

EQUITY MARKET UPDATE

As of September 30, 2026

Volume 15, Issue 9

U.S. equities delivered mixed results in September as investors balanced rising interest rates and geopolitical uncertainty against exceptionally strong corporate earnings trends and continued enthusiasm for artificial intelligence-related investment. The S&P 500 declined modestly during the month, while technology-oriented companies continued to outperform. Smaller-cap stocks and more interest-rate-sensitive sectors experienced greater pressure.

Despite the softer monthly performance, the broader backdrop remains constructive. Economic activity continues to expand, labor markets remain healthy, and corporate earnings expectations strengthened throughout the third quarter rather. Valuations also improved as earnings estimates rose faster than stock prices.

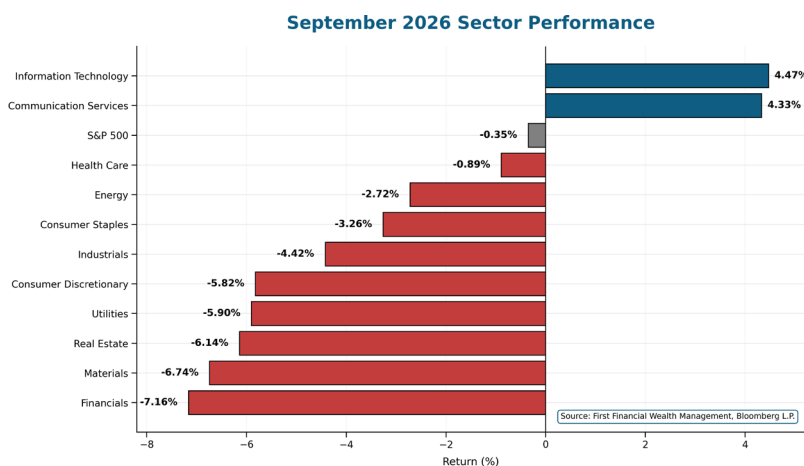
Performance



September performance reflected a continuation of several themes that have shaped markets throughout 2026. The Nasdaq gained 1.93%, while the S&P 500 declined 0.35%. The Dow Jones Industrial Average fell 4.12%. The S&P MidCap 400 lost 4.22%, and the S&P SmallCap 600 declined 5.57%. Technology-related leadership remained intact while more cyclical and value-oriented areas generally lagged.

At the sector level, Information Technology was the strongest performer in September, returning 4.47%, followed by Communication Services at 4.33%. Financials, Materials, Real Estate, Utilities, Consumer Discretionary, and Industrials were among the weakest-performing sectors, reflecting the market impact of higher rates and uneven economic activity.

Individual stock performance further highlighted narrow leadership. Within the S&P 500, Meta Platforms, NVIDIA, Advanced Micro Devices, Apple, Intel, and Micron Technology ranked among the stronger contributors during September. Amazon, JPMorgan Chase, Nike, and Goldman Sachs were among the notable laggards. Within the Dow, Apple, NVIDIA, Caterpillar, and Visa led returns, while Goldman Sachs, Home Depot, McDonald's, and American Express detracted.



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Year-to-date results remain favorable. The Nasdaq has returned 16.09%. The S&P 500 has gained 12.73%, while the Dow has increased 7.19%. Energy has been the strongest sector year to date, rising more than 40%, followed by Technology at approximately 28%. Consumer Discretionary and Utilities remain among the weakest-performing sectors for the year.

Economic Data Summary



Economic data released during the month pointed to continued expansion, albeit at a more moderate pace. Inflation remains above the Federal Reserve's long-term target but has generally stabilized. Headline CPI increased 3.4% year over year, while core CPI measured 2.5%. Producer prices remained elevated, though below prior readings.

Labor markets continued to support economic activity. Initial unemployment claims remained near historically low levels around 200,000 per week, and continuing claims are contained. Industrial production and manufacturing activity expanded, while housing-related data and certain consumer indicators were softer.

Energy markets have become an increasingly important variable. Rising oil prices contributed to renewed inflation concerns and led investors to reassess the path of monetary policy. The Federal Reserve resumed tightening amid persistent inflation pressures, and future decisions remain dependent on incoming economic data.

