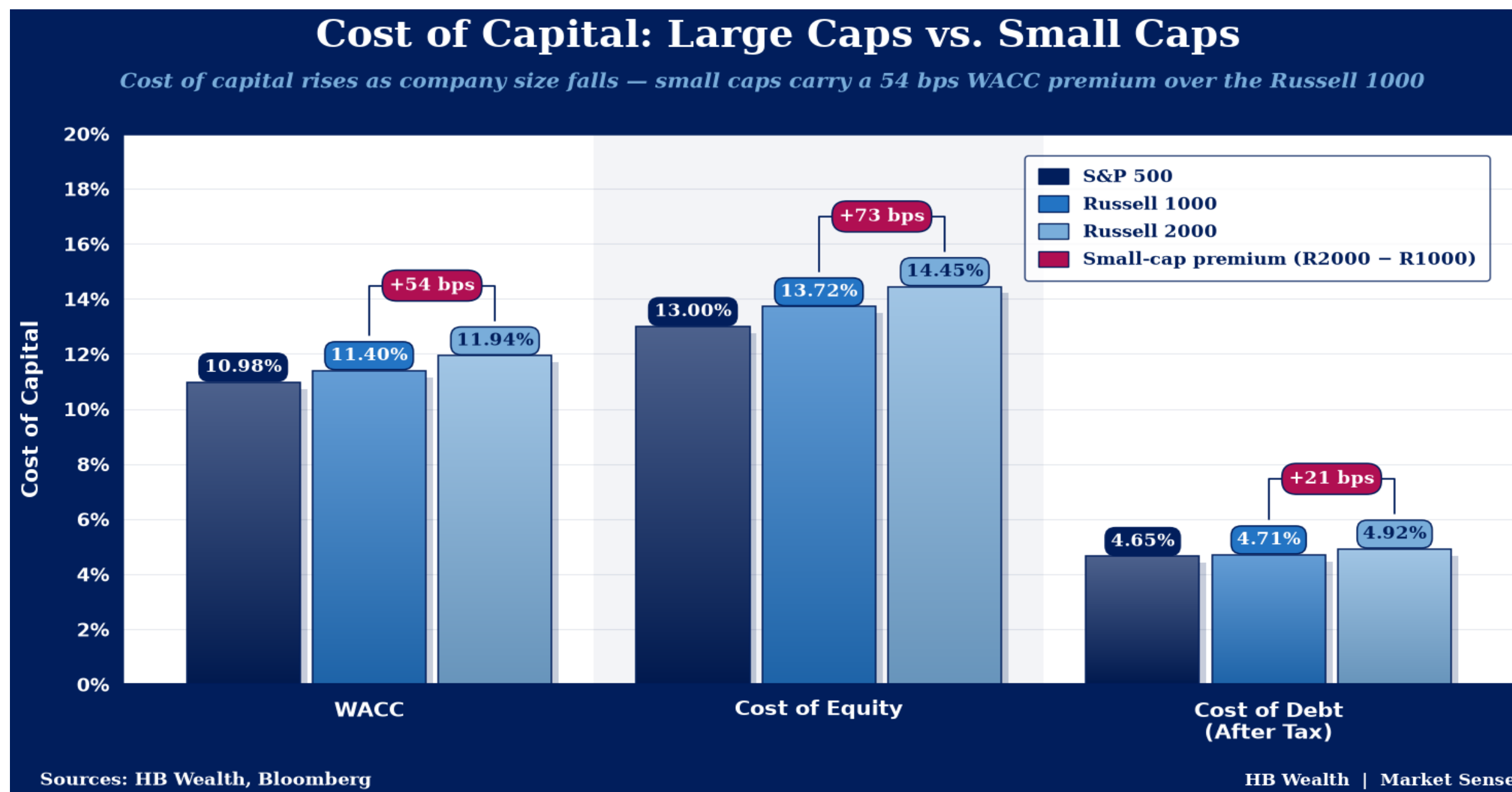


The Fed's first hike in three years is already driving significant churn under the surface of equity markets, and that's to be expected if history is any guide. Over the past 11 hike cycles, stocks generally fared well in the year after the initial Fed funds rate move. However, all but four saw at least a correction in the S&P 500, with the large-cap gauge facing an average 15% drawdown to the Russell 2000's 17% drop across nine cycles. The bond market's reaction to hikes likewise has some say over stocks' direction – smaller moves usually result in better outcomes, especially for more rate-sensitive small caps.



Cost of Capital is Higher for Small Caps

Russell 2000 companies are typically seen as more rate-sensitive because they have a higher weighted average cost of capital (WACC) – the return companies would have to get on new projects to make it worthwhile, often used as the discount rate in valuation models – than larger peers. Based on data from Bloomberg, the median Russell 2000 company carries a WACC 54 bps above larger peers, with the weighted average cost of equity 73 bps above and weighted average cost of debt (after tax) 21 bps higher. More expensive debt funding is a function of reliance on high-yield markets. While spreads are still tight, even during intra-cycle hikes like 2015 and 2022, high-yield spreads rose, leading to volatility for small caps.



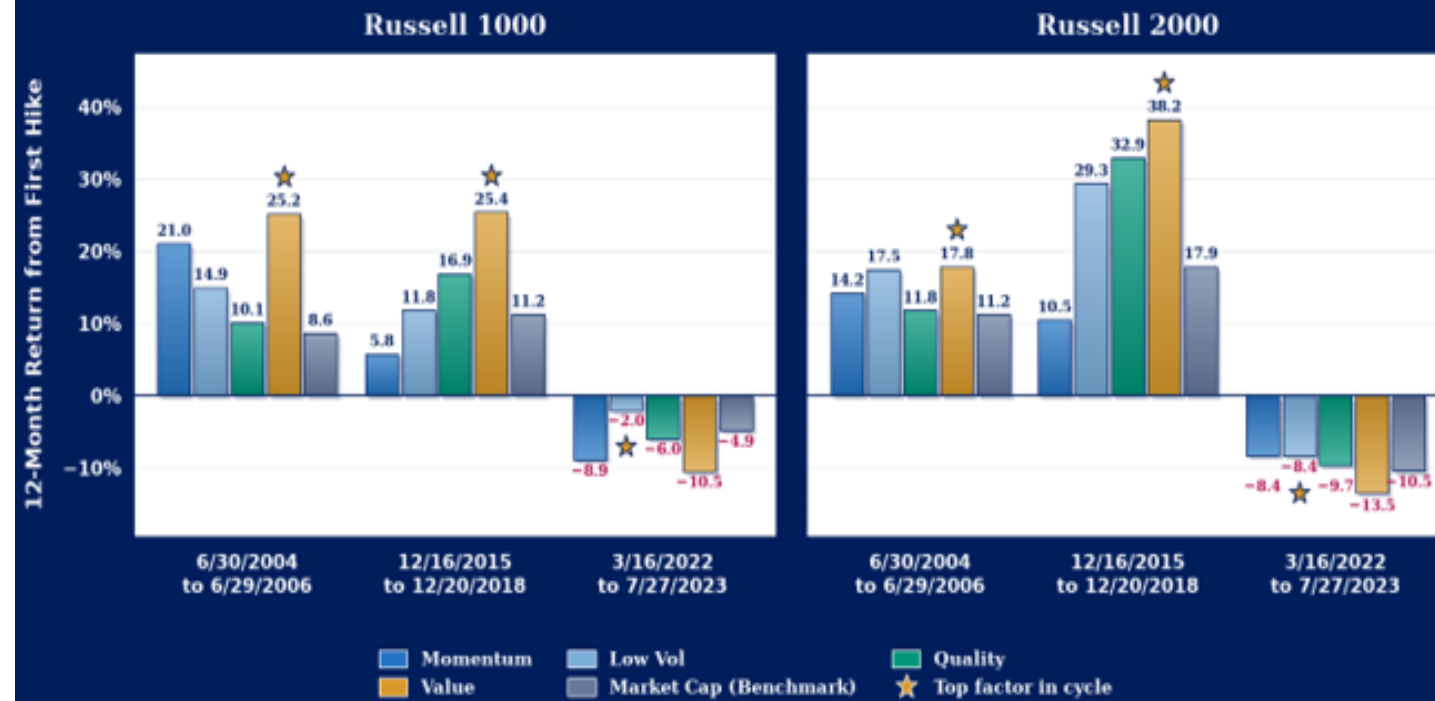
Value and Energy Stocks Held Up Best During Recent Hike Cycles

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Over the past three rate hike cycles, the value factor has the most consistent record of outperforming across capitalizations – though cheaper stocks notably struggled in the 2022 cycle, with the rapidly rising 10-year in that event being the differentiator. In both the Russell 1000 and 2000, the value factor (cheaper stocks) was the best-performing factor in the year following the hiking cycles that started in 2004 and 2015. However, across both large and small caps, the factor notably struggled following the 2022 hike cycle. That period coincided with a broad market earnings recession and a sluggish economy.

Factor Performance After the First Fed Hike

12-month returns from the start of each of the last three Fed hiking cycles

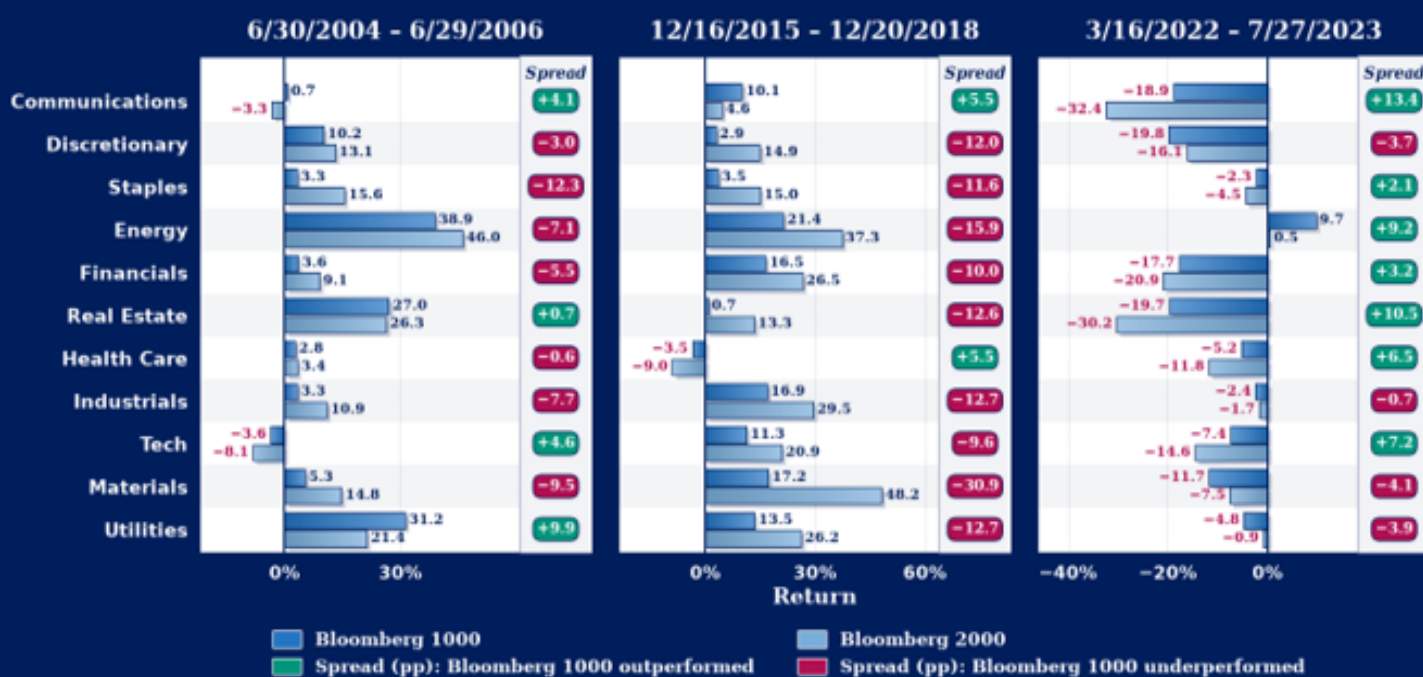


Sources: HB Wealth, Bloomberg

HB Wealth | Market Sense

Sector Performance in the Last Three Fed Hiking Cycles

Small caps led in 7 of 11 sectors in 2004-06 and 9 of 11 in 2015-18; large caps led in 7 of 11 sectors in 2022-23



Sources: HB Wealth, Bloomberg

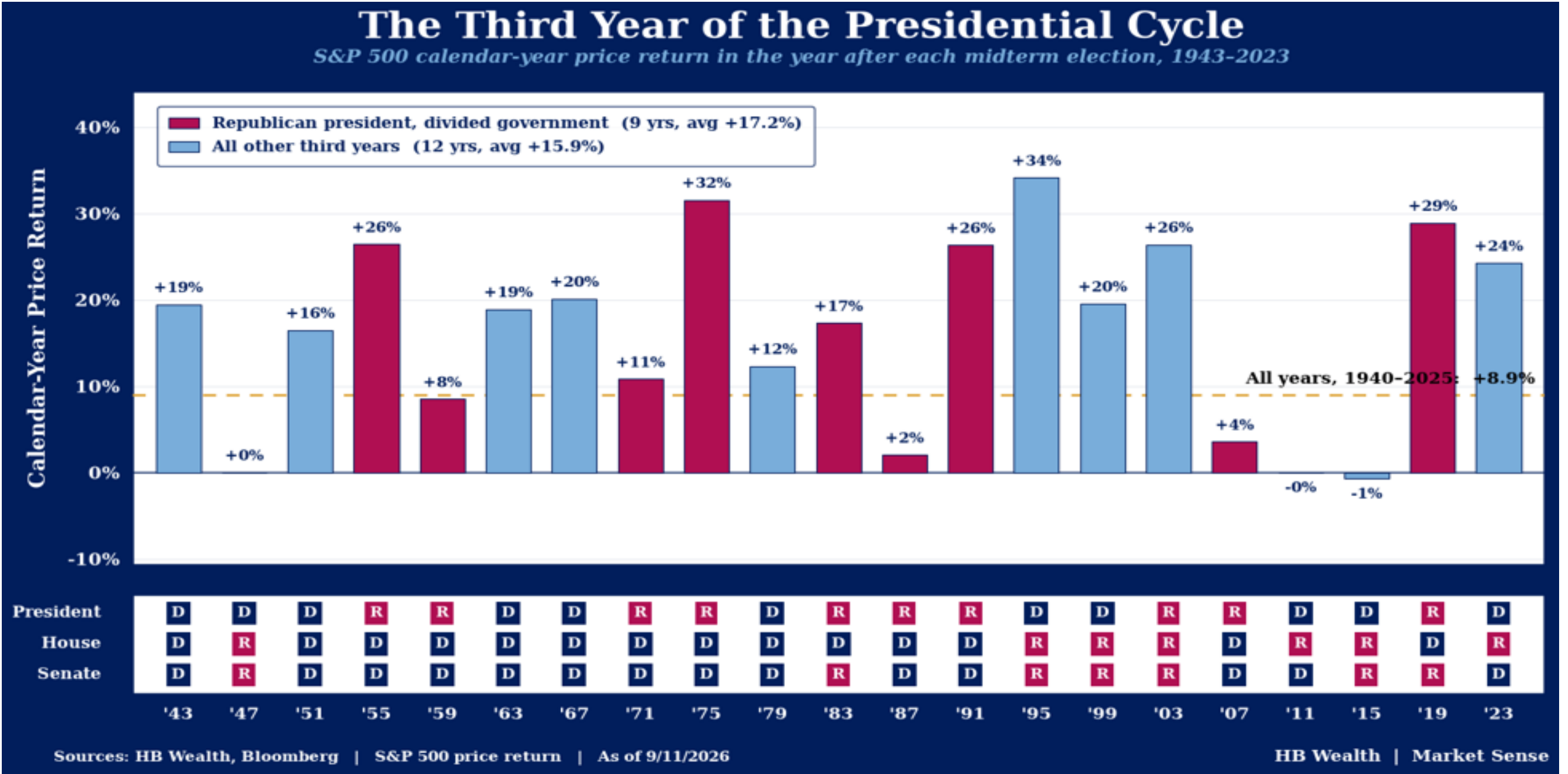
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Across both large and small caps, some overlaps in sector performance in the first year of a rate hike cycle emerge. In large caps, real estate, health care, communications, and discretionary were the worst-performing groups on a median basis across the past three cycles. Likewise, across small caps, communications, real estate and health care lagged. Conversely, energy was the best-performing sector across capitalizations – posting either the best or second-best performance across all three cycles in both gauges. Industrials and utilities also tended to fare well in both size classes.

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Midterms Should Not Derail Stocks

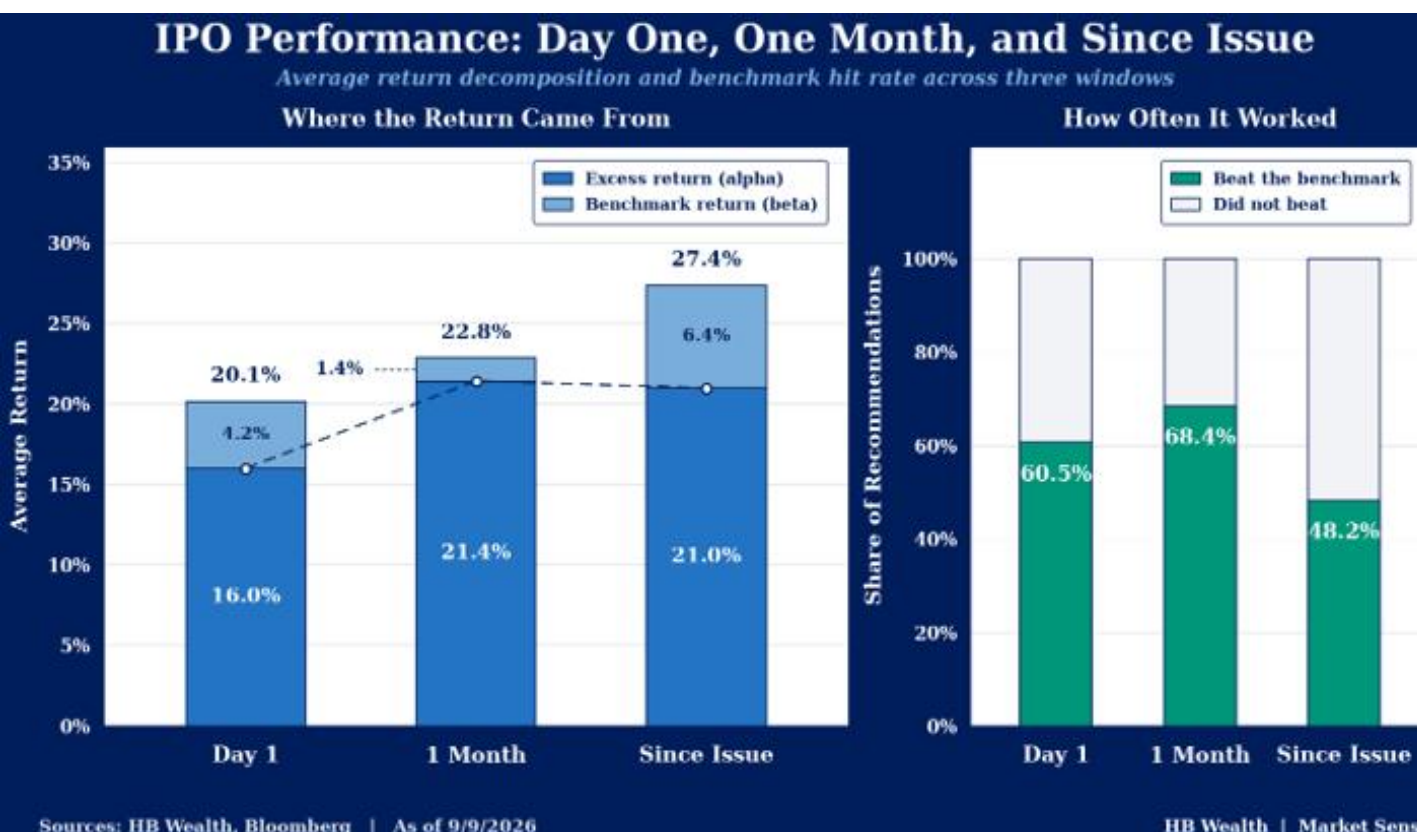
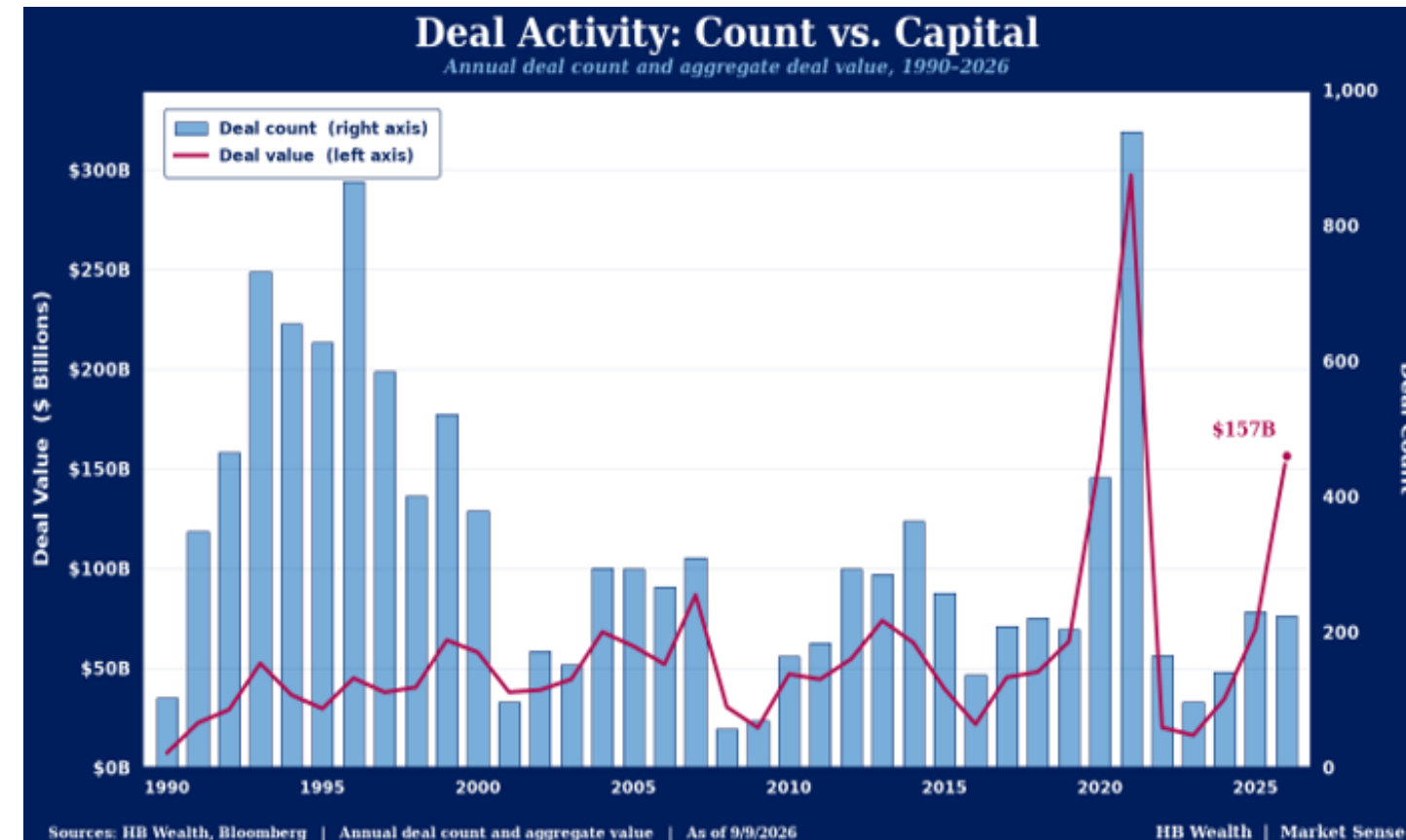
Elections are just one of the multitude of factors that drive stocks at any given time, and history suggests the outlook for equities should not change much with a turnover in Congressional party control. Since 1940, the average S&P 500 return in the third year of the election cycle has been 16.5%. Under Republican Presidents, the average is 18.2%, and under Democrats, it is 14.9%. Republican Presidents with a Mixed Congress (2 instances) presided over an average 23.1% return in the year after midterms, while Republican Presidents with a Democratic Congress (7 instances) saw a 15.6% return.



IPO Issuance is Surging, but Returns Don't Look Stretched

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Despite rate hikes and market volatility delaying some key IPOs, 2026 has been a strong year for new issuance, nearly matching 2025's deal count before the book has even closed on the third quarter. Since the start of the year, there have been 223 IPOs that are trading, representing \$156 billion in value. That's just a shade off 2025's 230 IPOs but is the second-best year on record to 2021 on deal value, aided by SpaceX's \$75 billion listing back in mid-June. Anthropic's IPO alone – estimated to seek up to \$100 billion in funding – would put the year within a stone's throw of 2021's \$297 billion value, with another \$7.5 billion already announced in the pipeline.

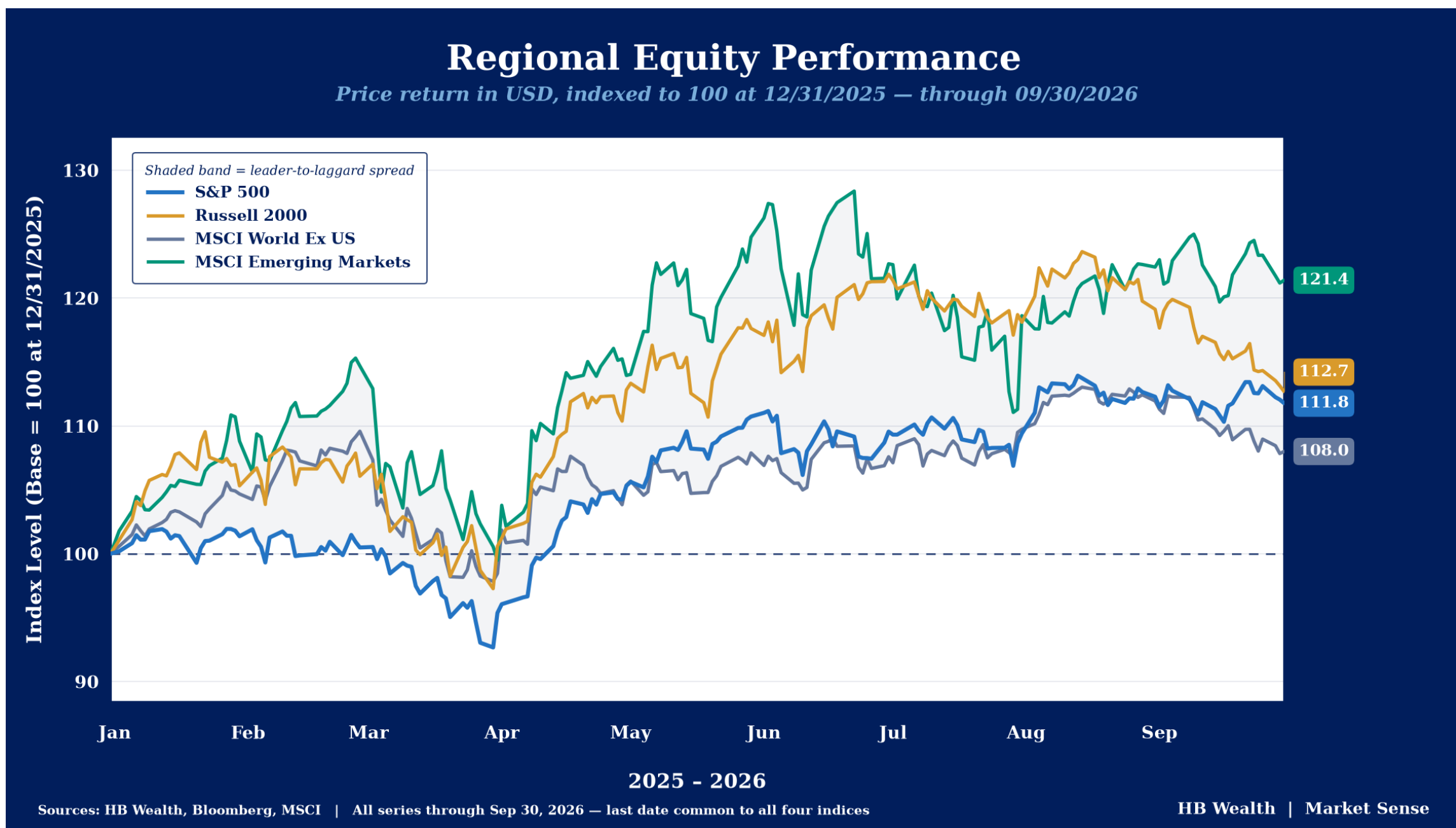


This year's IPOs have likewise fared well once they started trading, but not well enough to sound alarm bells about excessive risk-taking. On average so far this year, new issues have gained 20.1% on the first day, 22.8% over their first month, and 28% since inception, respectively. While the first-day trading gain is better than the long-term average of 18.9%, daily performance still falls well short of the 64.6% the average IPO gained in the first trading day during 1999-2000. However, the subsequent 1-day and 1-month gains are well above 2021's 10.7% and 7.7%, respectively. The year's average gain since going public is stronger than the 1980-2024 average one-year gain (5.6%) but has been aided by strong market undercurrents.

Saved by the Tech: S&P 500 and Emerging Markets Held up Best in September

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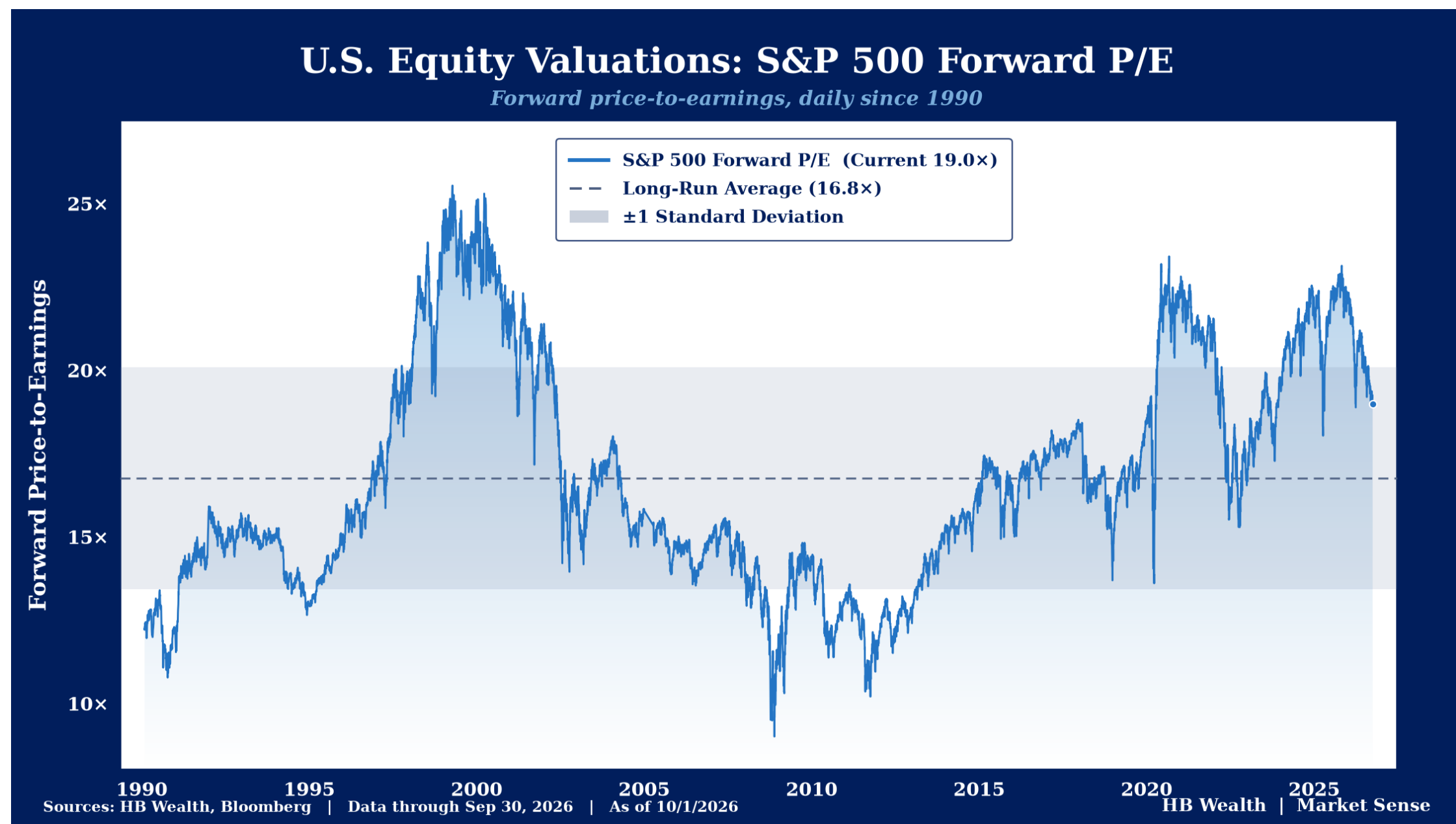
Stocks were broadly down in September – seasonally one of the weakest months for equities – as a combination of the lingering war in Iran and surging bond yields weighed on markets. For the month, the S&P 500 and Emerging Markets performed best among equities (though both fell), thanks to hefty concentration in tech stocks. Conversely, the Russell 2000 and developed markets ex-U.S. slid sharply. On a year-to-date basis, emerging markets remain in the lead, up over 20%, while the gap between U.S. small and large caps has narrowed to within 150 bps. Developed markets ex-U.S. stocks are up, but just 8%.



S&P 500 Multiples Back Below Our Fair Value Model

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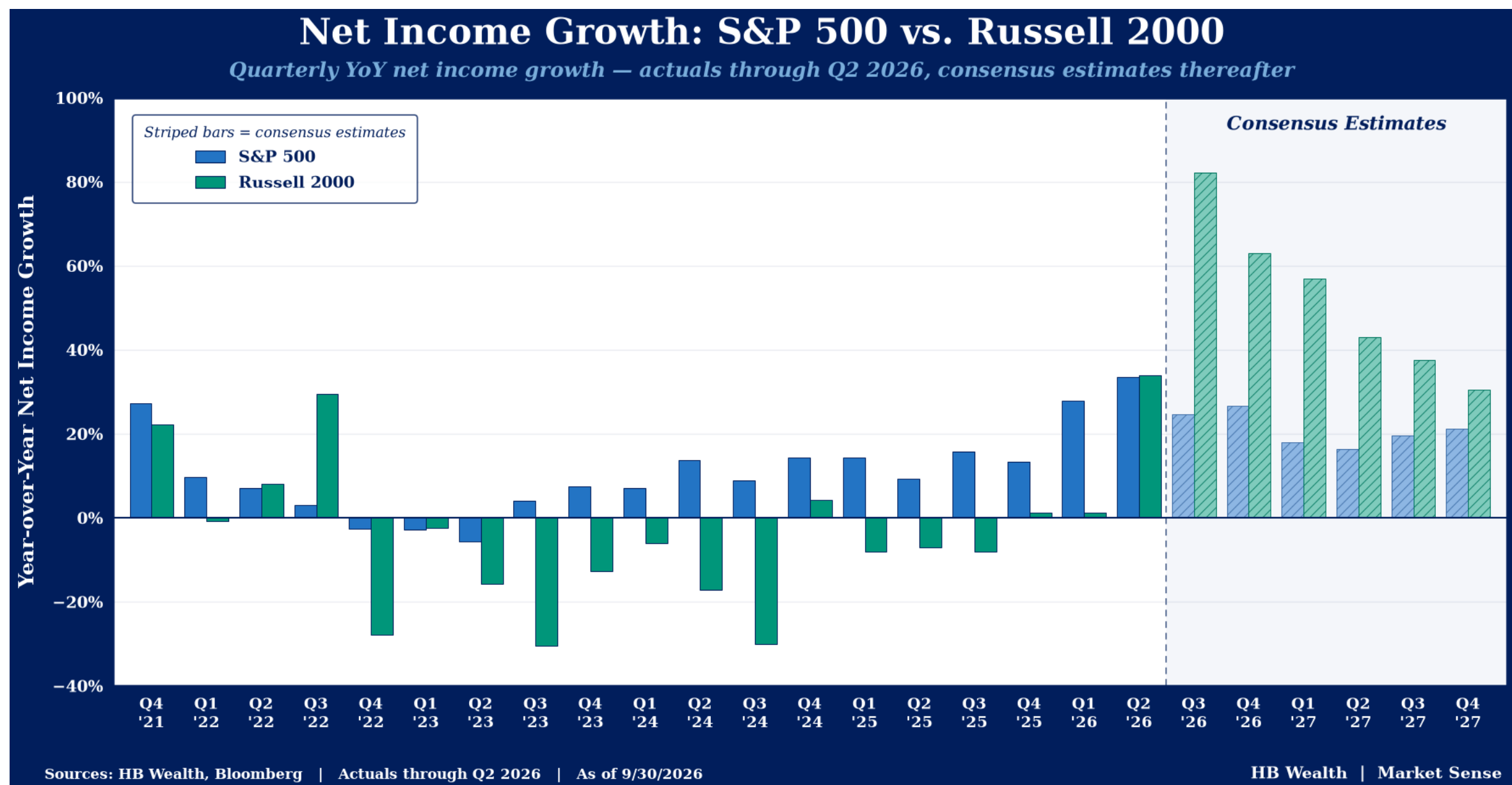
S&P 500 forward P/E multiples are trending lower, largely because extraordinary earnings advances are being offset by surging bond yields, and they are now back in line with our fair value model. Currently, the large-cap gauge trades at 19x, which is 0.7 standard deviations above the average since 1990. This is a touch below our model's estimate of 19.4x. Multiples have contracted from 23.1x at the end of October 2025 and remain short of the 2021 high that was fueled by a unique combination of monetary and fiscal stimulus. Likewise, at the height of the dot-com bubble, S&P 500 forward valuations had climbed north of 25x – a level the market has yet to approach this cycle.



Earnings Trends Still Make Case for Rotation, But Small Caps and the 493 Likely Have to Beat

HB

Earnings season is right around the corner, and consensus thinks it's going to be another fantastic one. Consensus thinks S&P 500 revenues could grow 11.9%, leading to a 24.4% rise in earnings in 3Q, while small caps could post 10.4% and 82.1%, respectively. Under the surface, trends that supported the value, broadening trade earlier in the year, remain in place. Mag-7 stocks are expected to show 20.8% EPS growth versus the other 493's 25.9%. Additionally, the 493 are expected to keep a lead through 1Q27. However, the mag-7 has a history of sharp upside surprises this cycle, so continued 493 outperformance will likely hinge on clearing a lofty bar this quarter.

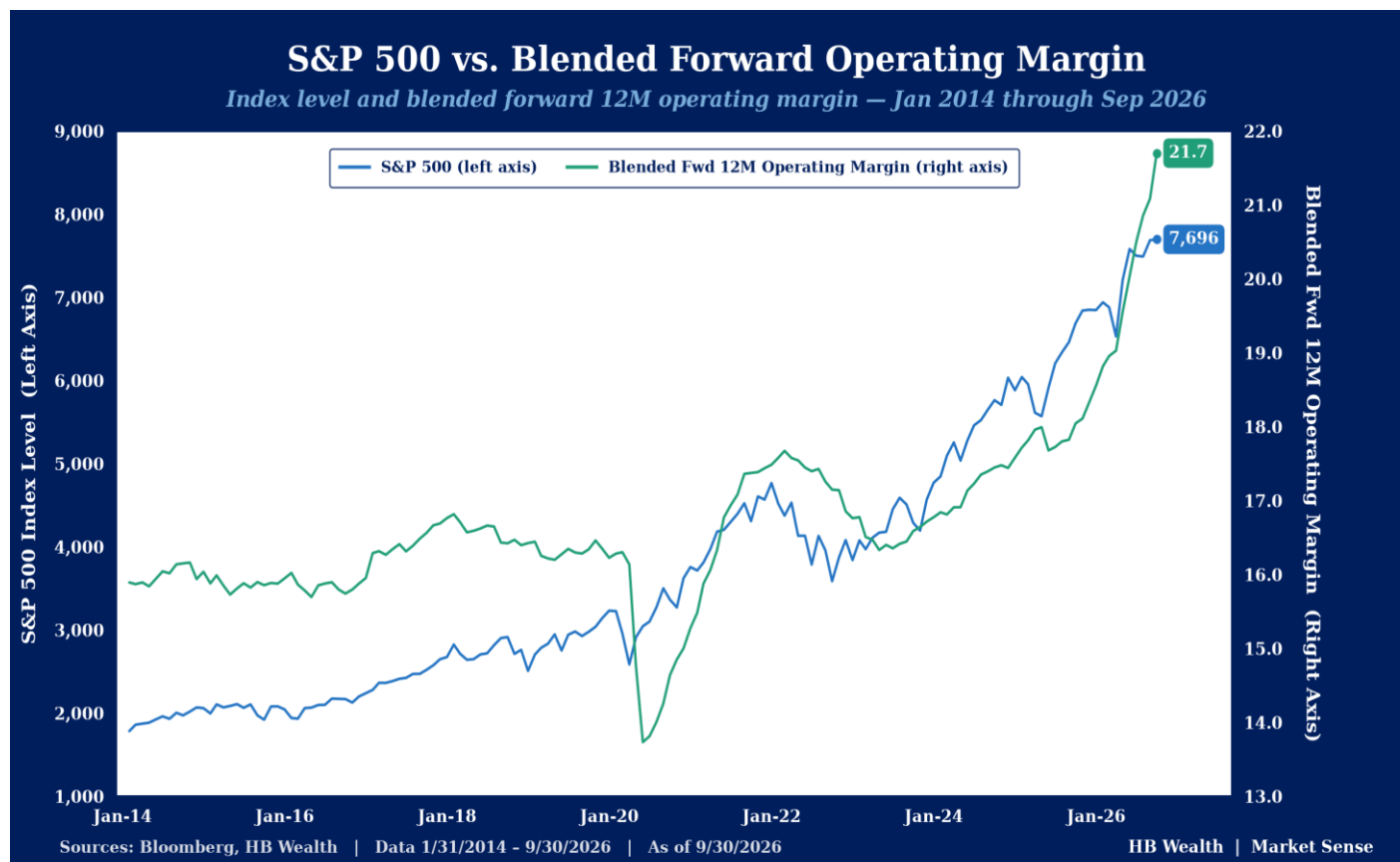
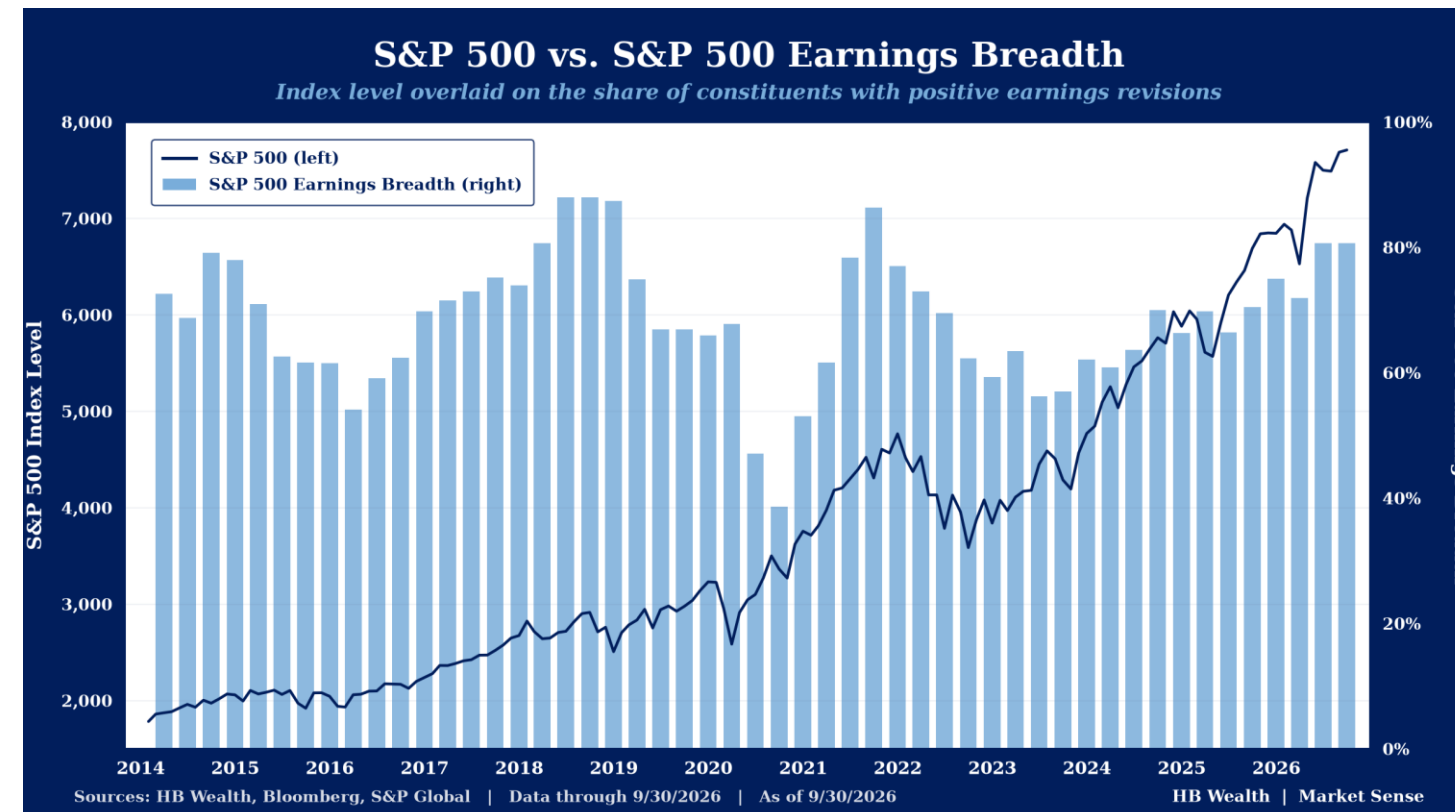


Watching Earnings Breadth, Margin Forecasts for Continuation of the Bull

HB

Earnings breadth surged to 82.2% in 2Q from 80.6% in 1Q, but consensus implies that the peak could still be at least a few quarters away. In 2Q, every S&P 500 sector posted earnings growth except for health care, and consensus sees every group growing through the second half of 2026.

Peaks and troughs in earnings breadth have been especially meaningful to stocks' direction over the past decade. Breadth hit an all-time high in 2Q18 (at 88%) and began to fade over the subsequent quarters, contributing to the 19.8% peak-to-trough correction in the S&P 500 that year. Likewise, breadth hit another high in 2Q21 (at 86.4%), leading stocks into their 2022 bear market.



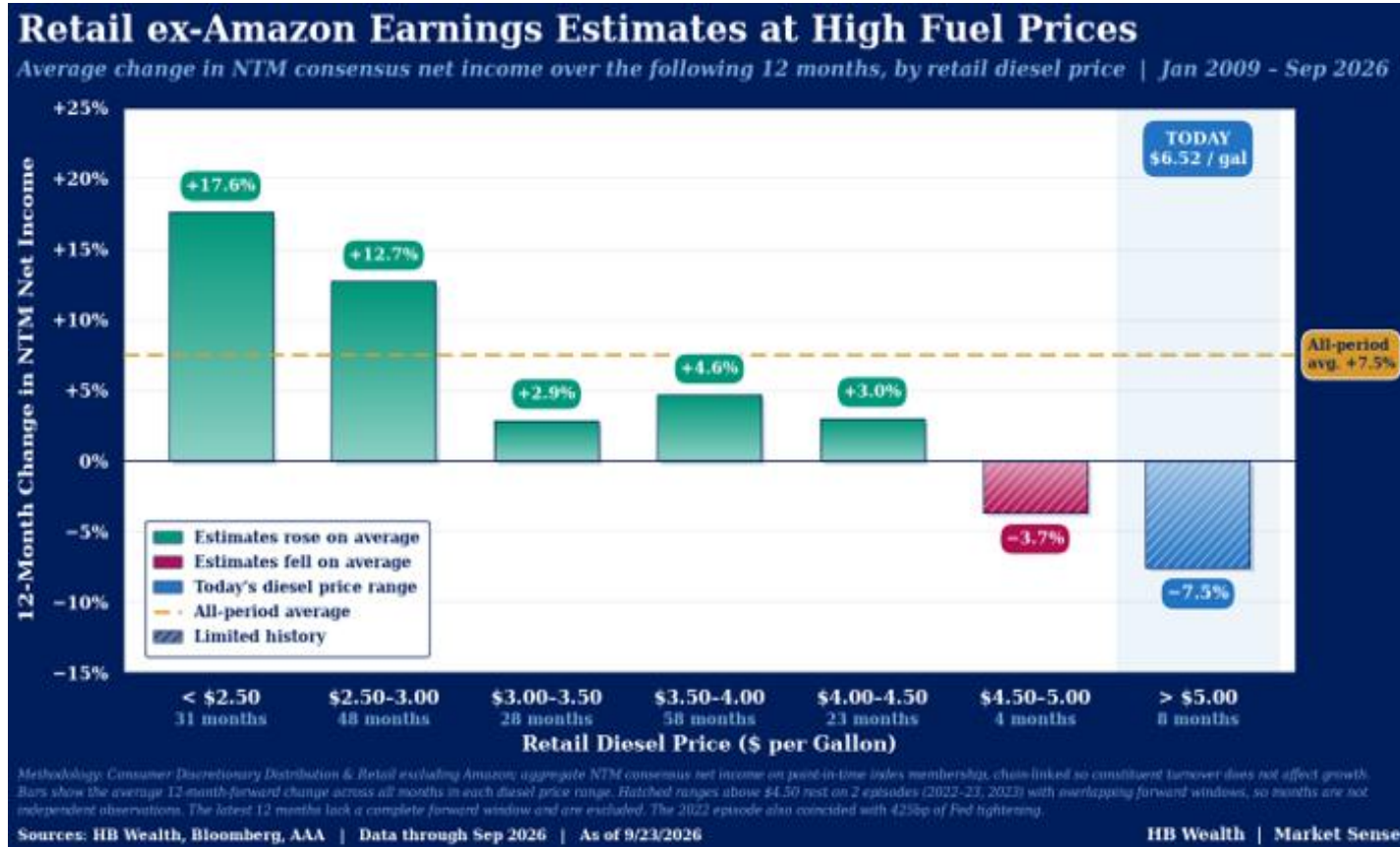
Margin trends are similarly a strong indicator of impending market tops, and the consensus outlook is showing little sign of margin growth slowing down or contracting just yet. Estimates just keep climbing – at the start of 2026, consensus pegged the S&P 500 for 18.8% forward 12-month operating margins, but that has climbed to 21.7% currently.

Ahead of the S&P 500's declines in 2011, 2015, 2018 and 2020, reduced margin projections ultimately weighed on prices.

Gas & Diesel Prices Are Starting to Weigh on the Consumer Outlook

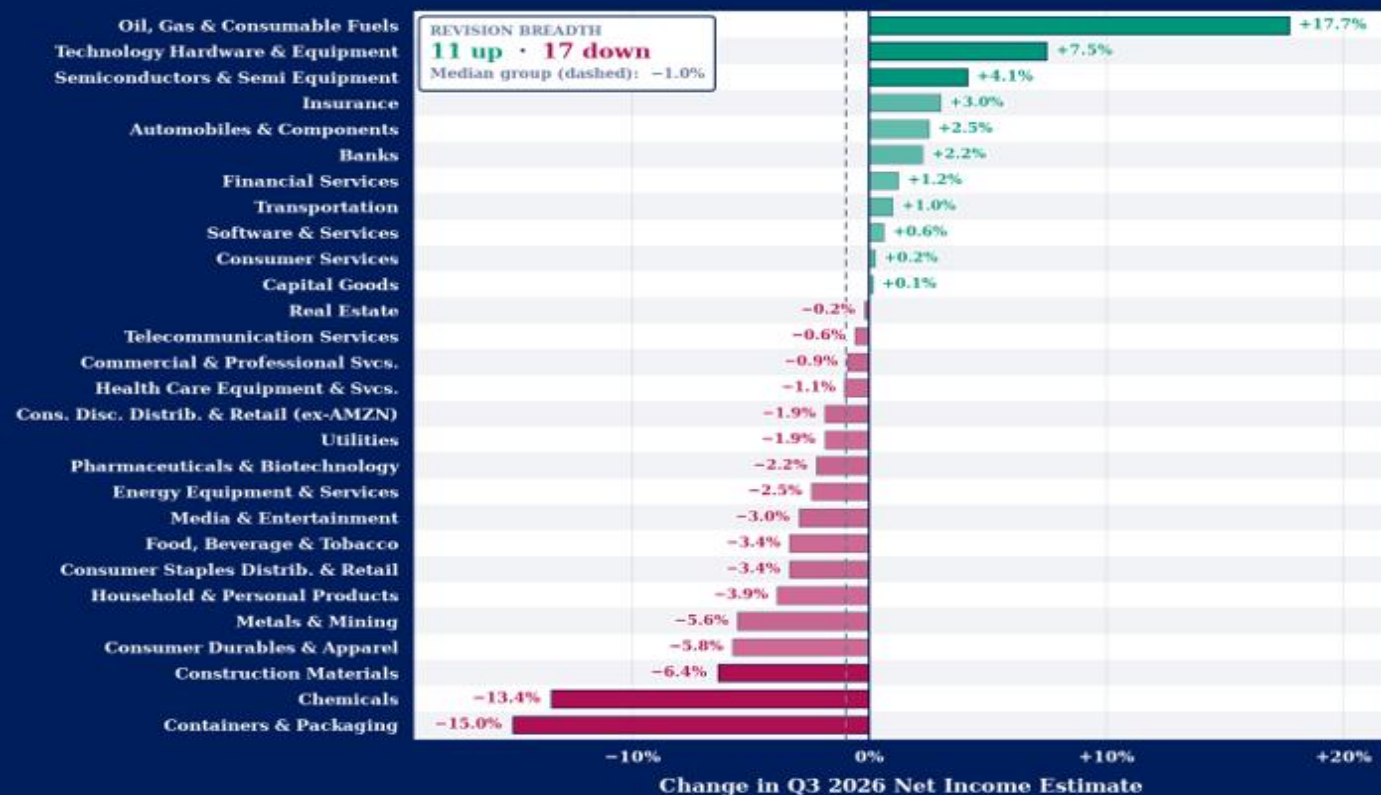
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While higher fuel prices have had no impact on S&P 500 headline earnings growth expectations, they are starting to eat away at S&P 500 consensus estimates beneath the headline, with consumer staples, discretionary, and parts of industrials at the epicenter of cuts. As of now, the sell-side sees this as just a short-term disruption, but that assumption is heavily reliant on a speedy resolution to the war in Iran. When diesel prices spiked roughly 63% in the first half of 2022, discretionary and staples sectors' 2H22 earnings estimates dropped an average of 1,976 bps and 443 bps. Fuel costs have jumped more this time – up 86%+ from 2026's low – presenting significant downside revision risk.



Q3 2026 Net Income Estimate Revisions

Change in bottom-up aggregate Q3 2026 net income estimate by GICS industry group, June 30 - September 22, 2026



Bottom-up aggregate of S&P 500 consensus estimates; net income = consensus EPS x diluted shares (held constant across both dates). Real Estate uses FFO per share. Amazon excluded from Consumer Discretionary Distribution & Retail.

Sources: HB Wealth, Bloomberg

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Please review all disclosures at the end of the document.

More than half of S&P 500 industries have faced cuts to 3Q earnings growth expectations since the beginning of July, as higher interest rates, waning tax refund support, and rising fuel prices all start to take their toll on the outlook for consumer and industrial companies. Over the past 12 weeks, three large-cap materials industries – containers & packaging, chemicals, and construction materials – have faced the largest cuts to 3Q earnings among S&P 500 companies, though each is being trimmed from an extraordinarily high base and is still largely projected for rather strong EPS growth.

Plenty of Sector Discounts Still Available



It’s too early to give up on year-to-date sector winners in large caps, according to our sector model, which suggests an overweight position in energy, tech and materials. Meanwhile, we suggest steering relatively clear of weaker and interest-rate-sensitive groups like real estate and financials, as the renewed rate-hike cycle and difficult year-over-year comparisons weigh on estimates. Communications rounds out our suggested underweights, as early AI winners remain concentrated in tech’s semiconductor industry rather than communications’ heavyweights (Alphabet and Meta).

Sector Signals Dashboard				
Composite tilt with underlying factor signals — live book as of 6/30/2026				
● Rank 1-3 ● Rank 4-8 ● Rank 9-11				
Sector	Price Momentum	Earnings Trend	Relative Valuation	Overall Signal
Energy	●	●	●	OVERWEIGHT
Technology	●	●	●	OVERWEIGHT
Materials	●	●	●	OVERWEIGHT
Staples	●	●	●	NEUTRAL
Health Care	●	●	●	NEUTRAL
Industrials	●	●	●	NEUTRAL
Discretionary	●	●	●	NEUTRAL
Utilities	●	●	●	NEUTRAL
Financials	●	●	●	UNDERWEIGHT
Real Estate	●	●	●	UNDERWEIGHT
Communications	●	●	●	UNDERWEIGHT

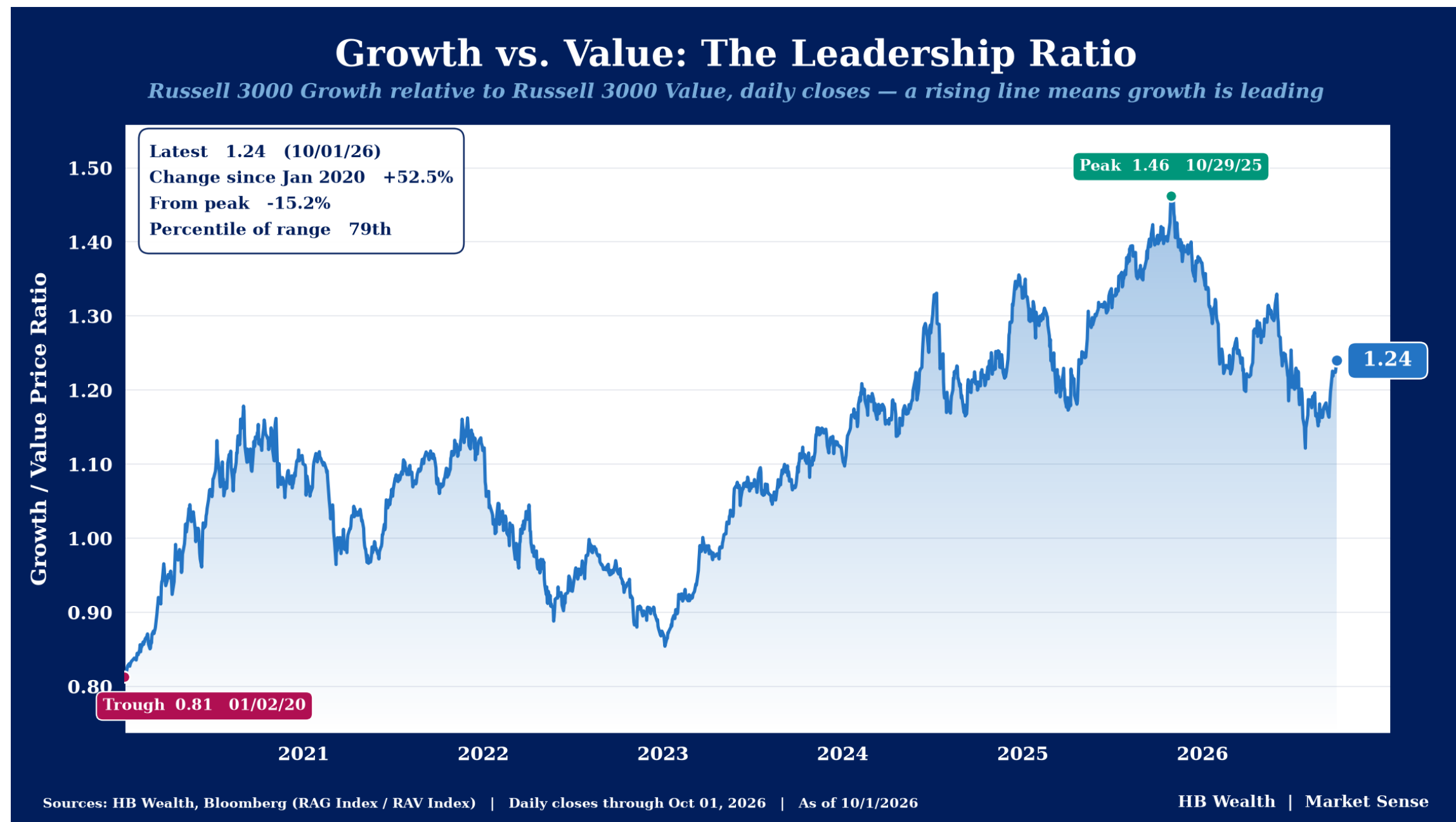
Sources: HB Wealth, Bloomberg | As of 6/30/2026 | Generated 7/24/2026

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Style Gap is Narrowing But Value's Lead is Huge in 2026

HB

Russell 3000 growth stocks fared well for the month, rising over 2.5% while value fell by nearly the same magnitude. However, that outperformance is doing little to narrow the style gap that's emerged in 2026. For the year, value is up nearly 3x as much as growth, as a clear penchant for cheaper stocks emerged this year. The renewed rate-hike cycle could mark some turbulence, however – value stocks generally fared well when we studied hike cycles, but that playbook repeating will likely rely on earnings forecasts remaining robust for the style and some calm emerging in longer-term interest rates.



Base Rates Remain High While Spreads Remain Tight. The “higher for longer” mantra is proving true, with one Fed hike behind and as many as four more are priced in through the end of 2027. This has boosted the attractiveness of yield on intermediate-duration bonds, without the need to stretch on longer credit as well.

Credit Spreads Widen Slightly But Remain Tight. As expected, the recent volatility has pushed corporate credit spreads out from their near-record tight levels, but spreads remain tight based on historical norms, with High Yield and Investment Grade spreads in their relative 16th and 8th long-term percentiles, respectively. This, paired with elevated base yields, gives reason to keep notable credit risk on the shortest part of the curve.

Muni Selloff Amplified by Thin Liquidity. September’s municipal market slumped roughly 5%, marking the largest loss for a calendar month since 1987. The sharp rise in rates has been fueled by moves in the Treasury market driven by inflation concerns as well as fears of a hawkish Federal Reserve. Most municipal bonds still trade over the counter, so sharp moves can be amplified by thinner liquidity. Pairing low liquidity with large fund outflows makes a recipe for an outsized downside move.

The Belly of the Curve Offers the Most Stability in this Environment. The short end of the Treasury curve faces binary Fed-driven outcomes, and the long end risks continued repricing to provide adequate compensation for fiscal and supply risk.

10-year Yield is Holding “Higher for Longer”

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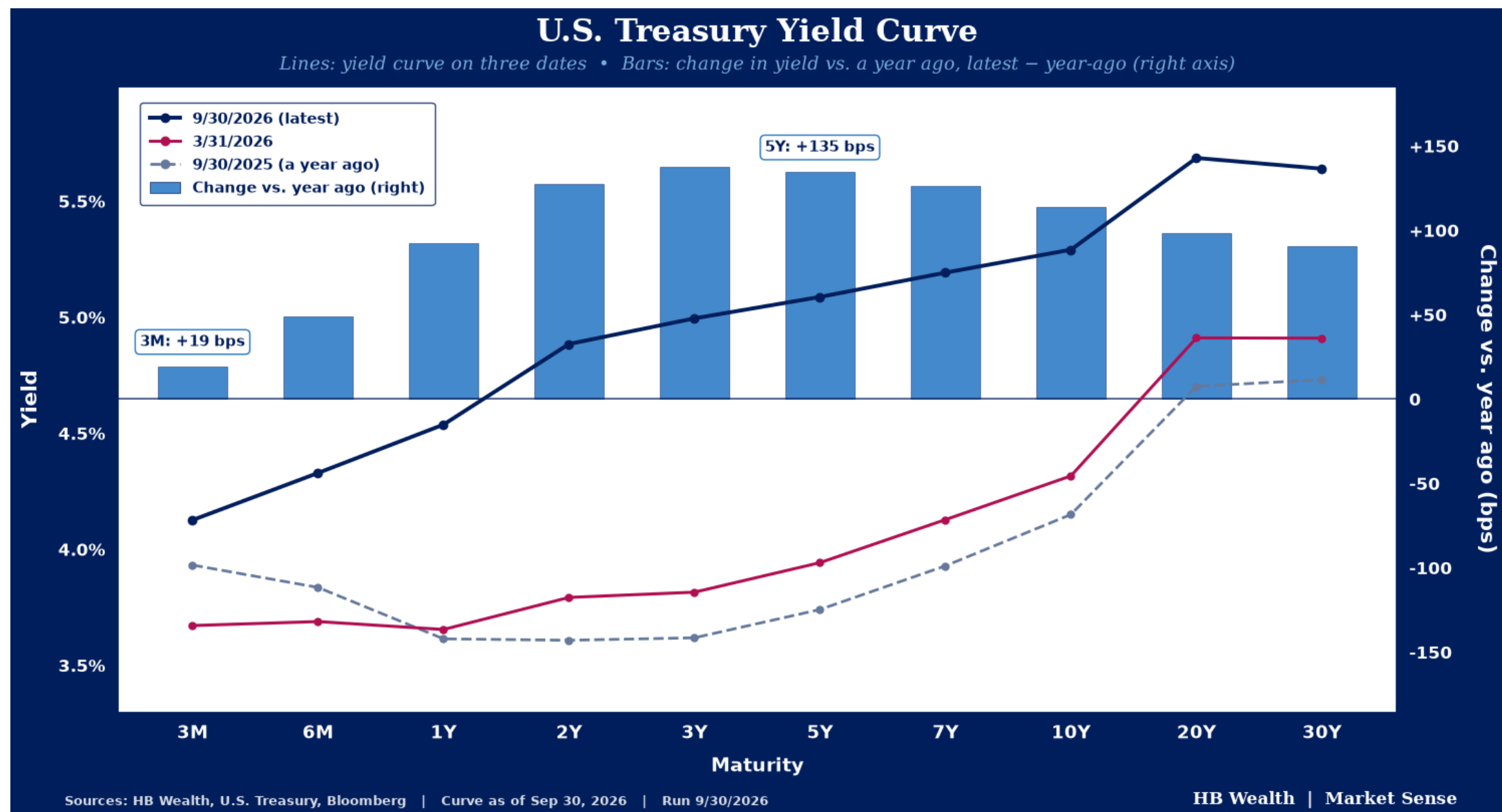
The “higher for longer” mantra is proving true, as inflation has put more Fed hikes on the table for 2026, with one priced in for December and three more over the course of 2027. Along with rising growth and sticky inflation, as well as persistently bloated debt and deficits, this has elevated 10-year Treasury yields to levels last recorded two decades ago. It has also boosted the attractiveness of yields on intermediate-duration bonds, without the need to stretch into longer credit as well.



U.S. Treasury Yield Curve

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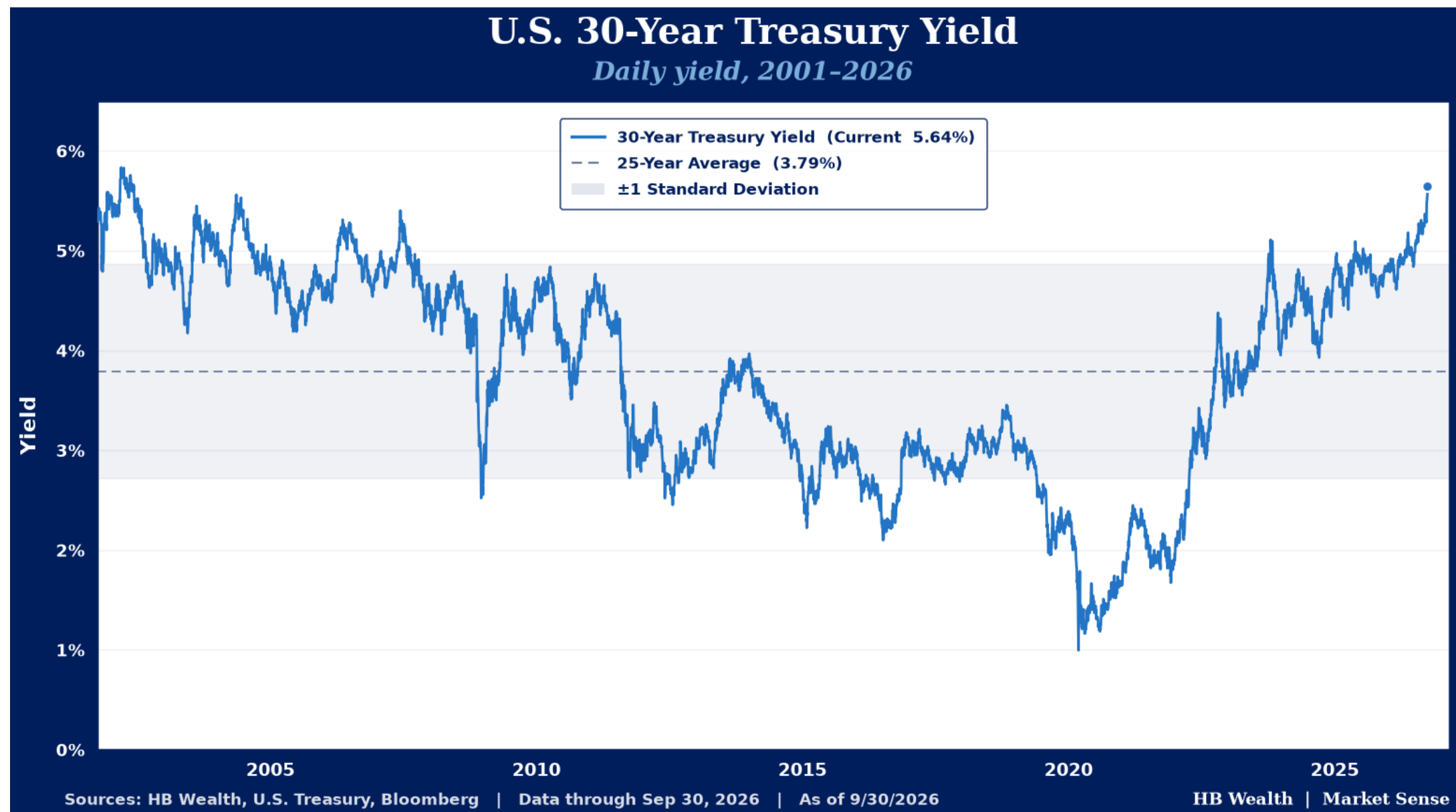
The 5-year tenor has seen much of the action over the past year. Fed cut expectations have turned to hike expectations on the back of the war in Iran, as well as pricing in a higher, sustained PCE. This pushed the front end higher, while the longer end has been elevated by deficit concerns and crowding by long IG Corporate issuance.



30-Year Yields Nearing 20-Year Highs



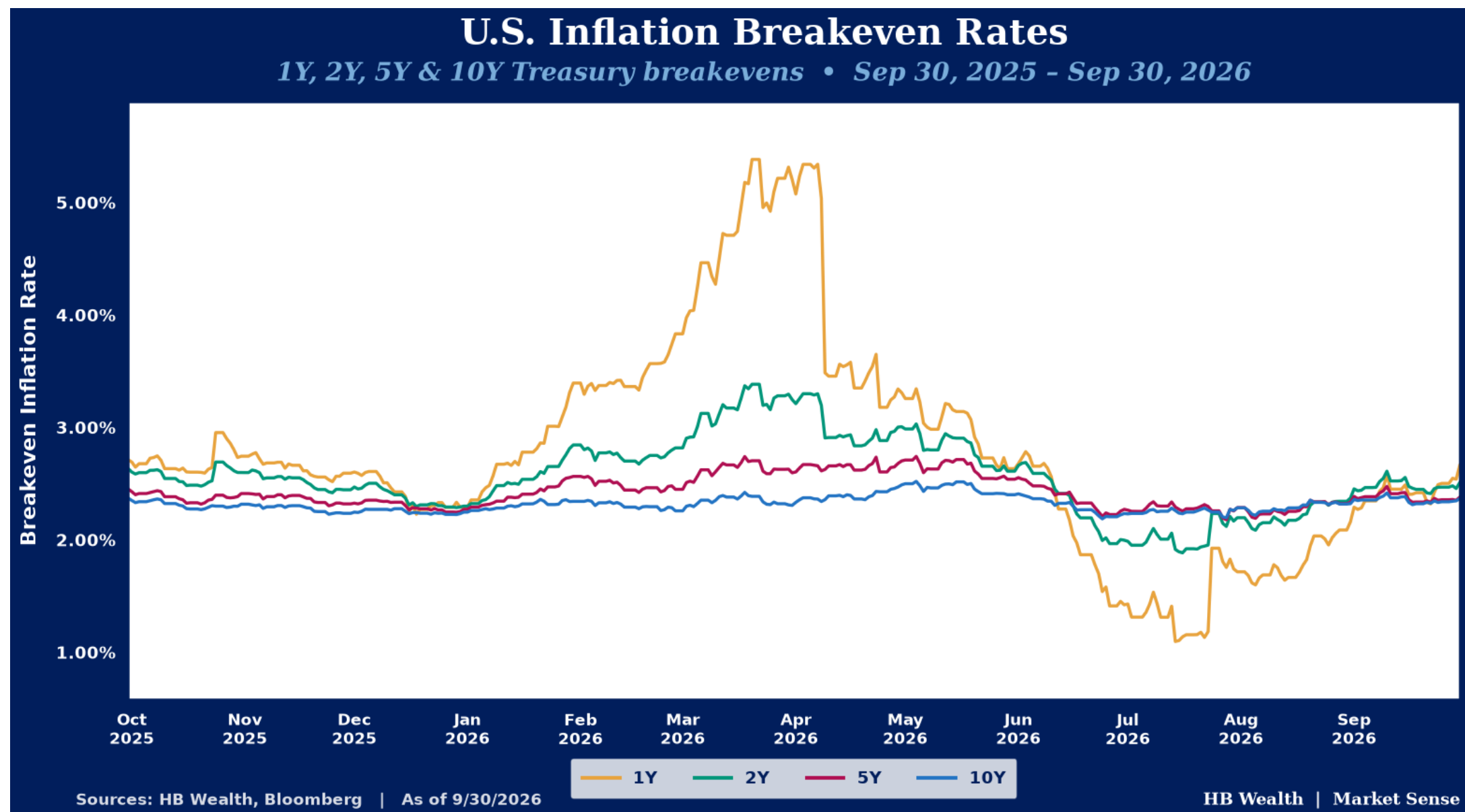
Treasury Secretary Bessent announced an upsizing of long-end Treasury buybacks as public debt crossed \$40T and the 30-year Treasury initially crossed 5.3% in August. After multiple transactions, Bessent's efforts have proven unable to overcome repricing of growth, inflation, and the deficit, and the long bond's rate has marched to 5.64%, the highest since June 2002.



Inflation Breakeven Curve

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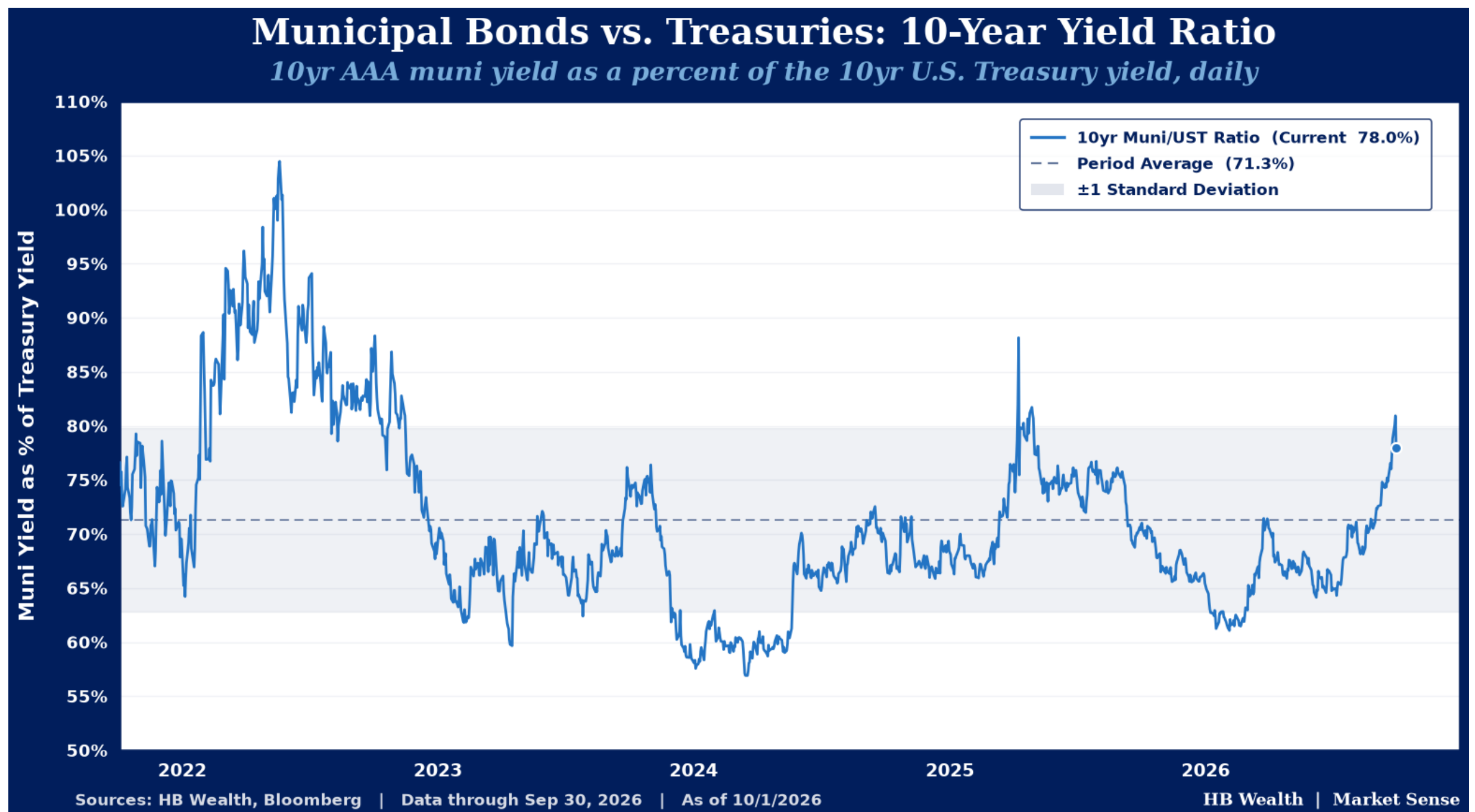
The front-end breakeven decline that followed the oil shock has unwound. The 1-year breakeven bottomed around 1.1% in July from energy-base effects and ended September around 2.7%, just above the 5-year and 10-year breakevens, which have maintained the 2.3-2.4% range for much of the year.



