

the serious investor

FALL 2026

THE SERIOUS INVESTOR: FALL 2026

Welcome to the fall edition of LVW's *The Serious Investor*.

A Market Stronger Than It Looks, and Narrower Than It Seems

The S&P 500 gained 2.0% in the third quarter and 11.8% for the year. But those headline numbers hide what many investors experienced.

A small number of very large technology companies drove much of the market's return. Smaller companies, utilities and dividend payers lagged.

The biggest reason was simple: interest rates rose sharply.

The 10-year Treasury yield ended in September at 5.29%, up from 4.15% at the beginning of the year. Higher rates increase borrowing costs for businesses and make investors less willing to pay high prices today for profits expected far into the future.

The takeaway: The economy has remained resilient, but the cost of money has risen significantly. That is reshaping where investors are finding opportunity.

Why Rates Moved Higher

Several forces are putting upward pressure on long-term interest rates:

- **Government borrowing remains high**, increasing the supply of bonds investors are being asked to absorb.
- **AI infrastructure spending is enormous**, creating additional demand for capital.
- **The economy remains stronger than expected**, giving interest rates less reason to fall.

This is happening globally, not just in the United States. Long-term government bond yields have risen across most developed major markets.

That does not mean rates will continue moving higher indefinitely. But investors should not assume they will quickly return to the unusually low levels of the past decade.

What the S&P 500 Doesn't Show

Higher borrowing costs have affected different parts of the market very differently.

Small companies, which generally depend more heavily on financing, struggled during the quarter. Utilities and dividend-focused investments also declined as higher bond yields made their income less attractive by comparison.

Energy, meanwhile, was the strongest-performing sector, while Technology remained one of the strongest areas for the year.

Market concentration also remains important. The largest technology companies continue to account for an outsized portion of the S&P 500's gains.

That means the performance of the index may look considerably better than the experience of a broadly diversified investor.

What investor behavior is telling us

Money moved away from traditionally defensive areas such as Consumer Staples and Utilities and toward Technology and Energy.

We view that primarily as an indication of how investors are currently positioned, rather than a prediction about what comes next. Still, investors typically become more defensive when they expect a significant economic slowdown. The fact that money has instead moved toward more growth-oriented areas suggests the market remains relatively confident in the economy.

International Markets: Still Valuable, but the Story Has Changed

International diversification continued to contribute this year, but performance became much less consistent during the third quarter.

Europe weakened, while Japan remained relatively strong. Emerging markets have also performed well this year, driven largely by Taiwan and South Korea and their importance in the semiconductor and AI supply chain.

That creates two risks worth watching:

- **First, AI spending.** Strong returns in parts of Asia increasingly depend on continued investment in AI infrastructure. If that spending slows, markets heavily exposed to semiconductor manufacturing could feel it quickly.
- **Second, the U.S. dollar.** When the dollar strengthens, international investments are worth less when translated back into dollars, even if the underlying companies perform well.

Neither is a reason to abandon international diversification. It simply means the opportunity has become more concentrated than it was earlier this year.

Bonds: Investors Are Being Paid to Wait

One of the most meaningful changes for long-term investors is happening in bonds.

With the 10-year Treasury yielding more than 5%, bonds can once again provide meaningful income. That gives investors a larger cushion if interest rates move higher and greater potential for price appreciation if rates eventually decline.

We are not trying to predict exactly when rates will peak. The important point is that investors are now being more meaningfully compensated for owning bonds while they wait.

Commodities and Inflation

Commodities have also reacted to higher interest rates.

Gold and silver weakened as rates rose, while copper benefited from strong demand related to data centers. Oil remains elevated to nearly \$90.

We are particularly watching diesel prices. Higher transportation and shipping costs can work their way through the economy and make inflation more difficult to bring down.

Election-Year Volatility

Midterm elections are five weeks away, and election years can bring additional market volatility as investors react to political uncertainty.

Historically, however, periods surrounding midterm elections have often been followed by stronger markets once the uncertainty of the election passes.

That history is not a reason to make an investment decision based on the election. If anything, it is a reminder not to let short-term political headlines disrupt a portfolio built around long-term objectives.

The Bottom Line

The most important development this quarter was not the S&P 500's return. It was the sharp increase in long-term interest rates.

From here, there are two broad possibilities. If rates stabilize, areas that have recently struggled, including smaller companies and dividend-paying stocks, could recover. If rates continue rising, companies that depend heavily on borrowing or on profits far into the future may remain under pressure.

We don't believe successful investing requires predicting which scenario will come next. Instead, we continue to favor diversification, businesses capable of funding their own growth, and bonds that now provide investors with meaningful income.

The environment has changed. After years of extremely low interest rates, capital once again has a real cost. Our portfolios are designed with that reality in mind.



Click here to watch Joseph Zappia's latest Market Outlook video for Q4 2026

Sources: DataTrek Research, MSCI, Standard & Poor's, FactSet. Midterm election statistics: Stock Trader's Almanac, Capital Group. All index returns are price returns in U.S. dollars (excluding dividends) through September 30, 2026, unless otherwise noted.

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