

I've Grown: Value, Rates and the Mood Gap

"I'm not the same person I was five minutes ago. I've grown."

Brennan Huff, Step Brothers (2008)

Executive Summary

Brennan Huff's growth spurt took five minutes. Markets in 2026 have reinvented themselves almost as quickly. Value stocks have beaten growth stocks by a wide margin, bond yields have climbed to levels not seen in roughly two decades, and consumers say they feel about as gloomy as they ever have, even as corporate profits surge.

- **Value did the growing:** The Russell 1000 Value has outpaced the Russell 1000 Growth by about **17 percentage points** this year, driven more by stock selection than by sector bets.
- **Trend and price led:** Stocks with strong recent momentum and attractive valuations were the year's best-performing factors, while defensive, low-volatility stocks lagged.
- **Inflation is personal:** Overall prices are up about **9%** since the end of 2023, but coffee is up **53%** and gasoline **39%**, and that gap shapes how households feel.
- **Sentiment is not a strategy:** Consumer sentiment sits near record lows while S&P 500 earnings estimates have climbed sharply.

Performance

Value ran away with the year. Through October 15, the Russell 1000 Value returned **22.25%** year to date versus **5.44%** for the Russell 1000 Growth and **13.76%** for the S&P 500, though growth did lead over the past month (**2.56%** versus **-0.11%**). Abroad, emerging markets gained **20.26%** and developed international markets **9.30%**, though both slipped over the past month.

Market Performance Barometer Through 10/15/2026									
	Performance					Performance			
	1 Mo	QTD	YTD	1-Year		1 Mo	QTD	YTD	1-Year
Equities (Sorted by YTD)					Fixed Income (Sorted by YTD)				
Russell 1000 Value Index	-0.11%	2.53%	22.25%	27.78%	Bloomberg TIPS 1-5 Year	-0.35%	0.44%	-0.34%	-0.66%
MSCI EM	-2.12%	-2.63%	20.26%	19.17%	U.S. Treasury	-0.59%	0.65%	-1.63%	-1.51%
S&P 500 Index	1.38%	0.92%	13.76%	17.41%	U.S. Aggregate	-0.73%	0.76%	-1.65%	-1.36%
MSCI EAFE	-2.55%	-1.45%	9.30%	13.28%	Corporate	-0.86%	0.73%	-1.82%	-1.77%
Russell 1000 Growth Indx	2.56%	-0.81%	5.44%	6.99%	Municipal Bond Index	-1.70%	0.97%	-2.22%	-1.48%
Top Sector Indexes (YTD)					Bottom Sector Indexes (YTD)				
S&P 500 ENERGY INDEX	5.70%	10.14%	54.51%	59.47%	S&P 500 FINANCIALS INDEX	-4.12%	2.11%	0.65%	5.38%
S&P 500 INFO TECH INDEX	3.60%	-1.88%	25.96%	27.19%	S&P 500 UTILITIES INDEX	0.54%	5.83%	-0.16%	-7.72%
S&P 500 CONS STAPLES INDEX	3.72%	7.39%	13.82%	12.66%	S&P 500 CONS DISCRET INDEX	-0.57%	2.40%	-3.56%	0.32%
Source: Bloomberg									
Indexes are unmanaged, do not incur management fees, costs, or expenses, and cannot be invested in directly.									

Chart: Value, energy and emerging markets have led in 2026, while bonds have been held back by rising yields.

Sector results were unusually far apart. Energy (**54.51%**), Information Technology (**25.96%**) and Consumer Staples (**13.82%**) led, while Financials (**0.65%**), Utilities (**-0.16%**) and Consumer Discretionary (**-3.56%**) trailed. Bonds have had a tougher year as rising yields pushed prices lower: the U.S. Aggregate is down **1.65%**, Treasuries **-1.63%**, Corporates **-1.82%** and Municipals **-2.22%**, with short-term TIPS (**-0.34%**) holding up best. Encouragingly, every major bond index is positive for the quarter so far, a reminder that higher yields eventually work in a bondholder's favor.



