



2026 Third Quarter Investment Report

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After the rousing returns of this year's second quarter, the third quarter was a bit sleepy, with the markets eking out incremental gains pretty much across the board. For most asset classes, it was a matter of holding onto the gains earned earlier in the year.

Despite the slowdown, most investors are experiencing high-moderate returns so far this year. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 1.62% in the third quarter, and is now showing a gain of 12.82% for the year so far. The comparable Russell 3000 index is up 12.72% since the beginning of January.

Looking at large cap stocks, the widely-quoted S&P 500 index of large company stocks gained 2.03% in the third quarter, posting an overall gain of 11.77% as of the end of September. The Russell 1000 large-cap index has delivered a 12.59% gain in the first nine months of the year.

The Russell Midcap Index, meanwhile, has gained 12.50% for the year so far.

As measured by the Russell 2000 Small-Cap Index, investors in smaller companies are holding onto a 14.11% gain. The technology-heavy Nasdaq Composite Index gained 1.27% in the third quarter, and is sitting on a 20.43% gain for the year.

Foreign market returns are following the same general trend. The broad-based EAFE index of companies in developed foreign economies gained just 0.01%, in dollar terms, in the third quarter, to hang onto a 7.76% gain for the first nine months of 2026. European stocks, in aggregate, lost 1.59% of their value in the three months ending September 30, but have managed to deliver a 4.24% gain for

the year, while the Far Eastern index gained 3.78% for the quarter, to post a 17.11% return for

investors so far. Emerging market stocks of less developed countries, as represented by the EAFE EM index, posted a 1.23% loss for the quarter, and a 2.11% gain for the year so far.

Real estate securities suffered the most during the recent quarter. The S&P U.S. REIT index lost 5.81% in the third quarter, but has still managed to deliver an 8.88% return for the first three quarters of the year. Meanwhile, the S&P GSCI index, which measures commodities returns, was lifted by higher oil prices, rising up 17.91% in the third quarter, to post a 33.16% return since January 1. Utility stocks fell 13.03% for the quarter, which has led to a negative 7.65% return for their investors since January 1.

In the bond markets, yields are up dramatically over the last quarter. Treasuries of 3-month duration have jumped from 3.75% yields to (currently) 4.11%. 6-month Treasuries have risen from 3.93% three months ago to 4.33% today. The same story holds for one-year (3.92% to 4.54%), 5-year (4.23% to 5.09%) and especially 10-year government bonds (4.48% to 5.28%). Treasuries with 30-year maturities are now generating 5.63% annual coupon rates. Five-year municipal bond rates, meanwhile, have jumped from 2.56%, in aggregate three months ago to 3.73% today, while 30-year munis are yielding 5.25%.

The robust gains of the second quarter are largely forgotten now as the markets have decided to take a 3-month pause. We can never know for sure what drives market psychology, but a measure of that psychology--the Conference Board's monthly survey of consumer confidence--has been trending lower since the middle of 2021, even as consumer spending has remained strong. Part of the strong spending trend can be accounted for by the cost of necessities going up, but there's also a worrisome trend of Americans being increasingly willing to take on credit card debt.

Meanwhile, second quarter GDP rose a respectable 2.2%, roughly the same pace as the first quarter, which means the economy still seems to be humming along. Of course, a gloom and doom analyst might point out that the huge, unprecedented spending on AI data centers and equipment has goosed up that number. And the

recent tax cuts, combined with the enormous (and growing) federal deficit means that the economy has been receiving a bit of a sugar fix.

Talk show pundits and Wall Street analysts will peer at this data through their crystal balls and tell us with confidence what nobody can know: what it all means for the future, especially the future of the markets. The third quarter pause in the markets doesn't tell us whether the next quarter, next year or next decade will be generous or stingy with returns. The market roller coaster didn't exactly dip, but it did level out a bit. The next movement up or down is still hidden around the corner.

Sources:

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