Market Update | October 2026

Equity Gains Amid Rising Rates

Key Takeaways

Markets remained resilient, but uneven, with technology and energy leading gains.

Higher interest rates pressured global bond markets and weighed on rate-sensitive sectors.

AI investment supported growth but increased inflation, financing pressures, and market concentration risks.

Higher bond yields and opportunities in quality equities reinforce the benefits of diversification amid continued market uncertainty.

The third quarter was defined by one force: rising interest rates. Although the S&P 500 rose 2.3% in the quarter – bringing its year-to-date gain to 12.7% – beneath that headline, bond markets around the world came under significant pressure. Government borrowing costs reached multidecade highs in the United States, Europe, and Japan, and the Federal Reserve raised rates for the first time since 2023.

The Macro Analysis: Steady Growth, Narrow Leadership

During the quarter, energy stocks posted the strongest gains as oil prices surged amid continued conflict in Iran and the Strait of Hormuz. Technology stocks were the primary driver of positive returns, while most non-technology sectors and non-U.S. markets indices finished roughly flat for the period.

In the United States, the most recent headline consumer price index data showed inflation rose to 3.7% in September, up from 3.4% in August. Consumer spending, government spending, and business expenditures all contributed to growth. AI-related capital expenditures remained a significant source of strength, with manufacturing expansion, reshoring initiatives, and infrastructure spending also contributing to economic growth. New orders, production activity, and business confidence remained

resilient as companies expand investments in data centers, semiconductor production, electrical infrastructure, and domestic manufacturing capacity.

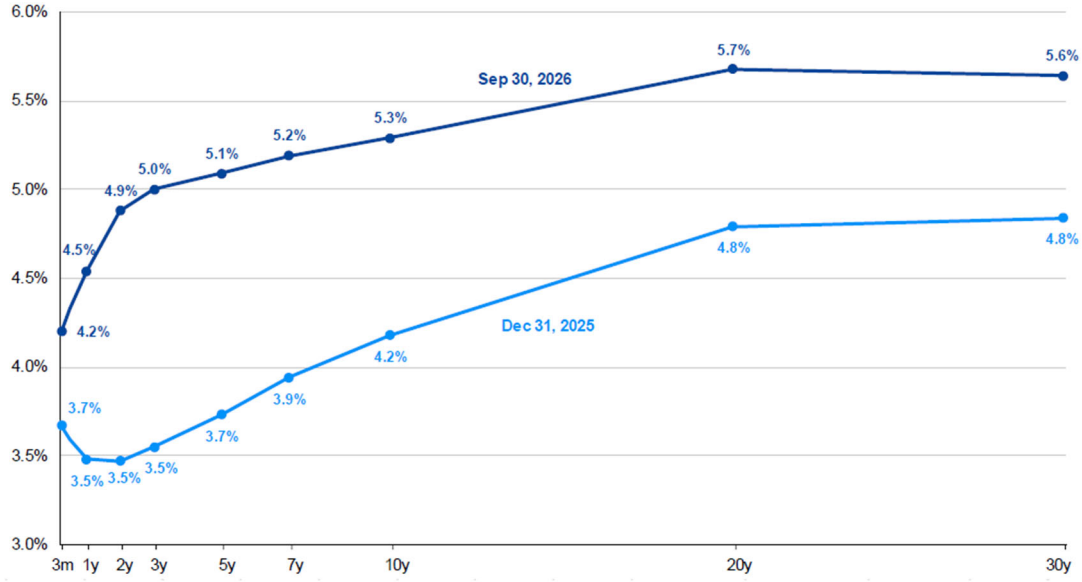
That strength, however, was not evenly shared. Many parts of the economy, particularly those most sensitive to borrowing costs, such as housing, small businesses, and consumers carrying debt, struggled under higher rates.

Rising Rates: A Worldwide Problem

Fixed-income markets came under significant pressure in the third quarter, as rising Treasury yields pushed bond prices lower. The broad U.S. bond index fell 3.4%, marking its worst quarterly performance since the third quarter of 2022, and its fourth-largest quarterly loss in 25 years. Rising oil prices amid escalating conflict in Iran reignited inflation concerns, while Federal Reserve commentary reinforced expectations for tighter monetary policy.

The Fed's first rate hike since 2023, a 25-basis-point increase on Sept. 16, added further pressure. By quarter-end, the 10-year Treasury yield had reached 5.3%, up approximately 85 basis points higher than at the end of June, and roughly a full percentage point higher than at the end of March. Inflation remained stubbornly high and continued to be a significant concern for both the economy and financial markets.

U.S. Treasury Yield Curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of Sept. 30, 2026

These pressures extend well beyond the United States. Japan's 10-year government bond yield reached 3% for the first time since 1996, British 10-year yields rose to their highest level since 2008, and French yields jumped roughly 1.2 percentage points during the quarter amid fiscal concerns. Energy-driven inflation, heavy government borrowing, and simultaneous monetary tightening by central banks have pushed long-term borrowing costs higher across global markets.

