Chief Investment Office

Market Review and Outlook

October 2026

Resilience Meets a Higher Bar

Executive Summary

The U.S. economy enters the final quarter of 2026 with resilience, but less room for error. Consumer spending and business investment continue to support growth, including investment tied to artificial intelligence. Our economics team expects GDP growth of approximately 2.0% in 2026 and 1.9% in 2027.

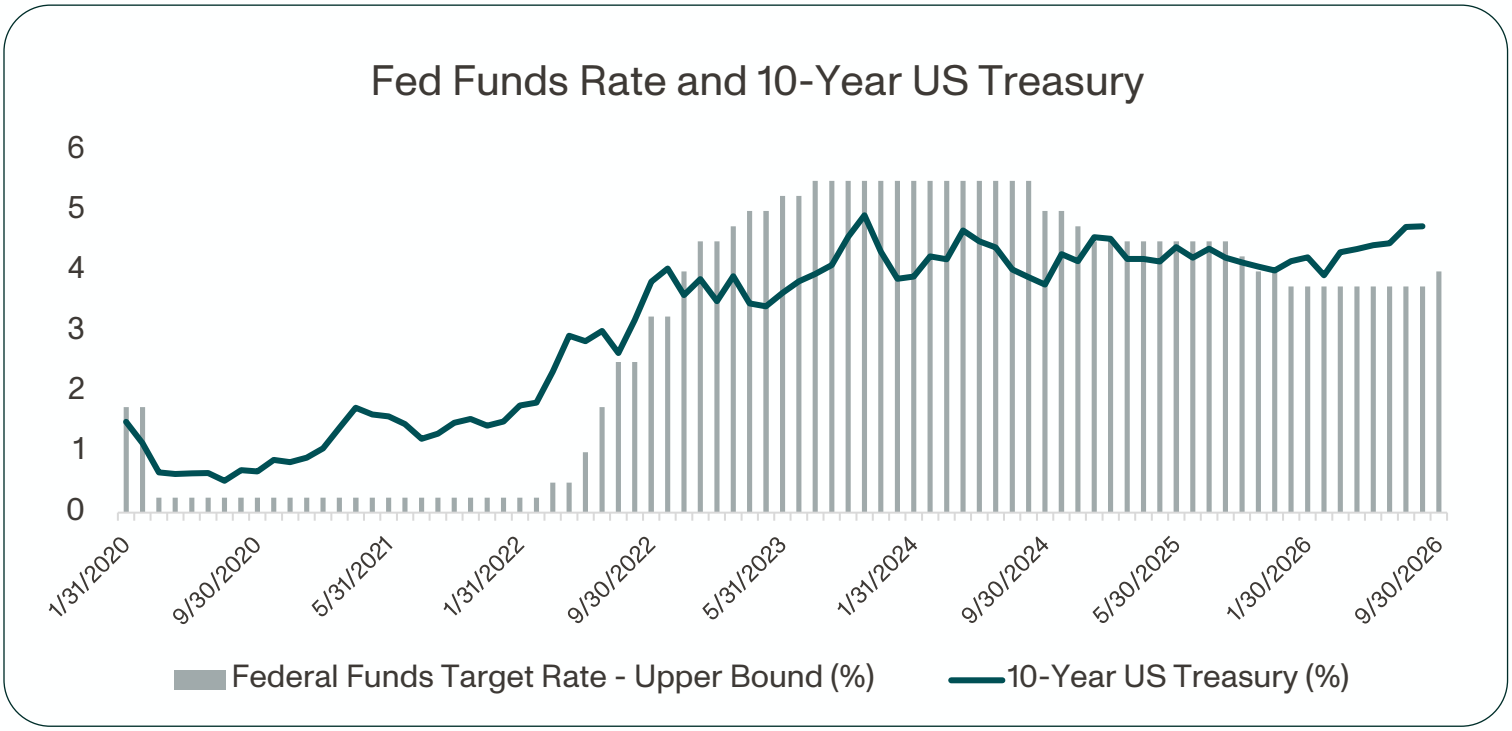
The labor market is cooling and inflation is easing, though it remains above the Federal Reserve's target. Softer hiring and wage growth have reduced the urgency for further tightening following September's rate increase. The policy outlook remains dependent on incoming data.

