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Quarterly Economic Update

Third Quarter 2026

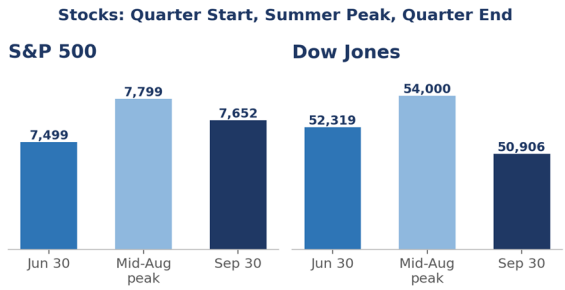
Scott McMurdie, CFP® and Eric McMurdie, CFP®

The third quarter was a tale of two halves. Stocks kept climbing through the summer, with the S&P 500 setting fresh record highs in August and closing above 7,800 for the first time ever. Then September arrived, interest rates jumped, and the market gave back much of that summer gain.

By quarter-end, the S&P 500 was up about 2% for the three months, closing at 7,651.54. The Nasdaq did a little better, gaining about 2.5%. The Dow Jones Industrial Average, which briefly topped 54,000 in early August, finished the quarter down about 2.7% at 50,906.05 after a rough September in which it fell 4.3%. (Source: cnbc.com; 9/30/26)

What changed? In a word: rates. Inflation has stayed stubbornly above the Federal Reserve's target, oil prices climbed again as the conflict with Iran dragged on, and in September the Fed raised interest rates for the first time since 2023. Bond yields shot up in response, with the 10-year Treasury yield crossing 5% for the first time in years.

There was good news, too. The economy proved sturdier than many expected. The government revised its estimate of spring economic growth up to a solid 2.2%, consumers kept spending, and hiring bounced back in August after a soft July. A strong economy is welcome, but it also gives the Fed less reason to back off — and that tension shaped nearly everything this quarter.



S&P 500 and Dow at the start of the quarter, the August peak, and quarter-end. Dow peak approximate. Source: cnbc.com; cnn.com.

Not every corner of the market moved the same way. Technology shares held up best: the Nasdaq actually rose 1.9% in September, helped by companies tied to the artificial-intelligence buildout, while the Dow, with more traditional industrial and financial names, fell 4.3%. The S&P 500 slipped 0.5% for the month. (Source: cnbc.com)

That gap is a good reminder of why diversification matters. In any given stretch, some parts of a portfolio lead while others lag, and the leaders change more often than headlines suggest.

THE BIG PICTURE

- Stocks hit record highs in August, then pulled back in September as interest rates rose.
- The Fed raised rates by 0.25% in September to a range of 3.75%–4.00% — its first increase since 2023.
- The 10-year Treasury yield topped 5% and ended the quarter at 5.29%, its highest level in roughly two decades.
- Inflation held at 3.4%, still well above the Fed's 2% goal.
- Oil climbed back toward $100 a barrel as the Strait of Hormuz remained largely closed.

The Fed Changes Direction

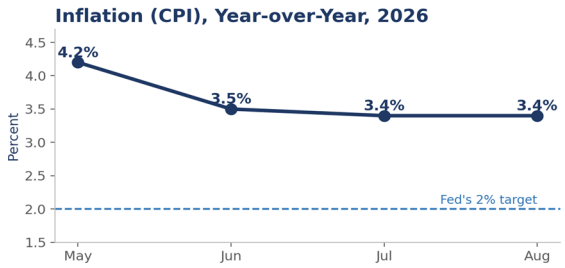
For most of the past two years, the conversation about interest rates was about when the Fed would cut them. That changed this quarter. On September 16, the Fed voted unanimously to raise its benchmark rate by a quarter of a percentage point, to a range of 3.75% to 4.00%. It was the first rate increase since 2023 and the first major decision under new Chairman Kevin Warsh. (Source: federalreserve.gov; cnbc.com)

Chair Warsh was direct about why: inflation has been "too high ... for too long." Most Fed officials now expect one more small increase before the end of 2026, no change in 2027, and cuts only in 2028 and beyond. Of course, those projections can and do change as new data comes in.

Why does this matter to you? The Fed's rate affects what banks charge on credit cards, auto loans, and home equity lines, and it influences what savers earn on cash. Higher rates also tend to make investors more cautious about stocks, which helps explain September's pullback.

Inflation: Better, But Not Good Enough

Inflation — how fast prices are rising — cooled from its spring peak of 4.2% in May but then stalled. Consumer prices were 3.4% higher in both July and August than a year earlier. Gasoline was the biggest culprit: gas prices jumped 3.9% in August alone and were more than 27% higher than a year ago. (Source: bls.gov)

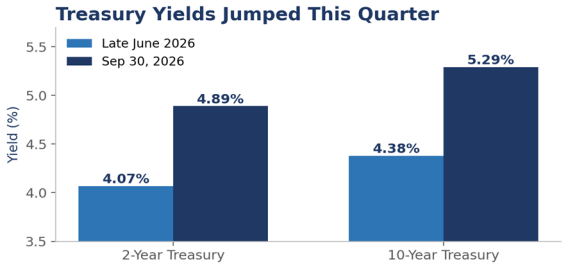


Consumer Price Index, year-over-year change. Source: bls.gov.

