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S&P 500 CHART FOR 3RD QUARTER 2026



MARKET SNAPSHOT

The third quarter of 2026 was defined by an unusual combination: equity markets remained resilient even as many of the pressures that investors had hoped would fade began to reemerge. While the price of crude oil has declined from its April high, it accompanies rising long-term interest rates, persistent geopolitical uncertainty, and renewed inflation concerns all moved back to the forefront. Despite those headwinds, corporate earnings remained strong and enthusiasm surrounding artificial intelligence and related capital spending continued to provide meaningful support for the equity markets.

The S&P 500 chart above reflects that resilience. After beginning the quarter near 7,499, the index closed on September 30th at approximately 7,652, representing a gain of roughly 2% for the quarter and nearly 12% for the year. However, September was particularly challenging for many stocks as Treasury yields moved sharply higher, while large technology and AI-related companies helped keep the major indexes near their highs.

Interest rates became one of the most important developments of the quarter. The 10-year Treasury yield rose more than 80 basis points during the quarter and finished September above 5%, reaching levels not seen in nearly two decades. At its September meeting, the Federal Reserve raised the federal funds rate by 0.25% to a range of 3.75%–4.00%, citing continued

inflation pressure and solid economic activity. The combination of stronger growth, higher energy prices, and concerns surrounding government debt caused investors to price in the potential for higher-for-longer interest rates on the general bond market.

Inflation remained elevated but stable. August CPI increased 3.4% from the prior year, while core inflation, excluding food and energy, increased 2.4%. Oil was again a major factor, rising sharply during the quarter as conflict in the Middle East and continued uncertainty surrounding the Strait of Hormuz tightened energy markets. At the same time, the economy continued to show surprising resilience. August payrolls increased by 162,000 and unemployment remained at 4.1%, while job openings remained near 7.1 million. The result was an economy that appeared neither weak enough to force the Federal Reserve to ease policy nor strong enough to eliminate concerns about slower growth ahead.

The chart below indicates the performance for each major asset category for the past five quarters. Returns shown reflect index price performance and exclude dividends.

Selected Indices	9/30/25	12/31/25	3/31/26	6/30/26	9/30/26	3Q%
S&P 500 (Large Cap)	6,688	6,845	6,528	7,499	7,652	2.03%
S&P 400 (Mid Cap)	3,263	3,340	3,376	3,853	3,596	-6.66%
S&P 600 (Small Cap)	1,449	1,467	1,513	1,804	1,661	-7.93%
Dow Jones Industries (Large Cap)	46,397	48,063	46,301	52,319	50,906	-2.70%
Nasdaq	22,660	23,241	21,590	26,214	26,861	2.47%
MSCI/EAFE (International)	93	95	97	104	104	-0.11%
Treasury Bond Rates						
5-year Treasury Note Yield (%)	3.74	3.72	3.94	4.19	5.09	21.48%
10-year Treasury Note Yield (%)	4.15	4.18	4.31	4.44	5.29	19.14%

*The chart above indicates the performance for each major asset category for the past 5 quarters.
Returns shown reflect index price performance and exclude dividends.*

Domestic Stocks

U.S. equities produced mixed results during the third quarter as higher interest rates and renewed inflation concerns offset continued strength in large-cap technology and AI-related stocks. Based on the index changes shown above, the S&P 500 rose 2.03% and the Nasdaq advanced 2.47%, while the Dow declined 2.70%. Unlike the broad rally in the second quarter, market participation narrowed considerably. The S&P Mid Cap 400 fell 6.66%, while the S&P Small Cap 600 declined 7.93%. Higher financing costs weighed more heavily on smaller companies, while large technology companies continued to provide support for the major indexes. Overall, Q3 highlighted an important divergence: headline indexes remained relatively strong, but many stocks underneath the surface experienced meaningful weakness.

International Markets

International equities were essentially flat during the third quarter after a stronger second quarter. Developed markets faced many of the same pressures as the U.S., including higher interest rates, volatile energy prices, and uneven economic growth. Currency movements also remained important, while generally lower valuations continued to provide some support. However, international markets were unable to keep pace with the strength in Large Cap U.S. technology stocks.

