Newsletter - US Capital Markets 3Q26



aranca

November 2026

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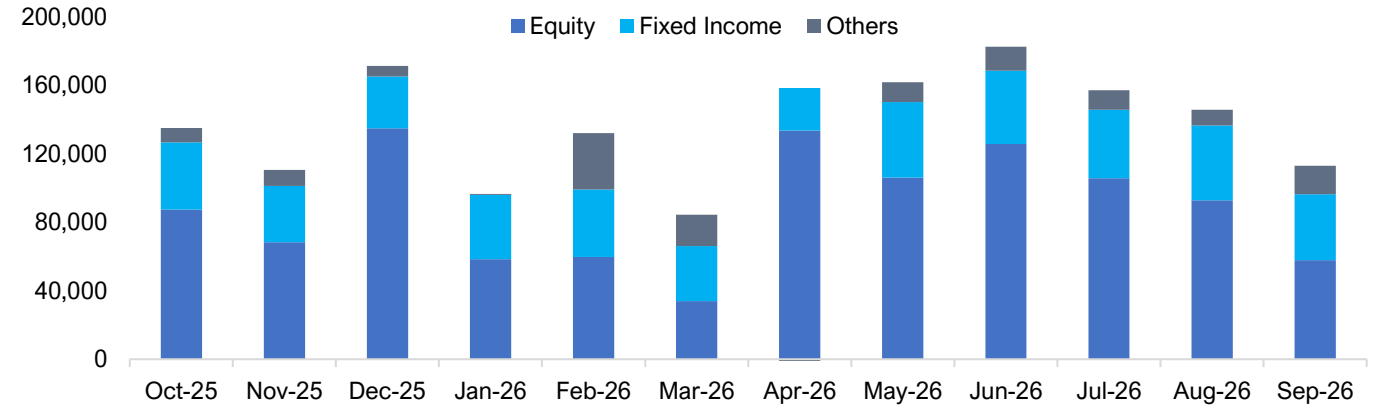
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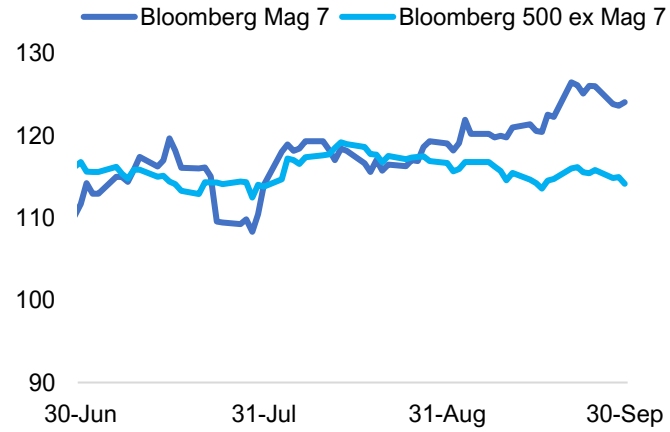
US Equity Market Analysis (1/5)

Fund flows moderate as equity inflows weaken

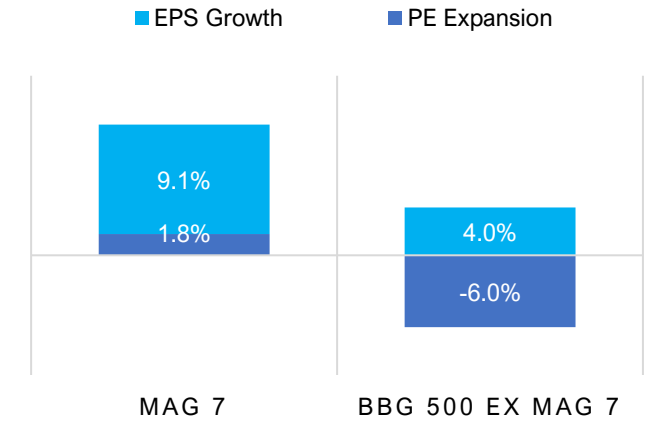
US Fund Flows (USD mn)



Mag 7 vs. Rest of US Large Cap



Total Return Breakup Analysis



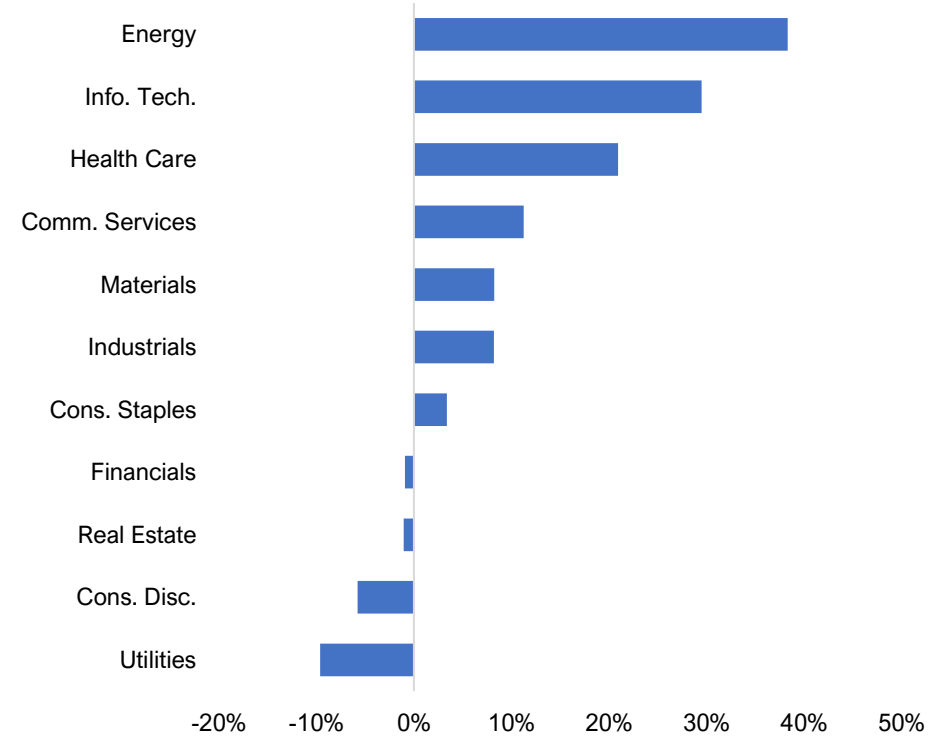
- US capital market fund flows **declined 15.7% QoQ in 3Q26,** indicating a pullback in aggregate allocations after the strong inflows recorded in Q2.
- The decline was primarily led by **a 29.8% QoQ decline in equity flows** as rising Treasury yields and persistent inflation concerns encouraged more selective risk-taking.
- Fixed-income flows **increased 9.4% QoQ,** suggesting a shift towards relatively lower-risk investments amid uncertain geopolitical environment.
- **The Mag 7 outperformed** the broader US large-cap index during 3Q26, as indicated by 9.1% EPS growth vs 4.0 % for the rest of the index.
- P/E multiples expanded 1.8% for Mag 7 compared to a 6.0% fall for the broader market.

