

THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished September at 50,906, down -2.70% for the quarter, up +5.91% year-to-date. The S&P 500 closed September at 7,652, up +2.03% for the quarter, up +11.77% in 2026. The NASDAQ Composite gained +2.47% in the third quarter, up +15.57% YTD. Small-company stocks, as measured by the Russell 2000, lost -7.52% in Q3, still up +12.69% in 2026. Energy (+39.13%) and technology (+33.78%) are the two best-performing sectors YTD in 2026.

STOCKS CONTINUE TO CLIMB THE WALL OF WORRY, COULD THE BOND MARKET GET IN THE WAY?

The S&P 500 is up +12% through September, still on track for its seventh year of gains out of the last eight. Markets have remained optimistic, even in the face of rising gas prices, a spike in Treasury yields and a growing chorus of voices expressing uncertainty and concern around the future of AI and AI safety.

Growth in the third quarter was driven in large part by the tech and AI sector, where a chronic shortage of chips and memory, and a seemingly endless appetite for data center construction, has boosted revenues, margins and earnings in the sector.

At the same time, persistent inflationary pressures in the real economy have remained elevated. These include the prices of oil, diesel and other commodities, which feed into the costs of other products and services across the economy.

The cost of borrowing for governments, companies and individuals has also spiked. The 10-year Treasury yield, a benchmark rate that affects borrowing costs across global debt markets, ended the quarter at 5.29%, its highest level since 2002. Structural conditions such as growing government spending, AI-related borrowing and expectations for pursuant growth, as well as rising trade barriers expected to maintain inflationary pressures, all contribute to expectations that borrowing costs may remain higher for longer.

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“Investors and economists care about the 10-year Treasury yield because it plays a critical role in setting borrowing costs across the country. As the yield has climbed in recent months, so too has the cost of getting a mortgage for families, and of issuing bonds for large U.S. companies.”

The Wall Street Journal, Sept. 30, 2026

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With tech and AI doing most of the heavy lifting for the stock market in Q3, we view the risk of volatility as elevated, given the growing concentration of returns being attributed to the AI theme.

Below are some of the key areas we'll be watching in Q4 and into 2027.

Where Bond Yields Settle and Why

The current spike in bond yields is attributed to several factors, including the trajectory of government spending, the supply glut of corporate debt being issued to fund the AI buildout and expectations for sticky inflation in the near term.

Another key factor, however, is expectations for economic expansion and GDP growth. Prior to the 2008 financial crisis, bond yields at current levels were not unusual. Nor was nominal GDP growth that exceeded current trends, especially during the 1990s.

If the rise in the 10-year Treasury remains relatively contained around current levels, and if expectations for corporate earnings growth remain strong, higher yields may not necessitate stock market weakness. If growth disappoints, however, investors will have an attractive alternative to stocks with the 10-year above 5%, and the higher rates may be a major headwind for the markets.

Can Markets Continue to Rely on the AI Trade for Growth?

The closest recent example of the scale of expected capital expenditures being made to build out AI infrastructure across the United States may be the buildout of the interstate system in the 1950s.

Over \$10 trillion is expected to be invested in AI infrastructure projects between 2025 and 2032, roughly 3.6% of annual GDP. While this investment and spending have clearly been favorable to chip and memory makers as well as

many others, at current valuations, markets will need to start seeing real progress on expectations for return on all that investment.

Investing is a forward-looking exercise, and plenty of optimism around the transformative nature of AI in the economy is priced in at current levels.

Markets will continue to closely track the revenue trends of AI developers and look for clues that the technology is on track to meet expectations around boosting productivity and profitability across the economy.

Concentration Risk Is Growing in Markets

Another consequence of the strong Q3 for tech stocks has been an increasing concentration in the S&P 500 to these companies. The top 10 companies in the S&P 500, which are all technology or AI-related, now make up over 38% of the index. As a comparison, for the MSCI EAFE international index, the top 45 companies make up 38% of the index.

We continue to expect broad diversification and balance in portfolios — across sectors, styles and geographies — are likely to benefit investors over the long term.

It may be as important as ever to remain disciplined to a broad diversification strategy, as a reversal in tech could have an outsized impact on certain indexes.

A TIME TO EVALUATE PORTFOLIOS

With a three-year return of over +22% per year for the S&P 500, stocks have rewarded investors greatly in recent years.

We'd encourage investors to take this opportunity to evaluate portfolios for any rebalancing opportunities, ensure cash reserves remain adequate for near-term spending needs and otherwise remain prepared that volatility risk is elevated, and would be a normal part of this market cycle.

"In stocks, the headline indexes appeared remarkably resilient in the face of a 10-year Treasury yield jumping from 4.7% to 5.3%... But under the surface, September's stock-price moves show how narrow the market has become. Almost 80% of stocks in the S&P were down, the average stock was off 5% and only two out of 11 sectors were up, led by tech. The other gainer, communications services, was up only because tech giants Meta and Alphabet, not classified as tech stocks, outweighed losses for almost all the media and telecoms companies in the sector."

The Wall Street Journal,

Oct. 2, 2026



Market Metrics

Index or Metric	Close as of 6/30/2026	Close as of 9/30/2026	Change Previous Quarter End	2026 YTD % Change
Dow Jones Industrial Average	52,319.20	50,906.05	-1,413.15	5.91%
S&P 500	7,499.36	7,651.54	+152.18	11.77%
NASDAQ Composite	26,213.72	26,861.06	+647.34	15.57%
RUSSELL 2000	3,024.37	2,817.50	-206.87	12.69%
Fed Funds Rate	3.50% - 3.75%	3.75% - 4.00%	+0.25%	
2-Year Treasury	4.14%	4.88%	+0.74%	
10-Year Treasury	4.44%	5.29%	+0.85%	
Crude Oil \$ per Barrel	\$69.50	\$90.42	+\$20.92	57.47%
Gold \$ per Troy oz.	\$4,038.50	\$4,186.70	+\$148.20	-3.56%
UK Point in U.S. \$	\$1.3273US=1£	\$1.3285US=1£	\$ WEAKER	-1.23%
Euro in U.S. \$	\$1.1433US=1 €	\$1.1359US=1 €	\$ STRONGER	-3.29%
Canada \$ per U.S. \$	\$1.41875C=\$1.00US	\$1.41975C=\$1.00US	\$ STRONGER	3.57%
Japan Yen per U.S. \$	162.525¥=\$1.00US	157.135¥=\$1.00US	\$ WEAKER	0.25%