Higher long-term yields present a more demanding investment environment. The 10-year Treasury yield ended the quarter near 5.29%, raising borrowing costs for households, businesses and governments. Financial conditions can tighten even when the Fed holds rates steady.

Equity gains mask uneven participation. The S&P 500 returned 2.3% in the third quarter, while smaller companies and rate-sensitive sectors struggled. Earnings growth, sustainable cash flow and strong balance sheets matter more as higher rates constrain valuations. Broader earnings growth could widen market leadership.

High-quality fixed income offers more compelling income after a difficult repricing. Rising yields hurt existing bond prices, but improve the starting point for new investments. Diverging global growth, inflation and policy conditions also reinforce the case for diversification across geographies and asset classes.

Portfolio discipline remains the priority. Midterm election headlines may drive volatility, but portfolios should rest on fundamentals rather than political forecasts. A broader opportunity set across cash, bonds and equities rewards attention to quality, valuation and diversification.



Data as of 09/30/2026; Source: Federal Reserve, Bloomberg

A Resilient Economy Meets a Higher Bar

The third quarter offered investors another lesson in economic humility. Despite geopolitical uncertainty, higher energy prices and a renewed rise in interest rates, the U.S. economy continued to expand. Consumers kept spending, businesses kept investing and manufacturing activity remained resilient. Corporate earnings also provided important support for financial markets, with FactSet Research estimating year-over-year earnings growth of 29.5%.

The economy did not break, but the bar for continued resilience moved higher as the quarter progressed.

The labor market is cooling, inflation remains above the Federal Reserve's long-term objective, and long-term Treasury yields have risen to levels not seen in decades. The Federal Reserve raised interest rates by 25 basis points in September, bringing the federal funds target range to 3.75%–4.00%. At the time, policymakers indicated another increase later this year was possible. But softer inflation and employment data subsequently changed the conversation, causing expectations for another immediate increase at the October meeting to fall sharply.

Growth has proven stronger than many expected, but the rising cost of capital is becoming increasingly restrictive. Heading into the final quarter, the central question is how much pressure higher rates can exert before that resilience begins to fade.

“Growth has proven stronger than many expected.”

Marc Dizard, Chief Investment Officer

Still Standing, With Some Strain

The list of reasons the economy should have slowed more meaningfully has grown increasingly long. Higher interest rates, elevated energy prices, geopolitical uncertainty and persistent inflation have all applied pressure. Yet economic activity has continued to hold up surprisingly well.

Our economics team expects the U.S. economy to grow approximately 2.0% in 2026 and 1.9% next year. That does not constitute an economic boom, but neither would it resemble the recession that investors have repeatedly anticipated during the past several years.

The consumer remains central to that resilience. Retail sales increased 5.4% from a year earlier in August, and our internal data indicated that spending remained robust in September. Strength in financial markets has provided support to higher-income households, while strong wage gains among many blue-collar workers have benefited portions of the middle class.

But the headline spending numbers do not tell the entire story.

Higher prices, both recently and cumulatively since 2021, have made consumers increasingly value conscious. Households are still spending, but they are reading the price tag more carefully and becoming more selective about what they purchase and where they purchase it. That distinction matters. Consumer resilience does not mean every household is experiencing the economy in the same way.

Businesses, meanwhile, continue to invest. Manufacturing activity has demonstrated surprising resilience despite higher input costs, supply chain challenges and elevated interest rates. New orders have remained healthy and production has continued to expand.

One particularly interesting source of investment is the continued buildout surrounding artificial intelligence. AI is often discussed primarily as a technology-sector story, but its impact on capital spending extends considerably further. Data centers require power generation and distribution equipment, cooling systems, metals, fiber optics and a wide variety of industrial products and services.

We continue to see a resilient economy, but resilience has limits. Supply constraints and strong demand are lifting input prices in parts of the economy, while persistently high interest rates may increasingly influence business investment and household spending. That is where the story becomes more interesting: the next phase of the cycle may depend heavily on the yield environment.

Cooling, Not Collapsing

If consumer spending and business investment are providing evidence of resilience, the labor market is offering a slightly more cautious message.

Employment growth slowed meaningfully as the third quarter ended. The U.S. economy added just 29,000 jobs in September, the unemployment rate rose to 4.2%, and employment gains in July and August were revised lower by a combined 60,000 jobs. Our economics team notes that the three-month average pace of job creation has fallen to roughly 51,000 per month, a level much closer to the rate required to keep pace with population growth than one suggestive of an overheating labor market.

