Fourth Quarter 2026 — Economic and Capital Markets Commentary

Rates on the Rise

"I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market...

You can intimidate everybody."

– James Carville

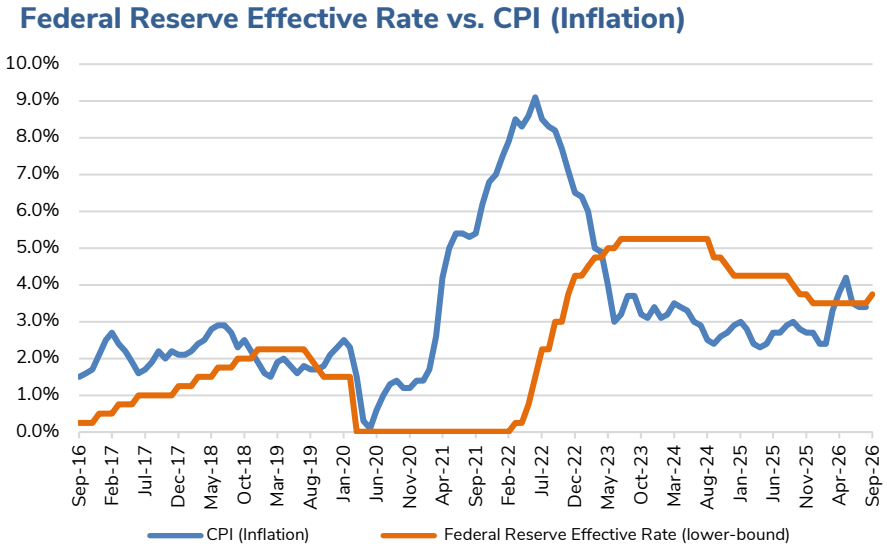
As 2026 winds down, the current state of interest rates has come into the forefront of the economic and political landscape. From the federal funds rate set by the Federal Reserve, to 10-year Treasury rates, to 30-year mortgage rates, small changes in underlying percentages have the ability to shift monetary flows dramatically and even topple governments. As James Carville famously suggested in his witty '90s-era quote, interest rates and the bond market are some of the most powerful forces in the economic universe.

Interest rates are heavily influenced by macro-economic events. The ongoing spike in oil prices due to the conflict in the Middle East has pushed inflation to the highest point since 2022 (post-Covid.) The Fed's new Chair, Kevin Warsh, has repeatedly stated that the Fed has done a poor job of managing inflation for years, and he has no intention of allowing the habit to continue. This led to the recent hike in the federal funds rate, to the chagrin of President Trump, who repeatedly demanded that rates be reduced for the sake of economic growth.

While the bond market shifted to center stage, stock markets have largely continued their climb in 2026 and shrugged off the interest rate effects for now, as earnings from the S&P 500 continue higher supported by the AI-focused data center buildout.

1) Fed Funds Rate – Short Term Signals

As we began 2026, there was an expectation that inflation would be closer to the Fed's 2% target and that rates would be cut several times over the course of the year to facilitate additional economic growth. Instead, the conflict in Iran that began in the first quarter and has continued through the date of this writing has forced the Fed to change course. Rates were hiked 0.25% on September 16, bringing the target range to 3.75%–4.00% - the first increase since July 2023, ending nearly two years of cuts.



Source: Bloomberg Finance LP

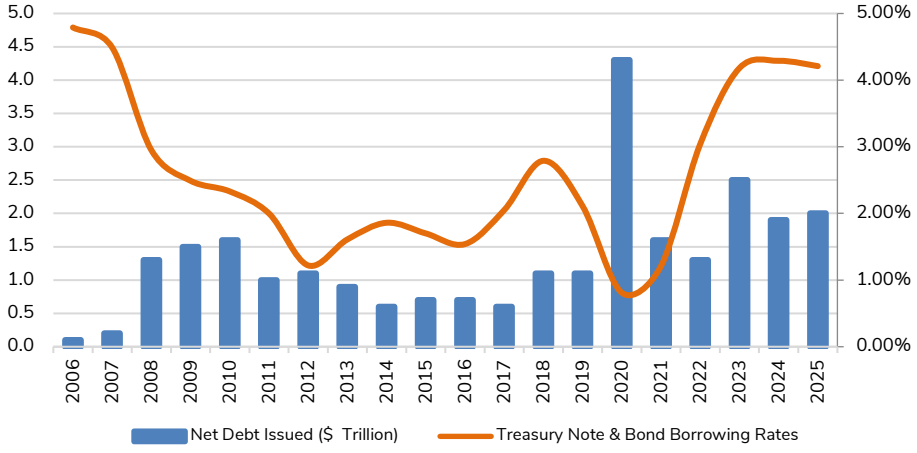
For U.S. investors, this means that money market rates, savings, and short-term bond yields will all increase. Rate hikes also typically have the effect of shifting investment away from speculative assets (stocks) and consumer purchases, as it encourages saving over spending. It is hoped that this will serve to decrease inflation without dampening economic growth. This is the fine line the Fed walks, and it only has so much power, as longer-term rates will ultimately be dictated more by government spending, deficits, and growth than by any action it can take.

2) "The 10-Year"

Arguably the most important benchmark in the bond universe, the 10-year Treasury saw yields increase to over 5% by September, up from a February low of just under 4%. This was the highest yield since 2023 and before that, 2007. While a 1% shift might not seem like much, it has a large ripple effect on the broader financial system, from corporate and municipal borrowing to mortgage rates. The 10-year is also a clear signal on global demand for U.S. government debt. And the signal sent recently read as follows: "Start getting your house in order. You've got $40 trillion in debt."

