



Market & Economic Outlook October 2026 – Advancing Against the Angst

Major Equity Indices	Value 9/30/26	2026 YTD (12/31/25 - 9/30/26)		3Q26 Price Return	2Q26 Price Return	1Q26 Price Return
		Price Return	Total Return*			
<u>U.S. Indices</u>						
Russell 1000 Value	1,506	17.7%	19.3%	2.2%	13.4%	1.6%
Nasdaq Composite	26,861	15.6%	16.1%	2.5%	21.4%	-7.1%
Russell 2000 (small companies)	2,797	12.7%	13.7%	-7.5%	21.2%	0.6%
S&P 500	7,652	11.8%	12.8%	2.0%	14.9%	-4.6%
Equal Weight S&P 500	8,429	8.6%	10.0%	-2.3%	10.9%	0.2%
Dow Jones Industrial Average	50,906	5.9%	7.2%	-2.7%	12.9%	-3.6%
<u>International Indices</u>						
MSCI Emerging Markets (USD)	1,705	21.4%	23.7%	-1.1%	23.3%	-0.5%
MSCI EAFE (USD) (developed)	3,126	8.1%	10.8%	0.3%	9.8%	-1.9%

Data Source: FactSet, as of 9/30/26. Total return includes reinvested dividends; price return excludes dividends. 3Q26 is the third quarter, 6/30/26-9/30/26. 2Q26 is the second quarter, 3/31/26-6/30/26. 1Q26 is the first quarter, 12/31/25-3/31/26. Calculations and 9/30/26 value use closing prices.

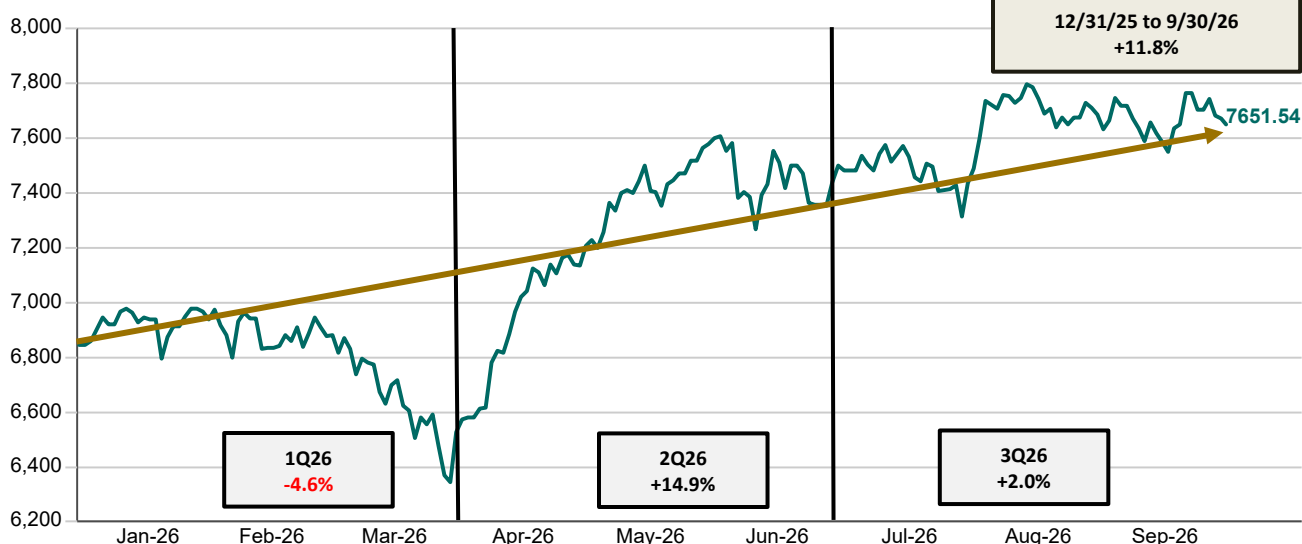
Outlook Summary:

Since our last Market Outlook in July, mixed data contributed to uneven equity market performance in the third quarter (3Q26). Despite declines in multiple indices (the Dow Jones Industrial Average, Equal Weight S&P 500, and Russell 2000 each declined in 3Q), the bellwether S&P 500 index posted a modest +2.0% gain (not including dividends). Market risks remain numerous including ongoing Middle East uncertainty, lingering inflationary pressure, rising interest rates, and a potential period of sustained monetary tightening by the U.S. Federal Reserve Bank. Still, positive factors have offset those constraints as U.S. economic growth exceeded expectations (as an artificial intelligence, also known as AI, infrastructure boom continues), corporate earnings results surged, and equity market valuations moved lower to more reasonable levels. Looking ahead to the fourth quarter and early 2027, we remain constructive as earnings and economic trends appear healthy. **We expect volatility and believe that equity investors should scale back return expectations, but we increase our S&P 500 fair value estimate to 7,900 (from 7,700) with a potential upside and downside range of 8,350 and 7,200, respectively.**

Our call for broadening sector gains worked well early in the year but has softened in recent months as above-market returns concentrated in Technology and Energy. The durability of AI infrastructure has exceeded optimistic expectations, driving investor interest, and disruptions in the Strait of Hormuz keeps oil prices elevated, boosting Energy sector earnings. While equity markets have performed well year-to-date despite surging interest rates, this creates challenges over the balance of the year. Companies generating solid earnings results in an uncertain environment will likely be rewarded, favoring those two leading sectors. If consumer spending strength continues, we see the potential for 2027 GDP estimates to increase, and broadening sector participation and leadership can resume. Our fair value estimate is modestly above current levels and we will address our comprehensive 2027 outlook once we are past the midterm elections and see further progress (or not) on the Iran conflict, global trade negotiations, and the impact of rising interest rates on consumer spending. Our outlook summary is below.

1. Our S&P 500 fair value estimate is 7,900, and we see a potential trading range of 7,200 to 8,350.
2. Economic strength and earnings growth appear healthy.
3. Investor headwinds are building.
4. Valuations have become less demanding.

S&P 500 Price: 12/31/2025 - 9/30/2026



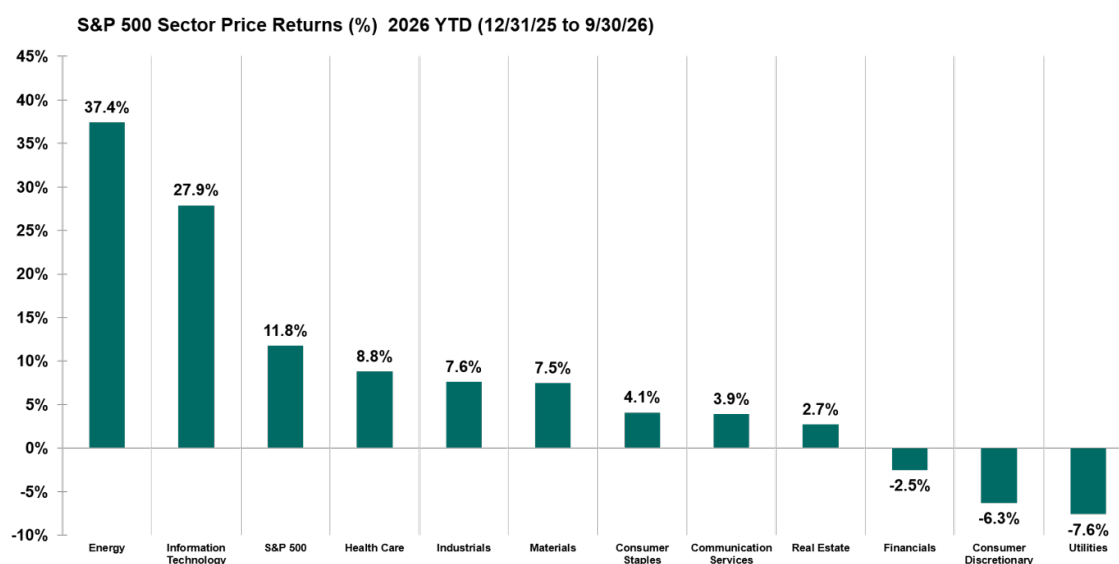
Data Source: FactSet, as of 9/30/26. S&P 500 daily closing prices, 12/31/25 to 9/30/26. Price return excludes dividends.

