

46 North Financial: Quarterly Thoughts

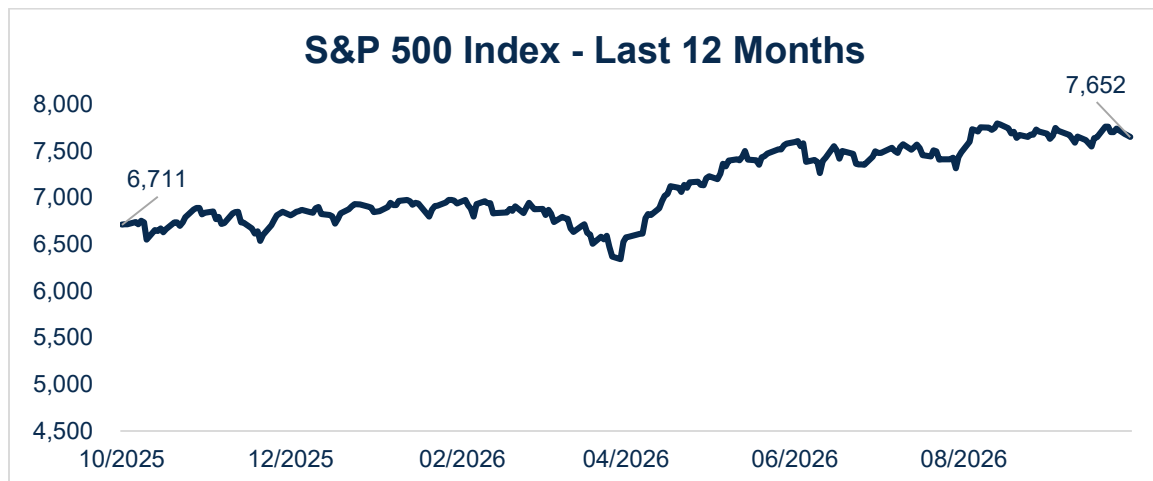
Q4 | September 30, 2026

1. Quick Stats: YTD Q3 2026 Performance

- S&P 500 Index: up 12.73% YTD through Q3, up 15.72% over last twelve months [\[Source\]](#), Invesco
- Bloomberg Aggregate Bond Index: down 2.91% YTD through Q3, down 1.84% over last twelve months Source: Invesco

2. A Note from 46 North

For those of you who are new, welcome to 46 North Financial! I hope this letter finds all of you well as we head into fall. My goal at 46 North Financial remains focused on your long-term financial health, goals and legacy.



[\[Source\]](#)

3. Q3 2026 Market Recap: Rising Rates, Resilient Earnings, and a Choppier Market

The third quarter delivered what we anticipated — more volatility. After a strong Q2 rebound, markets turned noticeably choppier as the Federal Reserve raised interest rates by a quarter point in September to a target range of 3.75%–4.00%, the first rate hike since 2023. [\[Source\]](#) The 10-year Treasury yield crossed 5% to its highest level in roughly two decades — putting simultaneous upward pressure on mortgage rates, corporate borrowing costs, and equity multiples. Compounding the rate picture, oil prices surged approximately 20% over just three weeks, pushing U.S. crude above \$100 per barrel, driven by disruptions to Saudi Arabia's East-West pipeline that removed roughly

2.5 million barrels per day of global supply. [\[Source\]](#) The result: a market that felt heavier, with the CBOE Volatility Index (VIX) trending higher through much of September. Critically, though, the S&P 500 remained positive on the year — a reminder that short-term volatility and long-term market direction are rarely correlated.

Against that backdrop, Q2 corporate earnings — reported largely during Q3 — came in better than feared. Through early August, 444 S&P 500 companies had reported results, with 82.7% exceeding earnings expectations and overall earnings up 42.2% year-over-year on 14.8% higher revenues. Full-year 2026 S&P 500 earnings are now projected to grow 27.1%. [\[Source\]](#) However, we are watching earnings quality carefully. A meaningful portion of the headline beat came from one-time items: over 40 S&P 500 companies reported approximately \$9.6 billion in tariff refunds — Apple alone received \$2.2 billion, adding roughly 11 cents to its quarterly EPS — while Alphabet's results included a large non-operating unrealized gain from its SpaceX stake. Excluding Technology, the broader S&P 500 is still projected to grow earnings by 14.6%, a more honest measure of underlying momentum. Critically, much of the AI infrastructure buildout is now being funded through debt issuance rather than free cash flow — meaning corporate balance sheets are absorbing rising interest costs precisely when rates are climbing. [\[Source\]](#) This is not a crisis, but it is a dynamic that warrants close attention heading into Q4.

