ARVADA WEALTH

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NEWSLETTER

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3 BIG THINGS

1

The third quarter wrapped up with a divided market. The S&P 500 slipped slightly in September, while the tech-heavy Nasdaq eked out a small gain. Under the hood, the split was even sharper: technology was the only sector to rise, while the other 10 declined, with financials and materials each falling more than 7%. It's a theme we've come back to often this past year: technology, and then everything else. The good news for index investors is that tech makes up a large share of the major indexes, so headline returns still look healthy. Look beneath the surface, though, and there are reasons for caution.

2

In September 2024, the Federal Reserve began cutting interest rates, eventually lowering its target range from 5.25%-5.50% to 3.50%-3.75%. That cycle officially ended this September, when the Fed raised rates for the first time in three years, to 3.75%-4.00%. The reason: the economy and job market have stayed strong, and inflation is still running well above the Fed's 2% target.

3

If the steady stream of political ads hasn't reminded you, the midterm elections are right around the corner. That usually brings questions about what the results could mean for markets. Specific policies can certainly affect certain industries, but history has been encouraging: the period following midterm elections has been one of the stronger stretches for stocks. One common explanation is that the party controlling the White House and both chambers of Congress often loses ground in the midterms. Markets have tended to like the gridlock that follows, since it usually means fewer big policy surprises.

Quote of the month: "Money isn't red or blue, it's green." - A favorite line among market commentators when politics and investing collide.

MARKET QUICKTAKES

EQUITY

Many corners of the stock market took a breather in September. Rising interest rates played a big role, and the most rate-sensitive areas fell the hardest. Small-company stocks lost more than 5%, as did utilities and real estate. Emerging markets, which now hold a sizable slice of tech companies, held up better than most but still slipped a bit less than 1%. The clearest sign of the split: the standard S&P 500, which gives the biggest companies the most weight, beat the "equal-weight" version, which treats all 500 companies the same, by 4.5% in a single month.

FIXED INCOME

Interest rates kept climbing in September. Treasury yields rose well ahead of the Fed's rate hike and kept rising afterward. The 10-year Treasury yield hit its monthly high on the last day of September at 5.3%, its highest level since 2007. With the economy still running strong, markets are now pricing in four more rate hikes during 2027. Keep in mind that markets have historically been a poor long-term predictor of what the Fed actually does, so we'll keep a close eye on how this plays out.

COMMODITIES

Stocks weren't the only place with wide gaps in performance; commodities were split as well. Gold and silver had a rough month, with gold down 6.75% and silver falling nearly 10%. Oil went the other direction, with Brent crude jumping 25%. That pushed the national average for gasoline to $4.60 a gallon in September. Closer to home, diesel has been a hot topic during harvest, with Nebraska prices reaching a record $6.23 a gallon.

ECONOMIC INSIGHTS IN A NUTSHELL

A much stronger-than-expected jobs report (162,000 jobs added versus the 53,000 expected)*, along with inflation holding at 3.4%, gave the Federal Reserve the confidence to raise interest rates in September. It was the Fed's first hike in more than three years, and it likely won't be the last. Markets expect one more before year-end and several more in 2027.

Higher rates continue to weigh on housing. The average 30-year mortgage rate hit 7.03%, the first time above 7% since January 2025. Existing home sales fell 2% in August, and the median sale price of existing homes slipped as well.

Elsewhere, business activity (as measured by the ISM survey) reached its best level since November 2022, and retail sales came in well ahead of expectations. The word may be overused at this point, but there's still no better way to describe this economy than resilient.

