

Quarterly Market Update

Q3 | 2026

Inside

- A mixed quarter for markets amidst interest rate volatility
- Oil prices and inflation increase on reescalation of Iran conflict
- The rise in interest rates is a global phenomenon
- Midterm elections around the corner
- Business outlook is positive while consumer confidence sours
- Higher interest rates hurt in the short-term, but could mean better long-term returns for fixed income

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It was a mixed quarter for markets amidst a surge in interest rate volatility. U.S. large-cap and international stocks eked out modest gains, while emerging markets and small-cap stocks both suffered losses.

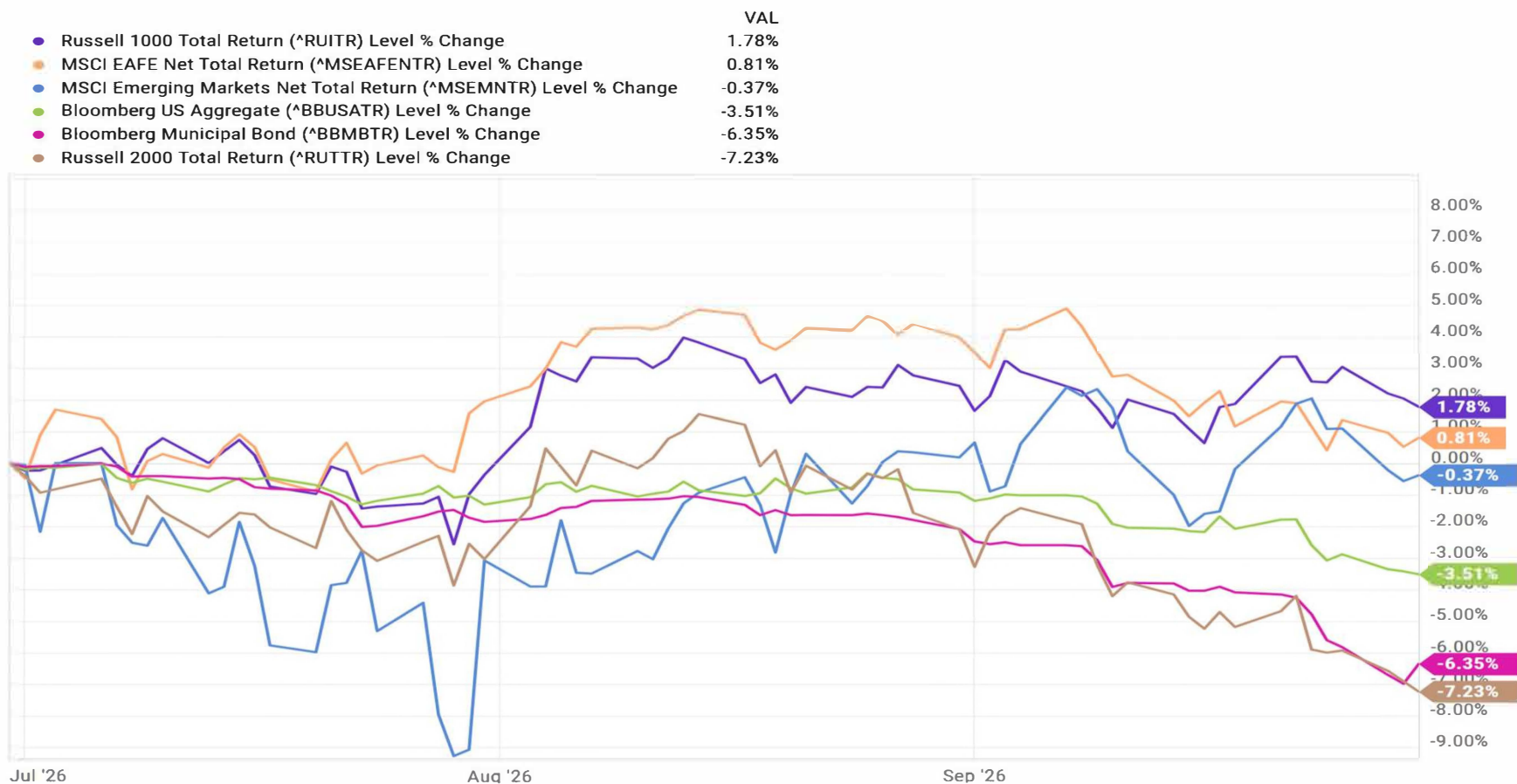
From a sector perspective, energy stocks led the way, fueled by a rebound in oil prices as the Iran conflict heats back up. Traditionally interest rate sensitive sectors including REITs and utilities were the quarter's laggards.

Rising interest rates resulted in short-term pain for fixed income investors. Investment-grade taxable bonds fell 3.51%, while municipals were down 6.35%. Credit quality remains healthy in our opinion, with losses driven primarily by changing interest rates.

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A mixed quarter for markets amidst interest rate volatility

U.S. and international stocks managed modest gains in the 3rd quarter, while small-caps entered correction territory. Rising interest rates were a headwind for fixed income, with investment-grade taxable and municipal bonds both suffering losses.



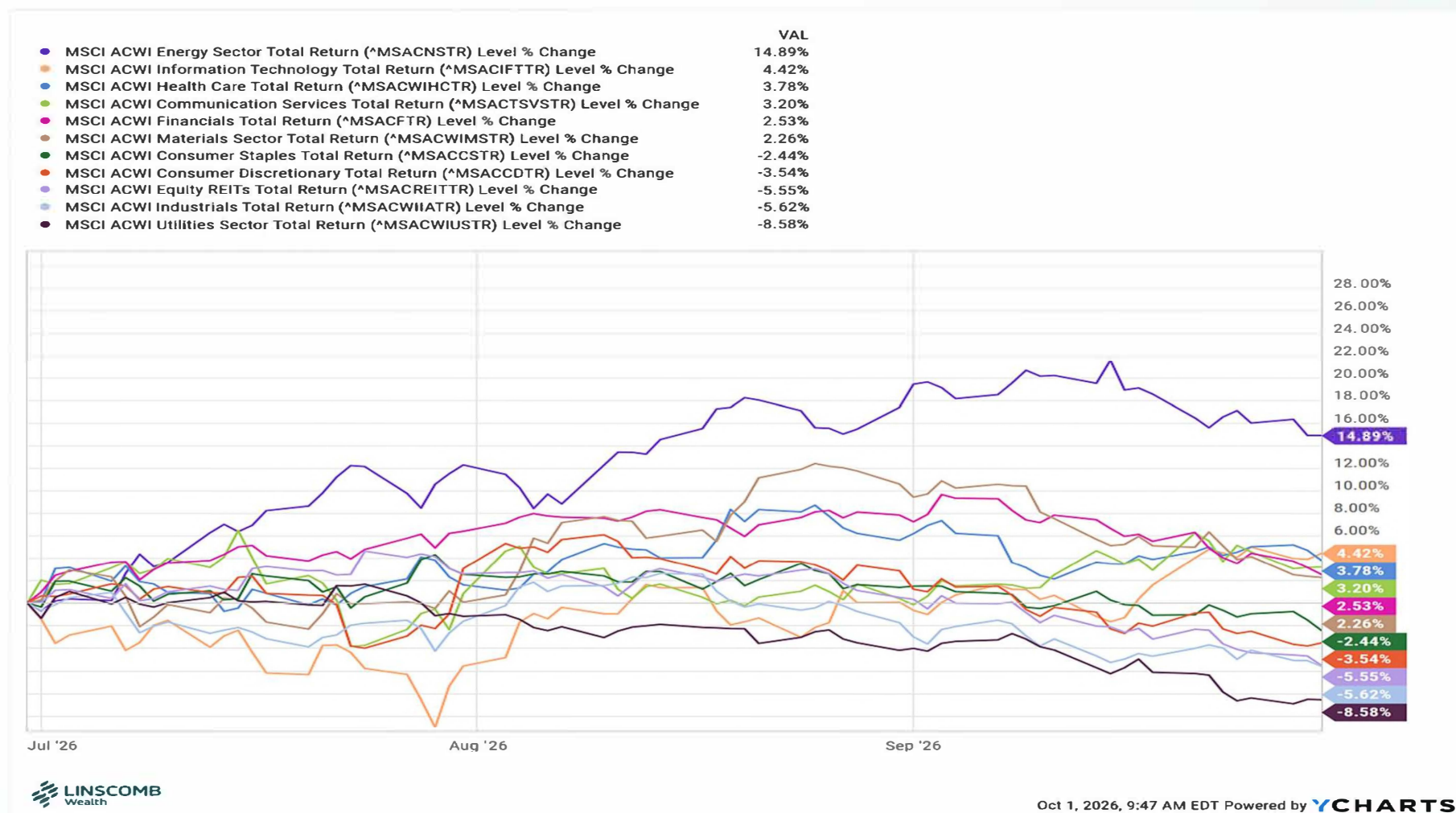
Oct 1, 2026, 9:44 AM EDT Powered by YCHARTS

Source: YCharts, MSCI, Russell, Bloomberg, 6/30/2026 – 9/30/2026. Past performance is not indicative of future returns. Chart is for illustrative purposes. Indices are unmanaged, do not include fees or expenses and are not available for direct investment, except where indicated being Net Total Return. Returns of indices for periods of less than one year may not be annualized. Please see disclosures for index definitions.



Energy leads the way in a volatile 3rd quarter

Energy stocks led the way in the 3rd quarter, easily outpacing the rest of the market as oil prices rose following a reescalation of the Iran conflict. Traditionally, interest rate-sensitive sectors such as utilities and REITs were two of the worst-performing sectors.