Third Quarter and Year-to-Date Review. The S&P 500 gained +2.0% (price return) in 3Q26, the second consecutive positive quarter following a 2026 first quarter decline. However, the Equal Weight S&P 500 (provides a measure of the performance of the “average stock” in the index) declined -2.3% in 3Q26, reflecting broadening weakness across large-company stocks. Further evidence of 3Q26 concentrated returns is from the group of seven among the largest companies in the S&P 500 by market capitalization, often called the “Magnificent 7” (Mag 7). The Mag 7 increased by an average of +11.5% in 3Q26, far outpacing the broader market’s gain. While sector representation among the Mag 7 spans Technology, Communication Services, and Consumer Discretionary, each is technology- and AI-centric. For the quarter, the Russell 1000 Value Index increased +2.2% (price return) vs. a gain of +0.8% for the Russell 1000 Growth Index. But all of the outperformance in value stocks came in July, before growth stocks regained leadership in August and September. Mixed results also extended to U.S. small-company stocks and international markets in the third quarter as the Russell 2000 Index (small companies) and MSCI Emerging Markets Index decreased -7.5% and -1.1%, respectively.

Early in the third quarter, as Iran peace talks broke down, investors shifted focus to opening the Strait of Hormuz to facilitate trade. With some volatility, ships began to navigate through the Strait increasing oil deliveries, but uncertainty continued to push prices higher and U.S. crude oil (as measured by West Texas Intermediate, or WTI) increased +30% in 3Q26 to \$90 per barrel on 9/30/26, up from \$69 at the end of June. New Federal Reserve Bank (Fed) Chairman Kevin Warsh acknowledged resulting inflation pressure, and in September the Fed raised short-term interest rates for the first time in three years. Bond markets struggled as prices declined and interest rates rose: the U.S. 2-year Treasury yield was 4.89% on 9/30/26, up from 4.15% at 6/30/26, and the U.S. 10-year Treasury yield moved to 5.30% from 4.44% over the same period. In September alone, the 10-year surged +86 basis points (bp) and coincided with a September decline in the S&P 500 index (down -0.4% in September). Despite these challenges, the U.S. economy was resilient, with consumer and business trends strengthening, and earnings results exceeded optimistic expectations, helping to offset concerns from higher borrowing costs and geopolitical uncertainty.

For the nine-month year-to-date (YTD) period ended 9/30/26, domestic equity returns were led by the Russell 1000 Value Index up +17.7% (price return), and the Nasdaq Composite, a leading growth index, also gained +15.6%. The S&P 500 closed at 7,652, up +11.8% YTD (price return) and a +12.8% total return including dividends. The Equal Weight S&P 500 posted a YTD increase of +8.6%, a solid return, but trailing the market –capitalization-weighted S&P 500. While S&P 500 volatility was often extreme within and among sectors, the broad index saw lower-than-average volatility (on a return basis). The largest S&P 500 peak-to-trough decline in the first three quarters of 2026 was -9.1% over two months from 1/27/26 to 3/30/26. Early year weakness was extended with the start of the Iran conflict as oil prices and economic uncertainty surged, but ultimately recovered as investors concluded, in our view, the Middle East conflict would not substantially disrupt economic growth. The -9.1% pullback was below the S&P 500’s average annual peak-to-trough decline of -14.3% since 1980 (45 years), and below the average midterm election year (11 midterm elections since 1980) decline of -16.7%. As of 9/30/26, the S&P 500 had rallied +20.6% from the 3/30/26 YTD low.

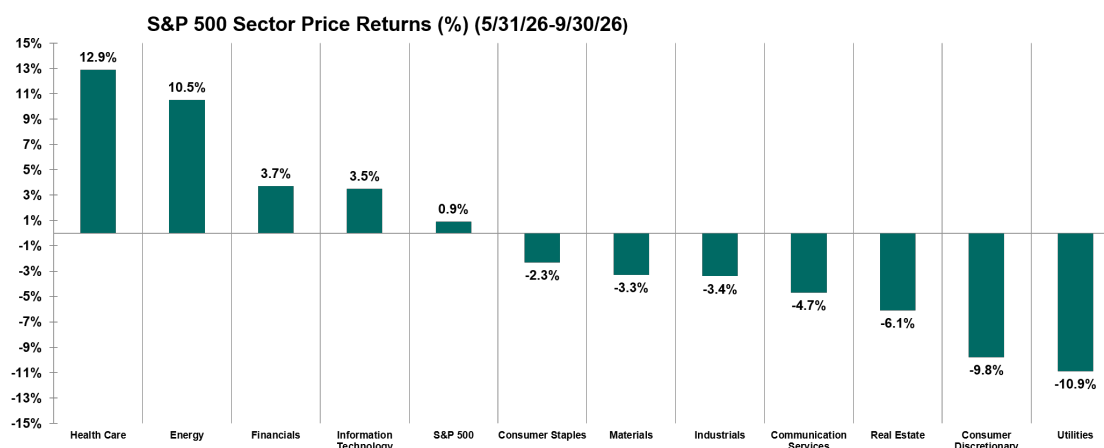
YTD sector leadership was concentrated. Over the nine-month YTD period ended 9/30/26, eight of 11 S&P 500 macro sectors (as measured by MSCI’s Global Industry Classification Standards, or GICS) were positive. Having 8 sectors contribute positively to the market can be good for the index and portfolio returns, but just two of the sectors outperformed the index. Those two sectors, Energy and Technology, drove the S&P performance, while other positive sectors produced single-digit percentage gains. This reflected the market concentration we have discussed as fewer sectors (and companies) participated in breakout gains, going against our expectation for broadening leadership. In addition, among the three sectors delivering a negative YTD return, both Consumer Discretionary and Financials are cyclical in nature (more dependent upon economic growth) with weakness, in our view, reflecting caution on the durability of the U.S. economy. In addition, both Utilities and Financials are correlated with interest rates and weakness can be partially attributed to the rising rate environment.



Data Source: FactSet and MSCI, as of 9/30/26. Price returns (does not include dividends), 12/31/25–9/30/26. Sectors are Global Industry Classification Standards, GICS. YTD is year-to-date.

Since the end of May, more sectors are negative. The bulk of the 2026 S&P 500 gains (through 9/30/26) were made over the first five months of the year. Over the subsequent four months (5/31/26 to 9/30/26), the S&P 500 increased +0.9%, and 7 of the 11 sectors were negative. In general, we view the weaker sectors as more cyclically and interest rate-exposed, with some caution from investors regarding near-term growth prospects. In our view, strong earnings results over the second half of 2026 for these sectors are needed to reverse the recent declines and

