

Quarterly Market Commentary

Third Quarter 2026

The Convergence



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"Eventually, all things merge into one, and a river runs through it."

- Norman Maclean, [A River Runs Through It](#)

Norman Maclean's novella *A River Runs Through It* had a profound impact on me growing up. I first met the story through Robert Redford's 1992 film, and again in a high school American Literature course. I was captivated by this portrait of Montana between the wars, a world of youth, innocence, and freedom before the realities of age and risk creep into one's consciousness.

My dad shared my affinity for the story. He dreamed of taking his boys to the rivers of Montana to learn the timeless lessons those waters teach: patience, acceptance, and humility. Unfortunately, like so many fanciful dreams, the trip to those rugged mountains and winding rivers never materialized. But as many of you know, my family recently moved to the mountains of Colorado, which gave me the chance to revive that dream with my own family. Shortly after moving in, the four of us marched into the Gold Medal waters of the Fryngpan River in brand-new waders, fly rods in hand. It went about as well as you'd guess.

A few short casts gave me the confidence to try longer ones as I reached for the calm pools where the trout were supposedly waiting. Several hours of arm-waving yielded no fish, but plenty of tangled lines and lost flies. Frustrated, I spent most of the afternoon simply watching the sun shimmer off the water as it twisted around the boulders of the riverbed.

The river doesn't wait for the fisherman. It keeps moving, over and around rocks that have sat there longer than any of us can remember, reshaping the bottom while the surface looks unchanged. Our world is moving faster, too. Can one still find a moment of stillness? Is there still a place for an old fisherman? I hope so. But the first lesson of the river, and of

markets, is that the water you see is not always the water that's moving.

The Still Pool on the Surface

Any fly fisherman will tell you, usually after watching you flail for an afternoon, that the most important skill isn't casting. It's reading the water. The pools that look the most tranquil, where the surface sits like glass and reflects the sky, are often where the current underneath runs hardest. What looks like stillness is only the top layer. Below it, the river is still carving, pushing, and rearranging the bottom.

The third quarter was a still pool. Looking only at the S&P 500, investors saw tranquility. The index gained about 2% for the quarter¹, set a record in mid-August, and spent September within a couple of percent of that high. But, the stillness of the index tells you very little about what's happening underneath.

Below the headline, the current has been strong and running the other way. Roughly three out of every four stocks in the S&P 500 are now in a correction, down 10% or more from their highs. Nearly two in five are in a bear market, down 20% or more. The typical stock in the index sits about 15% below its peak. Fewer than half of the index's members are above their 200-day moving average, a level of weak participation last seen in April 2000².

From the August high through late September, the market-cap-weighted index barely moved, while the equal-weighted version, in which every company counts the same, fell nearly 5%.

¹ <https://www.cnbc.com/2026/09/19/the-sp-500-just-logged-another-losing-week-these-stocks-could-be-due-for-a-bounce.html>

² <https://backtest.substack.com/p/s-and-p-500-near-a-record-high-but>

In short, a small group of the largest companies has been holding the surface still while most of the river moves beneath it. This divergence isn't a prediction. Narrow markets can resolve with the leaders stumbling or with the rest of the market catching up, and history has examples of both. But it is a reminder that the index is not the market, and that calm water is not the same as safe water.

QTD & YTD Capital Market Returns

As of September 30, 2026 ³		
	QTD	YTD
S&P 500 Total Return Index	2.3%	12.8%
Dow Jones Industrial Average	-2.3%	7.2%
Nasdaq Composite Index	2.5%	15.6%
Russell 2000 Index	-7.2%	13.7%
MSCI EAFE Index	0.9%	10.8%
MSCI Emerging Markets Index	-0.6%	23.2%
Bloomberg Aggregate Bond Index	-3.5%	-2.9%

Against the Current

The rocks that shaped the path of the markets were higher interest rates, volatile oil prices, and uneven global growth dynamics. None of these forces is new. What set the third quarter apart is how tightly they were bound together, each one pushing on the others.

Start with rates. In September, the Federal Reserve raised its benchmark rate by a quarter point to a range of 3.75%–4.00%, its first hike since July 2023⁴. It wasn't long ago that markets were debating how quickly the Fed would cut. Instead, with headline inflation running near 3.8% - almost double the Fed's target - policymakers signaled another hike before

³ Black Diamond

⁴ <https://www.cnbc.com/2026/09/16/fed-rate-decision-september-2026.html>

year-end and do not expect to reach their 2% inflation goal until 2029. Longer-term rates moved even more dramatically. The 10-year Treasury yield rose from roughly 4.6% at the August market high to nearly 5.2% by late September, crossing 5% for the first time since 2007.

