October 2026 Monthly Market Commentary

October Rotation Rewards Value as Investors Reassess Growth

EXECUTIVE SUMMARY

October brought a striking change in market leadership. The S&P 500 slipped 0.9%, but that modest decline masked a much wider gap beneath the surface: large-cap value gained 4.9% while large-cap growth fell 5.4%. Small- and mid-cap stocks also advanced, even as emerging markets declined 8.1%. Bonds provided a welcome counterbalance, with the Bloomberg U.S. Aggregate Bond Index rising 2.4%. Meanwhile, the economy remained on stable footing, with third-quarter GDP growing at a 3.4% annualized rate, although September inflation reached 3.7%. The Federal Reserve held rates steady in October, leaving investors to weigh healthy growth against persistent inflation, higher financing costs, and questions about the payoff from AI-related spending.

Market Review

Asset Class Performance; % Returns as of 10/31/2026

Asset Class	1-mo	QTD	YTD	1-yr	5-Yr	10-Yr	20-Yr
US Large Cap (S&P 500)	(0.9)	(0.9)	11.7	12.1	12.0	15.4	11.0
US Large Cap Value (S&P 500 Value)	*4.9*	*4.9*	*14.4*	*16.7*	*11.7*	*12.4*	*8.6*
US Large Cap Growth (S&P 500 Growth)	*(5.4)*	*(5.4)*	*9.5*	*8.3*	*11.7*	*17.6*	*12.8*
US Mid Cap (S&P 400)	1.9	1.9	12.0	14.3	7.2	10.9	9.6
US Small Cap (S&P 600)	3.2	3.2	17.8	20.8	6.1	10.6	9.1
International Developed (MSCI World xUS IMI)	(0.5)	(0.5)	9.7	14.2	8.5	9.3	5.4
Emerging Markets (MSCI EM IMI)	(8.1)	(8.1)	12.2	12.6	6.8	8.1	5.9
US High Yield Bonds (Bloomberg US High Yield)	0.3	0.3	0.4	1.6	3.7	5.0	6.3
Commodities (Bloomberg Commodities)	(0.1)	(0.1)	32.8	36.6	10.7	7.9	0.8
US Investment Grade Bonds (Bloomberg US Agg Bond)	2.4	2.4	(0.5)	(0.1)	(0.2)	1.5	3.0
US Short-Term IG Bonds (Bloomberg US Govt/Credit 1-3 Year)	0.9	0.9	1.6	2.4	2.3	2.1	2.3
Cash (Bloomberg US Trsy Bellwethers 3m)	0.4	0.4	3.1	3.7	3.8	2.5	1.7

Source: Bloomberg. Returns over a year are annualized. Index returns are shown for illustrative purposes only. Indices are unmanaged, do not reflect the deduction of fees, expenses, or taxes, and cannot be invested in directly. Past performance does not guarantee future results.

October was a reminder that the direction of the S&P 500 does not always tell the whole market story. The index slipped 0.9%, but large-cap value gained 4.9% while large-cap growth fell 5.4%. Mid-cap stocks rose 1.9% and small caps gained 3.2%, suggesting that investors were willing to look beyond the largest growth companies. Despite the pullback, the S&P 500 remained up 11.7% year to date.

Results overseas were less encouraging. Developed international equities declined 0.5%, while emerging markets fell 8.1%. Commodities were essentially flat, down 0.1% for the month, but remained a standout year-to-date with a 32.8% gain. Fixed income offered an important offset to equity-market weakness: the Bloomberg U.S. Aggregate Bond Index gained 2.4%, short-term investment-grade bonds advanced 0.9%, high-yield bonds added 0.3%, and the three-month Treasury bill benchmark returned 0.4%.

