

Perspectives

A Quarterly Newsletter for Clients of Parsons Capital Management



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If markets like to climb the proverbial “wall of worry,” the third quarter left investors feeling like they summited Kilimanjaro. July saw a widespread sell-off in tech/growth/AI stocks as the massively levered Situational Awareness hedge fund collapsed. An orderly digestion of the fund gave way to a powerful rally that had the S&P hitting new all-time highs by the middle of August, before a multitude of headwinds became too much for the market and pushed indices lower over the final five weeks of the quarter. An uneasy ceasefire between Iran and the U.S. crumbled, leading to renewed conflict and threats to the global oil supply. Data centers were suddenly unwelcomed in both Red states and Blue, calling into question the A.I. capex theme that has underpinned much of the market advance in the past few years. The U.S. initiated a trade fight with Canada and, perhaps to the surprise of the administration, Canada stood its ground. This brought trade tension back to the front burner. Rates on the 10-year Treasury soared 83 basis points, hitting levels not seen in 20+ years. An attempt by the Treasury to reverse the fall in bond prices was ineffectual. This all fed into inflationary pressures, necessitating a rate hike by the Fed for the first time since 2023. With all that, the S&P ended the quarter 2% off its all-time high set August 13th. At the index level, damage to the S&P 500 was muted due to strength in the largest names. This was illustrated by September's 0.66% gain in the S&P 100 and a loss of 4.81% in the Equal-Weighted index.

Data as of September 30, 2026	Sept. '26	Qtr. 3 '26	YTD '26
S&P 500	-0.35%	2.30%	12.75%
MSCI AC World Index (incl. US)	-1.08%	1.69%	13.37%
MSCI EAFE (Europe, Asia, Far East)	-3.01%	0.88%	10.81%
MSCI EM (Emerging Markets)	-0.50%	-0.24%	23.73%
Russell 1000	-0.65%	1.80%	12.32%
Russell 1000 Growth	2.15%	0.92%	6.29%
Russell 1000 Value	-3.13%	2.61%	19.30%
Russell Midcap	-4.17%	-2.99%	11.84%
Russell 2000	-5.25%	-7.23%	13.71%
Bitcoin	6.37%	42.68%	-4.52%

Data provided by Tamarac Inc.



Fixed Income Markets

Stock investors could hide out in the largest domestic names during a turbulent quarter, but the fixed income market offered no such haven. The Bloomberg U.S. Aggregate Bond Index was -3.51% in the quarter, with a -2.61% return just in September. Returns were negative across maturities, although the short end held up relatively better with the 1-5 Year Index -1.04% in the quarter compared to -7.43% for the Long Bond Index. Perhaps damning with faint praise, but High Yield was a relative standout with returns of “just” -1.81% for the quarter and -2.49% in September.

Multi-decade high for rates...

Rates shoot higher across the curve...

Unprecedented moves in commodity prices...



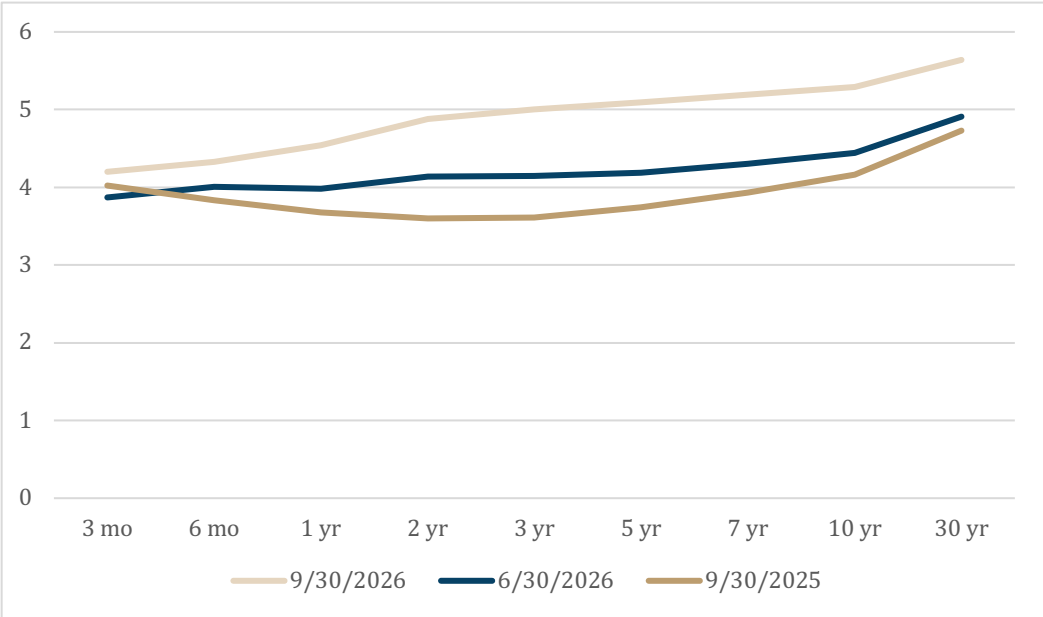
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US Treasury Yields

