creativeOne WEALTH

Market Commentary

Q3 2026



- **Domestic Equities:** U.S. equities advanced in Q3, but leadership narrowed beneath the surface as large-cap indexes outperformed smaller and equal-weight exposures; earnings growth and AI-related investment remained supportive, while higher rates and shifting factor leadership reinforced the importance of selectivity and diversification.
- **Fixed Income**: Rising yields and the Fed's September rate hike pressured bonds in Q3, particularly longer-duration sectors, but today's higher starting yields and resilient credit fundamentals leave fixed income on a stronger footing than during the 2022 tightening cycle.
- **International Equities**: Performance remained highly differentiated across regions, with Japan and select emerging Asian markets supported by improving fundamentals and AI-related investment, Latin America benefiting from financials and commodity-linked exposure, and Europe and China facing more mixed growth and policy backdrops; the quarter reinforced the value of diversification across distinct country, sector, and currency exposures.

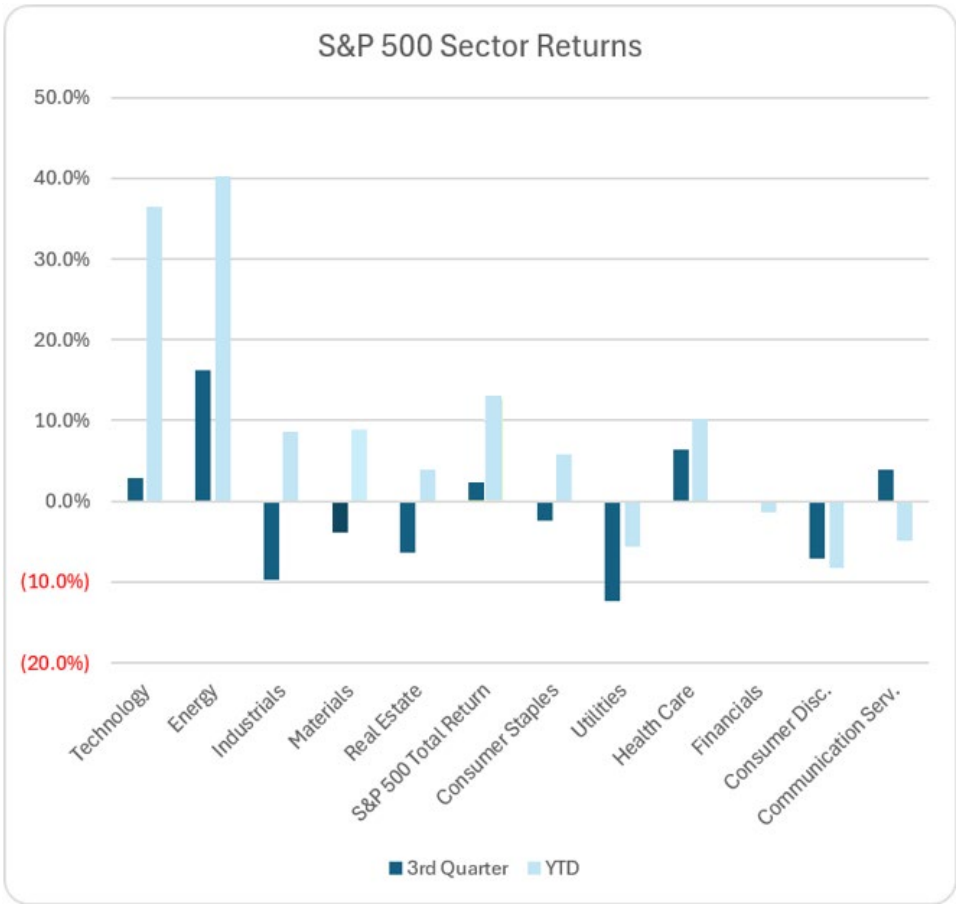
Market Total Returns

	Month %	QTD %	YTD %	1 Year %	3 Year %	5 Year %	10 Year %
S&P 500 TR USD	-0.3	2.3	12.7	15.7	22.9	13.8	15.3
DJ Industrial Average TR USD	-4.1	-2.3	7.2	11.5	17.0	10.6	13.1
NASDAQ Composite TR USD	1.9	2.6	16.1	19.2	27.5	14.0	18.6
Russell 2000 TR USD	-5.3	-7.2	13.7	16.2	17.7	6.3	9.8
MSCI ACWI Ex USA NR USD	-2.4	0.5	14.2	20.0	20.5	9.6	9.2
MSCI EAFE NR USD	-3.1	0.8	10.3	15.7	18.4	9.3	9.1
MSCI EM NR USD	-0.6	-0.4	23.4	29.2	24.1	8.9	9.1
Bloomberg US Agg Bond TR USD	-2.6	-3.5	-2.9	-1.8	4.1	-0.6	1.1

