Monthly Market Update

October 2026

Highlights:

- September brought negative returns across stocks and bonds, as rising rates pushed the Bloomberg U.S. Aggregate down 2.6% while the S&P 500 slipped 0.3%.
- AI-related technology gains continued despite broader weakness, as massive data-center investments and interconnected funding raise questions about the sustainability of current spending.
- The 10-year Treasury yield climbed sharply to 5.3%, reflecting persistent inflation, elevated oil prices, rising national debt, and expectations for further Fed tightening.
- Higher rates are pressuring housing and smaller companies, while elevated bond yields may offer investors more attractive income and greater portfolio stability.

This past month, interest rates spiked alongside a broad stock market correction, producing negative returns for stock and bond investors. The S&P 500 Index declined -0.3% while sharply rising interest rates sent the Bloomberg U.S. Aggregate Index down -2.6%. Positive returns from a handful of mega-cap names masked wider declines. The equal-weighted S&P 500 dipped -4.8% for the month, and nine of the eleven S&P sectors fell far more than the Index, with only Technology and Communication Services beating the trend with 4.5% and 4.3% gains.

The technology sector's strength is fundamentally an AI story which seems to be operating outside of the rest of the economy. The heated circularity continues unabated as hyperscalers feverishly build giant, expensive data centers, pushing up the cost of short-supply computer chips while these hyperscalers and chip makers pour billions into the AI developers who use that money to invest in cloud services and hardware from the same companies funding them. The potential risks of this cycle reinforce the need to assess the speculative side of these enterprises as part of investment oversight.

For once, the September drama was concentrated more in bonds than stocks. The yield on the benchmark 10-Year Treasury popped .50% reaching the highest level in 19 years at 5.3%. As yields rise, valuations of existing bonds dip. The September mood was set by the Federal Reserve's (Fed) quarter-point rate increase. Yields were pushed further upward by high oil prices, concerns over the rising national debt, and persistent inflation. There was no clearer indicator than diesel prices, which soared to a national average of more than $6.50 a gallon, pushing costs up across the economy. Fuel costs continue to be pressured by the loss of production and shipping caused by the war in Iran, exacerbated by Ukrainian attacks on Russian production facilities. Oil prices are set in a worldwide market, so they fluctuate regardless of North American energy independence.

Rising interest rates have some immediate and many secondary effects. One of the clearest is the impact on mortgage rates, which at month-end hit a national average for 30-year fixed of 7.3%. This is rough news for an already stagnant housing market. Other borrowing costs also rose, which is one reason smaller stocks were hit hard in September due to their heavier reliance on the credit markets. Rising rates in the U.S. generally push up the value of the dollar against other currencies, and that was the case in September. In terms of investment strategy, we are looking past recent bond returns and focusing on the yields now available. For those in higher tax brackets, municipal bonds appear particularly attractive. The futures market is predicting more Fed rate hikes ahead, which in turn bodes a slower economy and potential stock volatility. Higher-yielding bonds can be a welcome stabilizing force.

U.S. Equities (%)

	Sept	QTD	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	-4.1	-2.3	7.2	11.5	17.0	10.6	13.1
S&P 500	-0.3	2.3	12.7	15.7	22.9	13.8	15.3
Russell 1000	-0.6	1.8	12.3	15.0	22.5	13.0	15.0
Russell 1000 Value	-3.1	2.6	19.3	23.8	20.1	11.9	11.4
Russell 1000 Growth	2.2	0.9	6.3	7.5	24.3	13.7	18.2
Russell Midcap	-4.2	-3.0	11.8	12.0	17.2	8.0	11.2
Russell 2000	-5.3	-7.2	13.7	16.2	17.7	6.3	9.8

U.S. Equity Characteristics - S&P 500

	Sept	12/31/25
Price/Earnings Ratio (NTM)	19.0	22.2
Weighted Avg. Market Cap ($B)	1,677.5	1,430.6
Dividend Yield (%)	1.1	1.1