Treasury Bond Yields

Treasury yields rose sharply during the third quarter. The 5-year Treasury yield increased from 4.19% to 5.09%, while the 10-year Treasury yield rose from 4.44% to 5.29%. The move reflected persistent inflation concerns, higher energy prices, resilient economic growth, and increased government borrowing. Rising yields created pressure on both bond prices and equity valuations, particularly for smaller companies and other rate-sensitive areas of the market. Overall, the quarter reinforced the importance of maintaining our discipline around duration, credit quality, and liquidity.

Federal Reserve Actions

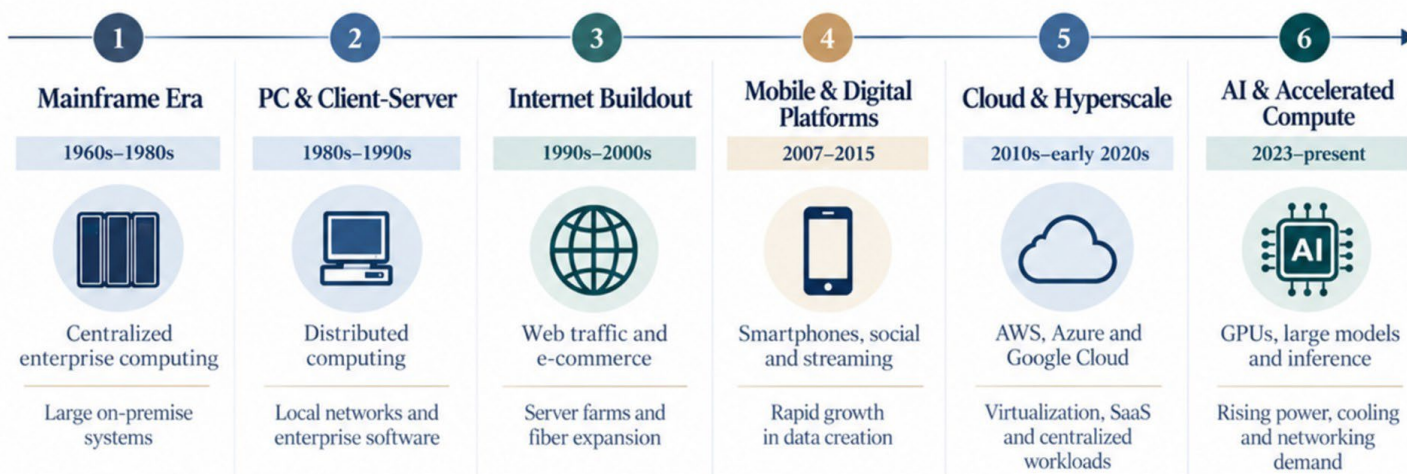
The Federal Reserve became more restrictive during the third quarter, raising the federal funds rate by 0.25% in September to a range of 3.75%–4.00%. Inflation remained above target, while economic growth and the labor market continued to show enough resilience to limit the Fed's ability to ease policy. This represented a shift from the more cautious holding pattern seen during the second quarter. The key question now is less about when the Fed will begin cutting rates and more about how long the economy can absorb interest rates at these elevated levels.

AI INFRASTRUCTURE BUILDOUT

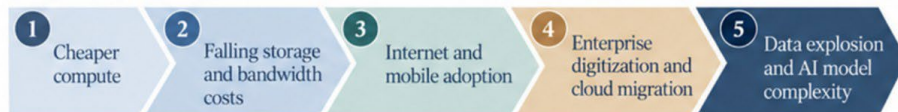
Artificial intelligence has quickly become one of the most important themes affecting both the financial markets and the U.S. economy. While much of the attention has focused on individual technology companies, the larger story is the enormous amount of capital now being invested to build the infrastructure necessary to support AI. To understand the scale of what is happening today, however, it is helpful to first understand how we got here.

