Vestor Capital
INVESTMENT & WEALTH MANAGEMENT

Economic & Investment Outlook

October 12, 2026

Equity Market Update

Equity markets advanced in the third quarter, though more modestly than during the spring rebound. The S&P 500 gained 2.30% during the quarter, while major U.S. and international indexes remained solidly positive for the year. Developed international markets also rose, while emerging markets declined but were still a year-to-date bright spot. Investors weighed firm earnings and economic growth against higher interest rates and renewed inflation concerns.

Technology stocks showed how quickly markets can change. In July, a swift selloff pushed the technology-focused NASDAQ 100 down just over 10%, while some individual stocks declined much more sharply. By quarter-end, the index had recovered enough to finish slightly higher. Earnings remained strong overall, illustrating how far sentiment can move share prices without a comparable change in fundamentals.

In our last update, we noted that gains were spreading beyond the largest companies. That trend reversed in the third quarter: U.S. small caps declined even as the S&P 500 rose. Broad participation generally helps sustain market advances, so we will watch whether leadership widens again. Still, economic growth and firm corporate earnings support a constructive longer-term outlook for equities, even if returns are likely to be less uniform from here.

Total Return Performance
for the Major U.S. and International Stock Market Indexes

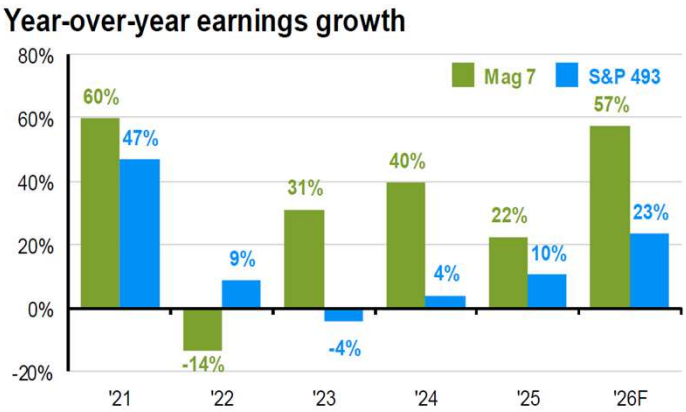
EQUITY INDEX	YTD September 30, 2026
UNITED STATES	
Dow Jones Industrial Avg.: 30 Stock Composite	7.19 %
S&P 500 Composite: U.S. Large Cap	12.75 %
NASDAQ 100 Composite: Technology Heavy	21.00 %
S&P 600 Small Cap: U.S. Small Cap	14.15 %
INTERNATIONAL	
MSCI EAFE Large Cap: Europe, Asia & Far East Large Cap	10.91 %
MSCI EAFE Small Cap: Europe, Asia & Far East Small Cap	11.28 %
MSCI EM Emerging Market: Emerging Market Countries	23.52 %

Source: Bloomberg, L.P.

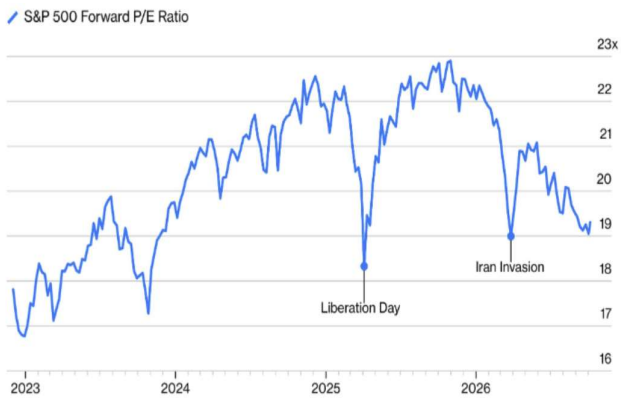
Earnings Behind Valuations

Much of the discussion about the stock market centers on whether valuations are too high. The other part of the picture is the earnings that support those valuations. Forward P/E compares stock prices with expected earnings, and the "E" does not stand still: a market can rise while its P/E falls if earnings expectations grow faster than stock prices. That is a useful way to read this year's market. The S&P 500 has advanced, yet its forward P/E has declined from its recent highs to roughly 19. Stocks are not necessarily cheap, but the advance has involved more than investors simply paying a higher price for the same expected profits.

