

Selective Optimism

Key Takeaways

- Market gains remain narrow, concentrated in large-cap technology, while weak long-duration Treasury returns signal expectations for higher-for-longer rates rather than recession.
- Household demand continues, but inflation outpacing wage growth and rising reliance on high-cost revolving credit leave consumers expansionary in nominal terms and strained in real terms.

Indicator	Impact	Insights
Economic Growth	●	Growth in consumer spending and productivity continue to support resiliency
Inflation	●	Real purchasing power continues to face pressure from inflation growth relative to compensation growth
Fed Policy	●	Weak long-duration Treasury returns signal investors expect rates to stay elevated, with little conviction around aggressive easing.
Stock Market	●	The S&P 500 advanced, but leadership stayed concentrated in large-cap technology while mid- and small-caps lagged.

● = Positive ● = Neutral ● = Negative

Economic and Market Review

September's markets reflected selective optimism rather than broad-based confidence. The S&P 500 advanced, led overwhelmingly by large-cap technology, with the Technology sector posting the strongest six-month return by a wide margin. Mid- and small-cap equities trailed large caps, highlighting the narrow nature of market leadership. Emerging markets outperformed developed international equities, indicating improved investor appetite for select non-U.S. opportunities. Within the U.S., participation remained uneven, as several sectors continued to post negative three- and six-month returns. In fixed income, Treasury performance weakened as duration increased, with long-dated bonds producing the poorest results over both three- and six-month periods. The sharp performance gap between short- and long-maturity Treasuries suggests continued pressure on longer-term interest rates and limited demand for duration exposure.

The U.S. economy continued to demonstrate resilience as recent economic releases continue to paint a mixed but generally constructive picture. September ADP private payrolls increased by 90,000, exceeding expectations of 70,000, while consensus forecasts for the September employment report called for a similar 90,000 gain following August's 162,000 increase. The data suggests a labor market that is slowing but remains expansionary. Consumer credit reached \$5.17 trillion, growing 2.6% annualized and shrinking in real terms. Revolving credit drove the gain, up 4.0% year over year and contributing roughly 42% of total growth despite representing only 26% of balances. With card APRs near 22%, households increasingly rely on high-cost borrowing, leaving credit expansionary in nominal terms but strained in real terms.

Outlook and Positioning

Narrow leadership and higher-for-longer rates argue for discipline, not reallocation around short-term signals. Our 2026 Capital Market Assumptions still favor diversified global equity exposure and an improving role for fixed income as a stabilizer and source of income. Positioning remains diversified and anchored to the efficient frontier.

Sources: Members Trust Company Research, 1 Federal Reserve, 2 U.S. Bureau Labor of Statistics, 3 U.S. Bureau of Economic Analysis, 4 U.S. Department of Treasury, 5 Financial data and analytics service provider FactSet, ETF tickers SPY, IJH, IJR, IDEV, EEM, and AGG used as index proxies. Non-deposit investment products available through Members Trust Company are not deposits of or guaranteed by the trust company, a credit union or credit union affiliate, are not insured or guaranteed by the NCUA, FDIC or any other governmental agency and are subject to investment risks including possible loss of the principal amount invested. Members Trust Company, owned and managed by credit unions nationwide, is a special purpose federal thrift regulated by the Office of the Comptroller of the Currency. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Net return includes stock price and net dividend income performance, which includes the impact of taxes on dividends. Past performance is not indicative of future results. Any opinions expressed are those of the presenter and do not necessarily reflect the position of Members Trust Company. The information above is obtained or compiled from sources we believe to be reliable. We do not guarantee that such information will be free from errors or omissions, whether human or mechanical, nor do we guarantee its timeliness, accuracy or completeness. This material is intended for general informational purposes only and does not constitute legal or tax advice. Please consult a qualified professional for legal or tax guidance.

