

SEPTEMBER: STOCKS VOLATILE AS YIELDS RISE RISING GLOBAL INTEREST RATES & YIELDS

Figure 1: 9/30/2026 Returns (source: FactSet)

Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	QTR	YTD	1YR	vs. 52-wk High	Low
US Aggregate Fixed Income	AGG	-2.6%	-3.5%	-2.8%	-1.9%	-6.8%	0.2%
Investment Grade Corp Bonds	LQD	-3.4%	-5.2%	-4.4%	-4.0%	-9.5%	0.1%
U.S. 20+ YR Treasuries	TLT	-5.4%	-9.0%	-8.0%	-9.0%	-15.6%	0.3%
Muni Bonds	MUB	-3.5%	-5.3%	-3.6%	-2.0%	-7.2%	1.0%
US High Yield	HYG	-2.7%	-2.0%	-0.3%	0.9%	-5.1%	0.1%
Non-US Corp Bonds	IBND	-3.7%	-3.5%	-5.2%	-4.9%	-10.0%	0.4%
Emerging Markets Bond LC	EMLC	-2.5%	-1.3%	0.2%	3.5%	-6.8%	0.5%
Global Equity							
ACWI Global Equity	ACWI	-1.2%	1.1%	12.9%	16.6%	-2.5%	18.8%
ACWI Global Equity ex US	ACWX	-2.3%	-0.6%	13.9%	19.5%	-4.0%	18.3%
International Developed	EFA	-3.3%	0.0%	9.9%	15.1%	-4.6%	13.9%
Emerging Markets	IEMG	-0.7%	-2.0%	21.7%	26.2%	-6.2%	26.7%
Global Equity by Region							
United States	VTI	-0.8%	1.4%	12.6%	15.3%	-2.8%	20.6%
Europe	IEUR	-4.9%	-2.0%	6.0%	11.8%	-6.6%	10.9%
Asia ex-Japan	AAJX	-0.3%	-2.4%	25.5%	29.7%	-6.8%	32.3%
China	MCHI	-4.6%	2.3%	-12.5%	-19.2%	-22.5%	4.6%
Japan	BBJP	1.5%	4.2%	19.1%	24.7%	-1.6%	21.5%
Latin America	ILF	-1.1%	2.2%	14.7%	23.9%	-10.4%	27.0%
US Equity							
US S&P 500	IVV	-0.3%	2.6%	12.7%	15.8%	-2.2%	21.2%
NASDAQ 100 QQQ	QQQ	3.3%	0.6%	20.8%	23.8%	-1.2%	33.1%
US Large Growth	IWF	2.2%	1.0%	6.1%	7.4%	-3.0%	22.5%
US Large Value	IWD	-3.1%	2.6%	19.1%	23.7%	-4.7%	24.3%
US Eqwt S&P 500	RSP	-4.8%	-1.9%	9.9%	11.4%	-6.9%	14.2%
US Mid Cap	IJH	-4.2%	-6.4%	9.9%	11.7%	-8.6%	15.6%
US Small Cap	IJR	-5.5%	-7.9%	14.1%	16.0%	-9.7%	21.5%

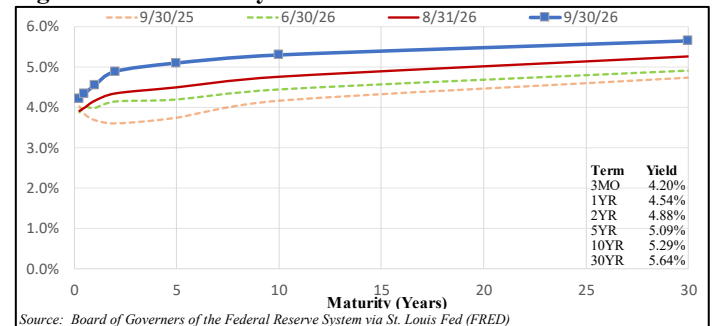
Stocks were volatile in September, ending the month lower but still within 3% of all-time highs. Bonds continued to underperform as US and global bond yields continued to rise. Performance highlights for September and third quarter (Q3) follow.

