

Weekly Market Commentary

OCTOBER 5, 2026

MARKET UPDATES

October 2, 2026:
Recorded Leadership Discussion Featuring: Regions Chief Economist and Chief Market Strategist.

October 16, 2026:
For access to this call please contact your Regions Wealth Advisor or Portfolio Manager.

WHAT WE'RE WATCHING



The Institute for Supply Management (ISM) releases its Services index for September on Monday, with a reading of 55.0 expected, which would compare to 55.4 in August. The Prices Paid component of the index is worth watching as a reading of 73.0 is expected, which would be a continued rise from an already elevated 72.6 reading the month prior. For context, a reading above 50 indicates expansion or growth, while a reading below 50 indicates contraction.



The minutes from the FOMC's mid-September meeting will be released on Wednesday and could lead to a recalibration of the outlook for monetary policy through year-end.



The University of Michigan releases its preliminary Consumer Sentiment survey for October on Friday, with the reading expected to fall to 47.8 from an already lackluster 48.1 in September.

KEY OBSERVATIONS



U.S. equity indices were content to move sideways throughout much of the week and even after rallying on Friday, both the S&P 500 and S&P Small Cap 600 indices closed out the week little changed. Notably, leadership remained narrow with the information technology sector remaining the standout performer as both hardware and software had a good week, and tech was joined by energy and utilities as the only S&P 500 sectors to finish the week in positive territory.



Abroad, both developed and developing markets hit a rough patch early in the week as a relentless rise in Treasury yields pushed the U.S. Dollar Index, or DXY, to a year-to-date high. But both the MSCI EAFE developed markets index and the MSCI Emerging Markets index rebounded on Friday as a drop in Treasury yields provided investors in foreign stocks with some confidence to increase exposure abroad.



Treasury yields remained volatile during the week, with the 10-year yield trading up to 5.34% intra-day on Thursday, the highest yield seen on that bond tenor since March of 2002, before closing out the week at 5.27% despite a weaker than expected September nonfarm payrolls report on Friday. Credit spreads on high yield corporate bonds widened materially on the week to the highest level seen since late March, but with the yield-to-worst on the Bloomberg U.S. Corporate High Yield index back near 8.3% to April of 2025 levels, opportunistic investors are likely starting to kick the tires on credit.



	Price/Yield			Total Return (%)			
	10/2/2026	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	7,722.72	-0.25	0.84	13.81	16.35	23.84	13.74
NASDAQ 100	30,807.93	0.66	5.78	22.60	24.55	29.30	16.71
S&P Mid Cap 400	3,668.01	0.61	-1.94	12.09	13.40	16.46	8.11
S&P Small Cap 600	1,685.75	0.22	-3.59	16.23	17.48	16.71	6.21
MSCI World ex US	469.95	-1.40	-1.90	13.73	18.34	21.38	9.59
MSCI EM	1,708.91	-1.23	0.76	23.68	27.47	24.79	9.11
Bloomberg U.S. Aggregate	5.56	-0.60	-2.38	-2.86	-2.16	4.59	-0.68
Bloomberg Corporate	6.05	-0.70	-2.45	-3.13	-2.72	5.56	-0.54
Bloomberg U.S.High Yield	8.29	-0.65	-2.33	0.14	1.34	8.53	3.61
Bloomberg EM USD Aggregate	6.95	-1.20	-2.98	-1.86	0.31	8.39	1.33
Bloomberg Global Agg ex-USD	3.74	0.09	-0.68	-2.04	-1.76	2.55	-0.70
Bloomberg Municipal Bond	4.63	0.45	-2.91	-3.20	-1.87	3.38	-0.01

Source: Bloomberg (3- and 5-Year Returns Annualized)

	Price/Yield						
	10/2/2026	1 Week Ago	1 Month Ago	12/31/2025	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	3.87	3.90	3.65	4.49	4.20	5.32	0.05
30 Year Mortgage (average rate)	7.30	7.13	6.74	7.28	6.38	7.80	3.18
2 Year Treasury (yield)	4.82	4.85	4.37	4.24	3.54	5.10	0.26
10 Year Treasury (yield)	5.27	5.16	4.78	4.57	4.08	4.68	1.46
30 Year Treasury (yield)	5.62	5.49	5.26	4.78	4.69	4.79	2.03
WTI Crude (closing price)	91.11	92.41	91.01	71.72	60.48	88.82	75.88
Gold (NYM \$/oz)	4,133.70	4,287.80	4,380.70	2,641.00	3,839.70	1,830.00	1,757.00

Source: Bloomberg (3- and 5-Year Returns Annualized)

WHAT HAPPENED LAST WEEK?