Economic Update

Key Economic Indicators

Economic Data Point	Date	Level	PREVIOUS 4 QUARTERS (Quarter-End Date)			
Description	10/31/2026		9/30/2026	6/30/2026	3/31/2026	12/31/2025
Inflation						
CPI (NSA, YoY%)	9/30/2026	3.70	3.70	3.50	3.30	2.70
Core CPI (ex food & energy, NSA, YoY%)	9/30/2026	2.60	2.60	2.60	2.60	2.60
U.S. Employment						
Initial Jobless Claims (4-wk MA, 1000's)	10/24/2026	196.75	200.50	222.50	208.00	219.25
Unemployment Rate (SA,%)	9/30/2026	4.20	4.20	4.20	4.30	4.40
Nonfarm Payroll (SA, 1,000's)	9/30/2026	159,044	159,044	158,892	158,650	158,432
Production						
Industrial Production (SA, YoY%)	9/30/2026	2.25	2.25	1.46	0.69	1.16
Durable Goods Orders (NSA, YoY%)	9/30/2026	10.20	10.20	9.20	2.80	12.80
Conf. Board US Leading Econ. Indicators	9/30/2026	99.60	99.60	99.40	99.00	99.40
U.S. Housing & Construction						
Building Permits (SA, MoM%)	9/30/2026	(0.40)	(0.40)	(2.60)	(11.50)	4.80
Housing Starts (Monthly, 1,000's)	9/30/2026	1,221	1,221	1,439	1,522	1,378
New Home Sales (Monthly, 1,000's)	9/30/2026	676	676	680	659	723
U.S. Retail Sales						
Retail Sales (SA, YoY%)	9/30/2026	6.30	6.30	5.90	3.60	2.10
Auto Sales (SAAR, Millions)	9/30/2026	15.98	15.98	16.52	16.34	16.02
U.S. Survey Data						
Conf. Board Consumer Confidence (SA)	10/31/2026	91.70	84.20	92.20	92.20	94.20
UofM Consumer Sentiment (NSA)	10/31/2026	48.00	48.10	49.50	53.30	52.90
ISM Manufacturing PMI (SA)	10/31/2026	55.50	54.50	53.30	52.70	47.90

Source: Bloomberg

The broader economy continued to show resilience, even as consumers remained cautious. According to the Bureau of Economic Analysis, real GDP grew at a 3.4% annualized rate in the third quarter, up from 2.2% in the second. Investment, consumer spending, and government spending helped drive the increase. September industrial production was up 2.25% from a year earlier and retail sales rose 6.3%. The October ISM manufacturing reading of 55.5, compared with 54.5 in September, also points to continued expansion.

Inflation, however, remained stubborn. Headline consumer prices were 3.7% higher than a year earlier in September, up from 3.4% in August, while core CPI stood at 2.6%. Consumers remained uneasy despite some improvement in the Conference Board confidence index, which increased to 91.7 in October from 84.2 in September. University of Michigan Consumer Sentiment was still low at 48.0, and the latest housing-starts figure of 1.221 million underscored the uneven backdrop for housing.

Federal Reserve

At its October meeting, the Federal Reserve held the federal funds target range at 3.75%–4.00%, following a quarter-point increase in September. The decision passed 10–2, with two policymakers favoring another increase. The Committee described growth as strong and inflation as still elevated, a combination that leaves the path of interest rates less certain than investors might prefer. In the October FOMC statement, the committee emphasized the importance of returning inflation to the Fed’s 2% target while responding to incoming data rather than following a preset course. Strong investment and resilient spending give policymakers room to remain patient, but inflation and energy-related risks could keep pressure on rates. For markets, the next moves will depend heavily on whether price pressures cool without a meaningful slowdown in demand.

Equity Markets

Value and Smaller Stocks Take the Lead

October's defining equity story was rotation, not a uniform retreat. Large-cap value rose 4.9%, compared with a 5.4% decline for large-cap growth (a 10.3 percentage points difference in a single month). Mid-caps gained 1.9% and small caps rose 3.2%, a notable contrast with the weakness in growth stocks. Investors appeared more selective about the valuations of businesses tied to artificial intelligence and the time it may take for sizable capital investments to generate attractive returns.

That does not diminish the importance of AI or corporate earnings, but it does raise the bar for results. Companies able to translate spending into durable revenue, profits, and cash flow may stand apart from those whose future returns depend on increasingly ambitious expectations. International results were mostly weak, particularly in emerging markets. October showed why a diversified portfolio can behave quite differently from any single headline index, even though diversification does not eliminate losses.

Diversifying Strategies

Commodities Remain Strong for the Year

After a powerful run earlier in 2026, the Bloomberg Commodity Index eased 0.1% in October. Its 32.8% year-to-date advance nevertheless remained among the strongest results in the performance table. Commodity prices have been influenced by energy developments, geopolitical uncertainty, supply constraints, and inflation expectations. The nearly flat monthly result is also a reminder that different commodity sectors do not always move together.

Real assets may provide a return pattern that differs from stocks and bonds, but they can also be volatile. Higher energy prices can help the energy sector while squeezing household budgets and business margins. Private credit and other alternative investments bring their own potential benefits and risks, including liquidity constraints, valuation uncertainty, and the importance of careful underwriting.

Fixed Income

Core Bonds Provide a Counterweight

Bonds were one of October's brighter spots. The Bloomberg U.S. Aggregate Bond Index advanced 2.4%, while short-term government and credit bonds gained 0.9%. The three-month Treasury bill benchmark returned 0.4%. The strength in core bonds helped offset weakness in large-cap growth and emerging-market equities, illustrating how different sources of return can contribute at different points in the market cycle.