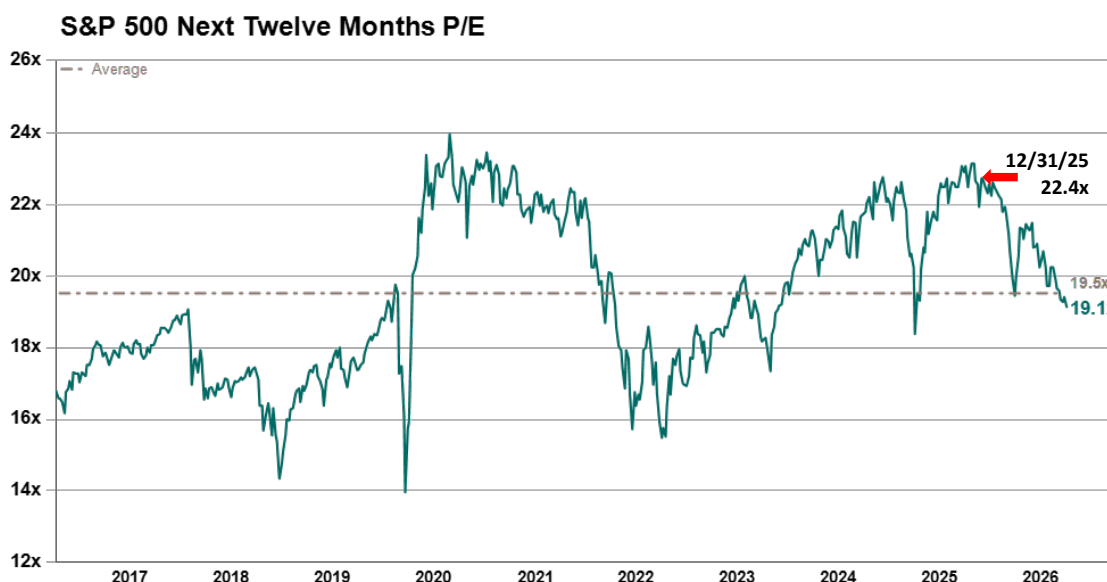
establish new leadership. The Technology sector did not lead the index over the past four months, but was positive. We also note that after trading lower in June and July, the Technology sector rallied more than +12% in August and September as investors rotated back into this key sector. In addition, the leadership of Health Care since the end of May, up +12.9%, reflects defensive positioning as health care stocks are generally less vulnerable to higher interest rates and economic uncertainty.



Data Source: FactSet and MSCI, as of 9/30/26. Price returns (does not include dividends) 5/31/26–9/30/26. Sectors are Global Industry Classification Standards, GICS. YTD is year-to-date.

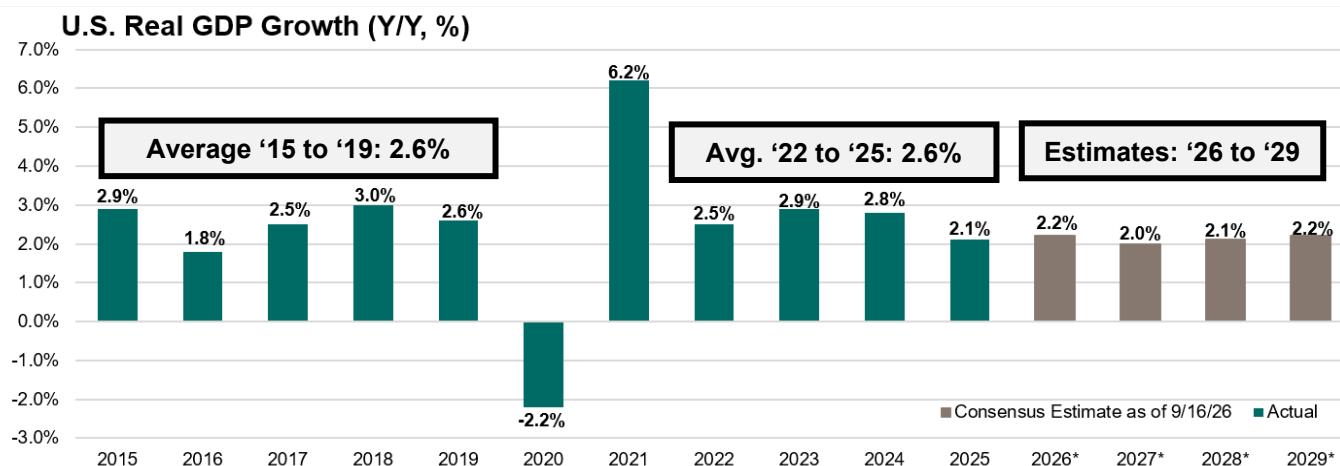
Our S&P 500 fair value (FV) estimate is 7,900, and we see a potential trading range of 7,200 to 8,350. Our 7,900 FV estimate is +3% above the S&P 500's 9/30/26 closing price of 7,652, and up +15% from year-end 2025. This assumes higher gains than expected at the beginning of the year and reflects strong S&P 500 earnings results driven by a durable AI infrastructure buildout and resilient consumer data. Our 7,900 FV reflects 19.8x the S&P 500 FactSet consensus earnings per share (EPS) estimate of \$399 over the next twelve months (NTM) and 18.9x the 2027 consensus EPS estimate of \$417. Since our July Market Outlook update, the consensus NTM estimate moved +9% higher (a combination of increasing earnings estimates and the calendar moving forward one quarter) and the 2027 consensus estimate was revised +6% higher. The prevailing 2027 consensus earnings estimate growth rate is +15%, representing deceleration from 2026 estimated earnings growth of +34%, but still above +13% growth in 2025. In our valuation work, we use lower price-to-earnings (P/E) ratio assumptions today than earlier in 2026 to reflect both higher interest rates and a potential market adjustment that reflects decelerating growth rates.

Over the past 10 years (2016 to 2026), the S&P 500 has traded at an average next twelve months estimated P/E of 19.5x. Our 19.8x FV P/E is at a 2% premium to that average. While we do not expect meaningful P/E expansion in a high interest rate environment, we believe that earnings growth trends still support market P/E levels at or above the 10-year average. The 10-year P/E range, within one standard deviation (represents a statistical probability of about 68%), was 17.3x at the low end and 21.8x at the high end. We see risks to valuations if earnings growth disappoints, but over the near-term the potential for positive earnings surprises appears more likely, in our view. Our upside range of 8,350 reflects 20.0x the 2027 consensus estimate and is +9% from the index price on 9/30/26. In our view, the upside target is dependent upon a better-than-expected result for 3Q26 earnings and interest rates stabilizing near or below current levels (i.e., not moving meaningfully higher). Our downside range of 7,200 reflects 18.0x potential 2027 EPS of \$400, which would be -4% below current estimates. Potential headwinds to +15% earnings growth in 2027 include inflation-induced margin erosion, slowing consumer spending, and rising interest rates.



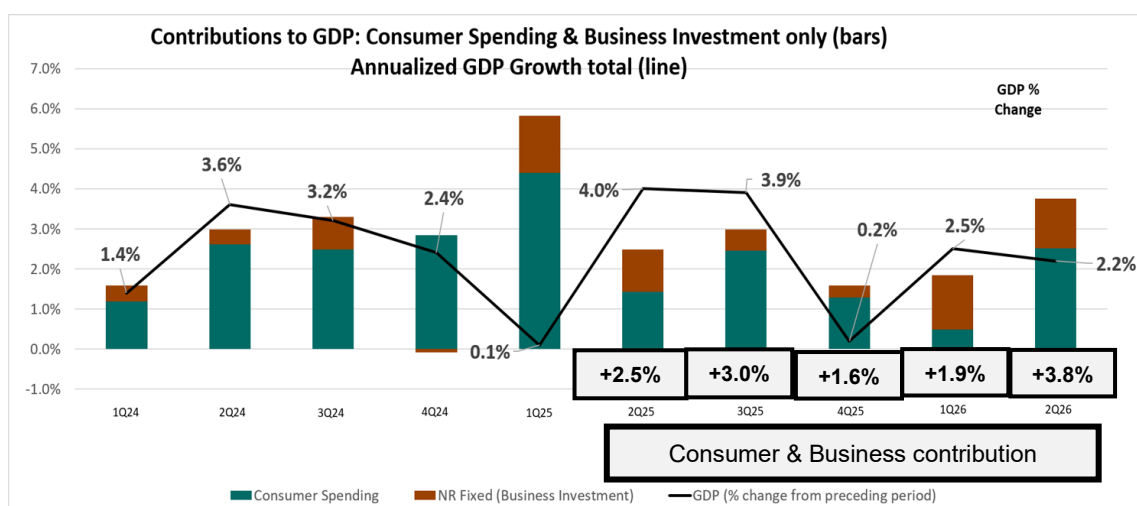
Data Source: FactSet; The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM) as compiled by FactSet. The gray dotted line is the average P/E from 9/30/16 to 9/30/26.