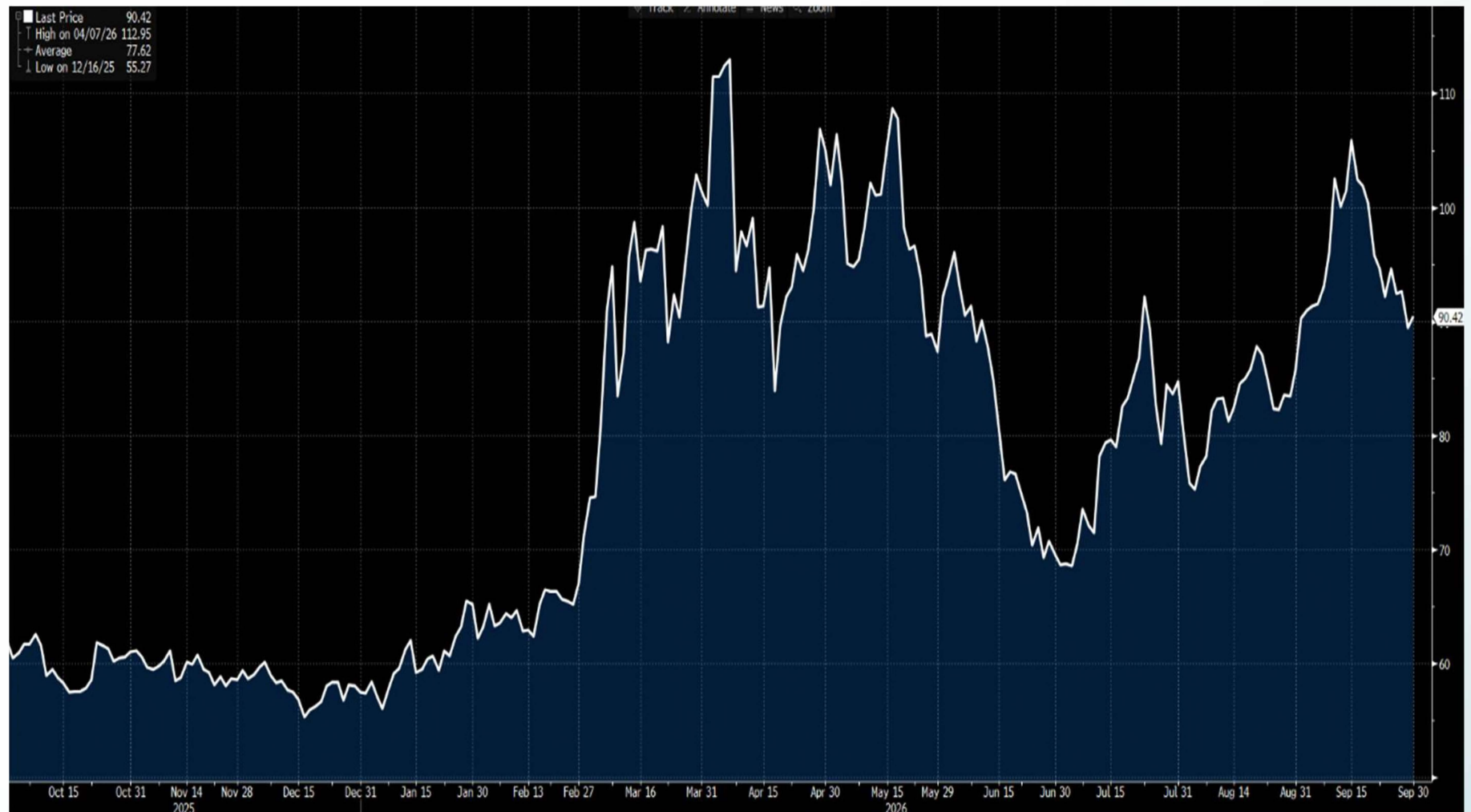


Source: YCharts, MSCI, 6/30/2026 – 9/30/2026. Past performance is not indicative of future returns. The chart is for illustrative purposes. Indices are unmanaged, do not include fees or expenses, and are not available for direct investment. Returns of indices for periods of less than one year may not be annualized. Please see disclosures for index definitions.



Oil prices rebound as Iran conflict heats back up

West Texas Intermediate (WTI) crude oil, a key North American oil price benchmark, rebounded from below \$70 in June to just above \$90 currently. With no agreement emerging regarding the ongoing conflict in Iran, oil prices remain volatile, contributing to higher inflation.



Source: Bloomberg, 9/30/2025 – 9/30/2026. West Texas Crude Oil Spot Price. Chart reflects spot or futures data from sources like ICE or EIA, which may include delays or approximations based on over-the-counter (OTC) and CFD instruments.

Interest rates were on the rise in the 3rd quarter

Persistent inflation, the Federal Reserve's tightening policy, ongoing AI investment, and continued government deficits have pushed interest rates higher. At 5.29%, the 10-year U.S. Treasury yield is at its highest level in 20 years.



Oct 1, 2026, 5:32 PM EDT Powered by **YCHARTS**

Source: Federal Reserve, YCharts. 9/30/2006 – 9/30/2026. The 10-year Treasury yield is commonly used as a measure of the U.S. government's 10-year borrowing rate. It serves as a benchmark for other interest rates and is a key indicator of investor sentiment about economic conditions.



Persistent inflationary pressures finally forced the Federal Reserve to act in September. The Fed increased the federal funds rate to its new range of 3.75% - 4.00%. Though inflation, currently at 3.4% per the consumer price index (CPI), is largely driven by rising oil prices, the Fed still felt it prudent to modestly raise interest rates. Fed chair Kevin Warsh said he viewed the adjustment more as a risk management tool, rather than the start of an extended hiking cycle.

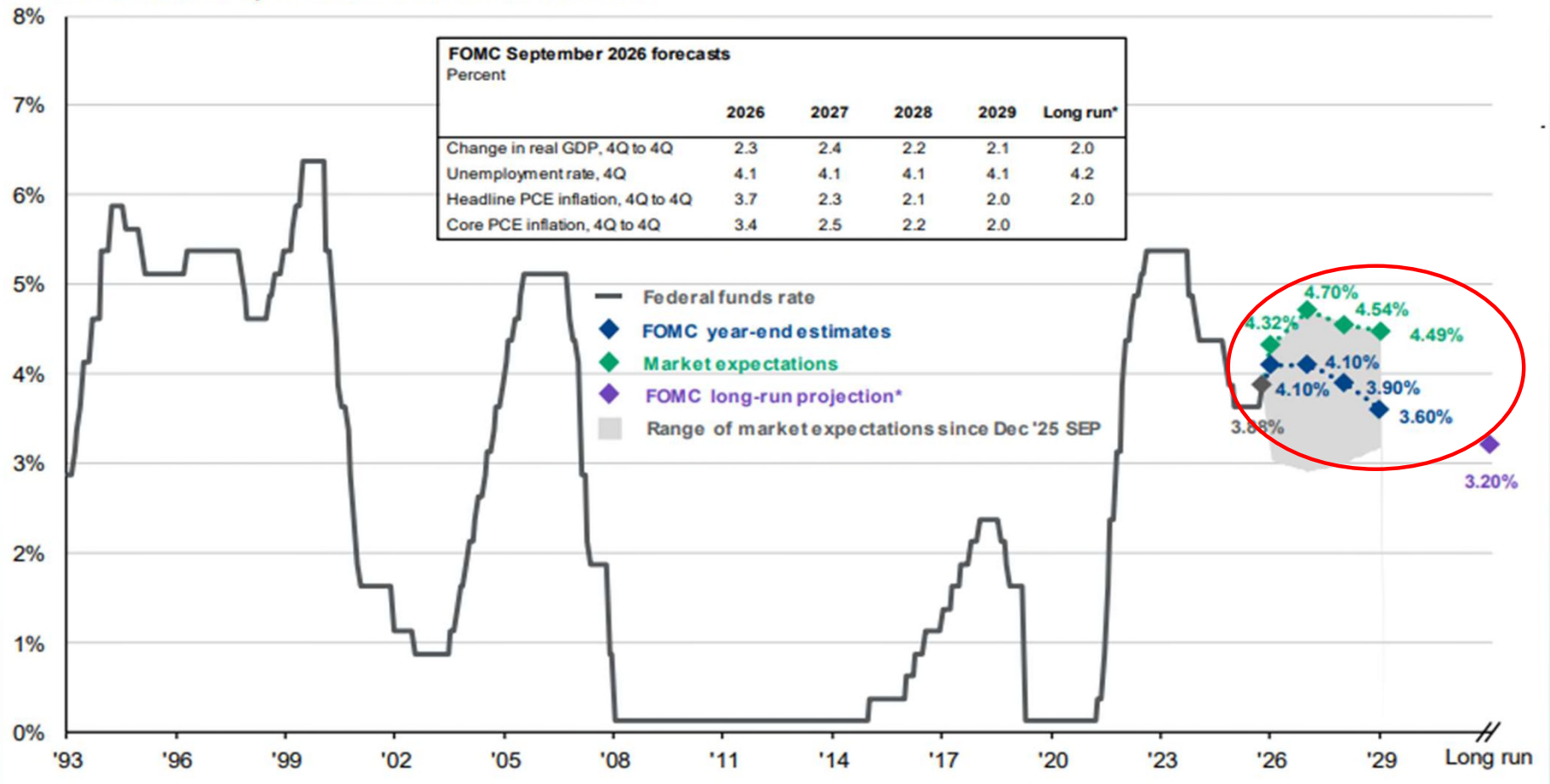
Outside of inflation, a few other factors potentially influencing rates upwards include the massive amounts of capital required to fund the AI buildout and ongoing federal government fiscal deficits, which are more often associated with recessions. Also, it's important to note that the rise in interest rates is not just a U.S. phenomenon; it is happening in many major markets across the globe.