Source: *Aranca Research, Bloomberg, Bloomberg Mag 7 Index NR and Bloomberg Large Cap Ex. Mag 7 Index NR*

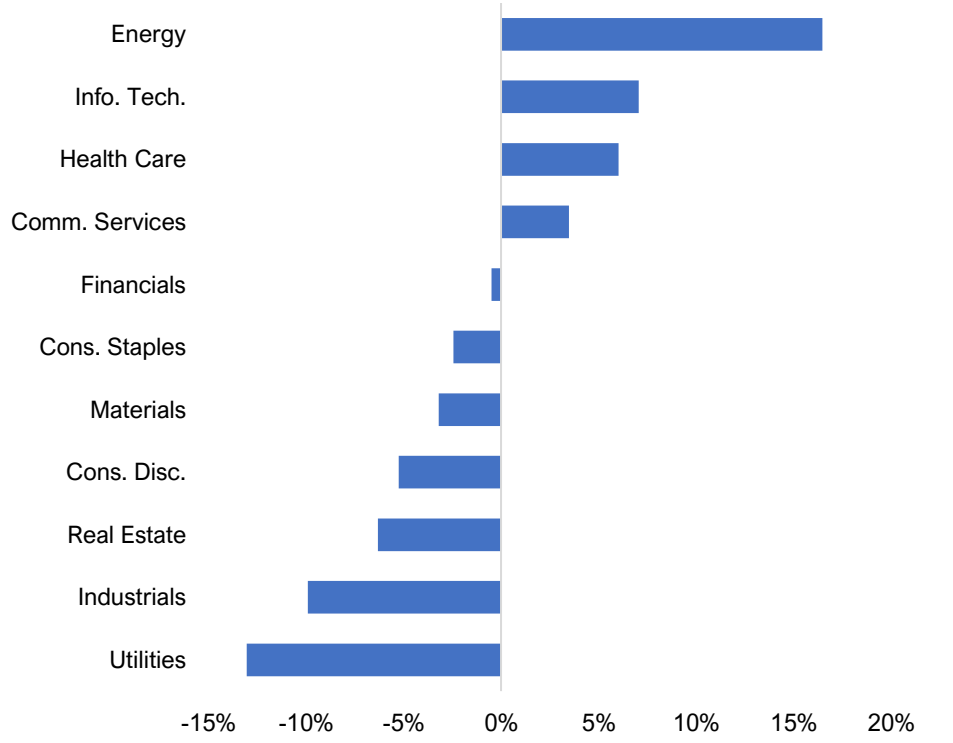
US Equity Market Analysis (2/5)

Sector leadership rotates as Energy and IT lead in 3Q26 vs. 2Q26

US 1-Year (LTM) Sectoral Returns



US 3Q26 Sectoral Returns



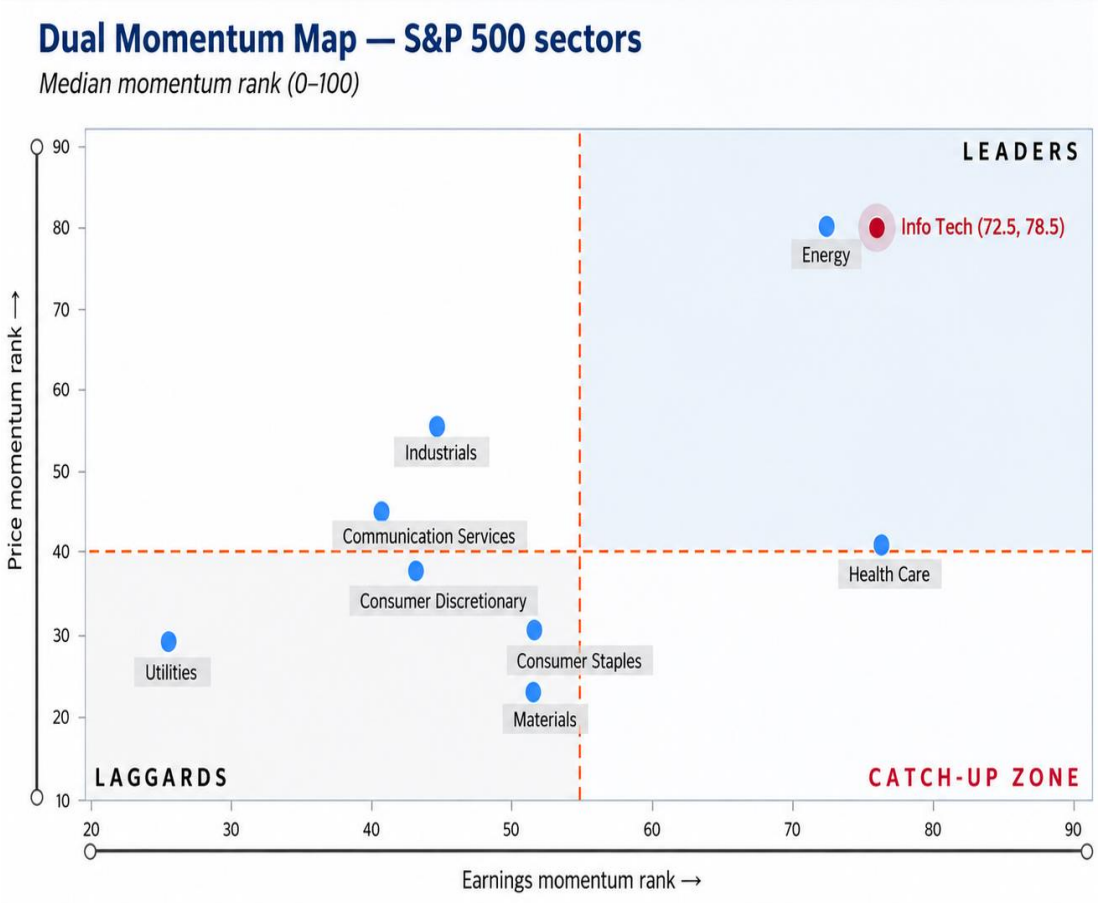
- Over the past year, US equity returns were **led by Energy (38%), Information Technology (29%), and Health Care (21%)**, while **Consumer Discretionary (-6%) and Utilities (-10%) lagged**.
- 3Q26 leadership shifted to energy (+16% in 3Q26 vs -14% in 2Q26), while industrials (-10%) and utilities (-13%) underperformed. Materials (-3%), Real Estate (-6%), and consumer discretionary (-5%) also declined, indicating broad-based weakness across cyclical sectors.

Source: *Aranca Research, Bloomberg, S&P 500 Sector indices are used for sectoral returns*

US Equity Market Analysis (3/5)

Dual momentum remains concentrated in Information Technology, while Energy offers a catch-up opportunity

3-month "Dual Momentum" analysis: earnings and price momentum across S&P 500 sectors, 3Q26



-2.0%
Median 3-month price momentum, top-quartile dual-momentum stocks

1.1%
Median earnings momentum of the same cohort, price-led re-rating

78.5 / 72.5
Info Tech price / earnings ranks, only firm top-right sector

Earnings–price divergence

Sector earnings momentum remains relatively dispersed in Q3'26, while price leadership is concentrated in Information Technology and Energy. Other sectors remain below the median on at least one momentum measure.

Info Tech leads on both measures

Information Technology remains firmly positioned in the top-right quadrant, continuing to stand apart from the broader sector universe on both measures.

Healthcare is the clearest catch-up opportunity

Healthcare combines strong earnings momentum with comparatively weaker price momentum momentum, positioning it as a potential catch-up opportunity.

