



Fourth Quarter 2026: Earnings Matter Most

Stocks continue to flirt with all-time highs even as US interest rates approach two-decade highs. That seems counterintuitive, but rates matter only up to a point. Strong corporate earnings, reasonable GDP growth, and manageable inflation matter more. Once market sentiment shrugs off AI concerns, midterm uncertainty, and \$90+ oil, equities could rally significantly.

HOUSE STANCE Constructive

equities · add bonds at
5%

BENCHMARK TOTAL RETURNS · YEAR TO DATE (THROUGH 9/30/26)

S&P 500	S&P 400	RUSSELL 2000	NASDAQ	MSCI WORLD EX-US	US AGG. BOND
+12.7%	+9.7%	+13.7%	+20.8%	+13.9%	-0.1%

US Equity Markets

We continue to see upward earnings and growth revisions. This historically rewards bullish positioning. Prices simply have been slow to catch up. The issue is **sentiment, not fundamentals**.

The tech-focused **NASDAQ** moves up and down far more than the broader **S&P 500**. The volatility is a function of valuation, rate sensitivity, and sector concentration. This is the price of holding growth-oriented names. The ride is wilder, but it can generate higher returns over time — but the position needs to be appropriately sized, and you need the patience to hold it. Trading this only leads to regret.

Fixed Income & Yields

Hand wringing. The 10-year sits near **5.30%**, its highest since 2007, on concern the Fed hikes this fall and again next year. Hang on — **CPI is moderating at 3.4%**. We think the bond market has gotten ahead of itself.

- The silver lining: **5% is a decent return on cash**. If you are worried about inflation, oil, debt, or the midterms — buy bonds. Our preference is shorter duration (7 years or less).
- **TIPS**. The real yield on a 10-year inflation-protected Treasury at **2.91%** is exceptional — you're being paid nearly 3% above inflation, guaranteed, for a decade. This is an excellent time to fill any shortage to our target amount of inflation hedges.

Global Macro Themes

- **Hormuz.** Oil at **\$91.40**. Producers have rerouted about half the crude that normally passes Iran's missiles, still leaving the world short **10M barrels** of pre-war supply. This gets sorted out eventually; meantime oil is a thorn in everyone's side.
- **Watch the dollar.** USD has traded sideways for weeks. If FX traders believed yields were going higher, they'd be buying. Our belief: **yields may be peaking** — good for stocks.
- **Gold.** Gold remains 25% below its all time high. Given macro concerns globally (War, Debt, AI, Midterms) this seems odd. Perhaps anxious investors chose to own bonds, which pay 5% interest; gold pays nothing.

Ideas for the Fourth Quarter

1. **Buy bonds at 5%.** Get paid to wait in Treasuries if you are nervous. Buy TIPS to fill inflation hedge allocations.
2. **Follow** the earnings, not trading the headlines.
3. **Accept NASDAQ volatility.** Higher volatility is the cost of owning growth in this market.
4. **Own energy exposure.** With Hormuz constrained, energy is both a hedge and a beneficiary until supply normalizes.

Outlook & Thesis

The S&P 500 is up nicely year to date, but the 10-year Treasury near 5.30%, expensive energy, and the November midterms pose near-term risks to valuations. Markets hate uncertainty. But earnings are the engine: consensus 2026 EPS has climbed to \$340–\$365, which implies growth above 20%. Once the oil disruption normalizes and the rate scare passes, we see new highs and dynamic opportunities in 2027.

S&P 500 SCENARIOS · YEAR-END 2026			from ~7,715
CASE	DRIVERS	TARGET	RETURN
Bull	Yields peak, oil normalizes as Hormuz clears; revisions carry the tape.	8,490	+10%
Base	Choppy range; earnings grind higher against inflation angst.	8,100	+5%
Bear	Fed hikes, oil stays above \$90, midterm uncertainty de-rates multiples.	7,135	-7.5%

"Discipline always beats intelligence. It manifests itself in luck."