The 10-year Treasury ended the quarter with a yield of 5.29%. The last time the yield was that high, Tiger Woods had just claimed back-to-back Green Jackets at the Masters (April 2002 for the non-golf fans). While inflation gets much of the attention for the rise in rates during the quarter, at least part of the jump is attributable to continued steady economic growth. On the short end of the curve, the Fed raised its target rate on September 16th and signaled the intent for one or two more hikes in the coming meetings.



Data from U.S. Treasury



Commodities

With the surge higher in the third quarter, the CRB index has now seen just the sixth single-year increase of 30% or more since the index was first reported in 1957.

Oil continued its year of wild price swings: 1Q +78%, 2Q -31% and now +30.10%. This marks the first time ever, since the launch of crude oil futures in 1983, where oil prices have seen three consecutive quarters of 30%+ price moves.

Gold regained some of its luster early in the quarter, although a -6% dive in September gave a portion back. Copper rallied strongly in the quarter, posting +6% (including a pullback in the final month of -0.52%) bringing its year-to-date return to +15.44%.

Commodity	Qtr. 3 '26	Year to Date '26
CRB (broad index)	17.15%	41.20%
Oil	30.10%	57.47%
Gold	3.75%	-3.75%

Data from Trading Economics



Macro Overview

Domestic economy proving naysayers wrong...

Consumers shrugging off headwinds...

Inflation impacting a multitude of economic players...

Politics increasingly coming into focus...



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The U.S. economy continued to defy skeptics in the third quarter, despite facing an increasingly challenging environment. Initial 2Q GDP looked a tad underwhelming, but better than initial readings on consumer spending and business investment resulted in a final tally of 2.2% annualized growth. With estimates for 3Q GDP sitting at 4% (again underpinned by business investment and consumer spending), the domestic economy looks to be weathering the macro storm.

While the economy clearly has some momentum to it, challenges look likely to grow into the end of the year. Spending on Artificial Intelligence has been a key pillar to economic growth. Increasing political backlash from both sides of the aisle have called into question the continued growth trajectory, though real-world data has yet to show a slowdown. The strength in A.I./datacenters has been even more important as the housing sector continues to be waylaid by ever higher interest rates.

The U.S. consumer has also been a key ingredient in overall economic growth. Corporate profits continue to outstrip costs, meaning there has been little pressure to fire workers. While there have been headline grabbing layoff announcements, actual initial jobless claims have remained in a tight range and ended the quarter well off the summer highs. Importantly, the labor market remains supportive for consumers, but the multipronged impact of higher energy and food prices, rising interest rates leading to costlier debts, and political uncertainties have conspired to drive consumer sentiment to recession-like readings. Despite sentiment readings being depressed, consumer spending has remained solid.

Businesses and consumers are not the only players dealing with inflation, as the Federal Reserve was forced to act in September. With the job market remaining healthy, the inflation side of the Fed's dual mandate demanded action. Tariffs and commodities are driving inflation steadily above 3%. Short rates moved higher in response to the hike, and longer yields continued to press upwards as a combination of high nominal (actual growth plus inflation) GDP, widening budget deficits and increased supply of bonds issued by corporations to fund AI spending all caused investors to demand higher compensation.