Stock-level opportunities — consumer & industrial tilt

Backed by strong earnings revisions and improving sentiment

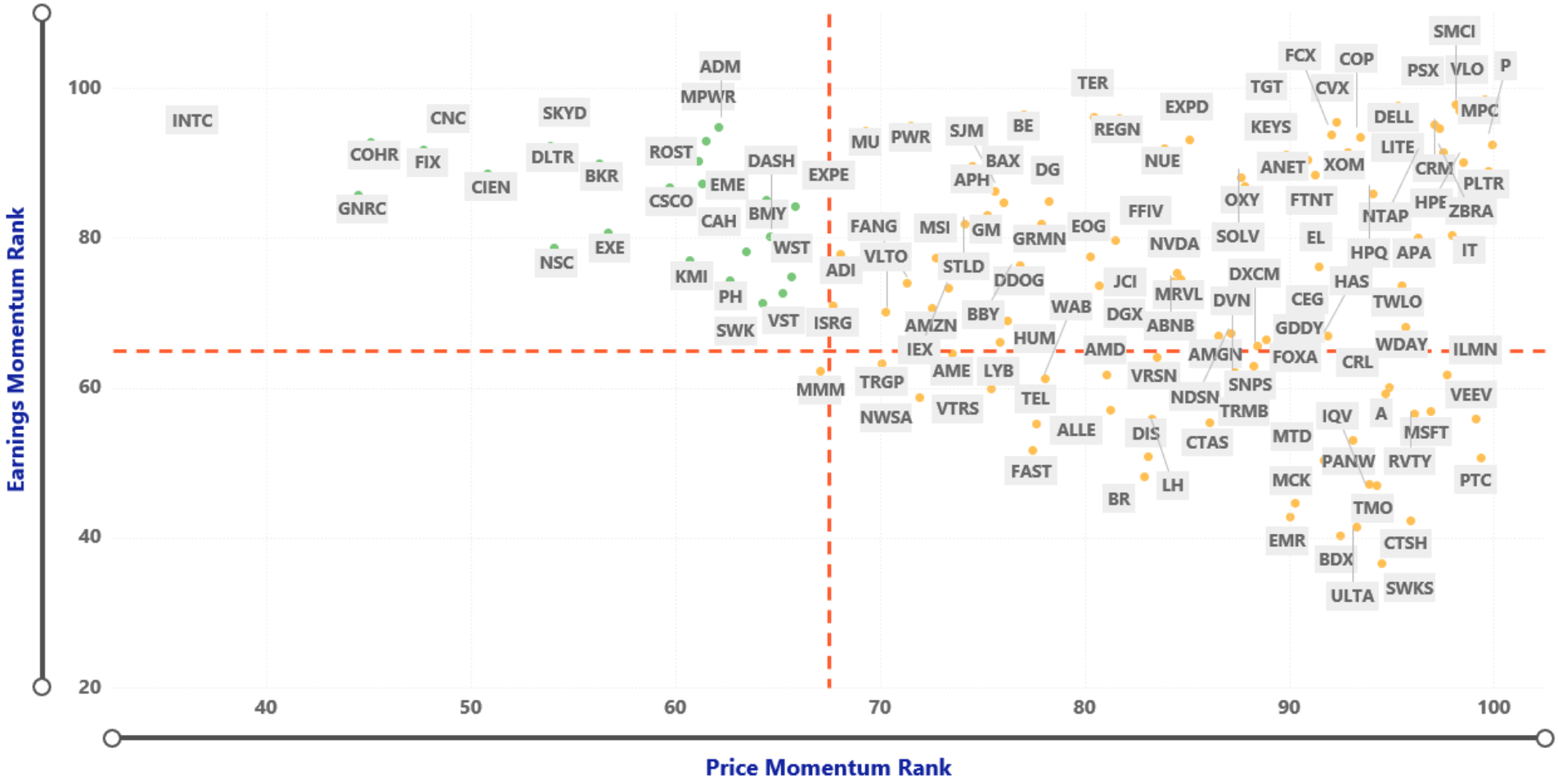
PWR Quanta Services | **KEYS** Keysight Technologies | **APH** Amphenol

Source: *Aranca Research*

US Equity Market Analysis (4/5)

Dell and Micron feature among the price-momentum leaders, while several stocks show diverging price and earnings momentum

Top Quartile S&P 500 Companies Ranked by Dual Score Momentum



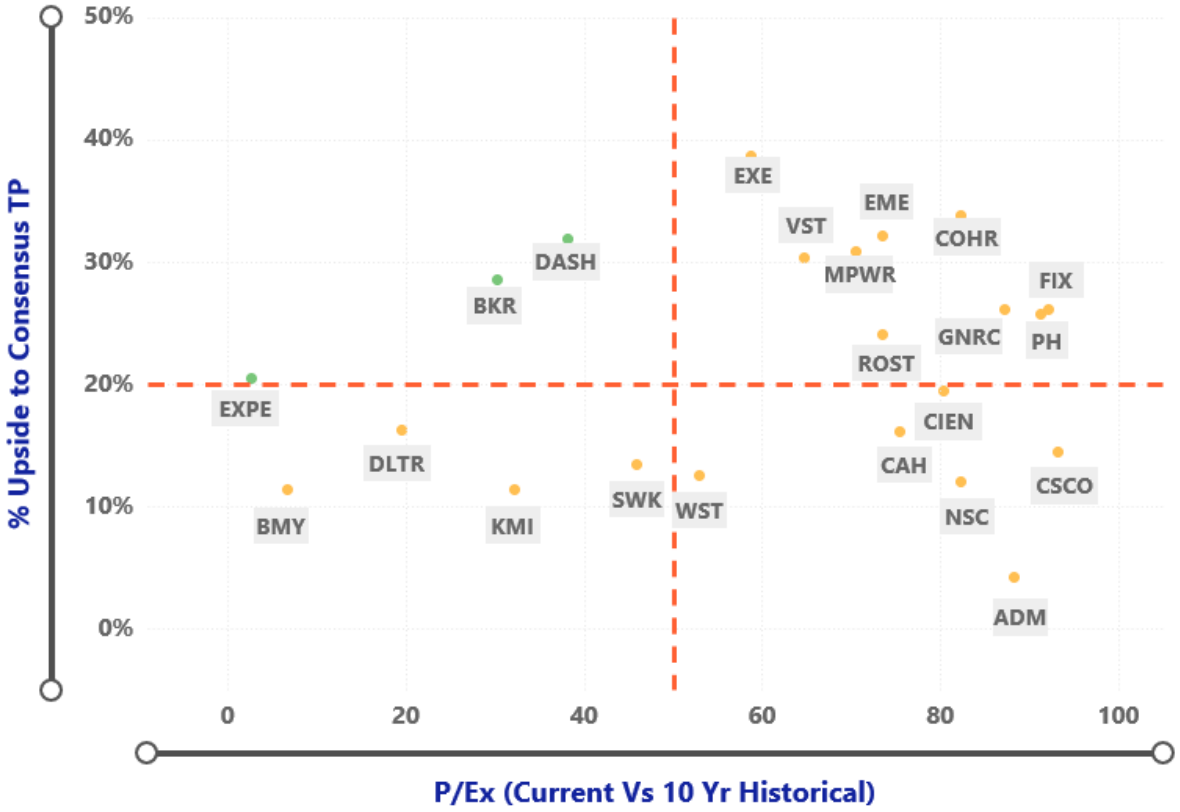
*Notes: Earnings Momentum is 3-months change in consensus EPS estimates. Price Momentum is 3-months price return. ** Excluding Financials and Real Estate*

Source: Aranca Research

US Equity Market Analysis (5/5)

DASH and BKR stand out, with strong consensus upside and relatively lower historical valuations

Top Quartile S&P 500 Companies by Low Price Momentum and High Earnings Momentum Rank - Valuation Vs Consensus Potential Upside



Top Companies by % upside to Cons. TP and relatively low valuation

Ticker	Company Name	% Ups. to Cons. TP	1Yr Fwd PEx
EXE	Expand Energy Corporation	39%	39.60
COHR	Coherent Corp.	34%	24.90
EME	EMCOR Group Inc.	33%	26.40
DASH	DoorDash Inc.	32%	13.00
MPWR	Monolithic Power Systems Inc.	31%	23.40
VST	Vistra Corp.	31%	11.80
BKR	Baker Hughes Company	29%	31.70
GNRC	Generac Holdings Inc.	26%	17.00
FIX	Comfort Systems USA Inc.	26%	33.50
PH	Parker-Hannifin Corporation	26%	38.10
ROST	Ross Stores Inc.	24%	15.10
EXPE	Expedia Group Inc.	20%	23.60
CIEN	Ciena Corporation	19%	16.00
DLTR	Dollar Tree Inc.	16%	36.00
CAH	Cardinal Health Inc.	16%	9.30
CSCO	Cisco Systems Inc.	14%	20.30
SWK	Stanley Black & Decker Inc.	13%	10.80
WST	West Pharmaceutical Services Inc.	12%	12.10
NSC	Norfolk Southern Corporation	12%	46.70
KMI	Kinder Morgan Inc.	11%	19.30
BMY	Bristol-Myers Squibb Company	11%	51.30