Inflationary pressures force the Fed to act

The Fed increased the federal funds rate in September in response to persistent inflationary pressures. The Fed doesn't view this as the start of a long-term rate-hiking cycle, but rather as risk management due to higher prices resulting largely from geopolitical events.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

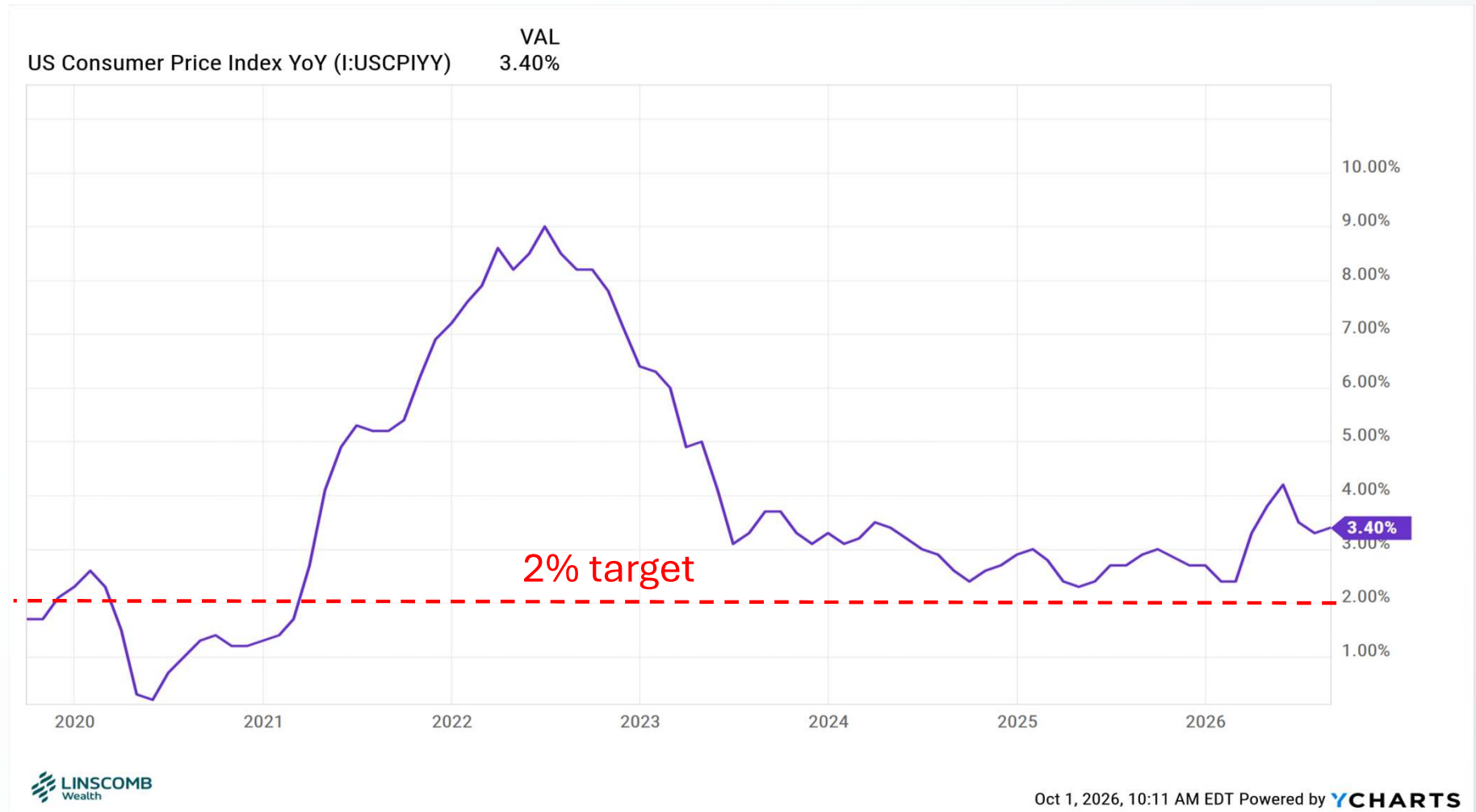
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

Guide to the Markets – U.S. Data are as of September 30, 2026



Trailing inflation still well above 2% target

The Consumer Price Index (CPI), a common measure of inflation, has remained above the Fed's 2% target since 2021 and is currently running at 3.4%. Much of the rise has been due to higher oil prices, which could reverse should the Iran conflict eventually be resolved.



Source: YCharts, Bureau of Labor Statistics. 8/31/2019 – 8/31/2026. The Consumer Price Index (CPI) is a weighted average of prices and is representative of aggregate U.S. consumer spending. It is used as a metric for inflation and deflation.

Interest rates are increasing globally

The U.S. is not alone in navigating higher interest rates, as central banks around the world have also adjusted monetary policy in response to inflationary pressures. In short, higher interest rates are a global phenomenon.



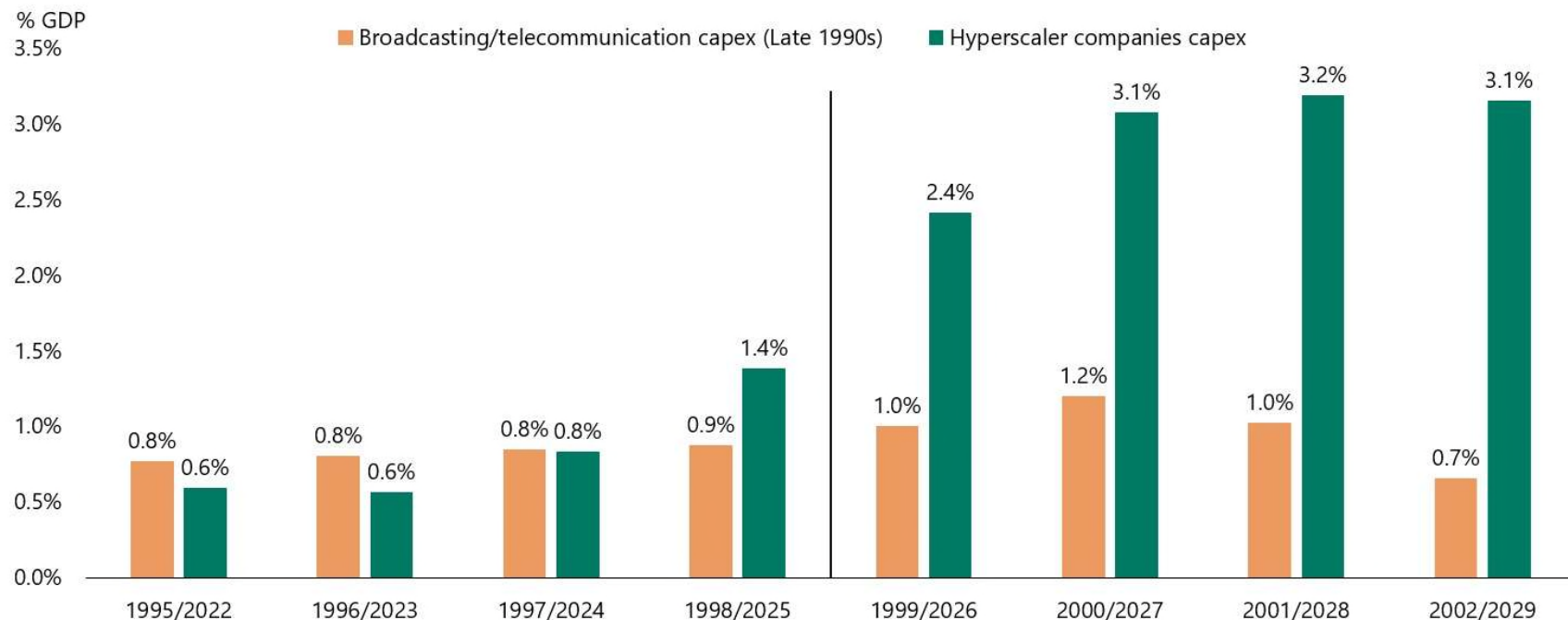
Source: Bloomberg. 9/30/2021 – 9/30/2026. Interest rates presented are for illustrative purposes only and do not reflect any future projections.

Sustained investment in AI infrastructure is increasingly debt funded

Spending by major technology companies on AI infrastructure has grown to a larger share of the U.S. economy than the telecom investment boom of the early 2000s. As the price tag for the buildout grows, companies are increasingly funding it with debt.

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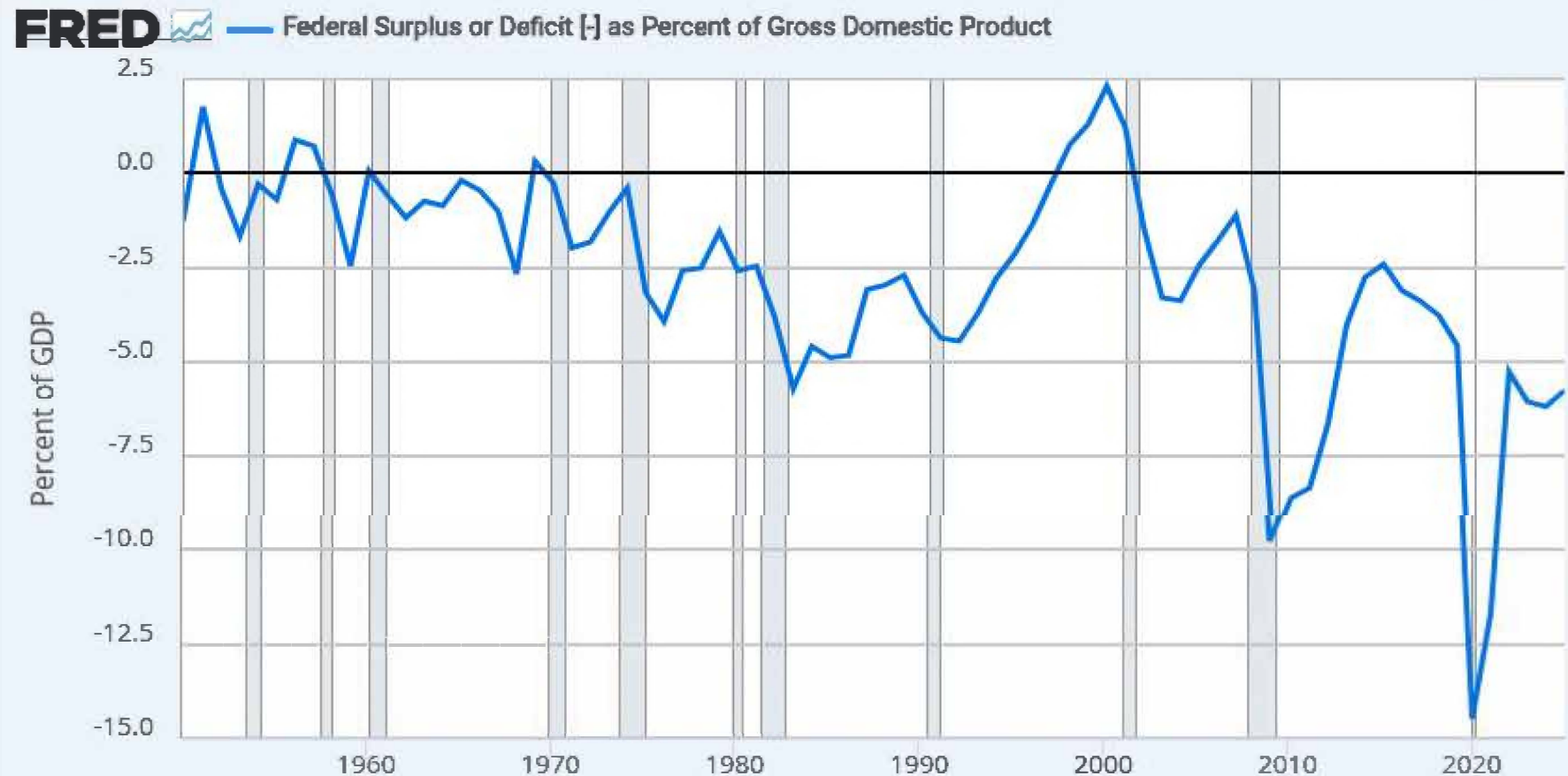
Hyperscaler capex as a share of GDP higher than telecom capex share of GDP in the 2000s



