

ECONOMIC REVIEW

Quarterly Economic Review 3rd Quarter 2026

Resilience Amid Instability

At this point, 2026 is a bit perplexing. As we talked about last quarter, the steady stream of disruptions and geopolitical tensions continues unabated. Yet equity markets seem to inexorably push toward new highs regardless of whatever roadblocks are put in the way.

Nevertheless, it's a constantly shifting market environment and now may be the time to review your strategic and tactical allocation with an eye toward locking in some recent gains, making opportunistic adjustments, and reevaluate your financial plan to assess your progress toward important long-term goals.

So, let's take a step back to consider what's transpired to date, and then look ahead at what might lie on the horizon as we enter the final quarter of 2026:

The Geopolitical Landscape



Fundamentals are exerting more influence

Geopolitical upset typically unleashes short-term uncertainty resulting in market volatility. So, why is the stock market setting new highs in light of the ongoing conflict with Iran?

- ✓ Corporate earnings, economic growth, and interest rates tend to drive markets more than isolated global events.
- ✓ Global energy markets and supply chains have already factored in longer timelines, enabling corporate balance sheets to remain fairly stable.

Remember, financial markets are forward-looking engines that quickly price in headlines and related risk. And even when volatility does hit, a diversified portfolio often benefits from sector rotation. Gains in areas like defense, technology and/or energy can help offset pressures in other consumer-dependent sectors.

Midterm volatility?



Maintain your long-term focus

Given the legislative and regulatory uncertainty surrounding the coming midterm elections, we expect to see some short-term volatility, although markets tend to stabilize fairly quickly post-election once uncertainty is removed from the equation. The S&P 500 has historically posted strong performance over the 12-month period following midterms, regardless of which party wins.¹

Other economic drivers such as interest rates, inflation, corporate earnings and the health of the labor market all tend to have a far greater long-term impact on financial markets than whichever party controls Congress. Of course, individual sectors (e.g., healthcare, energy, and defense) may experience some short-term shifts depending on proposed legislative agendas.

At BLBB, however, we maintain that portfolio allocations aligned with your specific long-term financial goals (rather than making major changes based on election headlines) are generally a prudent approach for long-term investors.

Sticky Inflation



What will be the Fed's next move?

At 3.4%², inflation remains above the Fed's 2% target. Higher energy prices, ongoing supply chain recalibrations, strong consumer demand and massive capital investments in AI infrastructure and data centers are all exerting upward pressure on core prices. Combined with persistent housing, services, and energy cost pressures, it appears a drop back near the target rate remains unlikely in the near term. In response to these persistent price pressures, the Fed pivoted to a firmer 'higher-for-longer' monetary stance, implementing a 0.25% rate hike in September which brought the target fed funds rate to 3.75% – 4.00%.³

Looking ahead, we expect the Fed to remain cautious, with the strong potential for additional incremental rate hikes if inflation fails to cool. Despite the current administration's call for rate cuts, they appear effectively off the table until inflation resumes a steady downward trajectory. As a result, higher borrowing costs will likely persist well into 2027.

International Equities have recently outperformed U.S. Equities

You may recall that in the latter half of 2025, BLBB increased its portfolio allocations to International Equities based on comparative valuations to their U.S. counterparts.

Broad international benchmarks such as the MSCI ACWI ex USA Index have outperformed the S&P 500 over a rolling 1-year period (20.5%⁴ vs 16.5%⁵ as of September 29, 2026).

What's driving this relative outperformance?

- ✓ While U.S. equities remain heavily weighted in mega-cap tech and cloud providers, international indexes lean more heavily into financials, industrial manufacturing, and commodities. Value-oriented and cyclical sectors overseas have provided a strong tailwind.
- ✓ International stocks continue to trade at considerable forward P/E discounts. This is attracting institutional capital seeking diversification away from heavily concentrated U.S. mega-cap indexes.

Bond yields are more attractive

Ten-year bond yields recently hit 5.25%⁶, and traditionally, that has been an interesting time to enter the bond market. For individuals in high tax brackets, now may be a good time to speak with your BLBB advisor to discuss fixed income and to determine if it makes sense to pivot a portion of the portfolio into high-quality municipal bonds.

Beyond the Markets – BLBB Charitable

Inflation also affects the nonprofits in our community who are trying to serve more people when costs to run their organizations have risen. That is why we are also proud to support the communities where our clients and colleagues live and work. Learn more about BLBB Charitable's recent nearly \$500,000 pledge to support fundraising events hosted by nonprofit partners over the next four years. The multi-year commitments aim to provide organizations with an early base of support so they can cover expenses and plan ahead while encouraging others to also make longer-term investments in their missions.

We Are Here for You

Your Partners in Uncertain Times

While 2026 has brought its share of disruptions, geopolitical tensions, and market surprises, the resilience of equity markets is a reminder that headlines alone do not determine long-term outcomes. A disciplined investment approach - grounded in your goals, time horizon, and tolerance for risk - can help you remain focused amid changing conditions and move forward with purpose and confidence.

Mixed economic signals can be unsettling, but that is exactly when having a trusted advisor matters most. We are actively monitoring the job market, inflation trends, Federal Reserve policy, trade developments, and global markets.

If you're feeling concerned about any of these developments, or if your personal circumstances have changed, we encourage you to reach out. We are here to review your financial plan, stress-test it against current conditions, and discuss any adjustments that might make sense to your situation.

Contact your BLBB wealth advisor
215.643.9100

We are here to help you navigate these uncertain times with confidence.

Sources:

¹ Historical results do not ensure future outcomes. Returns vary substantially from period to period and are influenced by many factors beyond elections.

² <https://www.bls.gov/news.release/pdf/cpi.pdf>

³ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20260916a.htm>

⁴ <https://www.msci.com/indexes/index/899901/msci-acwi-ex-usa-index>

⁵ <https://www.spglobal.com/spdji/en/indices/equity/sp-500/?currency=USD&returntype=T#overview>

⁶ <https://fred.stlouisfed.org/series/dgs10>

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Past performance is not indicative of future results and investing involves a risk of loss, including a loss of principal.

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BLBB's investment approach may incorporate, among other things, asset allocation and portfolio diversification. While these strategies are designed to limit risk, there is no guarantee that such strategies alone, or in combination, will guarantee against a loss of principal in a declining market.

The Standard & Poor's 500 (S&P 500) Index is a free-float-weighted index that tracks the 500 of the most widely held stocks on the NYSE or NASDAQ and is representative of the stock market in general. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value.

The MSCI ACWI ex USA Index captures large and mid-cap representation across Developed Markets (DM) countries (excluding the U.S.) and Emerging Markets (EM) countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices is for reference only and does not account for any fees, commissions or other expenses that would be incurred in an investment portfolio. Index returns do not reflect reinvested dividends.

International/Emerging Market Equities: Investing in international securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Municipal bond risk/tax: Fixed income securities are subject to interest rate, credit, liquidity, and call/prepayment risks. Municipal bond income may be subject to state and local taxes and to the federal alternative minimum tax (AMT).

BLBB does not support or endorse any particular political party.



L to R: Robb Parlanti, Laura LaRosa, Clif Haugen, John Lawton, Laura Brewer, Dean Karrash, Shawn Hoffman, Brianna March, Brian Gallagher, Nick Bucci, Lisa Broome, Zack Renna, Mike Geraghty, Bob Flood



www.BLBB.com
215.643.9100

Mailing Address
P.O. Box 1010, Montgomeryville, PA 18936

Street Address
103 Montgomery Avenue, Montgomeryville, PA 18936