2.0%
Expected GDP in 2026

1.9%
Expected GDP in 2027

4.2%
Unemployment Rate

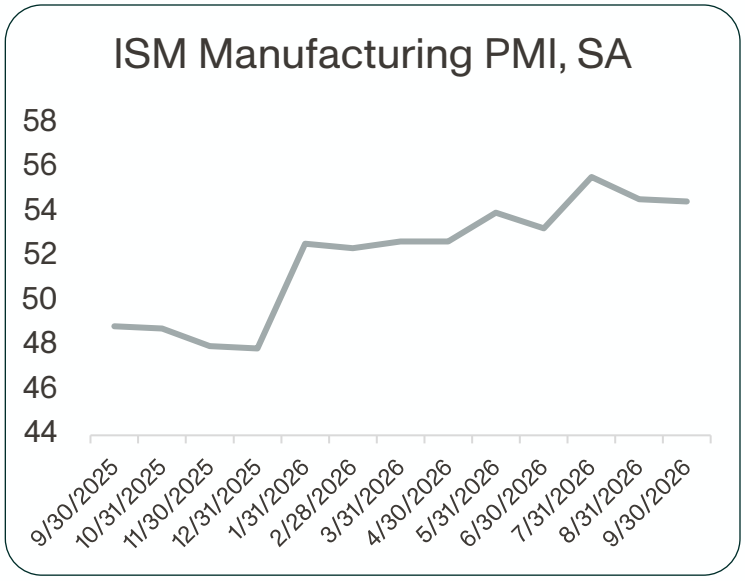
29k
Jobs Added in September

Wage pressures are moderating as well. Average hourly earnings growth has slowed to 3.0% year-over-year, weakening the argument that accelerating wages are creating another source of persistent services inflation.

Businesses appear increasingly cautious about adding workers, but we do not view that as evidence that a recession is inevitable. The labor market is cooling, but it has not gone cold. Some normalization should be expected after years of unusually tight conditions, and productivity improvements may allow output to rise without hiring at the same historical pace.

From the Federal Reserve's perspective, some labor market moderation may actually be welcome. Slower hiring and wage growth can reduce inflation pressures without requiring the larger increase in unemployment typically associated with recession.

For consumers, however, employment is ultimately the foundation supporting spending. A sustained deterioration in the labor market would eventually challenge household income and confidence.



Data as of 09/30/2026; Source: Institute for Supply Management

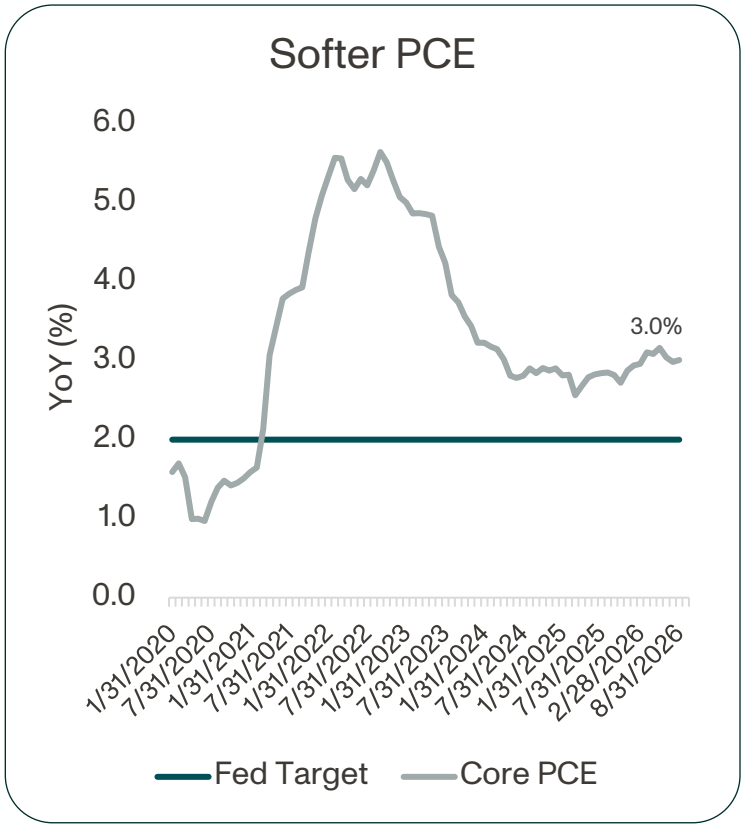
Inflation's Stubborn Last Mile

Inflation remains one of the more consequential variables for the outlook, but recent data have provided some reasons for cautious optimism.