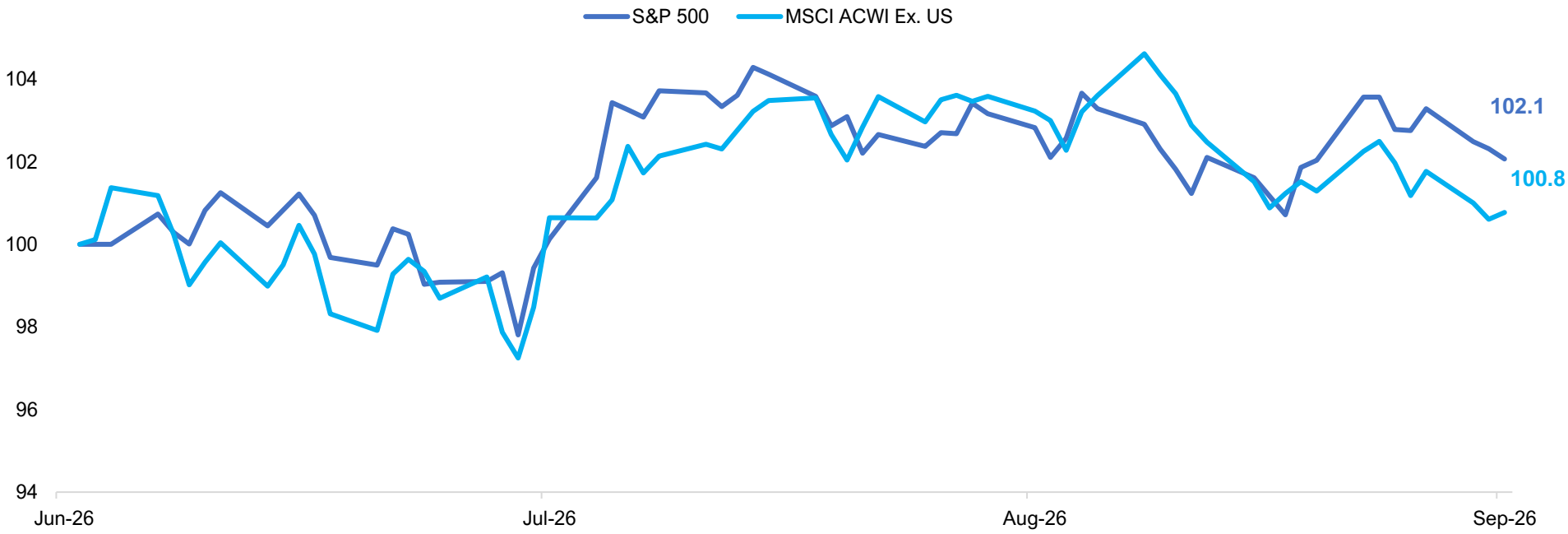
Notes: X Axis P/Ex Rank (Current Vs 10 Yr Historical) *compares current valuation with its 10-year history. A rank of 90 means valuation exceeded the current level in only 10% of observations. The source Koyfin field is labeled LTM P/E, while the S&P 500 tab labels it NTM P/E.*
Y Axis: supplied consensus target-price upside.
*Screen: combined rank ≥70, earnings rank >65, price rank <67.5. ** Excluding Financials and Real Estate.*

Source: Aranca Research

US vs. Non-US Equities (1/2)

US equities edge ahead of non-US markets on AI-related gains

US vs. Non-US Equity Performance



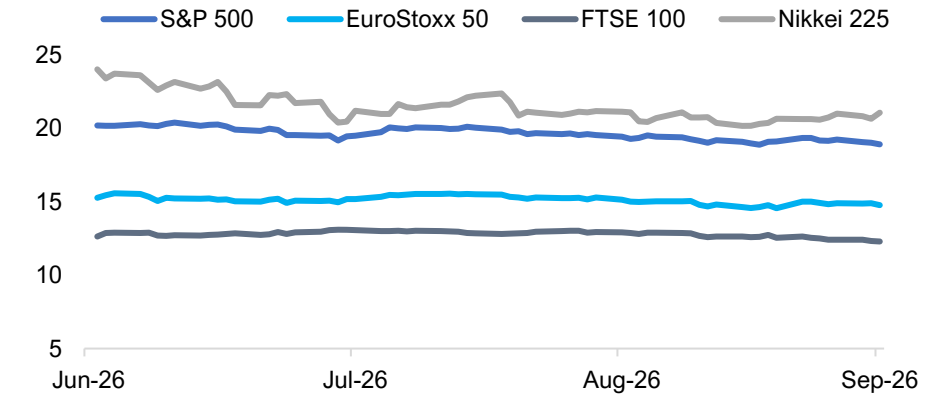
- During the quarter, **US equities outperformed non-US markets by a modest margin**, supported by resilient corporate earnings and sustained investor interest in mega-cap technology and AI-related stocks.
- **US markets retained a relative edge**, supported by AI-led technology gains and resilient earnings. However, Middle East tensions and higher oil prices fueled inflation concerns, prompting the Fed to raise rates and adding pressure on Treasury yields and equity valuations.

Source: *Aranca Research, Bloomberg*

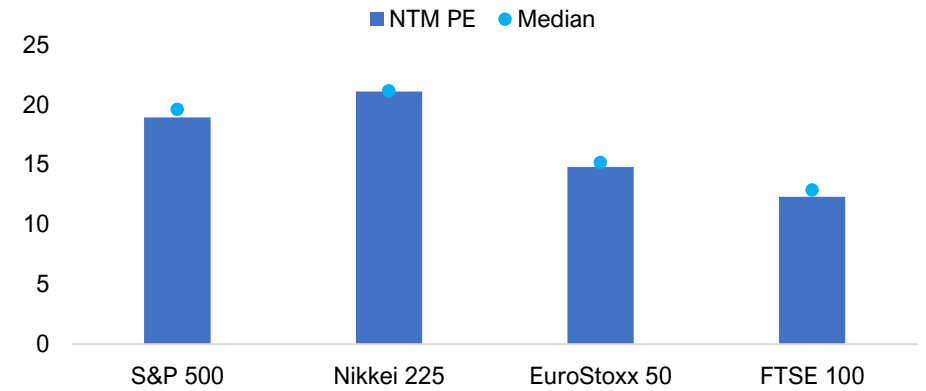
US vs. Non-US Equities (2/2)