Economic strength and earnings growth appear healthy. The size and growth of the U.S. economy are measured by gross domestic product, or GDP, as reported by the Bureau of Economic Analysis, or BEA. GDP measures the value of all goods and services put in place over the measurement period and is reported both on a nominal (raw number) and real (inflation-adjusted) basis. As of 6/30/26, the total size of the U.S. economy was \$32.6 trillion (T) on a nominal annualized basis. Over one year, from 6/30/25 to 6/30/26, nominal GDP increased +6.3%, although on an inflation-adjusted real GDP basis, growth was +2.2%. Excluding two years (2020 & 2021) that were distorted by the pandemic shutdown and subsequent reopening, U.S. annual real GDP growth averaged +2.6% over five years 2015-2019, and four years 2022-2025. However, growth slowed to +2.1% in 2025, and the 2026 FactSet consensus (as of late September) was +2.2%. That estimate was revised higher since starting the year at +1.9%. The four major components of U.S. GDP are consumer spending, business investment, housing investment, and government expenditures, before adjustments for net trade and changes in inventories. In general, in our view, pre-pandemic GDP strength was led by consumer spending and housing, while recent post-pandemic strength was paced by business investment and consumer spending.



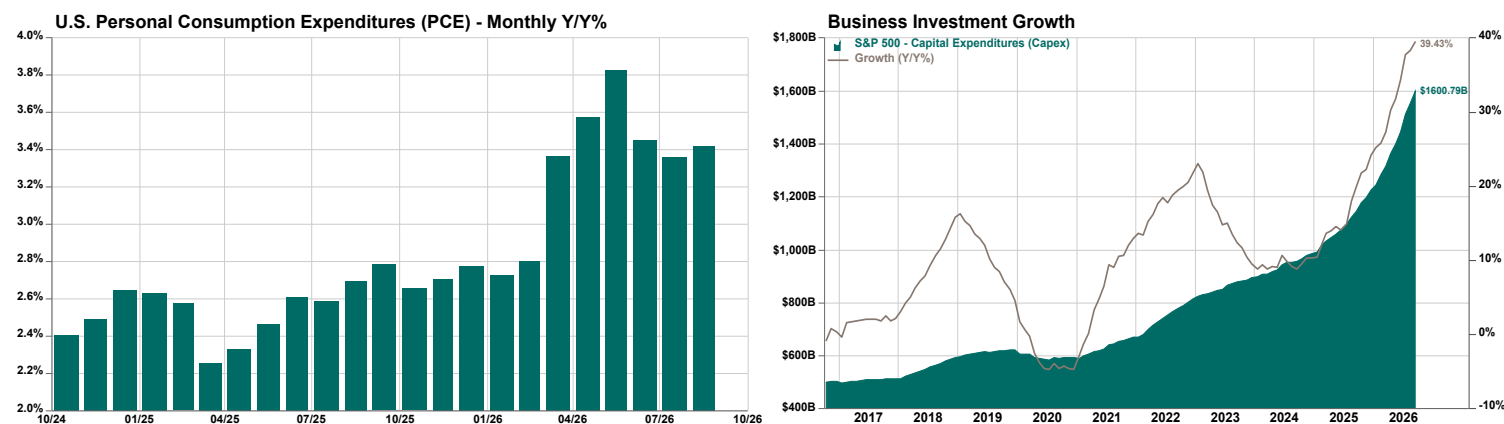
Data source: FactSet and the Bureau of Economic Analysis (BEA), as of 9/16/26. Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. GDP is published quarterly. Real GDP is adjusted for inflation. Green bars are the reported GDP numbers from the BEA and gray bars are the FactSet consensus estimates for U.S. GDP growth for 2026 to 2029.

U.S. quarterly economic growth trended positively in the first half of 2026. Second quarter (2Q26) real GDP increased +2.2% annualized, and 1Q26 real GDP grew +2.5%. Both quarters' largest contributors to GDP growth were consumer spending and business investment. We view the combination of consumer, business, and housing as the key components of the private economy, which shows the economy excluding government expenditures and adjustments. Housing grew modestly in 2Q26 but has struggled for nearly two years, posting negative growth for seven of the past nine quarters. In 2Q26, consumer spending and business reflected annualized growth of +3.8% and +9.0%, respectively. Over the past five quarters, consumer and business combined contributed an average of 280 basis points (bp) to quarterly GDP, which is more than reported annual GDP that averaged +2.6%. In 2Q26 (the most recent reported quarter), consumer and business added 380 bp to GDP, more than the reported +2.2% GDP growth (net exports, inventories, and government each subtracted from 2Q26 GDP). Since the second quarter, data collected through August suggested that solid GDP growth continued in the third quarter (3Q26) with AI investment remaining firm and consumer spending strength confirmed from retail sales and personal outlays data. Consumer resilience in July and August was a positive surprise given the end of tax refund checks and higher gasoline prices as monthly jobs growth remained positive, high-income consumers benefitted from investment gains, and other consumers dipped into savings and used credit. The FactSet consensus estimate for 3Q26 GDP growth was +2.8% annualized as of 10/5/26, up from an estimate of +2.1% at the end of July.



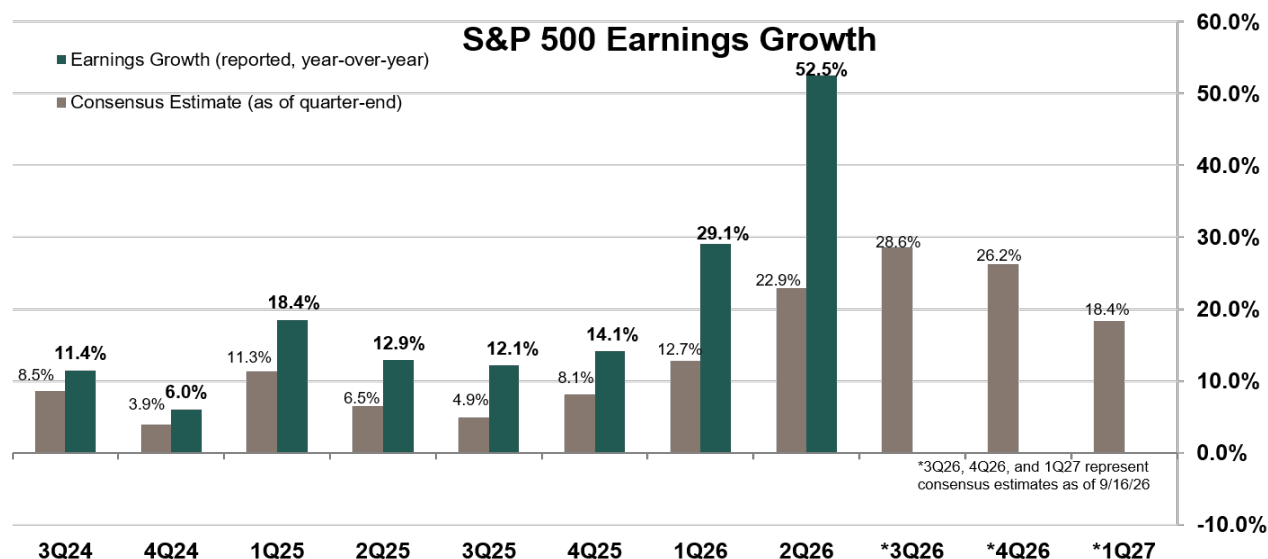
Data Source: FactSet and Bureau of Economic Analysis (BEA), as of 9/30/26. Gross Domestic Product (GDP)

We expect consumer spending to be the largest contributor of U.S. economic growth on a quarterly and annual basis as it comprises 69% of U.S. real GDP (as of 6/30/26). By comparison, the next largest GDP category is business investment (non-residential fixed investment), comprising 16%. Relatively modest growth in consumer spending contributes a lot to overall economic growth, while modest growth in business investment only makes a small contribution to GDP. Over the past four quarters (3Q25 to 2Q26), consumer spending and business investment averaged annualized growth of +2.5% and +6.4%, respectively. We view consumer spending trends as good, not great, while business investment growth is well above trend and impressive. Both categories contributed to solid total GDP growth in recent quarters, and both trends are expected to continue. U.S. personal consumption expenditures (PCE; the BEA's measure of consumer spending) accelerated on a monthly Y/Y growth basis since March 2026. Some of the Y/Y increase can be attributed to inflation as consumers pay higher prices, but overall spending levels have increased. One measure of business investment we track is the capital expenditures (capex) disclosed in S&P 500 financial statements, and both the dollar amount of capex and the Y/Y growth rate have accelerated. Using SEC filings as of 9/30/26, the total capex of the S&P 500 over the prior 12 months was \$1.6T, an increase of more than +39% from the prior year. At some point, the pace of capex growth is expected to slow, but company commentary on capital spending plans through 2026 and 2027 remains optimistic.



