

PDS WEALTH MANAGEMENT



Quarterly Investment Report – Q3 2026

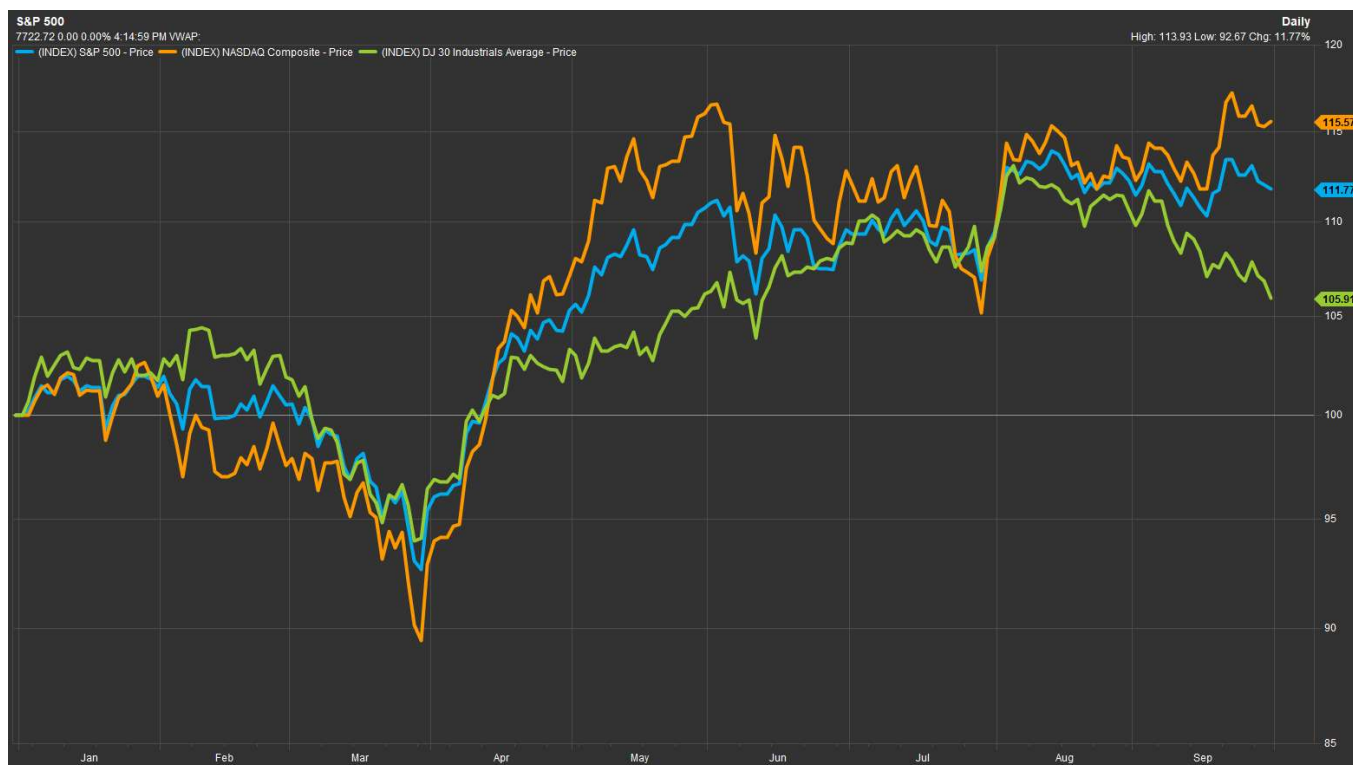
We're in the final stretch of 2026 and just a few weeks away from the mid-term elections. Anxiety is high. AI, Iran, Ukraine/Russia, energy prices/inflation, and higher interest rates/falling bond prices are weighing on investor sentiment. While the outcome of those issues remains unknown, they are all bricks in the proverbial "wall of worry" which stocks often overcome in the long run. In fact, the S&P 500 and Nasdaq just made new, all-time highs last week, though you wouldn't know it based on the prevailing vibe.

Most of these concerns will be with us for a while, it seems, but at least the election and all those annoying political ads will be over soon! In the meantime, please enjoy our summary of Q3.

Markets

Stocks

US Stock Indices YTD – **S&P 500**, **Dow Jones Industrial Average**, **Nasdaq Composite**



Source: FactSet; as of September 30, 2026

While stocks mostly trended higher in Q3, there was a wide dispersion in performance. The DJIA actually lost 2.7% while the S&P 500 added 2.3% and the Nasdaq gained 2.6%. Mega cap companies outperformed while small caps lost ground with the Russell 2000 Index falling 7.2%.

