



U.S. equity markets maintained their bullish stance throughout the third quarter, holding steadily near all-time highs. Despite being in what we consider overbought territory, a combination of factors continues to sustain positive market sentiment. The absence of negative corporate earnings surprises, along with favorable economic reports, has been well-received by Wall Street. While we believe these positive factors strengthen fundamental support levels, they do not necessarily provide the foundation for additional upside in equity markets at this time. We anticipate near-term volatility within a trading range at the upper end of market valuations, and we would not be surprised to see a healthy pullback before we gain a clearer view of 2026 projections.

Within the past year, portfolio values finally exceeded the high-water marks established in the first quarter of 2021. There is certainly satisfaction in seeing portfolio values reach new highs, which often leads investors to consider locking in gains based on these "feel-good" moments. This is when we strongly remind clients that, over the long term, investors will experience multiple high-water marks. It's important to focus on the time horizon established through the financial planning process, rather than on the bullish historical points achieved by capital markets.

A statistic from the 1980s, when Peter Lynch led the Fidelity Magellan Fund, highlights the importance of a long-term perspective. It has been noted that over 40% of Magellan shareholders benefited from the fund's impressive returns during the Lynch era, while many others missed out on the full results due to attempts at market timing. This underscores the value of a long-term buy-and-hold strategy in both bearish and bullish environments.

Another key factor in keeping markets afloat has been the Federal Reserve's first-rate reduction since the start of its rate-hike cycle. While we did not see the need for a 50-basis point reduction, it appears the Fed was more concerned about the risk of a hard landing than the re-emergence of inflationary pressures. This could be a reaction to having been behind the curve on "transitory" inflation and then trying to catch up.

While keeping an eye on inflation and the potential for a recession, we typically take a cautious approach to Fed rate decisions, recognizing the many non-interest-rate factors that can influence pricing. These include the current salmonella outbreak affecting egg prices, geopolitical forces driving oil prices, adverse weather impacting various goods and produce, tariffs affecting supply and pricing, and labor negotiations influencing wages and purchasing power.

The inflation discussion is complex and will be a key topic at our next Round Table Discussion Event, scheduled for November 13th. If you are interested in attending or would like more details, please contact Kelly Carreno in our office at 484-320-6300 or by email at kelly@ellisinvestmentpartners.com. Seating is limited. As always, if you have any questions regarding your financial plan or portfolio, please do not hesitate to reach out to your advisor.