Data Source: FactSet and U.S. Personal Consumption Expenditures (PCE) from the Bureau of Economic Analysis (BEA), as of 8/31/26. Capital expenditures from FactSet and S&P 500 publicly available financial statements (cash flow statements) as of 9/30/26.

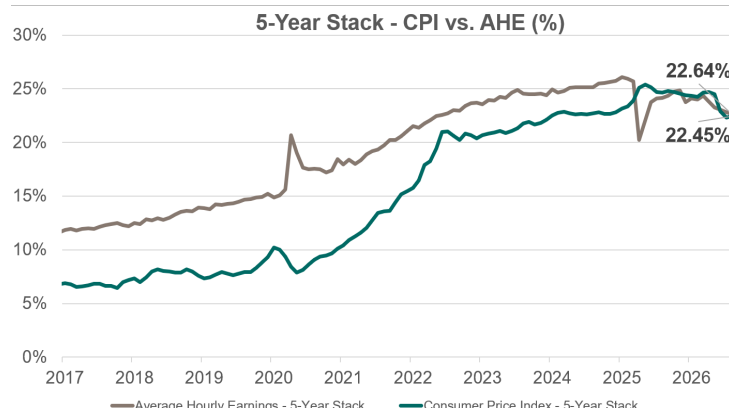
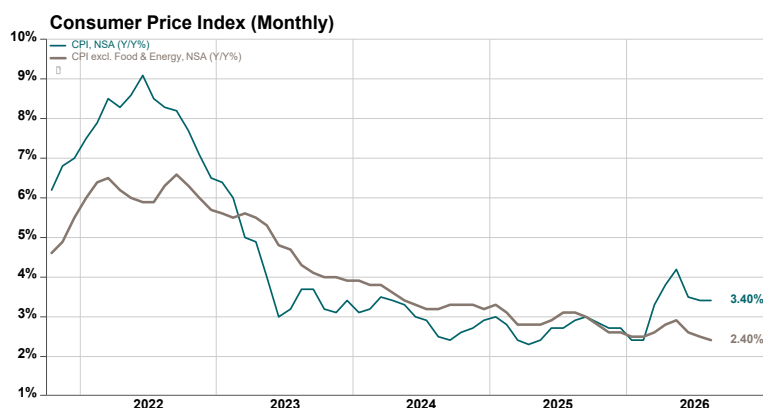
Corporate earnings growth exceeded expectations in the first half of 2026, with S&P 500 year-over-year earnings growth up +29% in the first quarter (1Q26) and +52% in 2Q26 (included some one-time investment gains). Consensus estimates for 3Q26 and 4Q26 (as of 9/16/26) were +29% and +26%, respectively, indicating the pace of strong earnings growth is expected to continue before easing to estimated +15% full-year earnings growth in 2027. While a double-digit percentage growth rate in 2027 would remain well above the average 10-year (2016-2025) S&P 500 annual earnings growth of +9.7% (per FactSet), expectations are high, creating elevated risk if growth rates slow more than expected. Factors that could create headwinds to sustained earnings growth include a slowdown in consumer spending, pullbacks or delays in AI infrastructure investment, and pressure on corporate profit margins due to inflation. For now, solid economic trends and corporate results appear on track, creating a positive environment for equities, in our view.



Data Source: FactSet; using FactSet consensus estimates, as of 9/16/26. S&P 500 earnings estimates are calculated using individual quarterly forward earnings estimates for all 500+ S&P 500 constituents, which are then weighted by the relative market capitalization of each of those constituents. Consensus S&P 500 EPS estimates (Wall Street analysts) in gray. Percentage change from same quarter the prior year. Past quarters were the estimate at the end of the reporting quarter. Green bars are the actual reported Y/Y growth in earnings 3Q24 to 2Q26.

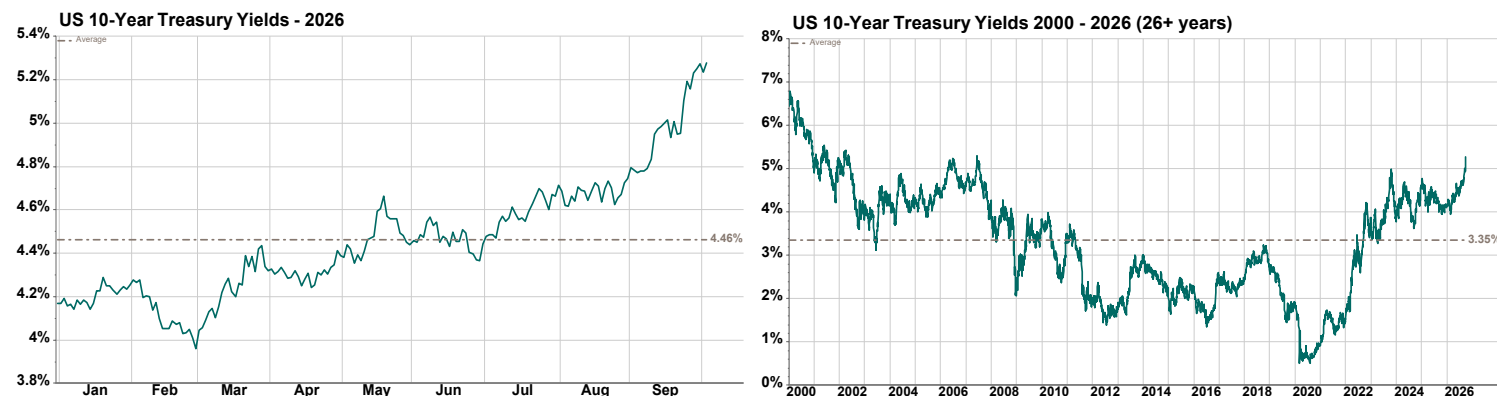
Investment headwinds are building. A common investment axiom, “equity markets climb a wall of worry,” essentially acknowledges that investors always face a series of risks and uncertainties, but over long time periods markets tend to move higher as the economy grows and corporations drive higher earnings and cash flow. Multiple headwinds are present in late 2026 that could weigh on investor sentiment over the next few months. These include persistent inflation, multi-year highs in Treasury yields (interest rates), and potential restrictive (economy-slowng) monetary policy from the Federal Reserve Bank. In addition, consumer confidence has remained low and consumer jitters could expand into cautious spending patterns. Finally, the U.S. midterm Election Day is in three weeks, with the potential outcomes creating uncertainty for the 2027 legislative agenda.