A portion of that $40 trillion must be refinanced in the coming year, as well as a massive annual deficit of close to $2 trillion. The concerning part of the rise in the 10-year yield is that it happened as the Fed was expected to raise short-term rates. Typically, short-term hikes are deflationary and lessen longer term inflation expectations. Instead, 10-year yields rose right in the face of this shift, signaling an underlying concern that investors are demanding higher compensation to invest in U.S. government debt.

U.S. Net Debt Issued vs. Treasury Note & Bond Borrowing Rates

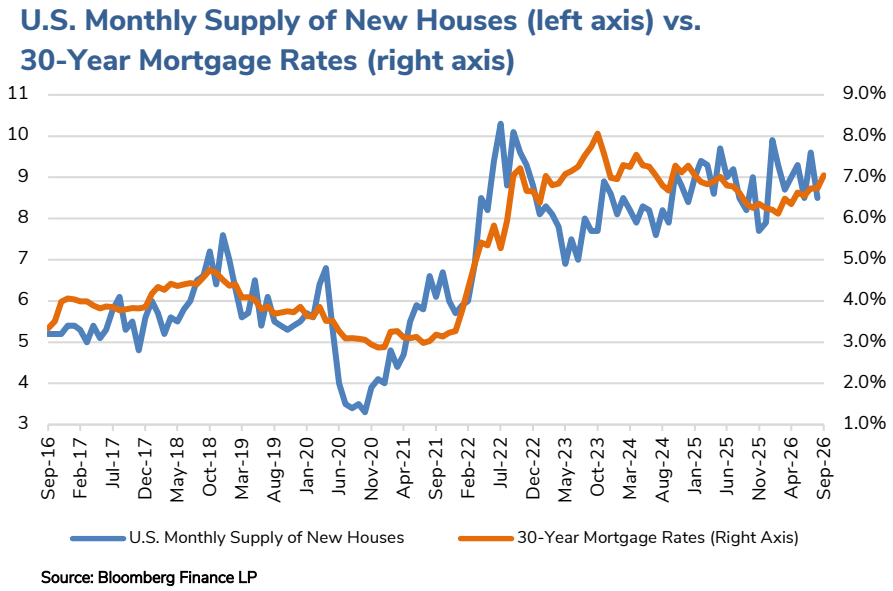


Source: U.S Treasury Securities Auctions Data

For investors, the bond market is priced close to the most attractive levels in 20 years. A shift in allocation toward high quality investment-grade bonds and municipal credit could be considered a reasonable decision here.

3) 30-Year Mortgage Rates

Rates for 30-year mortgages directly feed off 10-year treasury rates, and this effect continues to be an issue for the housing market. Housing supply is surprisingly near a decade high, but the **demand** side is heavily influenced by higher mortgage rates. The jump back over 7% for the average 30-year mortgage has scared away buyers who were on the fence. Meanwhile, supply continues to build up over months, with listing times stretching on average close to pre-Covid levels of 60 days.



Source: Bloomberg Finance LP

This has a dual effect of reducing new home construction and squeezing homebuilder margins, as prices have retreated in once hot housing markets like the Sun Belt and western states. We also see pressure on earnings at home improvement and other retailers who typically see higher revenues with more housing turnover.

While it does seem like the housing market may be righting itself after 10 years of low interest rates followed by 2 years of Covid-induced mania, it is a painful and unpleasant process for many home buyers. More importantly, these recent events dramatically show how unchecked government spending, debt, and deficits are biting into an important part of the economy – real estate.

What's an investor to do?

For clients, higher short-term interest rates mean a higher yield on money market fund reserves and serves as a reminder that risk-free liquidity – for expenses, gifts, peace-of-mind, or future securities purchases – has a place in most accounts. At the same time, higher short-to-intermediate-term rates create an opportunity for clients to consider buying bonds at attractive yields, adding potential portfolio stability and increasing income.

At Mitchell Sinkler & Starr, while we continue to emphasize a long-term approach, we still analyze short-term market dynamics when evaluating and reviewing client accounts to determine if fine tuning portfolios is appropriate for each client.

- Mitchell Sinkler & Starr's Portfolio Managers

Economic and Capital Markets Data

	September 30, 2026	(One Year) September 30, 2025	(Three Years) September 30, 2023	(Five Years) September 30, 2021
S&P 500 Index	7652	6688	4288	4307
Price / Earnings Ratio (TTM)	23.2	27.8	21.0	25.7
Dividend Yield	1.04%	1.14%	1.50%	1.32%
Federal Funds Rate	3.75%	4.00%	5.25%	0.25%
10-Year U.S. Treasury Yield	5.28%	4.15%	4.57%	1.49%
Gold ($ per oz)	4,155	3,841	1,848	1,755
Oil (Brent, $ per barrel)	104	67	90	75
GDP (Annualized)	2.2%	2.1%	2.1%	6.7%
Unemployment	4.1%	4.3%	3.8%	5.2%
Inflation (Annualized)	3.4%	2.9%	3.7%	5.3%

The S&P 500 has continued its move higher this year on the back of strong corporate earnings growth. Over 93% of S&P 500 companies met or beat their earnings estimates in the third quarter, tying the 2021 record for this century.

GDP Data as of June 30, 2026; Inflation Data as of August 31, 2026

Federal Funds Rate is Lower Bound

Sources: U.S. Federal Reserve, Bloomberg Finance L.P., Bureau of Economic Analysis