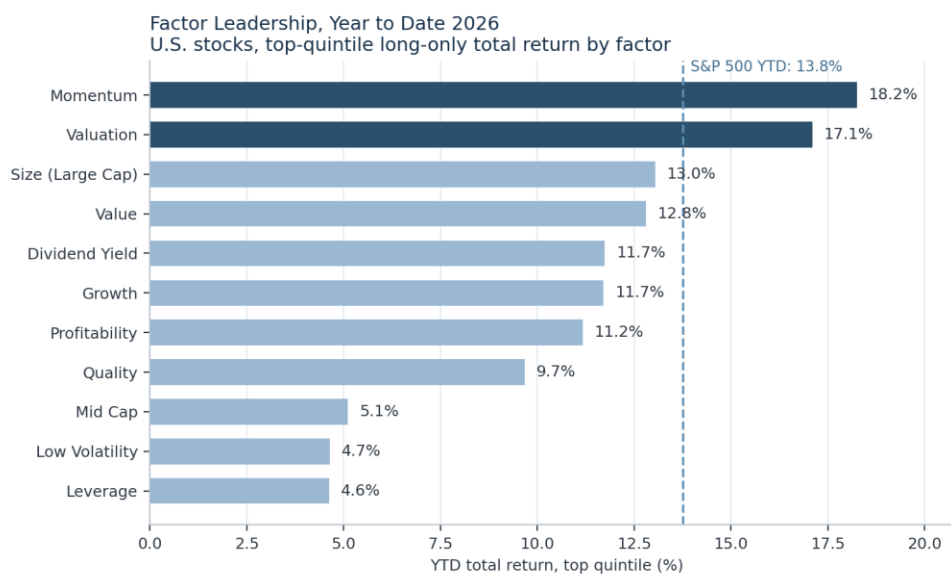
Value Did All the Growing

The irony of 2026 is that the index named for growth did the least growing. Our attribution analysis compares the Bloomberg 1000 Value with the Bloomberg 1000 Growth year to date through October 15. Because it works from each index's holdings rather than its official returns, the totals carry some noise and won't match published figures to the decimal, but the story is clear: value's lead came from what it owned within sectors, not from how it was weighted across them. Stock selection added roughly **11 percentage points**, while sector weighting subtracted roughly **5**, mostly because value indexes hold far less technology than growth indexes do.

The leaders might surprise anyone who pictures value as banks and pipelines. Micron topped the list, with Intel and Dell close behind, meaning value captured part of the semiconductor and hardware rally through names that sit on its side of the style line. Energy companies such as Marathon Petroleum, Chevron and Valero added further gains, while the detractors were small and scattered across banks, telecom and consumer staples. Style labels, in other words, can hide where returns actually come from, which is why we look at exposures across styles and sectors together rather than relying on any single label.

Riding What Works, Paying Less for It

Factor analysis offers another way to see the year. It sorts the market by characteristics, such as how cheap a stock is or how strongly it has been rising, and measures how the best-scoring group performed. In 2026, the top quintile of U.S. stocks ranked on momentum returned **18.2%** year to date and the top quintile ranked on valuation returned **17.1%**, both well ahead of the S&P 500's **13.8%**. Large-cap, value, growth and profitability screens landed in a middle pack between **11%** and **13%**, and quality returned **9.7%**. The clear laggards were the defensive groups: low-volatility stocks gained just **4.7%** and mid caps **5.1%**.



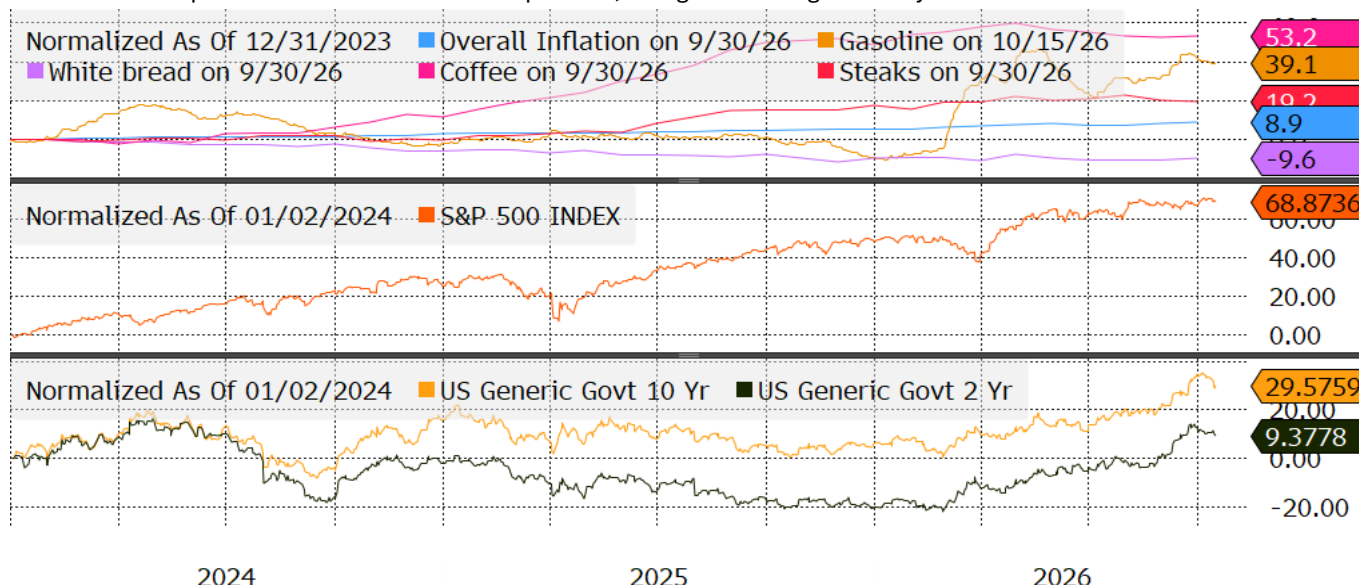
Momentum and valuation led this year, while defensive, low-volatility stocks lagged.