Inflation. Annual inflation remained elevated in August as prices moved higher from July levels. The headline consumer price index (CPI) increased +3.4% in August Y/Y. This was unchanged from July and ended two consecutive months of Y/Y improvement since 2026 inflation peaked at +4.2% in May. The annual increase reflected gasoline and fuel oil +27% and +52%, respectively, while electric and gas utilities increased about +4%. Core CPI, which excludes food and energy, increased +2.4%, the lowest monthly Y/Y increase of 2026, but the month-to-month (M/M) increase was +0.3%, the highest since April, sending a warning signal that inflation pressure from energy could seep into other areas. Although core inflation has remained much closer to the Fed’s +2.0% target, there is more work to be done, and as oil prices have surged back near four-month highs, there is increasing concern that the impact of petroleum-derived products (gasoline, diesel, jet fuel, plastic, etc.) could begin to drive pricing pressures across the broader economy. We compare monthly Y/Y wage growth (we use average hourly earnings, AHE, from the BLS) to determine “real” wages. Positive real wages result from wages (AHE) growing faster than inflation (CPI), but when inflation is greater, consumer purchasing power is eroded. In 2026, CPI exceeded AHE for five consecutive months (April through August) as inflation increased while wage growth slowed. A major challenge that weighs on consumers is the long-term cumulative impact of inflation, and we look at the 5-year cumulative impact (for each month), which allows us to include the ongoing impact from the high post-pandemic inflation in 2022 and 2023. In August 2026, over five years, the cumulative wage growth (AHE) of +22.6% was essentially equal to the cumulative CPI of +22.5%. This explains why consumer sentiment surveys are very negative (it is a struggle). Yet spending has held up from high earners, savings, credit, and jobs growth. In our view, continued real wage erosion is a risk to spending levels, but the trend can be reversed either by improving wage growth or lower inflation.



Data source: FactSet and the Bureau of Labor Statistics (BLS) through 8/31/26. The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Average hourly earnings (AHE) is a measure of the evolution of average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls. “5-Year Stack” is the cumulative impact of inflation and wages for the same month for the most recent 5 years.

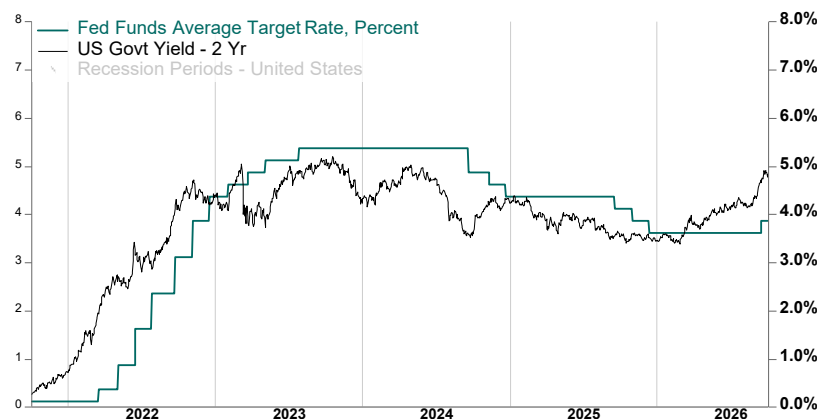
Interest Rates. The U.S. 10-year Treasury yield (a proxy for long-term interest rates) was 5.28% on 10/2/26, the highest level in 19 years. Higher interest rates, especially rapid increases in a short period of time, can weigh on economic growth. Higher borrowing rates for consumer debt (mortgages, car loans, credit cards) can erode budgets and slow spending. According to data from FactSet and Freddie Mac, the U.S. average 30-year fixed mortgage interest rate moved to 7.40% (for the week ended 10/8/26), the highest level since October 2023. The 2026 mortgage rate low was 5.98% in February. Companies will also face higher interest expense on bank lines of credit and corporate debt. Several factors have contributed to rising interest rates and higher rates for longer could limit equity market upside. The 2026 surge in Treasury yields is correlated with the start of the Iran conflict causing inflation from petroleum products and other commodities. In addition, tepid demand for U.S. Treasury debt has pushed rates higher as investors consider another year of a higher U.S. budget deficit, as through August (11 months of fiscal 2026), the FY26 U.S. deficit was -\$1.97 trillion. If rates remain near current levels (i.e., don’t move meaningfully higher), it may reflect interest rates normalizing more in line with historical levels after the Fed kept rates abnormally low for more than a decade following the Global Financial Crisis and COVID shutdown, while supporting sustained economic growth. Capital markets appear healthy, and many companies are issuing bonds to finance AI capital investment, creating competition for financing.



Data Source: FactSet, and U.S. Treasury market. 2026 is closing yields 12/31/25-10/2/26. Right chart is 12/31/99-10/2/26. Dotted line is average over period.

Federal Reserve Bank. In September, the Federal Reserve Bank (Fed) increased its overnight fed funds interest rate target range for the first time in more than three years (last hike was July 2023). The increase was a quarter point (+0.25%), taking the fed funds target range to 3.75% to 4.00%. Fed Chair Kevin Warsh said that since the Fed's last policy meeting in July, the economy strengthened, upward inflation trends had not improved, and the geopolitical environment had escalated (creating uncertainty). The U.S. 2-year Treasury yield (TY) traded at 4.84% on 10/2/26, well above the fed funds target, an indication that markets see more Fed hikes ahead. Chair Warsh attributed upward yield pressure to three potential factors, including a strong economy, demand for capital from AI infrastructure financing, and geopolitics (Iran) driving inflation in a range of commodities. The Fed's Summary of Economic Projections and recently released meeting minutes suggested that the Fed sees further rate hikes ahead, although since the BLS' September employment report (released on 10/2/26) reflected slower monthly jobs growth than expected, an additional +0.25% fed funds increase could be pushed to December rather than the next Fed policy meeting in late October. In our view, the next Fed moves will be linked to inflation trends, requiring progress on securing a safe opening of the Strait of Hormuz, and even better, a potential peace agreement. We believe that equity investors remain on edge about the future path of Fed policy as a sustained period of rate hikes (multiple hikes over multiple meetings into 2027) can ultimately become a risk to equity prices if the hikes slow the economy.

Federal Reserve Bank "Fed Funds" Target vs. U.S. 2-Year Treasury Yield



Data Source: FactSet, U.S. Federal Reserve Bank, and U.S. Treasury market, as of 10/2/26, period covers past five years. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight; we show the lower end of the Fed's target range. The U.S. 2-year Treasury yield reflects the market-traded interest rate of U.S. Treasury notes with a 2-year maturity. It is a market-traded yield that often is a reliable indicator of future fed fund targets.

Mid-term elections. The 2026 U.S. national midterm election will be held on 11/3/26. This is the middle of the presidential four-year term, and 100% of the 435 U.S. House of Representatives seats are on the ballot (2-year terms) and 35 of the 100 Senate seats are contested (6-year terms). In addition, 34 of 50 State Governor elections will be held on the same day. In recent midterm elections (since 2000), political party control of one or both houses of Congress have flipped to the opposing party. According to data from polling compilation firm Real Clear Politics (RCP), as of 10/7/26, Democrats are heavily favored to take back the House of Representatives and modestly favored to control the Senate as well. With three weeks to go, the Senate odds especially are subject to change, and the final count is likely to be close. Nonetheless, we believe that investor expectations are prepared for a split-party government led by the Republican President Trump, but with Democrats controlling one or both Congressional chambers. Split government often leads to gridlock, reducing the chance for major change legislation, and is generally believed to be favored by investors. That is likely the case in the current environment, in our view, reducing the chances for a significant market reaction to election results. Our message remains that most investors should avoid making substantial portfolio changes due to anticipated outcomes.

However, Democrat control of the House or Senate, or both, could impact budget negotiations as spending bills must be passed and projections indicate that the debt ceiling will need to be raised again sometime in mid-2027. Those actions require bipartisan support and thus Democrat House or Senate leadership could negotiate concessions. The ask could include more funding for health care supplements, higher taxes on high-income earners, and data center restrictions, among others. Because of this, some analysts (from a Bloomberg article) believe that Republicans could mobilize before the end of the year (in a lame duck session) to raise the debt ceiling and perhaps pass a defense bill. This

could disrupt the Treasury market as yields have moved higher as the fiscal 2026 budget deficit expands, and raising the debt ceiling further emphasizes that issue.

