

Morningstar® Markets Observer

Q4 2026 Data as of Sept. 30, 2026

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Market Overview



Bond Prices Fall and Stocks Sputter in the Third Quarter

Bond markets across the board fell in the third quarter as inflation, deficit concerns, and the September Federal Reserve rate hike stretched yields and depressed prices. Equity markets sputtered in the third quarter but remain broadly positive for the year. Small-cap US stocks fell 5.6% in the third quarter as investors favored larger companies in the rising rate environment. Commodities recovered in the third quarter as oil prices rose amid the ongoing conflict in the Middle East.

Market Dashboard

Equities	Dividend Yield	Return (%)					
		YTD	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Morningstar US Large Cap	0.9	12.2	3.4	15.5	24.3	14.4	16.1
Morningstar US Small Cap	1.4	7.6	-5.6	11.0	15.1	6.4	9.3
Morningstar Developed-Markets ex-US	2.7	10.1	1.3	15.9	18.9	9.2	9.1
Morningstar Emerging Markets	2.0	20.9	-0.9	25.9	21.9	8.7	9.2
Fixed Income		Yield to Maturity					
Morningstar US Core Bond	5.5	-2.7	-3.4	-1.8	4.0	-0.6	1.1
Morningstar US Corporate Bond	5.9	-3.1	-4.0	-2.4	4.8	-0.5	2.0
Morningstar US High-Yield Bond	8.3	0.1	-1.8	1.5	8.0	3.6	5.0
Morningstar US Municipal Bond	4.6	-3.8	-5.9	-2.3	3.1	-0.2	1.6
Morningstar Emerging-Markets Bond	6.8	-2.1	-3.7	-0.7	7.0	0.7	2.5
Broad Commodities							
Bloomberg Commodity		32.9	16.2	40.6	15.6	11.3	7.9

Fundamental Measures				
	P/E	P/B	P/S	P/C
	25.2	6.4	5.0	21.2
	17.9	2.5	1.5	10.9
	17.0	2.1	1.6	10.8
	14.5	2.1	1.9	11.0
Interest Rates (%)		Current	1 Yr Ago	
2 Yr Treasury		4.9	3.6	
5 Yr Treasury		5.1	3.7	
10 Yr Treasury		5.3	4.2	
20 Yr Treasury		5.6	4.7	
Prime Rate		7.0	7.3	
Commodities (USD)				
Brent Crude Oil		104	67	
Gold		4,176	3,825	

3-Month Return (%)

	Value	Blend	Growth	
Large	2.3	-0.1	-6.5	>8.0
				4.0 to 7.9
Mid	3.0	-2.9	-5.3	0.0 to 3.9
				-3.9 to -0.1
Small	-3.2	-5.1	-7.9	-7.9 to -4.0
				<-8.0

1-Year Return (%)

	Value	Blend	Growth	
Large	14.5	13.6	5.4	>20.0
				10.0 to 19.9
Mid	19.1	13.1	13.6	0.0 to 9.9
				-9.9 to -0.1
Small	14.8	8.8	10.7	-19.9 to -10.0
				<-20.0

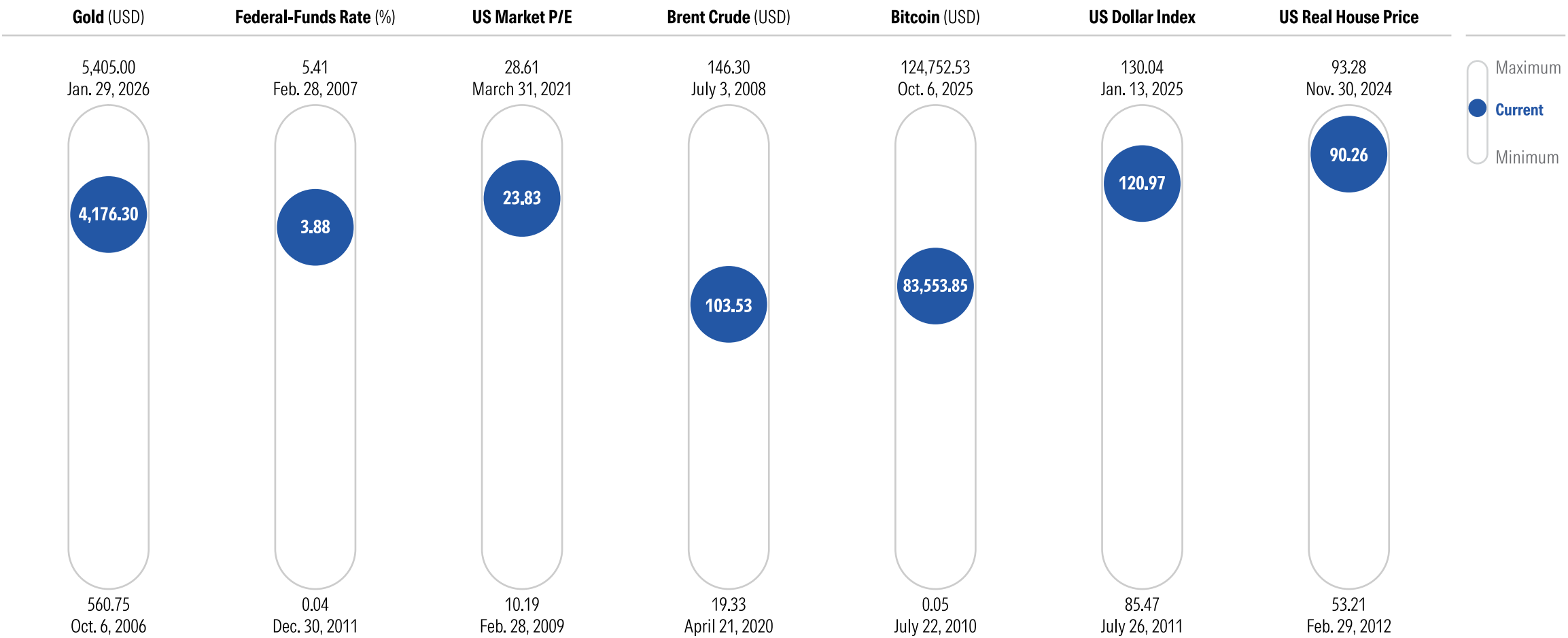
5-Year Return (%)

	Value	Blend	Growth	
Large	12.5	12.5	8.2	>20.0
				10.0 to 19.9
Mid	11.5	8.1	6.2	0.0 to 9.9
				-9.9 to -0.1
Small	8.8	7.2	3.3	-19.9 to -10.0
				<-20.0

Bitcoin Bounces Back

Bitcoin surged 42.6% in the third quarter, quickly reversing a steady decline in the cryptocurrency's price that began in October 2025. Oil prices also bounced back, climbing 41.9% in the last three months. US home prices remain close to record highs, but some markets are seeing some strain with mortgage rates near or at recent highs. The federal-funds rate increased following the Federal Open Market Committee's unanimous vote to hike the benchmark rate in September.

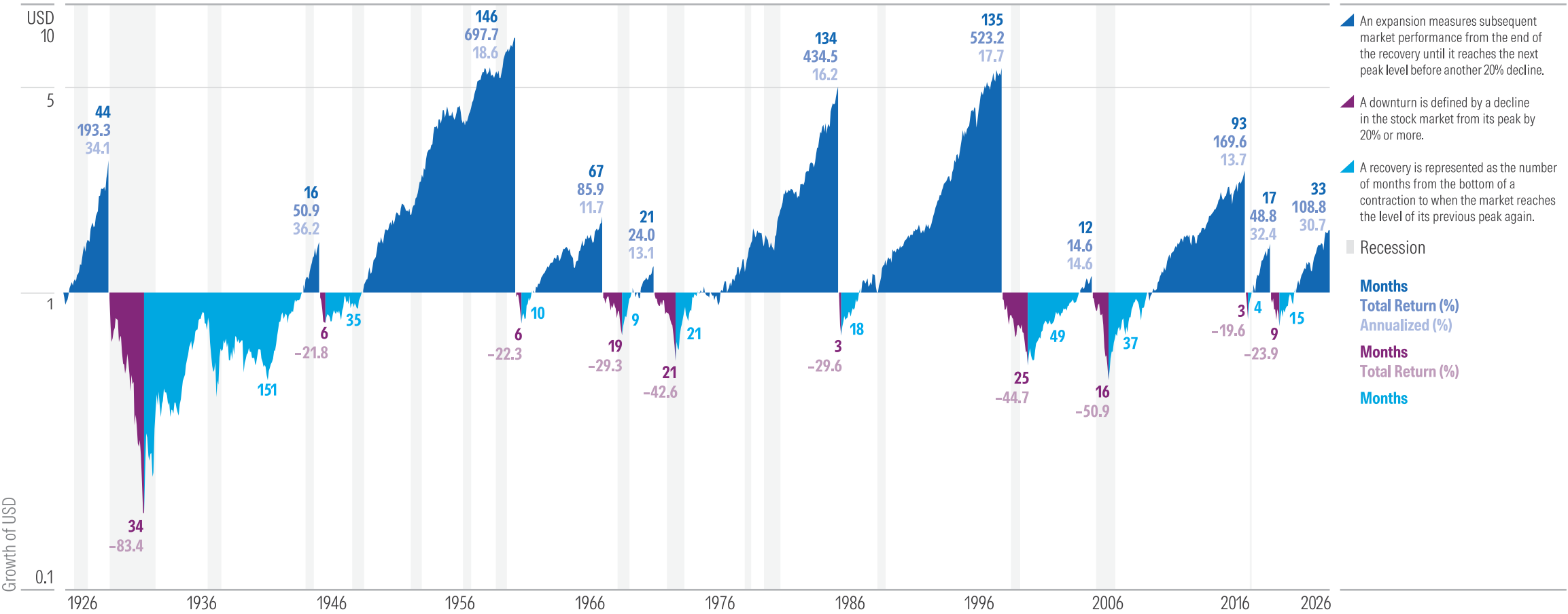
Market Thermometer



US Stock Market Continues Expansion Despite Uncertainty

US stocks continued their rise in the third quarter of 2026, bringing the current expansion to 33 months. Since 2022's downturn, the US market has gained 30.7% annualized and 108.8% total. The US stock market was resilient in the third quarter despite rising bond yields, continued inflation uncertainty, and rising energy prices. Not all stocks are going up, though. A few market leaders—mostly artificial intelligence stocks—have pushed benchmarks higher while many smaller stocks have comparatively struggled.

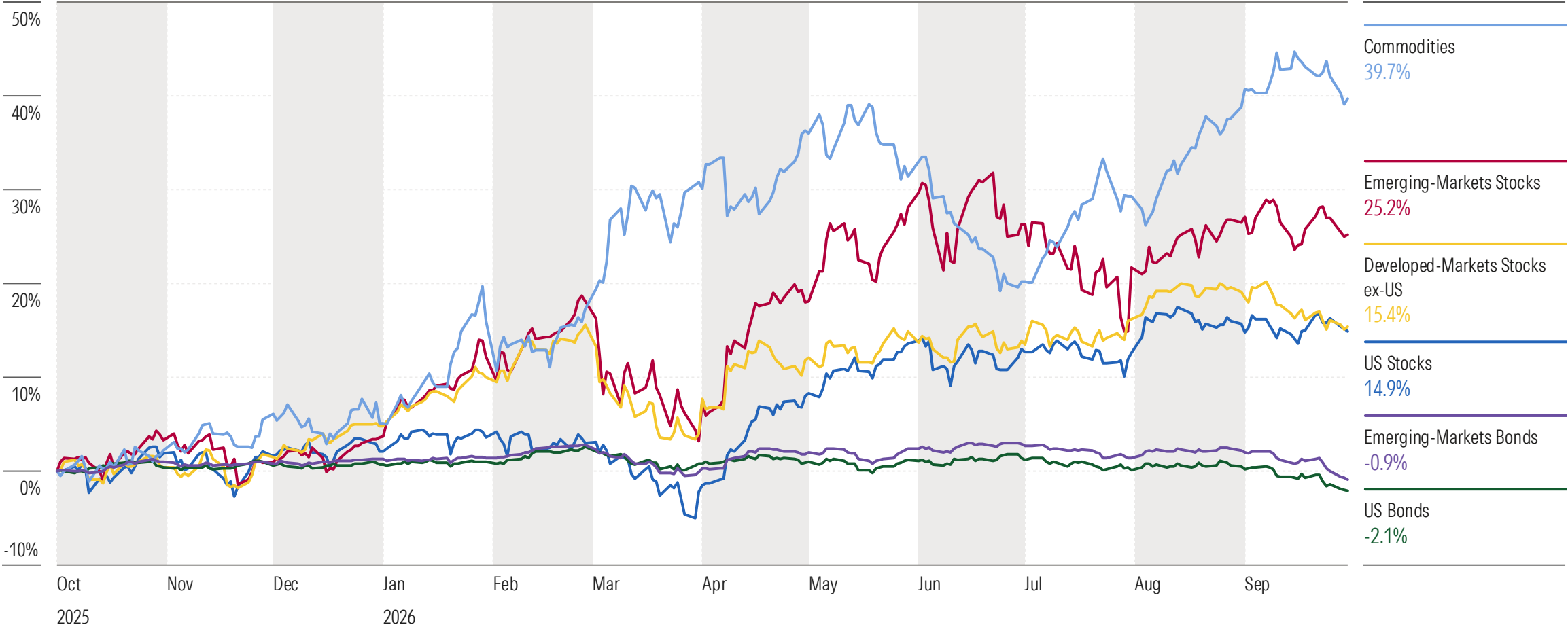
US Market Downturns, Recoveries, and Expansions



Commodities Recover and Bonds Stumble

Commodities recovered following June's trough, gaining 39.7% as oil prices surged. Emerging markets remain the best-performing global market over the last 12 months despite a pullback in July and ongoing volatility. US bonds entered negative territory for the trailing 12 months as yields increased because of the Federal Reserve's rate hike. Developed-market stock returns converged with their US counterparts as the former declined in September, and the latter remained relatively steady.

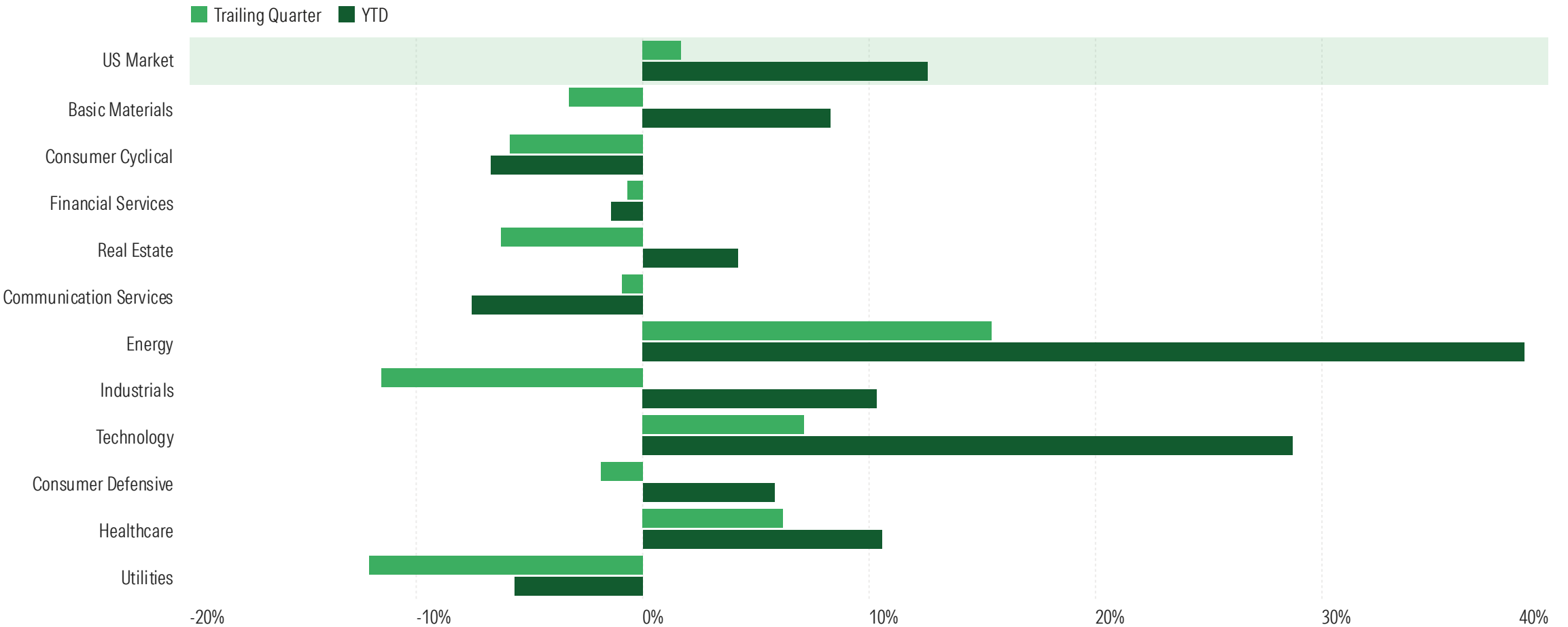
Trailing 12-Month Performance of Major Asset Classes



Energy Dominates as Oil Surges

The US Market gained about 1% in the third quarter and roughly 12% year to date. Energy, technology, and healthcare sector returns drove these results. Energy stocks were up 15% in the third quarter and nearly 40% for the year. This rally reflects the sharp rise in oil prices as the Iran war rages on past the seven-month mark. Utilities and industrials both fell by around 12% over the quarter as higher interest rates weighed on rate-sensitive areas of the market.

