

Capitalwise

MARKET &
ECONOMIC REVIEW

October

2026

MESSAGE FROM OUR TEAM

Our Mission: Provide our clients with the highest level of service and advice to help build their family's security and prosperity.

We love what we do. We are passionate about the industry and proactive in learning new strategies to deliver the best investments and solutions available in the market.

This monthly update reflects our passion and commitment to learn, share, and operate with authenticity and transparency. The commentary, data, and visuals provided are not intended to be investment advice. Please seek the advice of an independent financial advisor for your personal financial decisions.



"Time is your friend; impulse is your enemy."

- **John Bogle**



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ECONOMIC UPDATES

ECONOMIC UPDATE: Market Cycle

AT A GLANCE · LATE-CYCLE EXPANSION

September was the month the cycle met its first real resistance. The Fed raised rates for the first time since 2023, the 10-year Treasury closed above its 2007 peak, and the market narrowed back to a handful of technology names while roughly three out of four stocks fell. The economy itself held up. Payrolls rebounded, jobless claims sit near multi-decade lows, and consumers kept spending even as sentiment slid further. Core inflation came in below forecasts, but energy and input costs are still pushing the other way. Growth is not the problem here, the price of money is. The scorecard below breaks down all seven factors.

WHERE WE ARE IN THE CYCLE



Late-Cycle Expansion

The Seven Dots

Each track runs Contraction to Overheating in that factor's own vocabulary. The dot is where it sits today.

Growth

EXPANDING



GDPNow slipped to 3.7% from 5.0% after a \$132.6 billion goods trade deficit. Second quarter GDP was revised up to 2.2% from 1.5%, and manufacturing expanded for a ninth straight month.

GDPNow Q3 +3.7% · Q2 GDP +2.2% · ISM Mfg 54.5 · ISM new orders 55.3

Inflation

ELEVATED



Headline CPI held at 3.4% with gasoline up 27% from a year ago. Core PCE printed 3.0% against 3.3% expected, but ISM prices paid jumped 6.8 points to 77.9.

CPI YoY 3.4% · Core CPI YoY 2.4% · Core PCE YoY 3.0% · ISM prices paid 77.9

Credit

EASY



High yield spreads widened to 312bp from 263bp, the highest since April, as issuers sold \$38.5 billion, the busiest month of the year. Banks left business lending standards unchanged.

HY OAS 312bp · IG OAS 84bp · HY long-run median ≈450bp · SLOOS C&I tightening 0%

Consumer

WEAKENING



Retail sales rose 1.2% in August after a 0.5% drop in July, with spending up 0.9% against income growth of 0.2%. Sentiment fell to 48.1 from 51.7 and expected inflation jumped to 4.6%.

Retail sales MoM +1.2% · Retail sales YoY +6.0% · Savings rate 4.1% · UMich sentiment 48.1

Leadership & Breadth

NARROWING



387 of 499 S&P 500 stocks fell and the median stock lost about 6%, yet the index finished near flat. Only 49% of stocks sit above their 200-day average, down from about 75% this summer.

Nasdaq +1.9% vs. Dow -4.1% · XLK +6.7% · 9 of 11 sectors lower · 83 oversold vs. 6 overbought

Labor Market

BALANCED



August payrolls rose 162k and July was revised from -23k to +21k. Unemployment held at 4.1%, initial claims fell to 197k, and continuing claims of 1.70M are the lowest since April 2023.

Payrolls, Aug +162k · Unemployment 4.1% · Participation 61.6% · ADP, Sep +90k

Monetary Policy

TIGHTENING



The Fed raised rates 25bp on a 12-0 vote, its first hike since July 2023. 16 of 18 officials expect at least one more this year, and markets put the odds of an October 28 hike near one in three.