Over the long term, the S&P 500 has performed well regardless of political control of the executive and legislative branches of government. Since 1945, a period of 81 years through the end of 2025, the S&P 500 performed better on an annual basis under a Democrat president, +11.4% on average (not including dividends) vs. a Republican president, +7.3% annually. Of those 81 years, there were 40 years of a Democrat president and 41 years (soon to be 42) of a Republican president. But after factoring in control of Congress, the return differential is narrower. Assuming three bodies, the president, the Senate and the House, when Democrats control all 3 or 2 of 3 (50 years), the average return was +9.4%, vs. +9.3% for Republicans (31 years). Perhaps more enlightening is analyzing average S&P 500 returns by each year of a president's term. We analyzed data since 1969 (56 years) and the worst year for returns on average is year 2, where only half the president's second years were positive, and the average return was just +0.6%. The second year includes midterm uncertainty and often reduced presidential favorability as the honeymoon is over and many campaign promises remain incomplete. 2026 is year 2 of President Trump's second term, and the year-to-date return through September of +11.8% is well above the long-term average. The 3rd year of each presidential term has been the best for the S&P 500, with 93% of third years (since 1969) positive, and an average increase of +16.9%. The third year is an opportunity for the president and Congress to pivot, to focus on pro-growth policies that try and build optimism ahead of the next election cycle.

S&P 500 Average Annual Return 1945 to 2025

Democrat vs. Republican

		Average Annual Return
Democrat (D) President	40 years	11.4%
Republican (R) President	41 years	7.3%

Add in Control of Congress: House of Representatives (House) and Senate

President (D), House (R), Senate (R)	10 years	13.0%
President (R), House (R), Senate (R)	10 years	10.7%
President (D), House (D), Senate (D)	24 years	9.3%
President (R), House (D), Senate (D)	20 years	7.1%
Split Congress, either party Pres	18 years	8.5%

Democrat Control (2/3 or 3/3)	50 years	9.4%
Republican Control (2/3 or 3/3)	31 years	9.3%

S&P 500 Returns During the Four Years of a Presidential Term

(1969 - 2025)	Year 1	Year 2	Year 3	Year 4
Average Price Return	9.8%	0.6%	16.9%	8.6%
# of Positive Years	10	7	13	12
# of Negative Years	5	7	1	2

Data Source: D.A. Davidson, FactSet and S&P 500, history.house.gov, house.gov, and senate.gov. Years are calendar years. Year 1 of the term starts on 12/31 of the year of the election and runs to 12/31 of the first year following the election. Political party measurement period is 12/31/69 through 12/31/25. Presidential term measurement period is 12/31/68 through 12/31/25. Price return does not include dividends. Returns are the average for any one year, and are not compounded.

Valuations have become less demanding. On a forward price-to-earnings (P/E) ratio basis, the S&P 500 index, as of 9/30/26, traded at 19.1x the FactSet consensus earnings estimate over the next four quarters (4Q26 to 3Q27). Over the past 10 years, the S&P 500 has traded at an average forward P/E of 19.5x, indicating that as of 9/30/26, the index traded at a modest -2% discount to that average. In addition, at the start of the year, the forward P/E was 22.4x so the P/E valuation declined -15% despite the index having increased +11.8% YTD through September. The reduced P/E is attributed to strong earnings results and higher earnings estimates. As of the end of 2025, the FactSet consensus estimate for the S&P 500 weighted average of all constituents' earnings per share (EPS) was \$308. On 9/30/26, the 2026 EPS estimate was \$361, so the estimate increased +17% (reflecting better-than-expected results in 2026). In addition, the next four quarter estimate has moved forward three quarters, and as of 9/30/26 was \$398, so the base number in the P/E ratio today is +29% from the start of the year. Upside to earnings estimates while the index moves higher is a good reason for the P/E to fall as it means the S&P 500 is 15% cheaper today than it was nine months ago. But it also leads to a question – why hasn't the S&P 500 gain kept pace with earnings growth?

There could be several drivers of a lower P/E in 2026 including the steady increase in interest rates in 2026 as this raises the cost of equity and can lower valuation multiples (future cash flows are worth less today when using a higher discount rate). Perhaps the market has priced in higher interest rates already, but if the recent September/October rate surge continues, valuations could be further disrupted. Other potential reasons for P/E modesty include a view of "peak" earnings growth in 2026. 2026 earnings growth estimates have hovered near +30% on an adjusted basis, but growth is expected to decelerate to +15% in 2027. Sustained earnings growth above +15% is very rare, and it is likely that earnings growth will trend down again in 2028 and beyond. In addition, if inflation levels remain stubbornly high, the Fed will be pushed to implement more interest rate hikes in future periods. A total of three +0.25% fed funds rate hikes (totaling +0.75%) would merely reverse the three rate cuts in 2025. But a tightening cycle of more than +0.75% would slow economic potential, threatening the earnings outlook even further. However, in our view, we remain in a healthy GDP and earnings environment and for now, the lower P/E multiple on the market means that the S&P 500 valuation is less demanding and provides some downside protection for investors.

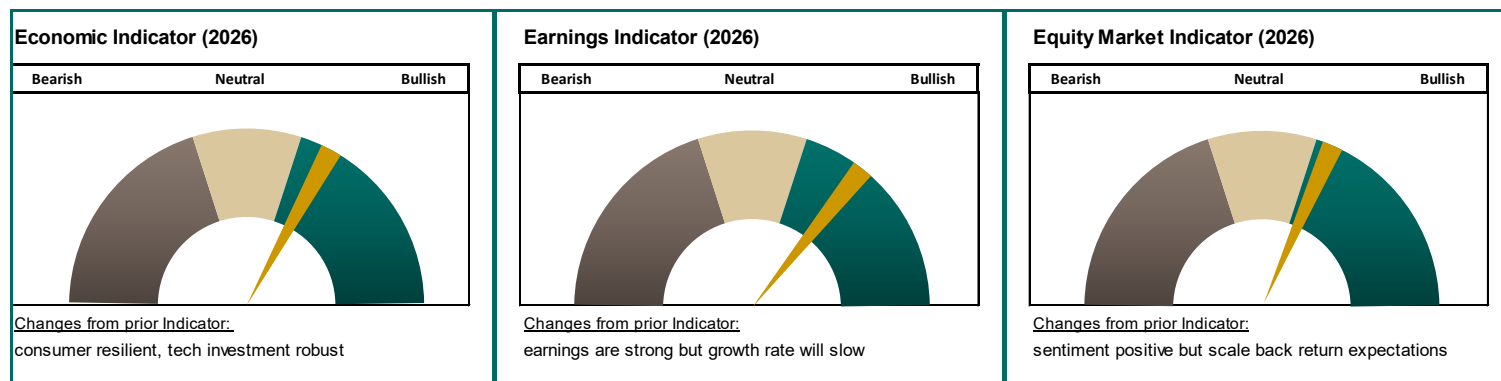
The S&P 500 valuation is a compilation of all 500+ companies and each company's representation in one of 11 macro GICS sectors. Each sector has a sector index that has earnings estimates for those companies and its own P/E ratio. Generally, the sectors that have higher earnings potential trade at a higher P/E ratio, and lower earnings potential should trade at a lower P/E. This makes sense to us as higher earnings growth leads to more earnings and cash flow over time, enticing investors to pay more. We use the P/E-to-growth rate, or PEG ratio, to compare relative valuations, and the PEG divides the current year P/E by the average annual earnings estimate for the next three years. On that basis, as of 10/7/26, the S&P 500 traded at a PEG ratio of 1.0x (2026 P/E of 21.5x divided by 3-year estimated average earnings growth of +22%). Four sectors traded at a lower PEG than the index: Energy, Technology, Communication Services, and Materials. While a solid equity diversification strategy should involve quality exposure across S&P sectors, using the PEG ratio is a way to identify relative value looking ahead. The S&P 500 Energy and Technology sectors have led the market's sector gains in 2026, but also have the highest expected three-year earnings growth rates. Earnings growth for Communications Services and Materials are also strong. The Financials sector trades at a premium to the S&P 500 3-year PEG as of September, but since the middle of 2026, the 2027 earnings estimates (for Financials) have increased, and the sector deserves a special mention.