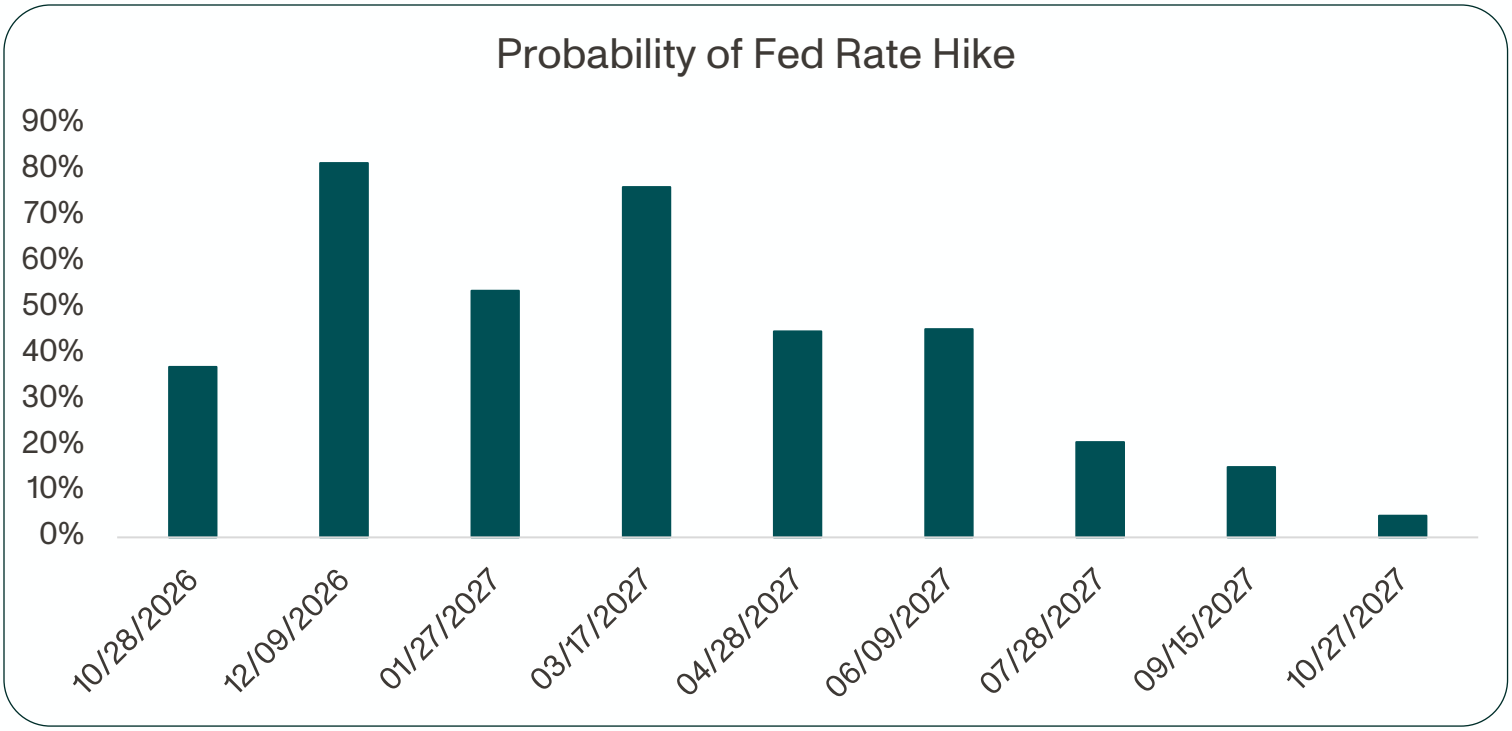
Core Personal Consumption Expenditures (PCE), the Federal Reserve's preferred measure of underlying inflation, increased 3.0% from a year earlier in August, below expectations of 3.3%. That remains above the Fed's 2% objective, but the softer reading suggests underlying inflation pressures may be moving in a more encouraging direction.

