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Economic Update - Quarter 3

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The third quarter of 2026 reinforced an important lesson for investors: even healthy markets can experience periods of heightened volatility. During the quarter, equities once again reached record levels that were fueled by strong corporate earnings, continued economic growth and investor optimism surrounding artificial intelligence and technological innovation. However, markets also reacted to renewed inflation concerns, rising interest rates, elevated Treasury yields, and continued instability in the Middle East, which prompted increased market fluctuations as the quarter progressed.

During the first two months of the quarter, equity markets progressed, then in September, the Federal Reserve increased interest rates. Equities initially reacted to the rate increase with a drop, but quickly returned to their upward trajectory.

Following strong second-quarter rebounds, the major indexes delivered mixed results during the third quarter. The S&P 500 experienced a gain of approximately 2.0% for the quarter, while the Dow Jones Industrial Average declined approximately 2.7%. Despite the Dow's quarterly decline, both indexes remained positive for the year, with the S&P 500 up over 12% and the Dow up approximately 5.9%. *(Sources: Associated Press; Investopedia, September 30, 2026)*

Led by the new Chair Kevin Warsh, the September Federal Open Market Committee (FOMC) voted to increase the federal funds interest rate range from 3.50% - 3.75% to 3.75% - 4.00%. This was the first time the range was increased since July 2023.

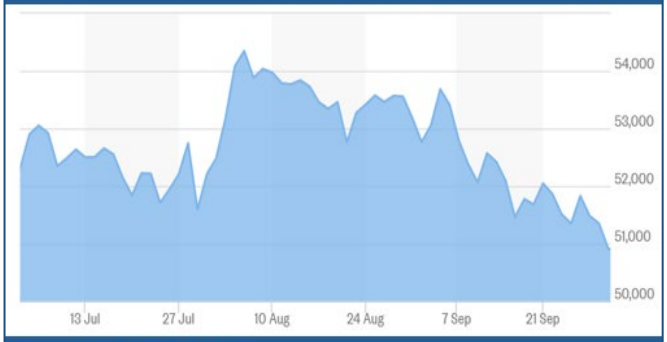
The energy sector continued to be one of the largest contributors to market volatility. Brent crude oil climbed from approximately $72 per barrel earlier in the summer to nearly $110 before retreating to about $100.

S&P 500 and DJIA
Quarter 3 2026

S&P 500 7,651.54 + 2.0%



DJIA 50,906.05 - 2.7%



Source: MarketWatch.com

Money Rate
(as posted in Barron's 9/30/2026)

	Latest Week	Year Ago
Fed Funds Rate*	3.89%	4.09%
Bank Money Market[z]	0.52%	0.53%
12-month Certif[z]	2.01%	1.93%

*Z – Bankrate.com; * - average effective offer (Source: Barron's; bankrate.com)*

As of the end of the third quarter, consumers still felt the pain of high gas pump prices and inflation due to high oil prices.

What is fueling the equity market's resilience to volatility? Strong corporate earnings remained one of the market's greatest underlying supports. According to *Barron's*, not all stocks advanced equally. They cited that four tech stocks (Nvidia, Micron, Apple, and Advanced Micro Devices) are responsible for almost half of the S&P 500's year-to-date performance.

The third quarter proved that: while many things can cause short-term market volatility, long-term market performance is ultimately driven by healthy, long-term focused fundamentals. Persistent inflation, higher interest rates, elevated oil prices, and geopolitical uncertainty caused concern, but healthy corporate earnings, a resilient labor market, and continued investment in technology provided support for the economy and equity markets.

As financial professionals, our role is to closely monitor economic and market developments. Our goal is to support you through all market conditions and help ensure your portfolio remains aligned with your broader financial goals. We remain committed to keeping you informed, prepared, and well-positioned to navigate changing market conditions with confidence.

