

THIS WEEK'S THEME | Stocks Remain Resilient as Bond Yields Continue to Rise

01 · THE WEEK IN BRIEF

What happened. U.S. equity benchmarks were mixed last week. The S&P 500 slipped 0.27% and settled Friday within 1% of record highs, but that modest index-level move masked a far more eventful week beneath the surface. Growth stocks powered on to new all-time highs, led once again by technology and semiconductor names, while value stocks fell sharply to multi-month lows amid elevated trading volume, and just 3 of 11 major S&P 500 sectors finished the week higher. Bonds continued to sell off, with the 10-Yr Treasury yield rising to 5.28%, eclipsing its 2007 peak to reach a level not seen since 2002. The most notable development, however, came from the corporate bond market, where the extra yield investors demand to lend to lower-quality companies instead of the U.S. government (known as a “credit spread”) posted its largest one-week increase since April 2025.

Why it matters. The corporate bond market is often where financial stress shows up first, as lenders tend to react to trouble sooner than stock investors do. Last week we noted that double-digit yields on lower-quality corporate debt were still primarily a rising-rates story. That changed over the past week: yields on the lowest-rated corporate bonds jumped to 17%, the highest since May 2020, and they rose much faster than Treasury yields did, a sign that lenders are beginning to price in a greater risk of not being repaid. To be clear, credit spreads remain below their April 2025 highs, and one week does not make a trend. But with 8 of 11 sectors now lagging the S&P 500 and the average 30-year mortgage rate up to 7.28%, the highest since November 2023, the market's reliance on a narrowing group of large technology companies leaves less room for error than the index level suggests.

On Wall Street's consensus estimate for next year's earnings, the S&P 500 trades at roughly 18 times, slightly below the 19 times we consider fair value (about the average of the past ten years). The catch: a 10-year Treasury now pays nearly as much as stocks earn, so a fair price is not the same as a bargain.

WHAT WE'RE WATCHING

- Whether the stress in corporate bonds continues to build, or settles down after last week's jump.
- Whether long-term Treasury yields keep rising through this week's three government bond auctions.
- Whether stock market leadership broadens out beyond technology, or narrows further.

S&P 500

–0.27%

7,723 · +12.8% this year

10-YEAR TREASURY

5.28%

up from 5.17% · highest since 2002

SECTORS UP / DOWN

3 / 8

average stock fell 0.65%

ODDS OF AN OCT. 28 RATE HIKE

20%

down from 62% a week ago

02 Markets at a Glance

WEEK ENDED OCTOBER 2

MARKET	LEVEL	THIS WEEK	THIS YEAR	QUICK TAKE
S&P 500	7,723	–0.27%	+12.8%	Still within 1% of record highs, but only 3 of 11 sectors rose.
Nasdaq	27,191	+0.45%	+17.0%	A record weekly close as semiconductors gained another 3.7%.
Dow Industrials	51,177	–1.26%	+6.5%	The weakest major average; touched its lowest level since June.
Small Caps (Russell 2000)	2,833	–0.16%	+14.1%	A fourth consecutive weekly decline, though only a fractional one.
Dow Transports	20,010	+2.24%	+15.3%	Bounced from its lowest level since April; 12% below its summer high.
Growth Stocks (VUG)	\$91.17	+0.25%	+12.1%	Powered on to new all-time highs.
Value Stocks (VTV)	\$217.23	–1.62%	+13.7%	Fell to multi-month lows on heavy volume; its YTD lead is shrinking.
Oil (WTI)	\$91.26	–1.28%	+59.0%	A third straight weekly decline, but still above \$90 a barrel.
Gold	\$4,172	–3.43%	–3.7%	Lowest weekly close in two months as yields and the dollar climbed.
U.S. Dollar	101.92	+0.88%	+3.7%	Highest weekly close since April 2025; a growing headwind for exporters.

