Marketline October 2026

Stocks:

Equity returns remained unsettled through October leading up to mid-term elections. The Dow managed an increase of 1.7%, but the S&P sank by 0.9% and the Nasdaq declined more than 5%. Now that our votes have been tallied, these numbers seem like ancient history as investors have withstood a few significant potholes here in November, punctuated by one spectacular upside day. All told, the three indices have settled slightly below their closing levels of October as we write this.

As angst-ridden as US investors were last month, their foreign counterparts experienced smooth sailing. In fact, Mexico's Bolsa rose over 8% as a second-half acceleration in growth surprised analysts. Both Canada and Europe turned in 1% performances – no great shakes, but better than a downturn. While we don't generally report on China's markets, you may own that market in an employer retirement plan, so it's worth mentioning that most Chinese stock indices are down double digits this year, prompting the government to put into place multiple initiatives to boost confidence. For the moment, China's managed economy is missing on many cylinders – the consumer, property, and technology ecosystems - as capacity has outrun demand.

Meanwhile, back at home, we remain in the midst of earnings season. While most numbers have been great, investors know that high margins have a way of correcting – and margins are historically high. The worst stock performances this season have been associated not with current earnings, but prognoses of slowing growth next year. This phenomenon is one of the more counterintuitive bits of market intelligence – that a company can report great earnings today, and forecast good growth moving forward, but at a slightly slower pace than expected six months ago - and its stock sinks. We generally view these outcomes as purchase opportunities, particularly if we already know the company.

Bonds:

As agonizing as the bond market was in September, it was the opposite in October. Rates dropped like proverbial rocks throughout the curve as investors sought safe havens. The one-year sold at a yield of 4.54% at the end of September, but only 4.37% last month; the thirty-year sank from 5.63% to 5.31%. There's still a lot to like in the bond market, but obviously less so than a month ago.

Are falling yields and rising prices a respite in a longer bond bear market? Much of September's foray up to multi-decade highs in yields arrived against a backdrop of elevated and rising government indebtedness, particularly in countries where tax burdens are already significant. Too, inflation and affordability are problematic around the world, not just at home. Neither of these issues will vanish; in fact, other than policies that increase supplies of relevant inputs – labor, commodities, housing, etc – solutions are evasive. We may be in for continued discomfort on the fixed income side of portfolios, with the silver lining of higher cash flows to meet client expenses.

We've written many times in the last few months about the municipal bond market and the flood of supply that's brought rates up and pushed prices down, causing this segment of the market to underperform versus Treasuries and corporates. Issuance has momentarily abated but remains on the high side. Newly approved bond measures around the country will eventually add to supply yet again, while providing investors plenty of diversification opportunities beyond in-state bonds. We like this segment of the market for the value it offers tax-paying investors.

Corporate bonds have seen some underperformance as spreads (the difference between their yields and the comparable Treasury) widened – another facet of the "safety trade" coming into play as stocks sink. We still prefer corporates over government bonds for many portfolios, though now that yields are more generous generally, we own more Treasuries than ever.

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