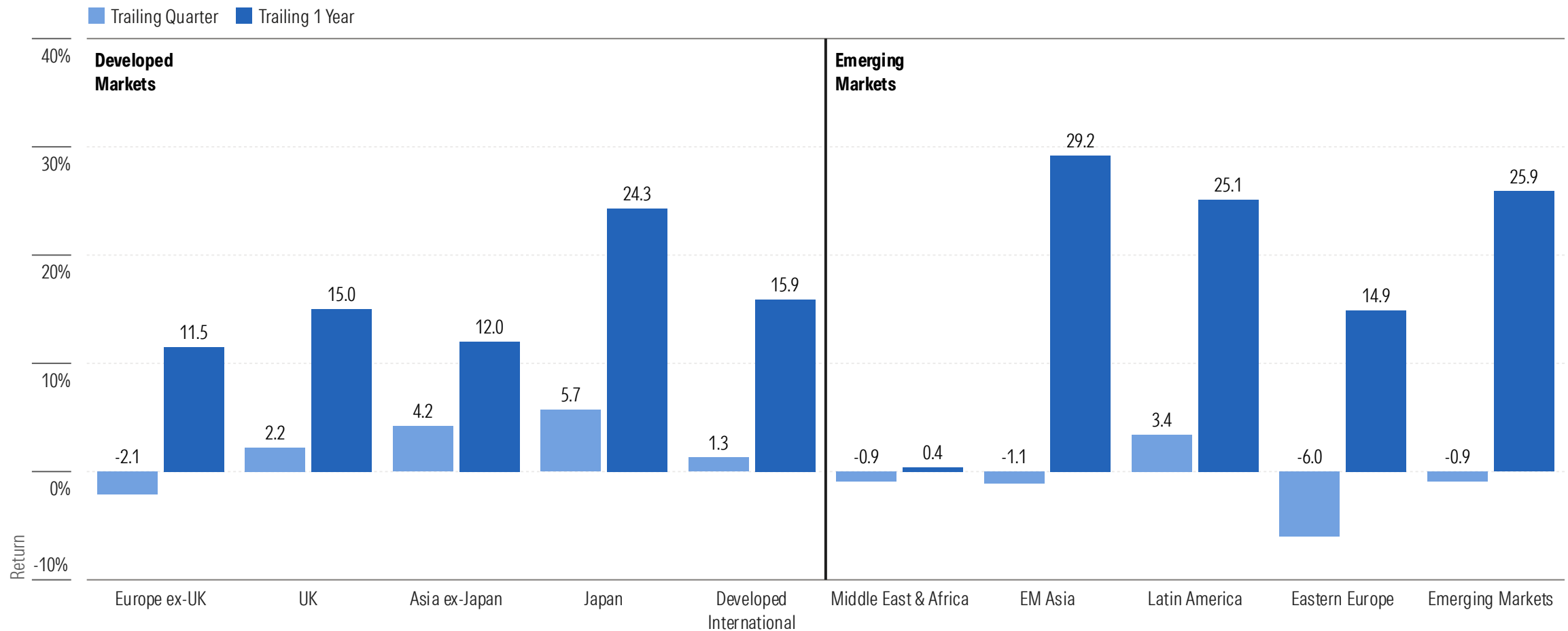
US Equity Sector Performance



Inflationary Pressures and Tech Volatility Leads To Mixed Results for Foreign Stocks

International stock markets saw mixed results in the third quarter of 2026. Developed markets gained 1.3% while emerging markets dropped 0.9%, in stark contrast to gains of 9.5% and 22.4% in the prior quarter, respectively. Developed Asia ex-Japan and Japan led the quarter among non-US regions, supported by strong results in Singapore and Hong Kong and encouraging earnings in Japan. Meanwhile, inflationary pressures suppressed results in Europe ex-UK, and technology-related volatility undercut prior gains in Asian emerging markets.

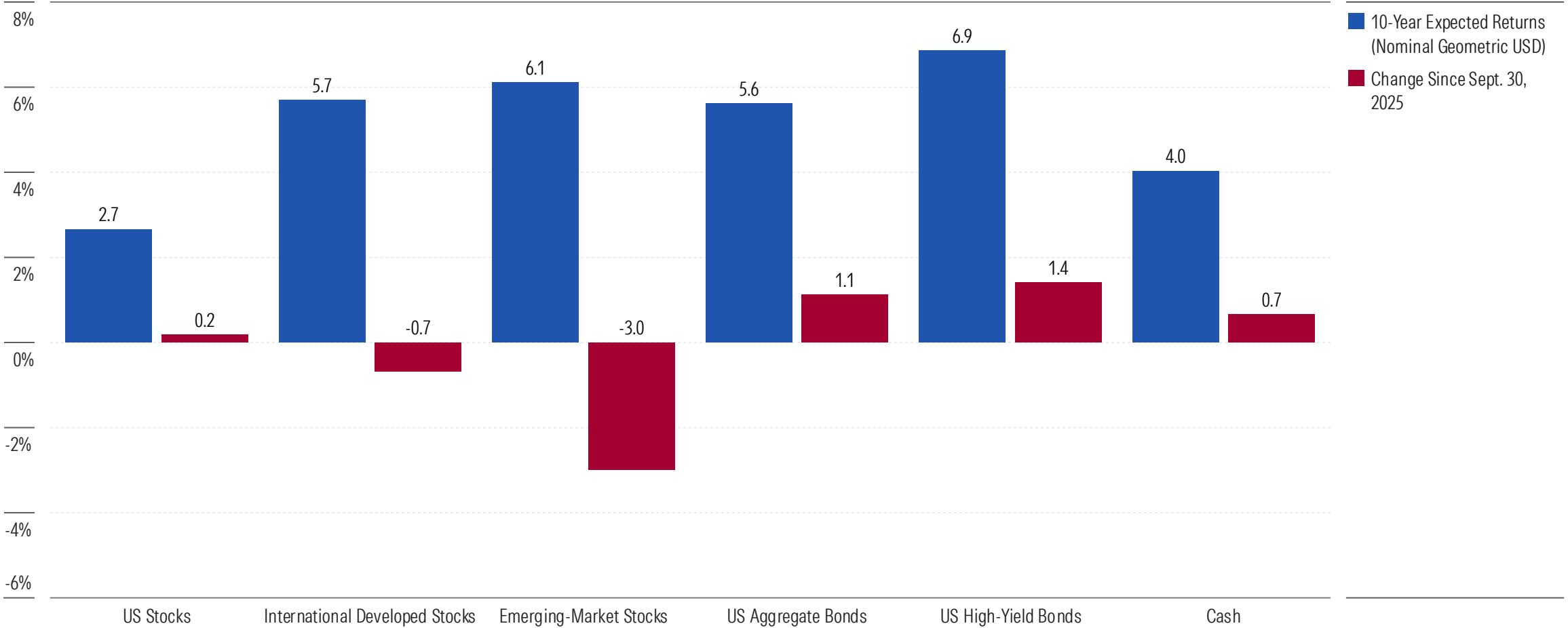
International Stock Market Performance



Valuation-Implied Returns: Further Moderation for Foreign Stocks, Growing Expectations for US High Yield

Valuation-implied returns serve as a useful measure for cross-asset-class comparisons. Emerging market stocks maintain the second-highest 10-year expected returns as of September 2026, 3 percentage points below September 2025, following a relatively volatile quarter. US high-yield bonds hold the highest expected returns over the next decade, with VIRs growing by 1.4 percentage points despite a challenging quarter for fixed income amid persistent inflationary concerns and a rate hike. High-yield bonds held up better thanks to their shorter duration and higher coupons.

10-Year Valuation-Implied Returns



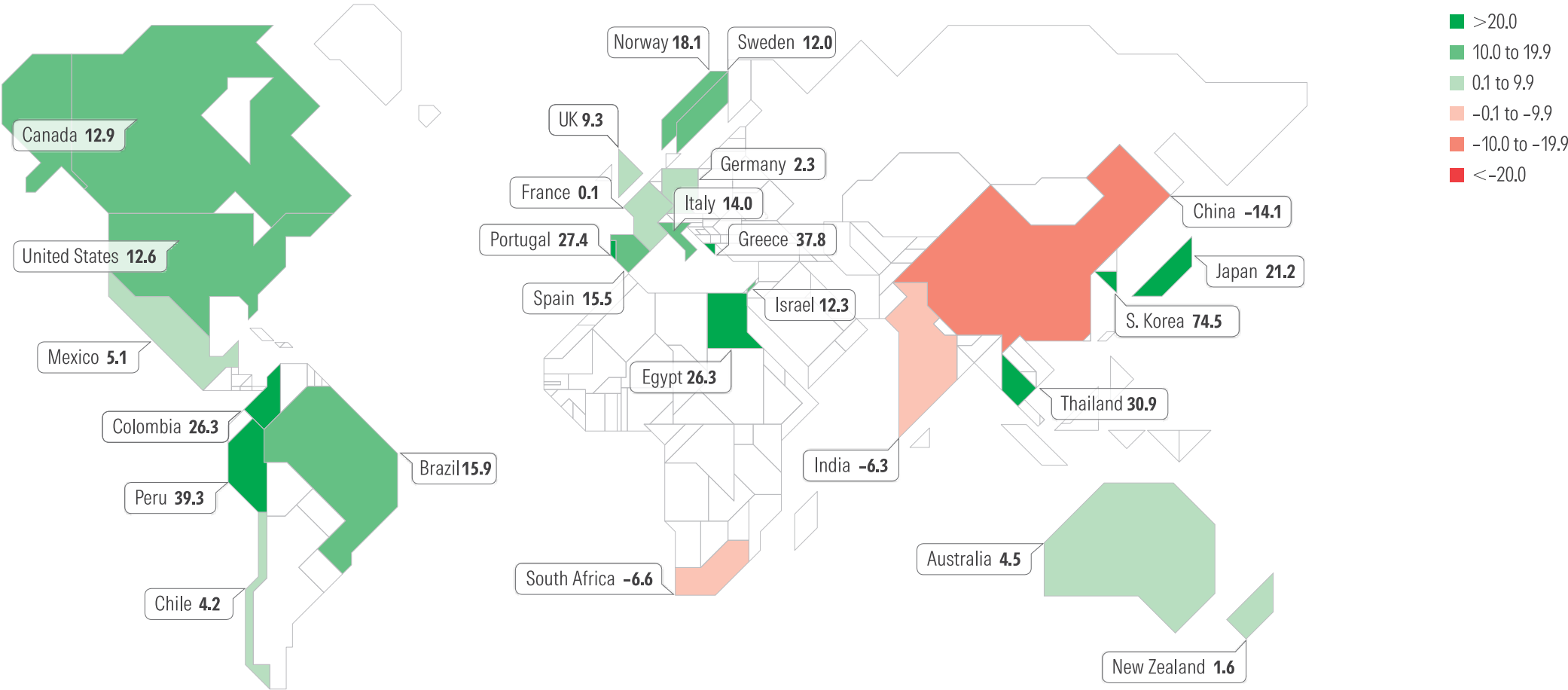
Equities



Global Market Barometer

Global equity markets continued their strong run through the first three quarters of 2026. South Korea again led other major markets by a wide margin, up 74.5% on the continued rally in semiconductor and memory-chip companies. Thailand, Peru, Greece, and Egypt also stood out with gains of more than 25%. On the other hand, China, India, and South Africa remained in negative territory, with China declining to 14.1%. India and South Africa each fell by more than 6%.

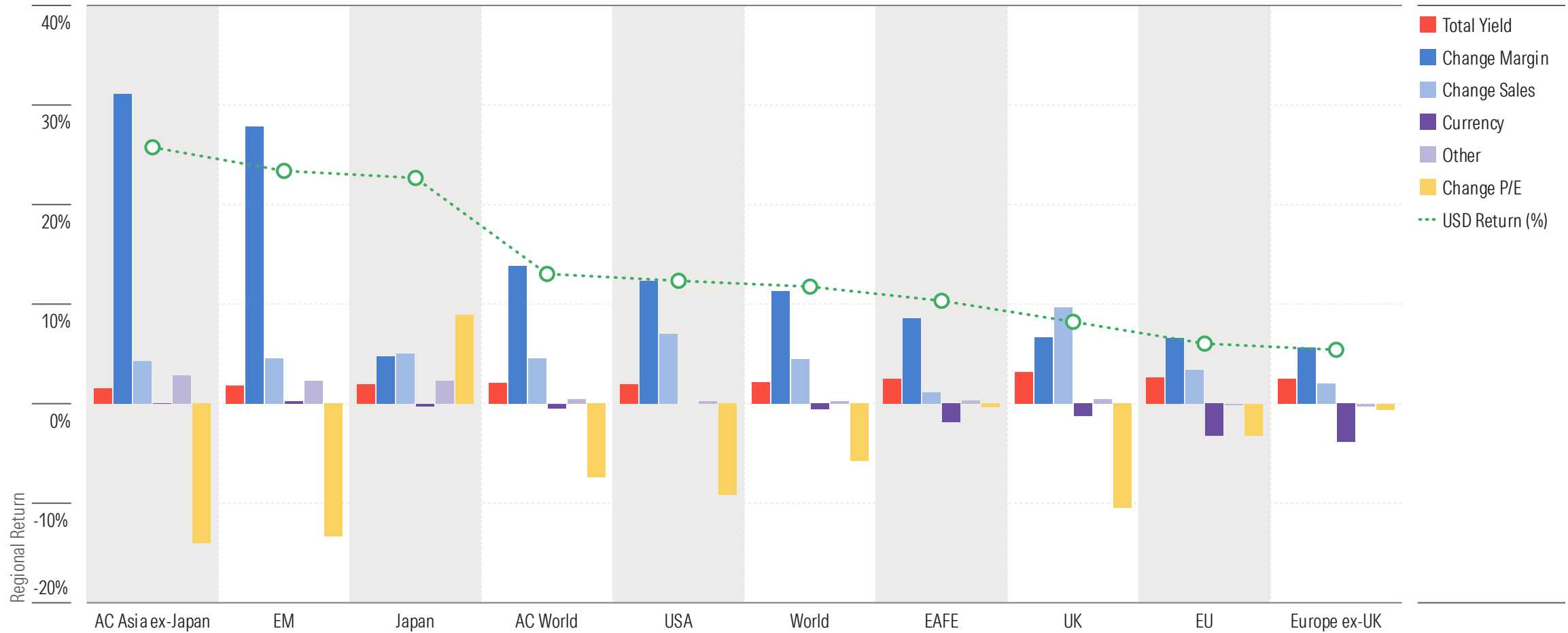
YTD Returns of Morningstar Country Indexes in Base Currency (%)



Global Stock Market Performance Decomposition

Asia ex-Japan and emerging markets continued to dominate throughout 2026, fueled by improved margins despite a drop in P/E multiples. The US delivered more modest returns, also relying on margin expansion and strong revenue growth to offset compressing valuations. On the other hand, currency pressure combined with relatively weaker margin expansion found Europe ex-UK at the bottom of the pack.

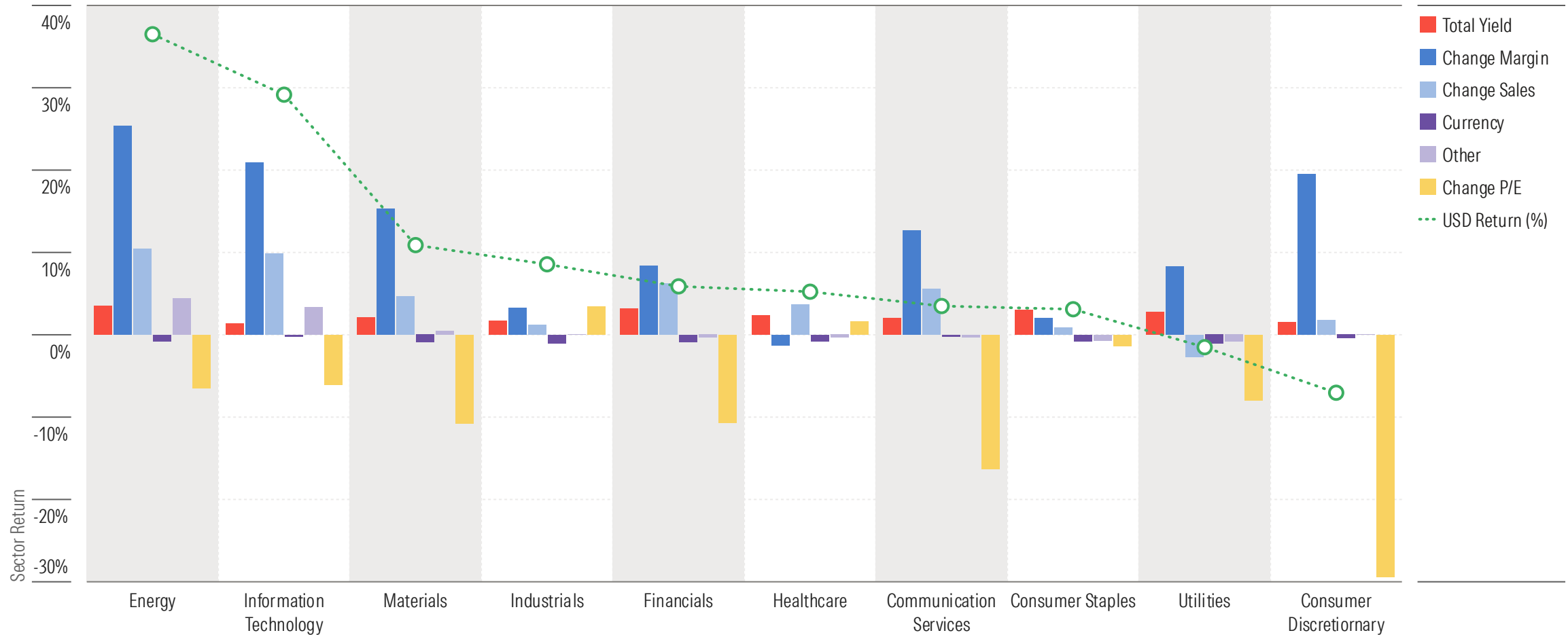
2026 YTD Return Decomposition by Country



Sector Performance Decomposition

Sector returns in 2026 have been shaped by both improving fundamentals and shifting investor sentiment. Energy and technology led the market, fueled by strong sales growth and expanding margins, while industrials and healthcare posted more moderate gains, supported in part by valuation tailwinds. P/E multiple compression remained a headwind across much of the market, however. Consumer discretionary was hit hardest, as a sharp decline in valuation multiples more than offset improving profitability.