Source: Capex shown represents total company capital expenditures as a share of GDP. Hyperscalers are large cloud computing companies that own and operate data centers with interconnected servers, supported by the cooling, power, networking, and data storage infrastructure required to house and operate AI workloads. The hyperscalers referenced are Amazon, Meta, Oracle, Microsoft, and Google.

Government deficits remain elevated

Despite a growing economy, government deficits are at levels typically associated with a recession. This is likely one factor putting upward pressure on interest rates.



Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®

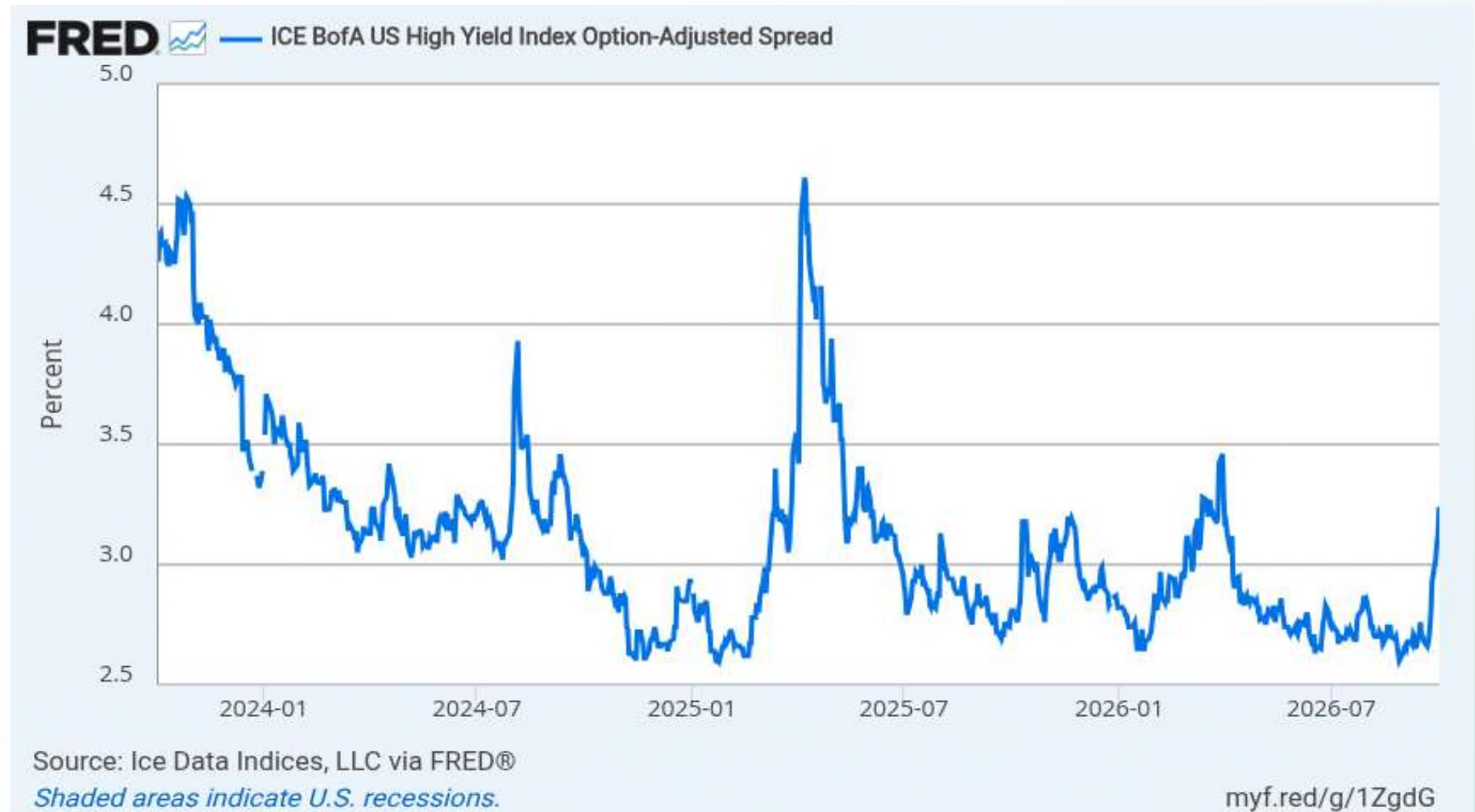
Shaded areas indicate U.S. recessions.

myf.red/g/1ZgLq

Source: Federal Reserve, U.S. Office of Management and Budget. 12/31/1949 – 9/30/2026.

High yield spreads up, but not yet cause for concern

High-yield spreads are a good real-time indicator of fixed-income investors' assessment of credit risk in the economy. Though they have increased recently, spreads are still relatively low compared to recent history.



Source: ICE Data Indices, LLC; Federal Reserve Bank of St. Louis (FRED). The ICE BofA US High Yield Index Option-Adjusted Spread (OAS) measures the spread between the option-adjusted yield of U.S. dollar-denominated below-investment-grade corporate bonds and a corresponding spot Treasury curve. The index comprises bonds rated below investment grade (BB or below) and is capitalization-weighted based on the amount outstanding. OAS accounts for embedded bond options and is expressed in percentage points. The series is reported daily and is not seasonally adjusted.



Looking forward, the U.S. midterm elections are just around the corner. Republicans currently hold slim majorities in both the House and Senate; however, midterms typically see the incumbent party lose seats. We don't expect significant changes to policy regardless of the outcome. Typically, the midterms have tended to have limited impact on financial markets.

Rising interest rates have been a challenge for bond investors, but we see reasons for optimism going forward. Higher starting yields have typically led to better future returns, and at over 5% currently, investors now have a meaningful cushion against both inflation and the risk of rates rising further.

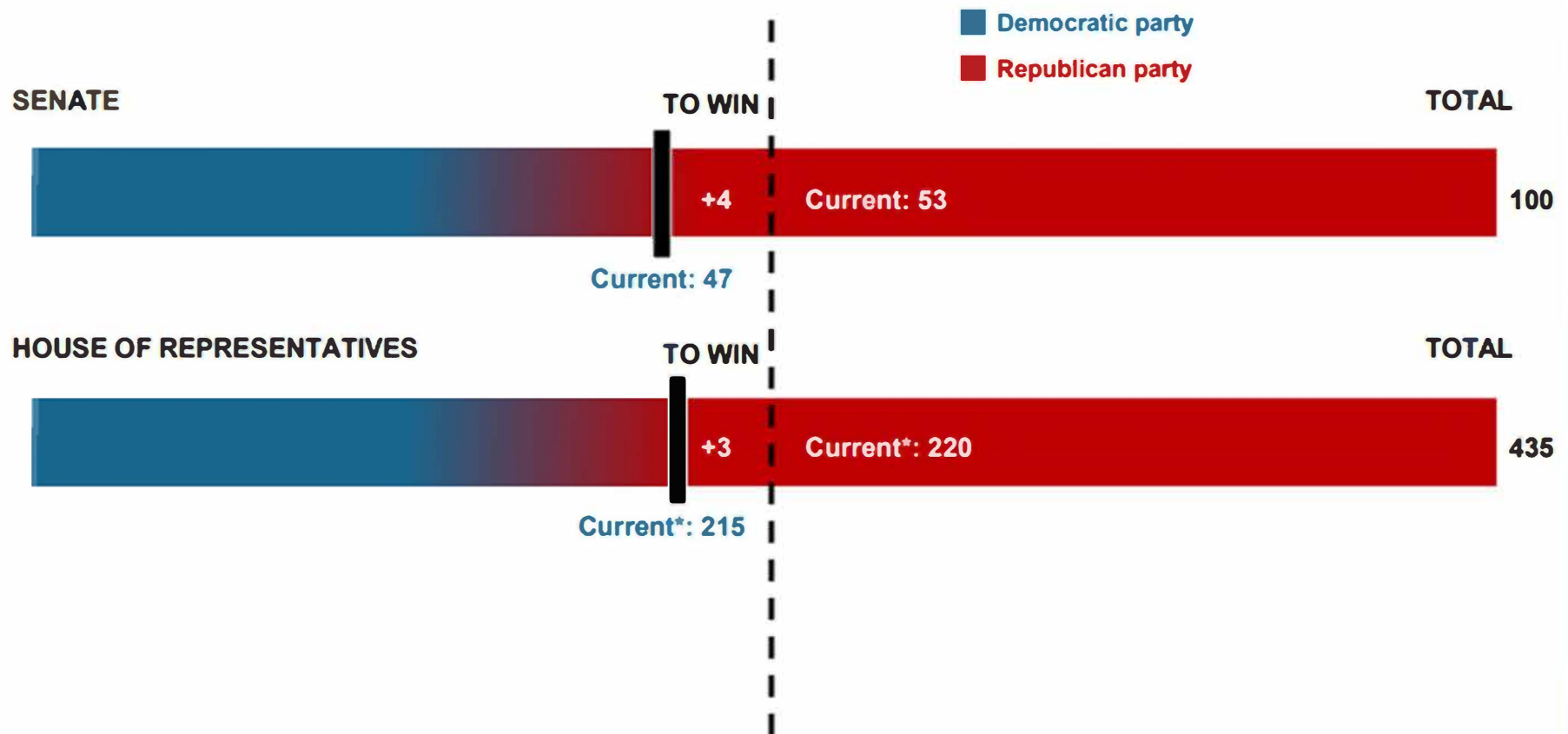
Valuations in the stock market are on the high side but are supported by strong earnings expectations. Surveys of business confidence are consistent with a growing economy, and a steady labor market should continue to support consumer spending.