Strong demand, supply chain disruptions and higher input costs remain evident across portions of the manufacturing economy. If these pressures persist, businesses eventually face a choice between absorbing higher costs through narrower profit margins or passing them along to customers.

Inflation appears to be moving in a better direction, giving policymakers less reason to act urgently. Even so, the last mile toward the Federal Reserve's target is proving to have the most traffic.



Data as of 09/30/2026; Source: Federal Reserve, Bureau of Economic Analysis



Data as of 09/30/2026; Source: Bloomberg

One Hike Does Not Make a Cycle

The Federal Reserve increased the federal funds rate by 25 basis points in September, lifting the target range to 3.75%–4.00%. It was the Fed's first rate increase since 2023, and at the September meeting, officials indicated that another increase later this year remained possible.

Softer-than-expected inflation, weaker employment growth and moderating wages reduced the urgency for another immediate increase. At quarter-end, market expectations had moved substantially toward the Fed leaving rates unchanged in October, with the next potential increase pushed further into the future.

The Federal Reserve does not need to choose between consistently raising or lowering rates. Policymakers can tighten when inflation requires it, pause when the data allows it and reassess as conditions evolve. Data dependency is rarely a straight road, and this cycle is no exception.

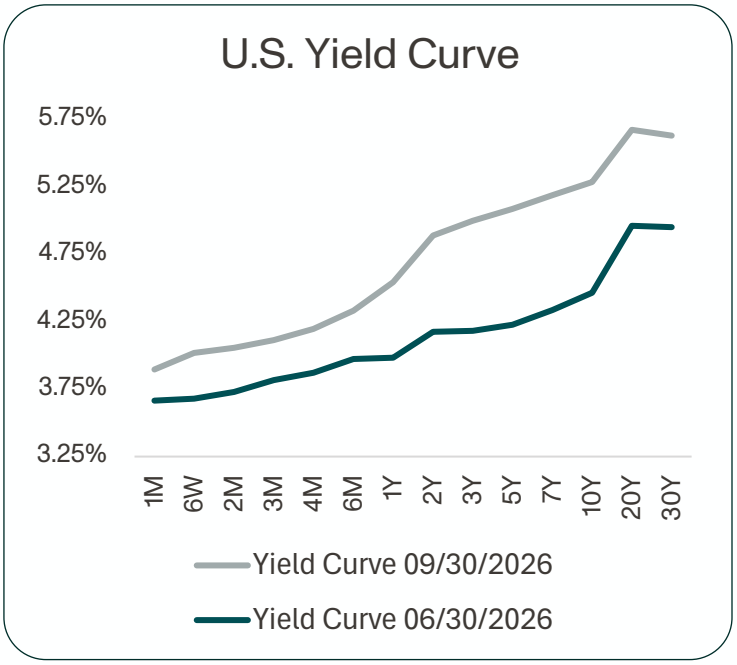
The Fed's September projections provided additional evidence of the unusual environment confronting policymakers. The median Federal Open Market Committee (FOMC) participant projected 2.3% economic growth in 2026, unemployment of 4.1% and a year-end federal funds rate of 4.1%. In other words, the Fed itself does not appear to anticipate that higher interest rates must necessarily result in materially weaker economic growth.

For investors, the larger message is that rates may not follow a predictable path. Growth remains healthy enough that the Fed need not provide support simply because activity moderates, while inflation remains too elevated for policymakers to declare the job finished.

The Bond Market Has the Floor

While the Federal Reserve received considerable attention during the quarter, perhaps the more consequential development occurred elsewhere in the bond market.

The 10-year Treasury yield finished the quarter around 5.29%, having risen approximately 82 basis points since June 30 and reaching levels last seen more than two decades ago. The increase was not confined to one maturity. Yields moved higher across much of the Treasury curve, creating a significant repricing of the cost of capital throughout the economy.



Data as of 09/30/2026; Source: Bloomberg

The 10-year Treasury is much more than another number on a market screen. It serves as an important reference point for borrowing costs throughout the economy, affecting decisions made at kitchen tables, in corporate boardrooms and across state and local governments.

Mortgage rates generally respond to movements in longer-term Treasury yields, specifically the 10-year Treasury, affecting housing affordability and refinancing activity. Corporations face higher financing costs, which increase the hurdle rate for new investments, acquisitions and other projects. State and local governments must make similar calculations when issuing debt to fund infrastructure.