Inflation & Interest Rates

Key Points:

- **The Federal Reserve raised its target rate range from 3.50%–3.75% to 3.75% - 4.00%.**
- **Inflation remains above the Fed's long-term target and Federal Reserve projections suggest an additional rate increase may be possible before the end of 2026.**
- **Gasoline prices remained elevated during the third quarter as continued uncertainty in the Middle East remains an important risk for inflation and financial markets.**

KEY TAKEAWAYS

- **Led by strong corporate earnings and continued enthusiasm surrounding AI, U.S. equities reached record levels during the quarter before experiencing increased volatility in September.**
- **Inflation remained elevated, with energy and gasoline prices contributing significantly to higher consumer costs.**
- **The Federal Reserve raised its target rate to 3.75% – 4.00%, signaling a more restrictive monetary policy outlook.**
- **Treasury yields and oil prices rose sharply, creating pressure on bonds, borrowing costs, and portions of the equity market.**
- **A disciplined, diversified, and long-term investment strategy remains especially important during periods of heightened uncertainty.**
- **We are here for you. Please call us with any questions or concerns. Your financial well-being is always our highest priority!**

During the first eight months of 2026, the Federal Open Market Committee (FOMC) kept its benchmark federal funds rate unchanged at 3.50%–3.75%, Then at their September meeting, they voted unanimously to increase the federal funds rate range by 25 basis points up to 3.75% - 4.00%. This was the first time the range was increased since July 2023. This decision reflected continued concern that inflation remained above the Federal Reserve's long-term 2% target.

Inflation data released during the third quarter supported the Federal Reserve's more cautious approach. According to the Bureau of Labor Statistics, the Consumer Price Index increased 3.4% over the 12 months ending in August.

Rising energy prices and continued instability in the Middle East continued to place pressure on consumers during the third quarter of 2026. According to AAA, the national average price for regular gasoline was $4.33 per gallon during September, exceeding the previous September record of $3.83 set in 2023. Although prices began to ease as the quarter ended, fuel costs remained unusually high for this time of year. *(Source: AAA, October 1, 2026) (Source: Bureau of Labor Statistics, September 11, 2026)*

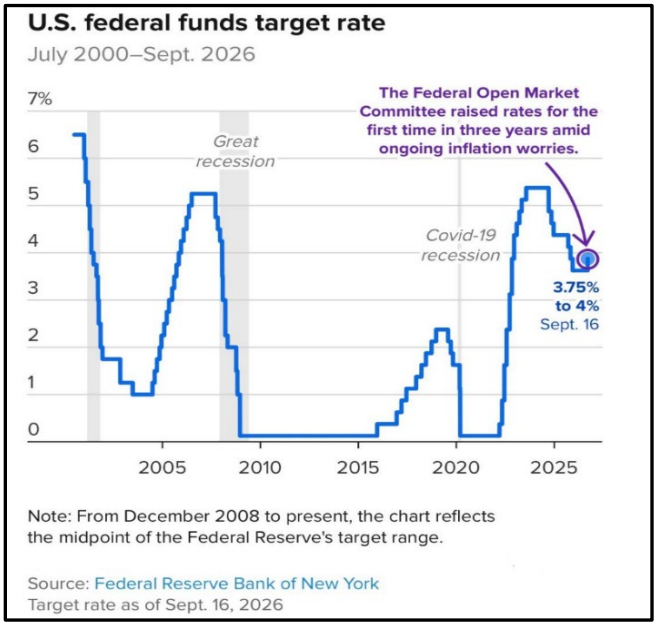
Looking ahead, the possibility of additional rate increases looks realistic. Interest rates and inflation remain critical factors in financial planning and investment decision-making. Higher rates may create challenges for borrowers and certain investments, but they may also provide attractive income opportunities for savers and bond investors. We will continue to monitor Federal Reserve policy, inflation, employment, and economic growth closely and provide updates as conditions evolve.

