

Q3 2026 — STRATEGY & MARKET UPDATE

Kostas Grigorakis, CFA®, Managing Director – Investments, Senior PIM® Portfolio Manager
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EXECUTIVE SUMMARY

- Q3 defied the historical weakness of midterm election years. Despite war, higher oil prices, rising interest rates, and renewed inflation fears, the broader market indices remain firmly in the black year-to-day—well ahead of historical patterns.
- The market's resilience defies the prevailing narrative: official inflation measures conflict with broader, timelier data, and the Fed's decision to increase rates ignores the historical tendency of oil-driven supply shocks to be transitory and mean-reverting. **Savvy investors should avoid positioning their portfolios around either error.**
- Beneath the noise, the fundamental backdrop remained strong: no recession emerged, our surveillance framework detected no credible evidence of bubble conditions, and robust nominal GDP growth reflected the early impact of an AI-powered, U.S.-led fourth industrial revolution and the country's accelerating reindustrialization.
- Q3 also reinforced that **drawdowns, when managed within a vigilant market-navigation framework, are a structural feature of compounding—not a failure of it.** Our strategies seek to invest in the market's sawtooth by capitalizing on regime shifts and leadership changes as they unfold.
- **At the center of our adaptive investment framework is BOOST**, our proprietary trading engine designed to rotate into emerging frontrunners across factors, asset classes, sectors, industries, and geographies—keeping portfolios aligned with actual market leadership rather than prevailing narratives.

Q3 2026: Signal vs. Noise

Historically, the January-to-September stretch—as well as each of the first three quarters individually—has compounded at roughly half the pace in midterm election years, such as 2026, as in all other years, with Q3 typically the weakest quarter and often negative.

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As if that weren't enough, observers point to a trifecta of headwinds traditionally viewed as powerful market detractors: this year's geopolitical skirmish in the Gulf and the escalating war between Russia and Ukraine, which together have driven oil prices higher; a spike in interest rates that has pushed the U.S. 10-year Treasury yield to levels last seen before 2008; and, finally, a broadening global central-bank mobilization to get ahead of what is seen as rising inflation readings through rate increases.

Yet investors and managers who interpreted these three headwinds as a bearish signal—and turned bearish following the gloomy headlines—have been summarily rebuffed by the market: the landmark S&P 500 remained positive for most of the year and finished Q3 with a low-teens gain, far ahead of historical trends.

Why the Market Defied the Headlines

In our writings, we have repeatedly warned our investors about the profound limitations of classic economic theory and the unreliability of journalistic headlines.

The Fed's Policy Error (Yet Another One!)

We have extensively chronicled the dramatic fallibility of Fed policy, which was once again on full display at its September meeting. As we have shown, after spending 2021–2022 falling woefully behind inflation—and from 2022 until recently keeping interest rates unjustifiably above inflation—the Fed raised rates in September, a decision that flies in the face of two categorical counterindications:

First, as we have argued before, the Fed's measures of inflation (PCE, but also CPI) are woefully off mark. In contrast, Trueflation™ CPI index—a far more comprehensive, timely, and advanced measure of inflation—has remained anchored in the Fed's target zone of 2% throughout the year, arguing for no increases.

Second, raising rates in the face of a supply shock—with oil spikes being truly transitory and notoriously mean-reverting, often rising meteorically before cratering—is a well-documented no-no. See not [one](#), but [two](#) Fed papers devoted precisely to that issue!

Bubble Risk—or Durable Growth?

First on bubbles: Despite widespread anxiety, Q3 produced no signs of recession. Bubbles demand vigilance, and our strategies continuously screen for recessionary pressures and market excess; currently, they detect neither. Vigilance, however, need not become anxiety—especially when today's markets are judged by rusty valuation yardsticks that ignore modern business functioning and evolving regulatory reporting, as explained in "[Rich Markets or Poor Yardsticks](#)."

Second, once dubious headlines, muddled economic analysis, and misguided Fed policy are stripped away, the fundamental drivers of this year's market resilience come into sharper focus: outsized [nominal GDP growth of 8.5%](#), underpinned by the emergence of an AI-powered, U.S.-led fourth industrial revolution and the

accelerating reindustrialization of the American economy. It is worth noting that the 3rd Industrial Revolution increased global GDP growth fivefold—from 0.6% to 3%. The 4th Industrial Revolution has the potential to lift that rate toward 7.3% over the next five-plus years, according to some estimates. While any long-range projection is inherently uncertain, growth approaching that level would begin to rival the returns of a well-managed investment portfolio—a remarkable prospect in its own right.

