

Hamilton-Bates Market Update

October 12, 2026

**The S&P 500 Masked the
Correction That Did
Happen in Q3 as Expected**

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The market is just about through the weakest period of the year seasonally (mid-August through mid-October); and also through the weakest period historically of the 4 Year Presidential Cycle (Q3 of the mid-term election year up to the election). We really haven't seen much weakness if you only look at the S&P500 which is flat (+0.40%) since early August. But if you dig a little deeper, you will find that the market did live up to its tendencies with broad weakness in Q3.

The Tale of the Tape

(From the August High to September Low)

S&P 500 Cap-Weighted	+0.40%
Dow Jones Industrial Average	-7.40%
Russell 2000 Small Cap	-9.50%
S&P 500 Equal-Weight	-6.30%
20-Year Treasury Bond	-11.6%*

(*Peaked in June made a low in October)

Earnings, Economy, Energy and Interest Rates

Earnings have been pretty solid, and we are just on the cusp of a new round of results starting about now. This round of results could be market moving given expectations are now pretty elevated. We expect a positive boost but perhaps not quite as much in past quarters. The job market has been pretty strong too—with conditions hovering in a 'low hire—no fire' situation. If you have a job you will keep it, but job mobility is easy only for those in select skilled fields. Unless job losses start to pile up however, Americans are working and will generally continue to spend. We don't see any warning bells on this front yet. The Fed hiked rates in September in response to a sharp rise in bond yields, which in turn are rising due to the spike in energy prices. Energy prices will be volatile until the situation is resolved. The Fed move was likely more symbolic—since the Fed can't hike energy prices lower—but it helped to temper a yield spike that started to become disorderly. We see maybe one more hike this year, possibly in October or December. Hikes

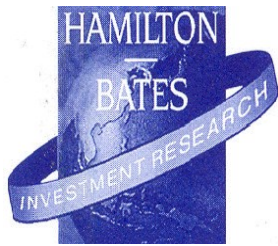
won't do anything for energy prices, but could calm the near-panic in the bond market by showing the Fed is serious about inflation.

Stock Market Outlook and Portfolio Strategy

Mr. Market did his best to confuse everybody this past quarter with the S&P hiding broad weakness. We believe the large part of the correction is behind us, with possibly some volatility around the election itself. The Democrats are largely expected to take the House; and more likely than not to take the Senate. This result is likely priced into stocks, so if the GOP ends up holding the Senate—there could be some positive tailwind from that. A huge Democratic wave across the spectrum could create uncertainty over the AI trade and data center development—that is the crux of potential negative outcomes.

We currently believe a good deal of the corrective work we expected has been done. The spike in bond yields should taper around the 5.4% level in the 10-year give or take, and its possible that yield peak is already in. Any relief on rates will spill over in supportive fashion for the broad market, the beaten up financials, and for small-caps. If we get some wobbling around the election we believe it will be part of the bottoming process that has already begun. Seasonal and historical trends turn very bullish soon, we do not want to fight those trends. Underlying conditions of a solid economy, solid employment, and solid earnings remain. If the bond market rout pauses (and we believe it will for the next quarter), very bullish tendencies and trends can take hold.

We put money to work in small-cap value, international dividend, and domestic dividend paying companies in late September. All of these areas which were very affected by rising rates could turn things around in Q4. We expect an eventual rally that takes stocks nicely higher into early 2027. We'll continue to add along the way.



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**Q3 Saw a Correction in
Nearly Every Index
Except the
Cap-Weighted S&P 500**

The Broad Market Had its Correction



S&P 500 Equal Weighted Index vs the S&P 500 Capitalization Weighted Index

The traditional S&P 500 Index is a capitalization weighted index, where the largest companies have the largest affect on how the index moves. The top-7 companies have a 35% weight in the index. They dominate the moves. 35 cents of every dollar that went in to the Cap-Weighted S&P went into these 7 companies while 65 cents went into the other 493. This past quarter these large companies went up while the rest of the market fell sharply. Investors perceived these companies as safe from rising rates (this is incorrect as noted in the Outlook and Strategy Section). As a result, the S&P 500 hardly showed a blip in Q3. The Equal Weight S&P 500 (where each company has equal affect on the index) was much weaker, reflecting the negative impact that rising rates had on the broad market during the quarter. In our view the correction we were looking for happened, and at the end of September we deployed cash into areas we deemed sufficiently oversold. We will continue to add over the next month or so.

The months after the mid-term election have historically been great for the stock market, we expect that trend to continue, and we expect stocks to move broadly higher after the election.