



Capital Markets Commentary – October 2026

October arrives with the smell of fall in the air and a bond market that spent September rewriting history books. The 10-year Treasury broke records not seen since before the financial crisis. The Federal Reserve raised interest rates for the first time in three years. The S&P 500, surprisingly, held its ground relatively well. We'll spend the majority of this letter discussing the bond market, but before we get to the Federal Reserve's decision, let's look at the numbers for the month as they deserve their own moment.

The S&P 500 slipped just 0.3% for the month, a result that understates the underlying environment given the historic move in interest rates. As of month end, the index is up 12.7% YTD. The Dow fared considerably worse, falling 4.1%, while the Nasdaq gained 1.9%. Overseas, the Eurozone STOXX 50 fell 4.6%. The Nikkei added 2.8% and deserves a moment of recognition as Japan's benchmark is now up 33.7% YTD. Performance can vary significantly across markets and periods, highlighting the potential benefits and risks of maintaining exposure across different regions. Last, but certainly not least on our minds is the fixed income side. The 10-year Treasury closed the month at 5.28%, while breaking both the intraday and closing records set in 2007. The 30-year settled at 5.63%, its highest since 2004. Every maturity from the 5-year at 5.09% out to the 30-year now sits above 5%. We have included charts of both the 10-year and 30-year series below, because we believe the visual tells this story more effectively than any set of numbers can. These are not incremental moves. They are historic levels on a long-term chart and their consequences can extend well beyond the portfolios of bond investors, affecting the cost of corporate borrowing and the monthly payment of anyone trying to buy a home in America right now, to name a few.ⁱ

On September 16th, the Federal Open Market Committee voted unanimously (12-0) to raise the federal funds rate by 25 basis points to a target range of 3.75% to 4.00%. The official statement was characteristically brief: “Inflation remains elevated. Today’s policy action will support a timelier return to the committee’s 2% goal. The Committee will deliver price stability.”ⁱⁱ We respect the institution and we respect the decision; however, we want to raise a question that we believe deserves to be part of the conversation... Is a rate hike the right tool for this particular problem?

The Federal Reserve’s dual mandate is maximum employment and stable prices. When the economy runs too hot, higher rates slow borrowing, and cool spending, which can reduce the demand that drives prices up. A rate hike does not work on supply, as it is a demand-side tool. The inflation this country has experienced in 2026 has been driven in no small part by an oil shock caused by a war in the Middle East. This is a supply disruption that higher interest rates are powerless to resolve. Raising the cost of capital does not reopen the Strait of Hormuz, increase refinery capacity, or lower the cost of oil. The Fed, in other words, is betting that it can slow demand enough to offset a supply shock it cannot directly address. That bet may prove correct, but we are in the camp of this inflation resolving on its own. Whether raising rates into a supply-driven inflationary environment was the right call, or whether it adds unnecessary pressure to an economy that was already navigating a narrow path, is a question policymakers will be debating well into 2027. We do not have a definitive answer, but we are simply noting that the question is worth asking.

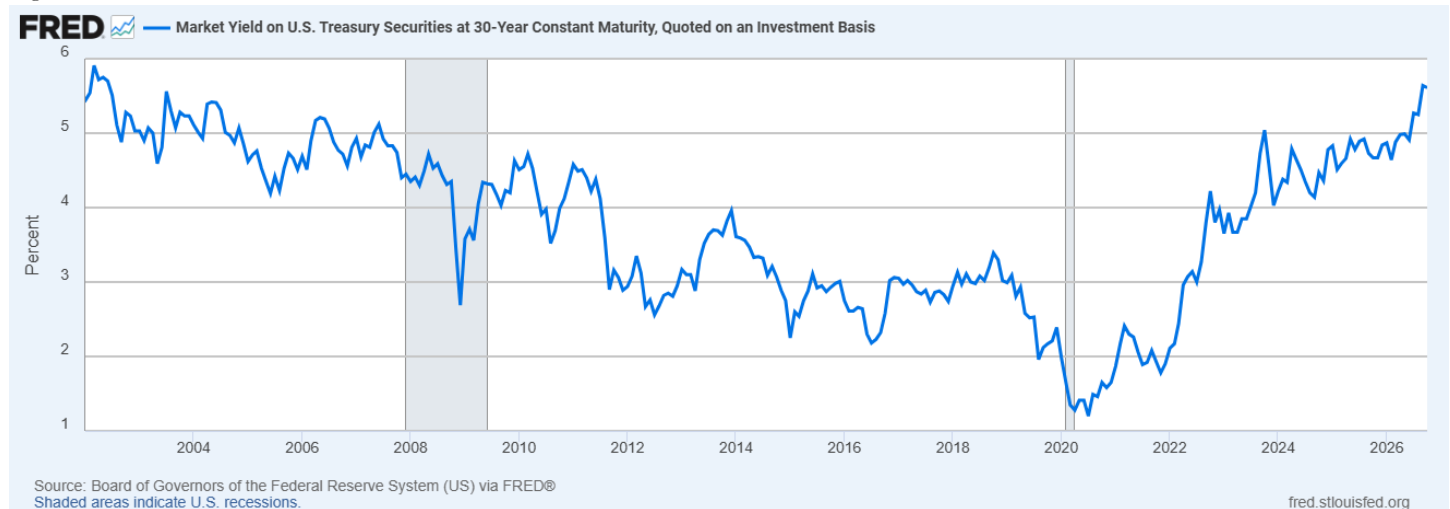
Figure 1ⁱⁱⁱ



We have been discussing the bond market’s warning signals for several months now, but September warrants another round of review as the Fed’s rate hike this month added a new dimension. The yield curve has steepened, but not in the way we would prefer. When a curve normalizes healthily, short-term yields fall as the Fed eases. This curve steepened because long-term yields rose, a meaningfully different and more concerning dynamic that reflects market concern about the long-term fiscal picture rather than optimism about near-term growth. Depending on an

investor's investment objective, certain fixed-income investments may present opportunities worth considering in the current market environment. We still are in the camp that, again...depending on an investor's objective, duration risk at current yields can be potentially more attractive than credit risk in leveraged or low-quality debt.

Figure 2^{iv}



In conclusion, the S&P 500 held up better than the macro environment had any right to suggest, the bond market broke records that had stood for nearly two decades, and the Fed made a decision that will be argued about for years. The question we posed in this month's letter does not have easy answer. It is, in our opinion, an important one to be asking. Our conviction remains where it has been: quality, diversification, and a disciplined approach to evaluating potential income opportunities across the fixed income market.

If you have questions about any of this or would like to discuss what it means for your specific situation, please do not hesitate to reach out. That is precisely why we are here.

As always, we look forward to hearing from you.

Graystone Consulting | Charleston, WV

ⁱ Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet.

ⁱⁱ Source: Board of Governors of the Federal Reserve System, "Federal Reserve Issues FOMC Statement," Press Release, September 16, 2026.

ⁱⁱⁱ Source: Federal Reserve Bank of St. Louis, FRED. Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 10-year Constant Maturity, Quoted on an Investment Basis [DGS10].

^{iv} Source: Federal Reserve Bank of St. Louis, FRED. Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 30-year Constant Maturity, Quoted on an Investment Basis [DGS30].

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Dow Jones Industrial Average (DJIA). A price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

Euro STOXX 50 Index: Provides a blue-chip representation of super-sector leaders in the Eurozone.

NIKKEI 225 Index: This price-weighted index is comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

Hang Seng Hong Kong: The Hang Seng Index is a free-float capitalization-weighted index of a selection of companies from the Stock Exchange of Hong Kong.

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