Fed funds 3.75% to 4.00% · Sep vote 12-0 · 10Y 5.29%, 2Y 4.88% · 10Y-2Y +0.41%

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MARKET UPDATES

MARKET UPDATE: Equity

Equity Breakdown

2022	2023	2024	2025	YTD	Sept
XLE 64.4%	XLK 56.0%	XLC 34.7%	XLK 24.6%	XLE 40.3%	XLK 6.7%
XLU 1.4%	XLC 52.8%	XLF 30.5%	XLC 23.1%	XLK 36.5%	XLC 0.4%
XLP -0.8%	XLV 39.6%	XLV 26.5%	XLI 19.3%	SPY 12.7%	SPY 0.4%
XLV -2.1%	SPY 26.2%	SPY 24.9%	SPY 17.7%	XLV 10.1%	XLV -1.5%
XLI -5.6%	XLI 18.1%	XLU 23.3%	XLU 16.0%	XLB 8.8%	XLI -3.1%
XLF -10.6%	XLB 12.5%	XLK 21.6%	XLF 14.9%	XLI 8.5%	XLE -4.5%
XLB -12.3%	XLRE 12.4%	XLI 17.3%	XLV 14.5%	XLP 5.8%	XLV -4.8%
SPY -18.2%	XLF 12.0%	XLP 12.2%	XLB 9.9%	XLRE 3.8%	XLP -4.8%
XLRE -26.3%	XLV 2.1%	XLE 5.5%	XLE 7.9%	XLF -1.3%	XLB -6.0%
XLK -27.8%	XLE -0.6%	XLRE 5.1%	XLV 7.4%	XLC -4.9%	XLF -6.3%
XLV -36.4%	XLP -0.8%	XLV 2.5%	XLRE 2.6%	XLU -5.7%	XLRE -6.3%
XLC -37.7%	XLU -7.2%	XLB 0.1%	XLP 1.5%	XLV -8.3%	XLU -6.7%

September Winners

- Technology (XLK +6.7%) was the only sector with a real gain for the month, with agentic AI innovation turning what should've been a down month into a green one.
 - Intel (+34.3%) and AMD (+30%) capitalized on a shift in the AI trade from heavy GPU demand to CPU demand.
 - Meta (+26.8%) impressed investors and the world with their release of the Muse AI agent, single-handedly pulling the Comm. Services sector into the green.
- Moderna (+37.2%) continued its momentum after a historic win in a late-stage (Phase 3) trial for an mRNA cancer therapy, sending shares up more than 5x year to date.
- Less positive, but oil prices are a winner in September, climbing 14% and marking the sixth straight month with Brent crude trading above \$90 per barrel.

September Losers

- Utilities (-6.7%) and Real Estate (-6.3%) continued their decline in September as yields marched higher.
- Fair Isaac (-48.4%) and Equifax (-27.4%) plummeted in September after the FHFA ended a decades-long credit scoring monopoly by allowing VantageScore to participate in mortgage scoring and adding price pressure for the first time.
- Market breadth weakened, with 387 of the 499 companies in the S&P 500 falling in September, while the index clawed its way to a 0.4% positive month.

Summary

September was a rate shock, not a growth scare. On September 16, the Federal Reserve raised rates for the first time since 2023, in a unanimous vote, and most officials signaled at least one more hike this year. The bond market went further than the Fed did. The 10-year Treasury yield rose more than half a point, its largest monthly jump in four years, and closed above its 2007 peak. It kept climbing even after inflation came in cooler than expected, which says the move was less about prices and more about what investors now demand to lend to the government.

That explains the split between the indexes. The Nasdaq gained 1.9% while the Dow, with little exposure to the names that worked, fell 4.1%. Banks sold off despite higher rates, and consumer staples, a usual hiding place, offered no shelter when the competition was a 5% Treasury.

The good news is that the businesses themselves are fine. Third quarter earnings are expected to grow more than 20%, and the Fed raised its own growth forecast. Heading into October, we are watching whether the Fed hikes again on the 28th and whether earnings season can spread leadership beyond a handful of companies.