U.S. Equity Sectors - S&P 500 (%)

	Sept	QTD	YTD	Weight
Communication Services	4.3	3.6	4.5	10.0
Consumer Discretionary	-5.8	-5.1	-5.8	8.6
Consumer Staples	-3.3	-1.9	6.0	4.4
Energy	-2.7	17.2	40.3	3.4
Financials	-7.2	-0.1	-1.3	11.4
Health Care	-0.9	6.5	10.2	9.3
Industrials	-4.4	-9.7	8.5	8.1
Information Technology	4.5	7.2	28.4	39.7
Materials	-6.7	-2.8	8.8	1.7
Real Estate	-6.1	-5.6	5.3	1.7
Utilities	-5.9	-12.4	-5.7	1.9

International Equities (%)

	Sept	QTD	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	-1.1	1.6	13.0	16.8	21.7	11.6	12.4
ACWI ex USA	-2.4	0.5	14.2	20.0	20.5	9.6	9.2
MSCI EAFE	-3.1	0.8	10.3	15.7	18.4	9.3	9.1
Emerging Markets	-0.6	-0.4	23.4	29.2	24.1	8.9	9.1
China	-4.6	3.7	-11.9	-18.4	9.8	-2.1	3.4
Japan	1.5	6.0	22.7	26.6	21.4	9.8	9.6
Germany	-6.1	0.7	-0.4	2.2	19.1	7.6	7.4
United Kingdom	-4.0	1.9	8.2	15.8	18.9	12.5	8.6
India	-6.9	-5.6	-14.9	-10.9	2.8	1.5	7.2

Key Asset Prices

	Sept	12/31/25
EUR/USD	1.13	1.17
USD/CAD	1.42	1.37
USD/JPY	157.25	156.80
GBP/USD	1.33	1.34
Bitcoin ($)	83,553.9	87,508.8
Gold ($/oz)	4,157.0	4,324.0
Crude Oil (WTI) ($/bbl)	96.2	57.3

Fixed Income (%)

	Sept	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	-2.2	-3.0	-2.7	-1.9	3.2	-1.0	0.6
Municipal	-4.4	-6.3	-4.2	-2.7	2.9	-0.2	1.5
U.S. Aggregate Bond	-2.6	-3.5	-2.9	-1.8	4.1	-0.6	1.1
Investment Grade Corporate	-2.7	-3.8	-3.0	-2.2	4.9	-0.4	2.0
High Yield	-2.5	-1.8	0.1	1.4	8.0	3.6	5.0

U.S. Treasury Yields (%)

	Sept	12/31/25
3-Month	4.20	3.67
6-Month	4.33	3.59
2-Year	4.88	3.47
5-Year	5.09	3.73
10-Year	5.29	4.18
30-Year	5.64	4.84

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Dow Jones Industrial Average® (The Dow®): a price-weighted measure of 30 US blue-chip companies, covering all industries except transportation and utilities.

S&P 500® Index: large cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the US.

Russell 1000® Index: measures the performance of the 1,000 largest companies in the Russell 3000® Index.

Russell 1000® Growth Index: designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

Russell 1000® Value Index: designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

Russell 2000® Index: a small cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

Russell Midcap® Index: measures the performance of the mid cap segment of the US equity universe.

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MSCI ACWI ex USA Index: captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries.

MSCI EAFE (Europe, Australasia & Far East) Index: a free-float adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

China - MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

Government Bond - Bloomberg US Government Index measures the performance of US Treasury and Agency Indices, including Treasuries and US agency debentures.

Municipal - Bloomberg US Municipal Index covers the USD-denominated long-term tax-exempt bond market and has four main sectors: state and local general obligation, revenue, insured, and prerefunded bonds.

US Aggregate Bond - Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg US Credit Index measures the investment grade, USD-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying holdings and not the yield of the portfolio.

Federal funds rate: the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Yield Curve: a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) & flat.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

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