Two takeaways stand out. First, the market has rewarded trend and price rather than safety, a pattern that tends to persist until it doesn't; in the most recent week, the momentum group fell **3.3%** while the low-volatility group rose **2.6%**. Second, the growth factor's **11.7%** gain is more than double the growth index's **5.44%**. The two are built differently, so the comparison is

approximate, but it suggests growth as a characteristic held up reasonably well and the index's heavy concentration in a handful of mega-cap names did more of the damage. Because factor leadership can rotate this quickly, we believe spreading exposure across several factors is a sturdier approach than leaning hard into whichever one led last.

The Grocery Receipt Problem

Official inflation statistics and the checkout line tell different stories. Since the end of 2023, the overall Consumer Price Index has risen about **8.9%**. Over the same stretch, coffee prices are up **53.2%**, gasoline **39.4%** and steak **19.2%**, while white bread is actually down **9.6%**. Gasoline jumped sharply in the spring as Middle East tensions lifted oil prices and remains elevated. Households experience inflation through the things they buy every week, not through a national average, which helps explain why one-year consumer inflation expectations have climbed to **4.7%** and why business surveys show price pressure building: the ISM services prices index reached **74.0** in September, its highest reading since July 2022.



CPI INDX Index (US CPI Urban Consumers SA) Inflation- vs common Daily 31DEC2023-16OCT2026 Copyright© 2026 Bloomberg Finance L.P. 16-Oct-2026 10:45:12

The prices households see most often have risen far faster than overall inflation, while stocks have kept climbing.

The Federal Reserve has responded. It raised its policy rate in September to a range of **3.75% to 4.00%**, and futures markets now price roughly a **27%** chance of another increase at the October 28 meeting, about one full additional hike by December, and close to three by late 2027, which would take the policy rate to roughly **4.66%**. With inflation running unevenly and the Fed still tightening, we would rather be paid well for income than take on more interest-rate sensitivity than necessary.

Not the Same Bond Market It Was in January

Few corners of the market have changed character as quickly as bonds. The 10-year Treasury yield has risen more than a full percentage point this year to above **5%**, touching its highest level in roughly two decades. Most of that move has come from higher real yields, meaning the return investors demand above inflation, rather than from rising inflation expectations alone. Markets have gone from pricing rate cuts to pricing a meaningful series of hikes, and several large asset managers have argued recently that this pricing may have moved further than the economy warrants. They point out that today's higher starting yields provide a much larger income cushion against further rate increases than investors had a few years ago.

For bond investors, that changes the math. Shorter-term bonds now offer income that is competitive with longer maturities, with considerably less price sensitivity (what investors call duration) if rates keep rising. Credit markets call for care as well,



since the extra yield paid for corporate risk remains thin and careful issuer selection matters more than broad exposure. The tax-exempt municipal market arguably allows fallow for longer duration with taxable equivalent yields for investors in the highest tax bracket exceeding 7%. That combination is why AMS is leaning somewhat shorter in duration with new fixed income additions, locking in attractive income while limiting exposure to longer-term fiscal and rate uncertainty.

Mood Ring Meets Earnings Report

If markets followed how people feel, 2026 would have been a rough year. The University of Michigan's preliminary October consumer sentiment reading fell to **46.3**, its third straight decline and not far from the record low set in May. Yet the S&P 500 is up **13.76%** this year and, as the lower panel of the inflation chart shows, roughly **69%** since the start of 2024. Earnings explain much of that gap. According to FactSet, S&P 500 companies beat second-quarter profit estimates by **26.0%**, the largest margin in a decade; analysts have raised full-year 2026 earnings estimates by **15.6%** since February, from **\$313.72** to **\$362.65** per share; and third-quarter earnings are expected to grow nearly **30%**.

The disconnect is less strange than it looks. Sentiment surveys measure how households feel about recent prices and their own finances, which is why they tend to sag when gasoline and grocery bills climb. Markets look ahead and price expected corporate profits. By the time sentiment is at its bleakest, much of the bad news is often already reflected in prices, and the reverse is true when readings turn euphoric. In our view, sentiment is a useful read on the mood of the past few months and a poor guide to the next few years.

That doesn't mean everything is rosy. Earnings strength is concentrated: the median company beat estimates by just **5.8%**, and Technology, Communication Services and Consumer Discretionary generated roughly **75%** of total earnings growth. Several of the largest companies report on October 28 and 29, and those results will test whether the profit surge can broaden. We would rather let earnings, valuations and diversification guide portfolio decisions than headlines or moods, while staying alert to how narrow this year's profit leadership has been.

Growth on a Longer Clock

Brennan claimed his growth spurt in five minutes. Real portfolio growth takes longer, and as this year's value-versus-growth scorecard shows, it rarely comes from where the label suggests. Markets will keep reinventing themselves every quarter, sometimes every week. Our positioning is deliberately steadier: an unchanged domestic equity allocation relative to Treasuries, modestly shorter duration on new fixed income additions, and diversification across styles, factors and asset classes. In our view, that is how investors actually grow: five years at a time, not five minutes.

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Performance data reflects market index returns through October 15, 2026. Sources include Bloomberg, FactSet, Morningstar Direct, and other third-party providers believed reliable. Index performance is not indicative of future results and investors cannot invest directly in an index.

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