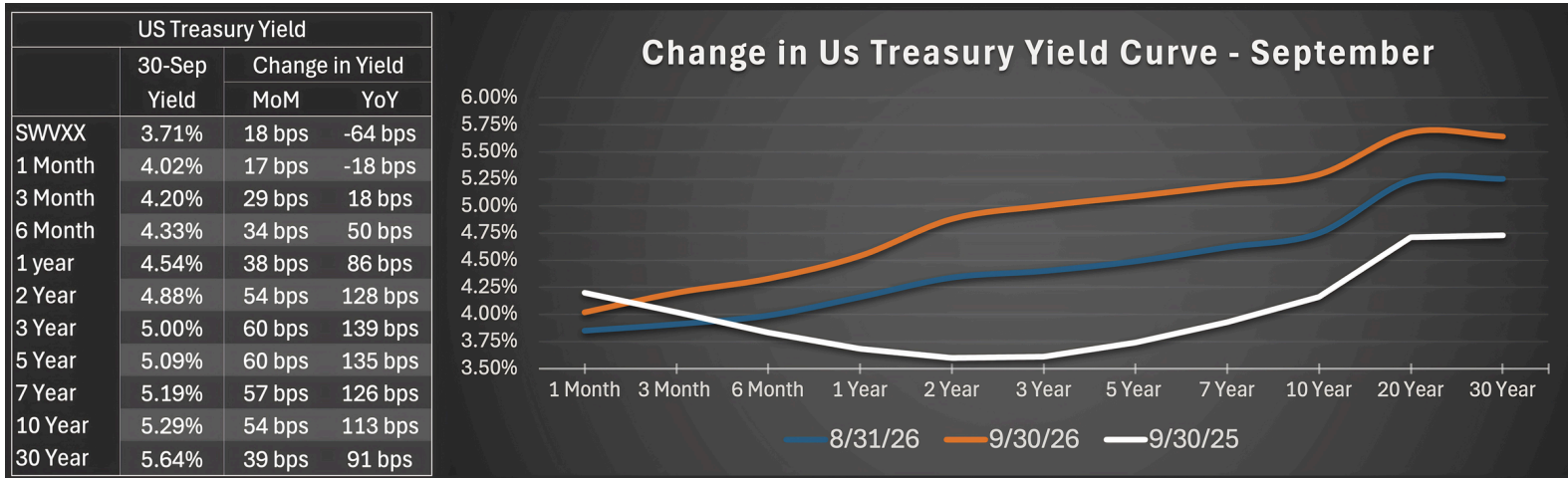
Cyclical	
XLB	Materials
XLV	Consumer Cyclical
XLF	Financials
XLRE	Real Estate
Defensive	
XLP	Consumer Staples
XLV	Health Care
XLU	Utilities
SPY	S&P 500
Sensitive	
XLC	Comm. Services
XLE	Energy
XLI	Industrials
XLK	Information Tech.



All graphs generated internally with data from YCharts, see footnotes for data disclosure.

MARKET UPDATE: Bonds

Fixed Income Breakdown



Fixed Income Total Return

September 2026				YTD					
Credit Quality	Duration			Credit Quality	Duration				
	Short	Interm.	Long		Short	Interm.	Long		
	High	-0.92%	-2.28%		-4.64%	High	-0.42%	-2.72%	-7.33%
	Med	-1.06%	-2.30%		-4.02%	Med	-0.20%	-2.78%	-6.28%
	Low	-1.67%	-2.36%		-2.38%	Low	0.77%	-0.02%	0.04%

Fixed Income Sector Total Returns

Sector	Sept	YTD
Treasury Bond	-2.0%	-2.8%
TIPS	-2.6%	-2.1%
Corporate Bond	-2.4%	-3.1%
Corporate High Yield	-2.3%	0.1%
Floating Rate	0.4%	3.2%
MBS	-3.0%	-3.2%
CMBS	-1.5%	-1.3%
CLO AAA	0.2%	3.4%
Municipal Bond	-4.0%	-4.2%
Emerging Market Bond	-2.7%	-1.5%

All graphs generated by FRED or generated internally with data from YCharts, see footnotes for data disclosure.

State of the Bond Market

Last month we wrote that fear was slowly entering the bond market. In September it arrived all at once. The 10-year Treasury yield rose 54 bps to 5.29%, its largest monthly jump since September 2022 and a close above the 2007 peak. Here is what drove it:

- **The Fed Hiked** → On September 16, the Fed raised rates for the first time since 2023, a unanimous 12-0 vote to 3.75% to 4.00%. Sixteen of 18 officials expect at least one more hike this year. Chair Warsh was blunt: "inflation is too high, and has been for too long."
- **Supply With Nowhere to Go** → The 5-year and 7-year Treasury auctions both priced above market levels (weak demand), high-yield issuers sold a record \$38.5 billion in 2026, and AI-related borrowing is near \$600 billion year to date. Treasury's scheduled buyback of up to \$6 billion on October 1 did little to change the tone.
- **A Global Move** → This was not just a U.S. story. French 10-year yields had their largest monthly rise in almost four years, and inflation re-accelerated in Germany (3.3%), France (3.4%), and Italy (4.1%).

Municipal Bonds fell 4.0%, the worst result on the page, enough to hand their year-to-date lead back to Treasuries. Yields on 10-year AAA munis topped 4% for the first time since 2008, and 30-year yields topped 5% for the first time since 2011 as record supply ran into fund outflows.