From Mainframes to AI: How We Got Here

The evolution of computing and key macro trends that led to today's AI-driven data-center buildout.



Macro Trends



Why Data Centers Became So Important

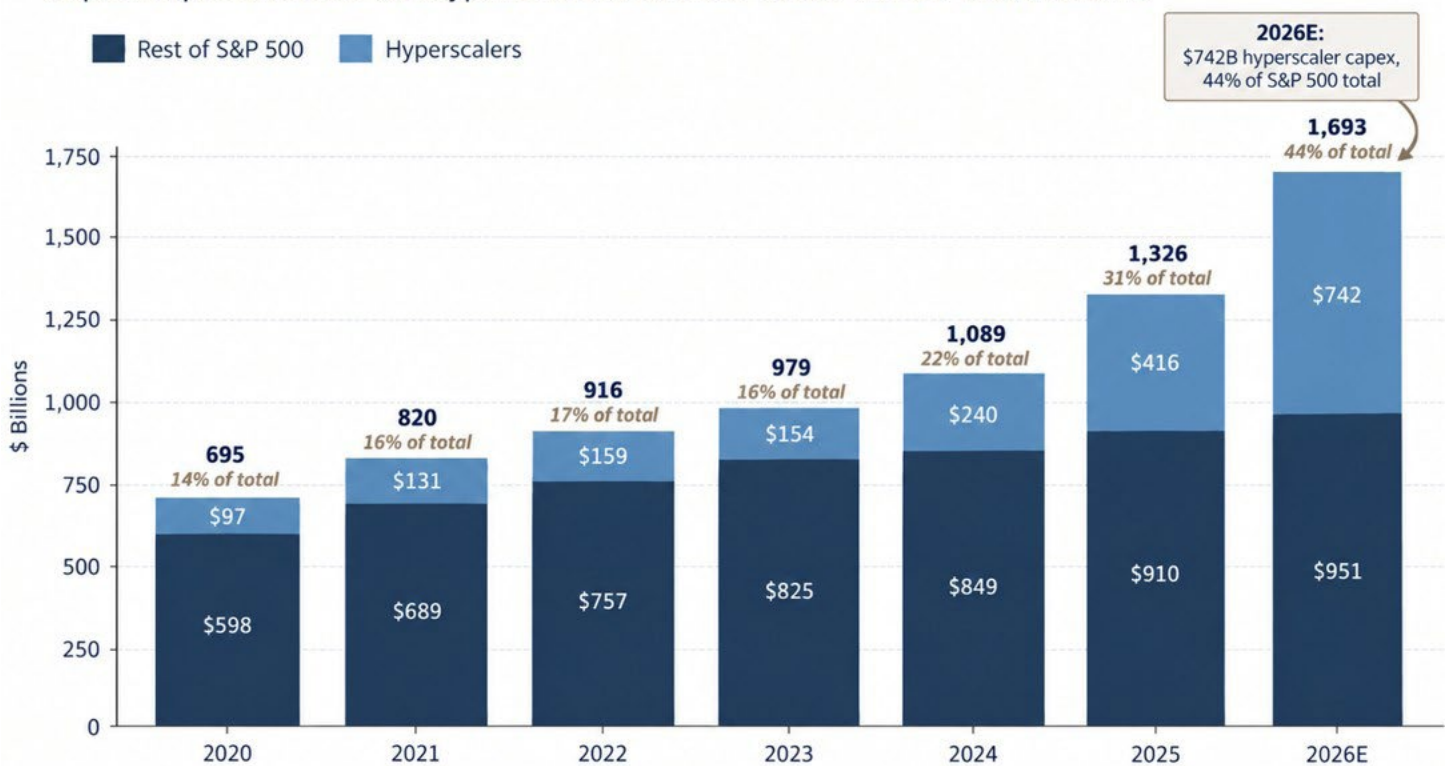
- More digital activity required always-on compute and storage
- Cloud centralized enterprise workloads at scale
- AI increased demand for specialized, energy-intensive infrastructure

The evolution of computing has occurred over several decades. Early computing was largely centralized in expensive mainframe systems operated by governments, universities and large corporations. The invention of the personal computer then moved computing power directly into homes and businesses, while the development of the internet connected those computers together. Later, smartphones and mobile applications dramatically increased the amount of information being created and transmitted. The next major step in the delivery of digital information was cloud computing. Rather than every company owning and maintaining its own servers, businesses increasingly began renting computing capacity from companies such as Amazon, Microsoft and Google. This shifted an increasing amount of the world's computing activity back into centralized facilities—modern data centers.