Stocks

S&P 500 Rallies Into The Weekend But Remains Stuck In A Tight Trading Range With Interest Rate Volatility Weighing On Risk Appetite; Small Caps Remain Challenged As Wider Credit Spreads Provide The Latest Headwind; Dollar Breakout A Headwind For Foreign Stocks.

• **S&P 500 Content To Move Sideways On The Week, With Few Buyers Outside Of Tech To Be Found.** The S&P 500 traded in a tight range over the balance of the week with the index finding support around 7,620 on Thursday and encountering resistance at 7,750 on Friday. The information technology sector closed the week higher by 1.4% due to strength out of both hardware (semiconductors) and software, utilities gained 0.7% after responding positively to oversold conditions, and the energy sector rose 1.4% despite energy prices moving modestly lower on the week. The communication services, consumer discretionary, financials, materials, and real estate sectors all dropped 1.5% or more on the week. Narrow market breadth would be more concerning if the 'Mag 7' and the information technology sector at large weren't leading the pack, and if Treasury yields can stabilize or move lower from currently elevated levels, we would look for a broader swath of sectors to participate, providing a boost to sentiment and risk appetite into year-end.

Micron (MU), a \$1.2T behemoth in the memory space benefitting from the continued buildout of AI-related infrastructure, posted impressive quarterly results after the market close on Wednesday and saw its stock rise 3% on Thursday in a volatile trading session. Micron's release appeared to reaffirm the view that semiconductor and memory names will be capacity constrained through 2027 at a minimum, which provided a tailwind for the broader AI theme into the weekend with hardware and software names rising in tandem.

• **Signs Of Stress In High Yield Bonds Provides Another Headwind For Small Caps And An Opportunity For Active Managers.** After outperforming the S&P 500 from March through July, U.S. small cap stocks have since given back the entirety of that relative outperformance, with the S&P Small Cap 600 index lagging the S&P 500 by 8.5% in August and September. The bulk of the weakness in small caps has been attributed to higher yields as this cohort of companies tends to rely more heavily on debt for financing and with rates rising, borrowing costs are likely to follow suit. Due to the close link and relatively high historical correlation between small caps and high yield bonds, the credit spread over Treasuries for the Bloomberg U.S. Corporate High Yield index moving meaningfully wider last week shouldn't be ignored or dismissed by investors in smaller capitalization stocks. Wider credit spreads alongside already elevated Treasury yields could magnify potential financing concerns in the months to come, and could continue to weigh on small cap indices, broadly speaking, until some stability in the credit markets can be found. This backdrop, should it persist, sets up well for active managers to outperform the broader S&P 600 index as babies will be thrown out with bathwater, providing opportunities for active managers to comb through the wreckage to find winners.

• **Dollar Breakout Presents Another Headwind For Foreign Stocks.** Macro headwinds continued to mount for developed international stocks last week as rising U.S. Treasury yields, a stronger dollar, and renewed energy price concerns hampered risk appetite. The prospective inflationary and economic growth impact of higher energy prices weighed on the MSCI EAFE index last week with the benchmark lower by 0.7%. Investor pessimism surrounding energy importing and cyclically exposed countries led to steep price declines across Europe, even as the G7 announced plans to release as much as 100 million barrels of oil and diesel from its emergency reserve on Friday, with the MSCI Europe index falling by 1.1% last week, lagging the MSCI Japan index's more modest 0.3% decline. While both regions rely heavily on imported energy, a larger exposure to the financials sector acted as a drag on performance for Europe, with the sector's multiple expansion in recent months turning to contraction in recent weeks. The U.S. dollar's breakout to a year-to-date high relative to the euro contributed to selling pressure on the MSCI EAFE, leading the index to test its 200-day moving average for the first time since March on elevated volume last week. The developed market benchmark managed to close the week above that technical line in the sand, but the uptick in volume indicates market participants are actively selling, a potential warning sign of further technical weakness to come.



ASSET MANAGEMENT

Bonds

Short Covering Mid-Week Steadies The Treasury Market Before A Weaker September Payrolls Report On Friday Draws Buyers Back In; Signs Of Stress In The Credit Markets Evident, But Higher Yields Likely To Garner Interest In Short Order; FOMC Now Expected To Pause In October After Weaker Payrolls Growth In September.

