Third Quarter 2026 Market Commentary



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Key Takeaways

As we enter the final quarter of 2026, investors face a familiar set of concerns: geopolitical uncertainty, higher oil prices, rising interest rates, and questions about the enormous investments being made in artificial intelligence. Yet despite these challenges, the stock market has continued to deliver impressive returns.

Through September 30, the S&P 500 had gained 11.8% year-to-date, while the Nasdaq Composite, supported by technology and AI-related companies, advanced 15.6%. The Dow Jones Industrial Average rose a more modest 5.9%, and the Russell 2000 gained 12.7%[1].

What accounts for the market's resilience in the face of these considerable headwinds? We believe the answer is increasingly clear: corporate earnings.

Earnings: The Foundation of the Bull Market

We have long believed that earnings ultimately drive stock prices, and 2026 has provided a compelling example of why.

Perhaps the most remarkable development this year has been the dramatic upward revision in corporate earnings expectations. At the beginning of 2026, Wall Street analysts expected S&P 500 earnings to grow approximately 15% for the year. By September 30, that estimate had more than doubled to 32.4%[2].

Revenue expectations have strengthened as well, with demand remaining robust across a number of industries, particularly technology, communications, and energy. Equally encouraging, corporate profit margins have reached record levels as companies benefit from operating leverage, productivity improvements, and greater efficiencies.

This is especially noteworthy because earnings estimates historically tend to decline as the year progresses. This year, analysts have been raising their forecasts.

And there is another important point that we believe investors may be overlooking. Despite the market's double-digit advance, stocks have become less expensive relative to expected earnings.

The S&P 500 began the year trading at approximately 22 times forward earnings. By September 30, that multiple had contracted to roughly 19 times, even as the index had appreciated nearly 12%[3].

In other words, earnings expectations have risen considerably faster than stock prices.

This is a critical distinction. Rather than a market driven primarily by expanding valuations, much of the appreciation in equities has been supported by rapidly improving corporate fundamentals. To us, that represents a far more sustainable foundation for the bull market.

The Economy: More Resilient Than Expected

Despite persistent predictions of an economic slowdown, the U.S. economy has continued to demonstrate considerable resilience.

Consumer spending, which accounts for roughly two-thirds of economic activity, remains particularly strong. In August, personal consumption expenditures increased 0.9%, or 0.6% after adjusting for inflation, with spending gains across both goods and services. The labor market has also remained surprisingly stable.

The unemployment rate stood at just 4.2% in September, still low by historical standards, while weekly initial unemployment claims are near 57-year lows.

Another important support for the economy has been the extraordinary increase in household wealth since the end of 2019 of approximately $81 trillion, with rising home and stock prices the primary drivers[4].

This enormous accumulation of wealth has provided substantial support for consumer spending, though benefits have not been evenly distributed. Lower-income households and those

without substantial financial assets remain more vulnerable to higher prices and borrowing costs. Nevertheless, the strength of household balance sheets helps explain why consumer spending has remained resilient despite an inflationary environment and elevated interest rates.

Iran, Higher Oil Prices, and the Federal Reserve

One of the most significant economic challenges this year has been the conflict involving Iran and its impact on global energy markets.

Brent crude, the principal international oil benchmark, is currently over $115 per barrel, an increase of approximately 63% in price since the Iran war began in late February[5].

Higher oil prices effectively act as a tax on consumers, raising the cost of gasoline, transportation, food, and a broad range of goods and services. They can also pressure corporate profit margins, particularly for companies unable to pass along higher costs.

The Federal Reserve has responded to persistent inflationary pressures by reversing course on interest rates.

In September, the Fed raised its benchmark rate by 25 basis points to a range of 3.75%–4.00%, its first rate increase in several years. Policymakers cited continued economic resilience, robust capital investment, and inflation that remained above the Fed's 2% objective.

Long-term interest rates have risen even more substantially. The 10-year Treasury yield ended September near 5.3%, compared with approximately 4.2% at the beginning of the year. Mortgage rates for a 30-year fixed mortgage is around 7.3%.

Higher borrowing costs present challenges for housing, corporate financing, and equity valuations, particularly for companies whose expected profits lie further in the future.

There is also the risk that the combination of elevated energy prices and higher interest rates could eventually slow consumer spending and business investment.

But so far, the economy has proven remarkably adaptable. Productivity improvements and strong corporate profitability have helped offset some of these pressures.

The central question going forward is whether inflation can moderate without materially weakening economic growth.

Artificial Intelligence: Bubble or Transformation?

Artificial intelligence continues to dominate both the investment landscape and the debate over future economic growth.

The scale of investment is extraordinary. Major technology companies are committing hundreds of billions of dollars to data centers, advanced semiconductors, cloud infrastructure, and the substantial power generation and transmission capacity needed to support AI computing.