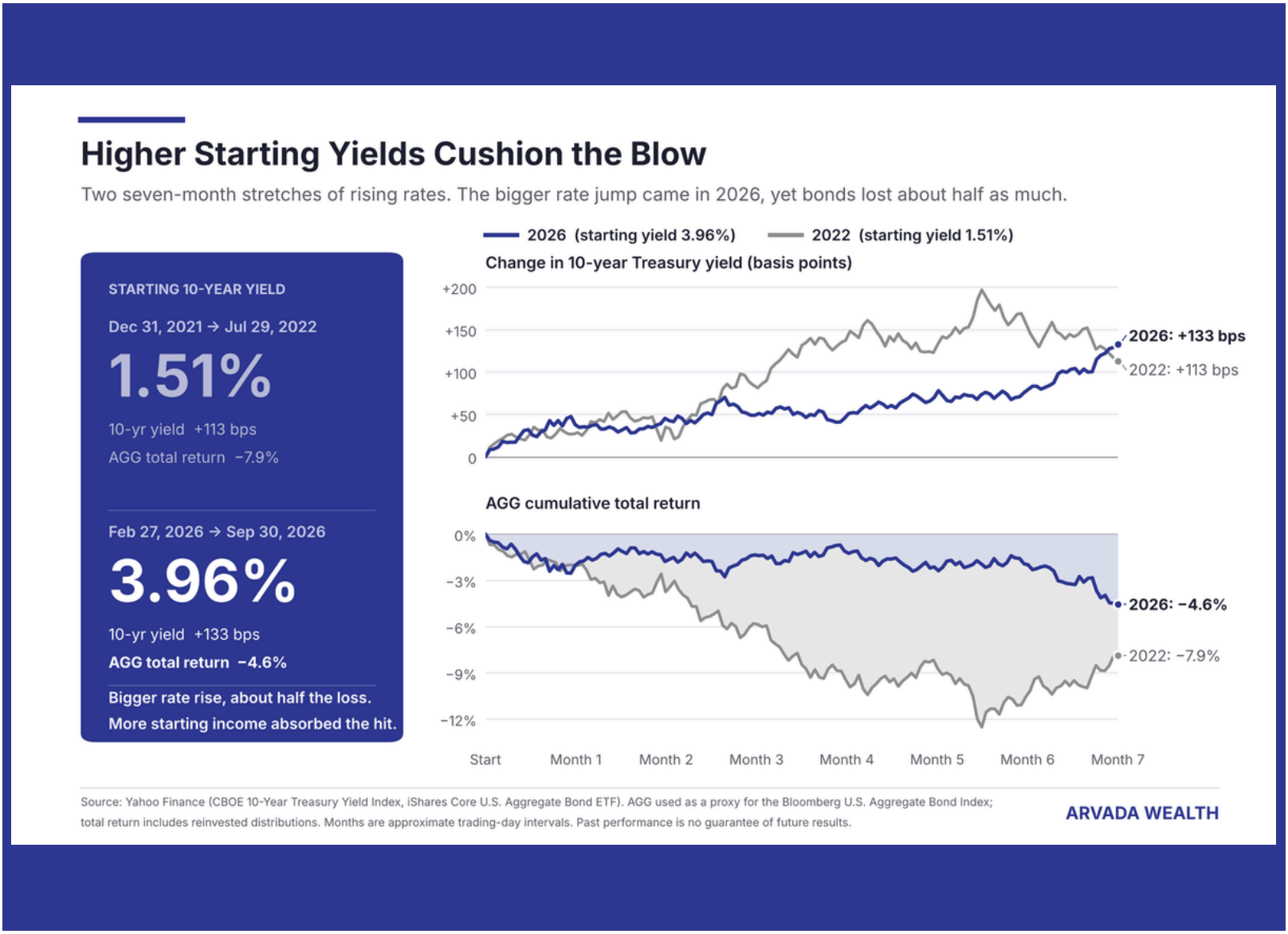
*Data pulled from YCharts Monthly Market Wrap September 2026

A VIEW FROM MARKET STRATEGISTS

It's no secret that bonds have had a tough 2026. Last month we noted that the past five years have been difficult for bonds, largely because yields were so low when that stretch began. The good news is that the starting point looks very different today.

The chart below compares two seven-month periods when interest rates rose sharply. The first is the start of 2022, a historically bad year for bonds. The second is this year, from the start of the Iran conflict in late February through September. Rates actually rose more this time (the 10-year Treasury yield climbed 1.33 percentage points, versus 1.13 in 2022), yet the broad bond market lost only a little more than half as much (-4.6% versus -7.9%).

What gives? Higher starting yields. Bonds today pay far more interest than they did in 2022, and that steady income helps cushion the blow when prices fall. Think of it as a bigger head start: the more income you collect along the way, the less a price drop hurts your overall return.
It's a good reminder of why we own bonds in the first place: consistent, reliable income. Barring a default, which is unlikely for high-quality bonds, those interest payments arrive no matter what rates are doing. As a good friend of mine likes to say, the income is back in fixed income. That's a big reason bonds look much more attractive today than they did four or five years ago.