Source: Morningstar Direct

U.S. Equities – Positive Returns, but a More Selective Market

U.S. equities posted modest gains in the third quarter, but performance beneath the surface was considerably more uneven than the headline indexes suggested. The S&P 500 gained 2.3% in Q3, bringing its year-to-date return to 12.7%, while the Nasdaq Composite advanced 2.6% and was up 16.1% through September. By contrast, the Dow Jones Industrial Average declined 2.3%, while small caps gave back a meaningful portion of their second-quarter gains, with the Russell 2000 falling 7.2%. Against that backdrop, durable earnings growth remained an important driver of equity returns, helping offset pressure from higher interest rates without relying on further multiple expansion.



Source: Morningstar Direct

Sector performance highlighted just how differentiated the market became. Energy gained 16.3%, making it the strongest S&P 500 sector in Q3 and lifting its year-to-date return above 40%. Health Care rose 6.5%, Communication Services gained 3.8%, and Technology advanced 2.8%. At the other end of the spectrum, Utilities declined 12.4%, Industrials fell 9.7%, Consumer Discretionary lost 7.0%, and Real Estate fell 6.3%. Higher energy prices supported Energy shares, while continued AI-related spending remained a tailwind for portions of Technology and Communication Services. At the same time, rising yields weighed on rate-sensitive areas and increased scrutiny of companies with greater financing needs.

Factor-Based Equity	3rd Quarter	YTD
Benchmark : S&P 500 (TR) (1970)	**2.3%**	**12.7%**
S&P 500 Enhanced Value TR USD	0.6%	12.1%
DJ US Select Dividend TR USD	(1.8%)	10.6%
S&P 500 Equal Weighted TR USD	(1.9%)	10.0%
S&P 500 High Beta TR USD	(3.1%)	29.6%
S&P High Yield Dividend Aristcrts TR USD	(3.1%)	7.5%
S&P 500 Dividend Aristocrats TR USD	(3.2%)	5.9%
S&P 500 Low Volatility High Div TR USD	(4.1%)	4.4%
S&P 500 Low Volatility TR USD	(5.3%)	0.6%
S&P 500 Momentum TR USD	(6.1%)	27.8%
S&P 500 Quality TR USD	(6.5%)	13.1%

Source: Morningstar Direct

Factor performance shifted sharply in Q3, with value-oriented exposure among the relative bright spots. The S&P 500 Enhanced Value Index gained 0.6%, while Quality declined 6.5%, Low Volatility fell 5.3%, and High Beta lost 3.1%. Most notably, the S&P 500 Momentum Index fell 6.1% after gaining more than 44% in Q2. The reversal in Momentum was especially notable because the broader S&P 500 still gained during the quarter, indicating that investors were rotating away from some of the market's previous winners rather than broadly selling equities.

	3rd Quarter			YTD		
Large Cap	2.6%	1.8%	0.9%	19.3%	12.3%	6.3%
Mid Cap	(2.0%)	(3.0%)	(5.8%)	15.3%	11.8%	1.0%
Small Cap	(4.9%)	(7.2%)	(9.4%)	17.0%	13.7%	10.7%
	Value	**Core**	**Growth**	**Value**	**Core**	**Growth**

Index Returns are reflective of the Russell 1000 for Large Cap, Russell Mid Cap for Mid Cap, and Russell 2000 for small cap.

Source: Morningstar Direct

Style and capitalization trends were also uneven. The Russell 1000 Value Index gained 2.6%, ahead of the 0.9% return for the Russell 1000 Growth Index, while small caps struggled, with the Russell 2000 Value Index declining 4.9% and the Russell 2000 Growth Index falling 9.4%. Breadth also narrowed relative to Q2: the S&P 500 gained 2.3%, while the S&P 500 Equal Weight Index declined 1.9%. After the broader participation seen in the second quarter, leadership shifted back toward larger companies, while smaller and more financing-sensitive areas came under greater pressure as rates moved higher.