The Bond Market and Treasury Yields

Key Points:

- **Treasury and bond yields moved higher during the quarter due to persistent inflation, elevated energy prices, and the Fed's September interest rate increase.**

During the third quarter of 2026, U.S. Treasury yields rose. At the end of the third quarter, on September 30, 2026, the 10-year Treasury yield stood at 5.29%, the 5-year Treasury yield at 5.09%, and the 30-year Treasury yield at 5.64%. All three were above 5% for the first time in many years. *(Source: U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates, September 30, 2026)*



Higher Treasury yields can create both challenges and opportunities for investors. Bond prices struggled during the quarter as rising yields placed downward pressure on the market value of existing bonds, particularly longer-duration bonds. At the same time, newly issued bonds and other fixed-income investments offered more attractive income than they have in recent years.

Although expectations for future interest-rate adjustments will continue to change, Treasuries and bonds can remain an important component of diversified investment portfolios. As always, bond investments should be evaluated within the context of an investor's risk tolerance, time horizon, income needs, and overall financial objectives. We will continue to monitor Federal Reserve policy, inflation, Treasury yields, and economic conditions as they evolve.

Investors' Outlook

Key Points:

- **We remain cautiously optimistic. Strong earnings expectations provide an encouraging backdrop, while persistent inflation, higher interest rates, and geopolitical uncertainty could contribute to additional volatility.**

- **Maintaining a disciplined investment strategy and proactively reviewing your financial plan remain essential as we approach the end of 2026.**

As we enter the final quarter of 2026, investors have reasons for optimism, along with several important developments to monitor. Corporate earnings expectations remain strong, but inflation and the direction of Federal Reserve policy continue to influence the outlook. In the months ahead, we will be watching to see if companies can deliver on those expectations and if current inflationary pressures begin to ease.

Corporate earnings remain an encouraging part of the investment landscape. "Heading into the start of the earnings season, analysts and companies have been more optimistic than normal in their earnings outlooks for the third quarter," according to *FactSet's S&P 500 Earnings Season Preview: Q3 2026*. These projections provide a reason for cautious optimism, although estimates can change and stronger earnings do not guarantee higher stock prices. *(Source: FactSet; 10/2/26)*

At the same time, inflation remains an important concern. Consumer prices increased 3.4% over the 12 months ending in August, with energy prices continuing to put pressure on household budgets.

The Federal Reserve raised its benchmark interest-rate range to 3.75%–4.00% in September, underscoring its commitment to addressing inflation. The direction of interest rates will depend on incoming economic data and the balance between inflation risks and labor conditions. *(Sources: U.S. Bureau of Labor Statistics, September 11, 2026; Federal Reserve, September 16, 2026)*

While we remain cautiously optimistic, investors should be prepared for changing conditions. Short-term volatility is likely to remain, so please remember that volatility is a normal part of investing. We are not in the business of predicting the markets.

We believe an informed client is the best client, and our focus is on supporting our clients and their long-term financial goals. Our goal is to exceed our clients' expectations by delivering exceptional service, maintaining consistent and meaningful communication and proactively planning to help clients navigate the changing economic environment. As always, we encourage you to inform us of any changes to your circumstances, risk tolerance, or time horizon. Our team is here to help you with every step of your journey towards your financial goals. Please feel free to reach out to us with any questions or concerns you may have.

Complimentary Financial Check-up.

One of our goals this year is to help more people with their financial decisions.

If you are not a client of Cudlipp Financial Services, Inc. we would like to offer you a complimentary, one-hour, private consultation with one of our professionals at absolutely no cost or obligation.

Please call Cudlipp Financial Services, Inc. at (585) 383-6555, and we'd be happy to schedule your consultation!

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90. Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Past performance is no guarantee of future results. CDs are FDIC Insured and offer a fixed rate of return if held to maturity. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

Sources: Barron's.com; Ycharts.com; FactSet; U.S. Department of Treasury; U.S. Bureau of Labor Statistics; factset.com; gasprices.aaa.com; Energynow.com; apnews.com; Investopedia.com; Contents provided by the Academy of Preferred Financial Advisors, 2026.