



Plan better.
Invest smarter.
Your partner in
parallel for life.

Earnings Growth and a Strong Economy Power Stocks Higher in Q3



Chris Broderick
Research & Portfolio
Strategy Director
Parallel Advisors

Markets were volatile again in Q3, but stocks still advanced as robust corporate earnings and a resilient economy carried the S&P 500 to new all-time highs despite a rebound in oil prices and a sharp rise in Treasury yields.¹

Q3 got off to a shaky start. Q2 earnings season was solid, but doubts emerged about the valuations of the AI infrastructure companies that had

¹ <https://paralleladvisors.box.com/v/Q42026EconIndicatorsandReturns>

led the market's advance. AI-linked tech stocks fell sharply for most of July as investors worried they had come too far, too fast. Then geopolitics compounded the pressure. On July 13, the U.S. re-imposed its blockade on the Strait of Hormuz, the ceasefire with Iran collapsed, and oil rose.² But late July brought a turn. Microsoft and Amazon reported strong results and, more importantly, pointed to real revenue from their AI investments.³ Money flowed back into tech, and the S&P 500 rallied to close July little changed.

The rally continued into early August, helped by a pause in the U.S./Iran exchanges and encouraging growth and inflation data. The S&P 500 hit a new all-time high on August 12, but the rally stalled from there.⁴ Markets had to face the reality that stubbornly high inflation would likely force the Fed to hike rates. Fed Chairman Kevin Warsh said as much at Jackson Hole.⁵ Then geopolitics returned late in the month. The Houthis advanced to the Yemeni coast and threatened ships exiting the Bab el-Mandeb Strait, lifting oil prices and bond yields. Still, the S&P 500 ended August up 2.7%.⁶

September brought more of the same. The Houthis extended their gains along the Red Sea coast,⁷ drone strikes forced Saudi Arabia to shut its East-West pipeline,⁸ WTI crude climbed back above \$100 a barrel,⁹ and U.S. diesel prices hit record highs.¹⁰ Then the Fed raised rates 25 basis points to a 3.75%–4.00% range and signaled that more increases were likely.¹¹ The combination of firm economic data, costlier oil, and rate hike expectations drove the 10-year Treasury yield above 5% for the first time in 19 years,¹² and it continued climbing to end the quarter near 5.3%. Higher yields weighed on stocks into month-end, and the S&P 500 finished September with a slight loss.¹³

As in the first half of the year, stocks proved resilient in Q3 despite real macro headwinds: a collapsed ceasefire, oil back above \$100, a Fed rate hike, and the highest Treasury yields in 19 years. Each caused its

² <https://news.usni.org/2026/07/13/u-s-reinstates-naval-blockade-in-strait-of-hormuz>

³ <https://www.geekwire.com/2026/amazon-tops-3-trillion-and-microsoft-surges-as-wall-street-sets-aside-ai-spending-fears-for-now/>

⁴ <https://paralleladvisors.box.com/v/Q42026EconIndicatorsandReturns>

⁵ <https://apnews.com/article/federal-reserve-warsh-interest-trump-inflation-ab896df808df3a5a3fa8b943ac5f3867>

⁶ <https://paralleladvisors.box.com/v/Q42026EconIndicatorsandReturns>

⁷ <https://news.usni.org/2026/09/14/houthis-yemen-fighting-continues-saudi-arabia-faces-pipeline-challenges>

⁸ <https://www.omanobserver.om/article/1195992/world/region/saudi-shuts-east-west-oil-pipeline-after-attacks>

⁹ <https://paralleladvisors.box.com/v/Q42026EconIndicatorsandReturns>

¹⁰ <https://www.inquirer.com/news/nation-world/gas-prices-labor-day-record-high-war-iran-refineries-diesel-20260907.html>

¹¹ <https://www.chase.com/personal/investments/learning-and-insights/article/federal-reserve-raises-rates-officials-signal-one-more-hike-in-2026>

¹² <https://www.aljazeera.com/economy/2026/9/15/benchmark-us-government-bond-yield-hits-19-year-peak-as-oil-prices-surge>

¹³ <https://paralleladvisors.box.com/v/Q42026EconIndicatorsandReturns>

own bout of volatility, but they were again offset by the same foundational bull market metrics: strong earnings and solid economic growth.

Outlook for the Fourth Quarter

We enter the final quarter of 2026 with the same headwinds, including the U.S./Iran conflict, elevated bond yields, and the threat of more Fed hikes, along with the same two forces holding the rally together. They're less exciting than the headlines, but they're powerful, and both strengthened in Q3.

The economy didn't just hold up in Q3; it accelerated. August payrolls rose 162,000, roughly triple expectations, with unemployment steady at 4.1%.¹⁴ Consumers kept spending even as prices rose, and the Atlanta Fed's GDPNow model was tracking 5.0% growth for the quarter in late September.¹⁵ That's a formidable foundation for the rally.

Earnings are the other half. Analysts raised 2027 S&P 500 estimates again after Q2 earnings season, and growth continues to run far above historical averages. Rising profits have also done something quietly important: they've kept valuations reasonable. The S&P 500 ended Q3 at roughly 19 times forward earnings, below both its five- and 10-year averages and down from above 20 times at the end of Q2, even after this year's gains.¹⁶ Earnings caught up to prices.