Taken together, the quarter was less about clear growth-versus-value rotation and more about differences in capitalization, sector exposure, earnings resilience, and sensitivity to higher financing costs. Looking ahead, the equity backdrop remains supported by resilient earnings and continued business investment, including strong spending tied to AI across data centers, semiconductors, power generation, and related infrastructure. At the same time, higher interest rates and the scale of that investment increase scrutiny of financing needs, balance-sheet strength, and the ability to convert spending into durable earnings and cash flow. With leadership still concentrated and dispersion elevated, opportunities may continue to broaden beyond the largest technology companies, but selectivity and diversification remain increasingly important.

Fixed Income – Higher Yields, Renewed Rate Pressure

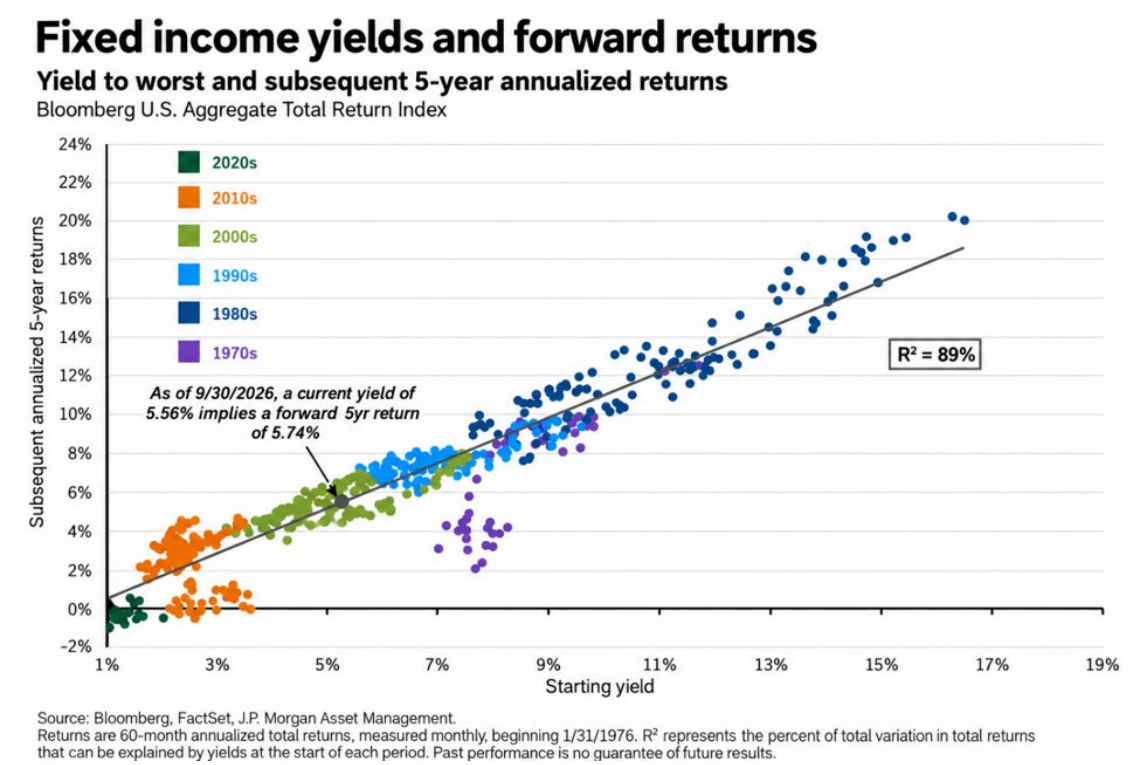
Select Fixed Income Returns	3rd Quarter	YTD
Bloomberg US Convertible Comp TR USD	(6.2%)	14.6%
Bloomberg Municipal TR USD	(6.3%)	(4.2%)
Bloomberg US Corporate High Yield TR USD	(1.8%)	0.1%
Bloomberg US Treasury Bill 1-3 M TR USD	0.9%	2.8%
Bloomberg US MBS TR USD	(4.3%)	(3.3%)
Bloomberg US Agency TR USD	(1.8%)	(1.2%)
Bloomberg US Treasury 20+ Yr TR USD	(8.9%)	(8.3%)
Bloomberg 1-5 Yr Treasury TR USD	(0.9%)	(0.5%)
Bloomberg Treasury 7-20 Yr TR USD	(5.8%)	(5.8%)
Benchmark: Bloomberg US Agg Bond TR USD	**(3.5%)**	**(2.9%)**