Valuations compress as earnings growth outpaces prices across major markets

NTM PE of Key Geographies



NTM PE Comparison with Median

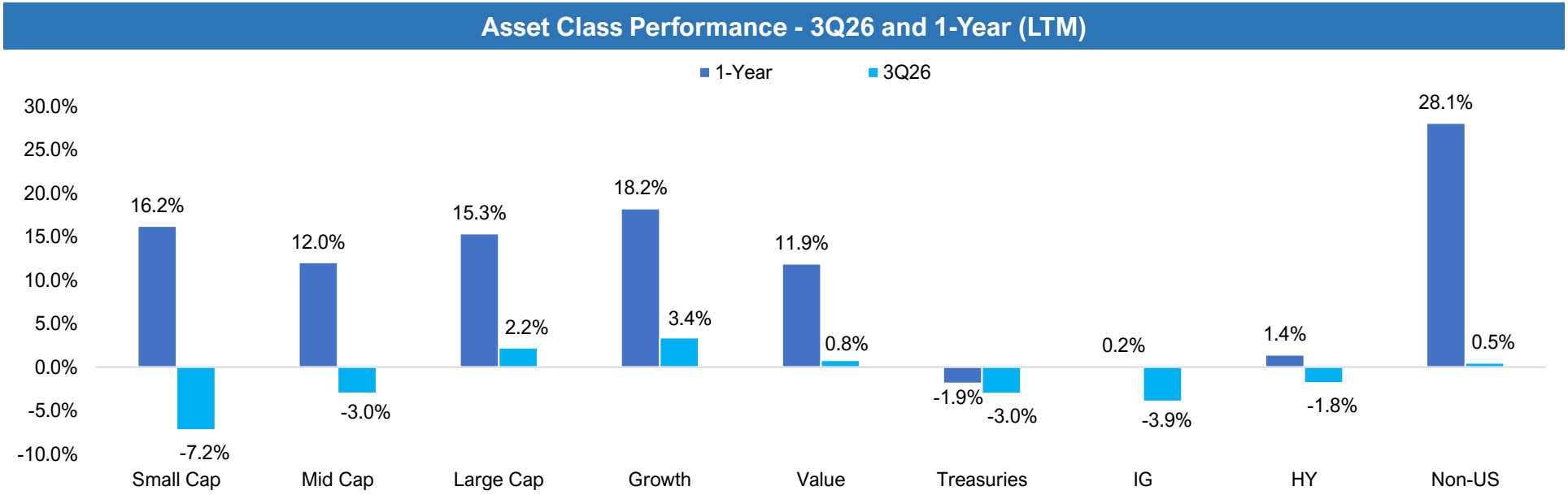


- **Equity valuations declined**, with NTM P/E multiples ending at 18.9x (S&P 500), 21.1x (Nikkei 225), 14.8x (Euro Stoxx 50), and 12.3x (FTSE 100).
- The Nikkei de-rated from its beginning of the quarter highs, while the S&P 500 and FTSE 100 also saw some compression. The Euro Stoxx 50 remained broadly stable, indicating limited valuation expansion.
- The **FTSE 100 remained the cheapest market** on a forward P/E basis, reflecting its greater exposure to mature, value-oriented sectors, while the Nikkei continued to command a premium.
- The **S&P 500 (18.9x) and FTSE 100 (12.3x) traded below their quarterly medians** of 19.6x and 12.9x, respectively, with the Euro Stoxx 50 (14.8x) also remaining below its median of 15.2x
- **The Nikkei 225 traded at 21.0x, at par with its median**, indicating that its valuation premium had largely normalized by quarter-end
- Overall, **valuations remained relatively disciplined across major markets**, with most indices trading at or below historical medians.

Source: *Aranca Research, Bloomberg, Median: 3Q26*

Asset Class Performance (1/2)

Large caps and growth lead 3Q26; Non-US lead on one-year return



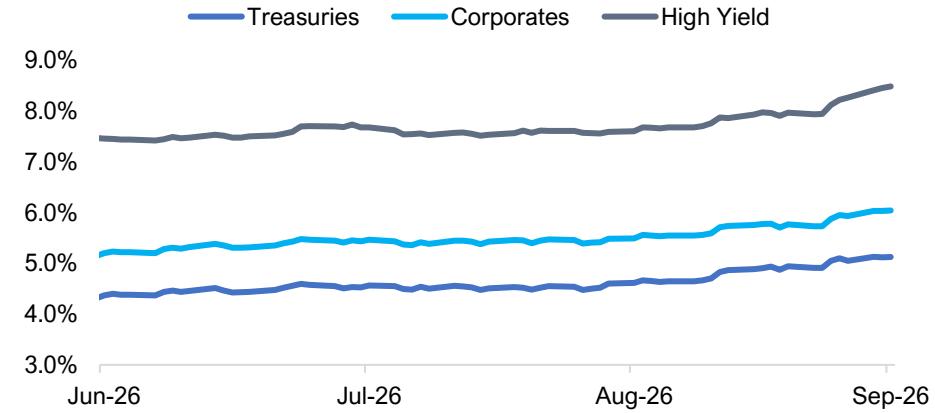
- On a one-year basis, returns remained positive across most asset classes, led by **non-US equities (28.1%) and growth stocks (18.2%)**, supported by broader market participation and sustained investment in AI-related opportunities. Fixed income lagged, with Treasuries (-1.9%) and investment-grade bonds (0.2%) reflecting sensitivity to interest-rate expectations.
- In 3Q26, **small caps (-7.2%) and mid caps (-3.0%) underperformed**, while growth stocks gained 3.4%. Rising oil prices and renewed Middle East tensions heightened inflation concerns, keeping interest-rate expectations elevated weighed on rate-sensitive equities and fixed income.
- **Non-US equities continued to outperform US market segments over the trailing year**, supported by broader global market participation and attractive opportunities beyond mega-cap US technology stocks.

Source: *Aranca Research, Bloomberg, Small cap: Russell 2000 NR, Mid Cap: Russell Mid Cap NR, Large Cap: S&P 500 NR, Growth: S&P 500 Growth NR, Value: S&P 500 Value NR, Treasuries, IG and HY: Bloomberg US Aggregate indices for Treasuries, Corporate and High Yield (TR, Value Unhedged, USD)*

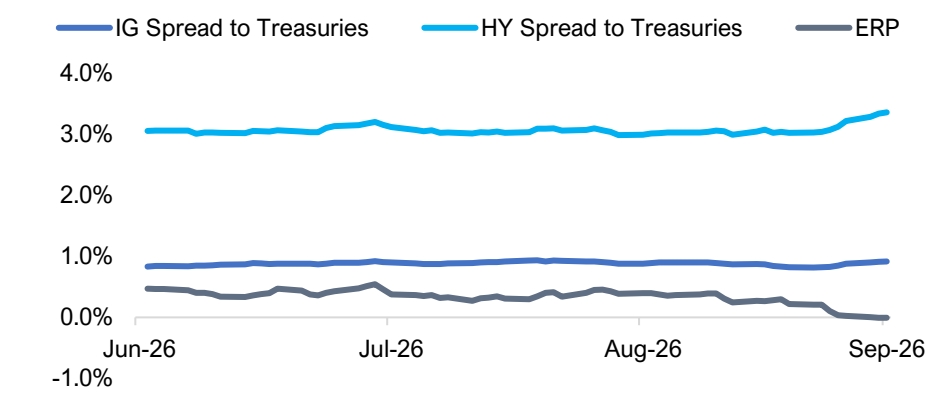
Asset Class Performance (2/2)