• **Profit Taking On Short Positions Spurs A Mid-Week Rally In Long Bonds.** Volatility in the rates market continued last week, with the 10-year Treasury yield swinging wildly intra-day on multiple occasions before ultimately settling out 8-basis points higher on the week at 5.25%. Notably, mid-week, the 10-year yield briefly traded above 5.34%, its highest level since 2002, but above the 5.30% level it appeared as though market participants were looking to take profits on short positions as opposed to pressing those bets, which forced a sharp intra-day reversal that saw the yield finish the day below 5.24%. With the 10-year yield closing the week at 5.27%, we will be looking for a weekly close above 5.30% to signal that the uptrend remains in place. A failure to close above 5.30% could bring about a swift retest of the mid-September breakout level around 5%.

A continuation of the rise in Treasury yields again weighed on higher quality corporate bonds early in the week, evidenced by the investment grade Bloomberg U.S. Corporate index falling 0.7% on the week. That index now carries a yield-to-worst of over 6%, the highest yield seen since November of 2023.

• **Higher Yields On Corporate Bonds Likely To Attract Investor Interest In Short Order.** Higher yielding corporate bonds got cheaper for the third consecutive week as option-adjusted spreads (OAS) pushed over 300-bps for the first time since the onset of the Middle East conflict in March. Over the course of the week, the Bloomberg U.S. Corporate High Yield index fell by 0.65% amid concerns surrounding refinancing risk for the lowest rated/quality issuers. The additional yield premium being required by investors as a result had the high yield index sporting a yield-to-worst of 8.35% at the close on Friday, just 25-bps below the three-year high of 8.6% notched

during last year’s Liberation Day selloff. That uptick in yields is likely to spark near-term demand as market participants are now being offered higher yields paired with a shorter duration profile for the index as issuers leaned heavily into shorter-term debt in recent years. In our view, valuations are approaching fair value from ‘rich’ levels in recent quarters, which may create opportunities to rebalance, but have yet to reach levels cheap enough to drive a meaningful uptick in demand.

• **In-Line August Inflation Data Fails To Bring Buyers Back Into The Treasury Market.** The release of the August Personal Consumption Expenditure (PCE) last Wednesday was perhaps the most potentially impactful economic data release for bond investors. Headline PCE rose 0.3% month over month and 3.7% year over year, compared to consensus estimates of 0.3% and 3.7%, respectively. Core PCE, which is more closely watched by the FOMC, rose 0.2% month over month and 3.0% year over year, with both readings coming in light versus consensus estimates of 0.3% and 3.3%, respectively. On the surface, it would make sense for the cooler readings to put downward pressure on Treasury yields as market participants recalibrated their expectations surrounding rate hikes in the months to come, but yields across the curve rose following the release as much of the shortfall relative to the consensus was dismissed as being driven by a change in the underlying methodology behind how the PCE is calculated. Fed funds futures were pricing in a 47% chance of a 25-basis point rate hike in October and an 81% likelihood in December prior to the release, and while the odds of an October increase fell to 39% on the heels of the PCE release, the likelihood of a December rate move rose to 83%. While we don’t expect this one datapoint to alter

the path forward for the Fed, should year over year core PCE come in below 3% when September PCE is released, the FOMC may then have the cover to pause when it meets at the end of October.

• **‘Bad News’ On The Jobs Front Spurs Steep Drop In October Rate Hike Odds.** The September nonfarm payrolls report on Friday proved market moving with 29k jobs created during the month, well below the 90k estimate, and payrolls growth for the prior two months were revised lower by 60k in aggregate. The unemployment rate ticked higher to 4.2% from 4.1% the prior month, and the labor force participation rate rose to 61.8% from 61.6% in the prior month. The headline miss relative to the consensus estimate led to a recalibration of October rate hike odds, with the probability of a 25-bp increase falling to 22% on Friday from 70% at the start of last week, implying the FOMC would be on pause later this month. It’s worth noting that there was just a 53.1% initial response rate to the survey, which is an exceedingly low figure, and could lead to sizable revisions in the month(s) to come. We doubt that the FOMC is going to rely too heavily on this release to dictate the path forward for monetary policy, and the initial rally in Treasuries reversed course by the market close on Friday with yields finishing the day higher by 2- to 5-basis points across the curve as market participants appeared to come to the same conclusion.

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