Source: Morningstar Direct

Fixed income markets came under renewed pressure in the third quarter as investors reassessed the path of monetary policy amid resilient economic growth, persistent inflation concerns, and higher energy prices. The Federal Reserve raised rates by 25 basis points in September, reinforcing a more restrictive policy backdrop and contributing to upward pressure on Treasury yields. The Bloomberg U.S. Aggregate Bond Index declined 3.5% in Q3. Performance diverged sharply by duration, with the short-duration Bloomberg U.S. Treasury Bill 1–3 Month Index gaining 0.9% during the quarter, while the Bloomberg Treasury 7–20 Year Index fell 5.8% and the Bloomberg U.S. Treasury 20+ Year Index declined 8.9%. The Bloomberg U.S. Treasury Inflation-Protected Securities Index also came under pressure as real yields rose, falling 3.2%. International fixed income also faced pressure, with the Bloomberg Global Aggregate ex-U.S.

Index declining 1.6% in Q3, though performance varied across countries as monetary-policy and growth paths diverged.

Credit-sensitive sectors generally held up better than longer-duration government bonds, reflecting continued resilience in corporate fundamentals. The Bloomberg U.S. Corporate High Yield Index declined 1.8% in Q3, while the Bloomberg U.S. Mortgage-Backed Securities Index fell 4.3% and the Bloomberg Municipal Index declined 6.3%. The Bloomberg U.S. Convertible Composite Index also reversed some of its strong first-half gains, falling 6.2% during the quarter, though it remained up 14.6% year to date. The pullback highlighted the asset class's equity sensitivity, which had been a tailwind earlier in the year but became a headwind as market leadership grew more volatile.



The combination of rising yields and the Fed's September rate hike has invited comparisons with 2022, when rapidly tightening monetary policy produced unusually large losses across fixed income. While some of the same risks are present today, the starting point is meaningfully different. Bond yields are now substantially higher, providing investors with a larger income cushion, and the additional tightening anticipated by markets is considerably smaller than the repricing that occurred in 2022. That has shifted the opportunity set toward income and selectivity, with higher starting yields improving the appeal of core fixed income, higher-quality credit, securitized assets, municipals, and selected emerging-market debt. Credit fundamentals remain relatively resilient, though tight spreads leave less room for deterioration and reinforce the importance of selectivity. Duration presents a more balanced opportunity as well: higher yields have improved prospective returns, but longer-maturity bonds remain vulnerable if inflation proves more persistent, energy prices stay elevated, or central banks are forced to tighten more aggressively than currently expected. TIPS may retain appeal as a hedge against renewed inflation pressure. Relative value also varies geographically, with selected European and U.K. government bonds appearing more attractive than U.S. duration in some scenarios, while diverging monetary-policy paths,

inflation pressures, and growth conditions reinforce the appeal of geographic diversification. As a result, higher rates remain a source of near-term volatility, but they have also restored a level of income that provides a stronger foundation for future fixed-income returns than investors faced entering the 2022 tightening cycle.

International Markets – Diverging Regional Paths

Regional Index Returns	3rd Quarter	YTD
MSCI ACWI Ex USA NR USD	0.5%	14.2%
MSCI EAFE NR USD	0.8%	10.3%
MSCI Europe NR USD	(1.6%)	6.0%
MSCI EM NR USD	(0.4%)	23.4%
MSCI EM Asia NR USD	(1.1%)	26.8%
MSCI EM Latin America NR USD	3.9%	14.8%

Source: Morningstar Direct

International equities were relatively subdued in the third quarter after a strong first half, with performance varying considerably across regions. The MSCI ACWI ex USA Index gained 0.5% in Q3, bringing its year-to-date return to 14.2%, while the MSCI EAFE Index rose 0.8% and remained up 10.3% for the year. Emerging markets gave back some earlier momentum, with the MSCI Emerging Markets Index declining 0.4% during the quarter, though it remained one of the stronger major equity benchmarks year to date with a 23.4% gain. Beneath the headline indexes, country, sector, and currency exposure continued to drive meaningful differences in returns.