High-yield bonds were positive as well, though their 0.3% gain was smaller than that of investment-grade bonds. The high-yield benchmark was up just 0.4% for the year through October, compared with a 0.5% decline for the Aggregate Bond Index. Credit markets still face questions about refinancing costs and the durability of corporate cash flows. Investors may benefit from today's income opportunities, but changes in yields and credit spreads will continue to affect total returns.

Key Themes

Theme #1: Value and Smaller Companies Find Support

Value stocks outpaced growth by 10.3% in October, and both mid- and small-cap equities posted gains.

Theme #2: Growth Remains Resilient, but Not Evenly Felt

Third-quarter GDP grew at a 3.4% annualized rate and manufacturing activity improved, even as consumer sentiment and housing remained soft.

Theme #3: Inflation Keeps the Fed Cautious

September headline CPI reached 3.7%, and the Fed left its policy rate unchanged at 3.75%–4.00% in October.

Theme #4: A Strong Month for Core Bonds

The Aggregate Bond Index rose 2.4% in October, a welcome offset to equity weakness, although the index remained slightly negative for the year to date and over the trailing one- and five-year periods.

Theme #5: Diversification May Benefit When Leadership Shifts

In October, large-cap growth and emerging-market indexes declined while value, smaller-company, and core bond indexes advanced, a reminder that asset classes do not always move together. Diversification does not ensure a profit or protect against loss, and these index results are not indicative of any MCF client portfolio.

Conclusion

October was less about an across-the-board market decline than a change in which investments led. Large-cap growth stocks stumbled, but value stocks and smaller U.S. companies moved higher. Emerging markets struggled, while core bonds delivered a solid monthly gain. Commodities paused after a strong year-to-date run. Beneath those market moves, the economy continued to expand at a healthy pace, even as inflation and consumer confidence pointed to lingering challenges.

As we head into the final two months of the year, the central question is whether resilient earnings and economic growth can continue to support markets while inflation stays above the Fed's objective. We will also be watching the returns on large AI investments, the outlook for interest rates, and the November midterm elections. Elections can bring near-term uncertainty, but they offer little basis on their own for predicting long-term returns. Maintaining perspective—and keeping portfolios aligned with individual goals, time horizons, and liquidity needs—remains more useful than trying to anticipate every shift in market leadership.

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Large Cap Equities: The S&P 500 Composite Index is a market-capitalization-weighted index of 500 widely held U.S. stocks. The S&P 500 Value and S&P 500 Growth indexes divide S&P 500 constituents using valuation, growth, and momentum characteristics. These indexes are commonly used to evaluate large-cap U.S. equity performance and style leadership.

Mid Cap Equities: Standard and Poor's Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990.

Small Cap Equities: The Standard & Poor's Smallcap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization. The index was developed with a base value of 100 as of December31, 1993.

International Developed Equities: The MSCI World ex-USA IMI NR USD Index measures the performance of the large, mid, and small cap segments of world, excluding US equity securities. It is free float-adjusted market-capitalization weighted. The index consists of the following 22 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The index is presented as net total return, which includes the reinvestment of dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

EM Equities: The MSCI Emerging Markets IMI NR USD Index is a free float-adjusted market capitalization index (includes large, mid, and small cap) that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey" and United Arab Emirates. The index is presented as net total return, which includes the reinvestment of dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Commodities: The Bloomberg Commodity TR USD Index measures the performance of future contracts on physical commodities which traded on US exchanges and London Metal Exchange. The commodity weightings are based on production and liquidity, subject to weighting restrictions applied annually.

High Yield Bonds: The Bloomberg US Corporate High-Yield TR USD Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

Global/International Bonds: The Bloomberg Global Agg ex USD TR USD Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-dominated securities.

Core/Agg Bonds: The Bloomberg US Aggregate Bond TR USD Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-through), ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index, which includes high yield and emerging markets debt.

Muni Bonds: The Bloomberg US Municipal TR USD Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

Short-Term Bonds: The Bloomberg US Government/Credit 1-3 Year TR USD Index measures the performance of non-securitized component of the U.S. Aggregate Index with maturities of 1-3 years, including Treasuries, government-related issues and corporates. It is a subset of the U.S. Aggregate Index.

Cash: The prefunded Bloomberg US Treasury Bellwethers 3-Month TR USD Index measures the performance of six on-the-run U.S. Treasuries that reflect the most recently issued 3m securities. It follows Barclays Capital's index monthly rebalancing conventions.
Inflation: The Consumer Price Index for All Urban Consumers (CPI-U), calculated by the Bureau of Labor Statistics (BLS), measures the average change over time in the prices paid by urban consumers for a market basket of goods and services, relative to a 1982–1984 base period. The basket includes food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication. Core CPI excludes the more volatile food and energy components. CPI figures shown in this commentary are year-over-year percentage changes and are not seasonally adjusted (NSA). Data are published monthly by the BLS in the Consumer Price Index news release.

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