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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **September 30, 2026**

Alex Sagal
Global Equity Analyst

Last week's S&P 500 Index: 1.2%

Positioning portfolios for rougher waters

Key takeaways

- Strong growth, persistent inflation, and a rising debt supply have driven interest rates higher, creating rougher waters for borrowers and rate-sensitive assets but potential income opportunities for bond investors.
- We favor short-term bonds for income and lower rate sensitivity, U.S. large cap equities for resilient fundamentals, and commodities as a potential hedge against persistent inflation.

Financial markets are navigating stronger currents as U.S. Treasury yields have climbed across maturities to their highest levels in years. Short-term rates are rising because resilient economic growth and persistent inflation have led investors to expect the Federal Reserve to increase interest rates by a full percentage point between now and the end of 2027. Longer-term yields have risen as heavy Treasury borrowing and growing corporate-bond issuance has increased the supply of debt competing for investor capital. Buyers of debt remain present, but they are demanding higher yields as compensation.

These currents are creating both challenges and opportunities for businesses, investors, and consumers. Higher rates generally increase borrowing and refinancing costs for consumers and businesses and falling bond prices have weighed on fixed-income portfolio returns. Yet that same lift in yields has provided new buyers with their potentially most attractive opportunity in nearly two decades. Higher rates may make the voyage more difficult for borrowers, but they also appear to offer investors better income opportunities and potentially stronger starting points for future return destinations.

With waves building, we still see fixed income as useful ballast to support returns when equity markets turn volatile. But we also see an opportunity to take advantage of higher yields in short-term instruments, which generally have lower price risk than longer maturities. For investors already positioned in fixed-income funds, we favor checking the maturities of the fund, which may already have a lower exposure to maturity risk. Investors may also consider tax loss harvesting. The idea is to shift from funds with longer maturities to shorter ones, ideally on the same day, to capture the loss and execute on shortening duration (interest rate sensitivity) in one motion. A financial advisor can be a big help with either of these ideas.

For equities, higher rates do not automatically sink the market. We remain favorable on U.S. Large Cap Equities, where resilient earnings, strong balance sheets, pricing power, and continued artificial-intelligence (AI) investment should help companies navigate higher financing costs. Expanding AI adoption also has continued to support demand for computing capacity, networking, electricity, and related infrastructure. Smaller companies, however, generally carry greater refinancing exposure, weaker profitability, and less capacity to absorb elevated borrowing costs. These disadvantages reinforce our unfavorable view, particularly as investors have increasingly rewarded companies with durable earnings and financial flexibility.

Finally, we believe commodities remain a useful ballast against inflation and geopolitical uncertainty. Energy disruptions and supply constraints can send ripples throughout the economy by raising transportation, production, and consumer costs. Commodities may also strengthen portfolio diversification when inflation pressures traditional stocks and bonds simultaneously.

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