

October 5, 2026

Index	Asset Class	2026		2025
		Sep.	YTD	
Equity Indexes		Total Returns		
NASDAQ 100	Mega Cap U.S. Growth Equity	3.3%	21.0%	21.0%
S&P 500	Large Cap U.S. Equity	(0.4)	12.8	17.9
S&P 400	Mid Cap U.S. Equity	(4.2)	9.9	7.5
S&P 600	Small Cap U.S. Equity	(5.6)	14.1	6.0
MSCI All Country World	Global Equity	(1.1)	13.4	22.9
MSCI All Country World (Ex U.S.)	International Equity	(2.3)	14.7	33.1
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	(3.0)	10.8	31.9
MSCI Emerging Markets (EM)	International Emerging Market Equity	(0.5)	23.7	34.4
Fixed Income Indexes				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	(2.6)	(2.9)	7.3
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	(3.9)	(3.8)	3.8
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	(4.4)	(2.5)	3.3
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	(2.5)	0.1	8.6
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(1.4)	10.1	19.8
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(1.7)	6.8	16.6
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(2.0)	3.5	13.5
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(2.3)	0.3	10.4
Data as of 9/30/2026. Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.				

Please see important disclosures at end of this report.

Overview & Economy

Vigilantes on the Loose. The bond market is front and center, with longer-term market rates continuing their meaningful move higher. Market yields for 10-year government bonds are at multi-decade highs for U.S. as well as for U.K., German and Japanese issues. Within September, longer-term U.S. Treasury yields broke through the 5.0% threshold that many market pundits had referred to as potentially ominous. Recently, 10-year U.S. Treasury yields reached 5.29%, their highest level since March 2002, and 30-year Treasury yields reached 5.64%, their highest level since June 2002.

We addressed the rebellious bond market participants, the so called “**bond vigilantes**,” in our commentary last month, along with the main catalysts igniting their recent fury – i.e., elevated inflation (due mainly to higher oil prices), increasing U.S. Government debt, and the flood of AI bonds tilting the overall supply/demand balance. We find it necessary to address this topic again this month as the *bond vigilantes* drove market rates meaningfully higher in September, with 10-year U.S. Treasuries logging their largest quarterly increase since 1994. This is particularly dubious as the latest move higher in market rates has been despite the FOMC’s Fed Fund rate hike in September and Chair Warsh’s cloaked “hawkish” comment,¹ and despite moves by the U.S. Department of the Treasury, touted by Secretary Bessent, intended to counteract the rise in market rates. The Treasury department’s moves included: (a) scaled up repurchases of longer-term Treasury bonds, financed by increased issuances of short-term Treasury bills (a.k.a. “*Treasury Twist*”), as well as efforts to prop up the Japanese Yen to mitigate Japan’s motivation to sell U.S. Treasuries.² Well, so far, the Treasury department’s efforts have not worked – as longer-term rates have moved up further, and the Yen, relative to

the U.S. dollar, is still down relative to its level in late-July and no higher than where it was when Secretary Bessent announced the intervention efforts. Adding insult, it is believed that Japan recently sold a portion of its holdings in U.S. Treasuries.³

Markets Don't Care About Something Until They Do. It is interesting how financial markets, underpinned by the wisdom of crowds, don't care about something until they do. In this light, we ponder what the bond market participants may have started caring about over the last few months that they didn't care about much before? In this light, we offer a couple of possibilities:

- a) The U.S. budget deficit and debt level continue to rise to record levels driven by the Trump Administrations deficit spending. This is something some notable investors have been warning about for some time – for example, Bridgewater Associates founder Ray Dalio has been pointing to increasing risks of a major debt crisis for years.⁴
- b) Bond vigilantes may be expressing some doubts in Fed Chair Warsh – namely doubts in his intellectual independence from political influences. The recent ¼ point hike in the Fed Funds rate (to 4.00% from 3.75%) was supported by a unanimous FOMC vote and was attributed to address elevated inflation. But later the same day that this rate hike was announced (September 16) President Trump told reporters that he “talked to Kevin...” and told him “you might as well vote with the board because it’s not going to matter.” This disclosure followed reports from early August about repeated phone calls between Trump and Warsh.⁵ In all, a continuous line of communication and a suggestion of voting “pre-approval” could lead some Fed watchers to question the Fed Chair’s independence – at least until proven otherwise.

No, the 60/40 portfolio is not dead. We do not interpret the increasing risks and volatility among longer-term bonds to warrant a move away from bond allocations across classic stock/bond portfolios. In our view, the rationale for investment grade bonds in a multi-asset class portfolio is to reduce volatility of returns – not to drive returns. This becomes most important during equity market downturns, with the benefits of investment grade bonds during these times reflecting their traditional non-correlation with equities. Furthermore, respectful of bonds’ role to reduce portfolio volatility, we advocate strategic positioning toward lower duration within bond holdings (i.e., 4-5 year vs. +/- 6 year durations for both the Bloomberg U.S. Bond Aggregate Index and the S&P National AMT Free Muni Index). In fact, we would go as far as saying that longer-term bonds/bond funds may not be appropriate in most private client multi-asset class portfolios. Most importantly, were higher longer-term rates to undermine broader economic growth and meaningfully impact corporate profit trends, the potential pullback for stocks could be expected to be significantly greater than any weakness in bonds. As they say... *‘a bad year in the bond market can compare to a bad day in the stock market.’*

Equity Markets

The narrow U.S. mega cap leadership reasserted itself in September, as all major equity indexes we track declined in the month with the exception of the NASDAQ 100. The laggards in the month were U.S. Small/Mid Caps, attributable to the rise in interest rates as this cap range is perceived to be more reliant on debt financing. Unpacking the narrow mega cap leadership, we find interesting that just two stocks accounted for about 2/3 of the total return for the NASDAQ 100 last month – these two were **Advanced Micro Devices (AMD)**, which gained 30.0% last month, and **Meta (META)**, which gained 26.8%.

Fixed Income Markets

The intermediate-term investment grade and high-yield bond indexes we track in this report experienced pullbacks last month which accounted for more than their YTD total declines. Readers may observe from the table on the cover of this report that the municipal bond indexes declined a bit more than the comparable taxable bond indexes last month. Looking into this disparity, bond traders attributed it to a consequence of smaller issue sizes and lower trading liquidity among muni bonds vs Treasuries and corporates, which can result in magnified volatility over very short-term periods.

Reference(s):

- 1) CNBC, "Three words from Kevin Warsh have Wall Street wondering how far the Fed will go...", Sept. 18, 2026 – [Link](#)
- 2) CNBC, "Bessent could tap near \$1 trillion Treasury General Account to fund bond buybacks...", Aug. 24, 2026 – [Link](#)
The Japan Times, "Bessent dares traders to bet against yen: 'I am the house now' ", Sept. 9, 2026 – [Link](#)
- 3) The Japan Times, "Japan likely sold Treasuries to fund record yen intervention", Sept. 7, 2026 – [Link](#)
- 4) Time, "Ray Dalio: We Need to Cut the Budget Deficit Now", Feb. 13, 2025 – [Link](#)
- 5) The Wall Street Journal, "Trump Says He Backs Warsh After Central Bank Raised ... Rates", Sept. 16, 2026 – [Link](#)

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