QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

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Index	Sept. 30 close	Q3 gain/loss	2026 YTD
Dow Jones Industrial Average	50,906.05	−2.70%	+5.9%
S&P 500	7,651.54	+2.03%	+11.8%
Nasdaq Composite	26,861.06	+2.47%	+15.6%

The third quarter was a story of two markets. Large technology and AI-related companies continued to support U.S. stock indexes, while higher interest rates, persistent inflation and rising energy prices weighed on bonds and much of the broader equity market. After an exceptional second quarter, the pace of gains slowed considerably.

The S&P 500 gained 2.03% during the quarter, closing September 30 at 7,651.54, for an 11.8% year-to-date gain. The Nasdaq Composite rose 2.47% to 26,861.06, bringing its year-to-date gain to 15.6%. The Dow Jones Industrial Average declined 2.7% but remained up 5.9% for the year. Smaller companies struggled, with the Russell 2000 declining approximately 7.5%. Market leadership remained concentrated in large-cap technology and AI-related companies, while value and smaller-cap stocks generally lagged.

International markets were comparatively subdued. Developed international markets posted modest gains, while emerging markets were largely unchanged. Japan's Nikkei 225 and China's Shanghai Composite both declined during the quarter, reinforcing the importance of maintaining broad geographic diversification.

Corporate earnings continued to provide an important foundation for equity valuations. Analysts were expecting more than 25% year-over-year earnings growth for the S&P 500 in the third quarter, marking the third consecutive quarter of growth above 25%. AI-related companies remain a significant contributor to earnings growth and market performance. According to BlackRock, AI-related names drove close to 60% of the index’s earning growth, and three hyperscalers account for roughly 70% of what analysts expect for the full year. While continued investment in artificial intelligence could support productivity and profitability, the increasing concentration of market gains among a relatively small number of companies bears watching.

The most significant macroeconomic development was the Federal Reserve's shift toward tighter monetary policy. The Fed held rates steady at its July meeting before raising the federal funds target range by 0.25% in September to 3.75%–4.00%, its first increase since 2023. Persistent inflation remains above the Fed's 2% objective, while a resilient economy has given policymakers less reason to ease financial conditions.

Higher rates put considerable pressure on fixed income. The 10-year Treasury yield rose from approximately 4.4% at the end of June to 5.3% at quarter-end, while the two-year yield approached 5.0%. During the third quarter. the Bloomberg US Aggregate Bond Index declined about 4%. Three forces pushed yields higher: a resilient economy with stubborn inflation, heavy debt issuance tied to the AI investment boom, and the Fed's change of direction.

Energy prices added another inflationary concern, with crude oil ending the quarter near $90 per barrel. Higher gasoline and other energy costs could keep inflation elevated and make the Federal Reserve's path forward more challenging.

As we enter the fourth quarter, we are focused on several key questions: Will inflation continue to moderate? How high will interest rates go, and how long will they remain elevated? Can earnings growth offset higher borrowing and discount rates? And will market leadership broaden beyond a relatively small group of technology and AI companies?

Markets have remained resilient this year, but the third quarter reinforced the importance of looking beyond headline index performance. Higher interest rates, concentrated equity leadership and uneven performance across asset classes highlight the value of diversification, disciplined risk management and a long-term investment perspective.

Have a great Fall! Feel free to reach out to us with any questions.





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