Longer-duration bonds experienced the steepest declines, as rising yields disproportionately affected securities with greater interest-rate sensitivity. The U.S. 10+ Year Treasury Bond Index fell 8.0%, while the U.S. municipal bond market declined 5.9%. Credit spreads widened modestly toward quarter-end amid increased market volatility and heavy corporate debt issuance, including borrowing to fund artificial intelligence infrastructure. Corporate credit and high-yield bonds proved more resilient, with high-yield bonds declining approximately 1.8% as higher income and shorter duration helped cushion the impact of rising rates.

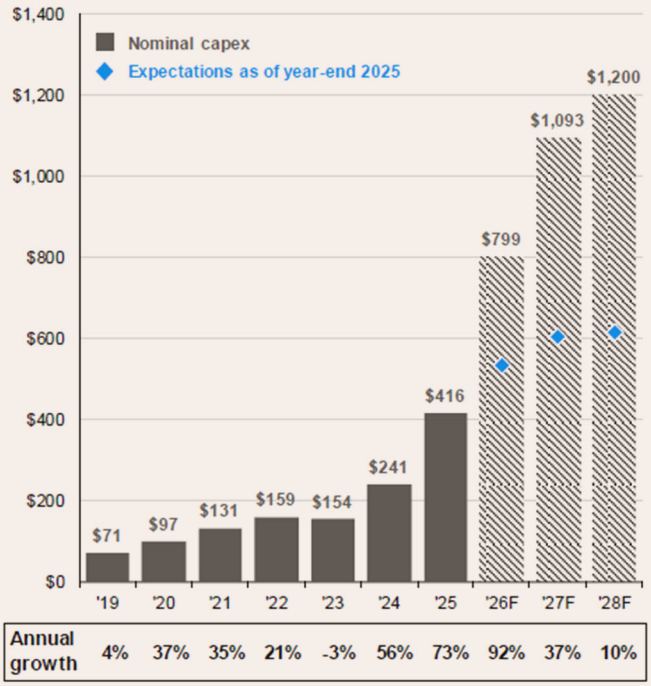
AI: Competing for Capital

One underappreciated driver of higher rates is the scale of AI investment itself. The largest technology companies, including Amazon, Alphabet, Meta, Microsoft, and Oracle, are expected to invest roughly $800 billion in 2026, supporting demand across the data center supply chain, including semiconductors, equipment, intellectual property, and related services.

For these companies, AI is as much an existential threat, as it is an opportunity. The fear of being displaced by competitors, both new and old, is driving spending that is far less sensitive to cost or near-term returns than typical corporate investment. That spending competes with the rest of the economy for the same capital, energy, materials, and skilled labor, adding to inflationary pressure and the supply of corporate debt.

Capex from the major AI hyperscalers

USD billions; Alphabet, Amazon, Meta, Microsoft, Oracle



	'19	'20	'21	'22	'23	'24	'25	'26F	'27F	'28F
Annual growth	4%	37%	35%	21%	-3%	56%	73%	92%	37%	10%

Source: Bloomberg, J.P. Morgan Asset Management.
Data for 2026, 2027 and 2028 reflect consensus estimates. Capex shown is company total. Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads.
Guide to the Markets – U.S. Data are as of Sept. 30, 2026.

The scale and concentration of this investment also create risks. Economic growth and earnings increasingly depend on a relatively small group of companies and the continuation of exceptionally high AI-related spending. Several challenges could disrupt this trajectory, including higher financing costs, infrastructure constraints, regulatory concerns, and the current level of capital spending.

We understand both the risks and the opportunities. Our concern is that many companies are being given the benefit of the doubt before demonstrating tangible returns on these investments. As borrowing costs rise, that patience will be tested, and we expect markets to increasingly reward companies that can demonstrate clear returns while scrutinizing those that cannot.

Our Perspective

Resilient consumer spending and substantial technology investment continue to support corporate earnings. With stock prices having lagged earnings growth in recent periods, valuations have become more attractive, and we continue to favor high-quality businesses with sustainable competitive advantages and durable earnings.

At the same time, higher yields have improved the outlook for prospective bond returns, strengthening the role of fixed income in diversified portfolios. While rising rates have created near-term losses, higher starting yields offer better potential returns going forward. Bonds can also provide income, diversification, and of capital preservation if economic growth weakens or equity markets become more volatile.

Taken together, the current investment environment offers opportunities, but risk levels remain elevated. Geopolitical disruptions, persistent inflation, rising government debt, and a potential slowdown in AI investment could challenge markets. Against this backdrop, we believe maintaining a balance between high-quality equities and fixed income remains appropriate.

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