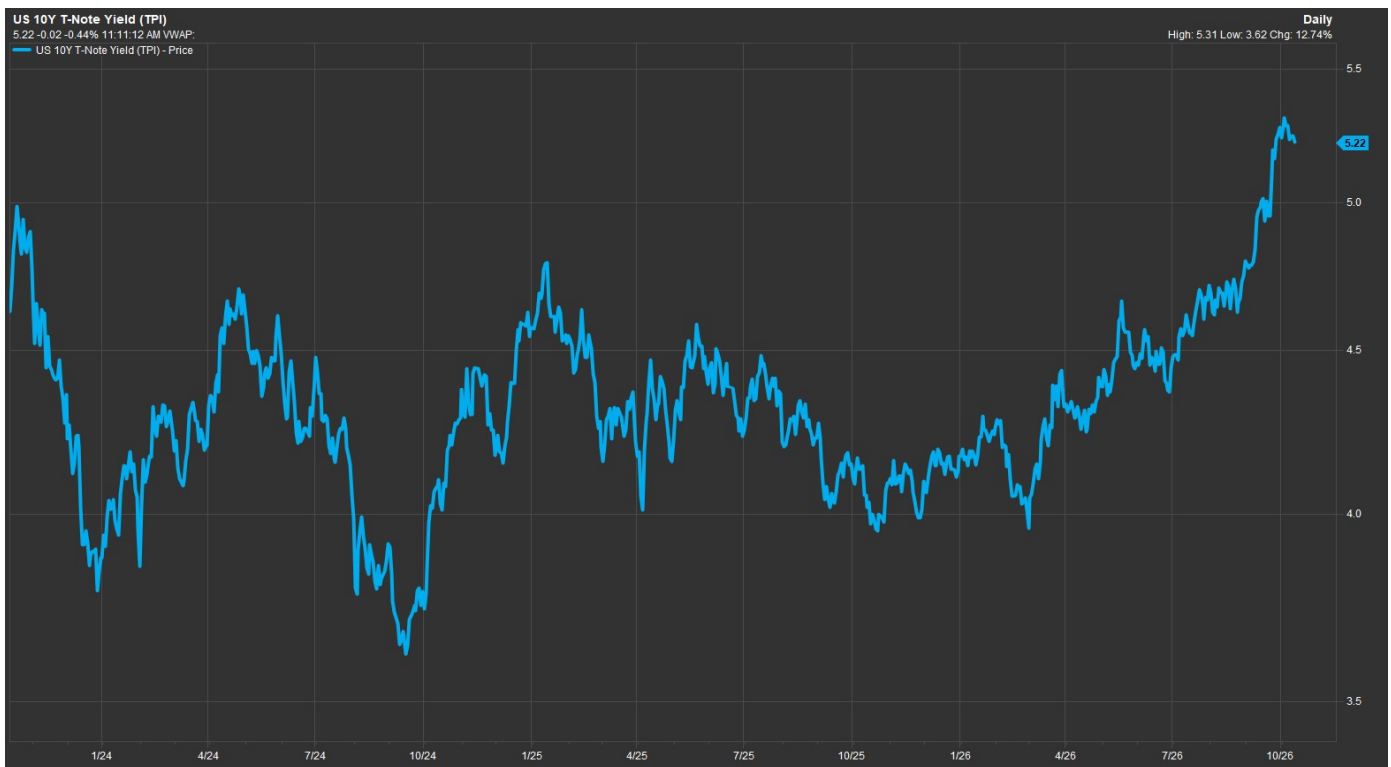
Energy returned to the lead during Q3, gaining 17.2% after the resumption of hostilities in Iran. Technology, Healthcare, and Communication Services were the only other sectors to rise, posting respective gains of 7.2%, 6.5%, and 3.6%. Financials were flat while other interest rate sensitive sectors suffered with Utilities and Real Estate falling 12.4% and 5.6% respectively. Industrials lost 9.7%, Consumer Discretionary declined 5.1%, Materials fell 2.8%, and Consumer Staples gave back 1.9%.

After all the gyrations in recent months, the stock market now trades at a cheaper valuation that it has in recent memory as earnings forecasts continue to rise. Based on current estimates for 2027 S&P 500 earnings, the index trades at a P/E ratio of ~19x – slightly above its 30-year average of 17.2x but below the 20x+ multiple seen over the last few years.