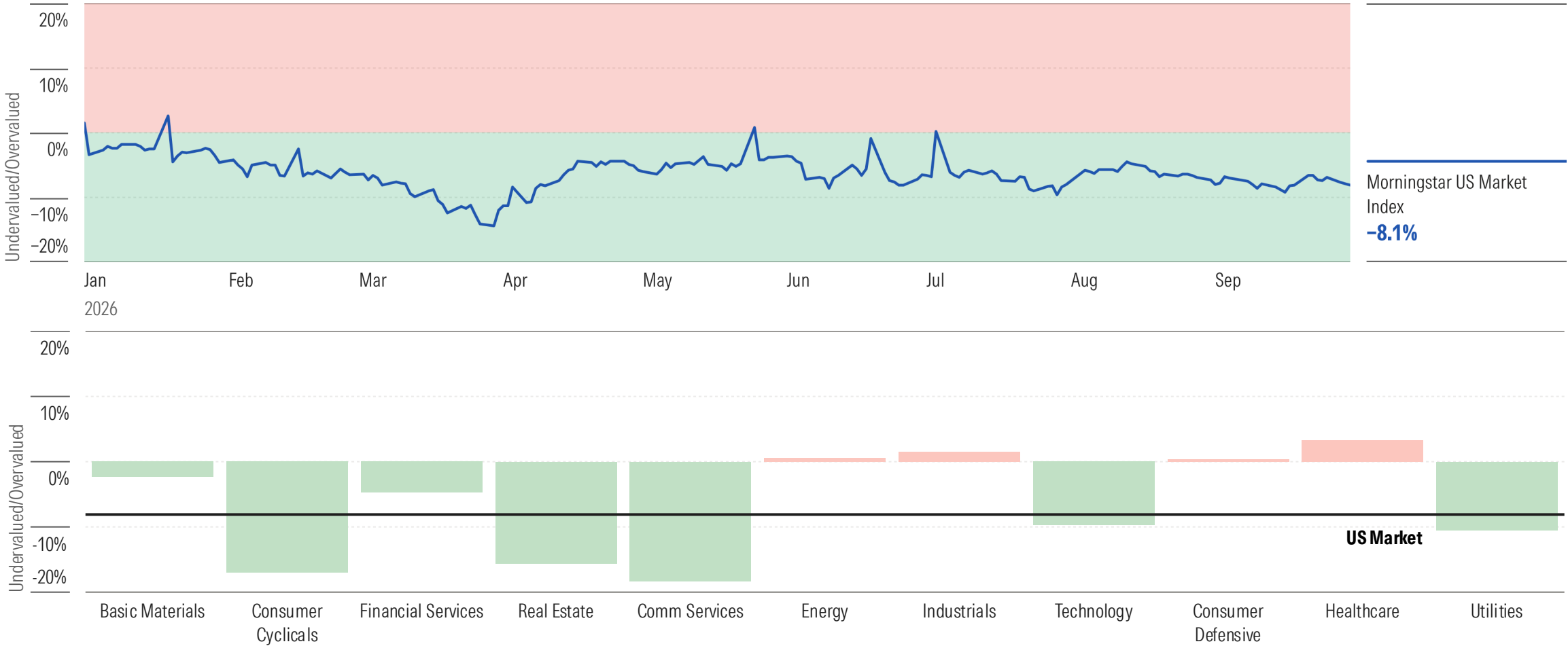
2026 YTD Return Decomposition by Developed-Market Sector



Morningstar Price/Fair Value

The median stock in the Morningstar US Market Index remained undervalued throughout the third quarter of 2026, ending September at an 8.1% discount to fair value. Communication services was the most undervalued sector at the end of September, followed by consumer cyclicals and real estate. Technology also traded at a meaningful discount, highlighting the schism between a few high-priced AI stocks and many more lagging names. In contrast, healthcare was the most overvalued sector. Energy, industrials, and consumer defensive stocks traded close to fair value.

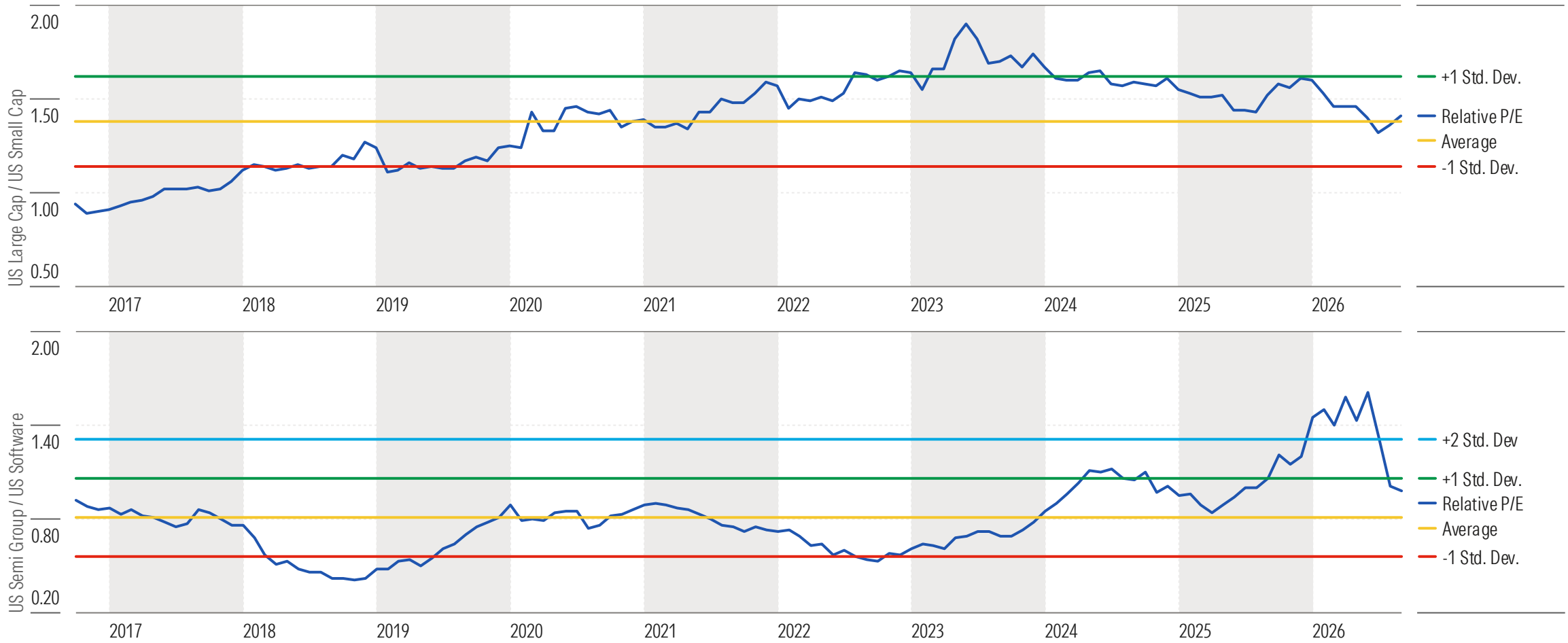
Morningstar US Market Price/Fair Value YTD



What's Cheap? Size and Industry Valuations Diverge

The premium of US large-cap stocks over US small-cap stocks has narrowed in the past several years, briefly dipping below its average level for the first time in July since May 2021. However, this compression may be short-lived as the premium rose again in September. Within technology, the recent rise of semiconductor stocks above software stocks reversed sharply starting in June, as concerns around AI spending and earnings triggered a sharp selloff and valuation reset.

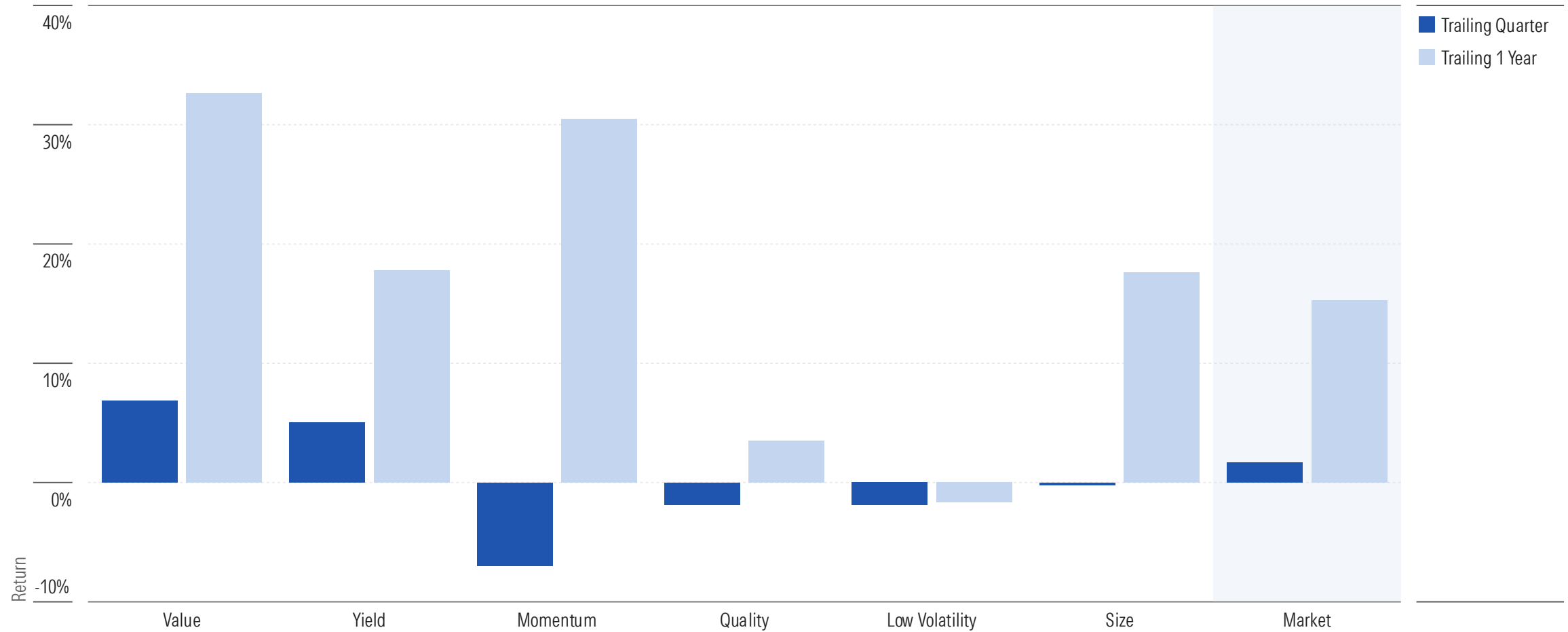
Trailing Relative P/E



Value Is Back In Style

Value and momentum have been the standout factors over the past year, although momentum weakened notably as some of the best-performing names at the start of the year pulled back in the third quarter. The yield factor also fared well more recently, while quality, low volatility, and size all posted modestly negative returns over the period.

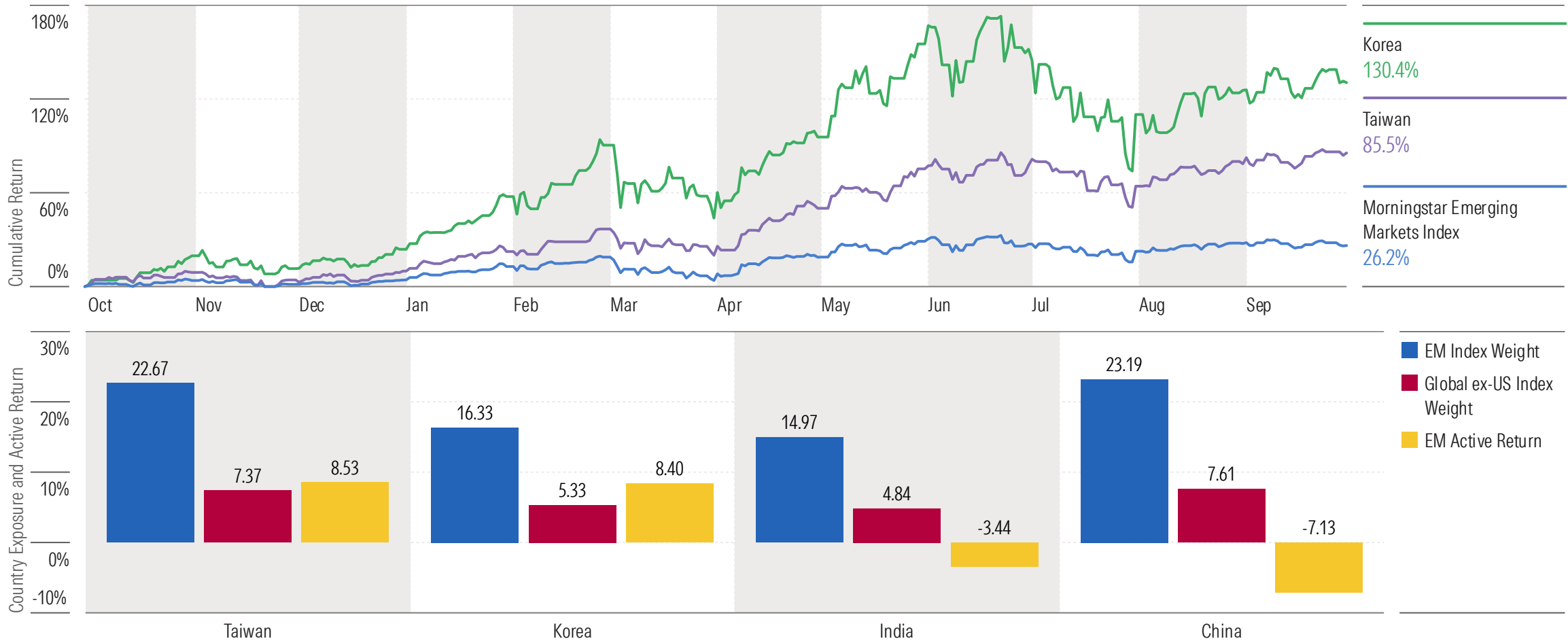
Performance of Factor-Based Portfolios



Korea and Taiwan Drive Emerging-Market Outperformance

Taiwan and Korea have dominated headlines and emerging-market indexes recently as both have benefited from major gains in a handful of semiconductor-related stocks. Those few stocks fueled much of the Morningstar Emerging Markets Index's rise over the last 12 months. India and China are typically two of the largest countries in the index and negatively contributed to its returns. The index's strong run despite these juggernauts struggling underscores the outsize influence of just a handful of stocks in Korea and Taiwan.

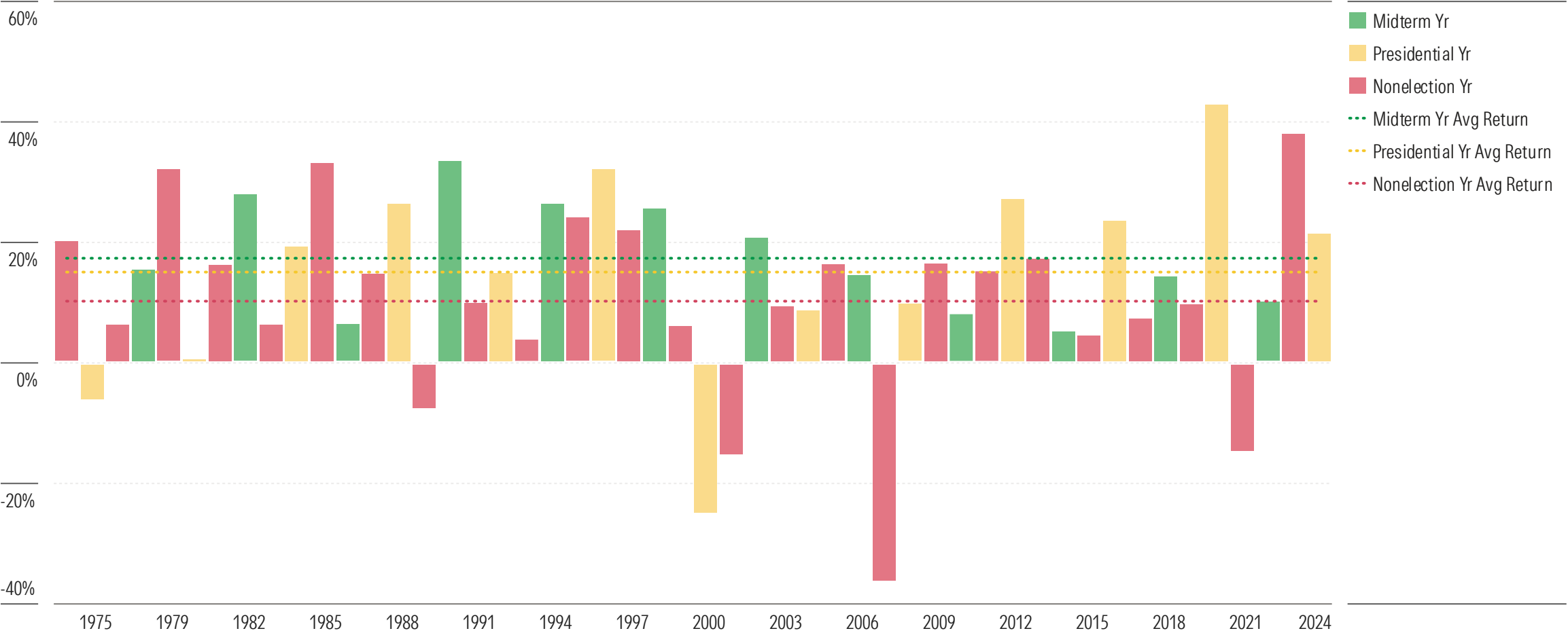
Emerging-Market Returns and Attribution



Markets Historically Fare Well After Midterm Elections

Midterm election years, on average, have been followed by stronger stock market returns than presidential election years or nonelection years going back 50 years. One possible explanation is that midterm elections often don't deliver a sweep for one party, decreasing the likelihood of sweeping policy changes and increasing political predictability.

Rolling 12-Month US Stock Market Returns



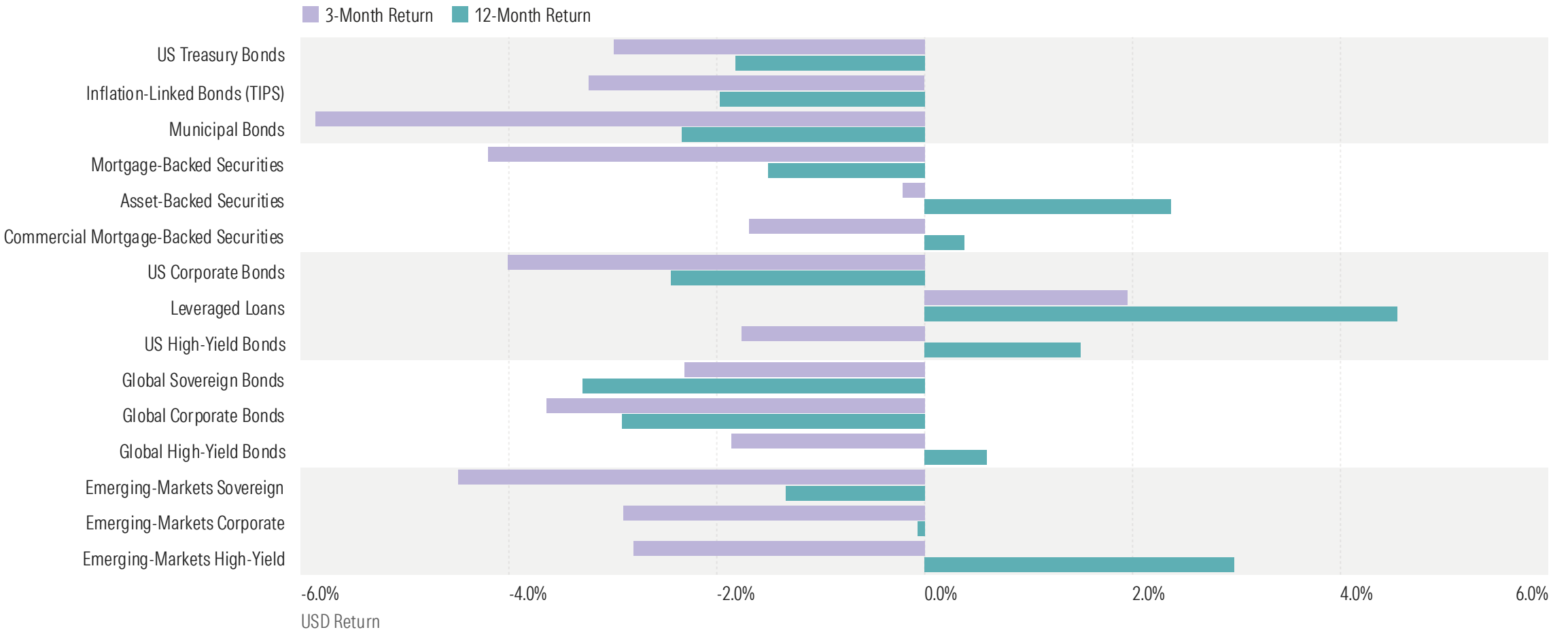
Fixed Income



Most Bond Sectors See Red Amid Rate Hikes

With significant interest rate increases along the yield curve during the third quarter, fixed-income sectors sold off across the board except for leveraged loans, which are not harmed by rising rates like other sectors. In addition to rising yields, municipal bonds were hurt by surging new-issue supply, causing them to cheapen relative to Treasuries. The recent bond selloff has pushed most fixed-income sectors into negative return territory over the trailing 12 months, with credit-heavy and less interest rate-sensitive sectors being the main exception.