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The midterm elections are near

With the midterm elections just over a month away, Republicans have a slight advantage in both the House and Senate. Historically, the incumbent party has lost seats following midterm elections.

Votes or seats in the Senate and House of Representatives



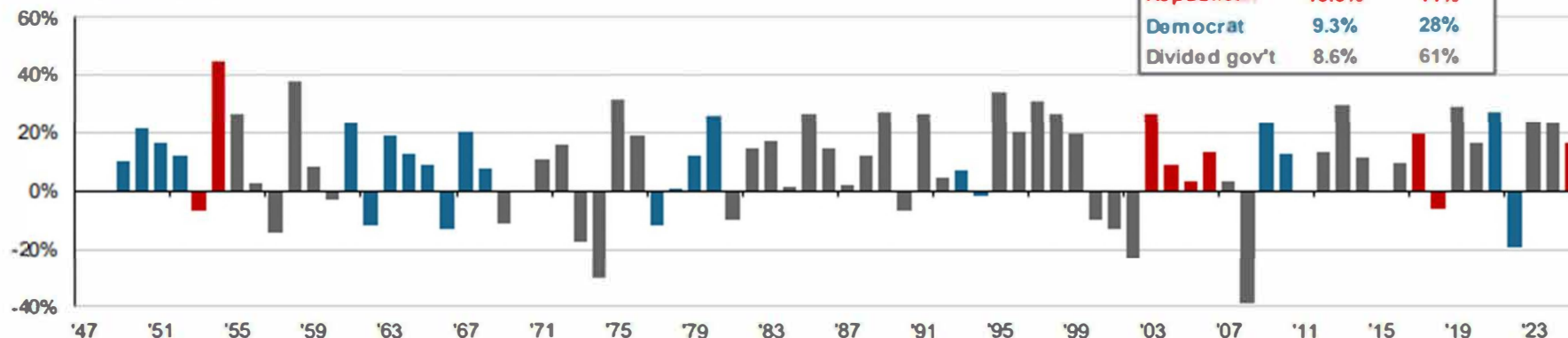
Source: 270towin, J.P. Morgan Asset Management. The Senate currently consists of 45 Democrats, 53 Republicans and 2 Independents that caucus with the Democrats. *Currently, the House of Representatives consists of 219 Republicans, 214 Democrats and 2 vacant seats (one formerly held by a Republican in Texas and one formerly held by a Democrat in Florida). "Current" includes vacant seats. Data are as of September 18, 2026.

Markets & the economy fair well under all combinations of government

The markets and economy have continued to grow under different combinations of government leadership, highlighting that economic and market performance are influenced by a broad range of factors—not solely by the political environment.

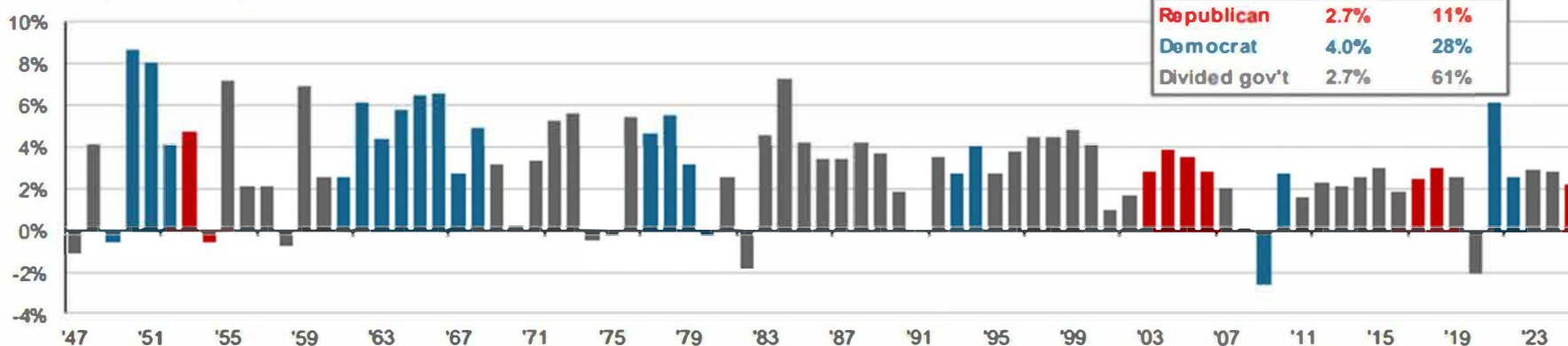
S&P 500 Price Index

Calendar year returns



Real GDP

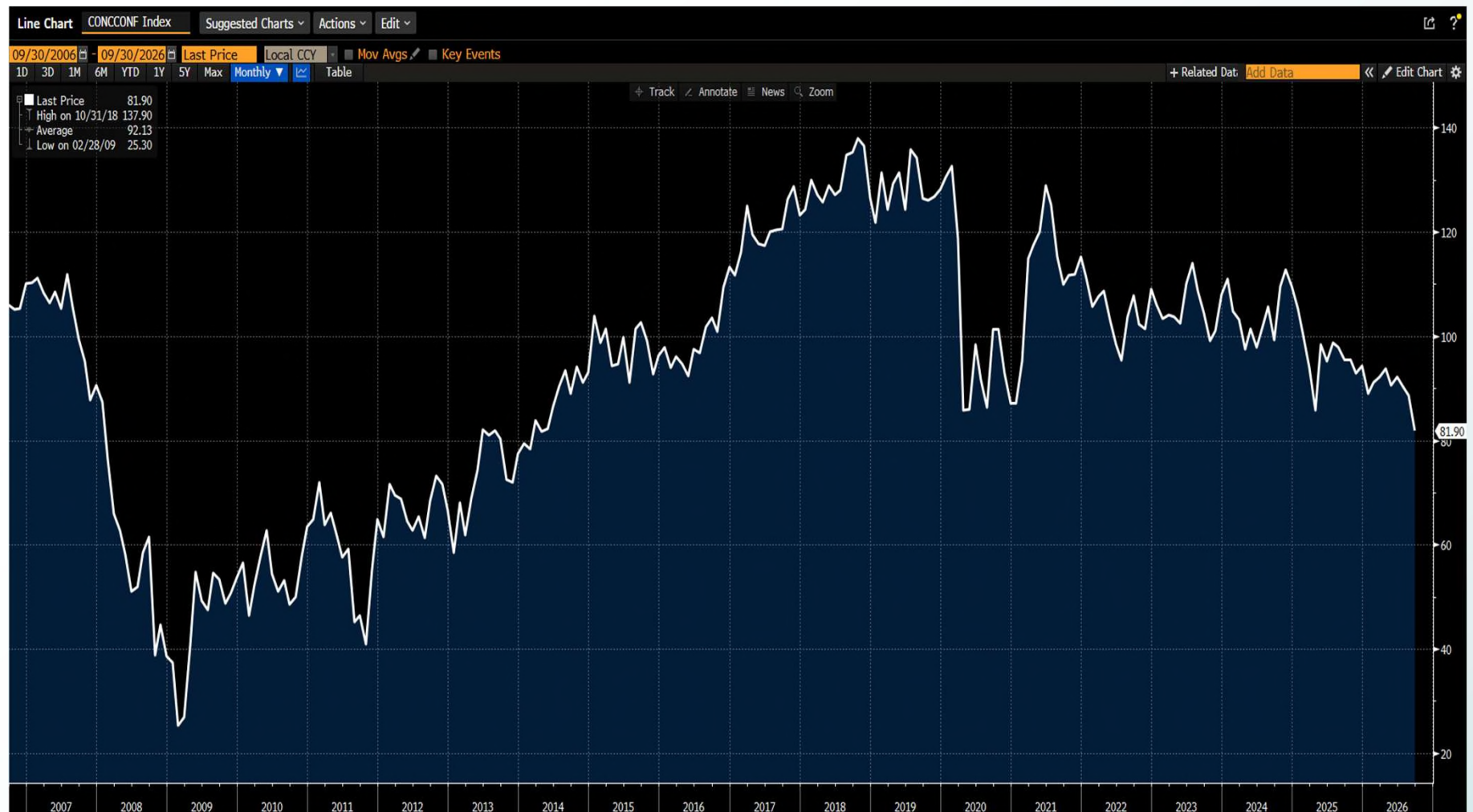
Year-over-year % change, annual



Source: BEA, Standard & Poor's, FactSet, J.P. Morgan Asset Management. Data is calendar year. Guide to the Markets – U.S. Data are as of September 30, 2026.

