
Weekly Global Market Commentary

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Earnings Up, Valuations Down, Yield Back

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Markets held up well in the third quarter despite an escalating Middle East conflict, a Fed rate hike and the highest Treasury yields since 2007. Strong earnings did the heavy lifting, and with bond yields at generational highs, investors have real opportunities in both stocks and bonds heading into 2027.

A Resilient Economy Through a Difficult Quarter

The Middle East conflict set the tone again. Hopes for a lasting U.S.-Iran deal faded, shipping through the Strait of Hormuz stayed well below normal, and things escalated in September as the U.S. and Iran exchanged strikes and Iran-backed militants hit Saudi energy facilities. Oil climbed back above \$90, keeping inflation high, with the PCE index up 3.4% over the year to August.

Still, the global economy has held up remarkably well. In September, the OECD raised its 2026 global growth forecast to 2.9%, with the U.S. at 2.2% and the eurozone near 1%. It expects G20 inflation to stay elevated at 4.1% and warned that the buffers absorbing the shock are thinning. But growing above 2% through an oil shock this size says a lot about the economy's underlying strength.

Equities: Earnings Carry the Market

Stocks added modest gains on top of a strong second-quarter rebound. U.S. indices hit record highs over the summer before rising oil prices and bond yields sparked a September pullback. For the quarter, the S&P 500 gained about 2%, the Nasdaq 2.5% and the MSCI World Index 1.6%, while Chinese stocks fell more than 6%.

Earnings remain the market's foundation, with S&P 500 profits expected to grow nearly 30% in Q3 after a remarkable 52% jump in Q2.

Leadership narrowed further. Tech was the only sector to rise in September, led by semiconductors, whose earnings are expected to more than double year-over-year. Rate-sensitive and defensive sectors like financials, real estate, utilities and staples lagged as yields rose. One risk to watch: power and permitting bottlenecks could slow the AI data center buildout.

Fixed Income: The Fed Turns, Yields Climb

The rate hike we expected last quarter arrived. After a hawkish Jackson Hole speech from Fed Chair Kevin Warsh, the Fed voted unanimously in September to raise rates 25 bps to 3.75% to 4.00%, its first hike since 2023. Most officials expect one more before year-end.

Sticky inflation, higher oil, big deficits and heavy AI-related borrowing pushed the 10-year Treasury yield to nearly 5.3%, its highest since 2007, and the 30-year above 5.6%. That's been painful for existing bond prices, but it has created one of the best entry points for bond investors in decades.

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Outlook: Equities Are Not Expensive

Despite this summer's record highs, the S&P 500 isn't expensive. It trades at 19 times forward earnings, slightly below its 5- and 10-year averages, and about 18 times 2027 estimates. The multiple has actually dropped from 20.4 in June because earnings are outpacing prices: in Q3, the index rose 2% while forward earnings estimates jumped 9.3%. And earnings momentum is exceptional:

- Growth: Q3 earnings are expected to rise 29.5%, the third straight quarter above 25%.
- Revisions: Analysts raised Q3 estimates 1.4% during the quarter, when they typically cut them by about 2%.
- Guidance: A record 72 companies issued upbeat Q3 guidance, the most since FactSet started tracking in 2006.
- Next year: Analysts expect 15.8% earnings growth in 2027, on top of 32.4% this year.

In short, this market is climbing on profits, not speculation. A softer inflation reading in late September also cooled talk of an October hike. Energy prices remain the wild card and stock selection matters, but solid earnings at reasonable valuations keep us constructive.

Outlook: Bonds Offer Rare Real Value

For the first time in nearly 20 years, bonds are paying a real return above inflation. The 10-year TIPS yielded 2.95% on October 5 and the 30-year 3.37%, so investors can lock in close to 3% a year above inflation for a decade, backed by the U.S. government.

That's rare. September's 10-year TIPS auction cleared at 2.653%, the highest since October 2008, and by late September real yields were higher than on 99% of trading days since 2003. They've climbed further since.

Yield (Oct 5, 2026)	Nominal	Real (inflation-adjusted)
10-year Treasury	5.31%	2.95%
30-year Treasury	above 5.6%	3.37%

For much of the past 15 years, quality bonds paid little or nothing after inflation. Now intermediate investment-grade bonds yield over 5%, offering solid income that beats inflation. Bonds are also back to being a portfolio cushion: if growth slows or inflation eases, there's plenty of room for prices to rise.

The Bottom Line

Q3 tested markets, and they passed. Stocks have record earnings momentum behind them at below-average valuations, and bonds offer the best real yields in a generation. Energy and the Fed are the things to watch, but patient investors have real opportunities on both sides of the portfolio.