For buyers, tax-free yields near 4.7% on the index are the best starting point in more than 15 years. As credit fell across the board in September amid a struggling high-supply, low-demand dynamic, munis firmly established themselves as the biggest loser, with record-setting supply and a surprising month of outflows.

In summary, September was the month the bond market stopped worrying and started repricing. The Fed raised rates for the first time since 2023 and signaled more to come; the 10-year closed above its 2007 high at 5.29%, and the 30-year finished at 5.64%. The damage was broad: Treasuries -2.0%, corporates -2.4%, MBS -3.0%, munis -4.0%. What stands out is why.

Inflation came in below forecast and yields rose anyway, which tells us investors are demanding a higher price to lend, not bracing for runaway prices. That hurts today and helps tomorrow. A portfolio yielding north of 5% earns back a September-sized loss in about six months if rates hold, and has far more cushion against the next move than it did when yields were 1% to 2%. We walk through that math on the next page.

MARKET UPDATE: Bonds

Fixed Income Breakdown

+54 bps

10-YEAR YIELD, SEPTEMBER

Up 0.54 points (100 bps = 1%). Only 8 months since 2000 were this large.

+85 bps

10-YEAR YIELD, JULY TO SEPT.

Ties the largest quarterly rise in more than 30 years.

5.29%

10-YEAR YIELD ON SEPT. 30

The highest since May 2002, and above the 2007 peak of 5.26%.

2.93%

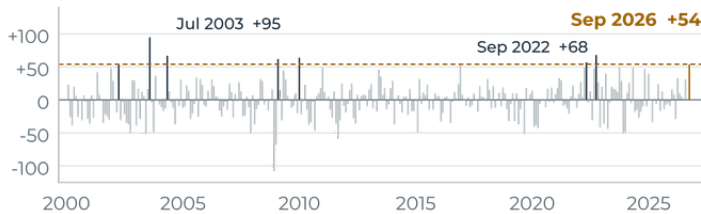
YIELD AFTER INFLATION

What 10-year investors earn above expected inflation. Highest since 2008.

1. How unusual was September?

How much the 10-year Treasury yield moved each month

Basis points, 2000 to September 2026. Dark bars: +54 bps or more.



2. What actually changed?

The two pieces of the 10-year yield in 2026

Yield after inflation (the "real" yield) and the inflation rate investors expect

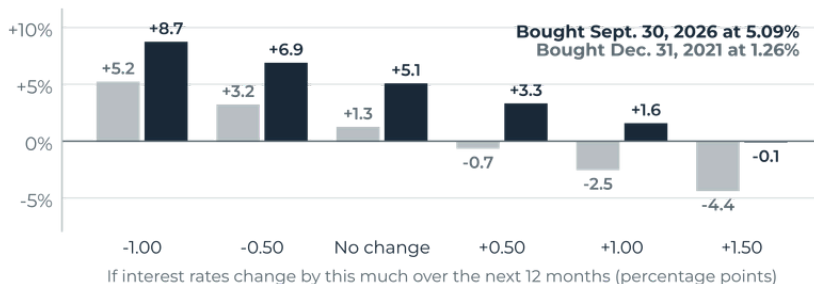


A bond's yield is made of two pieces: the inflation investors expect, plus what they want to earn on top of it. In September, expected inflation barely moved (up **5 bps**). Nearly all of the increase (**49 bps**) was investors asking for more return to lend their money. Borrowing got more expensive. Fear of runaway prices was not the cause.

4. What happens from here?

What a 5-year Treasury would return over the next 12 months

Example only. Interest earned plus the change in price, if rates move by the amount shown.



5. The bottom line

What happened. The Fed raised interest rates for the first time since 2023, and rates across the bond market jumped with it. The 10-year Treasury yield had its largest monthly rise in four years and ended September at its highest level since 2002.

What it was not. This was a change in the price of borrowing. It was not a wave of defaults. Bonds are still paying their interest, and investors' long-term inflation expectations barely moved.