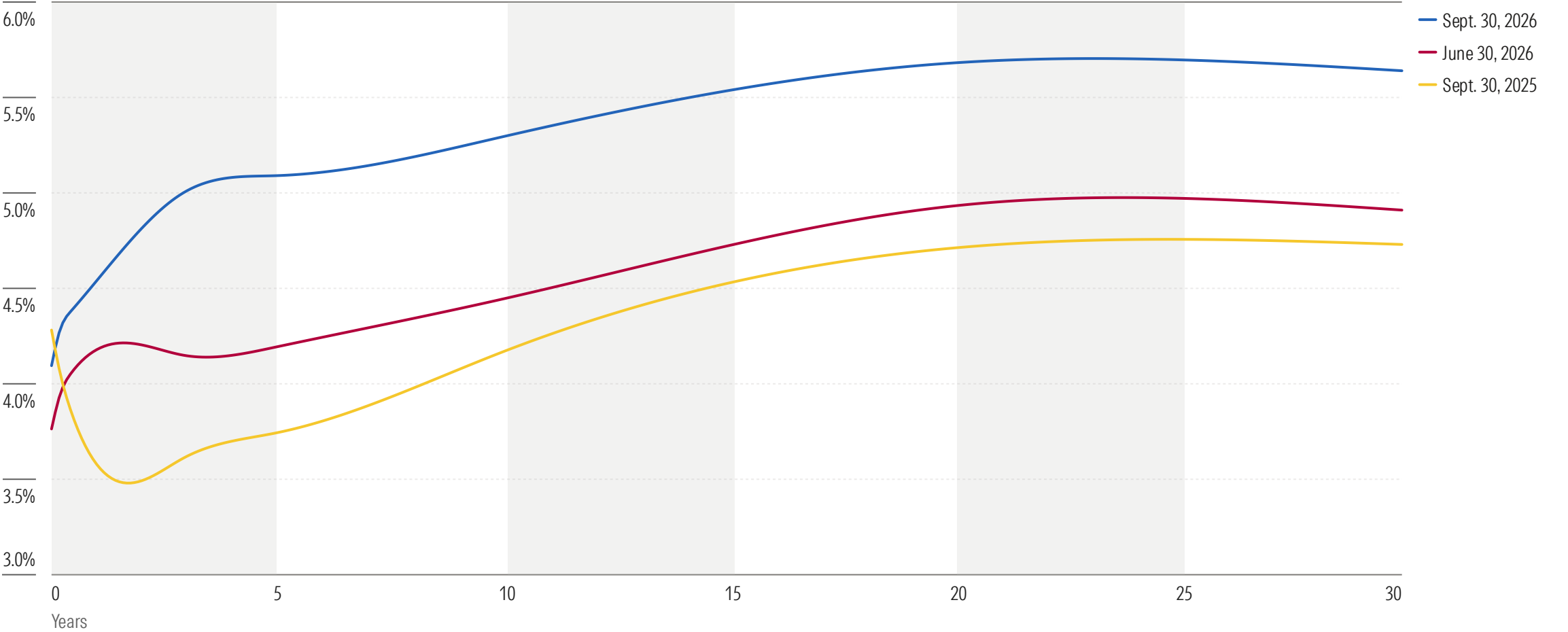
Fixed-Income Returns



The Treasury Yield Curve Shifts Higher

The US Treasury yield curve experienced a bear steepening in the third quarter, meaning long-term yields increased more than short-term rates and drove bond prices down. The movement was driven by renewed inflation fears from higher oil prices stemming from the Iran war, heavy debt-funding spending from AI data center construction, and the Federal Reserve's decision to resume tightening with a 25-basis-point rate hike in September.

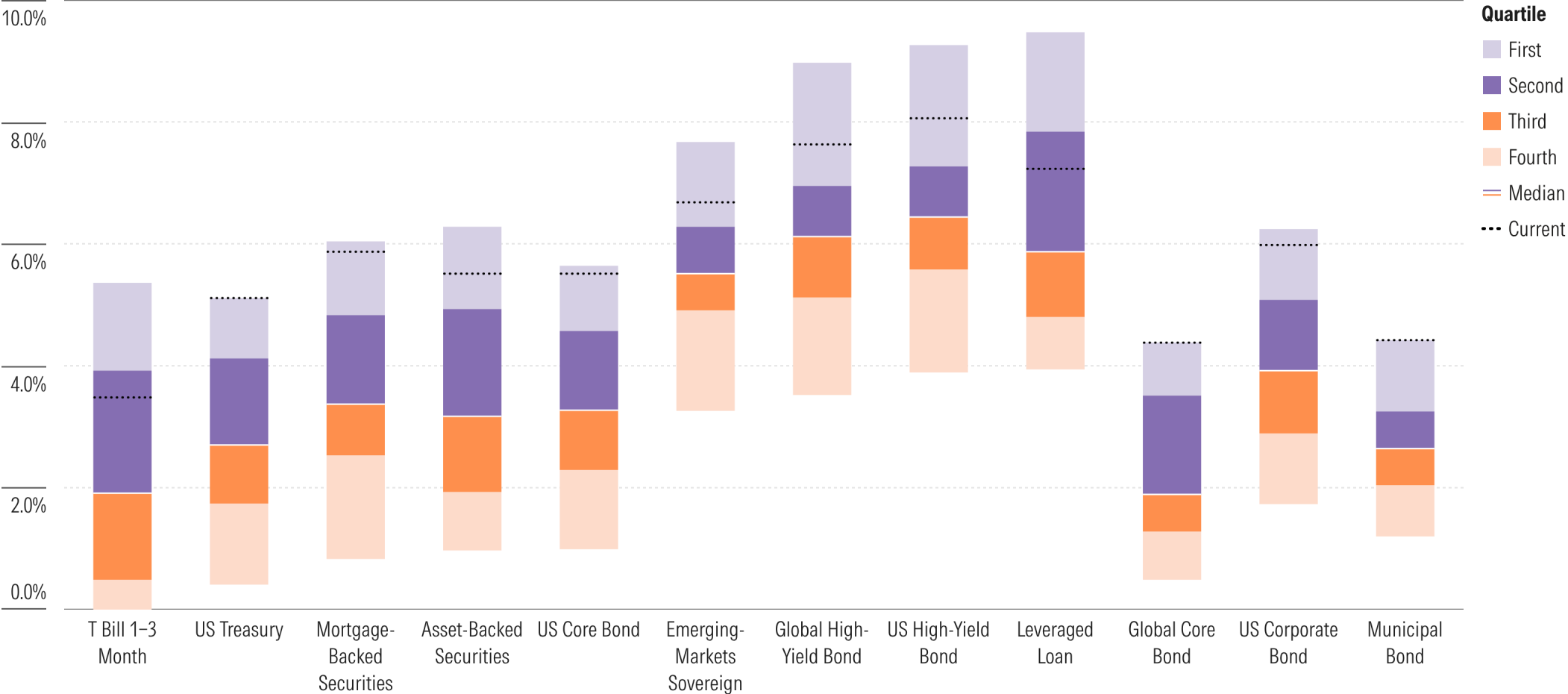
US Treasury Yield Curve



Fixed-Income Yields on the Rise

Yields climbed across the board as bonds sold off globally in the third quarter. The Federal Reserve's September rate hike and the market's anticipation of it contributed meaningfully, as did widening credit spreads and surging mortgage rates. Supply outpaced demand in most fixed-income sectors late in the quarter, also contributing to yield increases. Many bond sectors are at or near their highest yield levels in a decade, including US Treasuries, global core bonds, and municipal bonds. Yields across sectors remain above 10-year median levels.

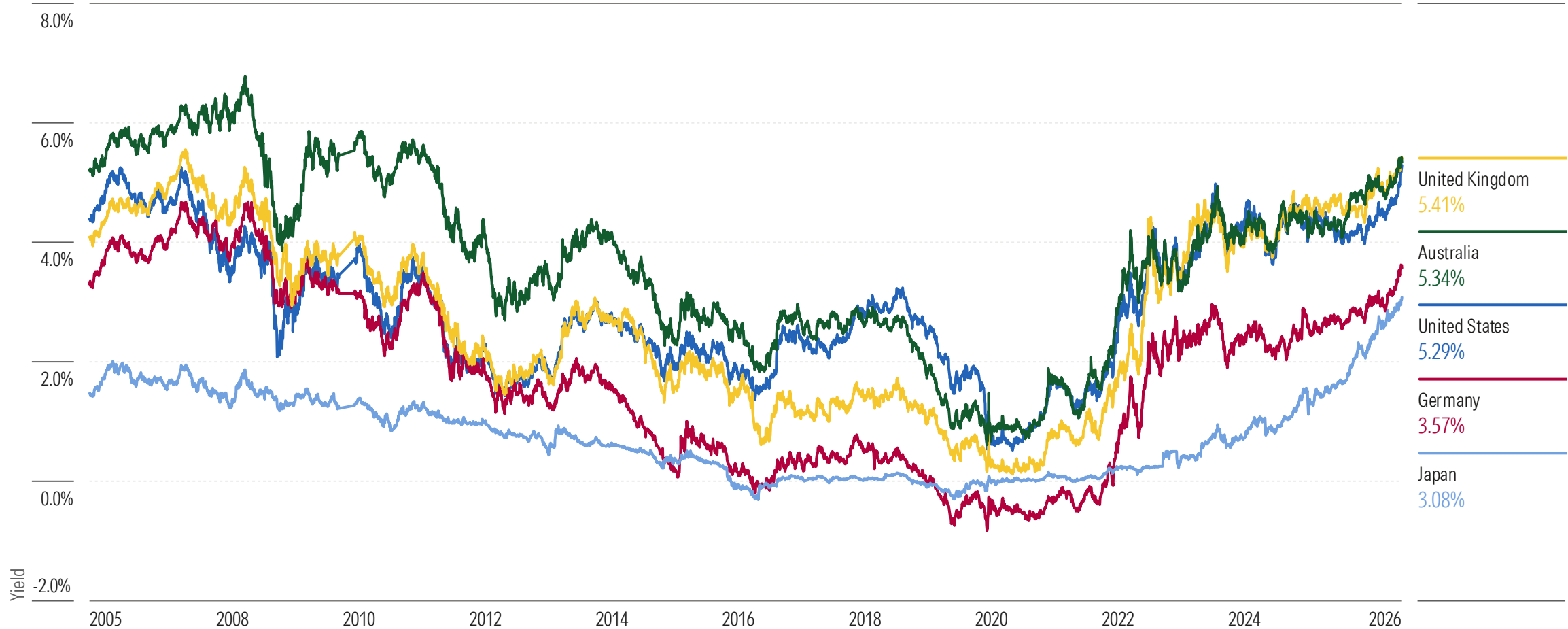
Morningstar Index Yields: 10-Year Trailing Range



Global Yields Continue to Climb

The 10-year US Treasury yield reached a multidecade high and finished the quarter at 5.29%. Globally, yields increased during the quarter because of renewed geopolitical conflict, persistent inflation and stronger growth, and central banks pivoting to rate increases. Alongside the Federal Reserve, the European Central Bank, Bank of Japan, and Reserve Bank of Australia each raised their key rate by 25 basis points, while the Bank of England kept its benchmark interest rate steady during the quarter.

Global Sovereign Bond 10-Year Yields



Higher Real Yields, Not Inflation Fears, Drive Most of 2026's Rise in 10-Year Yields

The 10-year real yield (what the bond pays after inflation) climbed sharply in 2026 while the 10-year breakeven (the market's inflation forecast) rose only slightly. This suggests investors are not bracing for runaway inflation. A stronger economy, heavy borrowing to fund AI and data center spending, and more price-sensitive buyers are behind this. This matters for investors because the rise reflects growth and competition for capital, not a loss of faith in US debt. For bond buyers, Treasuries now pay meaningfully more than the inflation rate.

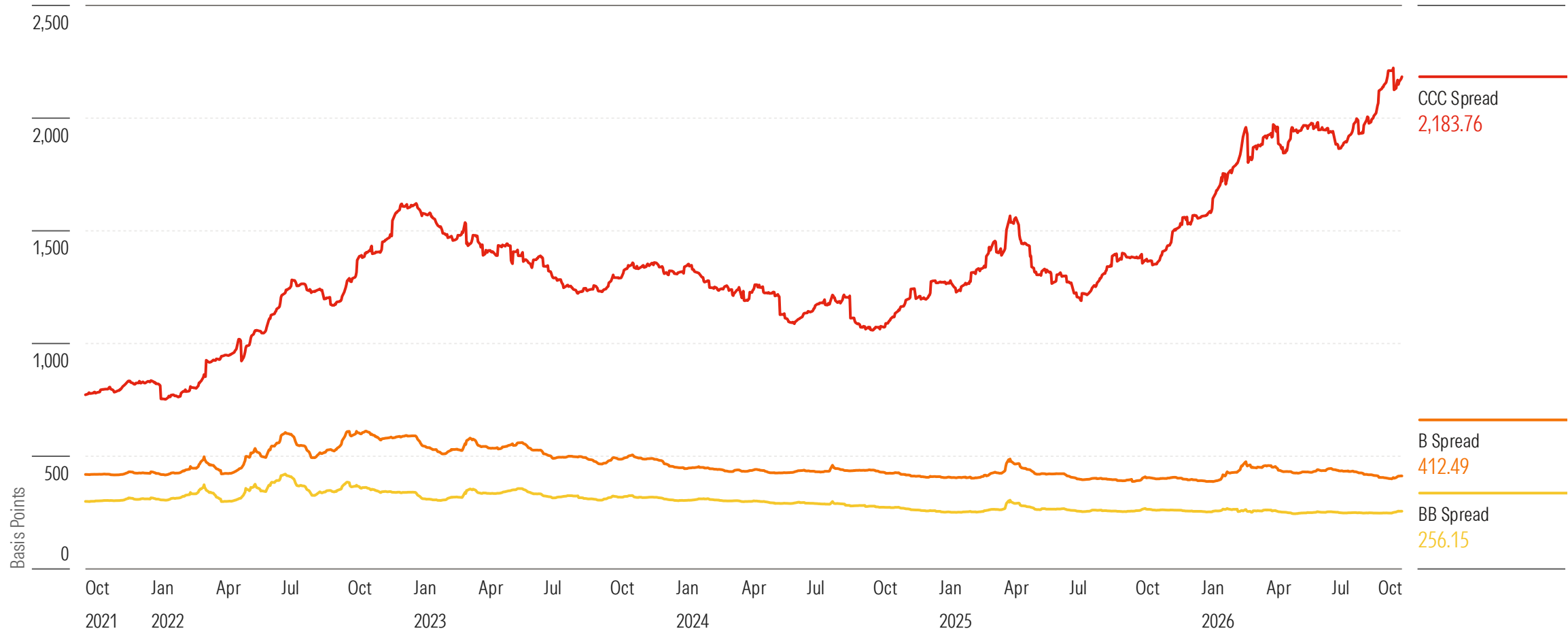
10-Year Treasury Real Yield and Breakeven Inflation



Asymmetric Stories in the Bank-Loan Universe

Spreads on BB and B rated bank loans, which make up more than 90% of the Morningstar LSTA Leveraged Loan Index, were flat or tightened throughout the third quarter. However, spreads on CCC rated bank loans widened meaningfully, reaching levels last seen shortly after the 2020 pandemic selloff. The last time CCC rated bank loans were this wide was in 2009. Fundamentals in this part of the market have been noticeably worse; many of these lower-rated issues were originated in 2021 and 2022 at lower rates and are approaching maturity with significantly higher default risk.