The usual explanation for rising long-term rates is government borrowing. For decades, economists have warned that heavy federal deficits would "crowd out" the private sector by soaking up savings that might otherwise fund businesses. That concern hasn't gone away: the national debt now stands at roughly \$40 trillion, the deficit is approaching \$2 trillion this year, and interest costs alone run near \$1 trillion annually. But this quarter, the crowding ran in reverse. The largest technology companies - the so-called hyperscalers - are borrowing at an extraordinary pace to fund the AI buildout. Their collective bond issuance grew from about \$17 billion in 2024 to \$109 billion in 2025, before reaching \$194 billion in the first half of 2026 alone⁵. Confident that the returns on AI will be enormous, these companies have been willing to borrow at nearly any price. Capital that flows into their bonds is capital that doesn't flow into Treasuries, and Treasury yields have had to rise to attract buyers.

This is where the breadth story comes into focus. The giants doing the borrowing sit at the top of the S&P 500, flush with capital and confident in their future. The cost of their borrowing binge, in the form of higher rates, falls on everyone else. That includes smaller companies that depend on bank loans, retailers and homebuilders tied to the housing market, banks, and consumers carrying credit card balances. It is no coincidence that the Russell 2000 fell -7.2% in the quarter while the S&P 500 rose. Or, that Home Depot and Lowe's were among the stocks hitting 52-week lows in late September⁶.

⁵ <https://fortune.com/2026/08/29/us-debt-reverse-crowding-out-effect-ai-hyperscaler-bonds-treasury-yields/>

⁶ <https://www.cnbc.com/2026/10/01/q3-markets-stocks-oil-iran-war.html>

Oil prices only strengthened the current. Brent crude rose more than 40% during the quarter to above \$100 a barrel, as the conflict with Iran dragged on and oil flows out of the Middle East remained disrupted. Higher energy prices act as a tax on consumers and on nearly every business outside the energy patch. They also feed directly into inflation, which keeps the Fed leaning toward hikes, which pushes rates higher still. Each rock redirects the water toward the next.

The result is a global economy that is bending but not breaking. The OECD noted in September that global growth slowed to a 2.6% annualized pace in the first half of the year, and it now projects 2.9% for 2026, down from the 3.4% it expected earlier in the year⁷. To its credit, the world economy has absorbed the Iran-induced energy shock better than many feared, aided in part by the surge in AI investment. But that support, like the market's gains, is concentrated in a narrow channel. Rates, oil, and growth are not three separate rocks. They form a single riverbed, and this quarter, the water ran around all three at once.

The Converging Waters

Every river eventually teaches the same lesson: we don't control the water. We can only read it, respect it, and position ourselves well within it. The third quarter offered a calm surface over strong currents. The S&P 500 edged higher, but most stocks struggled beneath it, pushed by higher interest rates, an oil shock born of conflict in the Middle East, and a global economy that is bending under the strain. These forces are not separate. They are converging, and convergence is the theme we believe will define the months ahead.

For bond investors, this is not 2022. That year, the Bloomberg U.S. Aggregate Bond Index lost about 13% because bonds entered the year yielding less than 2%, leaving almost no income to absorb rising rates.

Today, the starting point is very different. The broad investment-grade bond market now yields roughly 5.5%. At that level, rates would need to rise by nearly another full percentage point over the next year before a diversified bond portfolio lost money, and if growth slows, bonds once again have room to rally. Yields have risen meaningfully this year, but that pain has rebuilt the base rate cushion that protects the asset class going forward.

That cushion does not mean we can ignore the risks building upstream. The Fed is now raising rates and draining liquidity from the system, with markets bracing for more. The conflict with Iran has become a prolonged supply shock to energy markets, and no durable resolution is in sight. Meanwhile, the stock market's gains rest on an ever-narrower group of companies - the same companies whose borrowing is helping push rates higher. Any one of these currents could strengthen quickly. We are watching each of them closely, and if conditions deteriorate further, we are prepared to adjust portfolios. Until then, we will keep doing what the river has taught us to do: stay patient, stay humble, and keep our lines tight.

As always, if you have any questions or concerns, please do not hesitate to reach out. We wish you good health and happiness as we finish out 2026.

Respectfully,

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⁷ https://www.oecd.org/en/publications/2026/09/oecd-economic-outlook-interim-report-september-2026_8312492f/full-report.html

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