That said, the risks in the headlines are legitimate, and we'll be watching four closely in Q4.

First, geopolitics remain the biggest wildcard. The stalemates in the U.S./Iran and Russia/Ukraine wars are keeping oil, gas, and diesel prices elevated, and the longer that lasts, the bigger the drag on growth. The flip side is also true: genuine diplomatic progress in either theater would bring energy prices down, which could be a significant catalyst for markets.

Second, Treasury yields are a headwind of their own. The 10-year's climb to a 19-year high raises borrowing costs for households and businesses alike. But much of that move traces back to oil, so if oil retreats, yields should follow.

¹⁴ <https://www.ftportfolios.com/Commentary/EconomicResearch/2026/9/4/nonfarm-payrolls-increased-162,000-in-august>

¹⁵ <https://www.atlantafed.org/cqer/research/gdpnow>

¹⁶ https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_100226.pdf

Third, the Fed isn't done. Futures markets put the odds of another hike by December near 90%.¹⁷ That's not automatically bad for stocks. Limited tightening that keeps inflation contained is a longer-term positive, and if inflation cools in Q4, rate hike expectations and yields should both come down.

Finally, AI exposure remains a real risk. Concerns persist that the data center boom could turn to bust, an understandable fear for anyone who remembers the dot-com era. But today's spending is concentrated in highly profitable companies with demand to match, and Q3 brought evidence that AI investments are already generating revenue. More of that in Q4 would ease those concerns and likely restore tech's leadership.

Bottom Line

In sum, we start Q4 with a market on solid footing: the economy is accelerating, earnings growth is well beyond historical norms, and valuations are more reasonable than they were a quarter ago. But the four risks above, geopolitics, Treasury yields, the Fed, and the AI buildout, are real, and the first three are linked. If oil stays high, yields and rate hike odds likely stay high with it. We'll be watching all four closely.

Q3 was also another reminder that markets rarely move in a straight line. Volatility, whether from geopolitics, Fed policy, or shifting AI sentiment, is a normal part of the cycle, and portfolios built around long-term goals are designed to weather it.

Our team remains dedicated to helping you navigate this environment and keep your financial plan on track. Please don't hesitate to reach out with any questions or to schedule a portfolio review.

¹⁷ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

Important Disclosure Information

Parallel Advisors, LLC (“Parallel Advisors” “we,” “us” or “our”) hereby provide these disclosures and disclaimers. You acknowledge your understanding of these disclosures and disclaimers with respect to the Parallel Advisors activities and you, including with respect to the document, information or website (“Communication”) that linked to these disclosures and disclaimers.

Information Purposes Only. Any material provided in our Communication either directly or through cross-reference to another site is for informational purposes only. Any information provided in our Communication does not purport to be, and is not intended to be, financial, legal, accounting, tax or investment advice. Parallel Advisors does not represent that the securities, products, or services discussed in our Communication are suitable or appropriate for any or all investors. The information provided, therefore, should not be viewed as financial, legal, accounting, tax or investment advice.

Past Performance. Past performance is not necessarily indicative of future results. Any investment involves significant risks, including loss of the entire investment. Future market conditions are unpredictable, and may vary significantly from current and past conditions, particularly given current worldwide market uncertainty. Some of the investment strategies presented in our Communication may involve transactions in foreign currencies. A foreign currency is a currency other than that issued by the government of the country in which you are domiciled or, in some cases, in which you reside. Transactions in foreign currencies may introduce additional risk to the investment transaction.

Risks. Persons engaging in investment activities should be aware that investing is an inherently risky activity. Depending on the nature of the investment, these risks include, but are not limited to, interest rate, foreign currency, liquidity, credit, legal, and political risk. The information contained in our Communication is based on factual assumptions that may not be applicable to the particular circumstances of any user accessing our Communication scientific assumptions that are liable to require revision due to changing circumstances, and statistical assumptions that are based on confidence levels which may require revision. For these reasons, no representations or warranties, expressed or implied, are made to the accuracy or applicability of any information contained in our Communication or any linked site to any particular viewer specifically, or to all viewers generally. Also, no representations or warranties, express or implied, are made as to the result any viewer might experience from using any of the information contained in our Communication or to any linked site.

Third-Party Sources. Links to other websites from our Communication are for convenience only. Information, including that obtained from outside sources, is believed to be correct, but the firm cannot guarantee its accuracy. Information on this website is subject to change at any time without notice. Research on the site is provided only as a sample of research and analysis. Some or all of the information contained in this report may be dated and, therefore, this information should not be the basis to purchase or sell any securities. We make no representation about whether any research led to any particular transaction or any profitable investment decision. No endorsement of any third-party products, services or information is expressed or implied by any information, material or content referred to or included on, or linked from or to our Communication.

No Investment Advice. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. All information contained herein is subject to in its entirety to a separate agreement. An investor should consider the relevant investment objectives, risks, charges and expenses carefully before investing. It remains your responsibility to advise Parallel, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees is available upon request. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement.