

“Coming Into Focus”

Market Update with Robert Paolucci, CFP®
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October 2026

Principle
WEALTH



Today's Agenda

1. The Set-Up
2. Markets
3. Economy & Policy
4. Market Anomalies
5. Everything Else

The Past 30 Days...

1. Treasury Yields Hit 24-Year High
2. Fed Hiked Rates 0.25%
3. September Effect: Tame
4. Stock Market @ All-Time Highs
5. PCE Inflation = Cooling Off!

The Current Set-Up

“Today’s conditions shape tomorrow’s markets”

1. Earnings and earnings outlook rising
2. Economic growth is strong
3. Valuations lower vs start of the year (P/E ratio)
4. Interest rates are 27% lower than 36 months ago
5. Inflation is down ~20% from 6 months ago
6. Liquidity is at an all-time high
7. Pro-business tax/spending bill
8. Household assets near all-time high
9. Household liabilities relative to assets near all-time low
10. Buybacks rising
11. Dividends rising
12. Rapid policy change
13. 10-year yield at multi-decade highs
14. Rising housing supply
15. Fed is hiking rates
16. Midterm election uncertainty
17. Wars in Iran and Ukraine
18. Oil prices high
19. Gas and diesel prices high

Source: Principle Wealth, as of 09/30/2026

The September Effect – More Bark Than Bite

S&P 500 Historical Data [ⓘ]

Time Frame

Monthly ▼

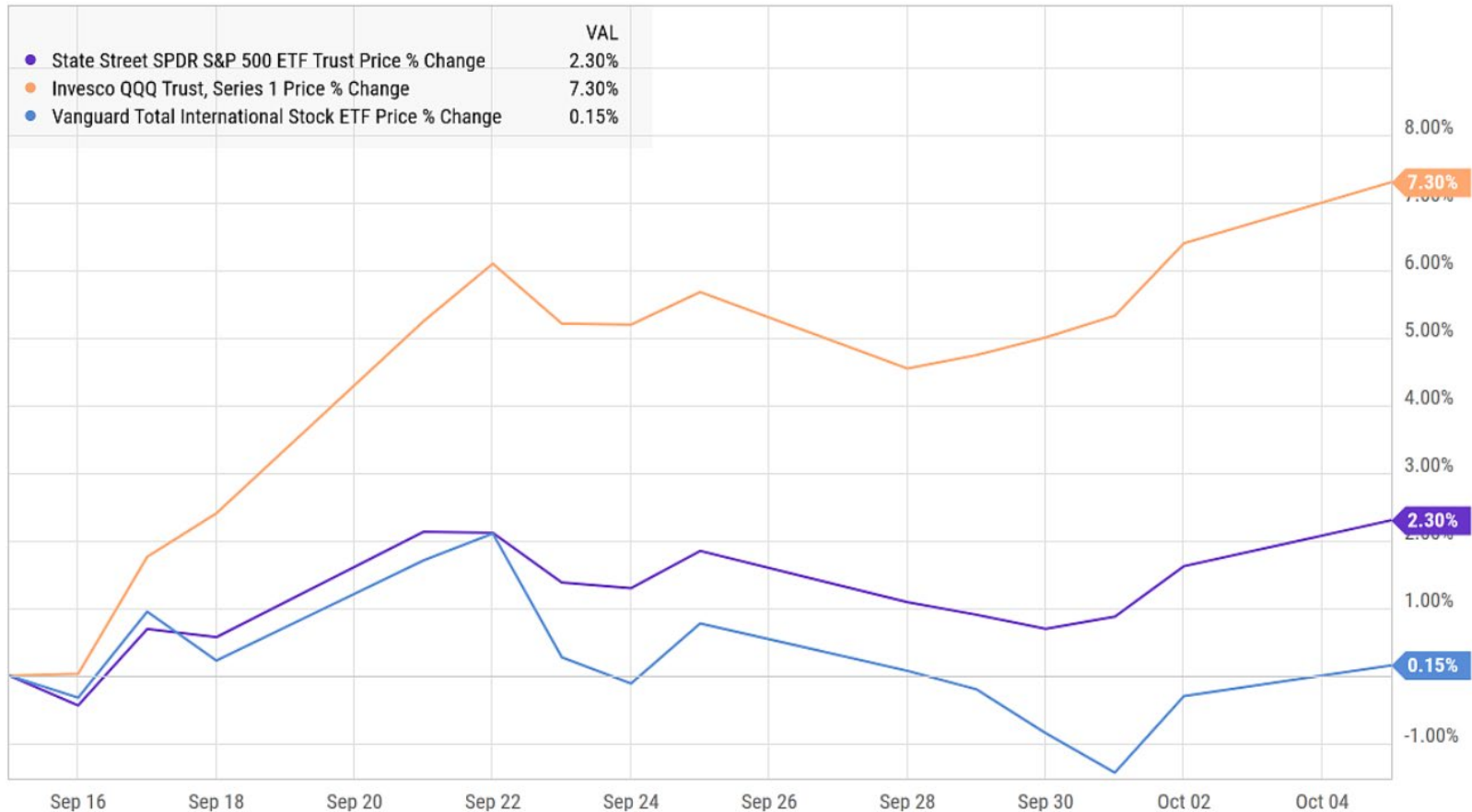
[Download](#)01/01/2026 - 09/30/2026 

Date ▼	Price ▼	Open ▼	High ▼	Low ▼	Vol. ▼	Change % ▼
Sep 01, 2026	7,651.54	7,635.47	7,782.19	7,507.77		-0.45%
Aug 01, 2026	7,686.14	7,504.78	7,816.70	7,504.78		+2.62%
Jul 01, 2026	7,489.72	7,478.84	7,581.50	7,313.92		-0.13%
Jun 01, 2026	7,499.36	7,582.29	7,620.90	7,237.85		-1.06%
May 01, 2026	7,580.06	7,234.54	7,599.38	7,174.12		+5.15%
Apr 01, 2026	7,209.01	6,556.56	7,219.83	6,474.94		+10.42%
Mar 01, 2026	6,528.52	6,824.36	6,901.01	6,316.91		-5.09%
Feb 01, 2026	6,878.88	6,916.64	6,993.48	6,775.50		-0.87%
Jan 01, 2026	6,939.03	6,878.11	7,002.28	6,789.05		+1.37%
Highest: 7,816.70	Lowest: 6,316.91	Difference: 1,499.79	Average: 7,273.58	Change %: 11.77		

Source: Yahoo Finance, as of 09/30/2026

Are Higher Yields Bad for Stocks? Not Necessarily...

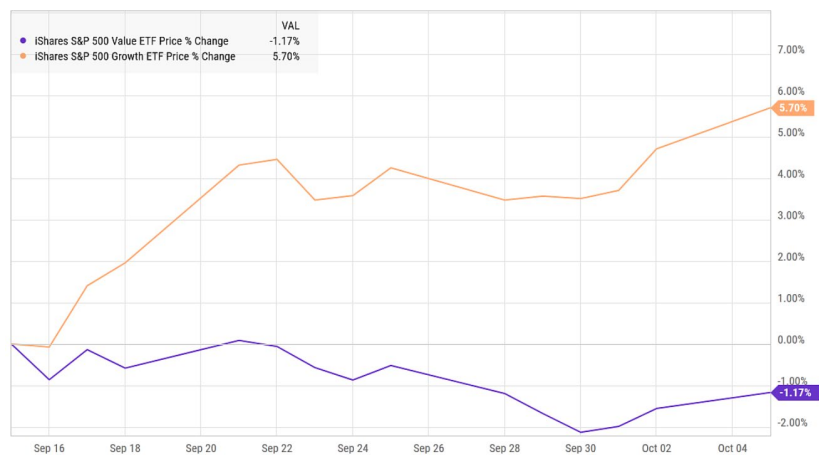
Index Returns Since 10-Year Treasury Yield First Closed Above 5%



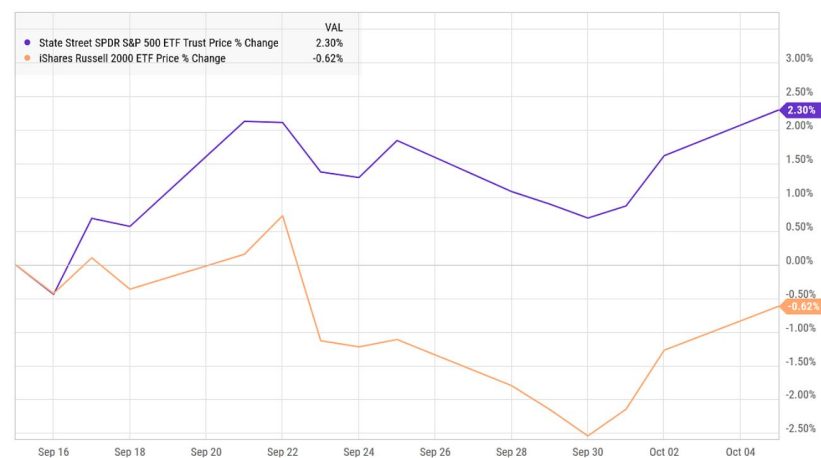
Source: YCharts, as of 10/04/2026

Depends On The Factors...