- **Bonds:** The US Aggregate index (AGG) fell 2.6% this month (-3.5% Q3) as yields spiked. Long-term Treasuries (TLT) are most sensitive to interest rates, losing 5.4% (-9.0% Q3). Corporate (LQD) and high yield bonds (HYG) underperformed as credit spreads widened sharply. Non-US bonds were negative.
- **Global equity:** ACWI fell 1.2% in September (+1.1% Q3).
- **US Equity:** The broad market (VTI) lost 0.8% (+1.4% Q3), and the S&P 500 (IVV) was down 0.3% (+2.6% Q3). Small stocks, which are disproportionately impacted by rising interest rates, underperformed by a wide margin this month (IJR -5.5%, -7.9% Q3). Ten out of eleven economic sectors logged negative returns for the month, with only tech stocks logging gains (XLK +5.1%, +2.9% Q3). Energy stocks were weak this month but led gains for the quarter as oil prices spiked (XLE -3.3%, +16.5% Q3) amid the ongoing Middle East conflict.
- **Non-US Equity:** Non-US equities were down (ACWX -2.3%, -0.6% Q3) but have been strong for the past year. Developed markets posted losses (EFA -3.3%, +0.0% Q3), led lower by Europe (IEUR -4.9%, -2.0% Q3) partially due to US dollar strength, but Japan logged gains (BBJP +1.5%, +4.2% Q3) as the yen stabilized. Emerging market stocks fell (IEMG -0.7%, -2.0% Q3), with weakness in India (INDA -6.1%, -5.5% Q3) and China (MCHI -4.6%, +2.3% Q3), but Brazil rebounded (EWZ +3.4%, +8.0% Q3) with rising energy prices.

Interest Rates and the Economy

Interest rates rose sharply this month. Short-term rates moved higher after the Federal Reserve (the Fed) raised the Fed Funds target rate for the first time since 2023, citing their commitment to bringing elevated inflation down to their 2% target. Their hawkish commentary led investors to price in several more hikes (0.25% each) by mid-2027. As discussed in detail on page 2, longer-term bond yields have moved higher in recent months due to worries about inflation, US debt, deficits and Fed credibility. The yield curve (Figure 2) plots interest rates for various US Treasury maturities. The US 10-year bond now yields 5.29%.

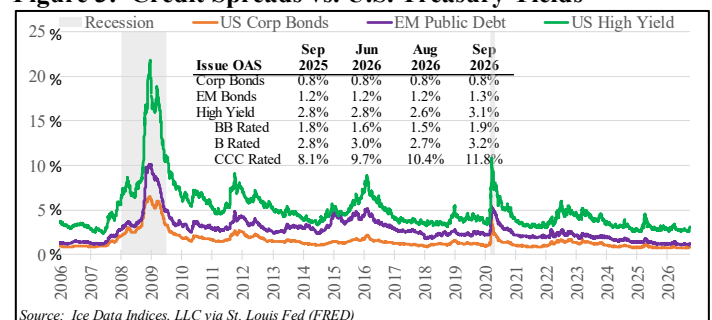
Figure 2: US Treasury Yield Curve



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) relative to Treasuries of comparable maturity (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads widened significantly this month but remain historically low.

- Investment grade corporate bond spreads were stable at +0.8% and are basically unchanged over the past year.
- High yield (non-investment grade) spreads widened to +3.1% last month but remain historically low. Spreads of the riskiest bonds (rated CCC & below) increased to +11.8% and have widened materially from +8.1% over the past twelve months.
- Emerging market spreads widened to +1.3% but have been stable over the past year; investors see low risk in EM debt.

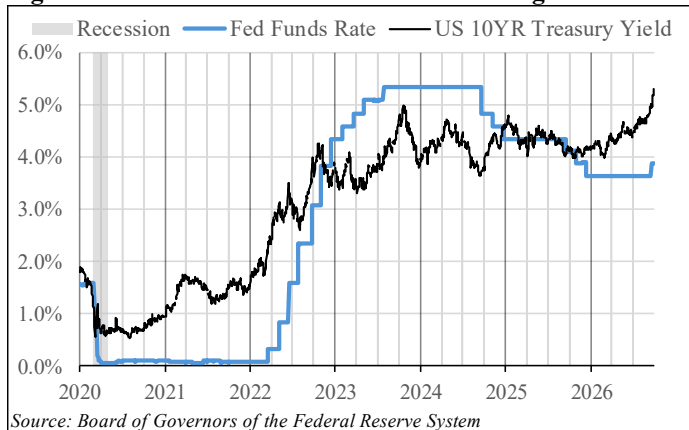
Figure 3: Credit Spreads vs. U.S. Treasury Yields



Global Interest Rates Continue to Rise

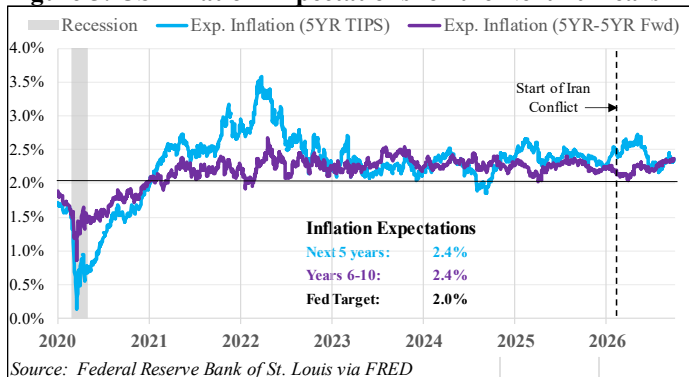
Recent stock market volatility is largely due to upheaval in the bond market as yields moved sharply higher across the yield curve (discussed and illustrated on page 1). The Fed hiked rates this month for the first time in three years, signaling their resolve toward bringing elevated inflation down to their 2% target, and investors priced in several more 0.25% Fed rate hikes in the coming months, pushing longer-term yields higher. (As a reminder, the Fed sets short-term rates, but investors set longer term rates as they buy and sell securities in the bond market.) Figure 4 plots the 10-year US Treasury bond yield versus the Fed Funds Target Rate since 2020. We focus on the 10-year bond yield because it serves as the benchmark rate for long-term bonds, loans, mortgages, etc., and impacts equity valuations: Stock market Price-to-Earnings (P/E) multiples tend to decline as investors require incrementally higher stock returns relative to attractive bond yields.