Bonds

Higher interest rates on the back of lingering inflation, along with a hike in the Fed Funds rate, led to pressure on bond prices throughout Q3. For the quarter, the yield on the 10-Year Treasury Note rose 83bps to 5.3%.

10-Year US Government Note Yields



Source: FactSet; as of October 13, 2026

The Barclays Aggregate Bond Index dropped by over 3% in Q3 and has delivered a -2.9% return through September 30. The S&P 500 Bond Index (investment-grade corporate bonds) lost 3.6% in Q3 (-2.7% YTD) while the S&P 500 High Yield Corporate Bond Index fell 2.5% (-0.9% YTD).

While there has been some spread widening (risk-off) in the riskier corners of the corporate bond market....

CCC & Lower High Yield Index Option-Adjusted Spread



Source: St. Louis Federal Reserve; as of October 9, 2026

...spreads in the investment grade market are not yet showing signs of stress.

BBB US Corporate Bond Option-Adjusted Spread



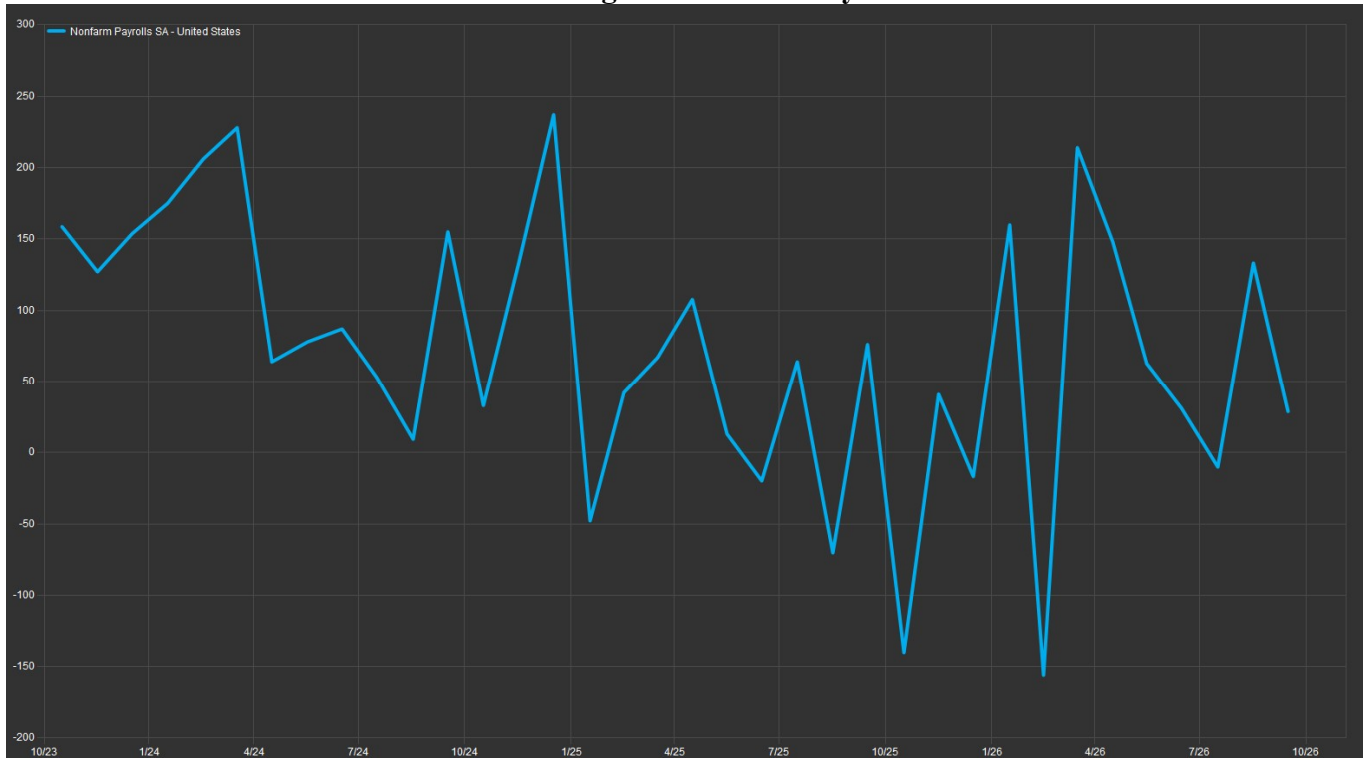
Source: St. Louis Federal Reserve; as of October 9, 2026

Economics

Economic growth has remained strong but so has inflation. As such, the Fed followed up their tough talk on containing prices and raised the Fed Funds rate by 25bps in mid-September. Central banks in Japan and the EU made similar moves during the quarter.