The Market Sawtooth: Avoid Getting “Serrated”

This year may have defied the midterm three-quarter curse, but it still delivered plenty of uncertainty—and more than a few gut-wrenching drawdowns, including July’s -6.61% Nasdaq decline. But really—what’s new?!

As we wrote in our Q2 Update, investors would benefit from revisiting our [guidance](#) on navigating the “market sawtooth.” There, we made the following points—well worth repeating as essential Investor Continuing Education:

*“on average, over longer periods, **investments are in drawdown a whopping 93% of the time and only register new highs 7% of the time!**”*

In that case, as Dreaded Drawdowns rhetorically asks, how can investors “expect to build wealth if [they are] losing ground” during drawdowns that are so pervasive?

The answer is simple, but two-pronged:

- *First, over the long term, the investing sawtooth is inherently tilted 4%–6% upward, reflecting economic expansion underwritten by humanity’s collective ingenuity and perseverance, iterative productivity gains, and compounding earnings. That upward tilt—corresponding to the market’s long-run compound average growth rate—is what turns successive peaks into fresh all-time highs.*
- *Second—and most important—extended drawdowns, along with the reorganization and reinvigoration they catalyze, are a prerequisite for the bootstrapping through which markets ultimately rise to those new highs.”*

And concluded:

“Bottom line: While most investors are “serrated” by the market’s sawtooth edge, our strategies invest in it—decoding the interplay between peaks and valleys as it unfolds, not as it appears.”

Positioning for Q4 2026

This year has reminded investors of a costly truth: markets cannot be navigated successfully through reflexive reactions. Markets:

- **Are not static allocation problems:** Witness how the outsized bond allocations in conventional Conservative and Moderate portfolios are increasingly bleeding red—eroding returns today while compounding long-term shortfall risk.

- **Are not macro-forecasting puzzles:** Pundits have misled investors—again—demonstrating the danger of positioning portfolios around economic predictions rather than observable market evidence.
- **Are not headline-response machines:** Coverage of war, oil shocks, “inflation,” and interest rates has repeatedly stirred up fear while fundamentally misjudged the market’s underlying strength.

The investment implications are clear: wealth creation remains concentrated, market leadership changes, official data often lags reality, and **drawdowns are a structural feature of compounding—not a failure of it.**

Investors therefore need more than a fixed allocation, an economic forecast, or a reaction to the latest headline. They need a minute-by-minute process capable of adapting as market conditions evolve.

Our strategies are built around precisely that principle: **an adaptive, data-driven, rotation-based framework** designed to identify regime shifts and leadership handoffs as they unfold.

At the center of that framework is **BOOST**—a proprietary trading engine designed to identify and rotate into emerging frontrunners across factors, asset classes, sectors, industries, geographies, and multiple time frames. Its purpose is straightforward but powerful: to keep portfolios aligned with what is actually leading—not with what prevailing narratives insist should be leading.

With the addition of BOOST, we believe our strategies have become increasingly independent of any single market environment. That adaptability enables a more systematic pursuit of absolute returns and strengthens our confidence as we look toward Q4 and beyond.

Last Word

We invite you to share your experience with GNH Capital Group with your circles of influence. The last six years have been particularly challenging for most investors. They have been battered by the historic bond bear market and whipsawed in the steep downdraft of 2018, the CoViD crash of 2020, the rolling turmoil of 2022, and the frontrunner upsets of 2025. And throughout the last sixteen years, they have been torn between the Scylla of speculation and greed and the Charybdis of worry and indecision. As our veteran clients have likely discovered, adaptability and risk controls are excellent antidotes to haphazard performance and can be a booster of investor confidence. Please assist us in spreading the word.

We remain grateful for your trust, loyalty, support, and friendship!

On behalf of GNH Capital Group’s entire team, with Henrik, Richard, Chad, and Isabel,

Kostas

Kostas Grigorakis, Managing Director – Investments, Senior PIM® Portfolio Manager

Henrik Nielsen, Senior Vice President – Investments, PIM® Portfolio Manager

Richard Harding, First Vice President – Investments

Chad Pate, Senior Registered Client Associate

Isabel Bassi, Registered Client Associate

[1] Market Data throughout this Update: FactSet, S&P Dow Jones Indices, MSCI, YCharts, Truflation™.

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