U.S. Growth vs. Value



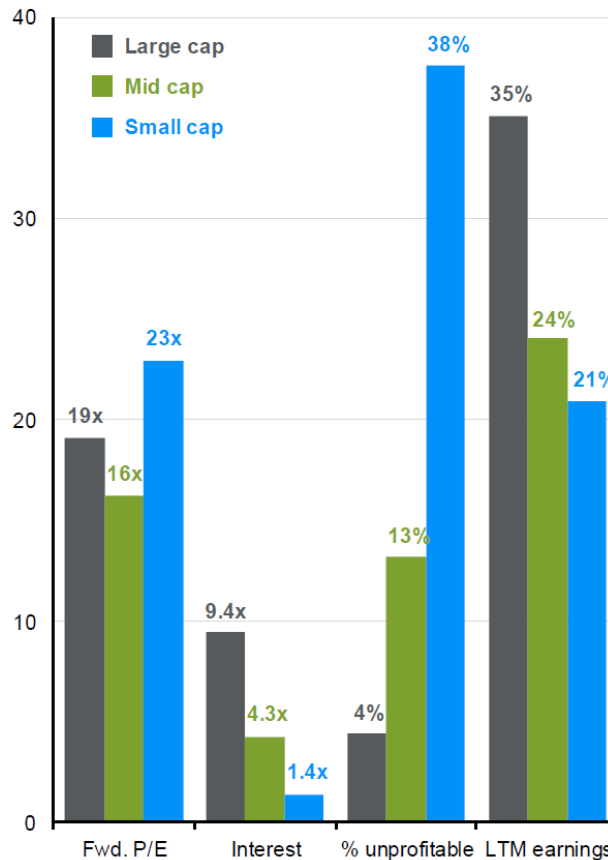
U.S. Large Cap vs. Small Cap



Source: YCharts, as of 10/04/2026

Who is Impacted Most by Higher Rates?

Valuations, interest coverage and earnings

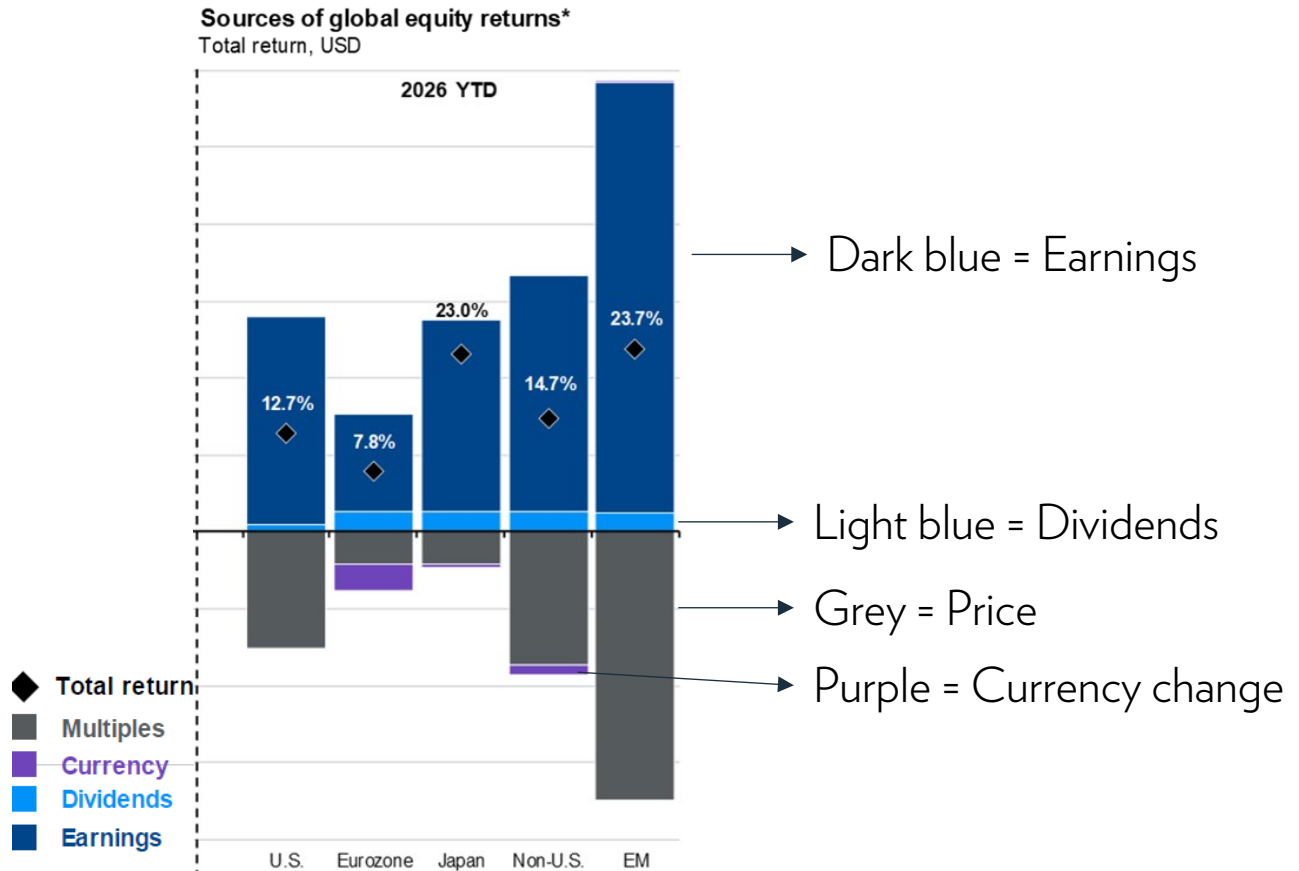


Companies that are:

1. High Beta
2. Low Profitability
3. Very Expensive
4. Highly Leveraged

Source: J.P. Morgan Asset Management, Guide to the Markets, Compustat, FactSet, Standard & Poor's, as of 09/30/2026

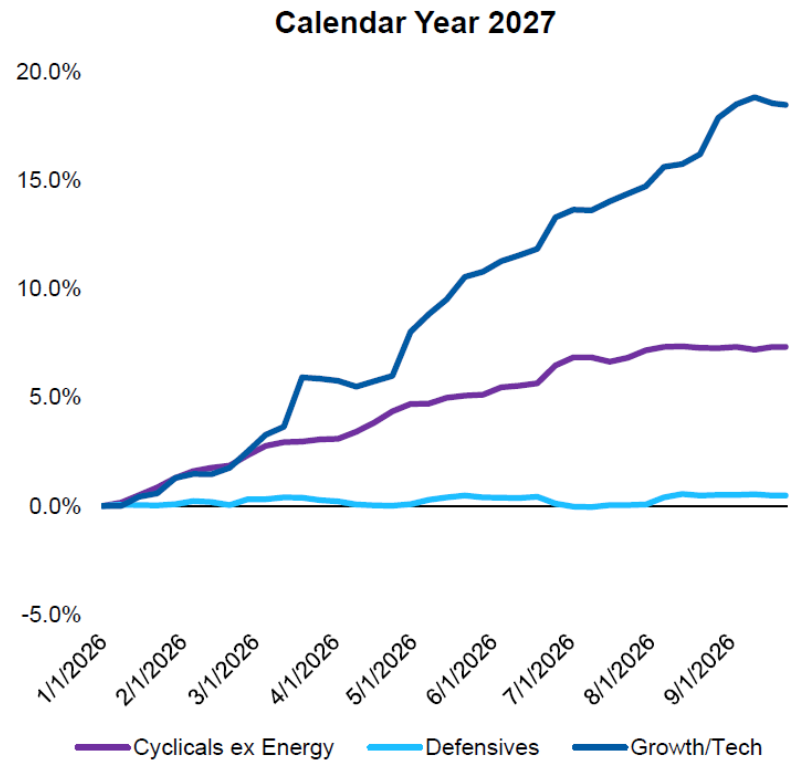
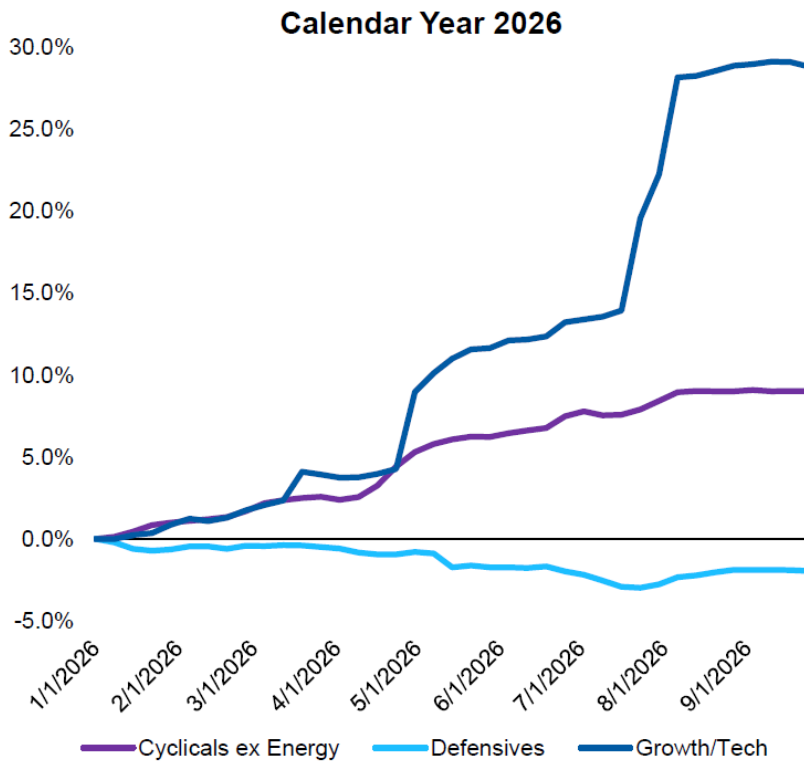
Components of Total Return: Higher Earnings = Cheaper Markets



Source: J.P. Morgan Asset Management, Guide to the Markets, S&P Global, MSCI, Bloomberg, as of 09/30/2026