The federal government is not immune. Higher rates mean increasingly large interest payments on outstanding government debt, particularly as existing debt matures and must be refinanced.

Monetary conditions can therefore tighten even when the Federal Reserve does nothing. The Fed has substantial influence over overnight rates, but markets determine borrowing costs across much of the remaining maturity spectrum. Put simply, the Fed sets the overnight rate, but the bond market often has the last word.

None of these effects necessarily results in an immediate economic or market contraction. Monetary policy has always worked with long and variable lags. But collectively, higher borrowing costs create friction throughout the economy.

S&P 500 Sector Returns	Q3	YTD
Energy	17.23%	40.28%
Information Technology	7.20%	28.38%
Health Care	6.46%	10.15%
Communication Services	3.64%	4.48%
S&P 500 Total Return	2.30%	12.75%
Financials	-0.12%	-1.43%
Consumer Staples	-1.90%	5.98%
Materials	-2.81%	8.82%
Consumer Discretionary	-5.09%	-5.82%
Real Estate	-5.57%	5.31%
Industrials	-9.66%	8.54%
Utilities	-12.39%	-5.65%

Data as of 09/30/2026; Source: Bloomberg

A Calm Index, a Choppier Market

For equity investors, the third quarter produced an interesting contrast between what was happening at the index level and underneath the surface.

The S&P 500 gained approximately 2.3% during the quarter and the Nasdaq Composite advanced roughly 2.6%. The Dow Jones Industrial Average declined 2.3%, while the small-cap Russell 2000 fell approximately 7.2%.

Large-cap technology and AI-related companies continued to provide leadership, helping support capitalization-weighted indexes even as many other parts of the market struggled. Higher interest rates placed particular pressure on rate-sensitive sectors and smaller companies.

Concentrated leadership is not inherently unhealthy. The largest companies in the S&P 500 have become large, in part, because their earnings and cash flows have grown significantly, and the technology and AI investment cycle is producing real economic activity. The more important question is whether earnings growth can broaden beyond today's leaders.

A healthier market does not necessarily require technology leadership to end. It requires a larger number of companies to participate alongside it.

That potential broadening is particularly relevant as interest rates move higher. When the risk-free rate rises, investors have less reason to pay increasingly high valuations simply because alternatives are scarce. Companies must increasingly justify valuations through earnings growth, strong cash flows and durable balance sheets.

That is a very different environment from most of the decade following the Global Financial Crisis.

From our perspective, the broad market has thus far absorbed the repricing in bond yields because investors still expect robust earnings growth through the remainder of 2026 and double-digit earnings growth in 2027. The index may have looked calm, but the average stock had a more complicated quarter.

A Better Yield, After a Painful Reset

Fixed income faced its own challenge during the third quarter.

The sharp rise in Treasury yields produced meaningful price pressure across the bond market. September was particularly difficult, with the Bloomberg U.S. Aggregate Bond Index falling roughly 2.6% during the month.

For investors holding bonds, rising yields can be uncomfortable because bond prices and yields move in opposite directions.

Yet higher yields also improve the prospective return available to investors purchasing bonds today. Higher yields are painful for yesterday's bond prices but more promising for tomorrow's returns. The price adjustment occurs immediately, while the benefit of higher income compounds over time.

For much of the period following the Global Financial Crisis, investors seeking meaningful income had to sacrifice quality, accept more credit risk or reach further into equities. A 10-year Treasury yield above 5% represents a very different starting point: high-quality fixed income can again provide meaningful income and serve its traditional role in diversified portfolios. Cash and bonds also now compete more credibly for capital, raising the return hurdle for equities, private markets, real estate and corporate investment.

A More Uneven World

The economic story outside the United States remains one of growth, but increasingly uneven growth.

The International Monetary Fund projects the global economy will expand 3.0% in 2026 and 3.1% in 2027. The organization describes a global economy being pulled in opposing directions, with geopolitical conflict and its effects on energy-importing countries creating headwinds while AI-related technology investment provides support for countries integrated into global technology supply chains.

Global disinflation has also stalled. The International Monetary Fund expects global headline inflation of 4.0% this year before moderating to 3.6% in 2027.

2.3%

S&P 500 Index Third Quarter Total Return

-3.5%

Bloomberg Agg Bond Index Third Quarter Total Return

3.0%

IMF 2026 Global Growth Forecast

3.1%

IMF 2027 Global Growth Forecast

The global economy is not experiencing a synchronized cycle in which every country faces the same combination of growth, inflation and monetary policy. Energy exposure, currencies, fiscal policy, technology investment and sector composition are creating meaningfully different outcomes across countries.