Consumer confidence trending lower

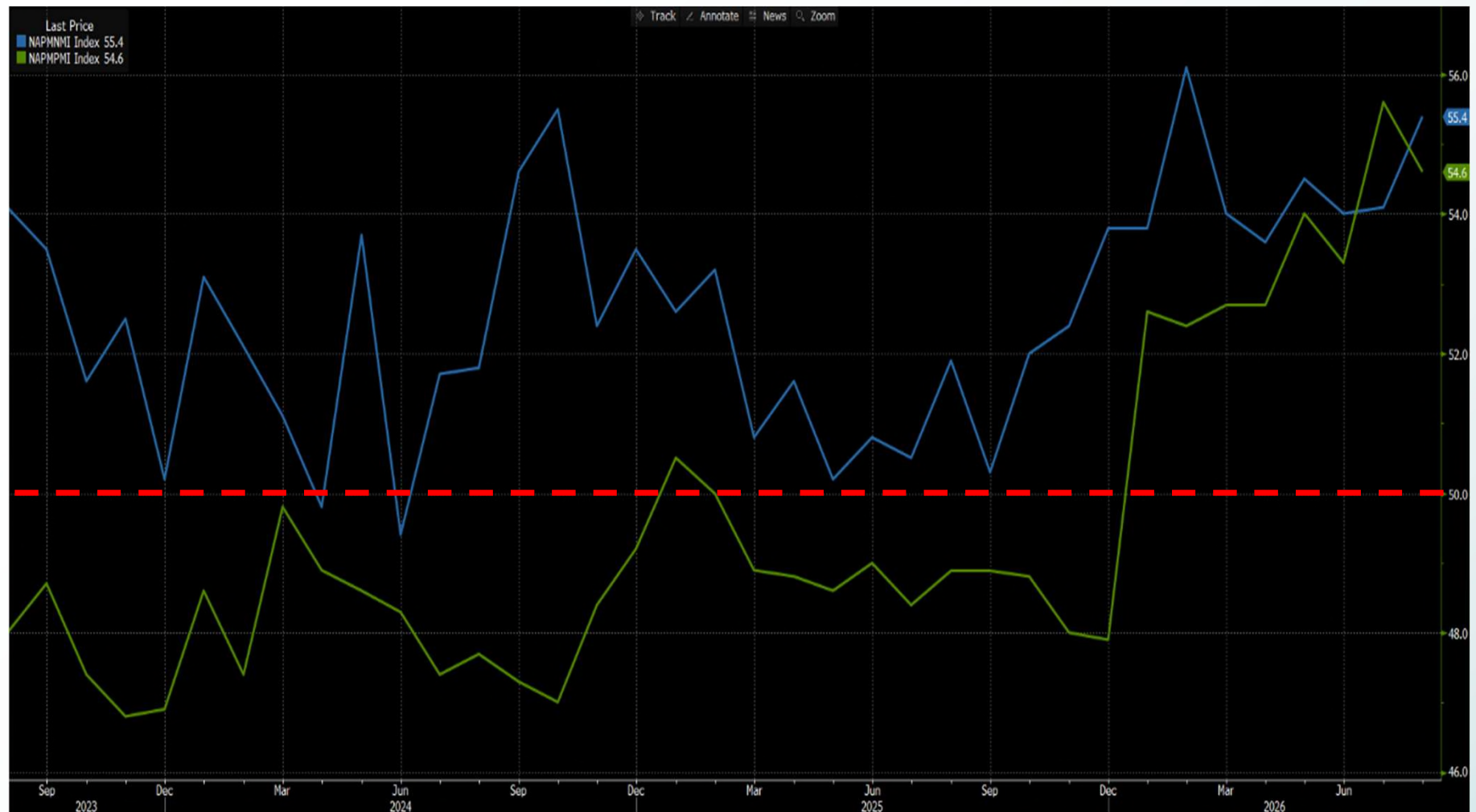
Despite a growing economy, a solid labor market, and stock markets near all-time highs, consumer confidence has trended lower all year. Affordability challenges and the relatively concentrated benefits of AI (so far) are likely influencing this survey.



Source: Bloomberg, Conference Board 9/30/2006 – 9/30/2026. Consumer confidence is a survey-based measure of consumers' perceptions and expectations regarding economic conditions. Figures may be subject to revisions and differences in methodology, sample size, and survey timing. Past readings are not necessarily indicative of future economic conditions.

A positive outlook for the corporate sector

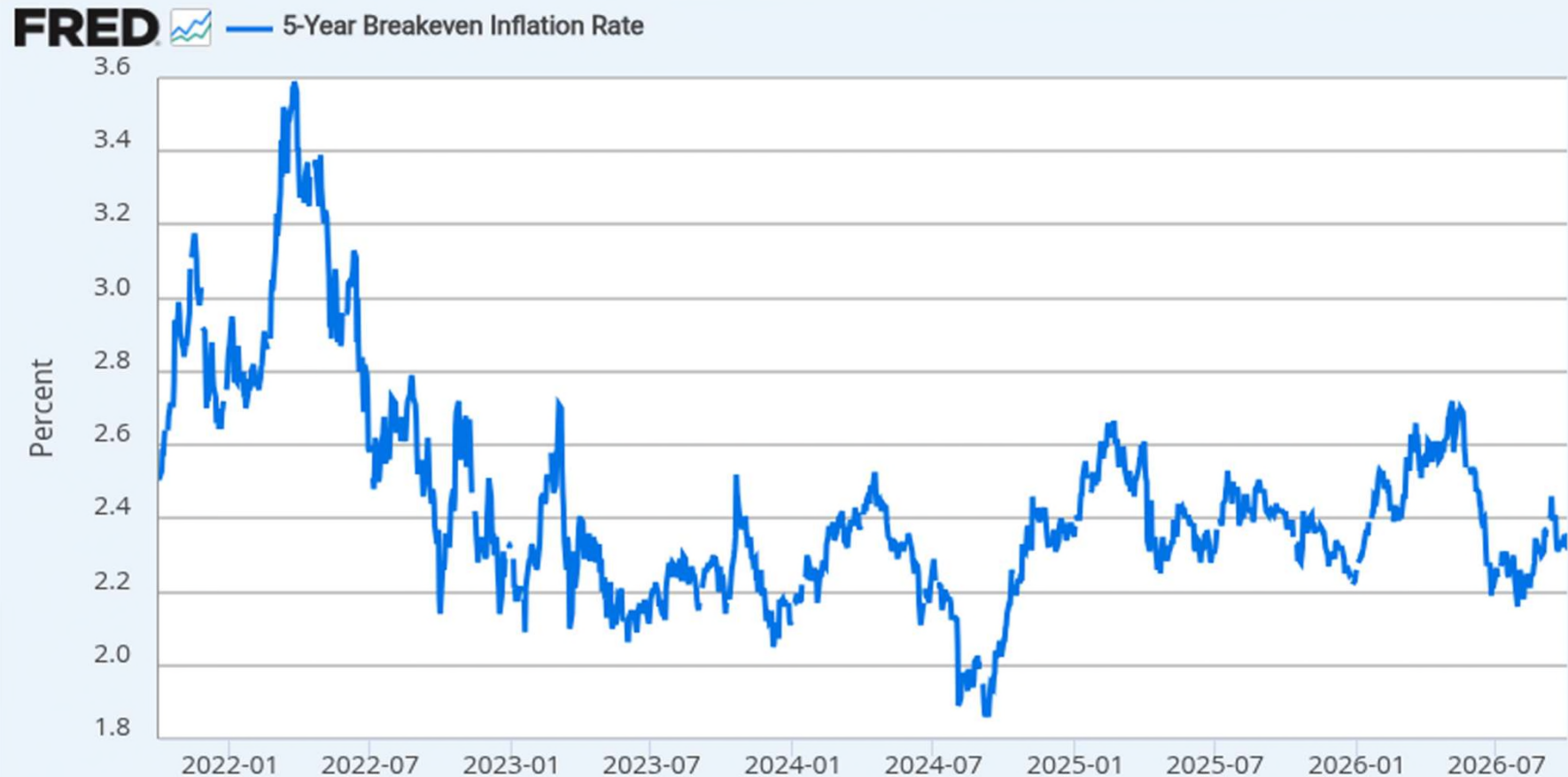
While consumer confidence is low, indicators of business activity have been very strong. Both the ISM manufacturing and service surveys point toward continued economic expansion.



Source: Bloomberg, Institute for Supply Management. 8/31/2023 – 8/31/2026. The ISM surveys are monthly indicators that gauge the health of the U.S. manufacturing (green line) and service (blue line) sectors by surveying purchasing and supply chain executives. Readings above 50 indicate expansion.

Longer-term inflation expectations have barely budged

Even with investor concerns regarding rising interest rates and ongoing geopolitical events, longer-term inflation expectations have barely budged. 5-year expected annual inflation is currently 2.37%.



Source: Federal Reserve Bank of St. Louis via FRED®

Shaded areas indicate U.S. recessions.

myf.red/g/1Z9L3

Source: Federal Reserve. 1/01/2022 – 9/30/2026. Breakeven inflation is a market-based measure of expected inflation, calculated as the yield difference between nominal Treasury bonds and Treasury Inflation-Protected Securities (TIPS) of the same maturity. It represents the rate of inflation at which both investments provide the same return, acting as a gauge for investor inflation expectations.

Falling labor costs inconsistent with sustained inflation

Historically, sustained rises in inflation have been accompanied by rising labor costs. Currently, however, unit labor costs are running at just 2%, inconsistent with elevated inflation.