Earnings and Earnings Expectations In The Driver's Seat

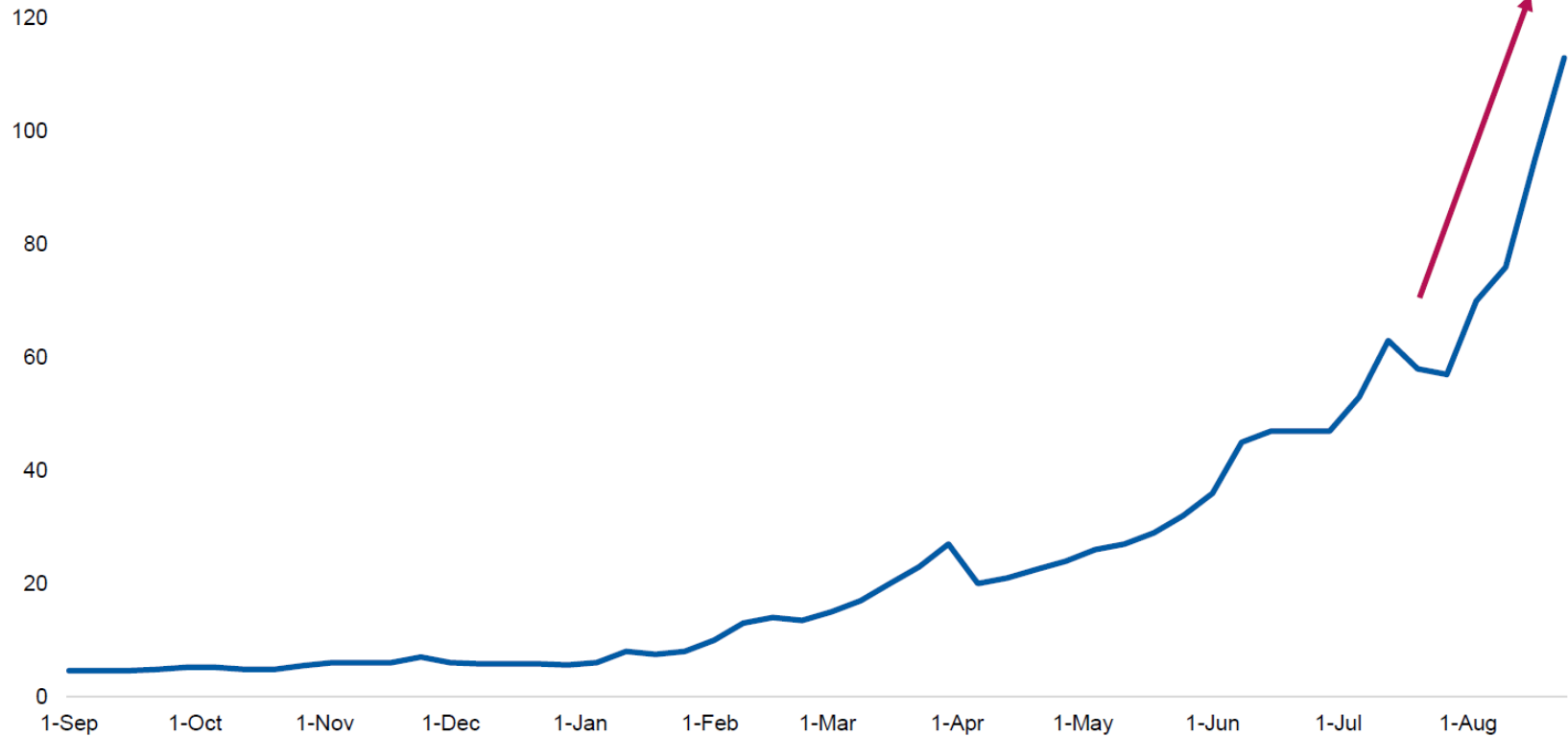
Forward Earnings Per Share



Source: Bloomberg, MSIM, as of 09/23/2026

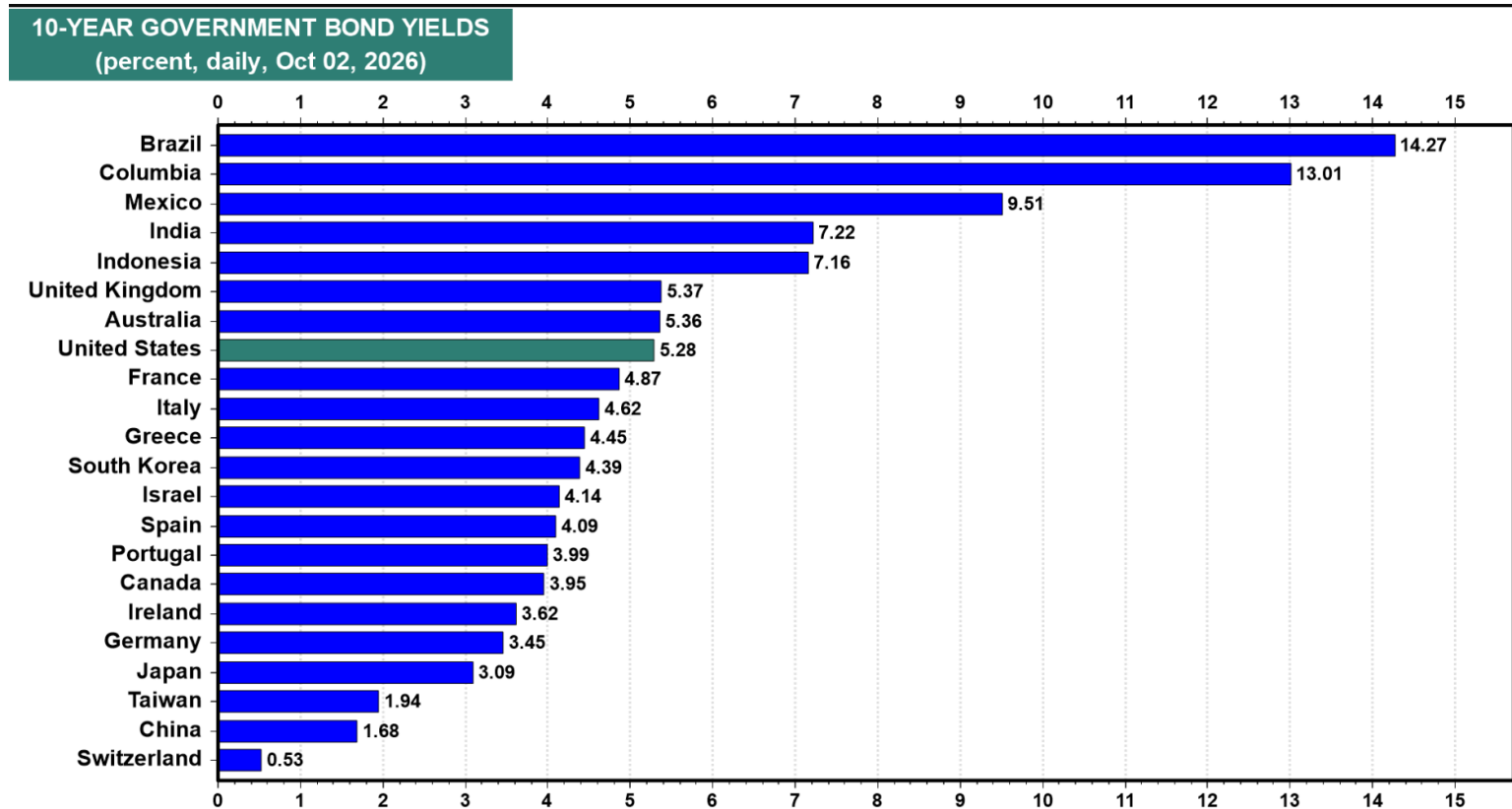
AI Adoption Booming!

Trillions of tokens processed per week on OpenRouter



Source: OpenRouter, MSIM, Eaton Vance, as of 09/01/2026

Bond Yields Are Higher Everywhere



Source: Yardeni Research, LSEG Datastream, as of 10/02/2026

Why Are Yields Rising? Pick Your Story!



Source: ChatGPT, as of 10/07/2026

Market Internals – Rotation Beneath The Surface

Major indexes and maximum drawdowns			
Index	Index YTD return	Index maximum drawdown from YTD high	Average member maximum drawdown from YTD high
S&P 500	13%	-9%	-26%
NASDAQ	17	-13	-45
Russell 2000	14	-11	-36
Dow Jones	6	-10	-22

Size, style, and sector rotation = healthy

% of S&P 500 members outperforming S&P 500 Index over the past:						
1m	2m	3m	4m	5m	6m	1y
18%	27%	36%	19%	14%	17%	9%

% of S&P 500 members outperforming S&P 500 Equal Weighted Index over the past:						
1m	2m	3m	4m	5m	6m	1y
38%	38%	38%	33%	33%	31%	21%

Source: Charles Schwab, Bloomberg, as of 10/02/2026

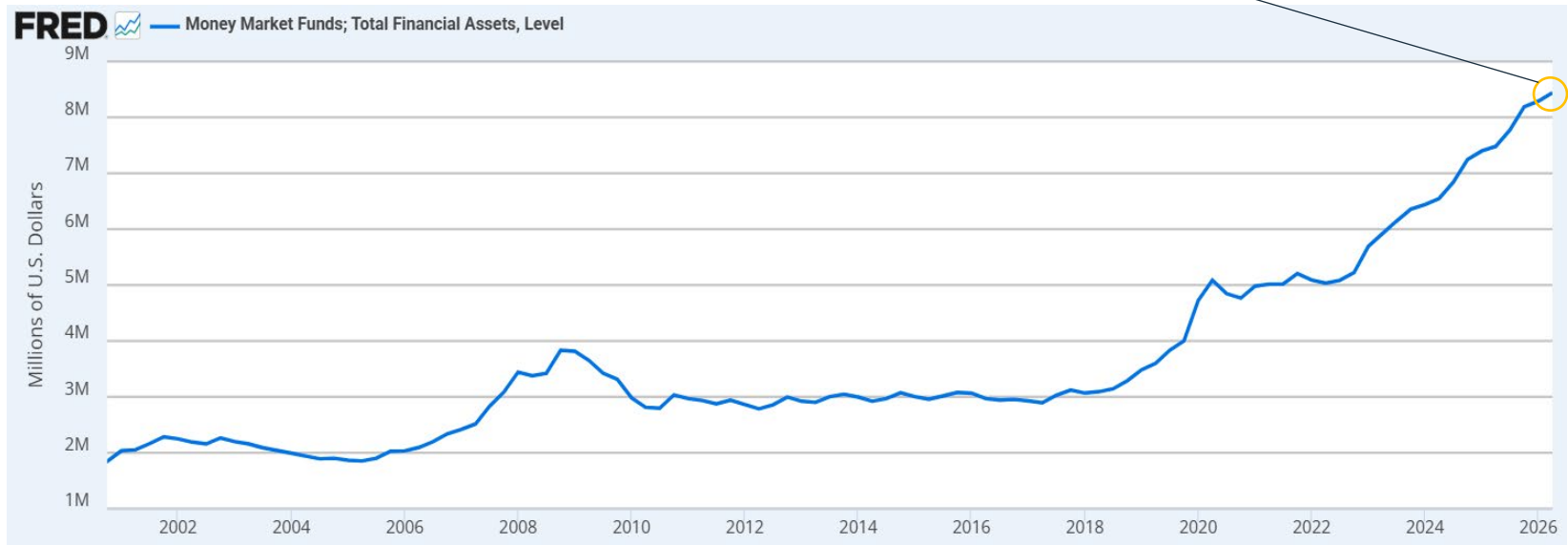
Prime Time – The Best Part Of The Cycle



Sources: Carson Investment Research, FactSet, Ryan Detrick, as of 09/30/2026

The Piggy Banks Are Stuffed – Cash Supply New All-Time High

\$8.4 trillion in money market funds!