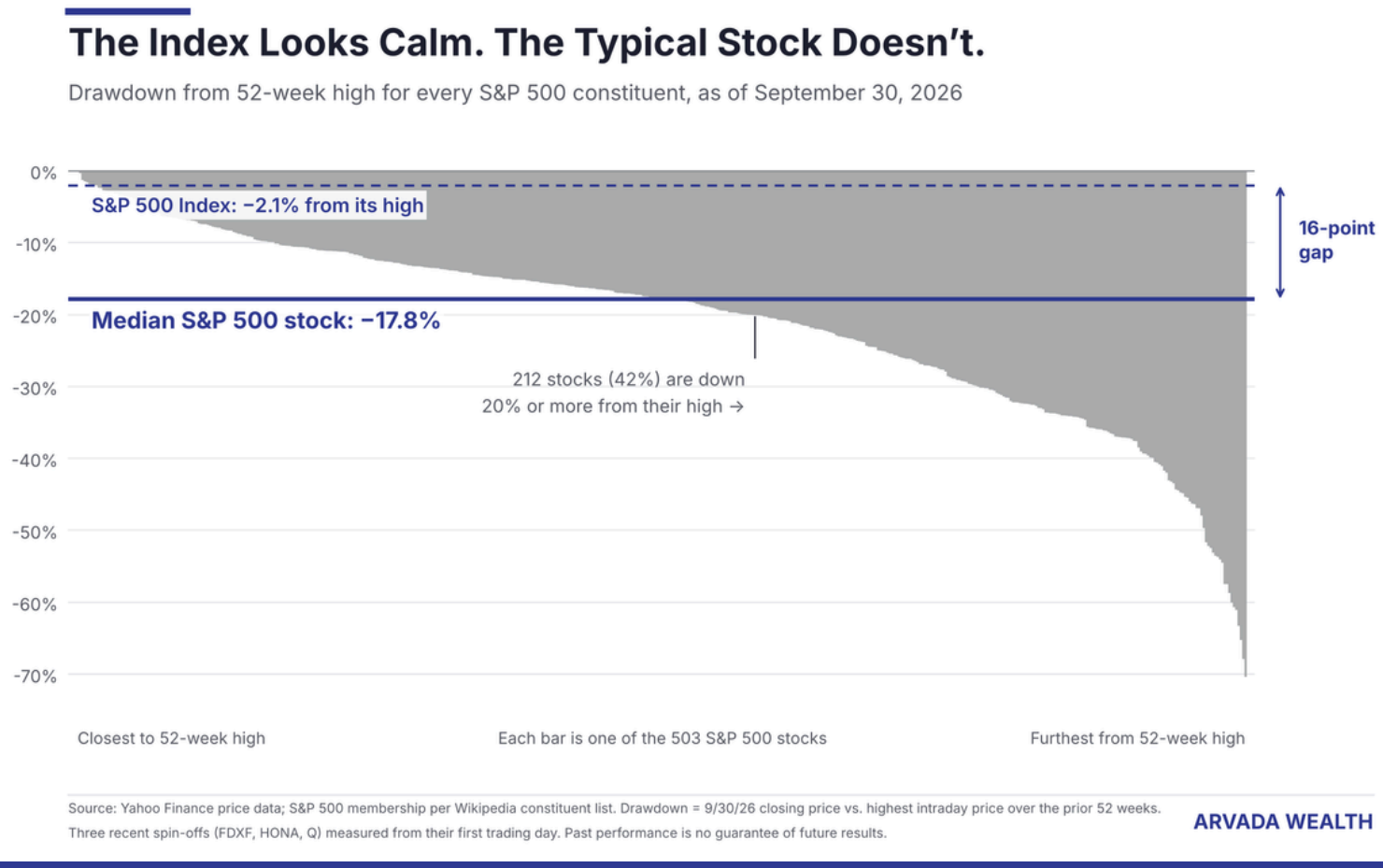


EVERGREEN REMINDERS

Another topic we've been discussing a lot lately is concentration in the U.S. stock market, meaning how much of the major indexes is made up of just a few companies. Here's the example I share most often: the 10 largest companies in the S&P 500 make up about 40% of the index. So while you technically own 500 companies, a big part of your return depends on just 10 of them. We see that as a real risk for portfolios. Concentration can also hide what's happening beneath the surface, and that's the case right now. The S&P 500 finished September only about 2% below its recent high. Yet the typical (median) stock in the index is down nearly 18% from its high, and 212 stocks, about 4 in 10, are in a bear market, meaning they've fallen 20% or more.

This is exactly why diversification matters. Picking individual winners may look more exciting, but a sound asset allocation and broad diversification remain the most reliable path to good financial outcomes over time. At the index level, this still looks like a great market. Underneath, many stocks are struggling. Rallies this narrow are hard to sustain for long, so we'll be watching whether more stocks join in or whether the market is nearing a turning point.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.



BEYOND THE MARKET

LIFESTYLE HACK

Get ahead of the end of the year or season changing rush with any appointments you may need to book. Furnace maintenance, sprinkler blowout, all of the things that need to take place around the home and come with the changing of the seasons. It may be a great time to ensure the snowblower turns on before we get hit with a big snow as well.

PLANNING CORNER

Do you have taxable investment accounts outside of Arvada Wealth? If so, it may be a good idea to start checking on capital gains. Many mutual fund families will be announcing their estimated capital gain payouts in the coming weeks. One thing of particular note is that many bond positions purchased in the last handful of years likely have unrealized losses. Swapping out these positions allows you to realize the loss and likely help offset gains that equity positions have witnessed over the same time period.

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Disclosures

The index(es) reflect(reflects) the historical performance of the represented assets [or name of the asset class] and assume the reinvestment of dividends and other distributions. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.
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