



The Weekly Market Update - 10/26/26: Investor Anxiety Builds Ahead of Key Events

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	LTM	All-Time High	% from High
S&P 500	7,623.68	-0.47%	-0.36%	11.37%	13.98%	7,818.93	2.6%
Dow Jones Industrial Average	52,215.16	0.41%	2.57%	8.64%	12.54%	54,349.12	4.1%
NASDAQ Composite	25,955.34	-0.71%	-3.37%	11.67%	14.54%	27,599.79	6.3%
Russell 2000	2,775.90	2.00%	-0.75%	11.85%	13.93%	3,068.42	10.5%
MSCI EAFE (USD)	3,074.49	-1.52%	-1.64%	6.28%	11.11%	3,262.58	6.1%
MSCI Emerging Markets (USD)	1,578.04	-2.63%	-7.44%	12.37%	17.24%	1,802.77	14.2%
Bloomberg Commodity Index	143.69	-0.51%	1.35%	31.00%	37.33%	237.95	65.6%
Barclays U.S. Aggregate Bond	90.45	0.54%	1.68%	-3.85%	-3.61%	112.07	23.9%

Source: FactSet

Equity markets are mixed in late October as investors prepare for a two-week stretch of consequential events and data. Following two weeks of consecutive declines, the widely followed S&P 500 equity index was down -0.4% in October (price return) through 10/23/26. Index losses were led by declines in technology- and growth-centric sectors and companies with exposure to artificial intelligence (AI) investment. While AI-related volatility is likely as third quarter earnings reports continue, we expect investor attention to turn to this week's Federal Reserve Bank (Fed) policy meeting and the initial report of third quarter (3Q26) U.S. economic growth (as measured by gross domestic product, or GDP). In addition, the 2026 U.S. midterm election is one week away, with control of Congress up for grabs. The Fed, after increasing its overnight fed funds interest rate target range by +0.25% at its last policy meeting in September, is expected to make no change at this week's meeting on 10/28. But because inflation data moved higher in September, the Fed will likely at least consider another rate hike, and we do not expect a unanimous decision (the current range is 3.75% to 4.00%). Although U.S. interest rates, as measured by the 2-year and 10-year U.S. Treasury yields, have trended lower in October, rates remain elevated with the 2-year yield at 4.68% (on 10/23) and 10-year yield at 5.00%. Regardless of the Fed's rate decision this week, we believe that markets expect at least two more +0.25% Fed rate hikes, one this year and another in 2027. The Bureau of Economic Analysis (BEA) will report its first estimate of 3Q26 inflation-adjusted GDP growth on 10/29/26 and the FactSet consensus estimate is for an increase of +3.0% annualized. This compares to GDP growth of +2.5% and +2.2% in 1Q26 and 2Q26, respectively, and is expected to be driven by solid contributions from both consumer spending and business investment (principally from AI). Strong GDP growth should make it easier for the Fed to hike rates (if inflation is a bigger concern than a slowing economy), but there is some concern that spikes in Treasury yields since August are already a headwind for consumer spending in future periods.

While election results may or may not reflect a "blue wave," markets are prepared for split control of government. The U.S. midterm elections will be held on Tuesday, 11/3/26, now just over one week away. The Republican Party has enjoyed narrow majorities in the House of Representatives and Senate for the past two years, but polling data (Real Clear Politics) favors the Democrats gaining seats in both chambers. In our view, investors and markets expect a change in control in one or both chambers of Congress. Party control has flipped in at least one congressional chamber in every midterm election since 1998 and, in our view, markets will not be surprised by this outcome. Markets are often sanguine with split government as it slows passage of major legislation, reducing investor uncertainty. A "blue wave," which we define as a Democratic sweep that includes gaining significant House seats, could drive short-term volatility as it sets the potential for a contentious 2027 budget debate. Congress must increase the U.S. debt ceiling, and several U.S. funding bills expire in December this year, so both the House and Senate will meet to work on funding approval.

The Equal Weight S&P 500 (EWSP) was positive in October-to-date as multiple sectors show gains. Through 10/23/26, the EWSP rose +4.1% in October, as 8 of the 11 S&P 500 GICS sectors (Global Industry Classification Standards) moved higher. Gains were led by Energy, Consumer Staples, Utilities, and Health Care. While Energy gains are linked to higher-for-longer oil prices, other sector leaders are considered defensive industries that tend to be more predictable during uncertain times. In a post-election environment, investor attention is likely to return to the U.S. economy and earnings growth.

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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 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. 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.

The Russell 1000 index includes the largest 1000 companies (by market capitalization) in the Russell 3000 index. 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 Global Industry Classification Standards (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. Each of the GICS sectors has multiple sub-industry groups, allowing further categorization of S&P 500 constituents. The Information Technology sector has six sub-industry groups: Software, Semiconductors/Semiconductor Equipment, Communications Equipment, Electronic Equipment, Instruments and Components, IT Services, and Technology Hardware, Storage & Peripherals.

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 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).

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. Data on earning and sales growth estimates are reported daily by FactSet, and further data is provided in a weekly publication titled, Earnings Insight.

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 most recent FOMC meeting was held on 9/15/26 and 9/16/26. The Fed has two more scheduled meetings in 2026, both two-day meetings that end on 10/28/26 and 12/9/26, respectively.

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) represent individual projections from Federal Reserve Board members and Fed bank presidents and rely upon individual assumptions. Federal Reserve Bank statements can be found at [federalreserve.gov](https://www.federalreserve.gov).

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. Gross domestic final purchases measures the market value of goods and services purchased by U.S. residents, regardless of where the goods and services were produced. It excludes the GDP net exports adjustment.

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. Defensive sectors are considered less exposed to a slowing business cycle as revenue streams can continue. Defensive sectors include Consumer Staples, Utilities, and Health Care.

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 2026 U.S. national mid-term 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 (RCP) is a U.S. political news, analysis and polling website. One of its best-known products is the RCP Poll Average, which aggregates polling results from multiple polling organizations for elections. Instead of deciding which individual poll is "right," RCP combines a group of recent polls to produce an average.

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.

Congress has already passed a continuing resolution (CR) that funds all 12 regular appropriations areas through December 11, 2026. The existing Congress must meet before year-end 2026 to extend funding or risk a partial government shutdown. In addition, the 2027 Congress is expected to address the U.S. debt ceiling when federal debt reaches more than \$41.1 trillion. The 2025 reconciliation legislation raised the statutory debt limit by \$5 trillion, from \$36.1 trillion to \$41.1 trillion. Some estimates predict the federal government debt will approach that limit by mid-2027.