Perhaps the most consequential downstream effect of higher rates is appearing in housing. With the 10-year Treasury above 5%, mortgage rates have repriced upward. During the 2022–2023 rate shock, three buffers protected housing markets: many borrowers were locked into pandemic-era fixed-rate mortgages, excess savings provided a cushion, and housing supply remained constrained. As [The Economist recently noted](#), all three buffers have since largely eroded: Americans burned through approximately \$2 trillion in excess savings by mid-2024, the adjustable-rate portion of U.S. housing debt is now higher than in 2021, and homebuilding has meaningfully accelerated — America added 7.3 million homes over the past five years versus 6.1 million in the prior five years, giving buyers more bargaining power. U.S. housing-related shares have already underperformed the broader market by 16 percentage points since June. For the first time in years, housing may not be a one-way bet. [\[Source\]](#)

4. Looking Ahead: A More Demanding Market Environment

Here is how we are weighing the current environment heading into Q4:

Reasons for Optimism:

- **Earnings Momentum Intact:** Full-year 2026 S&P 500 earnings are projected to grow 27.1%; even excluding Technology, the broader market is expected to deliver 14.6% earnings growth. Put another way: earnings have grown roughly twice as fast as stock prices (27% vs. ~13%), which means the market is becoming less expensive relative to what companies actually earn — a healthier foundation than sentiment-driven gains. [\[Source\]](#)

- **Consumer Spending Accelerated:** Q2 personal consumption expenditures rose 3.2% annualized — a sharp acceleration from just 0.5% in Q1 — with durable goods spending up 6.8%. The consumer has not yet folded. [\[Source\]](#)
- **Private Sector GDP Holds:** Q2 private-sector GDP components grew at 3.3% annualized — the strongest reading in more than three years — even as the headline real GDP figure moderated to 1.5%. [\[Source\]](#)

Reasons for Caution:

- **Rate Risk Is Real:** The Fed is now at 3.75%–4.00%, with 16 of 18 officials projecting at least one additional hike this year. The 10-year Treasury above 5% is simultaneously repricing mortgages, corporate credit, and equity multiples. [\[Source\]](#)
- **Earnings Quality Under Pressure:** Tariff refunds, non-operating gains, and debt-funded AI capex have inflated headline numbers. As more companies finance infrastructure investment with debt in a rising-rate environment, free cash flow generation — not reported earnings — will become the metric to watch. [\[Source\]](#)
- **Oil as an Inflation Wildcard:** With crude above \$100 per barrel and diesel at record levels, energy costs are flowing through to transportation, goods, and services across the entire economy — complicating the Fed's task precisely when rate hikes are already doing so.
- **Housing Headwinds:** The safety buffers from the last rate cycle have eroded. Sustained high rates pose a real risk to housing values and consumer balance sheets heading into 2027. [\[Source\]](#)

Expect Volatility:

- An active Fed, elevated oil prices, ongoing geopolitical uncertainty, and a Q4 earnings season that must deliver without the tailwind of tariff refunds create a challenging setup. Volatility is not a reason to exit — it is a reason to ensure your asset allocation is properly aligned and that we are executing your financial plan together.

5. Personal Finance: Two Things Everyone Is Talking About — Prediction Markets and AI

Prediction Markets: Entertainment or Investment?

Prediction markets — platforms that let you bet on real-world outcomes such as elections, oil prices, or economic data — have been a hot topic in financial media and in many homes. I was recently at a family gathering and all 6 of the young men (<25) admitted to regularly placing bets on Kalshi, a popular prediction market.

Now, a related trend is filtering into the ETF world: issuers are filing for funds tied not to underlying business fundamentals, but to specific predicted outcomes. The latest example: a proposal to launch 32 separate ETFs, one for each NHL team, where the fund's value would rise and fall based on that team's on-ice performance — wins, losses, and dozens of other performance measures.