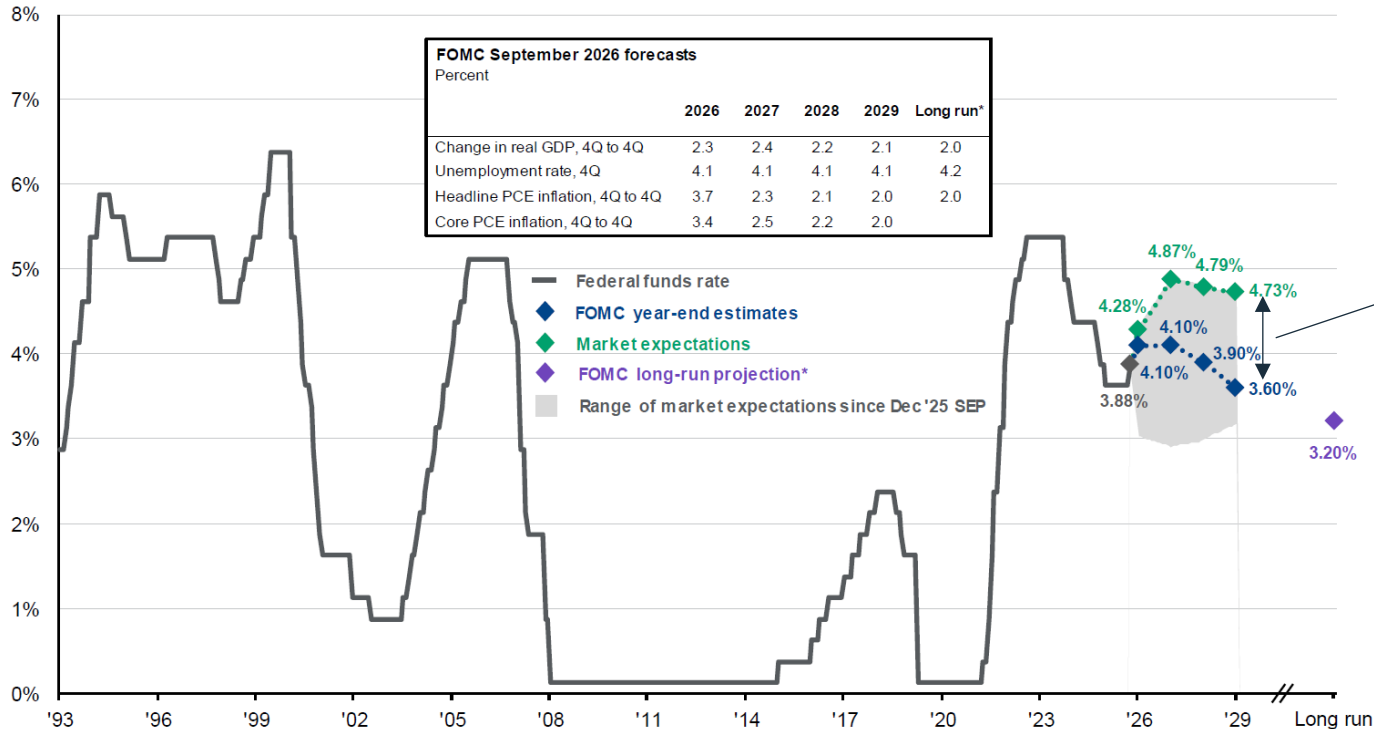


Sources: FRED, Board of Governors of the Federal Reserve System, as of 09/11/2026

Fed Policy – Pump and Dump? You Heard It Here!

Federal funds rate expectations

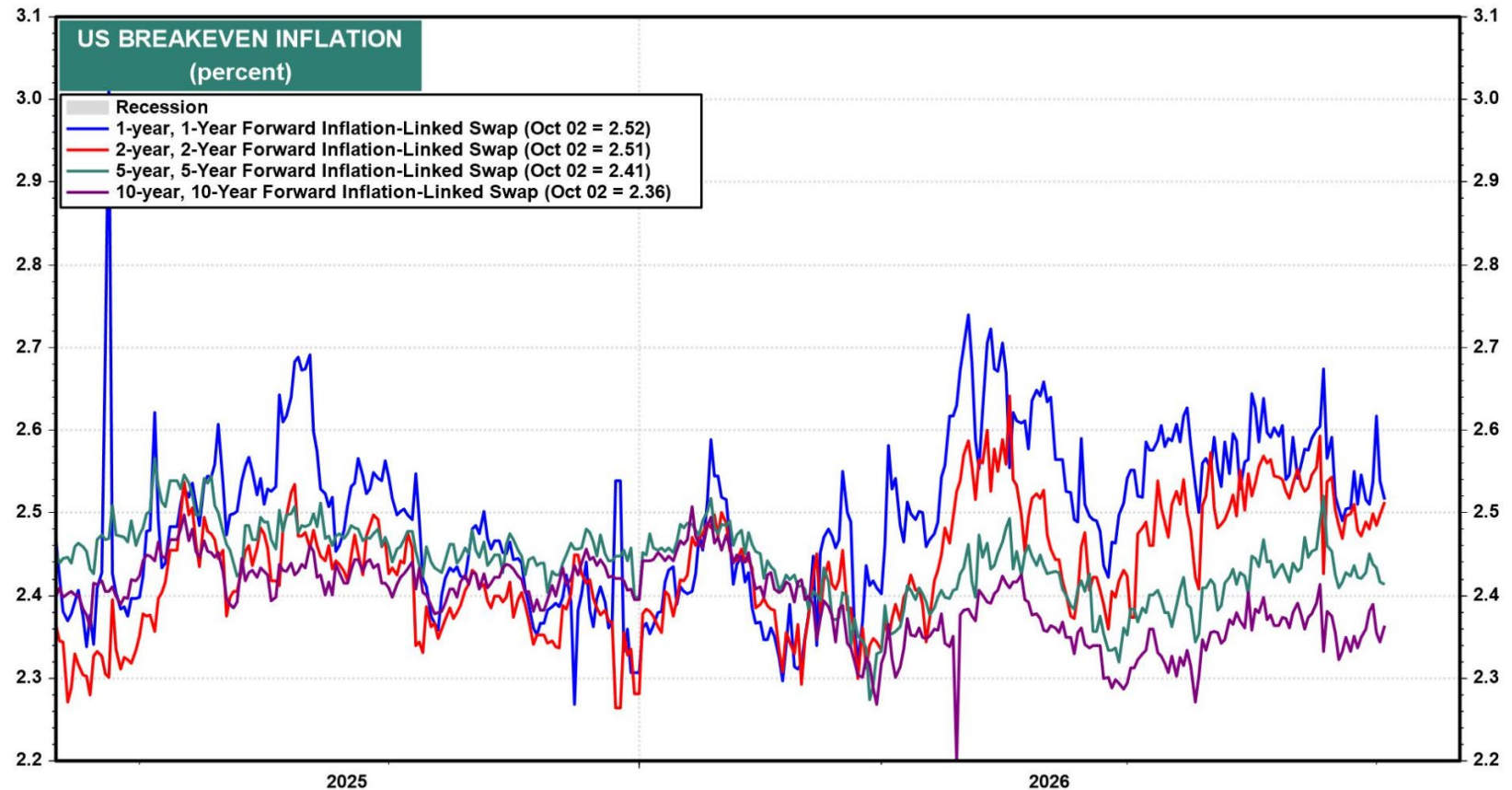
FOMC and market expectations for the federal funds rate



Why the gap?