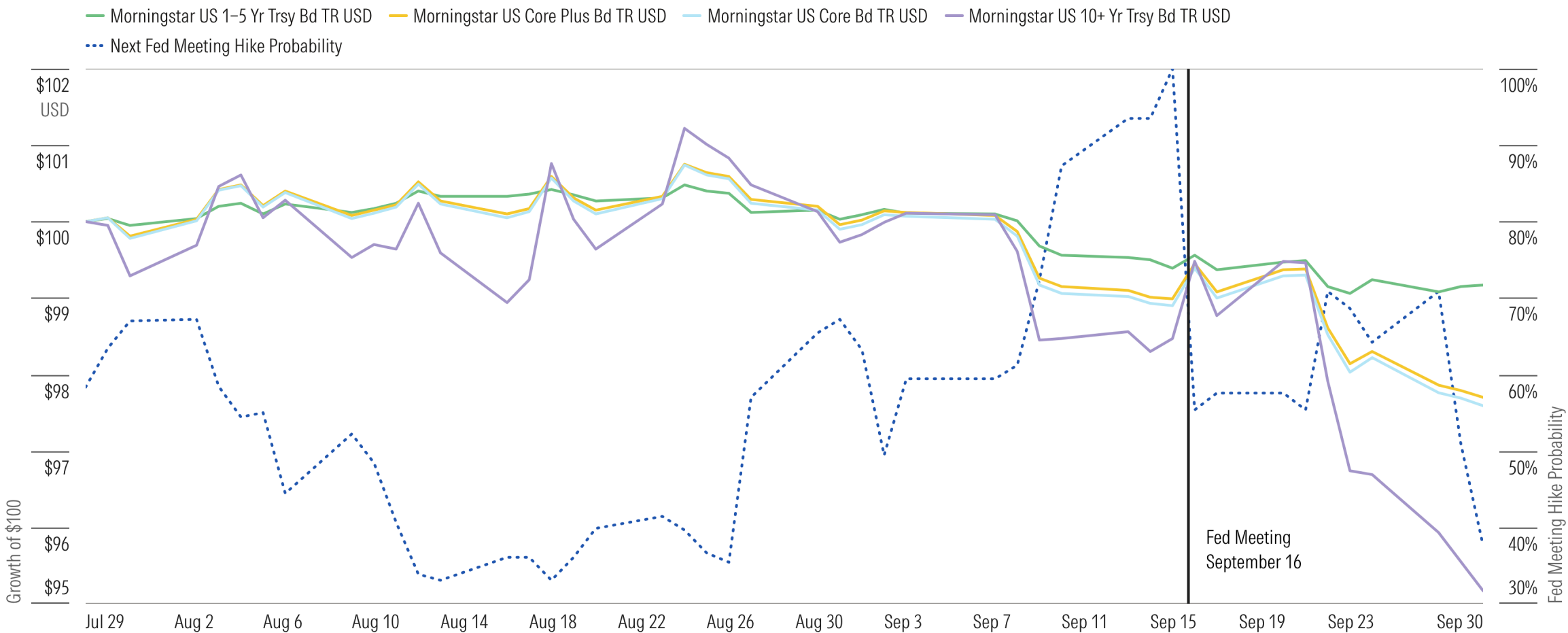
Leveraged Loan Spread to Maturities in Morningstar LSTA Leveraged Loan Index



Investors Anticipate and React to the Fed's Rate Hike

The Federal Reserve's September rate hike negatively impacted most fixed-income sectors. As the expectations of a rate hike increased meaningfully in the weeks before the Fed's September meeting, bond markets priced in the hike ahead of time and experienced losses in the process. The probability of another rate hike in October decreased in the last two weeks of September, however, and longer-term bonds sold off as intermediate- and long-term rates rose more than the short end of the curve.

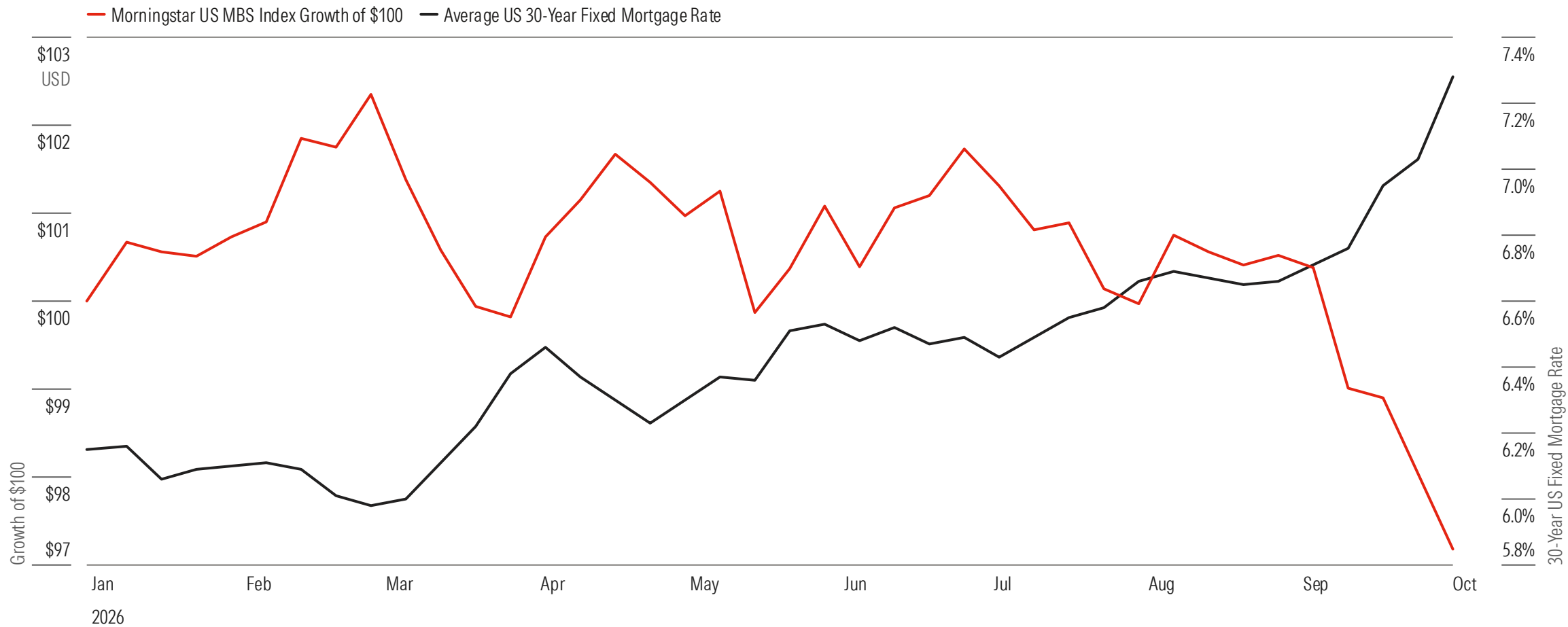
Growth of \$100 Across Bond Indexes and Fed Rate Hike Probabilities



Mortgage Market Mayhem

Mortgage rates also increased substantially during 2026's third quarter, particularly in September, surpassing 7.25%, the highest level since 2023. During the last week of September alone, mortgage rates increased by 25 basis points, the largest weekly increase since 2022. Mortgage-backed securities, in turn, experienced meaningful losses, not only because of increased rates, but also rate volatility in general, which is especially damaging to the negative convexity of mortgages. As mortgages sold off in September, agency mortgage spreads widened, further contributing to losses.

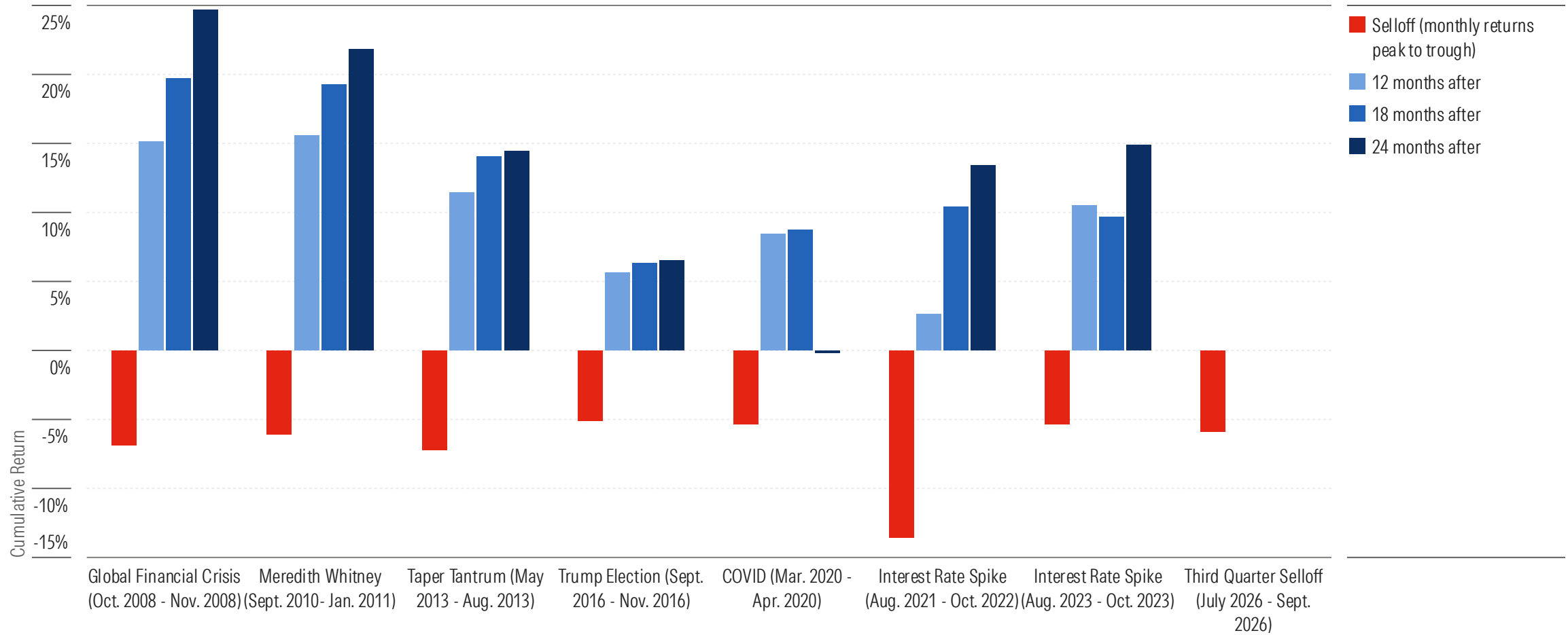
30-Year US Mortgage Rate and Growth of \$100 for Morningstar US MBS Index



Don't Turn Your Back on Munis

September marked the worst month for municipal bonds since the global financial crisis in 2008. During the quarter, the Morningstar US Municipal Bond Index fell 6%, driven by a combination of macroeconomic headwinds and weak market technicals rather than a decline in credit fundamentals. While that experience is alarming for investors seeking relative stability in the high-quality asset class, munis are a long-term investment and have swiftly recovered from previous selloff periods. And now, higher tax-free income makes the asset class even more appealing.

Municipal Bond Returns During Notable Selloff Periods and Recoveries



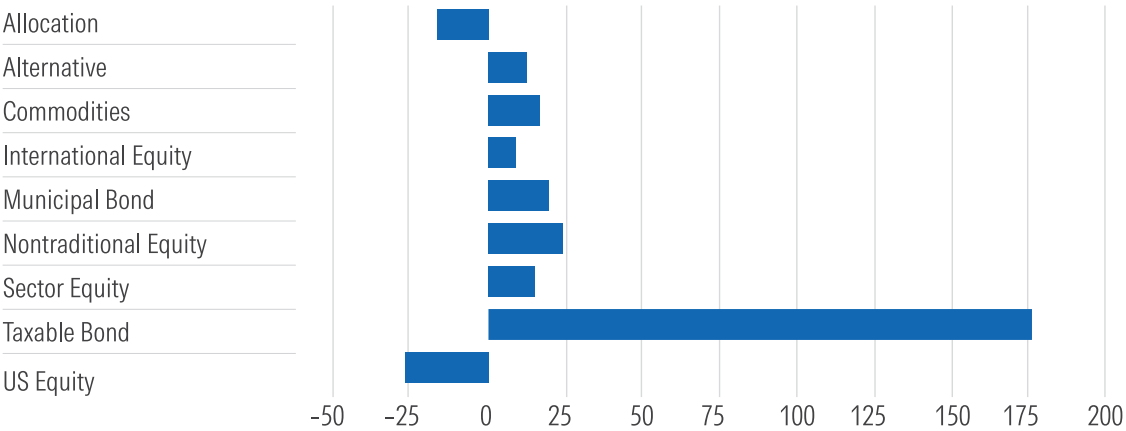
Funds



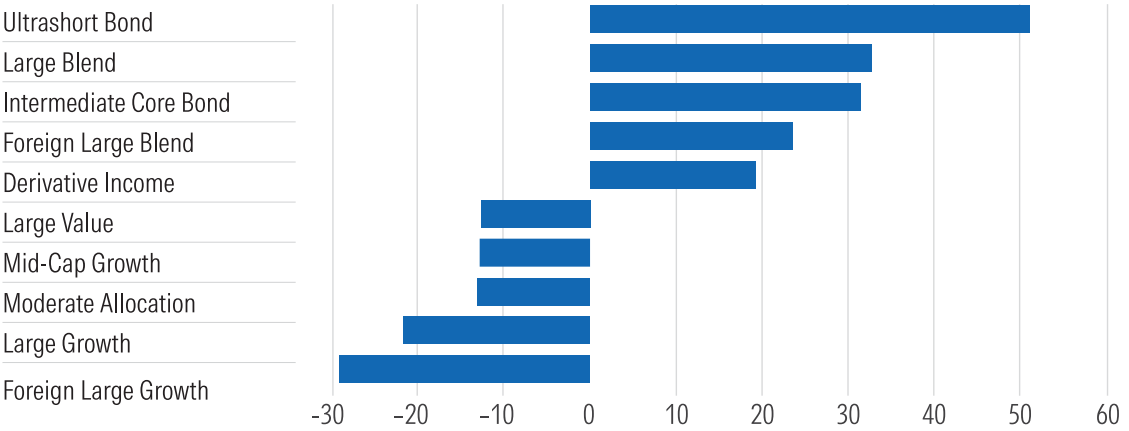
Top- and Bottom-Performing Morningstar Categories

Digital assets cut into their trailing 12-month losses by surging 43.9% in the third quarter. Despite this, the category is still down 26.9% over the past year. Commodities funds and equity precious metals also posted double-digit gains. On the flip side, utilities performed the worst, falling 12.1% in the third quarter. It was followed by small-growth, industrials, and infrastructure at the bottom of the leaderboard. Taxable-bond funds saw the largest asset inflows, likely thanks to appetizing yields. US equity and allocation funds were in outflows.

Trailing Quarter Flows by Category Group (USD Bil)

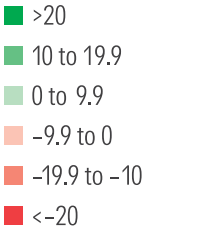


Top and Bottom Trailing Quarter Flows by Category (USD Bil)



Top-Performing Morningstar Categories	US Category Group	Return (%)		Quarterly Flow (USD Mil)
		Trailing Quarter	Trailing 1 Year	
Digital Assets	Alternative	43.9	-26.9	10,724
Equity Precious Metals	Sector Equity	14.8	24.5	-1,305
Commodities Broad Basket	Commodities	13.8	34.6	3,906
Commodities Focused	Commodities	13.2	33.6	12,808
Equity Energy	Sector Equity	6.6	31.2	-154
Systematic Trend	Alternative	6.4	19.1	2,239
Foreign Small/Mid Value	International Equity	5.9	18.9	-56

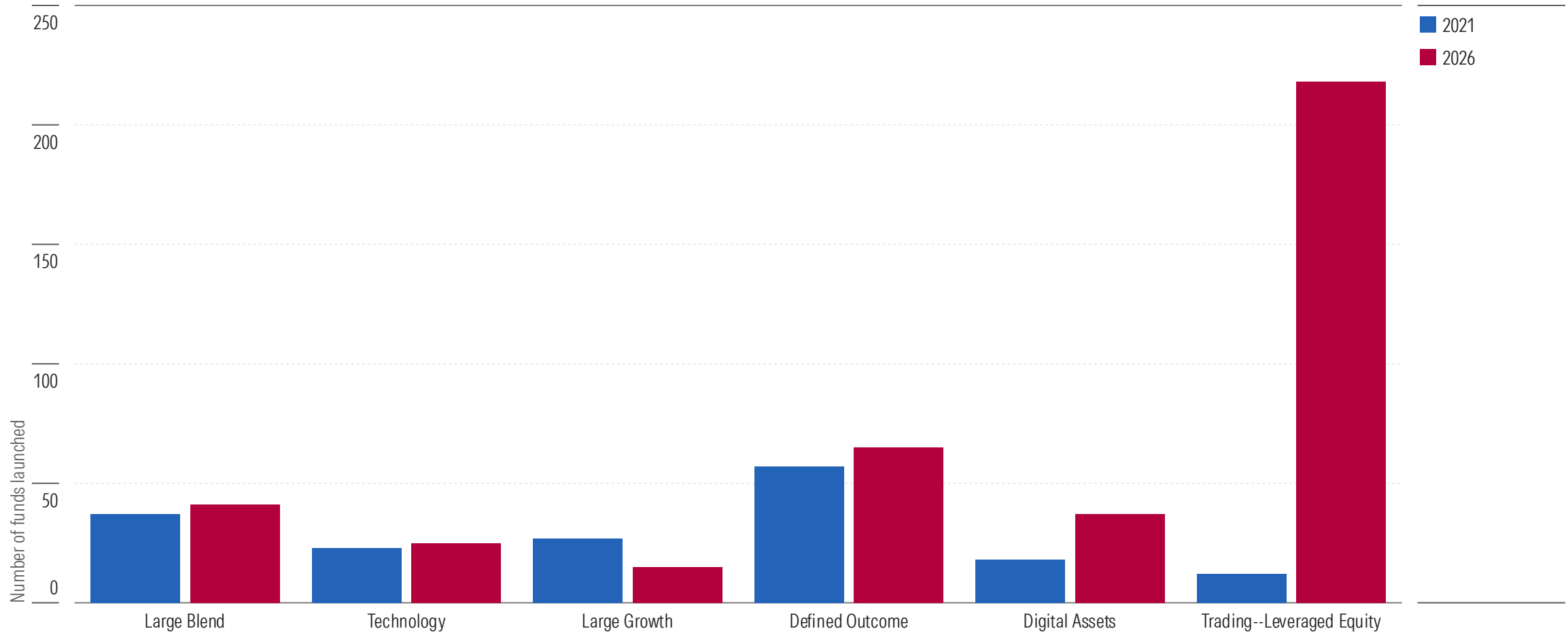
Bottom-Performing Morningstar Categories	US Category Group	Return (%)		Quarterly Flow (USD Mil)
		Trailing Quarter	Trailing 1 Year	
Utilities	Sector Equity	-12.1	-4.8	1,448
Small Growth	US Equity	-9.6	12.0	-7,302
Industrials	Sector Equity	-8.6	8.5	-474
Infrastructure	Sector Equity	-8.3	6.4	2,048
Long Government	Taxable Bond	-8.1	-8.3	11,683
Consumer Cyclical	Sector Equity	-7.4	-8.5	97
Small Blend	US Equity	-7.2	14.5	-1,364



Risky Trends in ETF Launches

Risky investment strategies are launching faster than ever before. Six categories ranked in the top 10 by ETF launches in both 2021 and 2026, and one has seen a precipitous rise in the last five years. While the large-blend, technology, and large-growth categories continue to churn out new ETFs, trading—leveraged equity blows all other categories away with 218 new launches through the first half of 2026. These risky ETFs are trading tools that leverage the returns of single stocks or market segments and are typically intended to be held for hours or days, not months or years.

Morningstar Category Fund Launches



The Nontraded REIT Landscape Is Top-Heavy

Nontraded REITs have garnered more attention amid broader interest in semiliquid vehicles. Morningstar’s recently published US Nontraded REIT Landscape explores this unique and extremely concentrated industry. Blackstone Real Estate Income Trust held USD 56.6 billion in assets at the end of June 2026, nearly half the nontraded REIT industry. The next nine largest nontraded REITs held nearly USD 30 billion in net assets combined. Total assets for nontraded REITs reached USD 115 billion at the end of June, nearly four times the group’s 2020 tally.