A Morningstar study of 518 single-stock leveraged and inverse ETFs found the median fund lost 38% since inception, and just 18% outperformed simply owning the underlying stock.

The takeaway: prediction markets and novelty ETFs are speculative wagers dressed in investing language — do not confuse placing a bet on an NHL team's win record with building long-term wealth. A sound investment begins with a clear economic objective, disciplined research, and a rationale for how putting capital to work today creates long-term value. Novelty alone is not an investment thesis — and in a rising-rate environment where every dollar of return matters, it is especially important to know exactly what you own and why. [\[Source\]](#)

Artificial Intelligence: Now Beating the Best Human Forecasters

Artificial intelligence is moving from buzzword to demonstrable fascinating capability. In September, an AI agent won the Metaculus Cup forecasting competition for the first time — with AIs taking 1st, 2nd, and 5th place. The winning bot was built by a single individual in less than 150 hours at a cost of a few thousand dollars in computing power — beating four well-funded startups that had collectively raised more than \$15 million. The Forecasting Research Institute concluded in July that AI systems have now reached parity with the best human superforecasters. [\[Source\]](#)

What does this mean for you as an investor? Two things. First, the AI infrastructure buildout is real and productivity gains are beginning to show up in measurable ways — part of why we continue to watch AI-related capital spending closely. Second, and more importantly: even near-perfect forecasting ability struggles to consistently beat markets, markets aggregate millions of predictions simultaneously. The most reliable edge remains not better prediction, but better behavior — staying disciplined, staying diversified, and staying invested through the volatility.

6. Capabilities to Consider

Here are some areas where other clients have been seeing great value:

Direct Indexing:

Instead of buying a broad fund, we buy individual stocks within an index.

- **Use Case:** This allows for granular Tax-Loss Harvesting to offset capital gains — particularly valuable as market volatility creates meaningful dispersion across individual securities. With sector and single-stock movements widening in Q3, the harvesting opportunity set is expanding. If you have a taxable account and expect future capital gains, let's have a conversation. [\[Source\]](#)

7. Reminders

- **Contact Info:** Please update your records with our email: nick@46northfinancial.com and phone: 303.335.9632.
 - **Google Reviews:** Your feedback is our greatest compliment. If we've helped you this quarter, please consider leaving us a review on Google.
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8. Feedback

Was this Q3 recap helpful? Are you curious about how Direct Indexing or Tax-Loss Harvesting might fit into your strategy? Please reply and let us know.

9. Interesting Reads

- [The World Is Making Heady Progress in the Fight Against Dementia](#)
 - [Middle Market Investing: When Higher Rates Meet Thin Earnings](#)
 - [A Slower AI Payoff Would Be Everyone's Problem](#)
 - [Monitoring the AI Trade: How Growing Debt Issuance Is Reshaping the Landscape](#)
 - [Jevons Paradox: More Evidence of a Positive Employment Effect of AI Adoption](#)
 - [Small Cap Outperformance Signals Broadening Market Rally](#)
 - [Compounding Wealth: The Role of Tax-Loss Harvesting](#)
 - [IPOs Have Been a Losing Bet Since 2019](#)
 - [AI Lowers Wages But Doesn't Cut Jobs](#)
 - [The AI Capex Boom Is Building Twice as Fast as the Housing Boom](#)
 - [Recoveries Are Falling as Distressed Exchanges](#)
 - [Mitch Zacks: Is This Market Too Hot? The Data Says No](#)
 - [The Hidden Lesson Behind July's Tech Volatility](#)
 - [Think Six Months Ahead](#)
 - [Software Headwinds Drive BDC PIK Yields Higher](#)
 - [The Quality You Should Most Wish for Your Children](#)
 - [Sports as an Asset Class: The \\$2.5 Trillion Opportunity](#)
 - [Stocks and Bonds Are Positively Correlated](#)
 - [House Prices Survived the Last Interest-Rate Rise. Will They This Time?](#)
 - [The Blurring Line Between Prediction Markets and ETF Investing](#)
 - [Why the Market Got Choppy This Week](#)
 - [Artificial intelligence now beats some of the world's best forecasters](#)
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