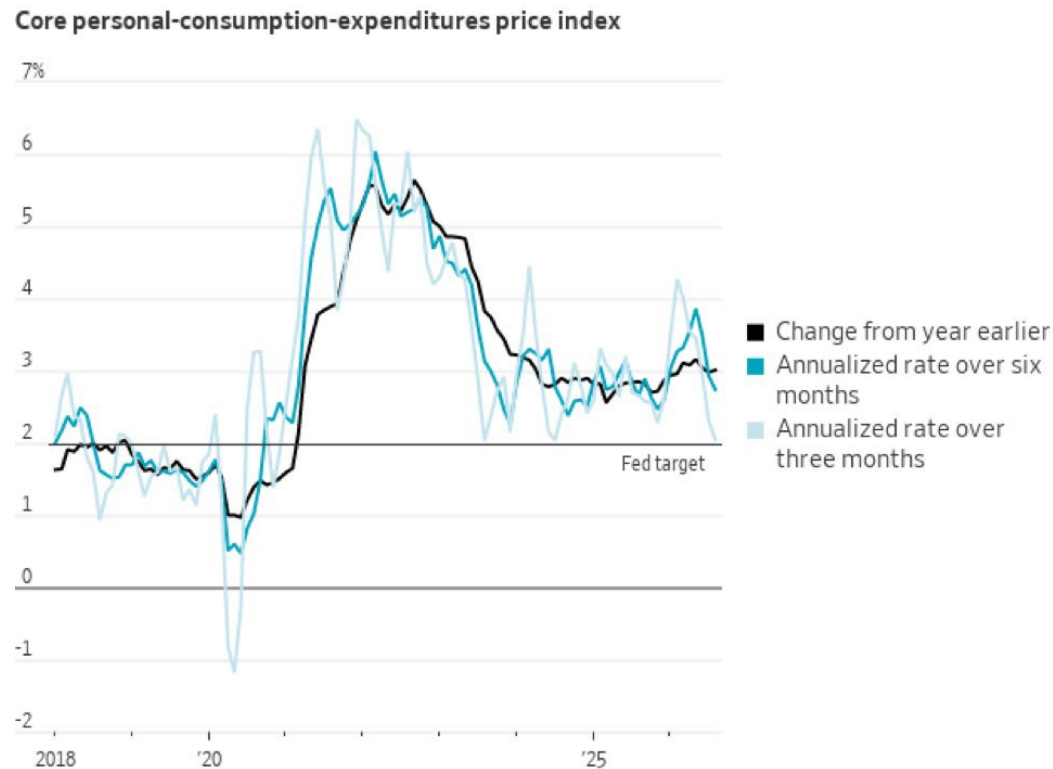
Source: J.P. Morgan Asset Management, Guide to the Markets, as of 10/05/2026

Inflation Expectations Are Under Control...



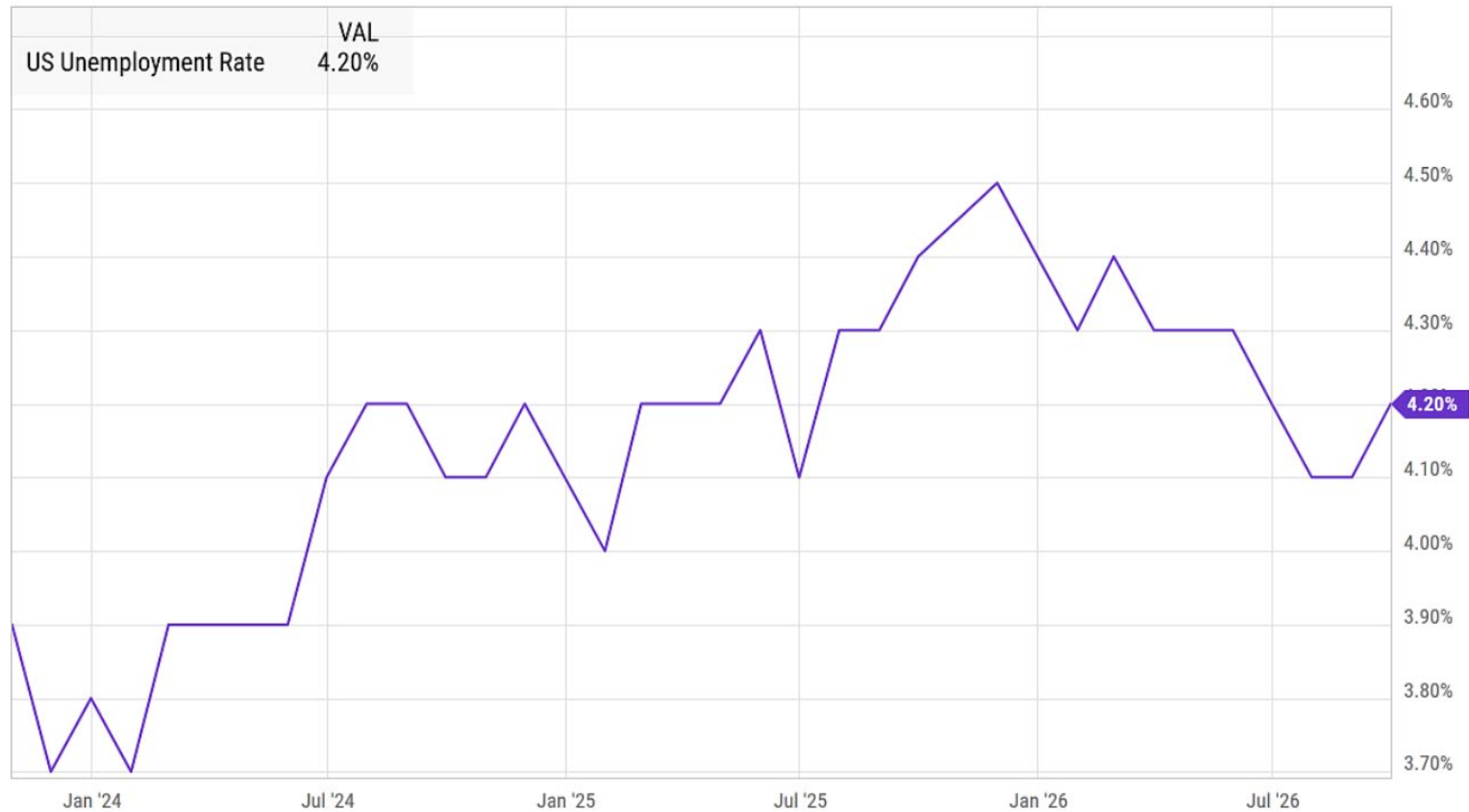
Source: Yardeni Research, LSEG Datastream, as of 10/02/2026

...Confirmed By PCE And Core PCE...



Source: Commerce Department, Wall Street Journal, as of 09/30/2026

...And Full Employment!



Source: YCharts, as of 09/30/2026

What's Hot and What's Not?

Top 10 Hottest Items in PCE

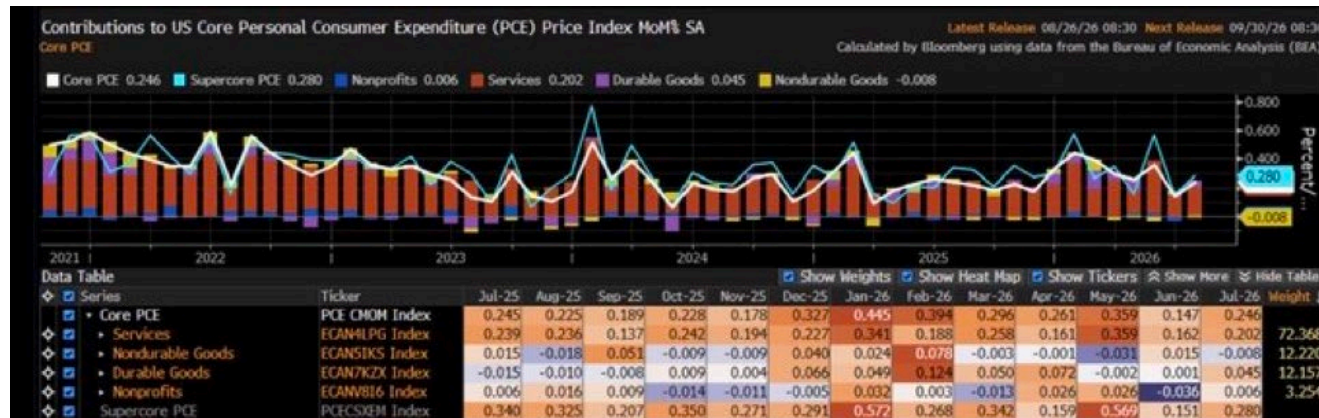
Category	Annualized 1-month % change	Weight
1 Fuel oil	218.9	0.11
2 Gasoline and other motor fuel	62.5	2.06
3 Personal computers/tablets and peripheral equipment	55.8	0.52
4 Newspapers and periodicals	52.1	0.47
5 Video discs, tapes, and permanent digital downloads	49.5	0.07
6 Air transportation	45.2	1.01
7 Eggs	40.7	0.08
8 Hotels and motels	37.5	0.74
9 Lubricants and fluids	36.1	0.06
10 Recreational books	31.6	0.16

Combined weight = 5.28%

Top 10 Coolest Items in PCE

Category	Annualized 1-month % change	Weight
1 Film and photographic supplies	-68.0	0.01
2 Other video equipment	-53.2	0.05
3 Accessories and parts	-27.4	0.36
4 Telephone and related communication equipment	-25.6	0.18
5 Calculators, typewriters, and other information processing equipment	-25.6	0.00
6 Games, toys, and hobbies	-24.2	0.70
7 Moving, storage, and freight services	-20.1	0.11
8 Computer software and accessories	-16.9	1.13
9 Flowers, seeds, and potted plants	-16.8	0.38
10 Jewelry	-16.1	0.42

Combined weight = 3.34%



Source: Bloomberg, Federal Reserve, as of 09/30/2026

What Matters Most?