Turning away from the economic view, the geopolitical environment once again was a notable force in the quarter. Historically, whichever party controls the White House has struggled in the midterm election. The current environment (with an unpopular war, rising inflation/energy costs and electability questions surrounding some candidates) is suggesting a "wave" election with Democrats poised for meaningful gains in Congress. Shifting election odds are already having an impact on market performance: industrials are struggling, while healthcare stocks get a bid as the odds of Democrats taking the House and Senate increase.

While the looming election will continue to play a major role, events beyond our border continue to rock markets. A tit-for-tat tariff escalation with Canada has reintroduced trade uncertainty, while clarity around the Strait of Hormuz and the Iran conflict remains elusive.

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Investment Implications

*Multiple macro forces
impacting investors...*

*2026 marked by regular
shifts in leadership...*

*Largest companies
increasingly seen as a safe
haven...*

*Bond market a source of
consternation...*



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As we enter the final quarter of 2026, investors are confronting an increasingly complicated landscape. The intersection of geopolitics, monetary policy and the looming midterm elections has introduced considerable uncertainty, yet the underlying fundamentals of the domestic economy remain reasonably healthy. Strong corporate earnings, continued capital investment and a labor market that has yet to show widespread weakness provide support for equities. While a moderation in economic growth appears increasingly likely, a slowdown need not translate into a recession.

Competing macro forces have led to dramatic swings in market leadership. As conflict reignited in the Middle East and election expectations shifted, many of the first half's winners became third quarter laggards. The 60% of stocks in the Russell 1000 that posted positive returns in the first half of the year declined by an average of 5.2% during the third quarter. Conversely, the 40% that had declined in the first six months enjoyed an average gain of 3.6% in the third quarter. The reversal shows how quickly investor preferences can change when the economic and political backdrop shifts.

Despite this rotation, September saw a familiar theme reassert itself: market performance dominated by the largest companies. Only two S&P 500 sectors managed positive returns for the month, Technology and Communication Services (essentially Technology's cousin). The headline performance of the broader index masked considerable weakness beneath the surface (S&P Equal Weight -4.81% in September), leaving investors increasingly dependent on a relatively narrow group of companies to sustain market gains.

One powerful counterweight to these concerns has been corporate earnings. Following another blowout reporting period, in which second-quarter S&P 500 earnings rose 33% year-over-year (excluding mark-to-market gains), analysts have continued to raise expectations rather than rein them in. Estimates for third-quarter earnings growth increased by nearly two percentage points during the quarter, reaching 24%. This is a notable departure from the more typical pattern of downward revisions as reporting season approaches. Strong earnings growth has helped support elevated valuations, particularly among the largest companies. That also raises the bar for future results. With expectations already high, even strong earnings may not be enough to satisfy investors.

While equities have largely managed to digest the mounting macroeconomic headwinds, the fixed income market has increasingly taken center stage. The 83-basis-point surge in the 10-year Treasury yield during the quarter, and an unsuccessful effort by the Treasury to arrest the rise, left bond investors facing another difficult period. The pressure has not been confined to the United States; yields have moved higher across global markets. This is a result of investors demanding greater compensation for inflation, fiscal uncertainty and mounting debt issuance. Although losses have yet to approach the rout witnessed in 2022, bonds have once again proven to be anything but a safe haven.

The implications of persistently higher rates extend well beyond fixed income returns. Governments continue to spend well beyond their means, while large corporations increasingly tap debt markets to finance extraordinary A.I.-related capital expenditures. Together, these demands threaten to keep upward pressure on borrowing costs. While the largest companies have generally been able to absorb higher rates, the weaker performance of mid- and small-cap equities illustrates the challenges facing businesses with less financial flexibility. Ultimately, the direction of interest rates may prove as consequential for future market returns as the strength of corporate earnings. With valuations elevated and market leadership increasingly concentrated, maintaining a disciplined approach to portfolio construction and diversification remains particularly important.