Portsmouth, New Hampshire

WEEK OF OCTOBER 26, 2026

# Market Navigator

Although stocks were mixed at the index level last week, strength was seen beneath the surface. The Russell 2000 was the best-performing part of the market, and the equal-weight S&P 500 also had another strong week. The Treasury market rallied again, providing ballast to equities as the yield on the 10-year declined to 5 percent.

## Quick Hits

1. **Beyond the headlines:** Why higher rates aren't necessarily bad news.
2. **Report releases:** Housing data was weak as high mortgage rates and increasing input costs weighed on the market.
3. **Financial market data**: Bonds rallied again on lower Treasury yields; stocks were mixed but market breadth improved.
4. **Looking ahead:** The Federal Reserve's (Fed's) meeting is the highlight of a busy week.

# Beyond the Headlines: Why Higher Rates Aren't Necessarily Bad News

The Fed meets this week to deliberate on short-term interest rates. Market participant opinions as to whether the Federal Open Market Committee (FOMC) will raise rates again after its September increase have shifted dramatically in the past month. Investors who once expected another rate hike now largely expect the central bank to leave rates unchanged this week and reconsider the need for additional increases when it meets again in December.

As always, post-meeting comments from Fed Chair Kevin Warsh will be critical for investors. Although Warsh has historically avoided giving guidance, his answers will be parsed for insights into whether he supports a December rate hike.

While the Fed controls short-term rates, it does not control the yield on the 10-year Treasury bond. This yield has been in the news lately after it surged higher and then quickly moved lower as investors sold stocks and moved to safer assets. It's important to note that current yields are not out of line with historical levels.

**What Is the Fed Looking At?**

The key driver of the Fed's interest rate increase in September was accelerating inflation. Although inflation data continued to move higher at the consumer and producer levels in the past month, a softer-than-expected September employment report could buy the central bank time to raise rates again. This doesn't mean, however, that the Fed won't continue to focus on inflation.

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Warsh has made it clear that the Fed's goal is to rein in inflation. It has been more than five years since inflation was below the central bank's 2 percent target. While much of inflation's move higher can be tied to tariffs and higher oil prices, those factors are beginning to affect other components of inflation, such as core goods. This suggests that even if we get an agreement to end the war between the U.S. and Iran, the Fed may still need to raise rates, barring an unforeseen economic slowdown.

**10-Year Yields Alone Shouldn't Pressure Stocks**

While Fed decisions rightfully receive attention, the 10-year Treasury yield is also critical. Recently, the 10-year Treasury yield reached levels last seen in 2002. Although that seems like a significant development on the surface, it's important to note that 10-year Treasury yields from 2008 to 2022 were abnormally low.

That period was a particularly strong one for equity investors, but low rates aren't necessarily needed to generate strong returns. Yields between 4 percent and 6 percent are normal when viewing them through a longer-term lens. One only needs to go back to the 1990s to see yields at that level, along with strong economic growth, strong earnings growth, and strong returns for stock markets.

**Higher Yields Could Be the New Normal**

At the same time, higher Treasury yields present options for investors, particularly those seeking income. Relatively risk-free investments at that level not only provide attractive yields, but bonds at current levels could also return to their diversification role for equity investors. That possibility was on display on Thursday, when 10-year yields dropped 19 basis points (bps) because of a sell-off in technology stocks.

## Report Releases: October 19–23, 2026

**National Association of Home Builders (NAHB) Housing Market Index**
October (Monday)

Home builder confidence reached a 14-year low due to rising mortgage rates, labor shortages, and high supply costs.

- Expected/prior month NAHB Housing Market Index: 31/32
- Actual NAHB Housing Market Index: 29

**Housing Starts and Building Permits**
September (Tuesday)

Housing starts and building permits declined, marking three consecutive months of slowing starts.

- Expected/prior month housing starts monthly change: +1.9%/–5.9%
- Actual housing starts monthly change: –5.2%
- Expected/prior month building permits monthly change: –1.3%/–2.1%
- Actual building permits monthly change: –0.2%

### >> The Takeaway

- Home builder confidence fell to a 14-year low because of higher mortgage rates and higher input costs.
- Housing starts and building permits declined.

## Financial Market Data

### Equity

Stocks were mixed. The Dow Jones Industrial Average managed a small gain of 0.42 percent. The Russell 2000 led the market, rallying 2 percent. The S&P 500 and Nasdaq Composite closed slightly lower. The broader market was once again stronger than the headline indices, with the equal-weight S&P 500 outperforming the S&P 500 by more than 150 bps. Weakness in Meta Platforms led the communication services sector to decline more than 6 percent. With oil rising more than 4 percent, the energy sector rallied more than 1.5 percent. Health care was also up 1.5 percent. International markets were down; developed markets dipped 1.5 percent, and emerging markets fell more than 2.5 percent.

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| S&P 500 | –0.46% | –0.31% | 12.38% | 14.44% |
| Nasdaq Composite | –0.71% | –3.36% | 12.19% | 13.82% |
| DJIA | 0.42% | 2.62% | 9.99% | 13.52% |
| MSCI EAFE | –1.51% | –1.59% | 9.15% | 12.97% |
| MSCI Emerging Markets | –2.61% | –7.37% | 14.41% | 16.78% |
| Russell 2000 | 2.01% | –0.71% | 13.06% | 13.35% |

*Source: Bloomberg, as of October 23, 2026*

### Fixed Income

The Treasury market once again rallied across the curve, in part due to a flight to quality driven by stock market volatility. The yield on the 10-year Treasury declined 8 bps to close at 5 percent. The further drop in yields in the Treasury market led to rallies for most fixed income markets. Core bonds, Treasuries, and mortgages rose between 0.5 percent and 0.75 percent, and the municipal market gained more than 1 percent.

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|---|---|---|---|---|
| U.S. Broad Market | 0.54% | 1.87% | –1.10% | –1.11% |
| U.S. Treasury | 0.56% | 1.82% | -0.99% | –1.16% |
| U.S. Mortgages | 0.75% | 2.30% | –1.09% | –0.63% |
| Municipal Bond | 1.14% | 3.18% | –1.13% | –0.87% |

*Source: Bloomberg, as of October 23, 2026*

### >> The Takeaway

- In a mixed week for stocks, breadth continued to improve. The equal-weight S&P 500 and the Russell 2000 led the gainers, and energy was the strongest-performing sector.
- Treasury markets rallied again as investors sought higher-quality assets amid stock volatility.

## Looking Ahead

In a very busy week, the Fed's decision on interest rates will be the most watched event.

- The week kicks off on Tuesday with the preliminary **durable goods** orders report for September and the **Conference Board Consumer Confidence Index** for October. Durable goods orders are expected to improve, and consumer confidence is anticipated to fall after reaching a 12-year low in the previous month.
- On Wednesday, we'll receive the **FOMC's rate decision** after its October meeting. The Fed is expected to leave the federal funds rate unchanged.
- On Thursday, we anticipate the release of advance GDP for the third quarter and **personal income and spending** for September. Economists expect economic growth to accelerate to 3 percent on an annualized basis. Personal income and spending are anticipated to show healthy growth.
- Finally, it's a big week for earnings releases, with reports expected from Alphabet, Microsoft, Amazon, Boeing, Chevron, and ExxonMobil.

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