

INVESTMENT STRATEGY UPDATE

MARKET REPORT
OCTOBER 2026

ASCENTIAL
WEALTH ADVISORS

MARKETS HOLD UNDER PRESSURE



Equity markets remained resilient through the third quarter despite inflation concerns, higher interest rates, geopolitical uncertainty, and continued disruption in global energy markets. High energy prices dominated headlines along with a renewed focus on tariffs, building inflationary pressures. Capital spending on Artificial Intelligence (AI) remained a key economic driver and continued to support equities which helped to offset other concerns.

Performance among stock categories was mixed, with the energy and technology sectors leading performance through the third quarter. Led by the energy sector, the Russell 1000 Value Index returned +19.27% year-to-date, compared with only +6.30% for the Russell 1000 Growth Index. The tech-heavy NASDAQ posted a year-to-date return of +15.57%, fueled again by AI strength.

Other US indices were more negatively affected by higher interest rates. Small-company stocks experienced the sharpest

pullback, with the Russell 2000 falling -7.23% during the quarter. Despite that decline, small caps remained up +13.71% year-to-date.

International equities were less affected by inflation and interest rate concerns, staying relatively flat during the third quarter while remaining positive year-to-date. The MSCI Emerging Markets Index remained a top performer with a year-to-date return of +23.38% through September. Like the US, emerging markets have benefited from Artificial Intelligence investment.

Fixed-income markets experienced a much more difficult quarter. Though the US Federal Reserve only increased rates one time by 0.25% in September, markets drove bond yields much higher. The 10-year US Treasury yield started the quarter at 4.44% and ended at 5.29%, causing bond prices to fall. Higher interest rates have created near-term losses for existing bond holdings, but they also improve the

Index	2026 (through 9/30)
S&P 500	+12.8
Dow Jones Ind. Avg.	+7.2
MSCI EAFE	+10.3
BC US Aggr. Bond	-2.9

Dow Jones Relative Risk Benchmarks

Conservative	+3.66
Moderate	+7.98
Aggressive	+13.94

yields available to investors putting new money to work.

Altogether, 2026 has demonstrated the value of diversification. Leadership has rotated between growth and value, US and international markets, and large and small companies, while bonds have responded to a changing interest-rate environment. Rather than attempting to predict which segment will lead next, we continue to favor diversified portfolios aligned with investors' long-term objectives and tolerance for risk.

WHAT WE'RE WATCHING NOW



INTEREST RATES:

Rising rates have been one of the most important influences on markets during the quarter. The resulting weakness in both taxable and municipal bonds demonstrates that interest-rate volatility remains an important portfolio consideration. Higher yields also increase the potential income available from fixed-income investments going forward.

ECONOMIC GROWTH:

Higher interest rates and energy costs create potential headwinds, while fiscal stimulus and continued capital investment could provide offsets. The economic drag could worsen if prices remain high for a longer period. Labor-market trends will remain particularly important in determining both the economic outlook and future monetary policy.

MARKET LEADERSHIP:

The substantial year-to-date outperformance of value over growth is one of the more significant developments of 2026. We will be watching whether this represents a durable broadening of market leadership or a shorter-term rotation following several years of growth-stock dominance.

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ARTIFICIAL INTELLIGENCE:

Investment in AI infrastructure remains an important source of economic activity. Markets will increasingly focus on whether the productivity improvements and earnings generated from AI can justify the significant capital being committed to the technology. Recently increasing attention regarding potential risks tied to AI may also present a challenge to the industry.

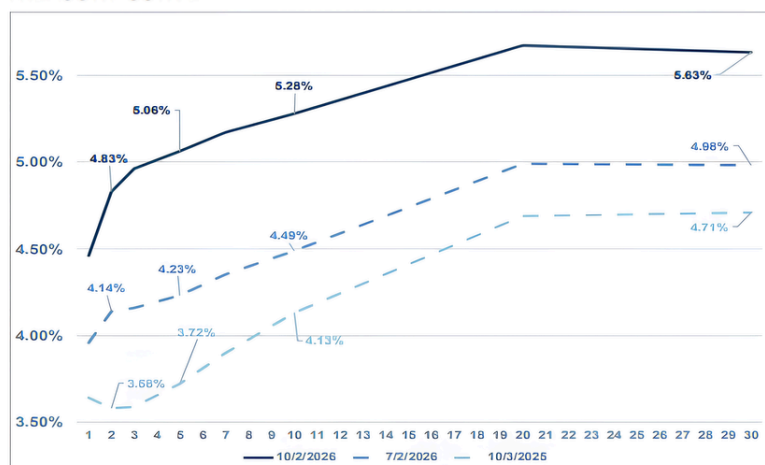
Interest Rates Move Higher in 2026

Interest rates have been one of the more significant market developments in 2026. After declining during 2025, Treasury yields reversed course as investors adjusted to persistent inflation, rising energy prices, and changing expectations for US Federal Reserve policy. The result has been a meaningful increase in yields across the Treasury curve and a challenging environment for bonds. The chart below illustrates how dramatically the yield curve shifted during the third quarter, particularly for longer term yields.

At the start of 2026, markets generally expected interest rates to move lower as inflation moderated and economic growth gradually slowed. That changed as conflict in the Middle East contributed to a sharp rise in energy prices. Combined with resilient economic activity and persistent inflation, these developments caused investors to reassess expectations for lower interest rates.

Longer-term Treasury yields also reflect factors beyond Federal Reserve policy, including expectations for future inflation, economic growth, and government borrowing. As concerns in these areas increased, investors demanded higher yields to compensate for the additional risks associated with holding longer-maturity bonds. As a result, long-term rates rose more rapidly than short-term rates, restoring a more traditional upward-sloping Treasury curve. This reflects investors' desire for additional compensation when committing capital for longer periods, given the increased sensitivity of long-term bonds to changes in inflation and interest rates.

TREASURY CURVE



Source: Raymond James, Weekly Interest Rate Monitor

There is, however, a positive side to the adjustment. Higher yields mean that investors purchasing bonds today can earn considerably more income compared to a lower rate environment. Over time, that higher initial income can improve returns from fixed income investments and provide a larger potential cushion against future price volatility.

We believe the sharp movement in rates reinforces the importance of diversification within fixed income rather than making large bets on the direction of interest rates. Although uncertainty surrounding inflation and monetary policy is likely to keep bond markets volatile, today's higher yields have created opportunities that were largely unavailable during the low-interest-rate environment of the prior decade. Fixed income also remains an important portfolio diversifier and potential offset to equity market weakness.

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