Artificial intelligence represents the next significant step in this evolution. Unlike many traditional software applications, today's large AI models require enormous amounts of computing power, both when the models are initially trained and when millions of users subsequently interact with them. The result is that the data center has increasingly become the physical infrastructure underlying the digital economy.

AI Infrastructure Has Become a Major Driver of Corporate Capital Spending

Capital expenditures of five hyperscalers versus the rest of the S&P 500, \$ billions



Source: FactSet; J.P. Morgan Private Bank, "Not a red flag: The market-economy disconnect," July 10, 2026. Data as of July 2, 2026. Hyperscalers include Microsoft, Amazon, Alphabet (Google), Meta and Oracle. 2026 values are estimates.

The scale of the current buildout is remarkable. As the chart above illustrates, capital spending by the largest technology companies has grown from a relatively modest portion of overall corporate investment to what is expected to approach 44% of total S&P 500 capital expenditures in 2026. The spending extends far beyond semiconductors. It includes data centers, networking equipment, cooling systems, electrical equipment, construction and increasingly the generation and transmission of electricity needed to operate these facilities.

This investment is also important from a broader U.S. economic perspective. Leadership in artificial intelligence has increasingly become a strategic objective, much as leadership in semiconductors, aerospace and the internet has been in previous generations. The United States currently possesses significant advantages in computing infrastructure, cloud platforms, advanced chip design and AI development. Maintaining that position could influence not only corporate profitability, but also productivity, economic growth and America's competitive position in the world.

That opportunity comes at an important time. As we have discussed, the United States faces increasing long-term fiscal challenges, and it will be increasingly difficult to address those challenges through spending reductions or higher taxes alone. Stronger economic growth and productivity would clearly help. Artificial intelligence has the potential to allow businesses to be more productive and expand manufacturing. If those productivity gains are realized broadly across the economy, they could support higher corporate earnings, wages, investment and tax revenues.

However, there is also risk. The amount of capital being committed today is based upon expectations of economic benefits that largely still lie ahead. Building a data center immediately generates revenue for the companies supplying the chips, servers, real estate and electrical equipment. Ultimately, businesses and consumers must use that computing capacity in ways that generate sufficient revenue, cost savings or productivity gains to justify the investment.

That is likely to become the next important phase of the AI cycle. Investors have initially rewarded companies for building the infrastructure. But going forward, the focus will likely increasingly move toward safety, adoption, utilization and cash flow. This distinction is important- artificial intelligence can prove to be a transformational technology while portions of the investment cycle still become excessive. The opportunity for the U.S. economy is significant, but so is the amount of future economic value that must ultimately be created to support the extraordinary level of investment now underway.