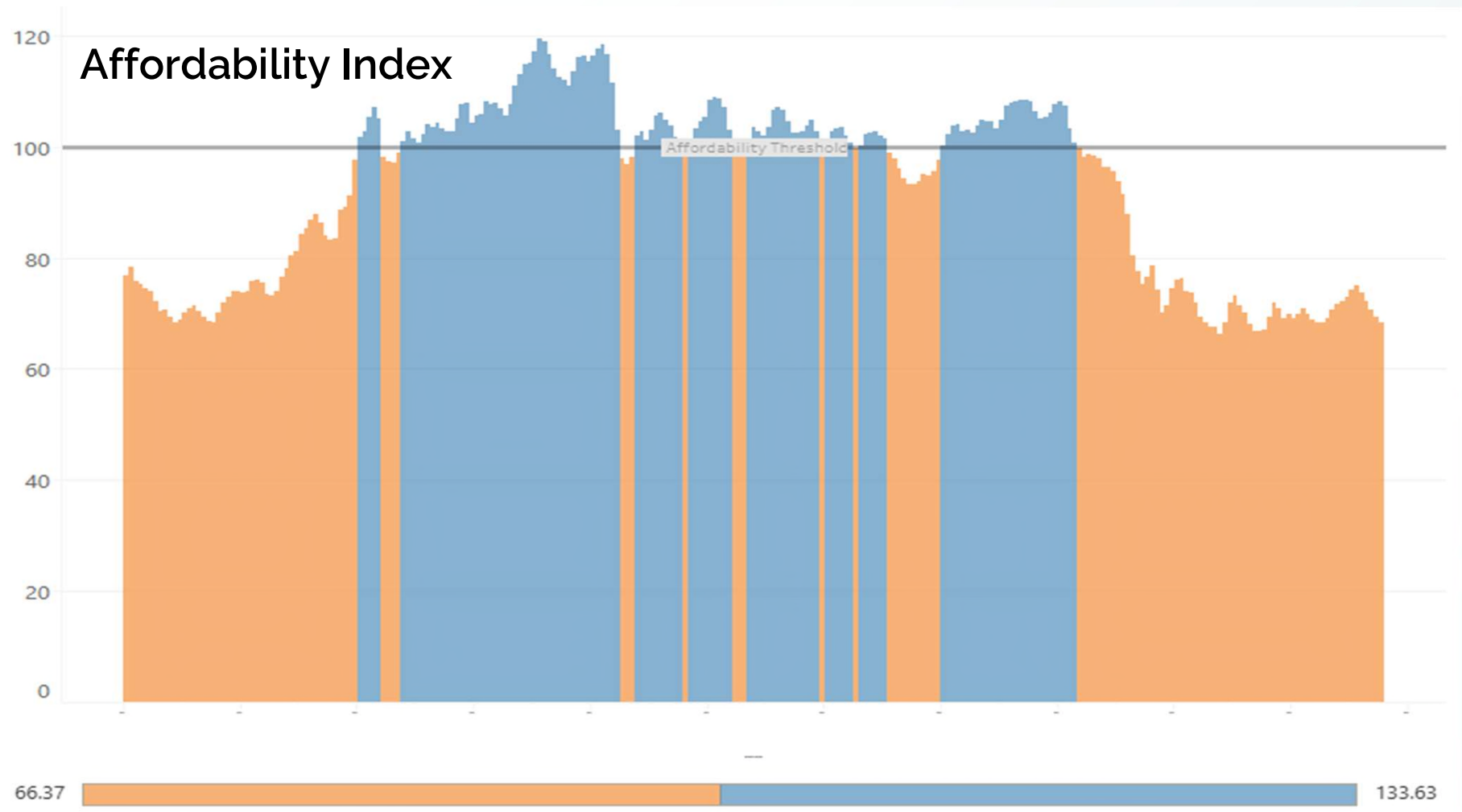
U.S. PCE core inflation and unit labor cost inflation (quarter-over-quarter, 16-quarter moving average)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis. 6/30/1966 – 6/30/2026.

Housing affordability remains an issue

Housing affordability remains a challenge as home prices and borrowing costs stay elevated. With affordability this low, we generally wouldn't expect meaningful home price appreciation.



Source: Federal Reserve Bank of Atlanta, Home Ownership Affordability Monitor (HOAM). The Affordability Index measures the ability of a median-income household to afford a median-priced home based on estimated annual homeownership costs, including principal and interest, property taxes, property insurance, and private mortgage insurance. An index value of 100 or above indicates that a median-income household can afford the median-priced home, while a value below 100 indicates that it cannot under the monitor's methodology. Data and methodology are subject to revision. The chart is provided for informational purposes and should not be considered financial, investment, or housing advice.

Starting yields have historically been a good indicator of future returns

Starting yields have historically been a good indicator of future returns. Though rising rates may lead to short-term losses, they could potentially improve the forward return outlook over time.

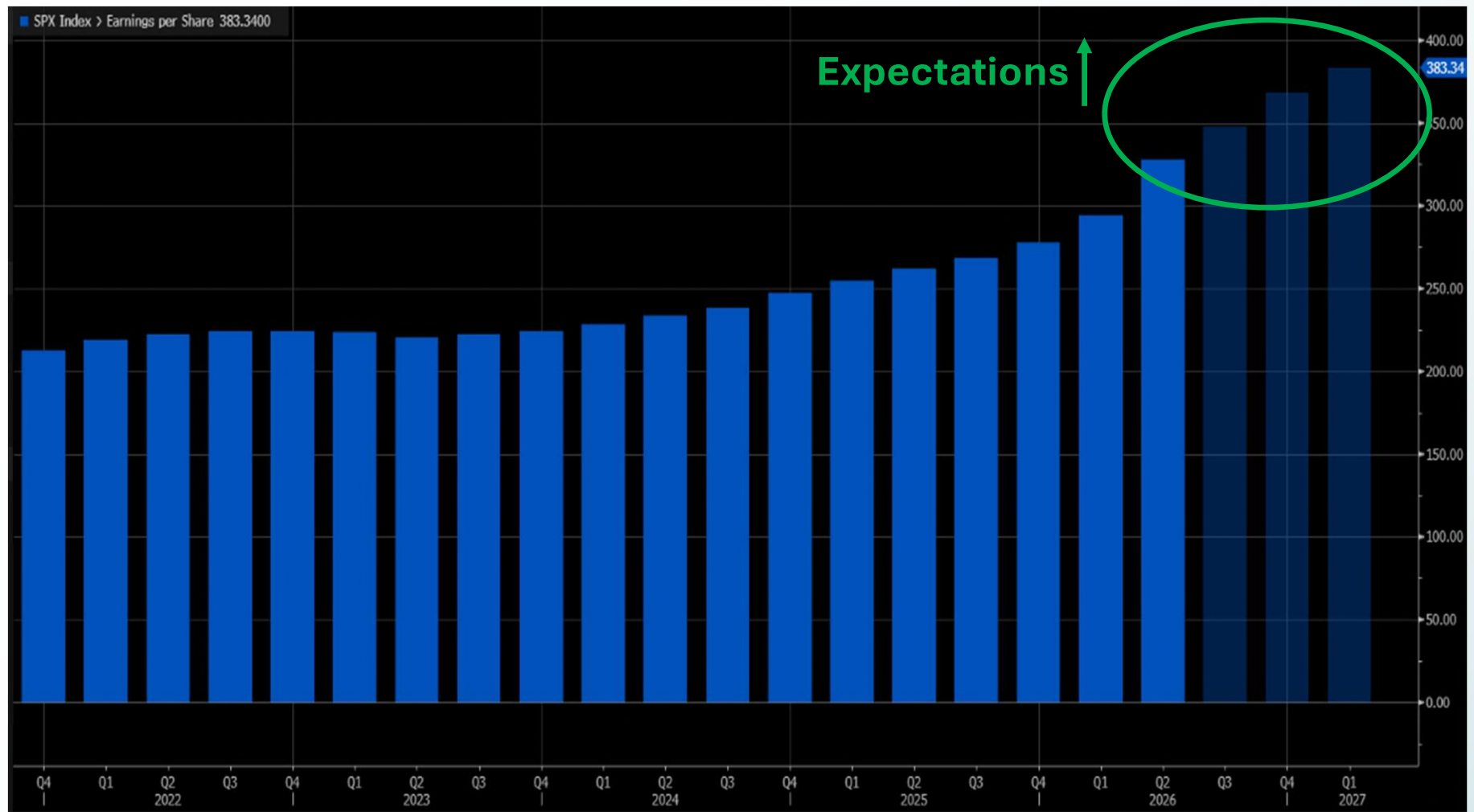
Yield to Worst and 5-year annualized returns



Source: Bloomberg. Yield to Worst (YTW) represents the lowest potential yield an investor may receive on a bond, assuming no issuer default and that applicable call, put, or other redemption provisions are exercised as specified. Five-year annualized returns represent the historical annualized performance over the preceding five-year period. Historical returns are not indicative of future results. YTW is not a guarantee of future returns, and actual realized returns may differ due to changes in interest rates, credit conditions, security prices, and other factors.

