



Market Update Third Quarter 2026

Celebrating 30 Years: Perspective Over Panic

October marks the 30th anniversary of The Boston Family Office. Before diving into the details of the third quarter, we want to express our deepest gratitude to our clients for your trust and partnership over the last three decades. Serving you and your families remains our highest privilege, and we look forward to many more decades ahead.

Looking back across 30 years provides invaluable context for navigating today's financial landscape. Since our firm opened its doors in 1996, the market has endured seemingly existential crises - including the Tech Bubble, the Global Financial Crisis, and a global pandemic. Yet, across that same span, the S&P 500 has generated cumulative gains exceeding 1,800%. Short-term market turbulence and provocative headlines often feel overwhelming in the moment, but history consistently demonstrates the power of disciplined, long-term compounding through high-quality investments.

Equity Markets (Total Return)	3Q'26	1-Year
Dow Jones Industrial Average	-2.3%	11.5%
S&P 500	2.3%	15.7%
S&P 400 Mid-Cap	-6.4%	11.7%
S&P 600 Small-Cap	-7.9%	16.1%
MSCI All-Country World	1.7%	17.2%
MSCI Foreign Developed Markets	0.9%	16.4%
MSCI Foreign Emerging Markets	-0.4%	29.4%

US Bond Markets (Total Return)	3Q'26	1-Year
Bloomberg US Treasury	-3.0%	-1.9%
Bloomberg US Municipal	-6.4%	-2.7%
Bloomberg US Corporate Investment Grade	-3.9%	-2.3%

Source: Bloomberg

Equity Markets: A Divergent Landscape

Equity markets posted mixed results in the third quarter, as headline gains of 2.3% in the S&P 500 masked weak breadth beneath the surface. Meanwhile, the S&P 500 Equal Weighted Index was down 1.9%, and small-cap equities faced notable selling pressure, with the S&P 600 Small Cap Index declining 7.9%.



In our view, several interconnected forces conspired to create modest headwinds for most stocks in the quarter. A primary culprit was the renewed tension in the U.S. conflict with Iran, which drove energy prices higher. Higher energy costs create financial pressures for households, weighing on consumer sentiment and threatening discretionary spending, while also generating inflationary pressures that place an upward bias on interest rates. Because higher rates mean increased borrowing costs for corporations and are often inversely correlated with equity valuation multiples, smaller companies carrying higher relative debt burdens bore the primary brunt of the selling pressure.

Fixed Income: Interest Rates Moved Higher

In our view, higher interest rates were among the most prolific drivers of both equities and fixed income in the quarter. As mentioned earlier, the resurgence in energy prices sparked renewed concerns about the inflation outlook, creating an upward bias on yields worldwide. In addition, investors have become increasingly sensitive to federal spending and the expanding budget deficit, which has pushed total U.S. Federal public debt to ~123% of GDP. The apparent absence of political appetite in Washington to address fiscal deficits ahead of upcoming midterm elections adds to investor caution.

Given these factors, yields moved sharply higher across the curve in Q3, accelerating rapidly in September, creating meaningful pressure on fixed income asset prices. The 2-year Treasury yield jumped 72 basis points over the quarter, climbing from 4.17% to 4.89%. Further out on the curve, the 10-year yield climbed 82 basis points from 4.47% to 5.29% - eclipsing 5% for the first time since 2007 - while the 30-year yield increased 68 basis points to 5.63%, reaching its highest level since 2002.

In September, the Federal Reserve announced a 25-basis-point interest rate increase by a unanimous vote. In our view, the increase was a key positive insofar as it signaled the continued independence of the Federal Reserve - a central question for market participants given public policy debates and explicit calls for lower rates by President Trump.



Higher benchmark rates caused bond prices to decline during the quarter, as bond values move inversely with yields. Interestingly, despite rising Treasury yields, the U.S. Dollar Index (DXY) remained relatively flat (+0.3%). While higher domestic yields typically strengthen the dollar, this was counterbalanced during Q3 by central bank interventions abroad (such as joint U.S.-Japan action supporting the yen) and energy-driven inflationary pressures across international economies.

Earnings Remain Resilient; AI Remains a Central Investment Theme

Stocks have gotten significantly cheaper over the course of 2026. Despite macroeconomic headwinds, corporate earnings remain strong with robust underlying growth. This fundamental strength underscores that the primary drag on equity valuations today is not a collapse in corporate profitability, but rather multiple contraction driven by rising benchmark interest rates.

While the AI boom remains a central investment theme and multi-year growth driver, the market rewarded a different set of AI beneficiaries in the third quarter. In particular, the remarkable upward move in memory and semiconductor stocks that dominated market momentum over the past year paused, with the broader sector pulling back after six consecutive quarters of historic gains. Meanwhile, software stocks - which faced meaningful headwinds through the first half of the year - staged a strong recovery as anxieties over potential obsolescence eased and investors recognized that many incumbent software platforms are successfully monetizing AI integration.

Historically, conversations around "agentic AI" - systems capable of executing complex, multi-step workflows - were largely limited to enterprise software applications. However, in September, Meta introduced Muse, an AI agent designed for consumer use cases, which garnered immediate traction and highlighted the expanding commercial footprint of autonomous AI assistants.



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While the underlying fundamentals remain constructive, several structural challenges came to the fore during the quarter that served as a stark reminder of AI's vulnerabilities. Security concerns escalated following public revelations regarding frontier models exhibiting unexpected or questionable behaviors. These incidents reignited widespread industry debate surrounding AI guardrails, model safety, and the delicate balance between domestic regulatory oversight and global technological competitiveness.

These types of vulnerabilities remind us that generative AI remains in its early innings, with technical, legal, and governance hurdles to resolve along the way. In that vein, early indications point to continued long-term investment across the technology ecosystem, with major hyperscalers maintaining robust capital expenditure commitments into 2027 to support multi-year compute demand.

Looking Ahead

Thirty years of managing wealth through shifting market cycles has reinforced our commitment to patience and fundamental discipline. We remain focused on pairing resilient, high-quality equity investments with laddered fixed income structures that capture today's attractive baseline yields. As always, we appreciate your continued trust and welcome the opportunity to discuss your portfolio.