Figure 4: US 10-Year Yield vs. Fed Funds Target Rate



The rise of the 10-year bond yield is notable, as it has reached levels last seen in 2002. It is also telling that the yield was rising long before the Fed actually hiked rates this month. The simplest explanation for the rise is concern over elevated inflation. Indeed, yields began to move sharply higher in late February amid spiking oil prices at the onset of the Iran conflict, but that does not appear to tell the whole story. Inflation expectations embedded in the US Treasury and TIPS (Treasury Inflation Protected Securities) markets have fallen to pre-war levels as illustrated in Figure 5, pricing in average inflation of 2.4% for the next 10 years.

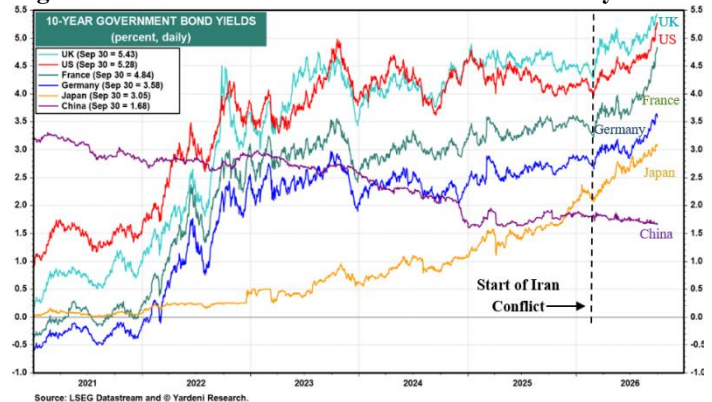
Figure 5: US Inflation Expectations for the Next 10 Years



Though inflation expectations have stabilized at modestly elevated levels relative to the Fed's 2% target, investors are demanding more compensation (higher yields) to lend for long periods of time (buy bonds). What else might be contributing to rising

yields? Before offering potential causes, it is important to note that yields are rising around the world, not just in the US. Figure 6 plots 10-year sovereign bond yields around the world.

Figure 6: 10-Year Government Bond Yields Globally



Global interest rates rose simultaneously with spiking oil prices and inflation concerns at the onset of the Iran conflict and have moved higher since. While inflation concerns are clearly part of the equation, other developments may be contributing to the rise:

- **Japan:** Japanese government bond yields have risen significantly, causing the “yen carry trade” (investors borrowed cheaply in Japan and reinvested elsewhere) to unwind, creating sell pressure (falling prices and rising yields) for global bonds.
- **Deficit Spending:** Rising global debt requires financing via increased issuance of government bonds, especially in the US (persistent and growing deficits) and Europe (rising government spending on defense, etc.); the increased supply of bonds must offer higher yields to attract more buyers.
- **AI Competition:** The AI infrastructure buildout is increasingly financed by debt (selling bonds); Goldman Sachs forecasts that debt issued by tech hyper-scalers will increase from \$250 billion this year to \$400 billion in 2028, adding to the overall supply of bonds competing for capital, pushing yields higher.
- **Growth:** Legendary equity strategist Ed Yardeni suggests that “the most optimistic explanation for the backup in bond yields is better-than-expected economic growth.” This implies that “neutral” interest rates are higher than originally thought because economic growth is stronger, powered by AI spending.

Bottom Line

Global markets continue to be volatile amid heightened uncertainty (geopolitics, war, tariffs/trade, AI, etc.) and rising interest rates, but stocks are still within 3% of all-time highs on average. Bond yields have surged for a variety of economic reasons (inflation, central bank rate hikes, strong growth) as well as the increasing supply of bonds competing for investors' capital (unwind of yen carry trade, rising debt & deficits, AI financing). For these many reasons, interest rates are likely to remain higher for longer.

The spike in yields has led to negative bond returns and tempered investors' appetite for stocks, evidenced by lower equity valuations (P/E) and significant small cap underperformance. These trends may continue if yields rise further, but strong economic and earnings growth and attractive current bond yields suggest that investors should remain invested, using market volatility to rebalance portfolios opportunistically back toward long-term asset allocation targets. As always, diversification remains critical.



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