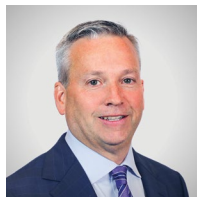


MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Investors cannot invest directly in an index.

AI CapEx (capital expenditure) spending is the investment companies make to acquire, upgrade, and maintain the long-term, physical and intangible assets needed to develop and operate AI technology. CapEx is a strategic investment in long-term assets that is depreciated over time on a company's financial statements.

Forward price-to-earnings (P/E) is the price of a stock divided by estimated forward earnings.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

There is no assurance any forecasts will be achieved. Diversification does not guarantee a profit or protect against loss.

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In February's [Market Minute](#), we compared the valuation of the S&P 500 Index, at 22x forward price-to-earnings (P/E), to Mount Everest, the tallest mountain in the world. We indicated stocks wouldn't trade at those high valuations forever. Our hope was that stocks would be supported by solid earnings growth, perhaps lowering the forward P/E multiple, while delivering positive returns. That's exactly what happened.

The S&P 500 Index returned roughly 13% in the first nine months of 2026, but earnings grew a combined 39% year-over-year for the first two quarters of the year, with earnings growth of 26% expected for the second half of the year. As of September 30th, the multiple stands at almost 19x forward earnings over the next 12 months (see Chart 1).

We would like to believe investors grew cautious about the high valuations and realized stocks were expensive. However, it's more likely that despite extraordinary earnings growth year-to-date and forward earnings growth expected to remain solidly above the historical average, investors are concerned about some key numbers.

West Texas Intermediate (WTI) crude oil started the year at \$57 per barrel and is now \$90. The 10-year U.S. Treasury yield is up over 111 basis points year-to-date (4.17% to 5.29%). In January, markets expected the Federal Reserve ("Fed") to cut rates this year. Instead, the Fed has raised the federal funds target rate once with more hikes expected. Finally, a few select companies are providing massive support with AI CapEx spending that has increased significantly since January 1, 2026 and is fueled by far more debt than expected nine months ago. The outcome of that spending has been debated endlessly and no clarity has emerged.

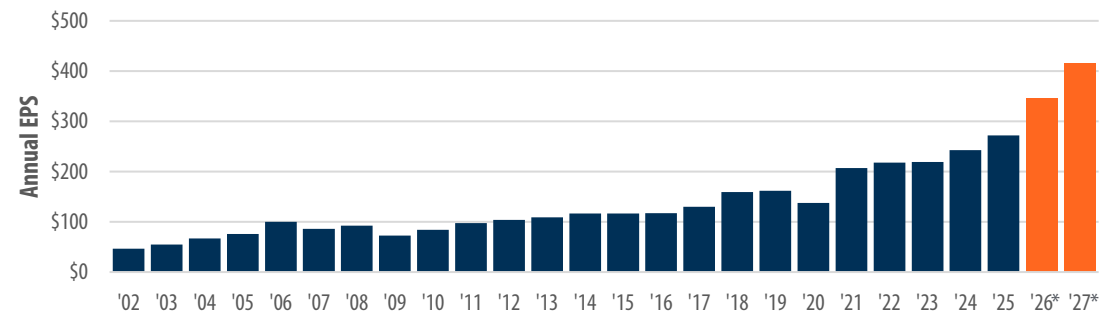
In our view, the saving grace is S&P 500 Index earnings forecasts for the rest of 2026 and 2027 are still expected to be the best two years in history (see Chart 2). And the expected earnings profile for the S&P 500 Index is for more companies to participate in the earnings growth versus the last several years. We believe a diversified allocation to equities across size, style, and sector, along with measured expectations regarding stock gains relative to the last several years remains important, even if earnings expectations are met.

Chart 1: S&P 500 Forward P/E



Source: Bloomberg. Data from 12/31/96-9/30/26. Forward Earnings of S&P 500 is the next-twelve months consensus estimate.

Chart 2: EPS of S&P 500 Index



Source: Capital IQ. Data as of 9/30/26. *Estimates are based on calendar year aggregate consensus.