Treasury yields rise, credit spreads widen

Yield Analysis



Spread Analysis



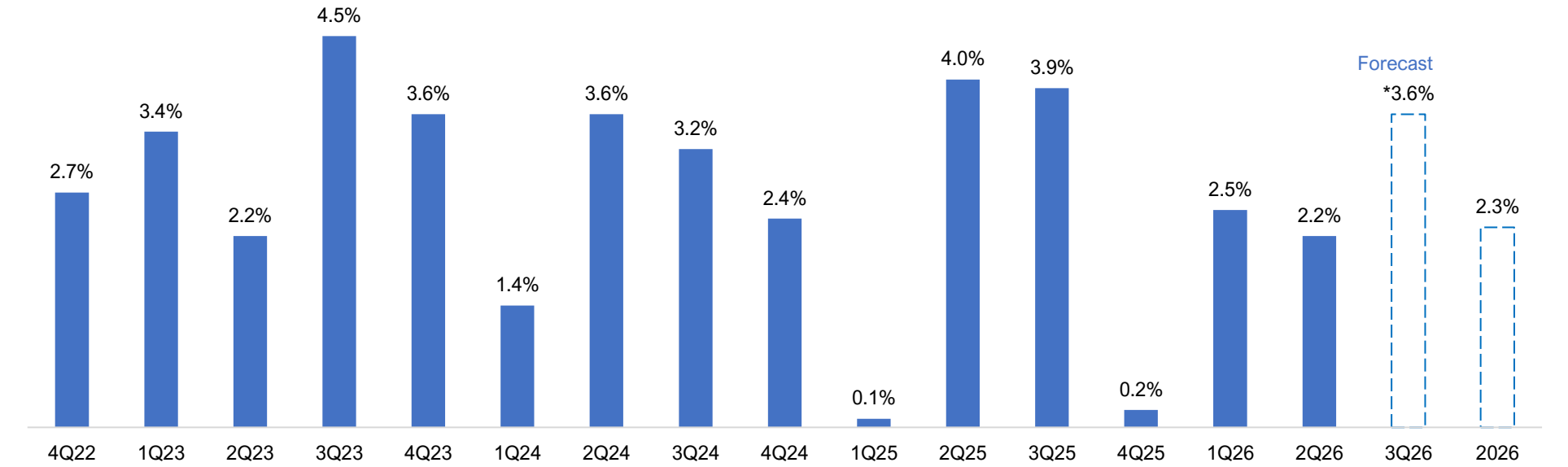
- The 10-year Treasury yield rose to 5.3% by end-September, while corporate bond yields increased to 6.0% and high-yield yields to 8.5%, lifting borrowing costs across credit markets.
- The September FOMC **raised rates by 25 bps to 3.75%-4.00%,** reinforcing expectations of tighter monetary policy.
- Houthi missile attack on Saudi Arabia heightened oil supply concerns, adding to inflation risks alongside AI-driven capital spending and long-term yield pressures.
- Investment-grade spreads **rose to 91 bps from 83 bps**, while high-yield spreads **widened to 336 bps from 309 bps**, signaling greater risk sensitivity among lower-rated borrowers.
- Treasury yields rose primarily on inflation and policy expectations, while investment-grade spreads remained relatively contained.
- The **equity risk premium** narrowed to nearly zero from 0.8% at end-June amid rising yields. With bond yields expected to remain elevated or rise further, equity valuations could face downward pressure, with P/E multiples needing to moderate to restore a more attractive premium for equity investors.

Source: *Aranca Research, Bloomberg, Small cap: Russell 2000 NR, Mid Cap: Russell Mid Cap NR, Large Cap: S&P 500 NR, Growth: S&P 500 Growth NR, Value: S&P 500 Value NR, Treasuries, IG and HY: Bloomberg US Aggregate indices for Treasuries, Corporate and High Yield (TR, Value Unhedged, USD)*

US Macroeconomic Performance (1/6)

US growth slows in 2Q26 amid trade headwinds despite resilient domestic demand

US Real GDP Growth



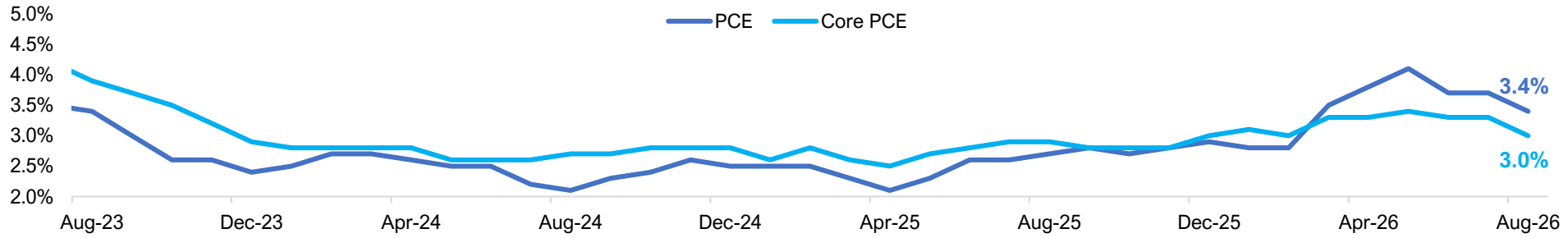
- **US real GDP growth strengthened to 2.2% in 2Q26 from 1.5% in the previous estimate**, prompting an upward revision driven by stronger consumer spending, investment and government expenditure. Consumer and business spending remained strong, but higher imports continued to drag down overall GDP growth.
- **The Fed raised its 2026 GDP growth projection to 2.3% in September from 2.2% in June**, reflecting stronger-than-expected economic momentum. However, persistent inflation and trade-related uncertainty remain key risks.

Source: *Aranca Research, Bloomberg, *3Q26 data as per Atlanta Fed latest release*

US Macroeconomic Performance (2/6)

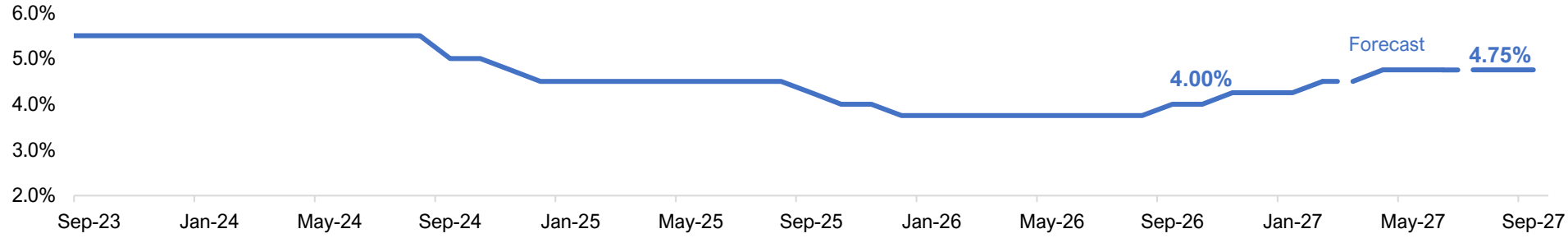
Inflation eases from its peak as the Fed turns more hawkish

US Inflation



- US headline PCE inflation eased to 3.4% in August from 3.8% in May, while core PCE moderated to 3.0%. The earlier spike was amplified by surging oil prices amid the US-Iran conflict and disruptions in the Strait of Hormuz; despite recent easing, inflation remains above the Fed's 2% target, limiting scope for monetary easing.

Fed Policy Rate (Upper Bound)