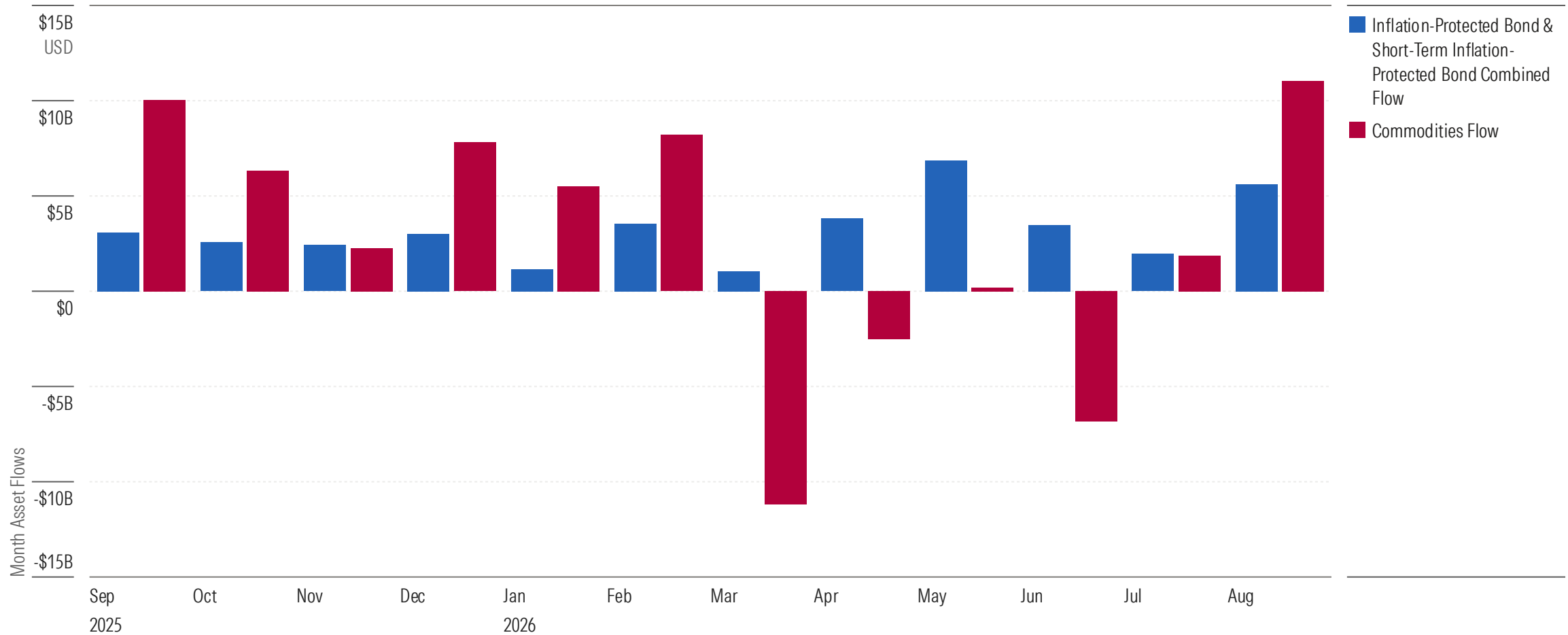
10 Largest Nontraded REITs by Net Assets as of June 2026



Resurgent Flows for Categories as Inflation Hedges

Fueled by resurgent expectations for inflation and rising oil prices, investors turned to funds with inflation-hedging capabilities, such as inflation-protected bonds and commodities. On the commodities front, inflows reached USD 11 billion in August 2026, following deep outflows for much of the preceding five months. Inflation-protected bond and short-term inflation-protected bond funds continued a steady streak of inflows for 2026, raking in USD 6 billion in August.

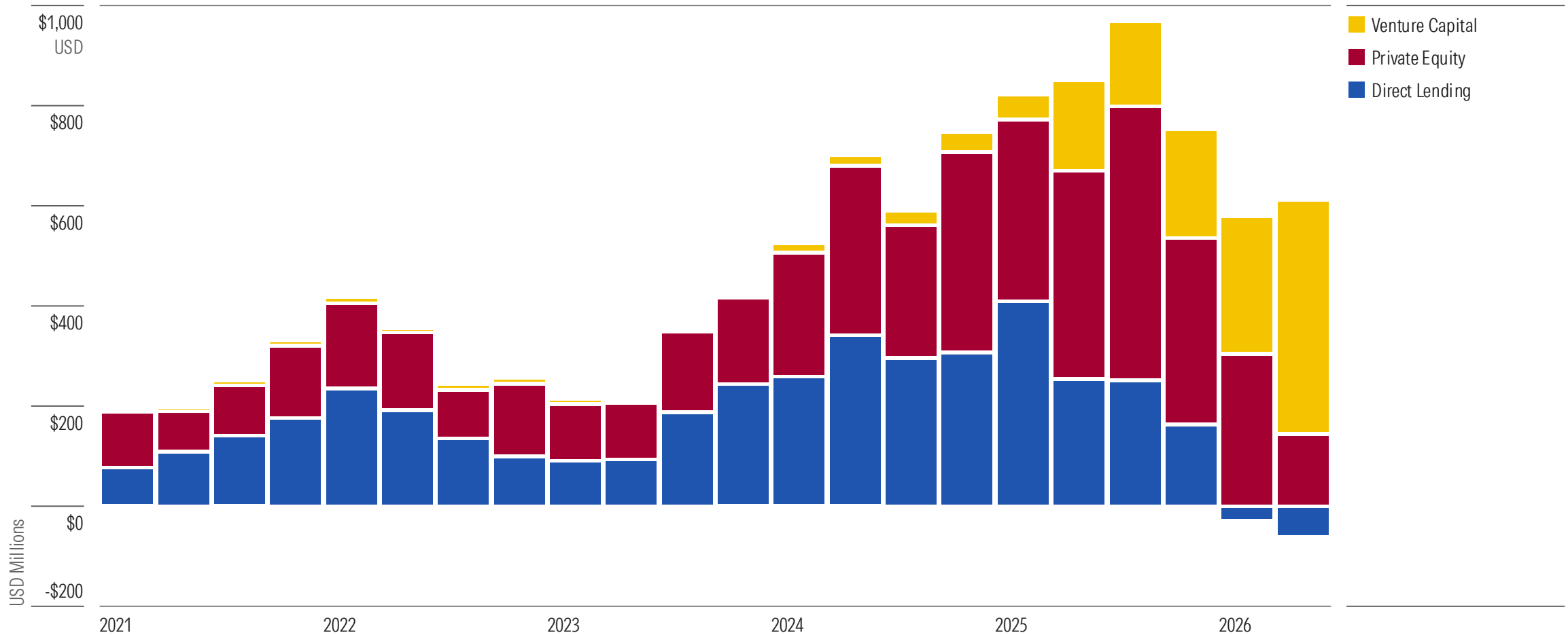
Monthly Fund Flows for Inflation-Protected Bond, Short-Term Inflation-Protected Bond, and Commodities Funds



Private Markets Growth: Venture Capital Funds Are Winning Flows

Venture capital funds continued to dominate semiliquid fund flows in the second quarter of 2026, drawing roughly USD 450 million and accounting for most of the quarter's inflows. Private equity funds still gathered assets, but at a much slower pace than their 2025 peak, collecting USD 150 million. Direct lending funds saw net outflows for the second consecutive quarter. Overall, quarterly flows have fallen well below the third-quarter 2025 high of nearly USD 1 billion, but venture capital's share keeps growing.

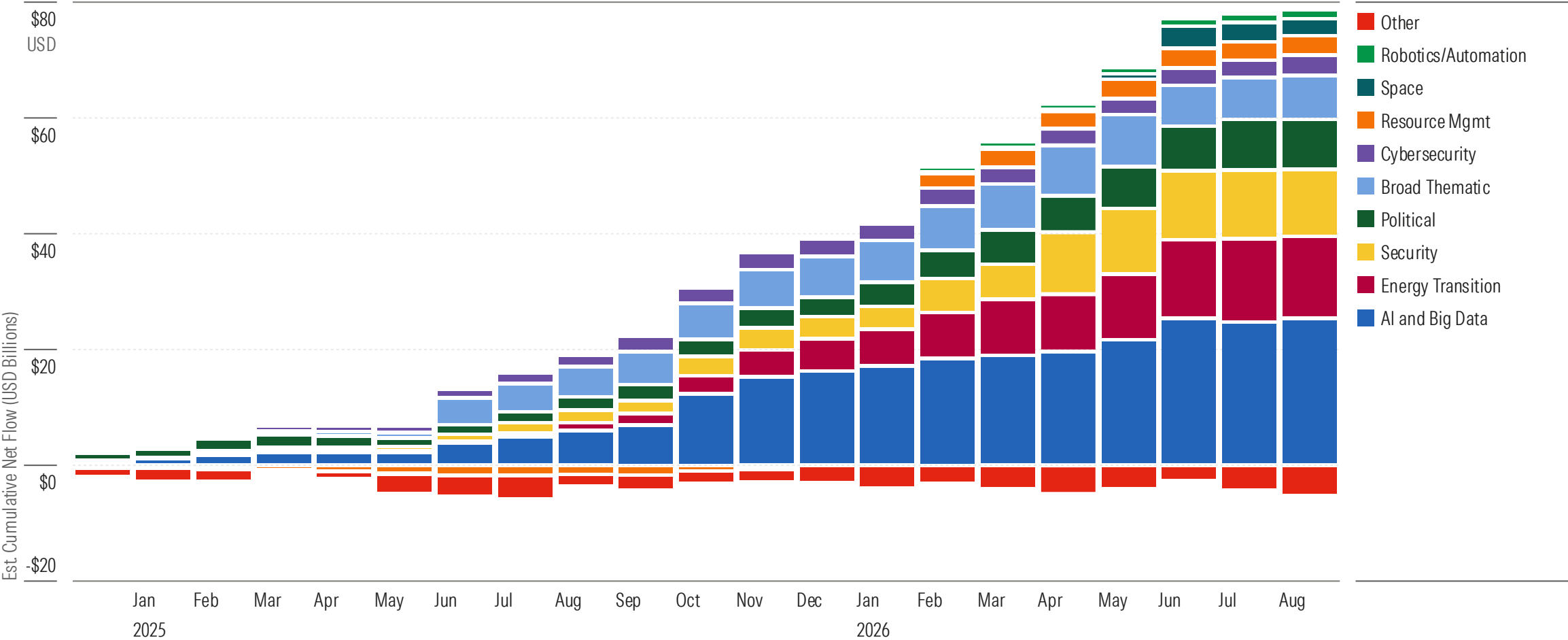
Semiliquid Fund Inflows by Morningstar Category



Thematic ETFs Are Popular Again

Thematic ETFs have regained investor favor, gathering approximately USD 76 billion in net inflows since December 2024 after investors pulled money from the category from 2022 through late 2024. AI and Big Data has been the largest draw at roughly USD 26 billion, about one-third of the total, followed by energy transition and security. Flows have followed performance, with many AI-themed ETFs routinely posting 20%-plus rolling 12-month returns over the last few years.

Thematic ETFs: Cumulative Net Flows by Theme (Dec. 1, 2024 – Aug. 31, 2026)



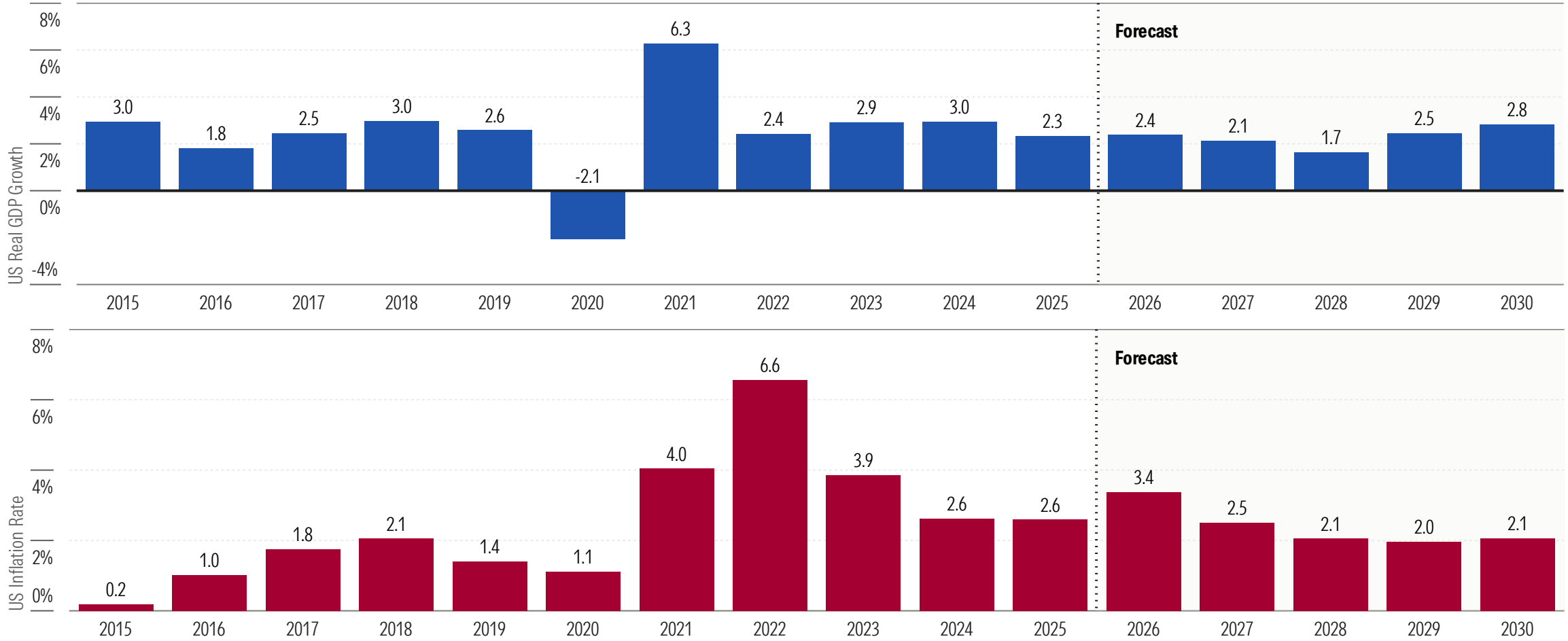
Economic Indicators



US GDP Growth to Reaccelerate in Later Years of Our Forecast, While Inflation Recedes

We're still expecting US GDP growth to slow a bit further through 2028, owing to decelerating AI spending, slower population growth, the ongoing drag from high interest rates, and other factors. Inflation should recede given the fading oil and tariff shocks and meager wage growth. Monetary easing drives a rebound in GDP growth over 2029-30.

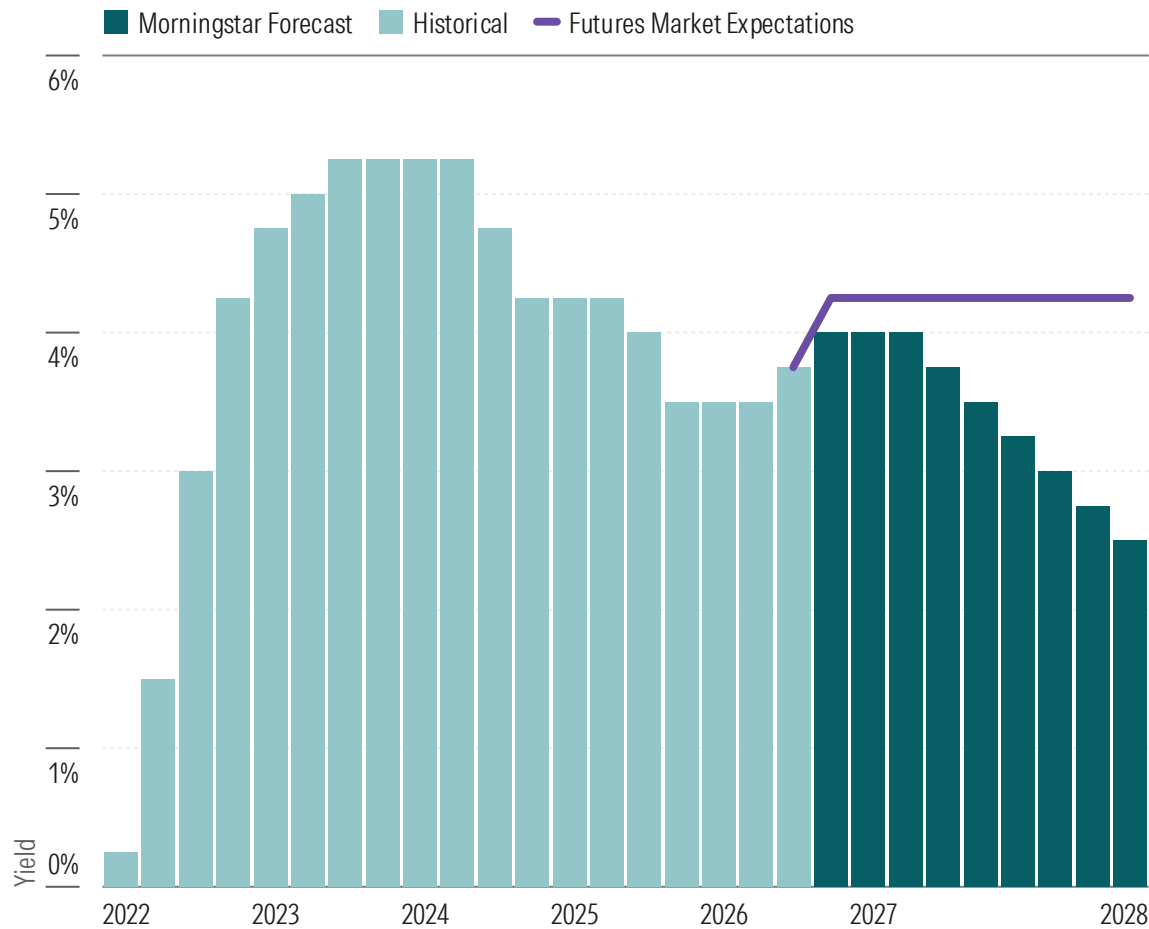
US Real GDP Growth (top) and US PCE Inflation Rate (bottom)