While job growth has remained positive, September's report of a +29,000 increase in payrolls was below the 84,000 forecast and included downward revisions to previous months. The unemployment rate also ticked up to 4.2%. The disappointing number lowered the chances of an October rate hike, though a hike in December is still expected (68% chance according to Investing.com's Fed Rate Monitor Tool as of 10/13).

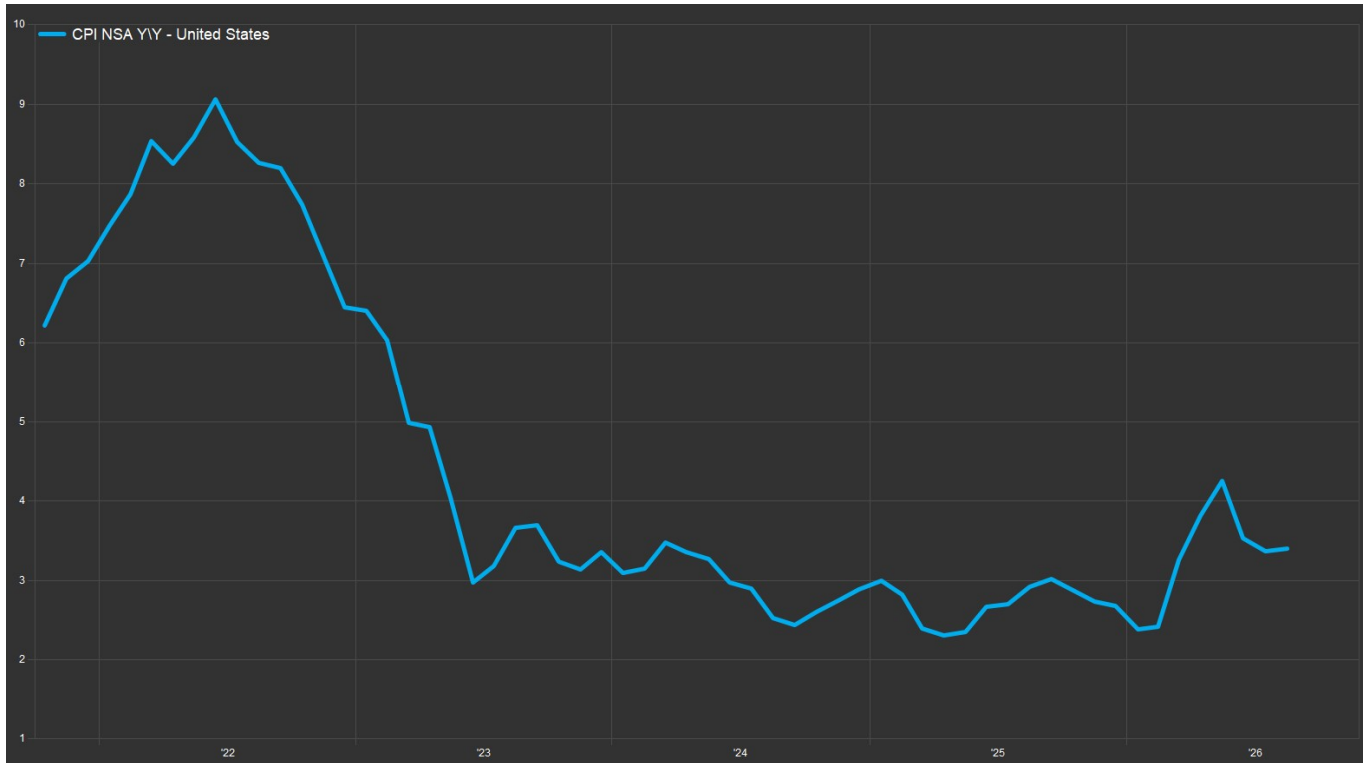
M/M Change in Nonfarm Payrolls



Source: FactSet; as of September 30, 2026

While some progress has been made on inflation, the headline numbers continue to track above the Fed's stated 2% target, as it has since the COVID recovery in early 2021.

CPI Y/Y



Source: FactSet; as of August 31, 2026

We wish you and your families a peaceful end to the year and a joyful holiday season! Please reach out if we can be of any assistance.

Paul Spencer, CFA®

Director

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