Stocks are Performing. Bonds are not!
September 2, 2026

In my last few newsletters I've focused on concerns about rising interest rates becoming a headwind for stocks. I've mentioned that August and September are often two of the tougher months for stock market performance. I've speculated that stock prices might *"take a breather"* during those two months. *"September holds the reputation for being the absolute worst performing month where the S&P 500 has consistently averaged a clear negative return…."* But I also said, *"Historically, if the market has enjoyed a massive bull run leading into August, the late summer drop behaves more like a standard, healthy consolidation or mild pullback. Do you know what usually follows healthy consolidations or mild pullbacks? Resumptions of bull markets usually follow."*

Not only have we enjoyed a massive bull market for almost four years, the S&P 500, the Nasdaq 100 and the Dow Jones Industrial Average all ended August up for the month. The tech heavy QQQ (Nasdaq 100) led major index ETF's, driven by strong second quarter mega-cap earnings reports. Both the SPY (S&P 500) and the DIA (Dow Jones Industrial Average) posted gains across industrials, healthcare and financials. Here is a chart of the S&P 500, showing the market bottom in October 2022, the long-term upward trend, capped off by a solid August 2026trend, capped off by a solid August 2026.

Andrew McElroy, Matrixtrade.com, recently published "Don't Believe Everything You Read About September" on SeekingAlpha.com. He pointed out that *"the worst Septembers almost all had a bearish run-in (a bad August). On the other hand, the best Septembers tended to have a positive run-in (a good August)."* We had a positive August, which may mean stocks will avoid a big draw down in this often perilous two month period. He also mentions 8100 as a potential year-end target for the S&P 500. That matches the price targets of Oppenheimer Asset Management and Citigroup. Goldman Sachs and Deutsche Bank are currently at 8000. Ed Yardeni, Yardeni Research, currently has the highest target on the street at 8400. As I am drafting on Tuesday morning, September 1, 2026 the S&P 500 is at 7639.

None of this optimism or historic information guarantees that the broad stock market will continue its upward momentum. There are plenty of negative catalysts looming that could knock it down. But August price action does lend credence to our "base case" as reported in our last newsletter, on August 17, 2026.

"I've long been concerned that rising interest rates will eventually kill the stock bull market. I believe that long term rates will keep rising, which adds to my worries for longer term outcomes. Even so, stocks are not likely to suffer a significant setback in 2026. My base case for the rest of the year, which Chris Roth agrees with, is as follows:

1. The upward trend is our friend.
2. Wall Street clearly wants this market to continue upward.
3. The AI trade will continue to lead.
4. Pullbacks are buyable.
5. If one sector gets too far ahead, it will be sold, but money will rotate to other equity sectors.

We could add that money has been rotating out of bonds and into stocks. As the title of this letter says, “Stocks are performing, bonds aren’t”. Bond prices are taking a real hit. Here’s two charts that tell the bond market story so far in 2026. The first one is tracking the yield of the 10-year U.S. Treasury Note. You can see that it bottomed in March and had been steadily climbing ever since.

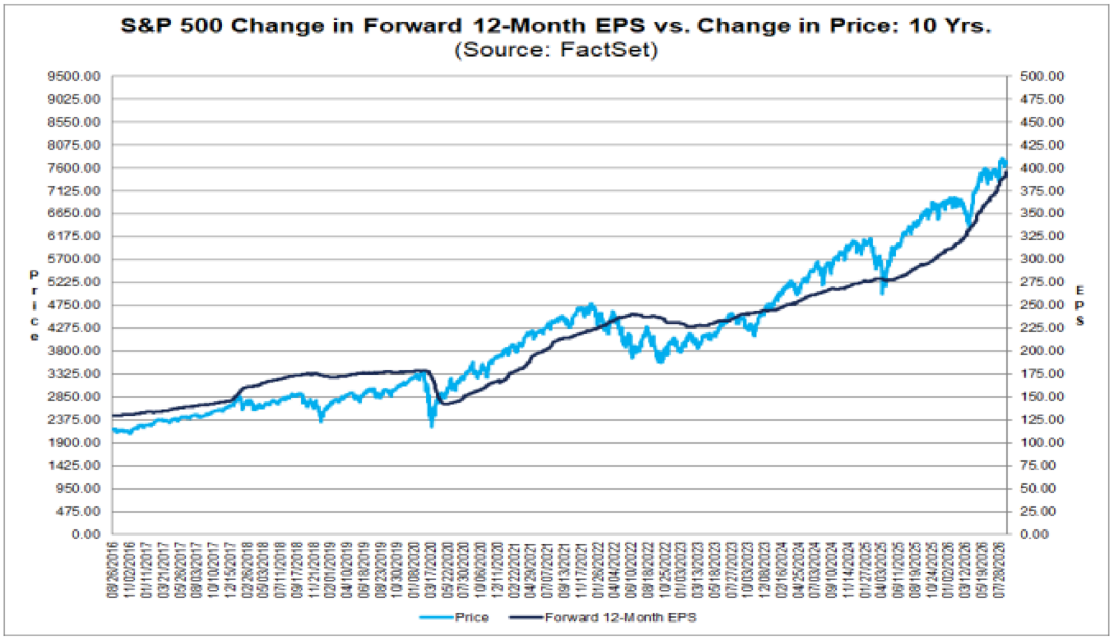
While yields have been rising, bond prices have been falling. The second chart, below, is showing you the price downtrend of the 10-Year U.S. Treasury Note. Theres’ a simple inverse relationship between yield and price. As yields on newly issued bonds rise, previously issued bond prices fall.

