

Bulls & Bears



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Mid-Cycle Adjustment

The Federal Reserve has begun a new rate-hiking cycle, but financial markets are currently pricing in a relatively modest path for interest rates over the next several years. History suggests caution with that assumption. Since 1994, only one of six Fed hiking cycles ended after a single adjustment, while the other five resulted in cumulative increases of at least 1.75%. As a result, investors should be careful about assuming that the current cycle will remain limited if economic growth, inflation, or labor market conditions remain resilient.

Our base case calls for two additional 0.25% rate hikes over the next two quarters, a path that would be somewhat less restrictive than current market expectations. While we believe the Fed will remain vigilant in its effort to keep inflation contained, we do not currently see the need for a more aggressive tightening cycle. At the same time, the outlook for interest rates is being influenced by factors beyond Federal Reserve policy, including elevated government borrowing needs, persistent inflation concerns, and a higher term premium demanded by investors. These forces could keep longer-term Treasury yields elevated even if the Fed follows a gradual path, reinforcing our preference for high-quality fixed income exposure while maintaining flexibility as market conditions evolve.

Persistent Geopolitical Risk

Geopolitical risk has moved from being a periodic concern to a persistent market theme. Ongoing conflicts, trade disputes, tariff policies, semiconductor competition, and strategic rivalry between major economies are affecting investment decisions and capital flows. Markets have become increasingly sensitive to developments involving energy production, global trade routes, national security concerns, and supply chain vulnerabilities.

Energy security has become particularly important because it intersects directly with inflation, economic growth, and AI-related infrastructure spending. Investors are monitoring oil prices, power generation capacity, natural gas availability, electrical grid investments, and critical mineral supply chains. The push toward reshoring, friend-shoring, and supply chain diversification continues to require substantial corporate investment. While geopolitical developments can create short-term volatility, they are increasingly viewed as long-term structural factors affecting sector leadership, capital expenditure decisions, inflation trends, and regional investment opportunities.

AI Hype to AI Returns

The AI investment cycle remains one of the most important equity market themes. Markets have moved beyond simply rewarding AI-related spending and are increasingly asking whether companies can generate attractive returns on the enormous capital being deployed. Mega-cap technology firms continue to spend aggressively on data centers, semiconductors, networking equipment, and cloud infrastructure, while investors are scrutinizing earnings growth, free cash flow generation, and productivity gains that result from these investments. AI remains a key driver of corporate earnings growth and equity leadership.

The theme is also broadening beyond technology. Utilities, power infrastructure companies, data center operators, electrical equipment manufacturers, cooling technology providers, and industrial firms are becoming beneficiaries of the AI buildout. Markets are increasingly recognizing that AI is not simply a software story but also an infrastructure story requiring massive investments in energy, transmission networks, cooling systems, and computing capacity. As a result, investors are debating whether AI productivity gains can justify current equity valuations while simultaneously creating opportunities and risks across multiple sectors and asset classes outside traditional technology sector equities.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

9/30/26 Year-to-Date Change

S&P 500	12.75%
NASDAQ	16.09%
Russell 2000	13.71%

Interest Rates	3/31/26	9/30/26
10-Year Treasury Note	4.31%	5.29%
3-Month Treasury Bill	3.69%	4.14%



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