03 Sector Performance

ONE CHANGE THIS WEEK

SECTOR	THIS WEEK	THIS YEAR	PERFORMANCE	NOTE
Technology	+1.80%	+38.8%	Outperforming	Fresh record highs on the heaviest volume in two months.
Energy	+1.26%	+40.5%	Outperforming	Recovered from multi-week lows; still the best sector of 2026.
Health Care	–2.65%	+7.4%	Outperforming	Sharpest decline of the week; momentum is fading, so it is on watch.
Utilities	+0.81%	–6.7%	Underperforming	Bounced off a 52-week low on the heaviest volume in three years.
Industrials	–0.28%	+9.6%	Underperforming	Hit its lowest level since April before recovering to end little changed.
Consumer Discretionary	–0.47%	–7.9%	Underperforming	Eighth straight weekly decline; the weakest sector of 2026.
Real Estate	–1.80%	+1.1%	Underperforming	Sliding toward its lows of the year as long-term rates climb.
Consumer Staples	–1.86%	+3.7%	Underperforming	Lowest weekly close since January amid a spike in volume.
Materials	–1.89%	+7.7%	Underperforming	Lowest level since March on the heaviest volume since early June.
Communication Services	–2.34%	–6.3%	▼ Underperforming	New this week. Multi-week lows on heavy volume; weakest vs. the S&P 500 in three years.
Financials	–2.46%	–2.3%	Underperforming	Fourth straight weekly decline on heavy volume; now negative for 2026.

What changed. Communication services moved to underperforming after falling to multi-week lows amid a sharp rise in trading volume, with its performance relative to the S&P 500 at the weakest level in more than three years. That leaves 8 of 11 sectors lagging the S&P 500. Health care, one of just three sectors still outperforming, is on watch after the sharpest decline of the week. One encouraging sign: utilities bounced off a 52-week low on the heaviest volume in three years, a step in the right direction, though not yet a reason to change our view.

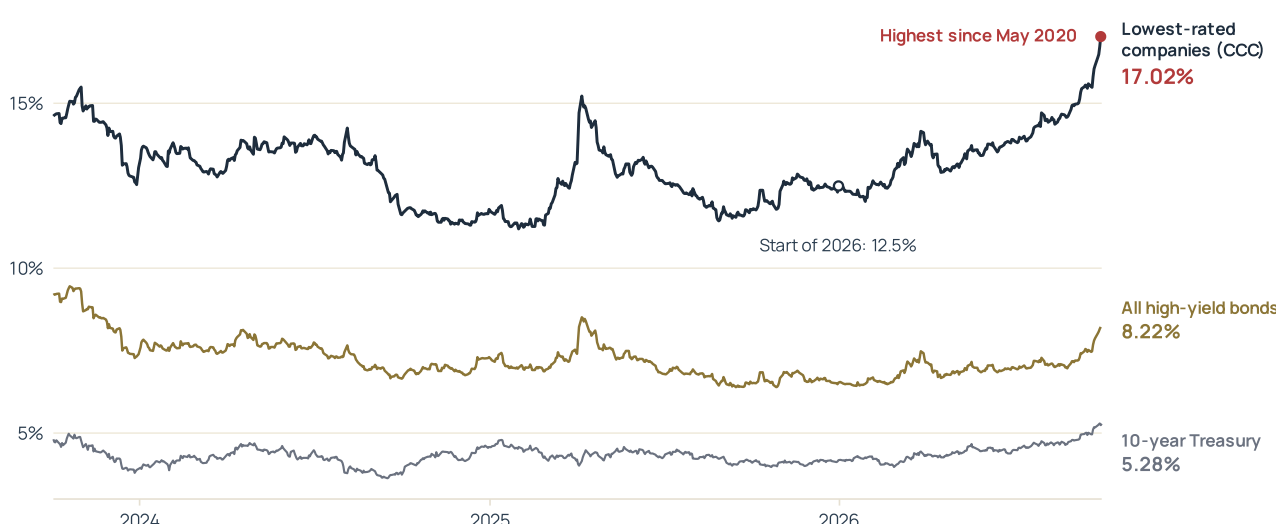
Performance column. *Outperforming: rising faster than the S&P 500 over recent weeks. Underperforming: lagging the S&P 500 over recent weeks. Neutral: moving roughly in line with the index. Based on 14 weeks of relative price movement. An observation about relative performance, not a recommendation to buy or sell any security. ▲ ▼ marks a change from last week.*

04 Chart of the Week

ONE PICTURE, ONE POINT

Corporate Bonds Are Flashing an Early Warning Signal

Average yield on the lowest-rated (CCC) corporate bonds, on all high-yield (“junk”) corporate bonds, and on the 10-year Treasury note, daily since October 2023. Sources: ICE BofA Indices via FRED, through October 1; U.S. Treasury, through October 2.



The yield on the lowest-rated corporate bonds has climbed from 12.5% to 17% this year, four times the rise in the 10-Yr Treasury yield. That gap is the point: lenders are no longer just passing along higher interest rates, they are charging more for risk. It matters for stocks because smaller and more indebted companies eventually have to refinance at these rates, and trouble in the corporate bond market has a history of showing up before it reaches stock prices.