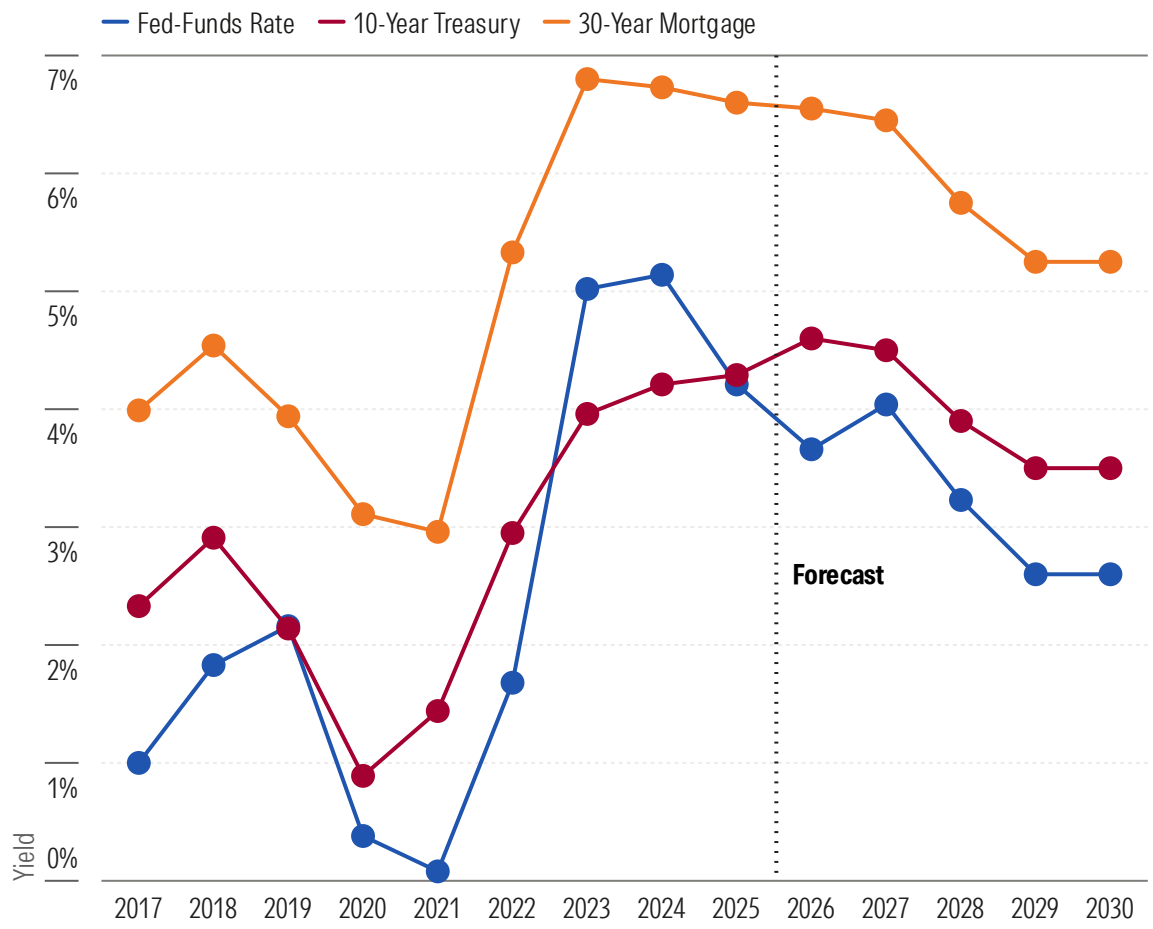
Federal Reserve to Resume Cutting Over 2027-28, Driving Yields Lower

The Fed has already hiked its benchmark rate once this year in September, and another hike is likely before the end of the year. We expect a return to rate cuts starting in the second half of 2027, driving the fed-funds rate down to 2.50%-2.75% by the end of 2028, a net 1.25 percentage points lower than the current 3.75%-4.00% range. This should help push longer-term interest rates down further, with the 10-year Treasury yield dropping to 3.25% by 2029. Lower rates will be needed to support continued healthy economic growth.

Federal-Funds Rate Expectations (Bottom of Target Range)



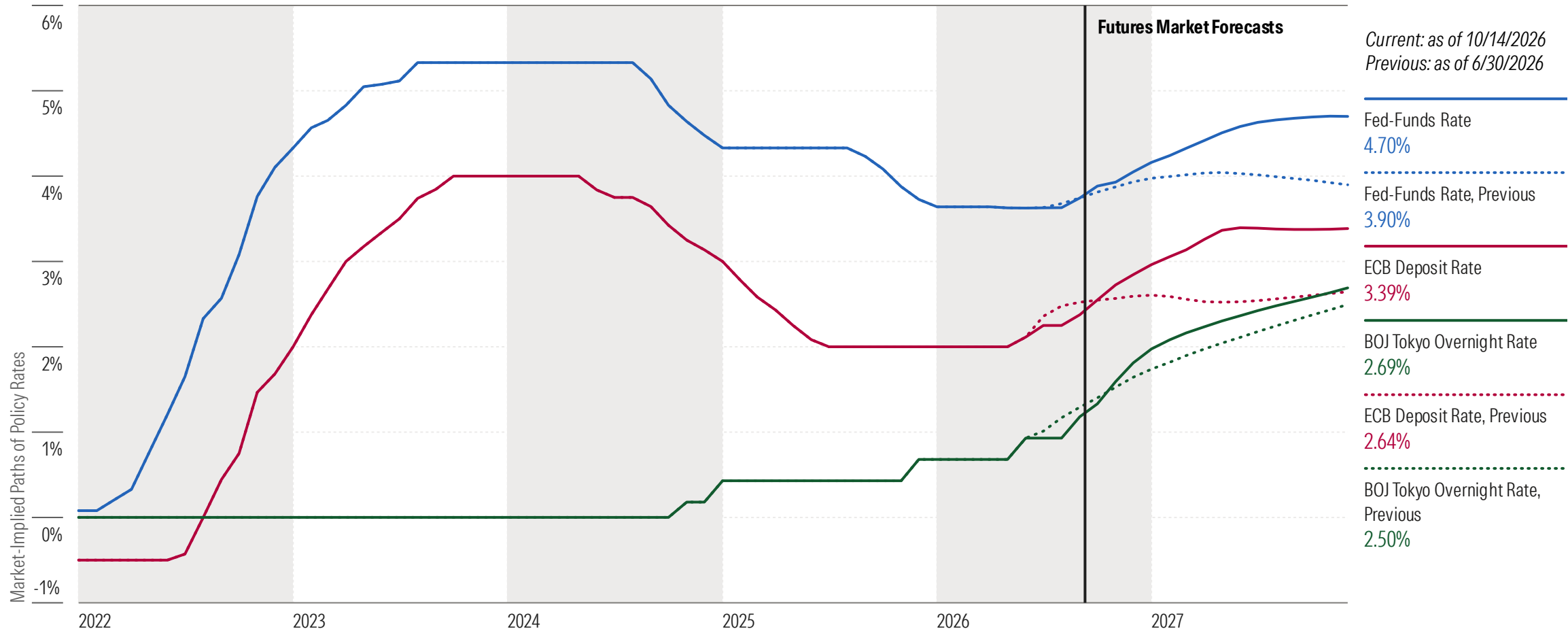
US Interest Rates Forecasts (Annual Averages)



Monetary Policy Becoming More Restrictive in Major Economies

Central bankers have become increasingly impatient with the continued deviance of inflation above target, leading to upward revisions in expectations for key policy rates (except in Japan, where inflation has been mild this year). Economic conditions have been solid, despite concerns the energy shock would be contractionary via the hit to household purchasing power, which is giving the green light to focus on inflation and tighten monetary policy.

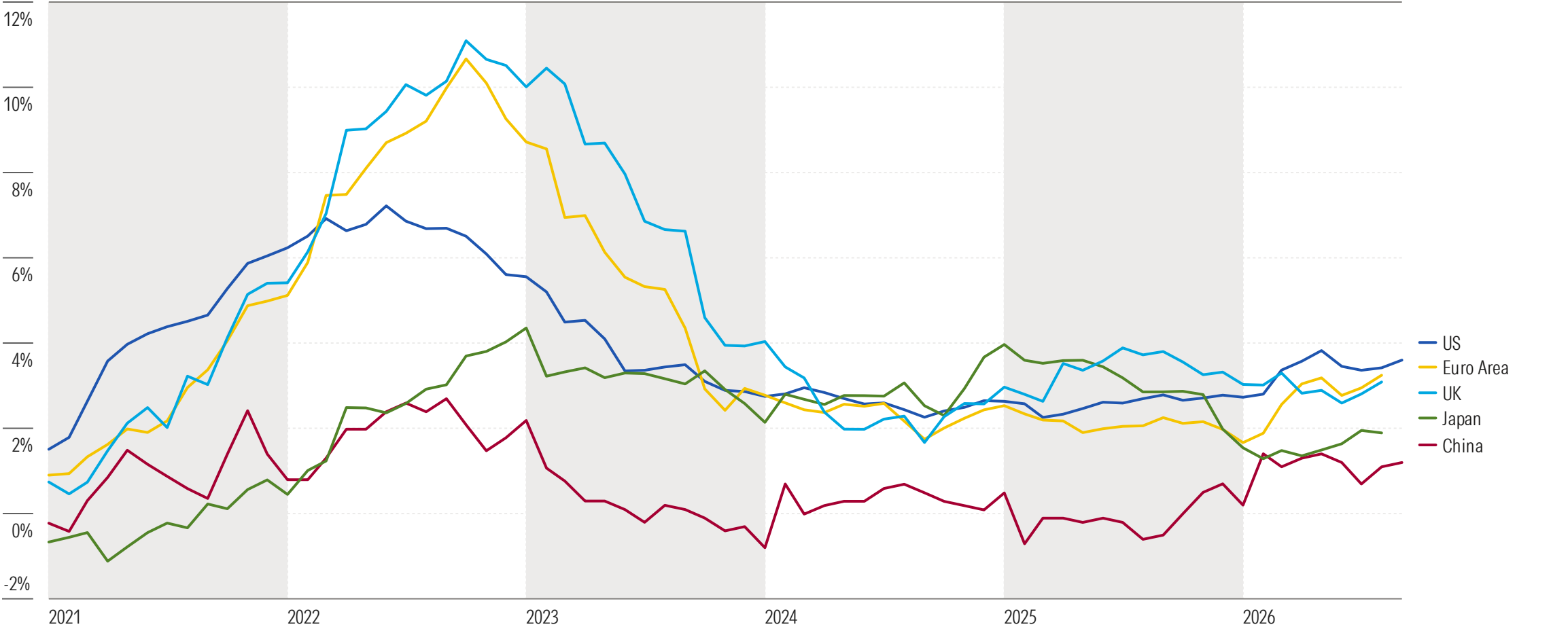
Federal Reserve, European Central Bank, and Bank of Japan Market-Implied Paths of Policy Rates



Inflation Has Increased, but Is Still Dwarfed by the 2021-22 Surge

Overall inflation has generally moved up in major economies as a result of the energy price shock in 2026. While the impact has been small compared with the inflationary surge over 2021-22, it's helping prolong a period of high inflation that has lasted for over five years.

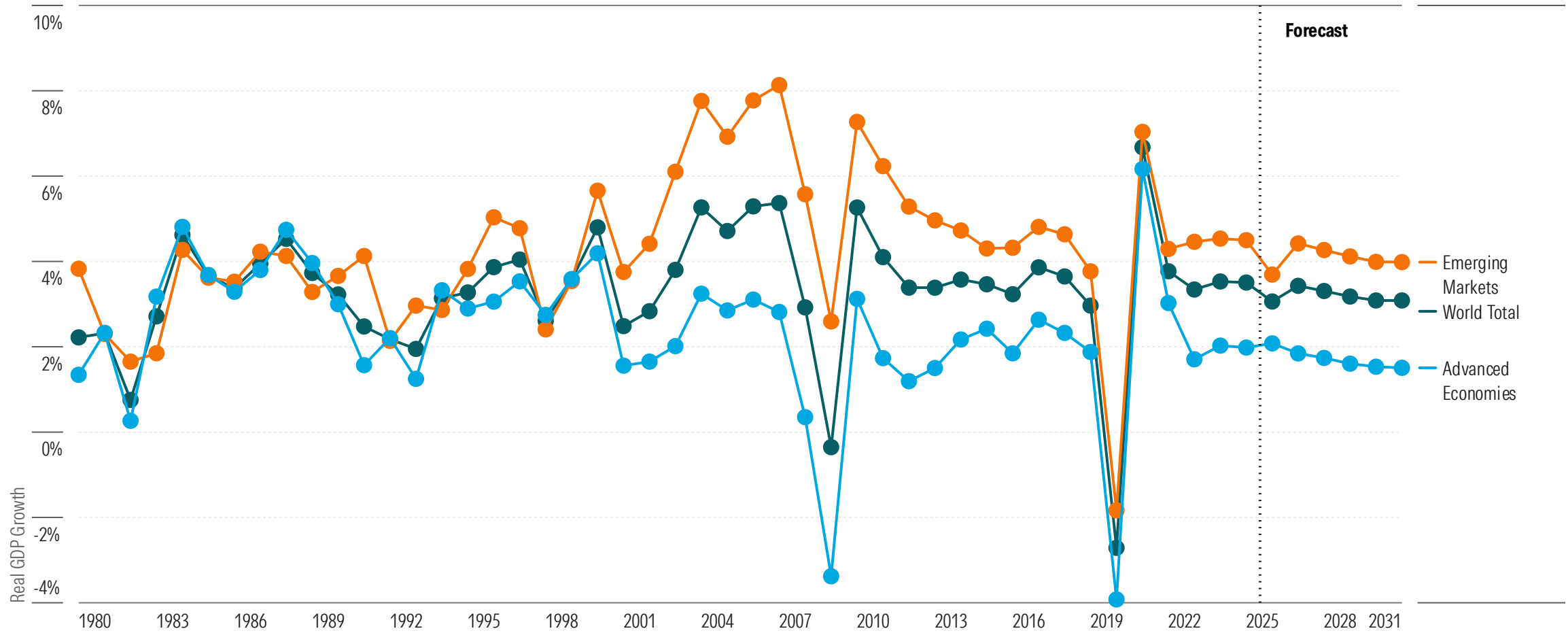
Consumer Price Inflation (% Year Over Year)



Economic Growth Hardly Hit by Energy Shock

The International Monetary Fund estimates global GDP will grow by 3.1% in 2026. That's down slightly from 3.5% in 2025, but most of the decrease is owing to Middle Eastern countries whose oil output has been curtailed by the Iran war. Elsewhere, economies have proved almost impervious to the energy price shock so far. Global GDP growth is expected to bounce back to 3.4% in 2027 but then slide to 3.1% by 2031, driven by a downtrend in growth for most advanced economies and China.

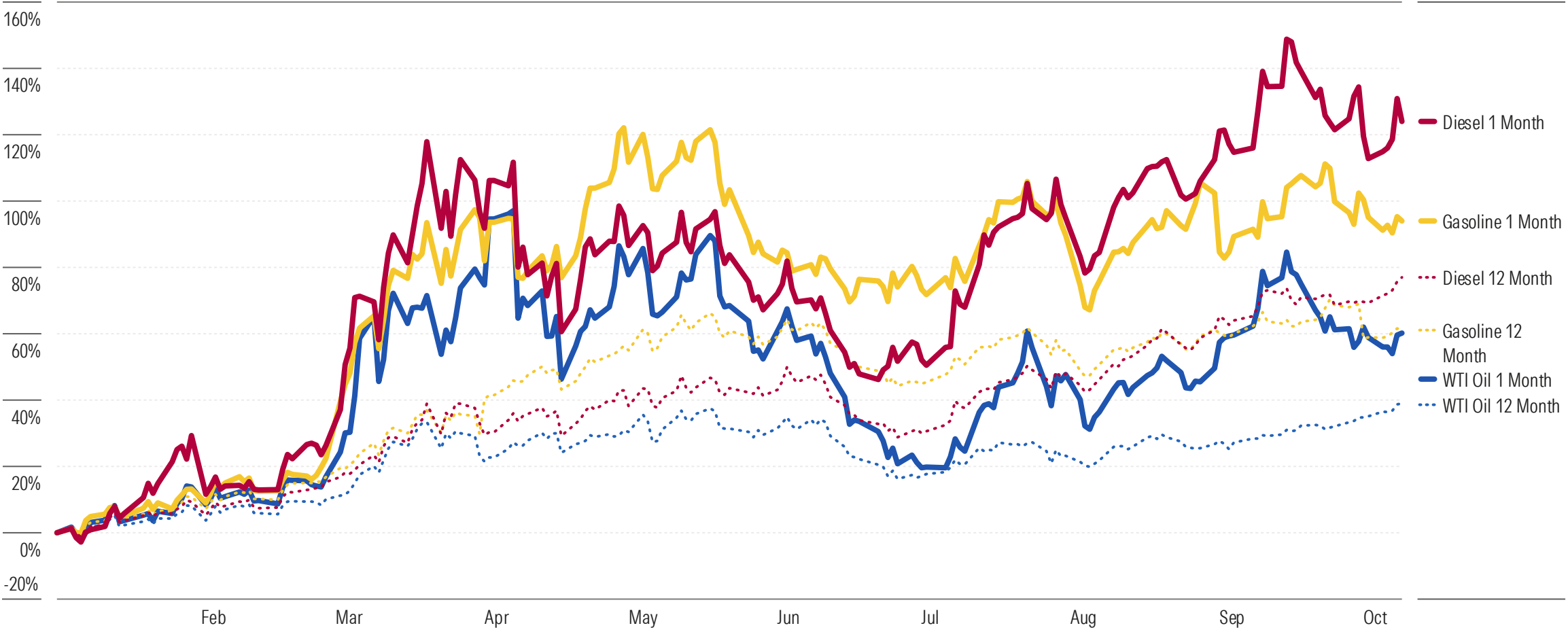
IMF Forecasts for Global GDP Growth (%)



Energy Prices Surging, but Still Expected to Fall

Prices for oil products like gasoline and diesel have doubled or more versus prewar levels. Refinery disruptions in Russia and elsewhere caused yawning crack spreads, compounding the rise in crude prices from the Iran war. A crack spread is the price difference between crude oil and the eventual refined product. But the most important feature of energy markets is that futures imply a hefty fall in prices over the next year and beyond, as the disruptions are expected to eventually fade. If that's correct, then the energy shock shouldn't have a sustained inflationary impact.

Oil and Product Futures Prices (% Cumulative Growth)

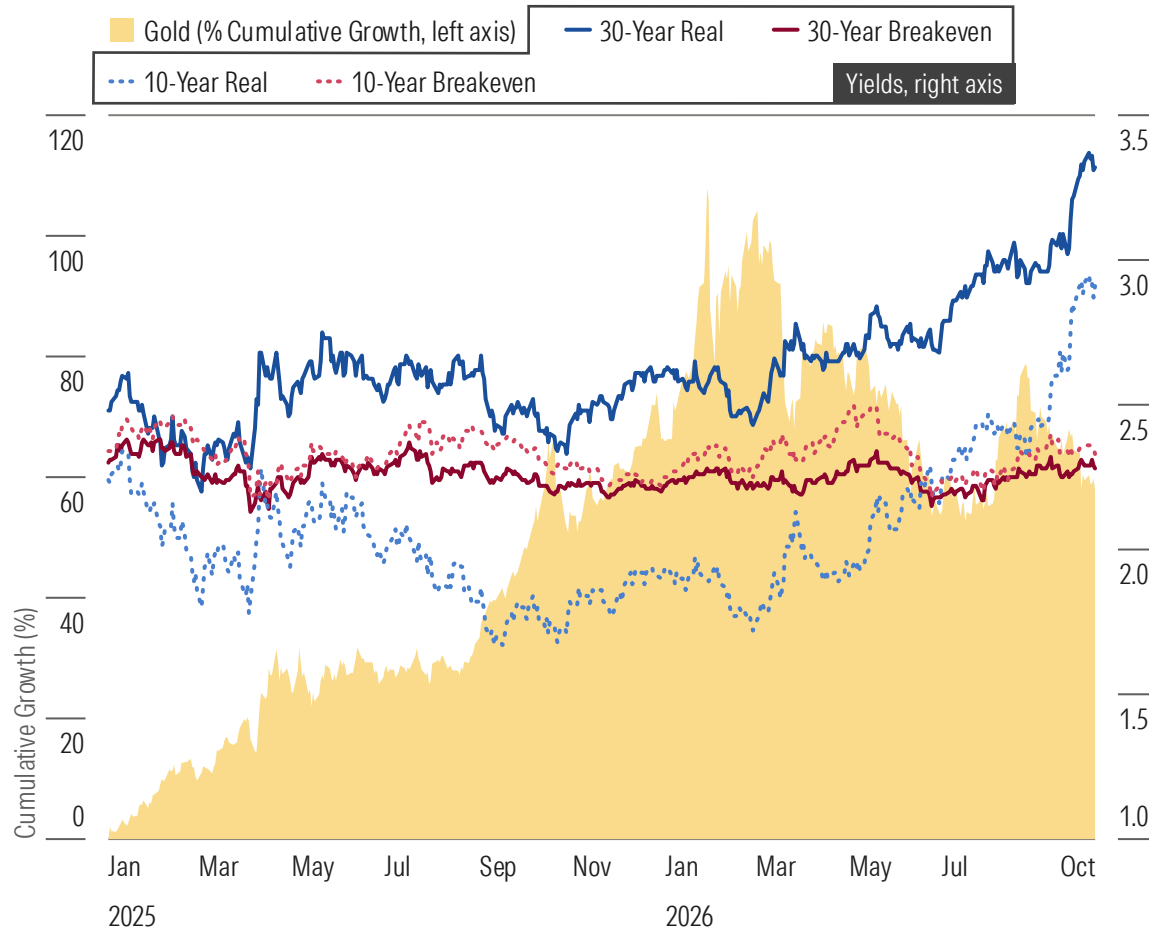


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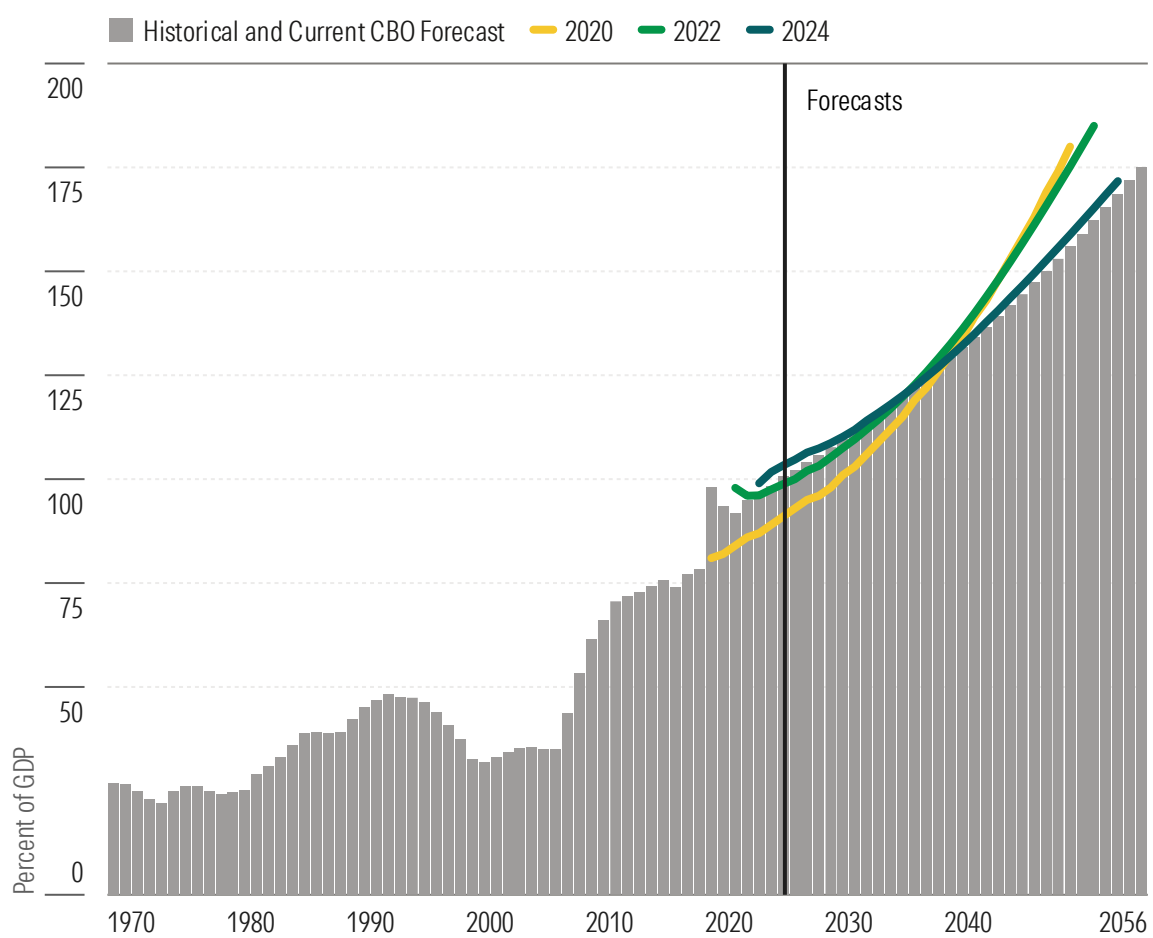
AI-Driven Economic Strength Is Main Factor Boosting US Bond Yields in 2026

Bond market inflation expectations have hardly risen since 2025, even during the period of gold's rise, making it doubtful that fears of currency "debasement" to resolve the high US government debt load are driving up bond yields. While the debt outlook isn't good, it hasn't worsened substantially in the past couple of years. We think economic strength, underpinned by AI, is the main factor driving up yields in the US.

Gold and US Treasury Yield Decomposition



US Federal Debt Held by Public (% GDP)



Source: Federal Reserve (left), Congressional Budget Office (right). ©2026 Morningstar. All Rights Reserved.

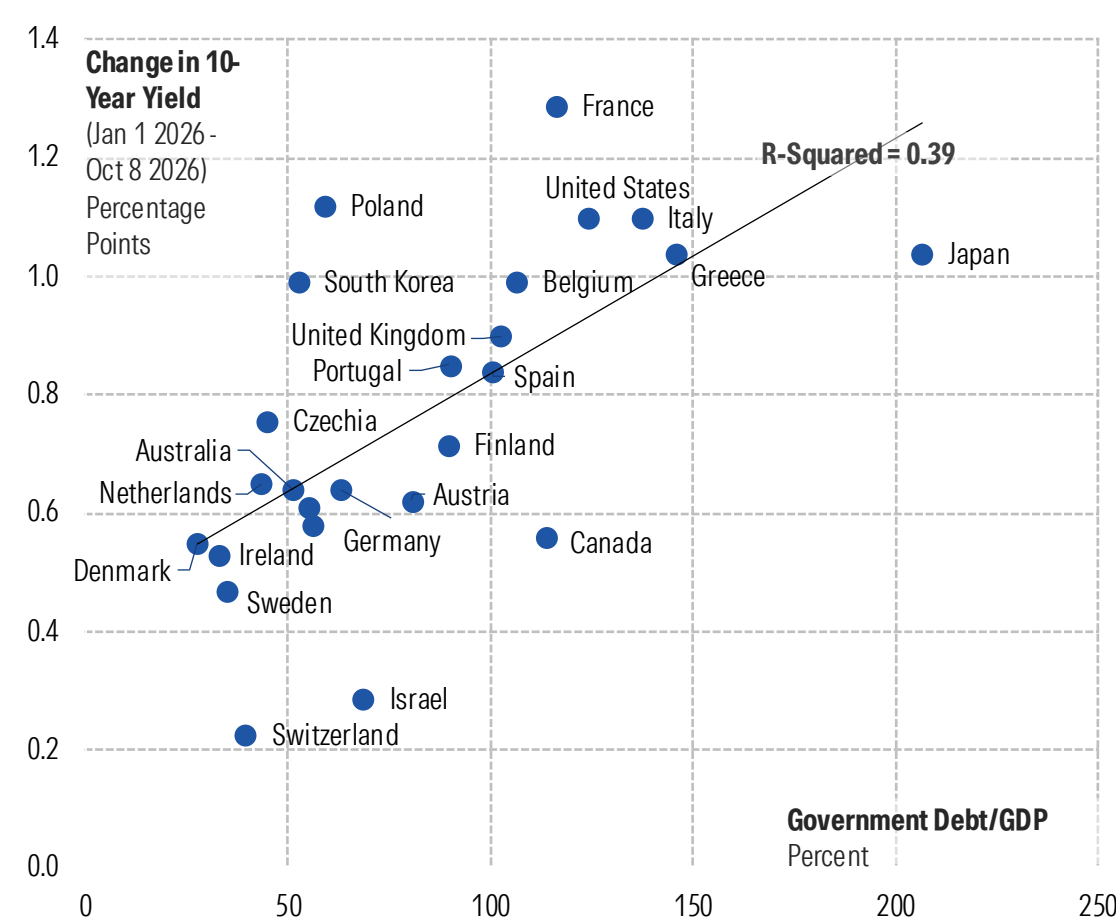
Government Debt Worries Have Been Playing a Bigger Role in Bond Selloff

Starting in mid-September, the spread of French 10-year government bond yields over those of Germany jumped by around 0.4 percentage points. Other high-debt countries saw a large yield increase. Based on our regression, if the US debt/GDP was at Denmark's extremely low level of 27%, the increase in 10-year Treasury yields this year would have been 0.7 points instead of 1.1 points. So, government debt concerns are now playing a significant role in higher yields, but they don't account for the bulk of the increase observed in 2026 so far.

France/Germany, 10-Year Government Bond Yield Spread



Change in Bond Yields vs. Government Debt/GDP

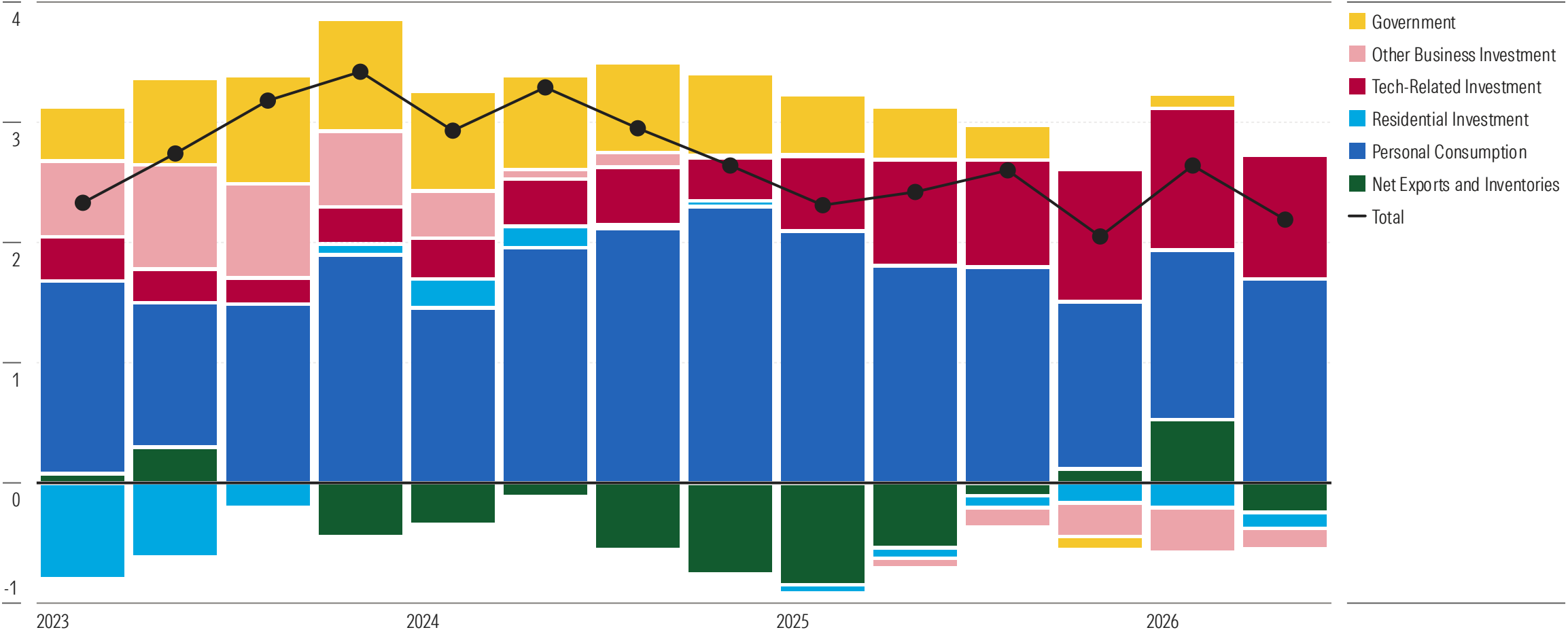


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AI Spending Crowds Out Other Spending in US

Tech-related investment, driven by AI, is accounting for an increasing share of US GDP growth. That doesn't mean that AI is boosting GDP growth, however. Rather, the Fed is offsetting higher AI spending by keeping interest rates elevated, which in turn, is suppressing rate-sensitive spending categories like residential investment or nontech business investment. AI is effectively crowding out other types of spending. That's why we say AI's main effect right now is on interest rates, rather than GDP or inflation.

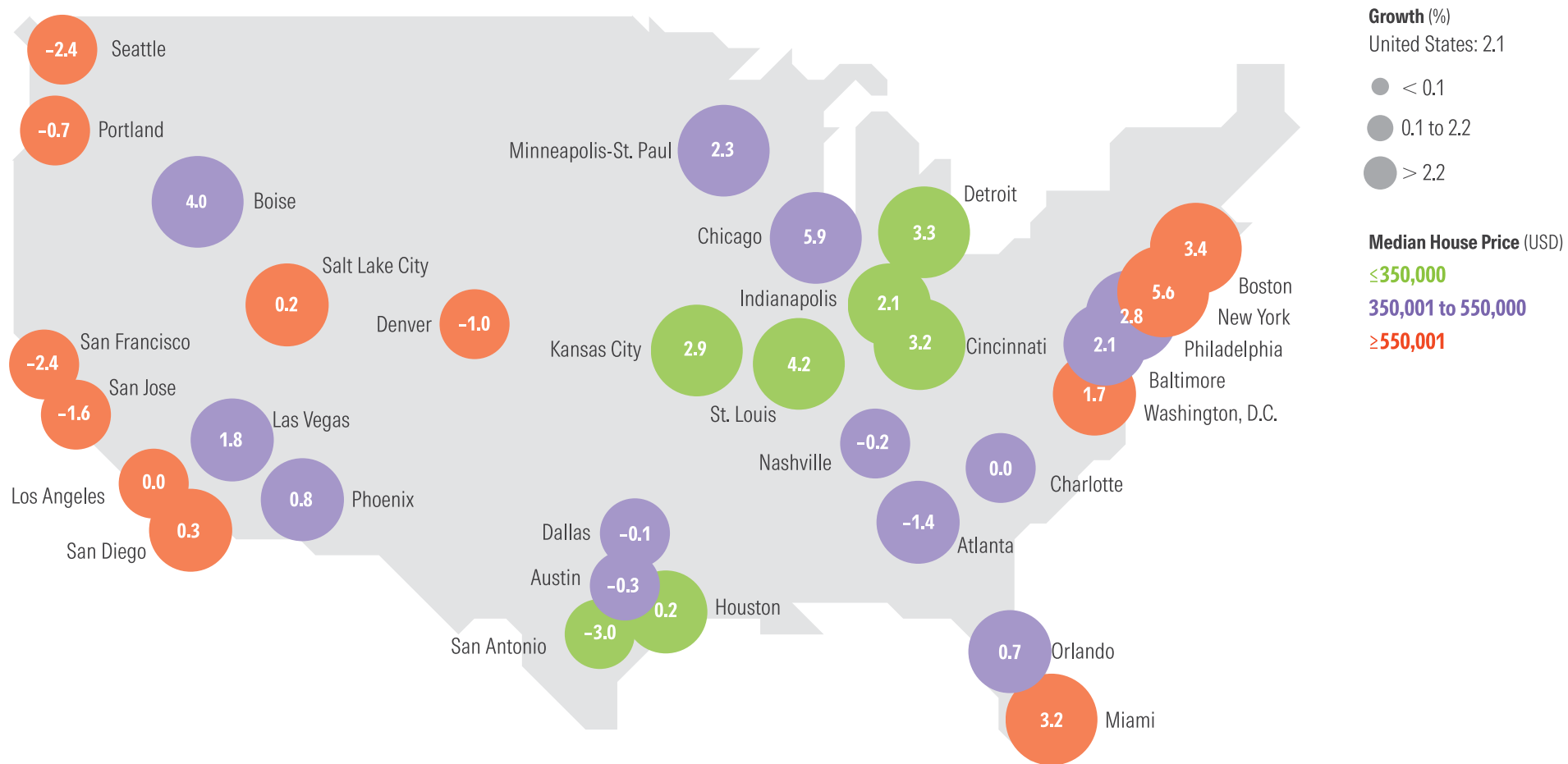
US Real GDP by Expenditure (% Growth Year Over Year)



US Home Price Appreciation Remains Weak

Home price growth has settled down to a subdued pace of 2.1% for the second quarter of 2026, down from a 2.9% average growth rate in 2025 and 5.4% in 2024. The deceleration in home price growth has been broad, though Midwestern markets have been more resilient. Sunbelt markets continue to see weak or negative growth, owing to excess supply resulting from vigorous building in response to the postpandemic boom in these markets.

Year-Over-Year Price Growth Q2 2026



Index and Disclosure



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