Managed Wealth, LLC

Third Quarter 2026 Market Review

Typically, when we think of volatility in the capital markets, we think of stocks. Equities historically provide higher rates of return than fixed-income investments, but the tradeoff is that stock investors also endure more frequent (and often more significant) downturns than the volatility bond investors experience. This tradeoff is known as the "equity risk premium."

Yet bonds aren't entirely immune from volatility, and there are times (usually short in duration) when bonds experience a bigger decline than stocks. Such has been the case in recent months, as inflation fears have been rekindled on the heels of rising oil prices and signs of increased economic activity. As a result, bond investors have demanded higher yields on the benchmark 10-year U.S. Treasury to offset their inflationary concerns. That, in turn, has caused bond prices (which move inversely to yields) to decline.

While it's never fun for bond investors to experience downturns, it's helpful to note that several equity asset classes enjoyed gains during Third Quarter, especially U.S. large value stocks and international small stocks. We believe this highlights the ongoing need for, and benefits of, maintaining a well-diversified portfolio. Individual asset classes often behave like the pistons on an out-of-tune engine, cycling up and down in unpredictable ways. This unpredictability is something to be especially wary of, as bouts of volatility often happen suddenly and then resolve themselves just as suddenly.

Investors who attempt to time these ups-and-downs in the market often end up realizing losses that were otherwise avoidable if they'd stayed the course. That's why it's so important to maintain a well-diversified portfolio and keep your eye on the big picture, rather than the individual asset classes and investment styles themselves. Focusing on the big picture can help you ride out these periods of volatility without getting too emotionally caught up in the ups-and-downs of any given asset class within the portfolio—even when normally lower volatility investments like bonds aren't behaving as expected.

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There's no doubt Tesla has been leading the way in pioneering development of autonomous vehicles in recent years. It's not hard for an investor to look at the head start Tesla has in that space, and the likelihood of a not-too-distant future in which we all have self-driving cars and conclude that loading up on that stock is a no-brainer.

But when you (forgive the pun) lift up the hood on Tesla stock, what you find is a staggering current Price-to-Earnings ratio of 351.96 as of 10/9/26 (source: Yahoo Finance). That means investors who load up on that stock today would have to wait more than 300 years for the company's trailing 12-month earnings to catch up to its current stock price! In contrast, the venerable Japanese auto giant Toyota had a P/E ratio of just 8.06 on 10/9/26 (source: Yahoo Finance).

This isn't to advocate for Toyota over Tesla as an investment, and no one expects Tesla's earnings to remain static; clearly, investors expect Tesla to evolve into something much more than just a car manufacturer. But the disparity between the valuations of the two stocks does highlight the possibility that Tesla may be far from a no-brainer when it comes to picking future winners just based on innovation and market domination.

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While we are on that subject...

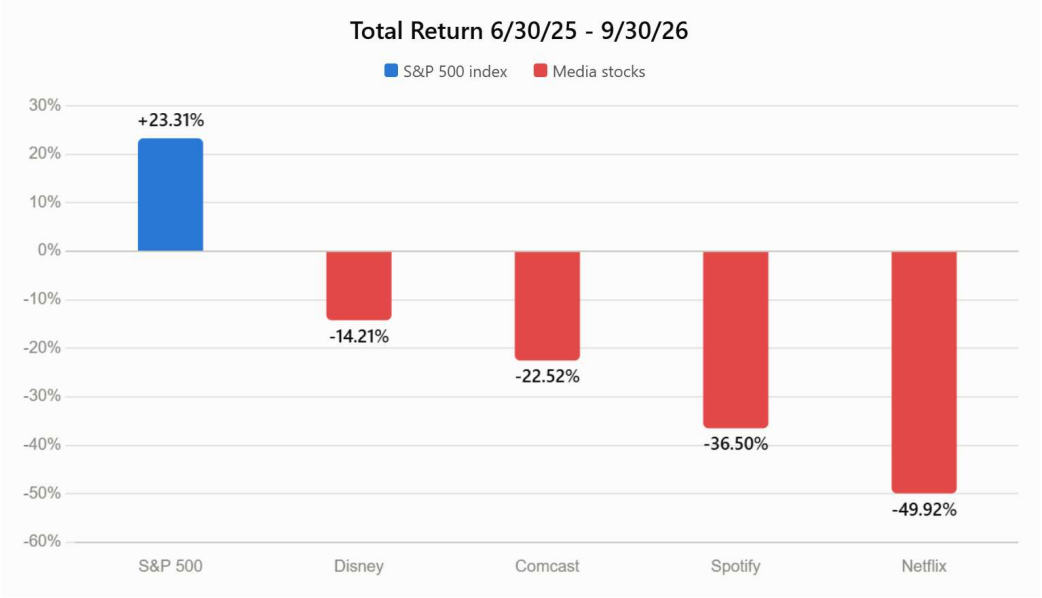
You don't have to look too far to find examples of companies that emerged in recent years as market dominators in cutting-edge technology with millions of customers and yet have hit challenging times just the same.

Investors of a certain age may remember an edgy TV commercial from Qwest Communications in the late 1990s, during the peak of the dot-com bubble. The ad featured a tired man sitting down at a lonely bar, only to be told they only had one beer on tap and the only food was a bowl of peanuts. The customer then asks the bartender if she has a particular song on the jukebox. She looks at him and says flatly, "our jukebox has every performance of every piece of music from every artist ever recorded."

While the claim in that ad was hard to comprehend almost 30 years ago, today the idea sounds, well, *normal*. The emergence of digitized entertainment formats and massive internet bandwidth in the past three decades have indeed enabled consumers to instantly call up most any song, movie or podcast, anytime and anywhere.

Much like Tesla in our prior example, you would think that the companies that emerged as the dominant players in what we now call "streaming services" would be among the best investments on the planet. But recent experience has proved just the opposite for investors in the streaming giants.

Over the past 15 months, the stock prices of Netflix, Comcast, Disney and Spotify have plunged between 14% and almost 50%, a period of time that saw the S&P 500 index enjoy double-digit gains:



Source: Yahoo Finance

S&P 500 Index shown for general comparison purposes only. Returns represent total return from 6/30/25 through 9/30/26.

Streaming giants have essentially become utilities, all offering access to similar libraries of music, movies and podcasts. With no clear differentiators beyond some proprietary content to offer, streaming has become commoditized, and that nearly always sparks a race to the bottom.

The stocks of these tech giants soared during the pandemic as billions of people were craving home entertainment, but today—just a few years later—the landscape looks completely different for these once high-flyers. Investors who loaded up on these stocks during the pandemic have seen the downside of what can happen when what once was a major market advantage quickly becomes a millstone.

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Diversification does not guarantee a profit or protect against loss in declining markets. Investors should consider their individual risk tolerance, investment objectives, and market conditions when making portfolio decisions.

The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. All investment strategies have the potential for profit or loss. Past performance may not be indicative of future results.

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