S&P 500 Sectors P/E to Growth Rate (PEG)

10/7/2026	P/E 2026E	3 Year E ('26-'28) Earnings Growth	PEG '26 PE / 3 Year growth
Energy	12.3	27.1%	0.5
Info Technology	27.9	42.1%	0.7
Communication Services	16.8	20.7%	0.8
Materials	18.0	19.4%	0.9
S&P 500	21.5	22.1%	1.0
S&P 500 Equal Weight	16.6	14.3%	1.2
Financials	14.9	11.7%	1.3
Consumer Discretionary	23.9	16.7%	1.4
Utilities	17.1	10.0%	1.7
Industrials	25.2	15.1%	1.7
Health Care	21.2	11.5%	1.8
Real Estate	17.3	6.5%	2.7
Consumer Staples	23.4	7.0%	3.4

Data Source: FactSet, as of 10/7/26. Earnings growth for 2026 is the FactSet consensus estimate, and the 3-year (2026-2028) growth rate is the average (mean) over the period. The P/E uses the closing price of the sector or index on 10/7/26. The P/E-to-growth, or PEG, is a ratio of the 2026 P/E divided by the 3-year average earnings growth estimate.

Investor Indicator Gauge



Data Source: D.A. Davidson Investment Management & Research as of 10/8/26.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Other Disclosures: The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on “forward” consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet. An alternative valuation method, the P/E-to-growth rate, or PEG ratio, compares the P/E ratio to the expected earnings growth rate, often an average over a multi-year period.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures and adjustments for inventories and net exports (imports). Non-Residential Fixed Investment includes several subcategories including software and information processing equipment that measure investment in technology. Imports of goods and services are subtracted from GDP data (products are not produced or performed in the U.S) while exports are added to GDP.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2025 returns are calculated as of 12/31/2025. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The Summary of Economic Projections (SEP) represents individual projections from Federal Reserve Board members and Fed bank presidents and rely upon individual assumptions.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE).

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

We track a measure of wages, average hourly earnings, or AHE, of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work but excludes benefits).

U.S. monthly receipts, outlays, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO). The U.S. Treasury reports monthly budget details in its Monthly Treasury Statement, and prior to that monthly numbers are estimated by the CBO in its Monthly Budget Review. The CBO provides monthly data on payments for Medicare, Medicaid, Social Security, and Interest Expense. Tax receipts are also reported.

On 2/12/25, The Trump Administration announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "[Fair and Reciprocal Plan](#)." On 3/26/25, the White House announced tariffs on imported automobiles and certain automobile parts. Here is a link to a [Fact Sheet](#) from the president that outlines the action. The president referred to 4/2/25 as "Liberation Day" and released a [Reciprocal Tariff Memorandum](#). Then, on 4/9/25, the White House delayed most reciprocal tariffs, and released a memo, [Modifying Reciprocal Tariff Rates](#). This was considered a policy change (or pivot), and since then has led to negotiated trade deals (U.K., China, and Vietnam) while many of the other tariff pauses are scheduled to be implemented on 8/1/25 if additional trade deals are not signed. Many of the administration's reciprocal tariffs were levied using the International Emergency Economic Powers Act (IEEPA). On 2/20/26, the U.S. Supreme Court ruled that tariffs could not be used under the IEEPA statute. [The Supreme Court ruling is here](#).

Personal Income and Savings is reported monthly by the Bureau of Economic Analysis for individuals and is defined as personal income less personal outlays and taxes. The personal savings rate is personal savings as a percentage of disposable personal income.

Generative artificial intelligence (GenAI): a subset of artificial intelligence and machine learning that can produce new text, images, video, or audio clips from users' prompts. GenAI is trained on large datasets of training data, called a large language model (LLM), to find statistical patterns in the LLM. The GenAI uses those statistical relationships to generate unique responses to prompts. AI infrastructure refers to spending on data centers, graphic processors (GPUs), networking, power, and cloud computing capacity.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla. As of 12/31/25, we estimate those 7 stocks comprised 35% of the market capitalization of the S&P 500.

When we discuss "growth stocks" we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/25) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/25) were Financials, Industrials, and Health Care.

On 2/28/26, the U.S. and Israel launched an air attack on Iran designed to eliminate weapons capabilities and critical infrastructure. On 3/1/26, the [White House published a release](#) detailing the operation. Iran and the U.S. announced a ceasefire on 4/8/26 and a Memorandum of Understanding (MOU) on 6/17/26. The MOU did not hold and as of 9/30/26 no framework for peace was in place. Negotiators have held discussions with limited progress.

U.S. oil prices are often described using the price per barrel of West Texas Intermediate (WTI). This is a high-quality low density crude oil grade sourced primarily from the Permian basin. Futures contracts and spot prices are traded on the New York Mercantile Exchange (NYMEX). Brent crude reflects pricing for oil from the Atlantic basin. Many believe that Brent crude represents 66% to 80% of the global trade in oil. Brent contracts are traded on the Intercontinental Exchange.

The Strait of Hormuz is located in the gulf between Oman and Iran. According to the U.S. Energy Information Administration, an estimated 20 million barrels are transported on ships through the Strait daily. This includes liquified natural gas (LNG) as well and is an essential waterway for Gulf energy exports. As of 9/30/26, shipping vessels were using the Strait of Hormuz under U.S. protection. But risks of attack remain.

Data on the economics of oil price changes on the retail price of gasoline can be found from the Federal Reserve Bank of St. Louis and the U.S. Energy Information Administration (EIA). The Automobile Club (AAA) monitors daily fuel prices in the U.S., which can be tracked at: gasprices.aaa.com.

The International Energy Agency (IEA) has monitored shipping and supply disruptions through the Strait of Hormuz. They have published key facts on the disruption with links to other reports as well. [The Middle East and Global Energy Markets](#). The U.S. Energy Information Administration (EIA) is a federal agency that collects and disseminates data on U.S. and global energy markets. It is part of the U.S. Department of Energy. The EIA provides comprehensive data on the U.S. and global energy markets through its eia.gov home page.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows. Growth stocks are defined as having above average revenue and sales growth, while value stocks generally trade at discounted valuations relative to their peer groups.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures, and adjustments for inventories and net exports (imports). Both information technology equipment and software are sub-categories within non-residential fixed investment. In 2Q25, inflation-adjusted (real GDP) increased +3.8% on an annualized basis (subject to revision). The 1Q26 increase was +2.1%, and the 4Q25 increase was +0.5%. Consumer spending is measured by personal consumption expenditures (PCE). We track business investment through non-residential fixed investment. The most recently released (9/30/26) [BEA GDP report is here](#). Subcategories within non-residential fixed investment include information processing equipment, software, and research and development. This includes some, but not all, of the data center and information technology investment across the economy. Full-year 2025 GDP, adjusted for inflation, increased +2.1%.

The 2026 U.S. national midterm election will be held on 11/3/26. While this is the middle of the presidential four-year term, all of the U.S. House of Representatives will be on the ballot (two-year terms) and about 1/3 of the U.S. Senate (six-year terms). In recent mid-term elections (since 2000), political party control of one or both houses of Congress have flipped to the opposing party. In 2026, Republicans have narrow majorities in both the House of Representatives and Senate. In addition to the national election, 34 of 50 State Governor elections will be held on the same day. Real Clear Politics, through realclearpollin.com, monitors a compilation of election polls across the country and updates detailed polling results. Its data shows data on open contest for all House of Representative and Senate seats.

Publicly traded companies, including S&P 500 constituents, are required by the Securities and Exchange Commission (SEC) to complete and file quarterly financial documents and reports (10-Q reports) and annual audited statements (10-K reports). Our calculations on capital expenditures are taken from each company's Statement of Cash Flows.

Annual S&P 500 peak-to-trough declines are computed using the closing daily prices in a given calendar year for the index. D.A. Davidson publishes the annual peak-to-trough decline since 1980 in its quarterly publication, "Market Chart Book-WM Research" most recently updated in September 2026.

Mortgage rate data is from freddiemac.com, as Freddie Mac publishes a weekly Primary Mortgage Survey. Data is collected from thousands of loan applications submitted to Freddie Mac from lenders across the country.