Excluding food and energy, "core" consumer prices rose a more modest 2.4% over the year — a reminder that much of today's inflation is coming from energy. The Fed's preferred measure, released on the last day of the quarter, also showed 3.4% for August, a bit better than economists expected.

Bonds: A Big Move in Yields

The bond market was the big story of September. On September 14, the 10-year Treasury yield crossed 5% for the first time since 2023, and by September 30 it had climbed to 5.29% — a level last seen around 2002. The 30-year yield reached 5.64%. Investors pushed yields higher on worries about inflation, a strong economy, heavy government borrowing, and a wave of corporate borrowing to fund artificial-intelligence projects. (Source: home.treasury.gov; AP)



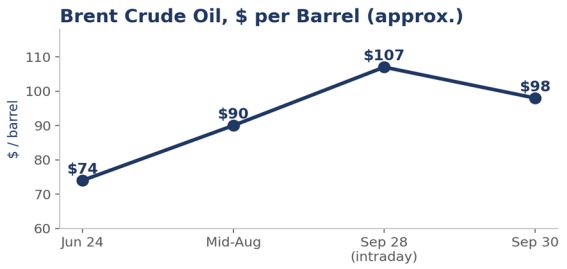
Treasury yields, late June vs. quarter-end. Source: home.treasury.gov; advisorperspectives.com; AP.

When yields rise, the price of bonds you already own usually falls, which can cause short-term dips in bond holdings. The silver lining is real, though: new bonds, CDs, and money market funds now pay some of the highest yields savers have seen in a generation.

> ***Before we go further, we want to say this plainly: our priority is you.*** *Quarters like this one can feel noisy. Every chart and section here exists for one reason — so you feel informed and confident, not anxious, about your money.*

Oil and the Strait of Hormuz

Last quarter ended with hope that tensions with Iran were cooling, and oil briefly fell below $75 a barrel. That relief faded. Strikes resumed in July, shipping through the Strait of Hormuz — the route for about one-fifth of the world's oil — stayed far below normal, and prices climbed again. By late September, Brent crude briefly neared $108 after the U.S. rejected Iran's latest proposal to reopen the strait, before settling at $98.03 on September 30. (Source: aljazeera.com; AP)



Brent crude at key points during the quarter (approximate). Source: AP; aljazeera.com; cnbc.com.

At the pump, the national average for regular gas was about $4.43 a gallon at the end of September — the highest ever for this time of year. (Source: AAA)

Jobs and Growth

The job market sent mixed signals. July's report was a surprise disappointment, with employers cutting 23,000 jobs. August bounced back with 162,000 new jobs, the best month since March, and the unemployment rate held at 4.1%. Meanwhile, the economy grew at a 2.2% annual pace in the second quarter, revised up from earlier estimates. (Source: bls.gov; bea.gov)

Housing: Mortgage Rates Top 7%

Higher bond yields flowed straight into mortgage rates. The average 30-year fixed rate started the quarter around 6.43% and climbed steadily, reaching 7.03% in late September — its highest level of 2026. (Source: Freddie Mac PMMS)

Looking Ahead to the Fourth Quarter

- October 27–28 and December 8–9 — the Fed's final two meetings of 2026. Most officials expect one more small rate increase this year. (Source: federalreserve.gov)
- November 3 — the midterm elections. Markets have historically tended to settle once election uncertainty clears, regardless of which party wins. (Source: capitalgroup.com; fidelity.com)
- The Strait of Hormuz — any progress toward reopening it could bring relief at the pump, while setbacks could keep energy prices and inflation elevated.

A Few Simple Terms

- Inflation (CPI) — how much more expensive things get over time, measured by the Consumer Price Index.
- Federal funds rate — the short-term rate the Fed sets, which influences most other borrowing costs.
- Treasury yield — the interest the U.S. government pays to borrow; yields and bond prices move in opposite directions.

- Brent crude — the international benchmark price for oil.

WHAT THIS MEANS FOR YOU

- Record highs and pullbacks can happen in the same quarter. Don't let one month drive a long-term decision.
- Higher rates cut both ways — borrowing costs more, but cash and new bonds pay more. If you hold extra cash, let's make sure it's earning a competitive rate.
- Bond dips from rising yields are usually temporary for investors who hold to their timeline.
- Energy prices remain the wild card for inflation, so expect headlines about the Middle East to move markets.
- Year-end is close. It's a good time to review your plan, rebalance, and look at tax moves before December 31.

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→ **Add a name to our mailing list**

→ **Invite a guest to a workshop or webinar**

→ **Encourage someone to schedule a complimentary financial checkup**

Sources: cnbc.com; apnews.com; cnn.com; bls.gov; bea.gov; federalreserve.gov; home.treasury.gov; advisorperspectives.com; aljazeera.com; aaa.com; freddiemac.com; capitalgroup.com; fidelity.com.

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