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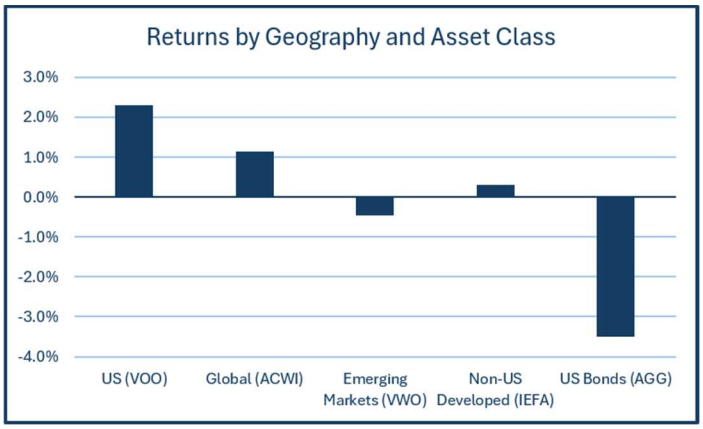
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A Look Back…3rd Quarter 2026

We call our quarterly review "A Look Back" to remind our readers that is all it is – backward looking. While it is important to keep tabs on what your portfolio is doing, it is equally important to ignore short-term results. Keep focused on the long-term goals of your portfolio and whether it is achieving them.

The Markets

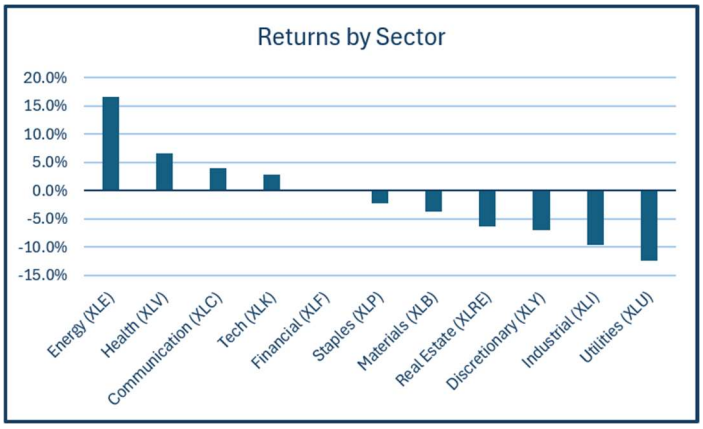
After a very strong second quarter, things cooled off in the third quarter of 2026. The MSCI All Country World Index delivered a somewhat ho-hum return of just over 1%, led to positive by the US as Non-US Developed was just above flat and Emerging Markets was modestly negative. Returns were once again dictated by the ongoing war in Iran and its impact on oil prices and therefore inflation. That, of course, has the inevitable impact on Federal Reserve decisions. Although the central bank left its key rate unchanged in July, they did move forward with a rate increase in September. Thanks to a rebound in oil prices, inflation readings came in hot leading to bets for at least one more rate hike this year. Thanks to a sharp rise in interest rates, bonds, as measured by the iShares US Aggregate Bond Index ETF, fell for the quarter.



Source: Morningstar; As of 9/30/2026
Returns represented by ETFs indicated in parentheses

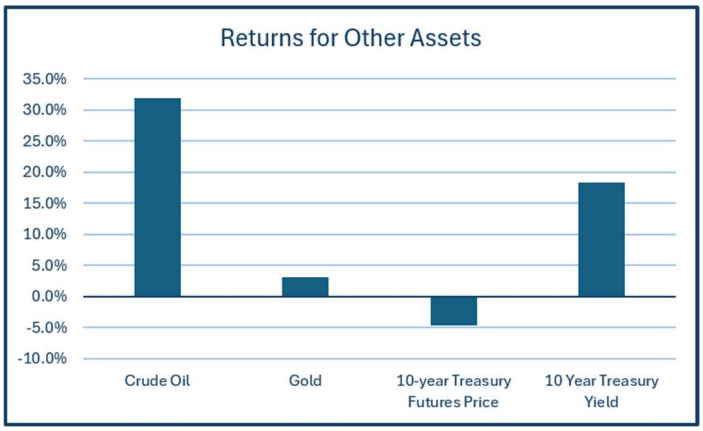
What did what?

From a sector perspective, Energy stocks were by far the quarter's biggest winner as the price of oil again rocketed higher. More defensive sectors like Industrials and Utilities saw an exodus of capital. The chart below shows the returns for State Streets' US sector ETFs for the three-month period.



Source: Morningstar and Metric Financial; As of 9/30/26
Returns represented by ETFs indicated in parentheses

All talks about negotiating with Iran seemed to disappear during the quarter and there were intermittent attacks by both sides. This sent the price of oil markedly higher again and, as a result, inflation came roaring back. As inflation is inherently bad for bonds, yields jumped and prices fell. The 10-year US treasury finished the quarter yielding well over 5%.



Source: investing.com, Yahoo Finance and Metric Financial; As of 9/30/26

Outlook

It has been a volatile year so far, but stocks have fared well, as noted above. The question is where do we go from here? There is a lot on the negative side. High oil prices and inflation. High interest and mortgage rates. The uncertainty of war. And a looming midterm election that has taken on much significance. Although there is potential in all the negativity, i.e. lower oil prices would solve a lot of problems, there is also meaningful uncertainty in the political landscape. This makes outlooks difficult. However, our expectation is that Democrates will reclaim one or both houses of Congress, which is likely to cause some backlash from the administration. Once we navigate our way through that, the focus will be on finding a resolution to the war. If we can achieve that, lower oil would likely follow, reducing pain at the pump and in the grocery store for consumers. It would also have the potential to bring down interest rates and take Fed rate hike worries off the table. All of those things would be positive for both stocks and bonds. With the midterms the first week of November and two more Fed meetings (October 28 and December 9), there is a lot riding on the next few months.

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Disclosures

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