EARNINGS AND DIVERSIFICATION

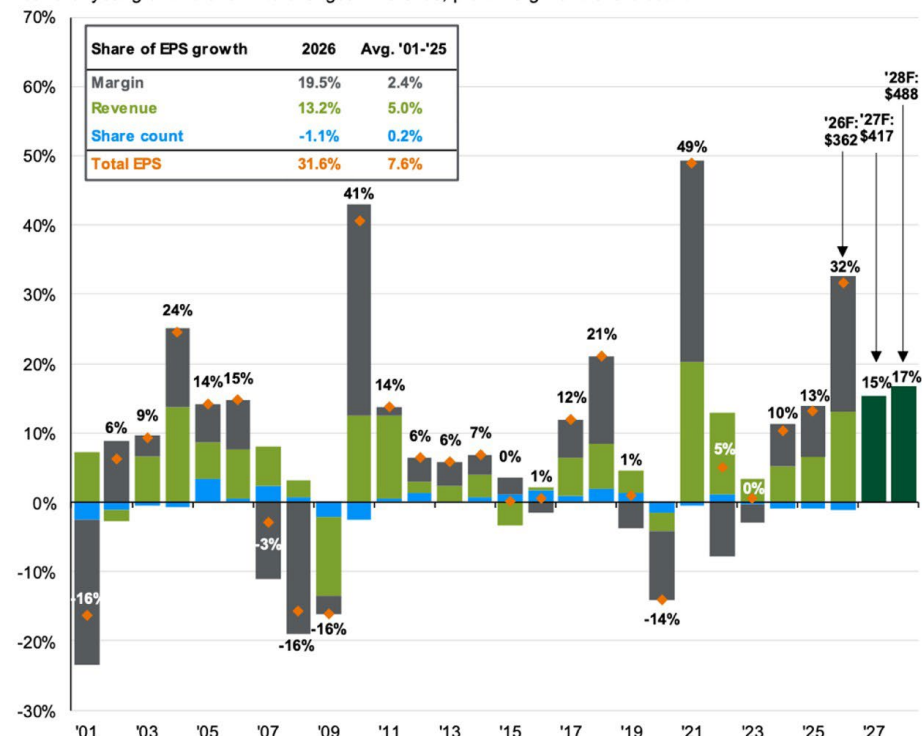
Ultimately, stock prices are supported by earnings, and the earnings picture remains an important source of support for the market. As the following chart illustrates, S&P 500 earnings growth has remained strong in 2026, supported by both revenue growth and expanding profit margins. Corporate profit margins are also near historically high levels. While valuations remain elevated in parts of the market, continued earnings growth provides an important foundation beneath those valuations. The broader question for investors is whether that growth can continue to spread across more companies and industries.

Artificial intelligence may become an important part of that story, but its longer-term economic value will likely depend less on the infrastructure being built today and more on what businesses ultimately do with it. Railroads created value not simply because tracks were constructed, but because they allowed people and goods to move more efficiently. Electricity became transformative because it could be applied throughout the economy. AI may follow a similar path. The real opportunity is not simply the amount being spent on data centers, chips and computing capacity, but whether that investment ultimately allows businesses across many industries to become more productive, lower costs, make better decisions and generate higher earnings.

That distinction is also important from an investment standpoint. Some of the value created by AI may remain with the companies building the infrastructure, while much of it may ultimately accrue to the businesses that use the technology most effectively. At the same time, companies will continue to create value through many forces unrelated to AI, including consumer demand, industrial activity, healthcare innovation, energy production and financial services. Diversification allows investors to participate in these different sources of earnings growth without having to determine in advance which technology, industry or investment style will lead the market next.

S&P 500 EPS growth

Year-over-year growth broken into changes in revenue, profit margin and share count

**S&P 500 profit margins**

Quarterly earnings/sales



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

10-year annualized returns

	Value	Blend	Growth
Large	11.4%	15.3%	18.2%
Mid	9.9%	11.2%	11.9%
Small	9.4%	9.8%	9.9%

Year-to-date returns (through 9/30/2026)

	Value	Blend	Growth
Large	19.3%	12.7%	6.3%
Mid	15.3%	11.8%	1.0%
Small	17.0%	13.7%	10.7%

Source: FactSet, FTSE Russell, Standard & Poor's, J.P. Morgan Asset Management.

Broadening Market Leadership

Artificial intelligence may still prove to be an important long-term driver of productivity, but the market's performance in 2026 is a reminder that leadership has not been limited to one theme. Although market participation narrowed during the third quarter, the year-to-date picture remains considerably broader. Through September 30, value stocks outperformed growth across all three size segments, with large-cap value returning 19.3% versus 6.3% for large-cap growth, mid-cap value returning 15.3% versus 1.0% for mid-cap growth, and small-cap value returning 17.0% versus 10.7% for small-cap growth. This broader participation suggests that opportunities have extended beyond the largest technology and AI-related companies and reinforces the importance of maintaining exposure across different areas of the market.