One might expect the fastest-growing companies to lead the market all year. The Magnificent Seven—NVIDIA, Apple, Alphabet, Microsoft, Amazon, Tesla, and Meta—are forecast to grow earnings much faster than the rest of the S&P 500. As a group, the Magnificent Seven outperformed the S&P 500 in the third quarter but still trail it year-to-date, even though some of the seven have beaten the index individually. That gap reminds us that investors also weigh how much growth is already reflected in a stock's price. Analysts also expect substantial earnings gains from the other 493 companies. Stock returns became more concentrated last quarter, but the expected profit growth beneath them is broader. That is a more reassuring picture of the market than price performance alone might suggest.



Source: JPMorgan Guide to the Markets 9/30/26



Source: Bloomberg, L.P.

Inflation and the Economy

Inflation has picked up, but the headline tells only part of the story. Year-over-year CPI inflation rose from 2.7% in December 2025 to 3.4% in August 2026. Higher energy prices following the Iran Conflict account for nearly all of that increase. Over the same period, core inflation, which excludes food and energy, edged lower. That does not make higher fuel costs painless, but it suggests the pickup has been concentrated rather than widespread.

The economy has continued to grow through those pressures. Real GDP expanded at roughly a 2.4% annualized pace in the first half of 2026, and the Atlanta Fed's GDPNow model estimates a 3.6% pace for the third quarter. The Federal Reserve raised rates in September for the first time since July 2023, while describing economic activity as solid. Higher energy and borrowing costs warrant attention, especially if they begin to affect other prices or spending. For now, growth remains intact.

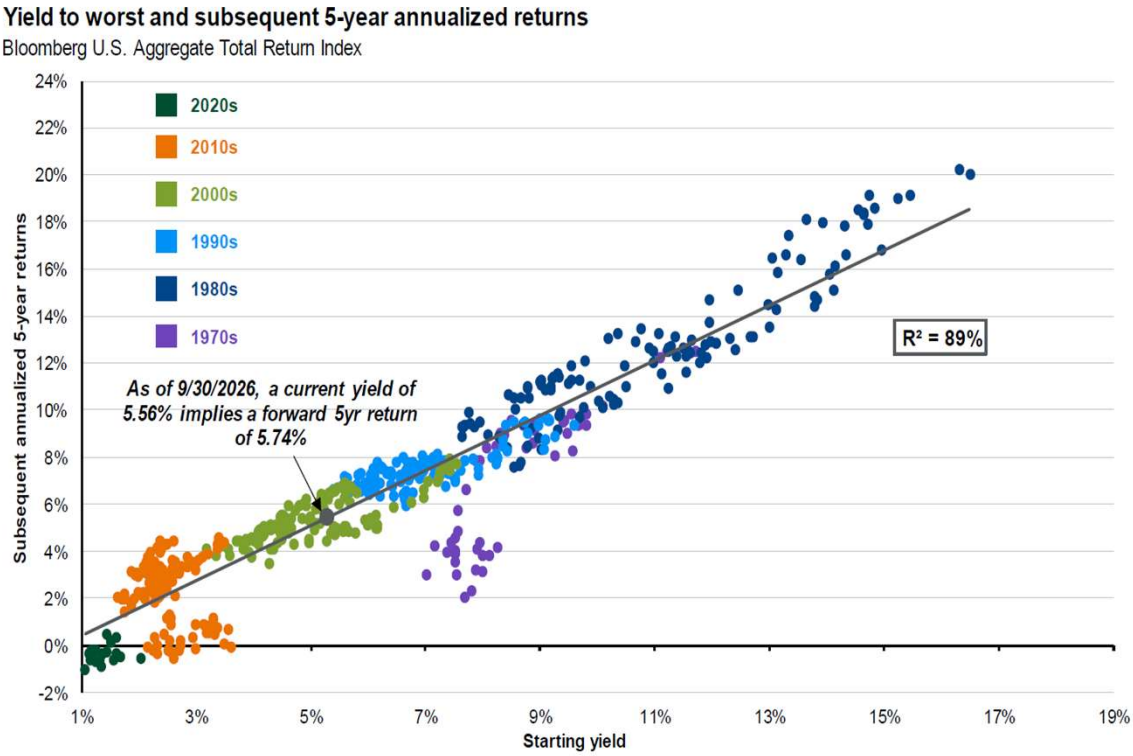
Rising Rates in Perspective

Rising Treasury yields have been uncomfortable for both bond and equity investors. The 10-year yield climbed from roughly 4.2% at the end of 2025 to 5.3% at the end of September. When yields rise, the prices of existing bonds fall. Higher yields also mean investors can earn more income from newly purchased bonds or as maturing bonds are reinvested. The chart below shows that higher starting yields have historically been associated with stronger longer-term returns for the broad bond market.