That reinforces the importance of looking beyond broad regional labels. Economic leadership and market leadership do not always move together, and differences in valuations and economic exposure can create opportunities even when headline economic growth appears modest.

The global story is therefore not simply about whether the United States will outperform the rest of the world. It is about whether a more fragmented global economy produces a broader set of investment outcomes than investors experienced during much of the previous decade.

3.6%

IMF 2027 Headline Inflation Expectation

Markets Vote Every Day

The US midterm elections on November 3 will undoubtedly attract considerable attention from investors over the coming weeks.

Politics matters to markets in the long run because policy matters. Tax rates, regulation, government spending, trade policy and fiscal priorities can all affect individual industries and businesses. However, politics in the short term often create nothing more than market volatility and noise.

History provides an equally important lesson: elections are only one of many forces affecting markets, and political preferences are a poor substitute for an investment strategy.

Looking back at midterm elections since 1954, including this year, September of a midterm year has been the weak spot, the only month with a negative average return and higher just shy of half the time. That unease has tended to fade as the election nears: October and November have both averaged solid gains, and November has been positive in nearly nine of every ten midterm years.

During midterm election years since 1954, the September through November stretch has compounded to a healthy average gain and finished higher in roughly three of four midterm years, though individual years have varied widely. The calendar years following a midterm election stand out most. Since 1954, the S&P 500 has been positive in every single one, averaging close to double its long-run calendar-year return.

Markets do not necessarily prefer one political party over another. What markets tend to struggle with is uncertainty over future policy. As elections approach and eventually pass, some of that uncertainty is resolved regardless of the outcome.

At quarter-end, markets appeared to be pricing in political gridlock, an environment broadly similar to the one in place today. Betting markets assigned the highest probability, 62%, to Democratic control of the U.S. House of Representatives and control of the U.S. Senate. In practical terms, investors are anticipating limited scope under this scenario for significant policy change in the near term and a familiar operating environment for businesses, a factor of very slim margins of control.

Portfolios should not be constructed around predictions about who wins. Election Day gets the headlines, but earnings, inflation and interest rates still report for work the next morning. Over time, those fundamentals tend to exert a more persistent influence than political headlines, particularly when divided government or narrow congressional majorities are anticipated.

“Political preferences are a poor substitute for an investment strategy”