Developed markets reflected that divergence clearly. European equities softened, with the MSCI Europe Index declining 1.6% in Q3 and returning 6.0% year to date, as higher energy prices, subdued growth, and tighter monetary policy remained headwinds. Europe continues to face softer growth and persistent inflation pressures, particularly from energy costs, though fiscal spending and investment in defense, energy security, infrastructure, and technology are providing some support. Japan moved in the opposite direction, with the S&P Japan BMI gaining 6.3% during the quarter and 22.3% year to date. Improving corporate profitability, ongoing governance reform, rising capital investment, and exposure to the global semiconductor cycle have supported Japanese equities, though further policy tightening and currency volatility remain important risks.

Emerging-market performance was similarly uneven. The MSCI EM Asia Index declined 1.1% in Q3 but remained up 26.8% year to date, masking wide differences across individual markets. Taiwan gained 4.1% during the quarter and remained up 67.6% for the year, reflecting continued strength in semiconductors and the global AI investment cycle, while Korea fell 8.1% in Q3 but was still up 81.9% year to date after exceptionally strong gains earlier in the year. China improved modestly, with the MSCI China Index gaining 3.7% in Q3, although it remained down 11.9% year to date. China's economic backdrop remains relatively stable but unbalanced, with exports providing support while softer domestic demand, property-market weakness, and subdued consumer confidence continue to weigh on activity. The MSCI EM Latin America Index gained 3.9% in Q3 and was up 14.8% year to date through September 30, outperforming the broader

MSCI EM Index during the quarter as strength in Brazil, renewed foreign inflows, and gains across financials and commodity-linked sectors supported the region.

Looking ahead, the international opportunity set remains broad but increasingly region-specific. Japan continues to stand out on the strength of corporate reform, improving profitability, and rising capital investment, while parts of emerging Asia remain supported by technology, semiconductors, and the global AI investment cycle, even as crowded positioning and sensitivity to the dollar create risks. Europe presents a more mixed backdrop, with weaker growth and energy sensitivity offset by fiscal spending and exposure to financials, industrials, and infrastructure, while Latin America offers a different set of drivers tied more closely to commodities, financials, and domestic economic conditions. Currency trends remain another important consideration, as relatively strong U.S. growth and a more restrictive Federal Reserve could support the dollar in the near term and weigh on unhedged international returns, while a later narrowing in policy differentials could become more supportive for foreign currencies. Taken together, the third quarter reinforced that the case for international diversification is less about simply owning more geographies and more about gaining exposure to different economic and earnings drivers. With technology and AI increasingly linking U.S. and emerging Asian markets, Europe, Japan, and Latin America can provide more differentiated exposure, making country, sector, and currency selection increasingly important.

Resilient Fundamentals, Higher Hurdles

The third quarter reinforced a market backdrop that remains fundamentally constructive, but increasingly demanding. U.S. equities continued to benefit from strong earnings growth and sustained business investment, particularly around AI, even as performance beneath the surface became more differentiated across sectors, styles, and market capitalizations. At the same time, higher interest rates raised the hurdle for valuations and increased scrutiny of financing needs, balance-sheet strength, and the ability of companies to translate elevated investment into durable earnings and cash flow. This combination of healthy fundamentals and greater dispersion suggests that future returns may depend less on broad market momentum and more on selectivity across companies and exposures, potentially creating a more favorable backdrop for active management and disciplined security selection.

Fixed income told a complementary story. Rising Treasury yields and a more restrictive Federal Reserve weighed heavily on longer-duration bonds during the quarter, while shorter-duration securities and credit-sensitive sectors generally held up better. Yet the same rise in yields that pressured bond prices has also improved the forward-looking income opportunity across fixed income. With starting yields substantially higher, bonds may once again provide a more meaningful source of portfolio income, although tight credit spreads and continued uncertainty around inflation, fiscal policy, and the path of interest rates reinforce the importance of balancing duration, credit quality, and carry.

Looking ahead, resilient economic growth, solid corporate earnings, and continued capital investment provide support for markets, but the environment is unlikely to reward all exposures equally. Opportunities remain across U.S. equities, international markets, and fixed income, but their underlying drivers differ meaningfully—from AI and earnings growth to regional policy, currencies, credit fundamentals, and interest-rate sensitivity. With valuations elevated in parts of the equity market and policy uncertainty still high, the third quarter reinforced the value of diversification not simply across asset classes, but across the economic forces driving returns. A disciplined approach that combines equity participation with increasingly attractive bond income, while diversifying across regions, sectors, styles, and sources of risk, may be particularly valuable as leadership continues to evolve.

FOOTNOTES:

Past performance is no guarantee of future returns.

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Sources:

1. Data from Morningstar. Returns over one year are annualized.

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