The investment implication is a greater premium on business quality. Companies with durable cash flows, manageable leverage, pricing power, and less dependence on lower interest rates should be better positioned to navigate a restrictive policy environment.

Valuation & Earnings



One of the most encouraging developments during the third quarter was the continued improvement in earnings expectations. Estimated S&P 500 earnings growth for the third quarter is 29.5%, which would mark a third consecutive quarter of earnings growth above 25%. Revenue growth is expected to reach 12.3%, with all eleven sectors projected to report positive year-over-year top and bottom-line growth.

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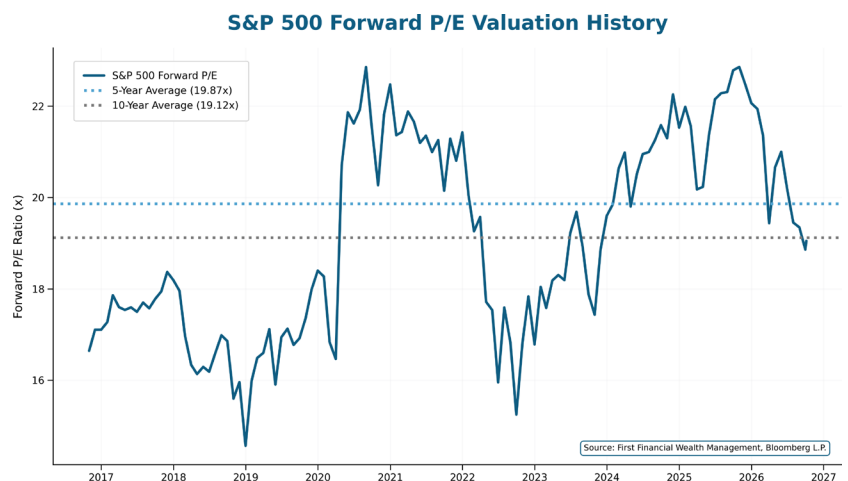
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Analysts increased third-quarter earnings forecasts by 1.4% from June through September; an unusual development because estimates typically decline as a quarter progresses. Corporate guidance was also favorable, with 72 S&P 500 companies issuing positive earnings guidance compared with 44 issuing negative guidance. Positive guidance was particularly strong in Information Technology.

Valuations became more attractive during the quarter despite positive market performance. The forward price-to-earnings ratio on the S&P 500 declined to approximately 18.9 times, down from 20.2 times at the end of June and 22.1 times at the end of 2025. The five- and ten-year averages are approximately 19.9 and 19.1 times, respectively.

The improvement reflects earnings growth catching up with prices rather than a broad decline in stock values. While equities are no longer cheap relative to long-term history, valuations are more reasonable than earlier in the year and are increasingly supported by improving fundamentals.



Portfolio Activity



Within Equity Income, we reduced Amgen following significant appreciation and valuation expansion. Proceeds were redeployed into American Tower, L3Harris Technologies, Xylem, and NextEra Energy. These additions increase exposure to long-term themes including digital infrastructure, defense modernization, water infrastructure, grid expansion, and growing power demand. The receiving companies also trade at more attractive valuations than they have historically.

Within Strategic Growth, we trimmed ServiceNow and initiated a position in MKS Instruments. This transaction modestly increased exposure to semiconductor capital equipment and the physical infrastructure supporting artificial intelligence investment. MKS occupies a critical position within the semiconductor manufacturing ecosystem and trades at a substantial valuation discount relative to peers.

These actions remain consistent with our focus on identifying opportunities where durable earnings growth and reasonable valuations provide an attractive balance of appreciation and risk control.

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Conclusion



September highlighted the growing importance of selectivity within equity markets. Headline index returns were mixed, but earnings expectations continued to improve, corporate guidance remained favorable, and valuations became more attractive as profits grew faster than stock prices.

Looking ahead, we continue to favor high-quality businesses with durable competitive advantages, strong cash-flow generation, and attractive valuations relative to their growth prospects. Areas of particular interest include digital infrastructure, semiconductor manufacturing, defense modernization, power generation, electrification, and water infrastructure. These themes are supported by long-term investment needs that can create opportunities across a range of market environments.

Equity Market Update

Quarterly perspective on rates, credit, and the economy



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