Ayco Quarterly Market Video | Q4 2026

This quarter's market environment was characterized by uncertainty around policy, rates, and geopolitics. Yet, equity markets continued to climb higher, driven by strong earnings and fundamentals.

I'm Mariam Kamshad and this is your quarterly market update. It has been an eventful quarter so let's jump right into the key themes we are focused on.

Starting with the bond market, the 30-year Treasury yield recently reached its highest level since the early 2000s. Yields moved higher as the market anticipated a more hawkish Fed due to elevated inflation and stronger growth expectations.

At the September meeting, the Fed hiked rates by 25 basis points. This was the first hike since 2023. Looking ahead, our Investment Strategy Group expects one additional rate hike in December, followed by the Fed staying on hold through 2027.

Term premium, which is the additional compensation investors demand for holding longer-dated bonds, has played a more limited role in the move higher in yields.

As a result of this rise in yields, investment-grade bond indices are down year to date as price depreciation has offset income. However, these elevated yields, coupled with our Investment Strategy Group's forecast of lower yields by year end, could make future returns more attractive. And despite their recent lackluster returns, investment-grade bonds still play an important risk-management role in a diversified portfolio as both a volatility dampener and a recession hedge.

Coming back to the Fed, investors have also been focused on the new leadership. Fed Chairman, Kevin Warsh, has set out his reform agenda by establishing five task forces focused on: 1) Communications, 2) the Balance Sheet, 3) Data Sources, 4) Productivity and Jobs and 5) the Inflation Framework. We believe that any resulting changes from these task forces will likely be gradual.

Warsh would like to reduce communication regarding the Fed's internal thinking. He believes this would force the market to provide its own independent view of the economy rather than be led by the Fed. Warsh said that he wants the market to "learn to play the ball, not the referee." However, there are investor concerns that less information could lengthen the monetary policy lags and introduce unnecessary volatility into financial conditions and the real economy.

Pivoting to equity markets, the S&P 500 posted year-over-year earnings growth of over 50% in the second quarter. These extraordinary results were boosted by non-operating gains of over $150 billion from two technology companies' equity investments. If these one-time gains are excluded, S&P 500 blended earnings growth was a strong 33%, well above the 23% consensus heading into Q2 reporting.

These strong earnings indicate that this year's rally has a foundation in fundamentals rather than multiple expansion. Over time, equity prices have historically followed the path of earnings. However, we remind our clients that occasional unexpected, and sometimes significant, market pullbacks will occur from time to time.

Looking ahead, midterm elections are front and center. We believe the midterms will likely result in divided government. Prediction markets point to the Democrats winning the House. The Senate outcome is likely to be quite close. Democrats need to pick up a net of four seats for control.

A divided government should be a market-friendly outcome. Analyzing market returns since 1928, our Investment Strategy Group found that in non-recessionary periods, equity returns were higher under divided governments. Since we only place a 20% probability of recession in the next twelve months, we believe a divided government could be supportive of the equity market.

Now, turning to risks. Geopolitical risk remains prominent on our list of concerns. The conflict in the Persian Gulf remains unresolved and continues to keep energy prices elevated. A shift back to a more intense conflict could send energy prices even higher. The late August visit of CIA chief John Ratcliffe to Moscow and the discovery of armed drones at the airport in eastern Germany, close to Ukrainian cargo planes, have raised concerns of potential Russian aggression towards NATO. Additionally, continued geopolitical tensions with China warrant investor vigilance.

We continue to monitor these risks and potential developments closely. While uncertainty remains, we continue to recommend clients stay invested at their long-term strategic asset allocation.

Thank you for your time today. We look forward to speaking with you again soon.