The 10-year Treasury yield since 2000

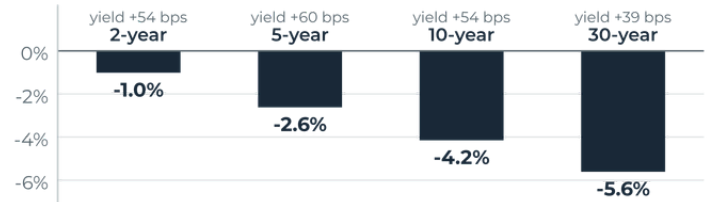
Daily, through September 30, 2026



3. Why did longer bonds fall more?

How much bond prices fell in September, by maturity

Example: a new Treasury bought Aug. 31, priced again Sept. 30. Before interest.



When new bonds pay more, older bonds that pay less are worth less. The longer you are locked into the old rate, the bigger the markdown. That sensitivity is called **duration**. A 10-year Treasury has a duration near 8, so a 0.54 point rise in yield meant a price drop of roughly 4%. No payments were missed, and a bond held to maturity still pays back in full.

- **Higher yields are a bigger cushion.** A 5-year Treasury bought today earns enough interest to stay positive over 12 months unless rates rise more than about **1.5 points**. At the end of 2021 that cushion was only about **0.3 points**, which is why 2022 was so painful.
- **Longer bonds have less cushion.** For a 10-year Treasury it is about **0.8 points**. Higher yields lower the odds of further losses. They do not rule them out.
- **Interest rebuilds what was lost.** If rates simply stay where they are, it takes about **3 months** of interest to make up September's price drop on a 2-year, **6** on a 5-year, **9** on a 10-year and **12** on a 30-year. Sooner if rates fall, later if they rise.

Why it hurt. When rates rise, bonds that were issued at lower rates lose value, and the longer the bond, the bigger the drop. Almost every part of the bond market fell together, from Treasuries (-2.0%) to municipal bonds (-4.0%).

What it means now. Bonds are paying the most interest in roughly 20 years. That income rebuilds losses over time and leaves far more room to absorb another rise in rates than investors had in 2021. It does not rule out further declines if rates keep climbing, especially in longer bonds.

What to watch in October: the September jobs report (Oct. 2) and inflation report (mid-month), demand at Treasury auctions, and the Fed's next meeting on Oct. 27 to 28.

Yield data: Federal Reserve Board (H.15) via FRED, through September 30, 2026. Calculations by Victory Financial. Price, scenario and recovery figures are hypothetical examples for a newly issued Treasury security, exclude fees and taxes, do not represent any actual portfolio, and are not forecasts. Sector returns are from the prior page. Past performance does not guarantee future results.

SUMMARY

Key Takeaways from our Centralized Investment Committee

01

Skyrocketing Yields

The 10-year Treasury rose 54 bps to 5.29%, its highest level since 2002.

02

Tech Carries the Market

387 of 499 S&P 500 stocks fell, but a 6.7% gain in technology stocks kept the index down 0.4%.

03

Fundamentals Remain Strong

Payrolls rebounded, second-quarter GDP was revised up to 2.2%, and third-quarter earnings are expected to grow nearly 30%.

SECONDS D

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Footnotes:

- (1) Credit to the Bureau of Economic Analysis at bea.gov for all data provided in this row
- (2) Credit to the Bureau of Labor Statistics at bls.gov for all data provided in this row
- (3) Credit to the St Louis Federal Reserve at fred.stlouisfed.org for all data in this row
- (4) All data used in charts and graphs on a publicly traded security was collected from public sources such as Google Finance – google.com/finance, Yahoo Finance – finance.yahoo.com, Morningstar.com, Bureau of Economic Analysis (1), Bureau of Labor Statistics (2).
- (5) The securities listed in this chart are securities used to create Victory Financial Group portfolio strategies. Securities in blue are equities. Securities in yellow and orange are fixed income.
- (6) Ycharts owns all of its data for the purpose of investment research not investment advice, please see further disclosure at ycharts.com/disclosure
- (7) Chart and Data credit to Trading Economics and their data compilation from National Statistics and the World Bank

Benchmarks: All portfolio performance returns are collected via composite analytics of actual client accounts provided by yCharts. Associated benchmarks are built on a combination of the Russell 3000, MSCI ACWI ex US, Bloomberg Aggregate Bond, and Bloomberg Muni Bond. The international to equity weight is tiered off an 80% domestic weight and a 20% international weight. Asset allocation starts with 100% equity and reduces by 20% with each subsequent risk model.

Investment advisory services offered through Victory Financial Group, LLC ("VFG"), an SEC Registered Investment Adviser.

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