Marc Dizard, Chief Investment Officer

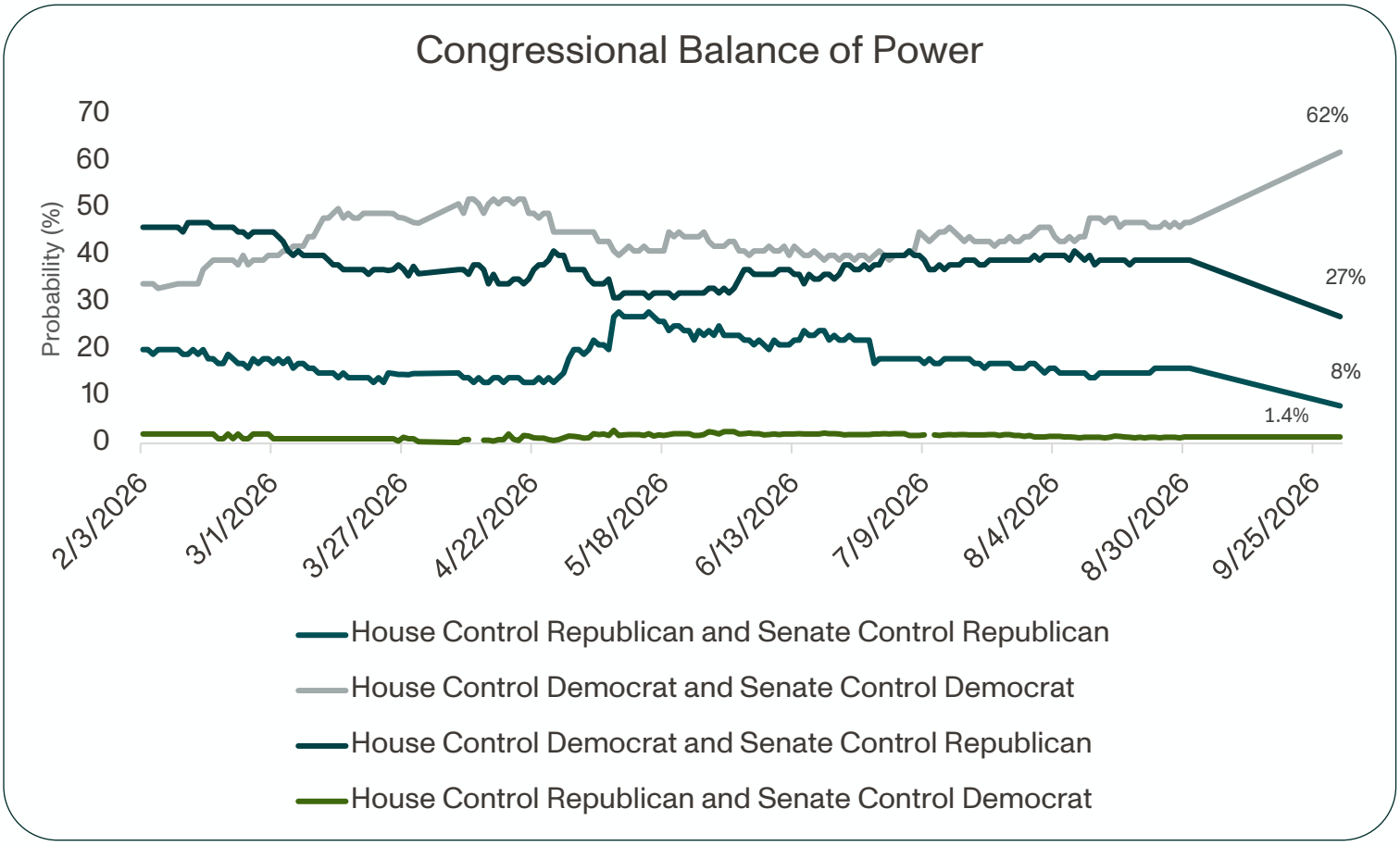
S&P 500 Returns During Midterm Election Years Since 1954			
	September	October	November
Average	-0.76%	3.36%	3.14%
Best Month	9.42%	16.81%	10.16%
Worst Month	-11.52%	-8.72%	-4.88%
% Positive	47.37%	72.22%	88.89%

S&P 500 Compound Returns, September–November (Midterm Years Since 1954 excluding 2026)	
Average	5.56%
Maximum	22.03%
Minimum	-7.06%
% Positive	72.22%

S&P 500 Calendar-Year Returns Following a Midterm Election Year Since 1954	
Average	20.69%
Minimum	1.37%
Maximum	37.56%
% Positive	100.00%

Average Calendar-Year Return Since 1954	11.95%

Data as of 09/30/2026; Source: Bloomberg, Huntington Bank Chief Investment Office



Data as of 09/30/2026; Source: Kalshi

Closing Perspective

As we enter the final quarter of 2026, the investment outlook is neither clearly bullish nor bearish.

The U.S. economy remains resilient, supported by consumer spending, business investment and manufacturing. Yet slower job growth, persistent inflation and higher long-term rates suggest a less forgiving phase ahead.

For equities, earnings must carry more of the burden. Higher rates limit valuation expansion and reward sustainable cash flow, profitability and strong balance sheets. Broader earnings growth could also widen market leadership beyond today's largest companies.

For fixed income, the reset has been painful, but higher yields now offer more compelling income. Volatility may persist, but investors are being better compensated for owning high-quality bonds.

Globally, economic divergence will create risks and opportunities. Differences in valuations, currencies, rates and growth reinforce the value of diversification across geographies and asset classes.

The midterm elections will generate headlines, but their market impact may be limited. Portfolios built around election outcomes risk giving politics more influence than history warrants.

Investors again have meaningful choices across cash, bonds, international markets, smaller companies and U.S. large caps. That broader opportunity set makes active decisions, disciplined monitoring and diversification more important. Diversification feels unnecessary when one trade works. It proves valuable when that trade stops working.

This is not a broken economy, nor has the opportunity set disappeared. The hurdle has simply moved higher. Earnings, balance sheets, valuation and diversification all matter more. The goal is not to predict every turn, but to build portfolios that do not require us to.

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