Top 10 Weighted Items In PCE

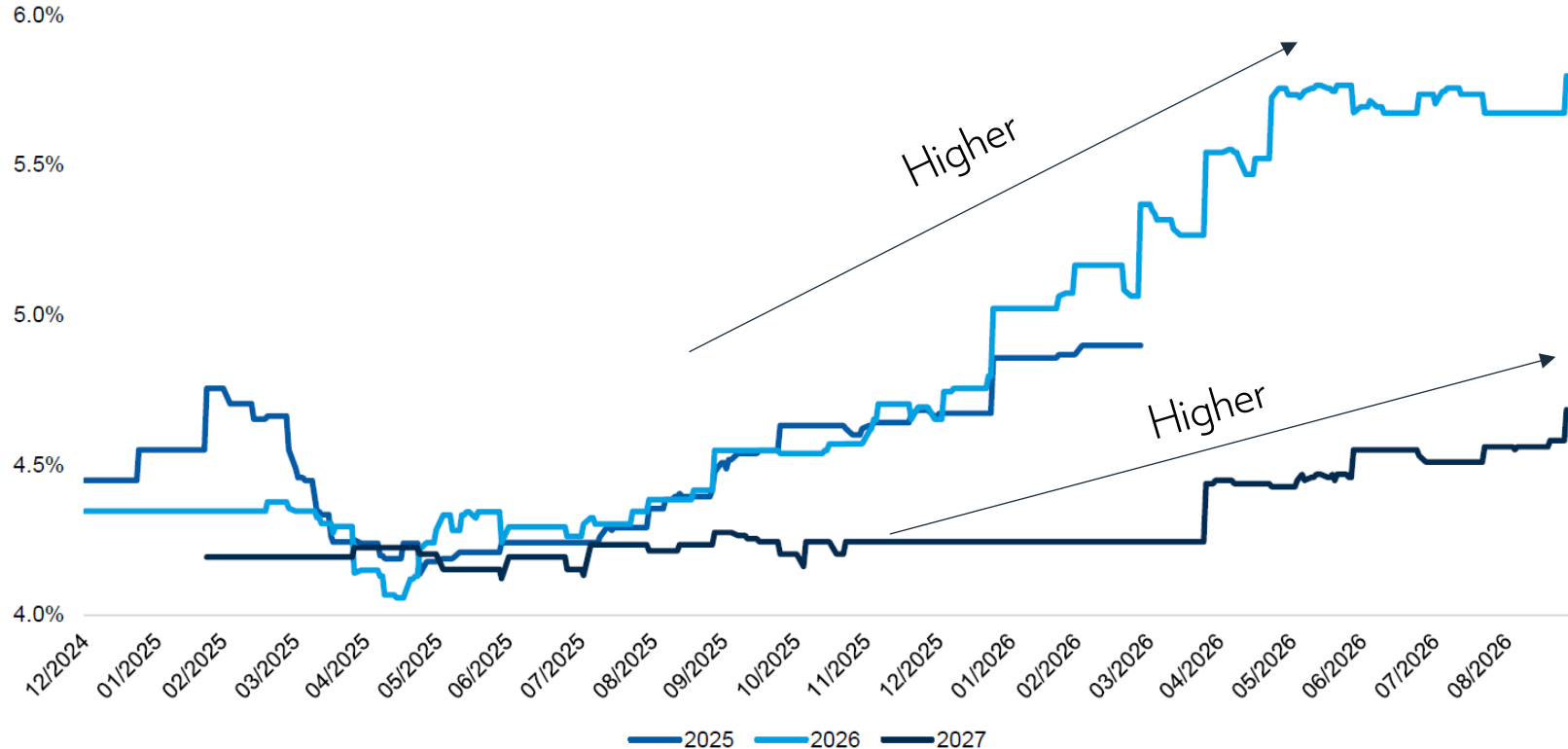
	Category	Annualized 1-month % change	Weight
1	Owner-occupied stationary homes	2.3	11.47
2	Nonprofit hospitals' services to households	6.1	5.37
3	Other purchased meals	2.6	5.05
4	Physician services	0.8	3.98
5	Tenant-occupied stationary homes and landlord durables	2.1	3.55
6	Paramedical services	0.6	3.23
7	Final consumption expenditures of nonprofit institutions serving households	-9.9	2.92
8	Prescription drugs	-0.4	2.75
9	Financial service charges, fees, and commissions	8.8	2.68
10	Gasoline and other motor fuel	62.5	2.06

Combined weight = 43.06%

Source: Federal Reserve, as of 09/30/2026

The Economy Is Growing

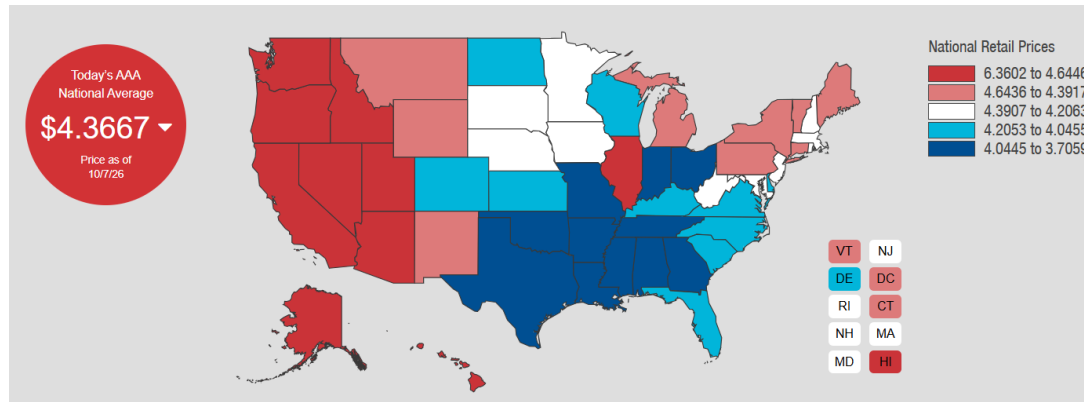
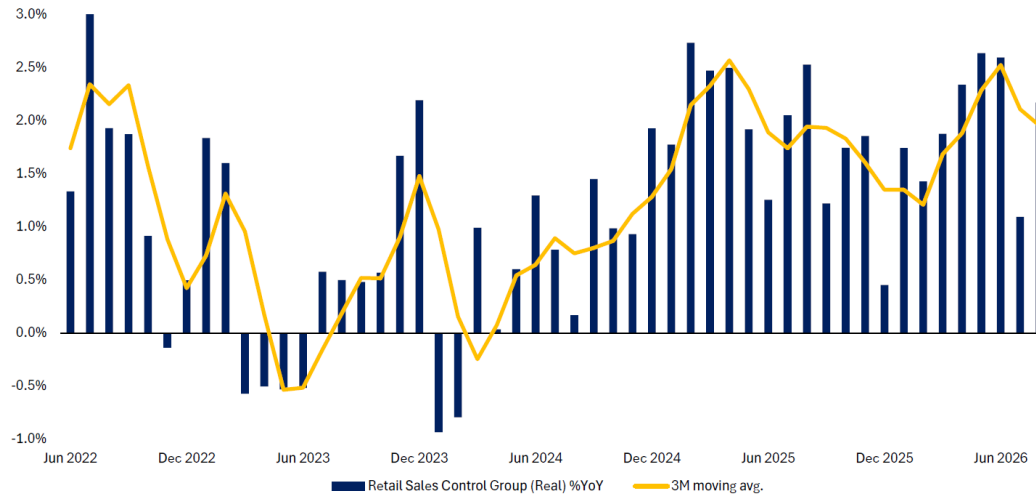
Consensus nominal GDP growth estimates, approximated using real GDP consensus and PCE price index consensus



Source: Bloomberg, Eaton Vance, as of 09/27/2026

Higher Gas Prices Are Not Slowing Spending...

Retail Sales Control Group (real, deflated by core PCE) %YoY, 3M moving average

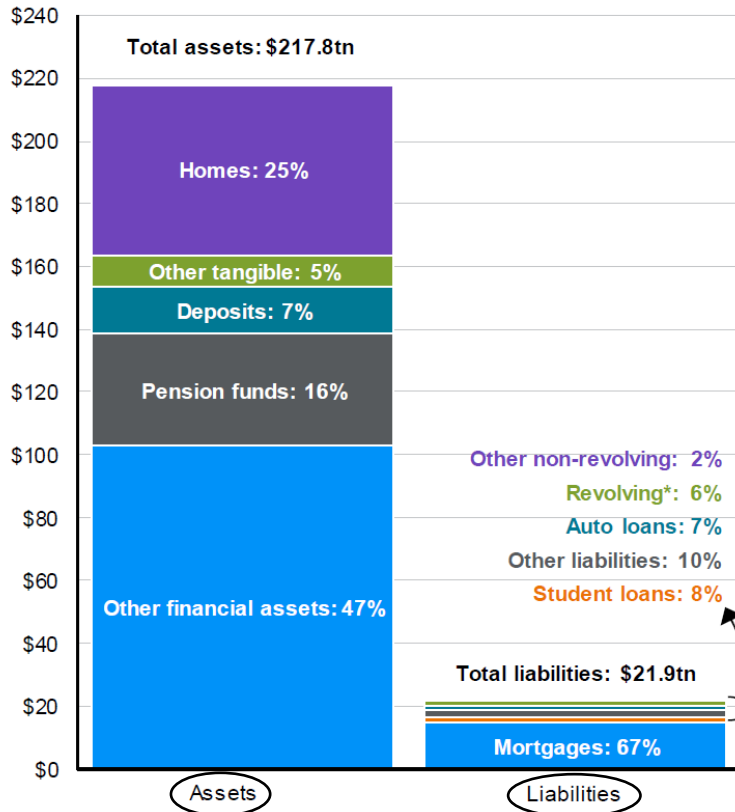


Source: Bloomberg, MSIM, Eaton Vance, AAA, as of 10/07/2026

Consumer Balance Sheets Look Strong

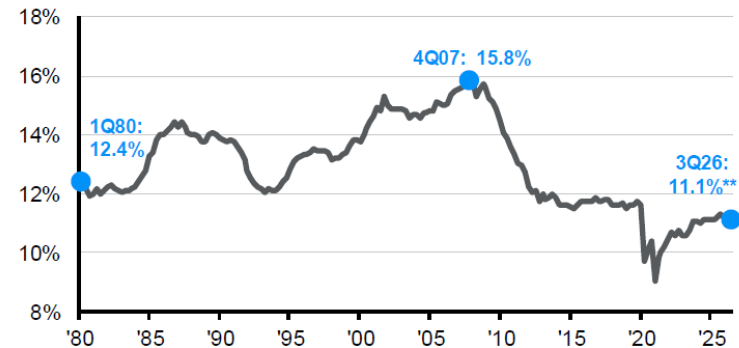
Consumer balance sheet

2Q26, USD trillions, not seasonally adjusted



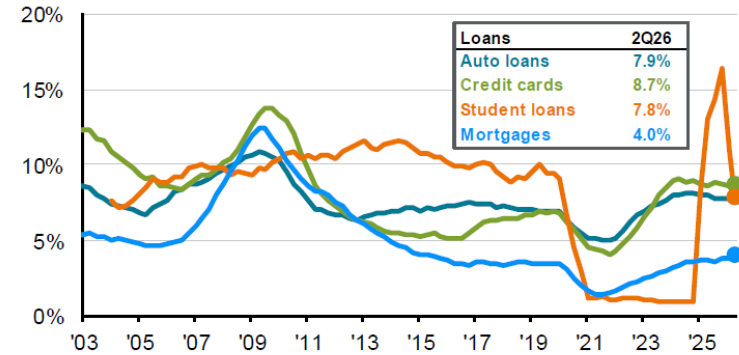
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flows into early delinquencies