Earnings expectations heading in the right direction

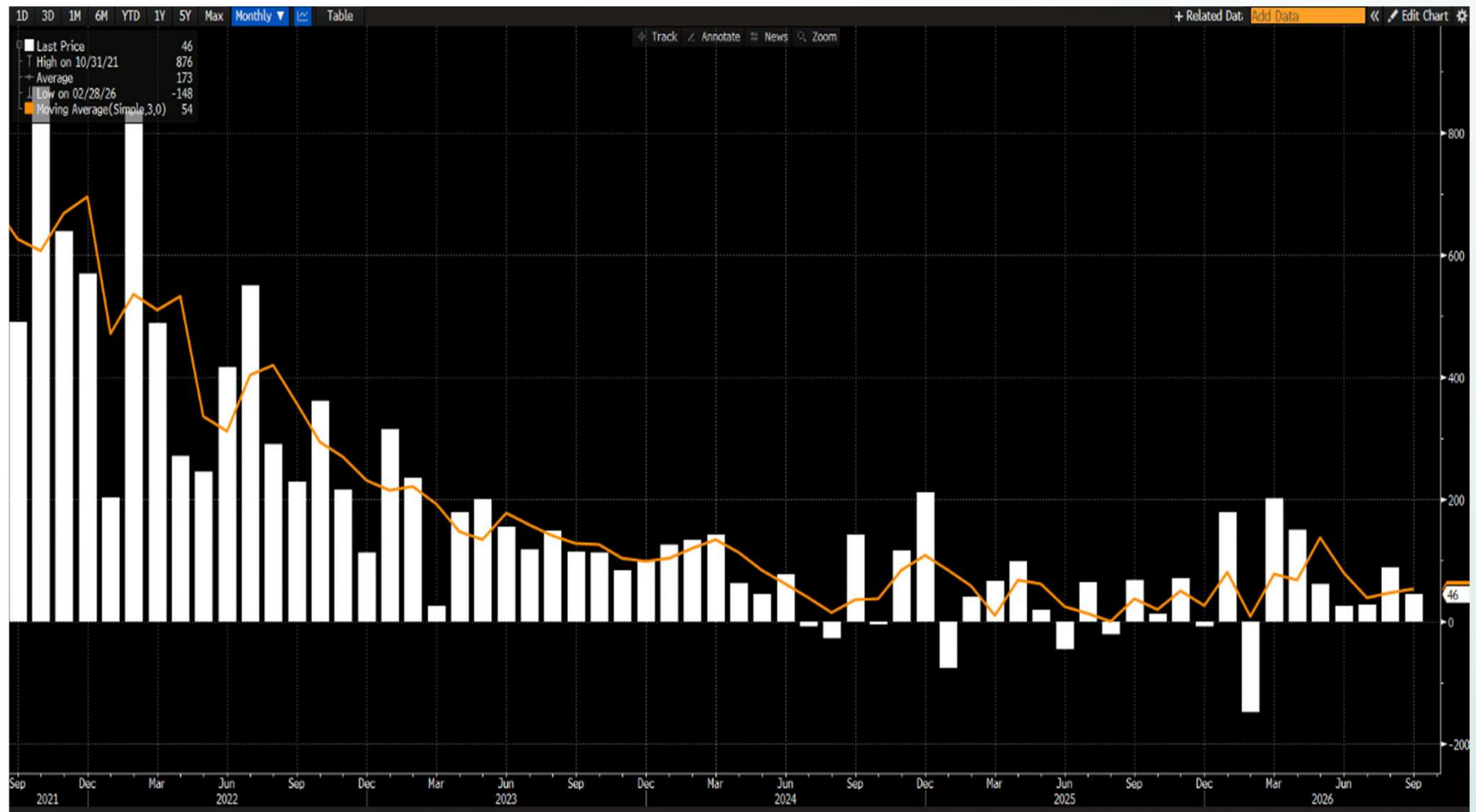
Earnings expectations are improving, providing a potentially positive backdrop for stocks and reflecting healthy business fundamentals. Valuations are high by historical standards but could be supported by a strong outlook.



Source: [Bloomberg]. S&P 500 annual earnings estimates represent analyst consensus estimates and are subject to change as company results, economic conditions, and analyst expectations evolve. Estimates are not guaranteed and may differ materially from actual reported earnings. Past performance is not indicative of future results.

Job growth has slowed but remains positive

Job growth has slowed this year, but unemployment remains low at 4.2%. Given current population growth trends and an economy near full employment, the natural rate of job growth may be relatively lower compared to prior economic expansions.



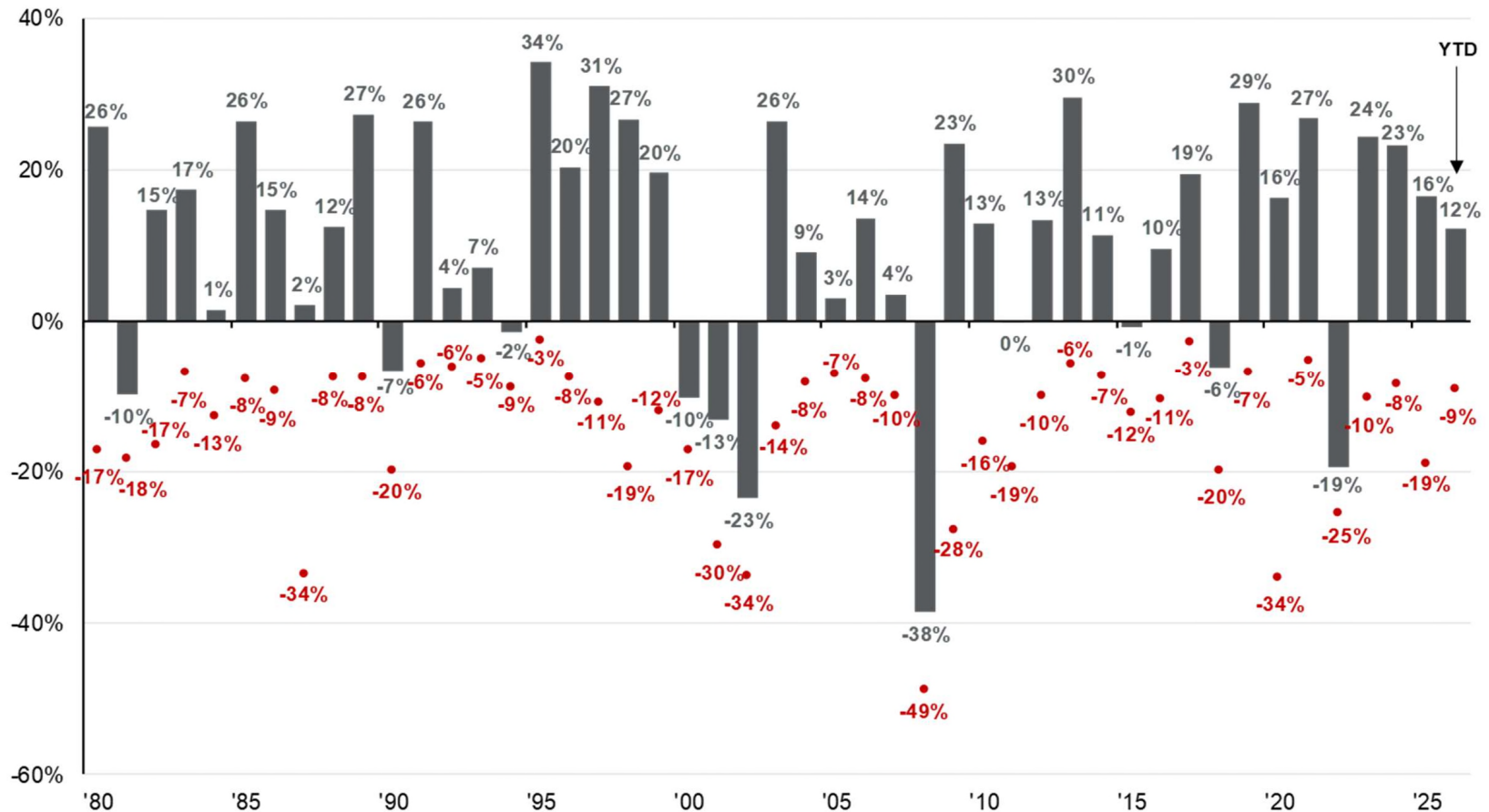
Source: Bureau of Labor Statistics, Bloomberg. 9/30/2021 – 9/30/2026. Nonfarm payroll employment measures the number of paid employees on nonfarm payrolls in the United States. Data are seasonally adjusted to remove predictable seasonal patterns. Monthly estimates are subject to revision as additional information becomes available.

Volatility is expected even in good years

Markets can experience periods of volatility and pullbacks even while trending higher over the long term. The goal is to maintain a long-term perspective to help investors navigate short-term market fluctuations.

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2025, over which the average annual return was 10.7%. Past performance is no guarantee of future results.

Guide to the Markets – U.S. Data are as of August 31, 2026.

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Benchmark Descriptions

The **S&P 500 Index** is considered generally representative of the US large cap equity market which includes 500 leading companies covering approximately 80% of available market capitalizations and is market cap weighted. The **S&P 400 Index** measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment. It comprises stocks in the middle capitalization range, covering approximately 7% of the of US equity market. The **S&P 600 Index** measures the performance of small cap segment of US equity market. It consists of 600 domestic stocks chosen for market size, liquidity, and industry group representation and covers approximately 3% of the domestic equities market. The **Bloomberg US Aggregate Bond Index** is a broad-based benchmarks of the U.S. investment grade and global investment grade bond market, respectively. They include Treasury, government related, corporate and securitized fixed-rate bonds. The **Bloomberg Municipal Bond Index** is a benchmark of US long-term tax-exempt bond covering four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The **MSCI EAFE Index** is a measure of large and mid-cap equity performance across 21 developed countries, ex US and Canada. The **Russell 1000 Value Index** measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually. The **Russell 2000 Index** is a measure of US small cap performance. The **Russell Midcap Index** is a measure of US mid-cap performance. The **DJ Industrial Average** is a price-weighted measure of 30 US blue-chip companies covering all industries except transportation and utilities. The **NASDAQ Composite** is a broad based, market cap weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. **JP Morgan Global EMBI** measures the performance of fix-rate for external-currency denominated debt instruments including brady bonds, loans, Eurobonds in emerging markets. Countries covered are Argentina, Brazil, Bulgaria, Mexico, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity. **Bank of America Merrill Lynch HY Master II** measures the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have at least 18 months to final maturity at the time of issuance, at least one-year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. It is capitalization-weighted. **Dow Jones US Real Estate Index:** The index measures the performance of all US stocks in the Dow Jones US Index classified into real estate sector with financials industry. The sector classifications is defined by the proprietary classification system which used by S&P Dow Jones. It is a free-float weighted index. **S&P GSCI:** The index measures the performance of general price movements and inflation in the world economy. It is designed to be investable by including the most liquid commodity futures and provides diversification with low correlations to other asset classes. **Ibbotson US Large Stock TR Index:** The index tracks the monthly return of S&P 500. The history data from 1926 to 1969 is calculated by Ibbotson. **Ibbotson US Intermediate Government TR Index:** The index measures the performance of a single issue of outstanding US Treasury note with a maturity term of around 5.5 years. It is calculated by Morningstar. Returns for 1934 to 1986 are obtained from the CRSP Government Bond File and returns for 1987 to 2014 are calculated from The Wall Street Journal prices.

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