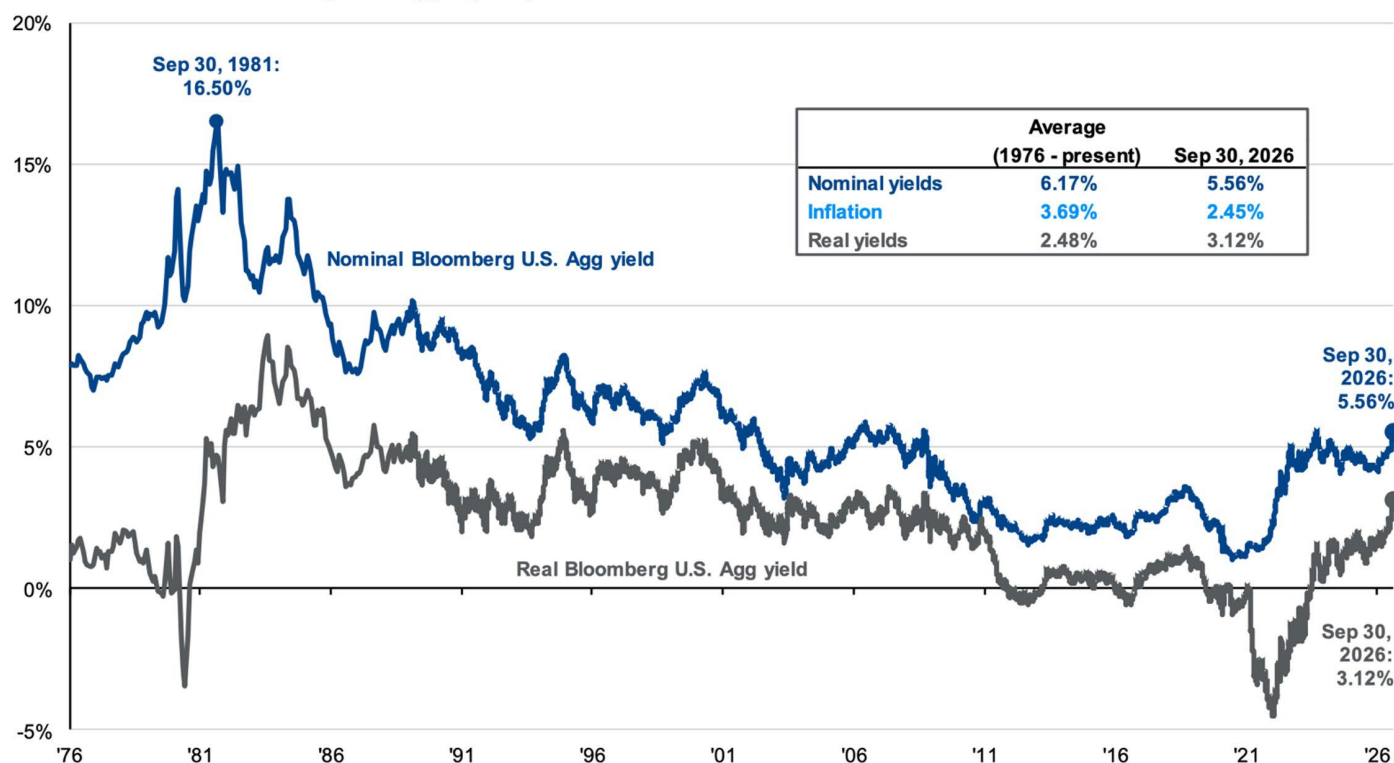
INTEREST RATES & INFLATION UPDATE

Interest rates remain an important part of the investment environment, but today's level of rates needs to be viewed in a broader historical context. As the chart illustrates, the yield on the Bloomberg U.S. Aggregate Bond Index stood at 5.56% at the end of the third quarter, compared with a long-term average of 6.17% since 1976. While that is considerably higher

than investors became accustomed to during the decade following the financial crisis, it is not historically unusual. What has changed more meaningfully is the return available to investors after accounting for inflation.