Muni Market Moves



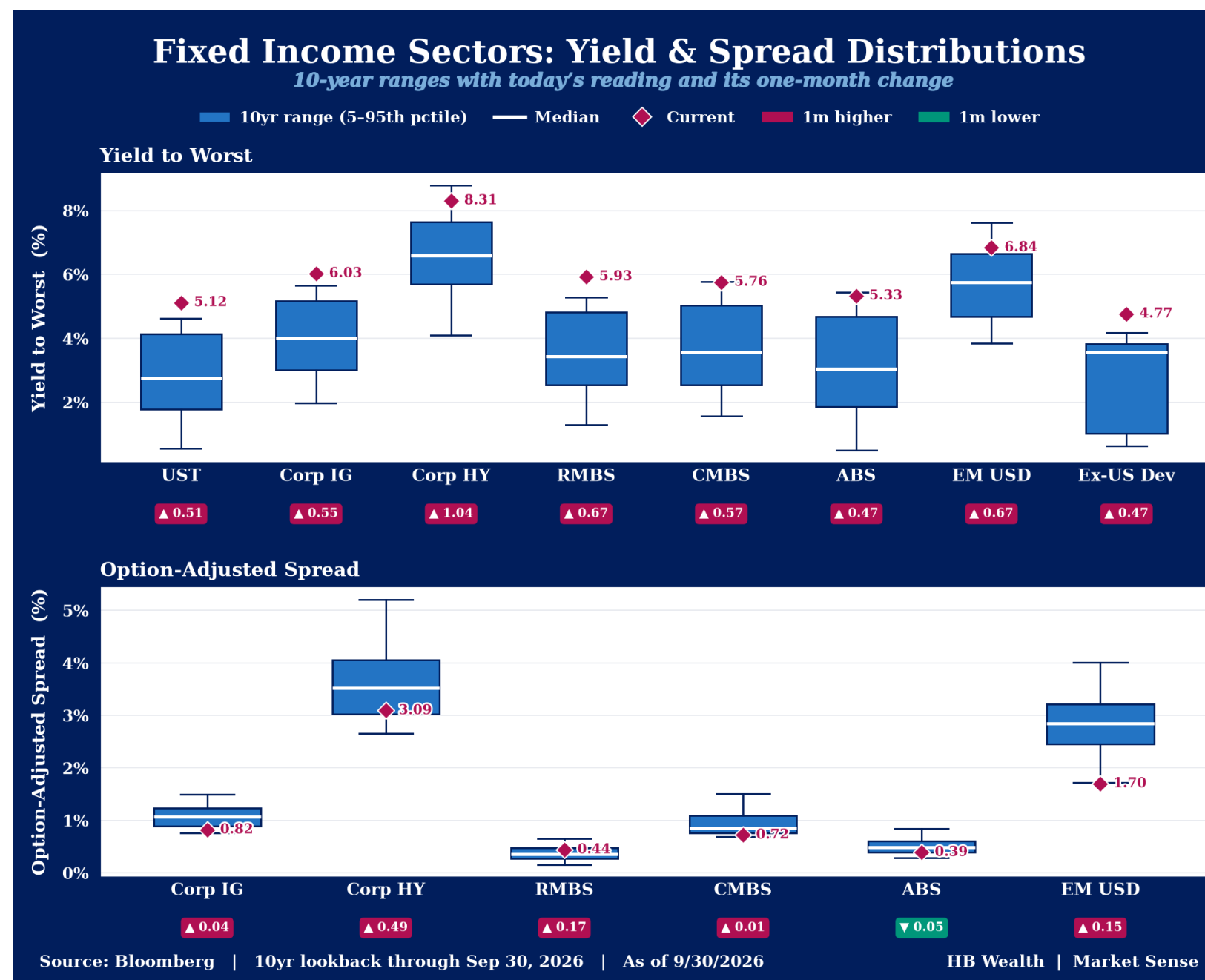
Aside from a brief spike in April 2025, Municipal bonds are at their cheapest levels relative to Treasuries since 2022. September's municipal market slumped roughly 5%, marking the largest loss for a calendar month since 1987. The sharp rise in rates has been fueled by moves in the Treasury market driven by inflation concerns as well as fears of a hawkish Fed. Most municipal bonds still trade over the counter, so sharp moves can be amplified by thinner liquidity. Pairing low liquidity with large fund outflows makes a recipe for an outsized downside move.



Fixed Income Spreads



As is the norm when the Treasury market faces strain, the recent volatility in bond markets has pushed corporate credit spreads out from their near-record-tight levels. Spreads nonetheless remain tight based on historical norms, with High Yield and Investment Grade spreads in their relative 16th and 8th long-term percentiles, respectively. This, paired with elevated base yields, gives reason to keep notable credit risk on the shortest part of the curve. Some idiosyncratic value can also still be found in more off-the-run areas of the securitized market.



CCC Credit Trades Wider Than Broad HY

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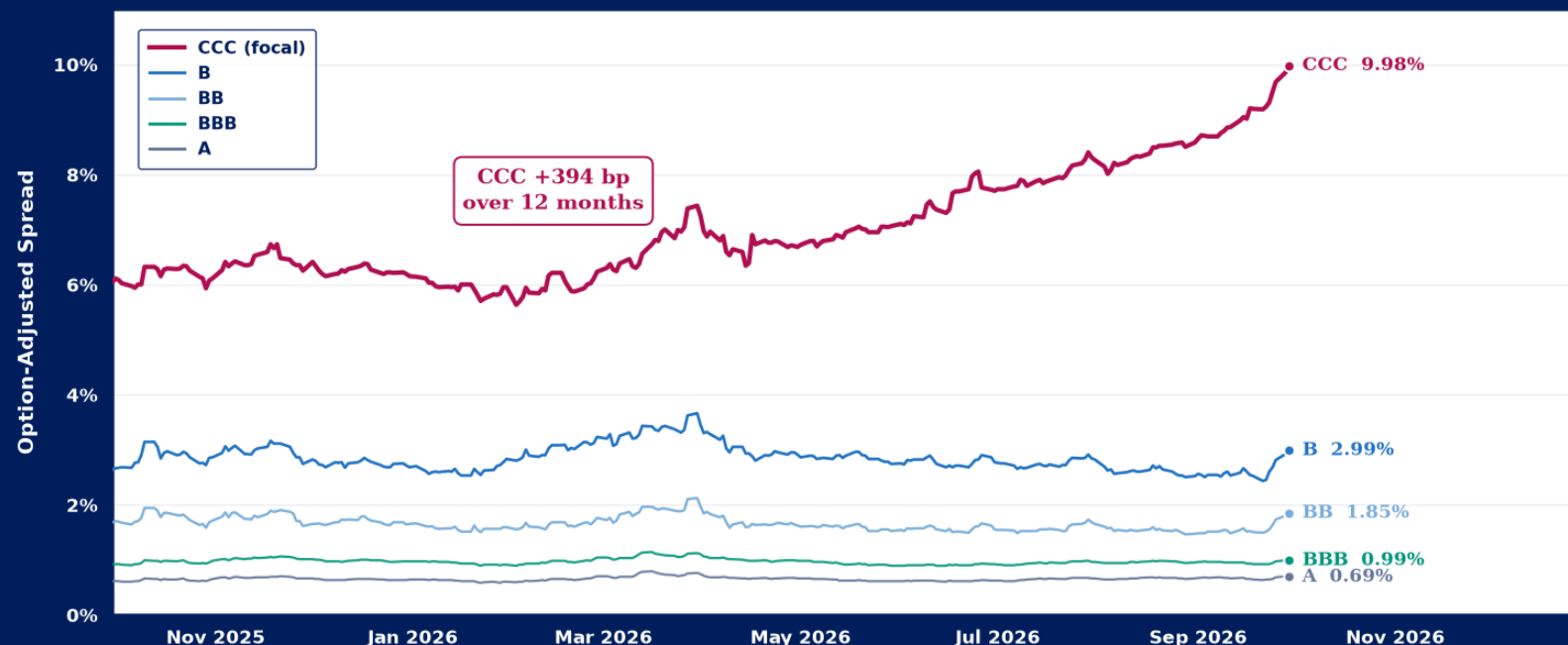
Spreads remain near historic tightness across the credit spectrum. Even with the recent volatility, BB is at its 11th percentile, and the broader HY index is at its 16th. CCC is pricing substantially more risk than the others at its 76th percentile. Part of the difference is structural, as many stronger lower-rated borrowers have moved to private credit, so the remaining issuers are more concentrated in stressed areas.

In addition to the longer-term market structure shift, the widening of the CCC this year reflects deterioration at the bottom of the credit stack. Our existing HY exposure is not only very short, but also actively avoids the CCC cohort, which we expect to persist for the foreseeable future.

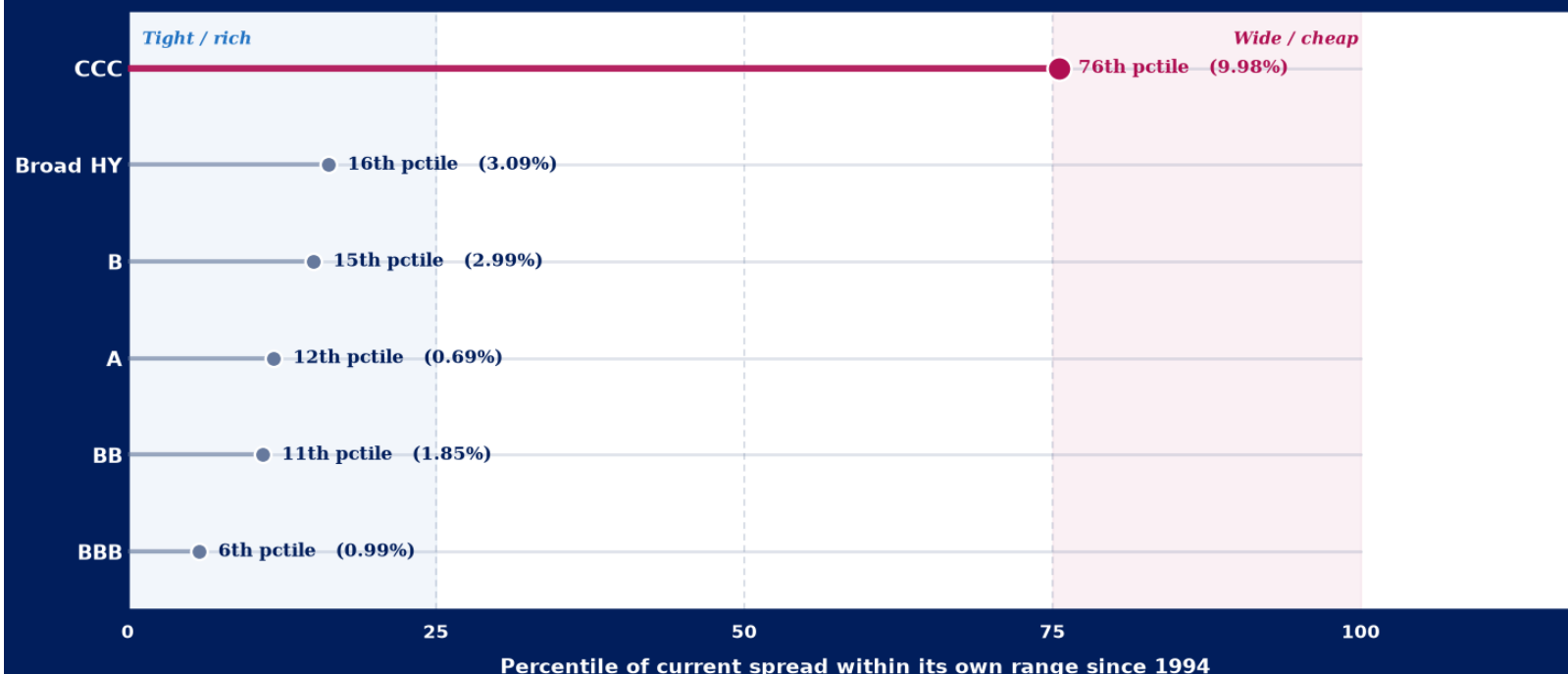
U.S. High-Yield Credit: CCC Stands Alone

Spreads look benign everywhere except the lowest-quality tier

The last 12 months: CCC breaks away from the pack



The last 30 years: only CCC trades wide to its own history



Sources: HB Wealth, Bloomberg | Data through Sep 29, 2026 | As of 10/1/2026

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