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**An indepth insight and comprehensive analysis of market insights on significant developments and trends that unfolded in second quater**.

| | July | Aug. | Sept. | 3Q 2026 | YTD |
|---|---|---|---|---|---|
| DJIA | 0.4% | 1.5% | (4.1)% | (2.3)% | (7.2)% |
| S&P 500 | (0.1)% | 2.7% | (0.4)% | 2.3% | 12.8% |
| NASDAQ Composite | (3.2)% | 3.9% | 1.9% | 2.5% | 15.6% |
| **Source:** www.ajovista.com | | | | | |

The major stock indices bounced around during the third quarter and have performed well year-to-date, in stark contrast to the US treasury bond market that has performed poorly so far this year.

There is an inverse relationship between bond prices and yields, so when yields go up, bond prices go down. Ten-year treasury bond yields rose to 5.3% at the end of September, the highest yield since 2002[i], and up substantially from 4.4% at the end of 2025.[ii] The 30-year US treasury bond yield has also increased substantially this year, ending the third quarter at 5.6%, up from 4.8% at the end of 2025,[iii] and the two year treasury has risen to 4.9% up from 3.5% over the same time period.

A rapid increase in treasury yields is worrisome for a variety of reasons. Corporations tend to have multi-year plans to manage and grow their businesses and a spike in rates

can dramatically change those plans. Also, many consumer borrowing costs, such as mortgage rates, are tied to the 10-year treasury.

On a total return basis[iv], the Bloomberg US Aggregate Government Treasury Long Fund is down 7.6% over the first nine months of 2026 and is *down 2.1% annually* over the last 10 years[v], due to the 10 year and 30-year treasury yields being just 1.6% and 2.3% respectively on September 30, 2016.

The rise in government bond yields this year isn't confined to the United States. Long bond yields in other developed countries, including Italy, France, Greece and Japan, have also spiked, and hedge funds had been using leverage to arbitrage the difference between the various countries bond yields.[vi]

Hedge funds have also been using leverage to fund basis point trades, and those trades have recently been unwinding. Hedge funds held approximately $2 trillion of US Treasuries at the start of 2026, about double the amount they held five years earlier, controlling a record 7% of the market.[vii] A basis point trade is a way to try to capitalize on small price gaps between Treasury bonds and Treasury futures prices, borrowing money to try to amplify the trades.[viii]

The US annual inflation rate was 3.4% at the end of August. While higher than the Federal Reserve's 2% target, it's currently lower than the one-year US Treasury yield of 4.2%. This suggests that inflation isn't the primary issue causing rates to rise, even if the Fed were to raise rates again. The main issues, in my opinion, are the continued growth of the US deficit and the capital needed for the continuation of the AI buildout. They are the same issues that have sent European bond yields higher this year too. At this point, it doesn't seem that either of those capital needs will go away anytime soon.

One way to value the relative attractiveness of US equites compared to bonds is to look at Equity Risk Premium (ERP). Legendary investor Warren Buffett has described the ERP as "a margin of safety that shareholders should cherish".[ix] The ERP measures the market's estimate of the future returns an investor can expect to earn over the next decade from investing in the S&P 500 versus buying a 10-year Treasury.[x]

The simplest way to calculate the ERP is to compare the earnings yield of the S&P 500 to the 10-year treasury. The earnings yield is the inverse of the price/earnings (P/E) ratio. The S&P 500's current P/E ratio is about 20x, so the inverse of that equates to a 5% yield, in line with the current 10-year treasury yield, implying that short-term S&P 500 returns will be linked to changes in bond yields.

S&P 500 earnings are expected to grow about 30% in 2026 with just three technology stocks accounting for about 70% of that increase,[xi] and 2027 earnings growth is expected to slow to about 15%.

It's unlikely that the outsized technology earnings contribution to the S&P 500 this year is sustainable going forward and given the rise in the 10-year bond yield, high credit quality dividend paying stocks appear to be attractive.

We will be posting a quarterly market update to our website on an ongoing basis, after the end of each calendar quarter. Please contact us with any comments and/or questions. We welcome your feedback.

For more information Click Here to Visit Our Team Website

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Nancy is a Certified Financial Analyst for the Harbor Park Group. She started her career at Legg Mason (LM) in July 1982 as a secretary in the Accounting Department, shortly after graduating Cum Laude from Towson State University with a BS in Finance. Within six weeks she was promoted to a Staff Accountant and was involved in preparing the financial statements for Legg Mason's IPO in 1983. In 1985 she transitioned to the Funds Management division of LM, being hired by Ernie Kiehne to be a Securities Analyst for the group of mutual funds that he and Bill Miller were managing. In the 1990s she became the co-manager, then the sole manager of the Total Return Trust, a growth and income fund, and in 2000 became the assistant manager of the Value Trust, LM's flagship fund.

Nancy received her CFA in 1988 and her MBA from Loyola College at night, graduating as a member of the Beta Gamma Sigma honor society in 1989. She also received The Baltimore Association of Financial Planners Award upon her graduation from Towson State. She was the President of the Baltimore Security Analysts Society in 1996-1997. She currently volunteers as an InvestWrite Judge, grading student essays for the SIFMA Foundation and previously volunteered for the Maryland Special Olympics during and after college. In the early 2000s she served as a member of the Board of Directors for Chesapeake Academy, the elementary school her children attended.

Nancy and Mike were married in 1991 and had five sons within 3 ½ years – one born in 1994, one in 1996 and triplets in 1998! Nancy's desire to spend the majority of her time raising her children led her to transition to Mike's investment team, where she has worked part time since 2005.

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[i] Wall Street Journal, Oct. 1, 2026
[ii] Yahoo Finance.com
[iii] Yahoo Finance.com
[iviv] Total return equals the change in price plus income
[v] AJO Vista.com
[vi] Wall Street Journal, “Global Bond Selloff is Taking New Turn”, October 2, 2026
[vii] Wall Street Journal, “Hedge Funds are Wild Card in the Turbulent Bond Market”, September 16, 2026
[viii] Wall Street Journal, “Hedge Funds are Wild Card in the Turbulent Bond Market”, September 16, 2026
[ix] Fortune, September 29, 2026
[x] Fortune, September 29, 2026
[xi] Yahoo Finance