Naturally, this raises important questions about returns on investment.

Will demand grow fast enough to justify this level of spending? How quickly will AI applications generate revenues and profits? Will the companies building this infrastructure earn adequate returns on their enormous capital commitments?

These are legitimate questions, and ones investors should be asking. But we do not believe we are in an AI bubble.

There is an important distinction between speculative investment based largely on distant expectations and investment responding to actual, accelerating demand.

Today, the largest technology companies are expanding capacity to meet growing customer demand for cloud computing, advanced AI

models, and increasingly sophisticated applications. In many areas, demand for computing power continues to outpace available infrastructure.

We believe the market is still in the relatively early stages of understanding the full economic potential of artificial intelligence, as AI has the potential to improve productivity, reduce costs, accelerate research, and create new products and services across healthcare, financial services, manufacturing, industrial automation, energy, and countless other industries.

Over time, these productivity gains could become a significant source of corporate earnings growth.

Some companies will undoubtedly over-invest. Competition could pressure margins, and the enormous capital expenditures being undertaken today must eventually translate into sustainable revenues, free cash flow, and attractive returns on invested capital.

We also recognize that capital spending is currently running ahead of directly attributable AI revenues in many areas. The speed at which adoption and monetization develop will be critical.

Nevertheless, the underlying demand continues to accelerate, and the companies leading this investment cycle generally have substantial existing businesses, strong cash flow, and significant financial resources.

Looking Ahead: Earnings Remain Key

As we look toward the remainder of 2026 and into 2027, we remain constructive on equities, although we expect periods of volatility.

The risks are certainly significant. Geopolitical tensions could push energy prices higher. Inflation may prove more persistent than expected, requiring the Federal Reserve to maintain restrictive monetary policy. Higher Treasury yields could pressure equity valuations, and the enormous investments in artificial intelligence will increasingly be scrutinized for their returns.

We are also mindful that market gains have become concentrated in companies with particularly strong earnings growth, making selectivity and valuation discipline increasingly important.

But the underlying fundamentals remain encouraging.

Our focus remains on companies with durable competitive advantages, strong balance sheets, sustainable earnings growth, and the ability to generate substantial free cash flow and attractive returns on capital.

Though markets rarely advance in a straight line, particularly when expectations are elevated and geopolitical uncertainty remains considerable, we continue to believe the longer-term opportunities are substantial.

Thank you for your continued confidence and support. As always, we encourage you to reach out with any questions or concerns you may have.

We look forward to navigating the rest of the year with the same disciplined, informed and long-term approach that has guided us for more than four decades.

Warmest regards,



About BD8 Capital Partners

BD8 Capital Partners is a New York City-based wealth advisory and asset management firm founded by Barbara Doran, who serves as Chief Investment Officer. Drawing on more than four decades of Wall Street experience, including senior investment roles at Neuberger Berman and Lehman Brothers, the firm provides personalized investment management and wealth advisory services.

Our investment approach emphasizes fundamental research, disciplined portfolio management, and identifying companies with sustainable growth opportunities, strong competitive positions, and attractive long-term prospects.

We believe successful investing requires both an understanding of the broader economic environment and careful attention to the individual companies in which we invest. For more information, please visit www.bd8cap.com.

BD8 in the Media

Barbara Doran continues to share her perspectives on financial markets, the economy, corporate earnings, and investment opportunities through regular appearances on CNBC, Fox Business, Bloomberg, and Yahoo Finance.

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Endnotes

1. Associated Press, "How major U.S. stock indexes fared Wednesday 9/30/2026," September 30, 2026. Year-to-date index price performance as of September 30, 2026. https://apnews.com/article/1ee73f14dc23f6139eeb12c7397f543e
2. Earnings forecast comparison: verification required. The approximately 15% beginning-of-year estimate and the 32.4% September 30 estimate have not been independently confirmed from a consistent FactSet or other dated analyst-forecast series. Confirm both before publication; do not treat this note as a supporting citation.
3. Forward P/E comparison: verify against consistent-date FactSet Earnings Insight reports for early January 2026 and September 30, 2026. Available secondary reports place forward valuation near 19–20 times in 2026, but the precise 22-times-to-19-times comparison has not been independently substantiated. https://insight.factset.com/
4. Federal Reserve, Financial Accounts of the United States (Z.1), released September 11, 2026, household and nonprofit net worth (Q2 2026 compared with Q4 2019). Approximately $195.9 trillion versus $115.0 trillion, a gain near $81 trillion. https://www.federalreserve.gov/releases/z1/20260911/z1.pdf
5. U.S. Energy Information Administration, Europe Brent Spot Price FOB daily series: $71.32/barrel on February 27, 2026, and $115.91/barrel on September 30, 2026; increase approximately 62.5% (rounded to 63%). https://www.eia.gov/dnav/pet/hist/rbrted.htm