We continue to favor shorter-term bonds, which offer attractive income with less exposure to price declines if yields rise further. Longer-term bonds pay somewhat more, but we do not believe the additional yield currently justifies their greater sensitivity to interest rate changes.

Beyond bonds, higher yields increase borrowing costs for households and businesses and, all else equal, can weigh on stock valuations. The pace of rising yields can matter, as sudden moves may be more unsettling for markets than gradual ones. At the same time, healthy corporate profits can help offset some of the pressure on stocks. Companies can still invest and grow when the expected return on a project justifies its financing cost. We see higher yields as a change in the investment backdrop, rather than a reason to assume growth must stop.

Periods like this reinforce the value of a financial plan built around each client's time horizon and cash needs. A diversified mix of equities, bonds, and alternatives can reduce reliance on any one asset class when its returns are under pressure.

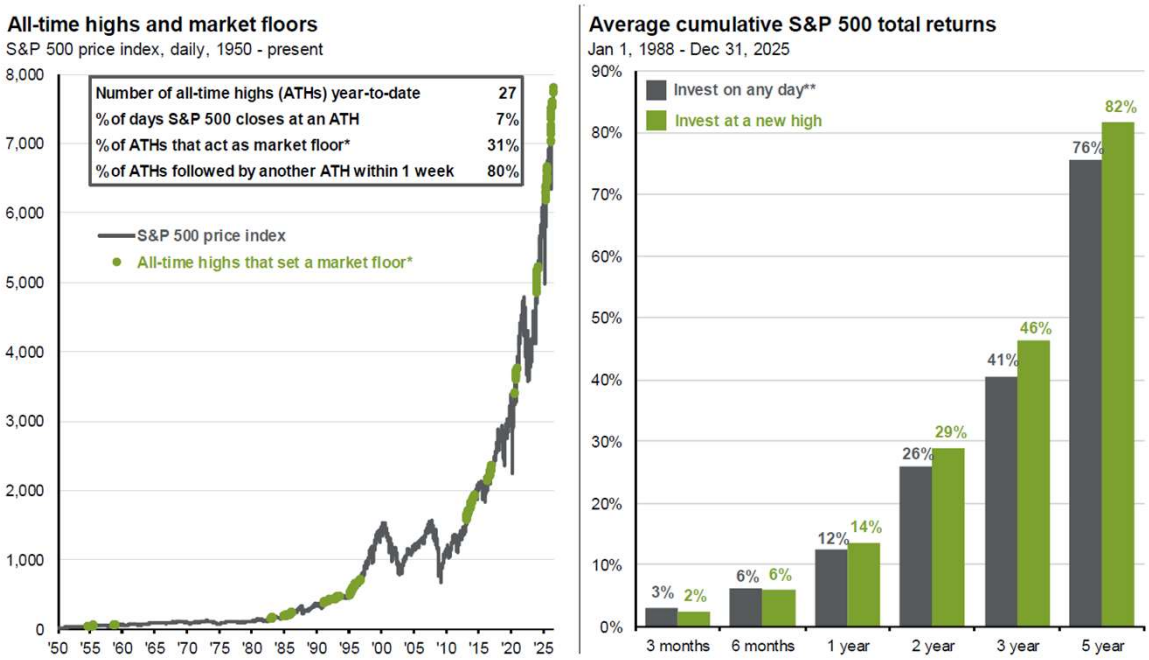


Source: JPMorgan Guide to the Markets 9/30/2026

Summary

An all-time high can make it feel as though the opportunity has already passed. Yet new highs are a normal part of a market that grows over time. As the charts below show, average longer-term returns after investing at a new high have historically been comparable to returns after investing on any day. Reaching a new high is a milestone, not necessarily a ceiling. History puts today's highs in perspective, but it cannot tell us where stocks will go next.

Pullbacks remain possible as markets adjust to higher rates, inflation, and changing expectations for earnings. Rather than treating a particular index level as a signal to act, we remain focused on each client's goals, time horizon, and ability to stay invested through uneven periods. We are grateful for the trust you place in us and for the opportunity to help you sort through the noise while keeping your long-term priorities in view. We hope you and your families enjoy the fall, and we look forward to the months ahead together.



Source: JPMorgan Guide to the Markets 9/30/26

(Left) *Market floor is defined as an all-time high from which the market never fell more than 5%. (Right) **"Invest on any day" represents average of forward returns for the entire time period whereas "Invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-month, 6-month, 1-year, 2-year, 3-year and 5-year intervals.

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