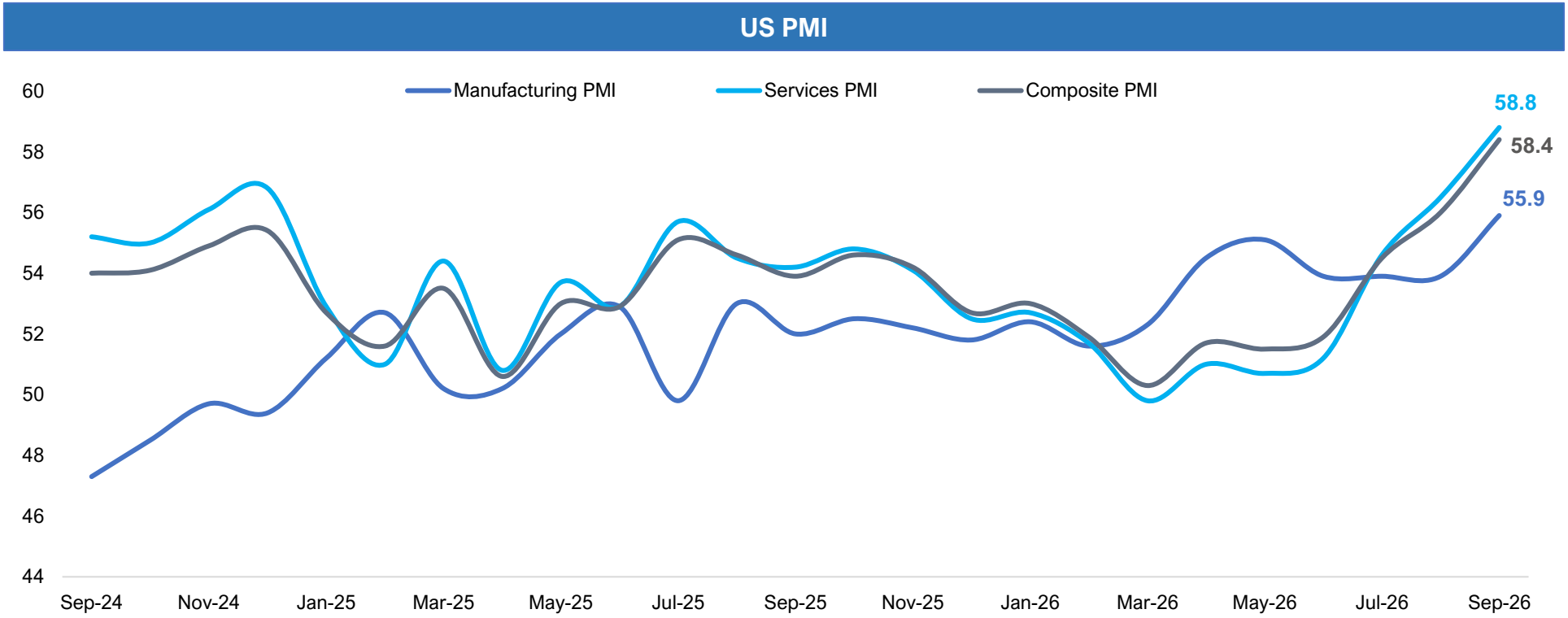


- The Fed raised its policy rate upper bound from 3.75% to 4.00% in September 2026, marking a shift towards tighter monetary policy. The projected rise to 4.75% by June 2027 signals persistent inflation concerns and a higher-for-longer rate environment, increasing borrowing costs and pressure on rate-sensitive sectors and equity valuations.

Source: *Aranca Research, Bloomberg*

US Macroeconomic Performance (3/6)

Business activity accelerates, with services and manufacturing driving expansion



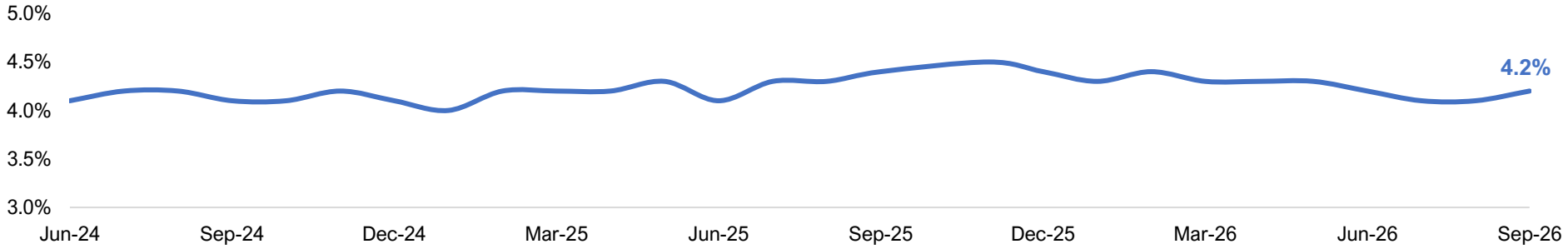
- **US business activity accelerated in 3Q26**, with the composite PMI rising to 58.4 in September from 51.9 in June, led by services (58.8) and manufacturing (55.9), signaling a broad-based recovery in private-sector demand.
- **However, rising fuel costs and supply-chain disruptions linked to Middle East tensions are adding to inflationary pressures**, potentially limiting the scope for further monetary easing.

Source: *Aranca Research, Reuters, S&P Global*

US Macroeconomic Performance (4/6)

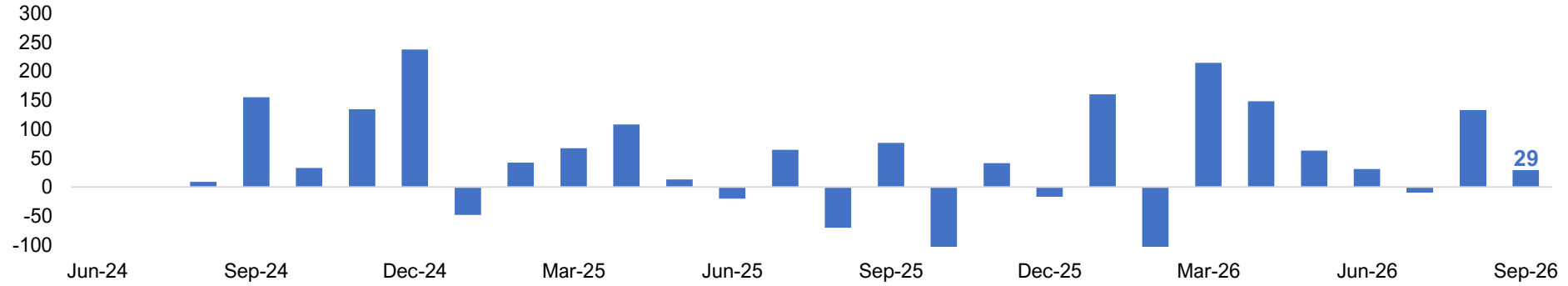
Labor market softens as hiring stalls despite stable unemployment

US Unemployment



- US unemployment edged up to 4.2% in September from the 4.1% level that had held for 2 consecutive months.
- Labor-market momentum remained weak across sectors, with downward revisions to prior payrolls and participation.

US Non-Farm Payrolls (in '000s)



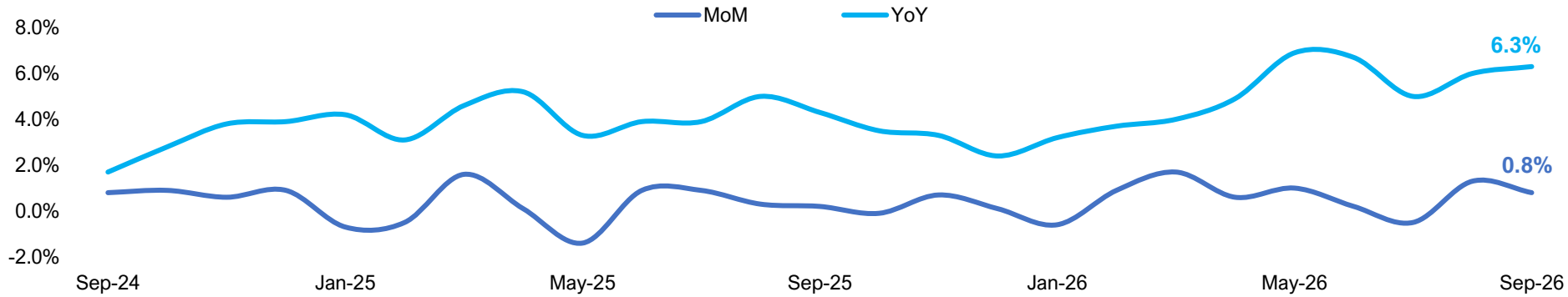
- US payroll growth remained subdued at 29,000 in September, indicating weak broad-based hiring momentum despite a modest improvement from June.