05 Rates and the Fed

WHAT THE COST OF MONEY IS DOING

10-YEAR TREASURY 5.28% ▲ 0.11 pt on the week · highest since 2002	30-YEAR MORTGAGE RATE 7.28% up from 7.03% · highest since November 2023	FED'S NEXT MEETING · OCT 28 20% odds of a hike down from 62% a week ago current range 3.75–4.00%
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The Treasury market sent two different messages last week. Shorter-term yields (maturities of a year or less), which are most influenced by the Federal Reserve, eased as the odds of a second rate hike at the Fed's October 28 meeting fell steadily through the week, from 62% to 20% (our calculation from futures contracts tied to the Fed's policy rate). The shift came as job openings declined and Friday's employment report showed just 29,000 jobs added in September, with the unemployment rate edging up to 4.2%. Longer-term yields, however, kept right on rising. The 10-Yr Note yield ended the week at 5.28% and the 30-Yr Bond yield at 5.63%, both the highest since 2002. That divergence is important: it tells us long-term rates are no longer rising because of the Fed. They are rising because bond investors, focused on inflation, government borrowing and the risk of lending for decades at a time, are demanding more compensation to do so.

What it means for you. The practical effects are spreading. The average 30-year mortgage rate rose to 7.28%, the highest since November 2023, and as the chart above shows, weaker companies are paying sharply more to borrow. For savers, shorter-term Treasuries, CDs and money-market instruments continue to offer yields of 4% or more with little price risk. Longer-term Treasuries now offer yields of roughly 5.3% to 5.7%, but with those yields still setting new highs, we would want stronger evidence that they are peaking before viewing that as an opportunity rather than a risk.

06 The Week Ahead

OCTOBER 5 – 9

Last week's data described an economy that is cooling at the edges while inflation stays sticky. Job openings fell to their lowest since March and employers added just 29,000 jobs in September, yet weekly jobless claims held below 200,000 and consumer spending rose a solid 0.9% in August. The Fed's preferred inflation gauge held at 3.4%, well above its 2% target. This week is light on major economic reports; the focus shifts to the bond market itself.

DAY	RELEASE	WHY IT MATTERS
Mon Oct 5 10:00 AM	ISM services survey	A read on the largest part of the economy, including whether cost pressures are still building at service businesses.
Tue Oct 6 8:30 AM	Trade balance (August) 3-year Treasury note auction, 1:00 pm	The first of three government bond sales this week; demand shows how willing investors are to lend at current yields.
Wed Oct 7 1:00 PM · KEY RELEASE	10-year Treasury note auction Fed meeting minutes (September), 2:00 pm	The week's main event for long-term rates. Weak demand could push the 10-year yield, already at a 24-year high, higher still. The minutes will show how firmly the Fed leans toward a second hike.
Thu Oct 8 1:00 PM · KEY RELEASE	30-year Treasury bond auction Jobless claims, 8:30 am	The longest-term test of bond demand, with the 30-year yield also at its highest since 2002. A jump in claims would be another sign of a cooling job market.
Fri Oct 9 10:00 AM	Consumer sentiment (preliminary)	An early October read on how households are handling 7% mortgage rates and higher prices.

Times are Eastern. Consensus estimates are not shown; we prefer to report outcomes rather than forecasts. Next week: the September consumer inflation report (CPI), due Wednesday, October 14.

Investor mood. Investor sentiment weakened further. The CNN Fear & Greed Index, a widely followed gauge of market mood, fell to 31 from 37 (readings below 45 signal fear), and only about one in four S&P 500 stocks is trading above its average price of the past 50 days, down from more than half at the start of the year. That much pessimism with the S&P 500 this close to a record cuts both ways: it can fuel a rebound if the news improves, but it also shows how few stocks are taking part in the market's gains.

THE BOTTOM LINE

The S&P 500 ended last week less than 1% from its record high, and at the index level, little changed. Beneath the surface, quite a bit did: 8 of 11 sectors are now lagging the S&P 500, long-term Treasury yields reached levels last seen in 2002, and the corporate bond market showed its sharpest one-week sign of stress since April 2025. None of those developments on its own signals an end to the bull market, and technology leadership is still holding the major indexes near their highs. Taken together, though, they describe a market with a thinner margin for error than the headline numbers suggest. This is a time for awareness rather than alarm, with this week's Treasury auctions and the October 14 inflation report the next important tests. As always, feel free to reach out to our team with any questions about how the latest market developments may impact your portfolio in the near term, or if you have any shifts in your long-term investment goals.

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