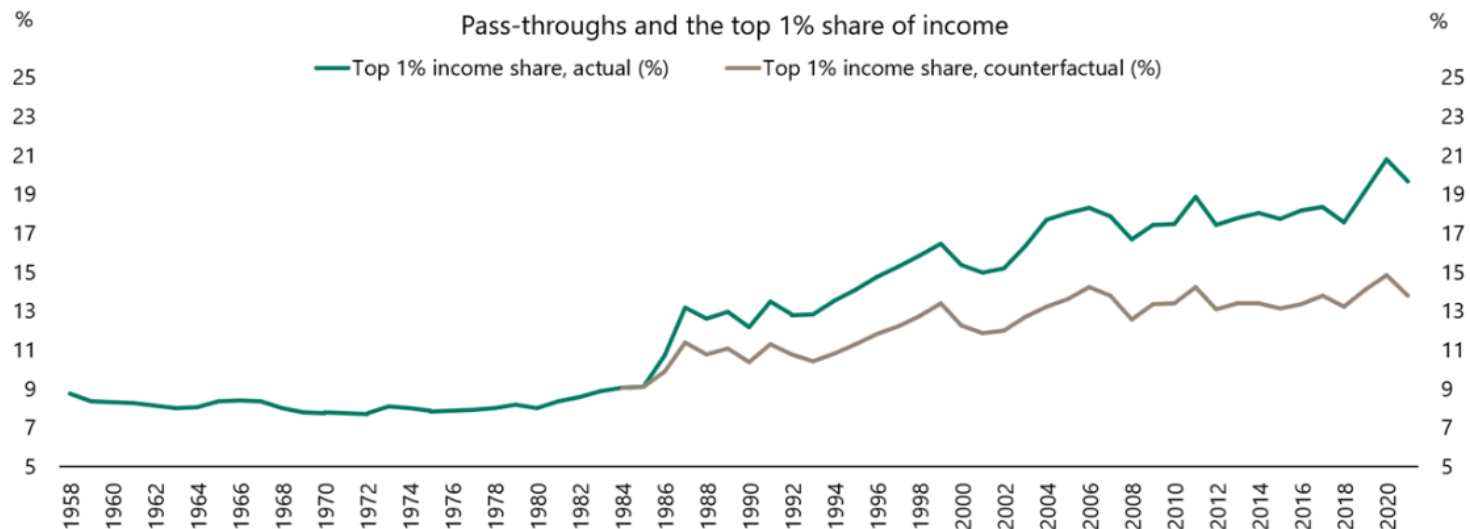
% of balance delinquent 30+ days



Source: BEA, FactSet, FRB, J.P. Morgan Asset Management, Guide to the Markets, as of 10/02/2026

Small Business Is The Backbone Of The Economy And Wealth Creation

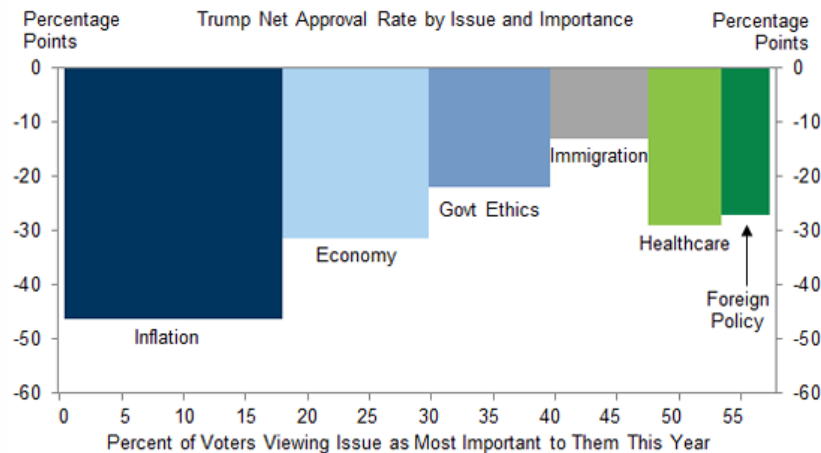
“The income that lifted America’s 1% did not come mainly from tech or Wall Street...More than half of the rise in the top 1% income share since 1985...flowed through pass-through businesses...”



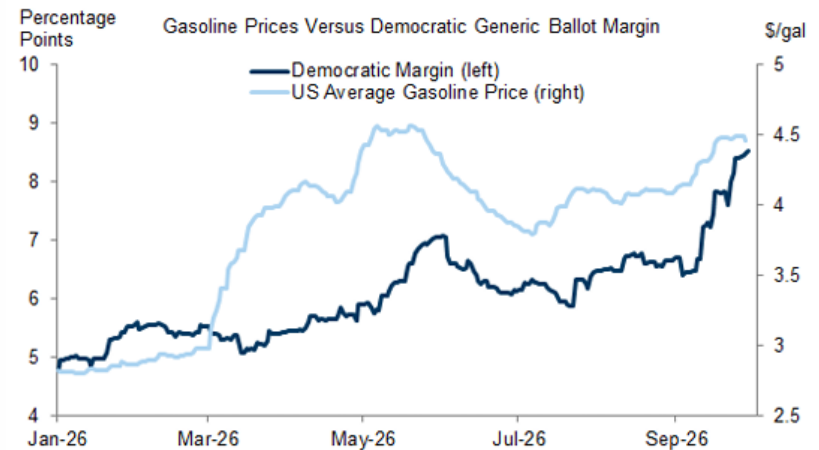
Source: The Everywhere Millionaire, Owen Zidar, Eric Zwick, Apollo Chief Economist, as of 09/30/2026

Midterm Elections – What Matters To Voters

Inflation and the Economy Are Key Issues to Voters; Trump's Net Approval on Both Is Deeply Negative



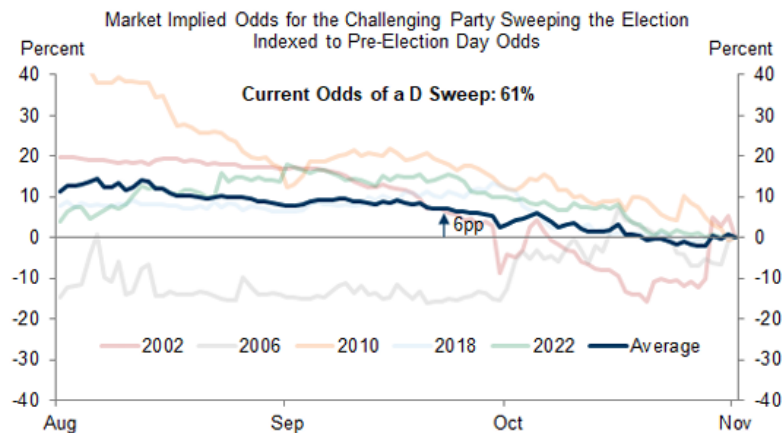
Gasoline Prices and the Democratic Generic Ballot Have Moved Together This Year



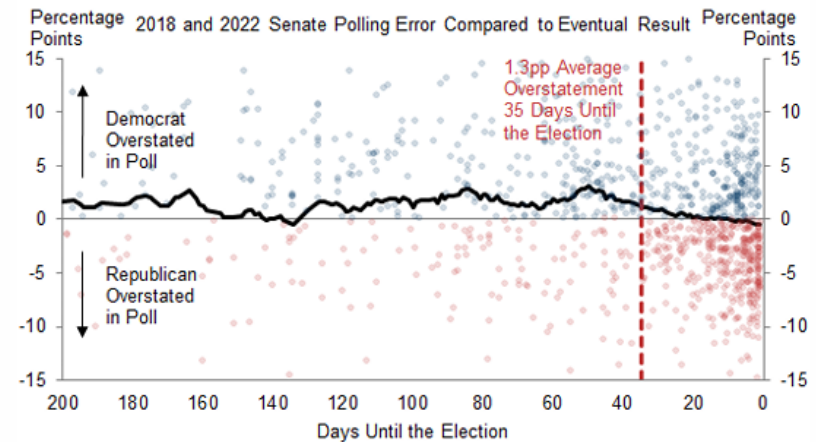
Source: Goldman Sachs Asset Management, as of 10/05/2026

Midterm Elections – Emotions Complicate Polls

Prediction Markets Have Tended to Overstate the Challenging Party's Sweep Odds at This Point



Polls Have Tended to Overstate Democratic Performance at This Point in the Midterm Cycle



Source: Goldman Sachs, PredictIt, Kalshi, Polymarket, as of 09/30/2026

Midterm Elections – What To Watch

States to Watch

GA | NC | MN | NH | ME | AK | MI | OH | TX | IA | NE | KS | FL

Seats to Watch

House Weights & Means Committee

Rep. Richie Neal (D-MA) expected to take over from Rep. Jason Smith (R-MO)

Senate Finance Chair

If Senate flips, Senator Ron Wyden (D-OR) could take chair from Mike Crapo (R-ID)