Source: *Aranca Research, Bloomberg*

US Macroeconomic Performance (5/6)

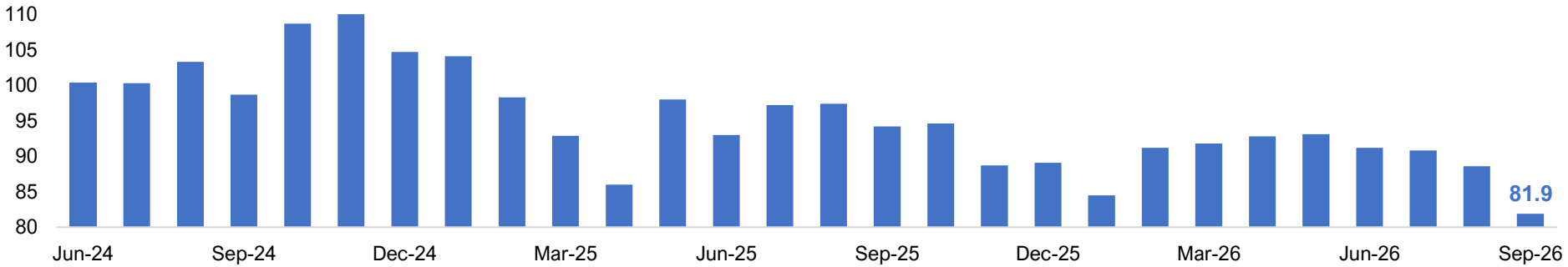
Retail sales rebound, but underlying consumer demand remains uneven

US Retail Sales Growth



- US retail spending remained elevated in 3Q26, with y/y growth reaching 6.3% and monthly growth reaching 0.8% in September, although higher fuel prices inflated headline sales and may overstate underlying demand.

US Conference Board Consumer Confidence



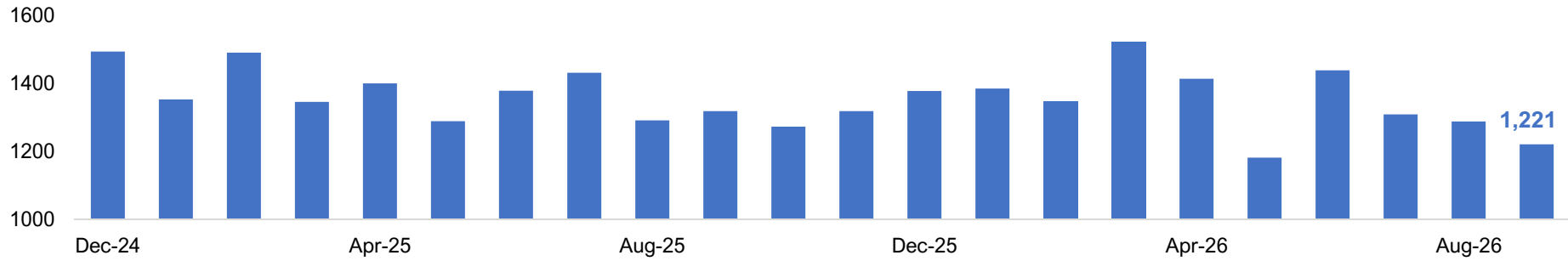
- **US consumer confidence fell sharply to 81.9 in September from 88.6 in August**, its lowest level since 2014, as rising fuel costs and persistent inflation concerns weighed on household sentiment.

Source: *Aranca Research, Bloomberg*

US Macroeconomic Performance (6/6)

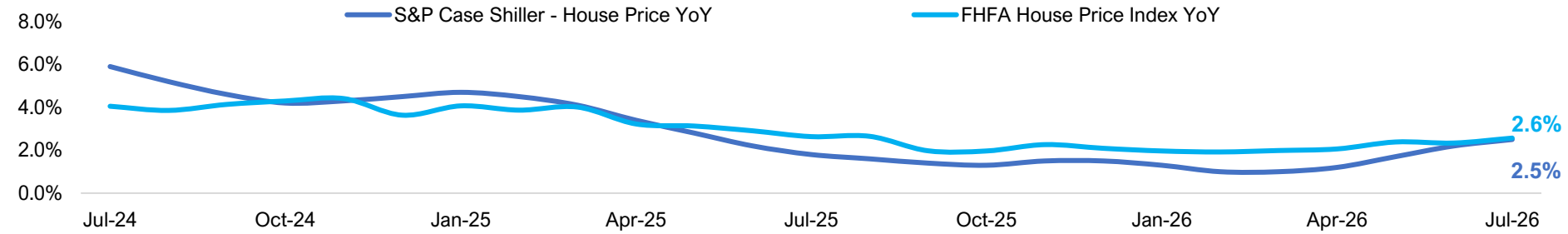
Housing activity weakens as house price growth stabilizes

US Housing Starts (in '000s)



- **US housing starts remained volatile, falling to 1,221,000 in September** from 1,288,000 in August. The pullback suggests that elevated mortgage rates and affordability pressures continue to weigh on residential construction, keeping the housing recovery uneven.

US House Prices YoY Change



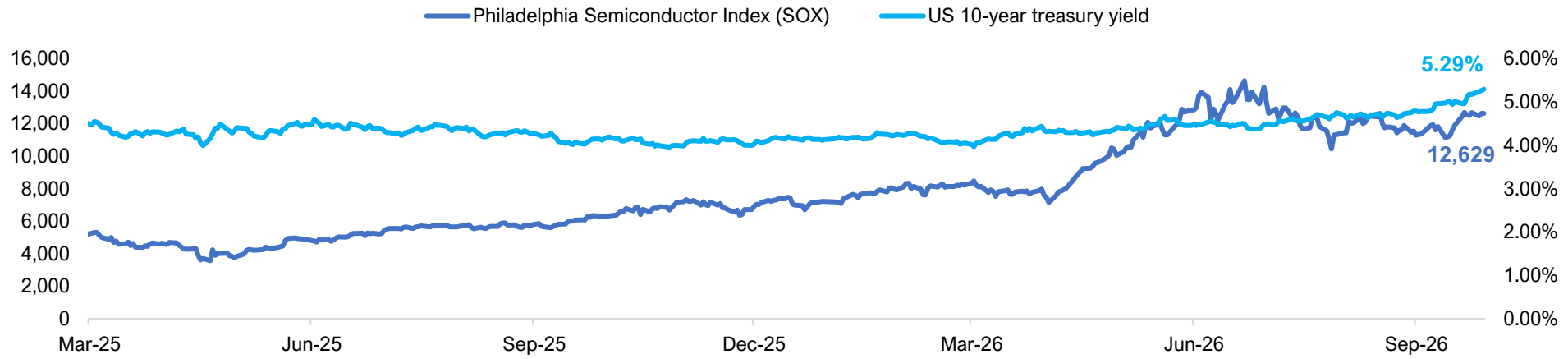
- **US house price growth remained flattish in July 2026**, with the FHFA index rising to 2.6% YoY and the Case-Shiller index reaching 2.5%, following a slowdown through much of 2025.
- However, price appreciation remains subdued as elevated mortgage rates and persistent affordability pressures continue to constrain demand.

Source: *Aranca Research, Bloomberg, LSEG Workspace*

AI Investment Test

From growth at any cost to returns, capacity and capital discipline

AI Spending Faces a Higher Return Hurdle



- The Philadelphia Semiconductor Index rose to 12,629 by September 2026, while 10-year Treasury yields climbed to 5.29%. Resilient chip stocks signal continued optimism around AI demand, but higher yields increase the hurdle for AI investment returns.
- Supply constraints are delaying the conversion of spending into productive capacity. Demand for advanced chips and packaging remains strong, but semiconductor manufacturing, power availability and data-centre construction are bottlenecks.
- Higher financing costs widen the AI investment divide. Rising yields increase project hurdle rates and debt-servicing risks, favoring cash-rich technology leaders with visible AI monetization over leveraged infrastructure players reliant on future demand.

Q3 marked a shift from AI enthusiasm to greater scrutiny of monetization and returns. **Concerns over chip capacity, power availability and infrastructure bottlenecks added to the challenge of scaling AI investment.** Sustained AI spending supported technology earnings, but **rising Treasury yields increased financing costs**. The key question is whether AI-driven revenue and productivity gains can justify heavy investment, particularly amid infrastructure constraints and rising risks for leveraged players.

Source: *Aranca Research, Bloomberg*



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Global clients

500+
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80+
Countries where we have delivered projects

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