The “upshot” is that bonds have significantly underperformed in 2026. Here’s an excel spreadsheet that shows you the actual holdings of an account invested in our Core 60/40 strategy. The assets on lines 4 through 17 are stock positions. The assets on lines 20 through 27 are bond positions. It's easy to see that almost 100% of the gains in this account are in the stock positions.

1	Description	Quantity	Current value	Total gain/loss dollar	Total gain/loss percent	Percent of account	Cost basis total
2	HELD IN FCASH		$161,887.06			1.98%	
3							
4	GLOBAL X FDS ARTIFICIAL ETF	5125.26	$329,554.21	$166,010.80	101.50%	4.04%	$163,543.41
5	ISHARES CORE S&P 500 ETF	1373.064	$1,058,275.34	$441,731.36	71.64%	12.96%	$616,543.98
6	ISHARES CORE MSCI EMERGING MARKETS ETF	2030.372	$165,942.30	$66,689.29	67.19%	2.03%	$99,253.01
7	ISHARES U.S. EQUITY FACTOR ROTATION ACTIVE ETF	7045.791	$489,471.10	$195,759.52	66.65%	5.99%	$293,711.58
8	ISHARES GOLD TR ISHARES NEW ISIN	1004	$84,044.84	$33,270.35	65.52%	1.03%	$50,774.49
9	CAPITAL GROUP GROWTH ETF SHS CREAT UNIT	15672.519	$734,727.69	$278,113.60	60.90%	9.00%	$456,614.09
10	CAPITAL GROUP INTL FOCUS EQTY SHS CREATION UNI	2343.575	$81,743.89	$28,761.26	54.28%	1.00%	$52,982.63
11	ISHARES TR MSCI USA MMENTM	782.165	$234,931.07	$73,039.07	45.11%	2.88%	$161,892.00
12	ISHARES S&P 500 VALUE ETF	2775.213	$656,421.13	$171,650.48	35.40%	8.04%	$484,770.65
13	ISHARES US THEMATIC ROTATION ACTIVE ETF	3712.884	$162,772.83	$35,680.81	28.07%	1.99%	$127,092.02
14	ISHARES LARGE CAP CORE ACTIVE ETF	3260.534	$160,353.06	$22,660.82	16.45%	1.96%	$137,692.24
15	BLACKROCK ETF TRUST ISHA IN CTRY ETF	17736.18	$657,302.83	$84,601.40	14.77%	8.05%	$572,701.43
16	BLACKROCK ETF TRUST ISHA SYST AL ETF	8499.668	$246,490.37	$6,459.78	2.69%	3.02%	$240,030.59
17	GLOBAL X FDS DEFENSE TECH ETF	3526.4	$230,908.67	($4,481.21)	-1.91%	2.83%	$235,389.88
18			**$5,292,939.33**	**$1,599,947.33**		**64.82%**	$3,692,992.00
19							
20	ISHARES TRUST CORE UNIVERSAL USD BOND ETF	23512.612	$1,068,648.21	$30,364.50	2.92%	13.09%	$1,038,283.71
21	ISHARES TR MBS ETF	4409.044	$410,481.99	$3,752.74	0.92%	5.03%	$406,729.25
22	CAPITAL GRP FIXED INCM ETF TR US MULTI-SECTOR	6062.34	$163,865.05	$861.26	0.52%	2.01%	$163,003.79
23	ISHARES FLEXIBLE INCOME ACTIVE ETF	3172.186	$164,795.06	($562.70)	-0.35%	2.02%	$165,357.76
24	ISHARES TR US TREAS BD ETF	14650.809	$328,764.15	($6,742.46)	-2.01%	4.03%	$335,506.61
25	CAPITAL GRP FIXED INCM ETF TR CORE PLUS INCM	3735.394	$81,879.83	($1,987.64)	-2.37%	1.00%	$83,867.47
26	VANGUARD CHARLOTTE FDS TOTAL INTL BD ETF	5168.975	$245,784.76	($6,395.02)	-2.54%	3.01%	$252,179.78
27	ISHARES TR 10-20 YR TRS ETF	2544.366	$246,803.50	($7,296.61)	-2.88%	3.02%	$254,100.11
28			**$2,711,022.55**	**$11,994.07**		**33.21%**	$2,699,028.48

In 2026 all investment accounts holding stocks and bonds are having similar experiences. Stocks are up. Bonds are not. The good news is the stocks are up a lot! We've had many conversations with clients who are worried about stocks collapsing. We haven't had a single conversation with anyone who's afraid of bonds collapsing or underperforming. We have clients who have moved to cash because of their fear of the stock market. None have done so because of their fear of the bond market. Personally I'm more worried about the bond market. If yields get to lofty they will negatively impact stock prices, but I don't believe we are quite there yet. Eventually it will be a combination of how high yields get and how fast they rise that could end the stock bull market.

For now, Wall Street consensus estimates project earnings growth of approximately 25% to 29% over the next 12 months. (Source: FactSet Earnings Insight, August 28, 2026) Growth expectations continue to broaden into industrials, financials, and healthcare.



The forward 12-month Price to Earnings (P/E) ratio for the S&P 500 sits at 19.6, modestly below its 5-year benchmark of 19.9, and slightly above its long-term historical benchmark of 19.00. (Source: FactSet) For all the worrying many of us have done over the past year, it's impossible to refute how strong earnings have been. If that earnings growth continues apace current year-end price targets seem reasonable, so long as the upward trend of interest rates doesn't accelerate.

All the best,

Paul

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