Policy Areas That Could be in Play

Higher Capital Gains and Ordinary Income Tax Rates

New Wealth Tax Proposals

Lower Gift & Estate Tax Exemptions

Elimination of Cost Basis Step-Up at Death

Higher Corporate Tax Rates

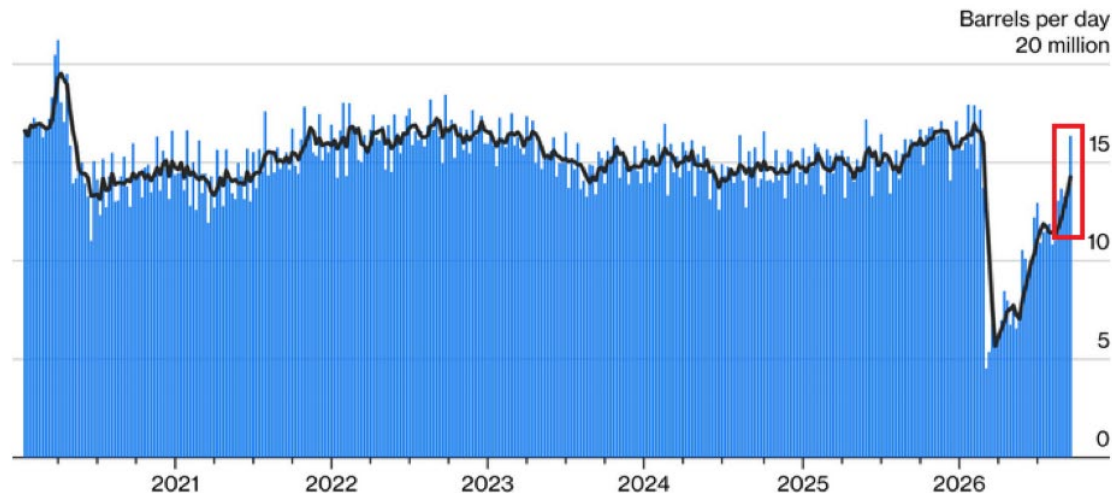
Source: Eaton Vance, as of 09/30/2026

Oil Inbound? Data Says...Yes

The Strait of Hormuz Isn't Closed for Oil

Persian Gulf crude oil exports have surged, reaching 80% of pre-war levels as the US military manages to partially re-open the Strait of Hormuz

— 4-week rolling average ■ Weekly

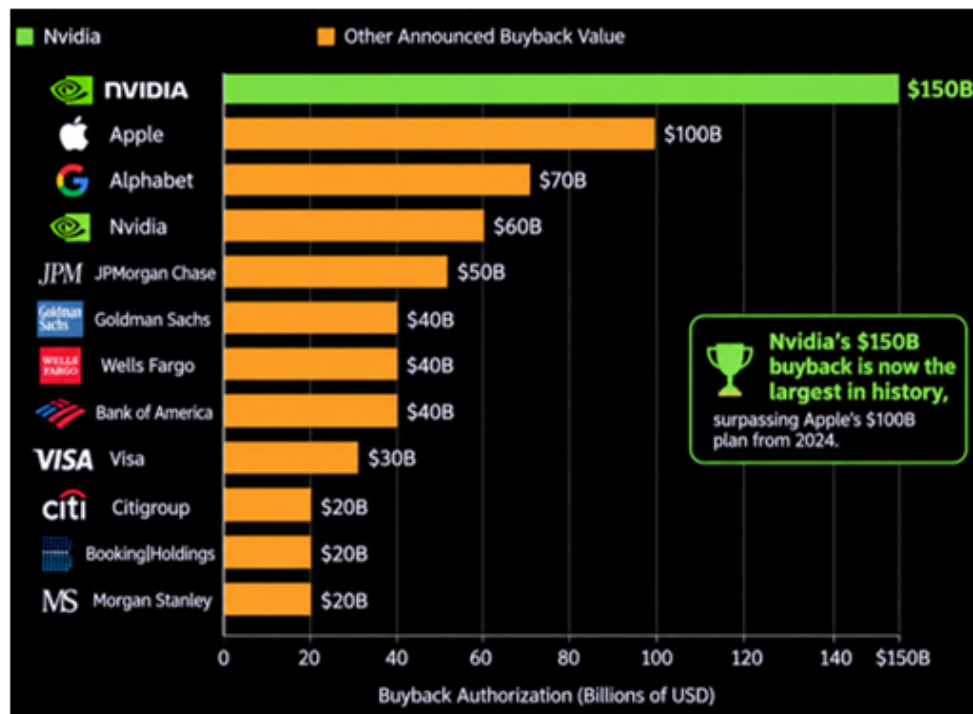


Note: Total crude oil and condensate exports from Saudi Arabia, Iraq, Kuwait, United Arab Emirates, Qatar and Bahrain, including via Strait of Hormuz and other bypass routes

Source: Bloomberg, Vortexa, as of 10/06/2026

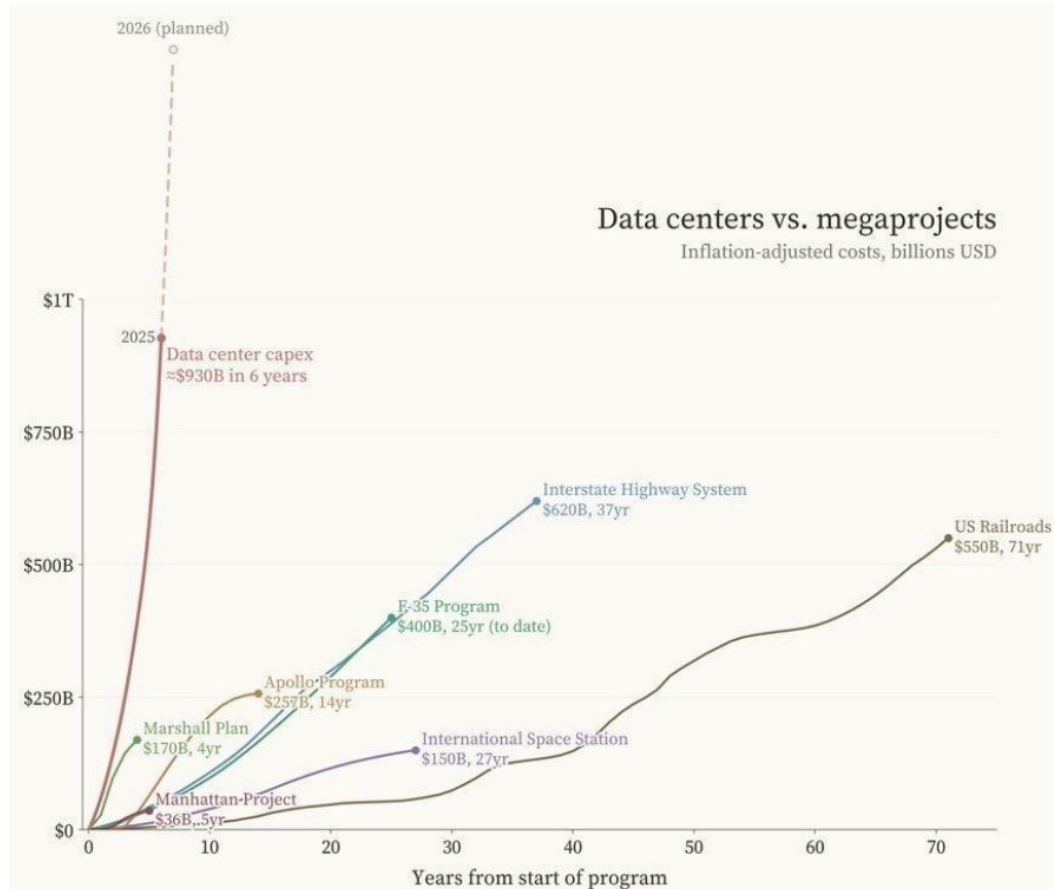
Invest In Yourself! The Corporate Version

Nvidia share buyback plan gets \$150 billion boost



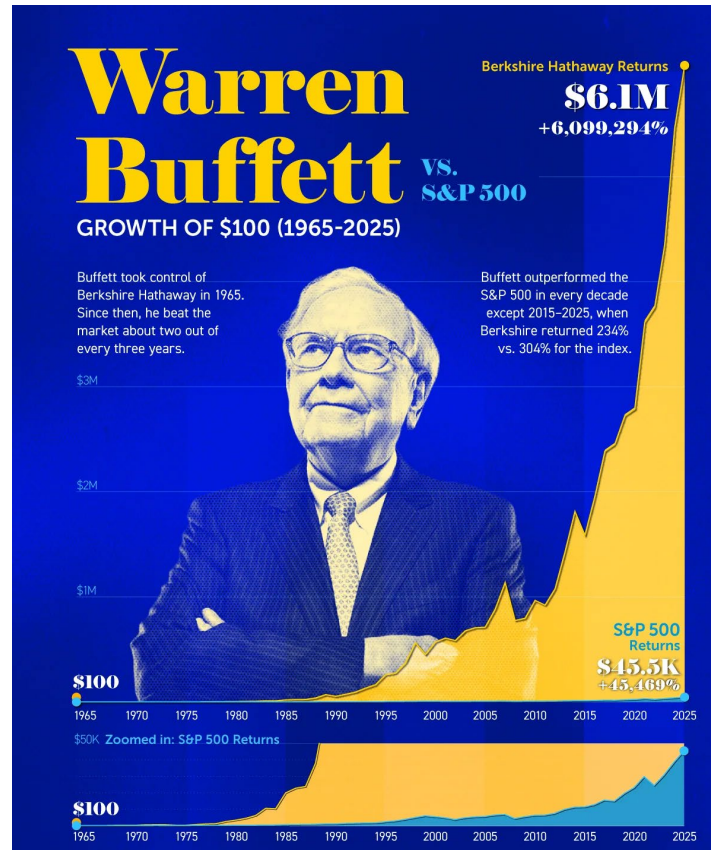
Source: Bloomberg, as of 09/30/2026

Fastest Capex Cycle Ever



Source: Company reports, Epoch AI, FHWA, NASA, CRS, GAO, Brookings, as of 09/21/2026

“Father Time Always Wins”: Warren Buffett Steps Down



Source: Visual Capitalist, as of 12/31/2026

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