Inflation has continued to moderate from the elevated levels experienced earlier in this decade. At the end of September, the inflation measure shown in the chart was approximately 2.45%, below its long-term average of 3.69%. With bond yields remaining above 5%, that leaves a real yield of approximately 3.12%, compared with a long-term average of 2.48%. In other words, investors today are being compensated more attractively for owning high-quality fixed-income securities than they were for much of the past decade. That is an important change, particularly for investors who rely on portfolios to generate income.

Nominal and real Bloomberg U.S. Aggregate yields



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Higher interest rates are not without consequences. The cost of borrowing has increased for households, corporations and governments, and higher yields can also influence the valuations investors are willing to place on stocks and other long-duration assets. Businesses must be more selective about investments when the cost of capital is higher, and investors have more alternatives when bonds and cash equivalents offer meaningful yields. These forces can create a higher hurdle for some investments, particularly when valuations already assume strong future growth.

The relationship between inflation and interest rates will remain important. If inflation continues to move toward more normal levels while economic growth remains resilient, investors may be able to earn attractive real yields without requiring a return to the extremely low interest-rate environment of the prior decade. Conversely, renewed inflationary pressure could keep rates higher for longer and place additional pressure on financing costs and valuations. For that reason, both inflation and interest rates warrant close attention. With real bond yields currently above their long-term average, investors once again have the opportunity to earn meaningful income from the more conservative portion of a diversified portfolio.

SUMMARY

As we enter the final quarter of the year, the overall backdrop remains reasonably constructive, but several important risks remain. Inflation has moderated, though it remains above the Federal Reserve's long-term target. Treasury yields have moved higher, geopolitical uncertainty remains elevated, and equity valuations are again more demanding after a strong advance. Artificial intelligence continues to create meaningful opportunities, but expectations in some areas may be running ahead of the earnings and productivity gains that ultimately need to support current valuations.

Our discussion is a useful reminder that investors have historically been rewarded for maintaining a long-term perspective, even though periods of volatility are a normal part of the investment experience. Strong corporate earnings and continued economic activity remain supportive, while higher rates, elevated valuations and the possibility of renewed inflation argue for continued discipline.

In this type of environment, diversification remains especially important. Headline indexes do not always reflect what is occurring beneath the surface, and leadership can shift quickly across sectors, styles and asset classes. Maintaining exposure across a broad range of investments can help reduce dependence on any single outcome or market theme. At Chancellor Wealth Management, the focus remains on keeping portfolios aligned with each client's objectives, time horizon and risk tolerance rather than reacting to short-term headlines. Market conditions will continue to change, but a well-constructed plan should be designed with periods of uncertainty and volatility in mind.

IMPORTANT DISCLOSURES

The data in this quarterly market summary are provided for informational and educational purposes only. References to specific indexes are included for illustrative purposes only and should not be interpreted as recommendations to use any particular asset allocation or as the primary basis for investment decisions. Indexes and trademarks are the property of their respective owners. The indexes are not available for direct investment, are unmanaged, and do not reflect the impact of advisory fees, transaction costs, taxes, or other expenses associated with investing. Additionally, there are limitations to using indexes for comparison or other purposes due to differences in trading strategies, volatility, or other material characteristics among indexes. There is no representation that any index displayed herein is the only suitable index for representing the relevant market or sector. Different types of investments involve varying degrees of risk, and there can be no assurance that any investment or asset allocation strategy will be profitable or protect against loss. All asset classes have inherent risks, and understanding these risks is critical for making informed comparisons of risk and return, as well as for making sound investment decisions. Past performance is not indicative of future results. All investments are subject to the risk of loss. The summary of market data herein is not intended to reflect the performance of any mutual fund, exchange-traded fund, or investment management strategy recommendation by Chancellor Wealth Management, Inc.

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