

Quarterly Market Update

Q3 2026

Eric Filippo, CSC®, IMT®
Ben Dawit

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Key Takeaways

- **The market has exhibited back and forth, tennis-like action**
- **Q3 marked a clear change in market character.**
    - The strong V-shaped rally from Q2 gave way to choppy price action, violent sector rotation, and frequent failed breakouts.
- **Breadth remained the biggest weakness beneath the indices.**
    - Major averages often looked stable while the average stock deteriorated, showing that headline index performance was masking much weaker participation underneath.
- **The market's reaction mattered more than the headline itself.**
    - Inflation data, Fed decisions, and earnings produced inconsistent price responses, reinforcing the idea that investors should focus on how the market digests information rather than the information alone.
- **Higher rates and oil became meaningful headwinds.**
    - The 30-year yield moved to its highest level since 2007 while oil pushed above $100, creating tougher competition for equities and increasing pressure on valuations.
- **Leadership became narrow and unstable.**
    - Semiconductors and AI infrastructure lost momentum after their Q2 run, while energy and genomics were among the few areas that showed more consistent relative strength through the quarter.

Q3 2026 Market Sentiment and Overview

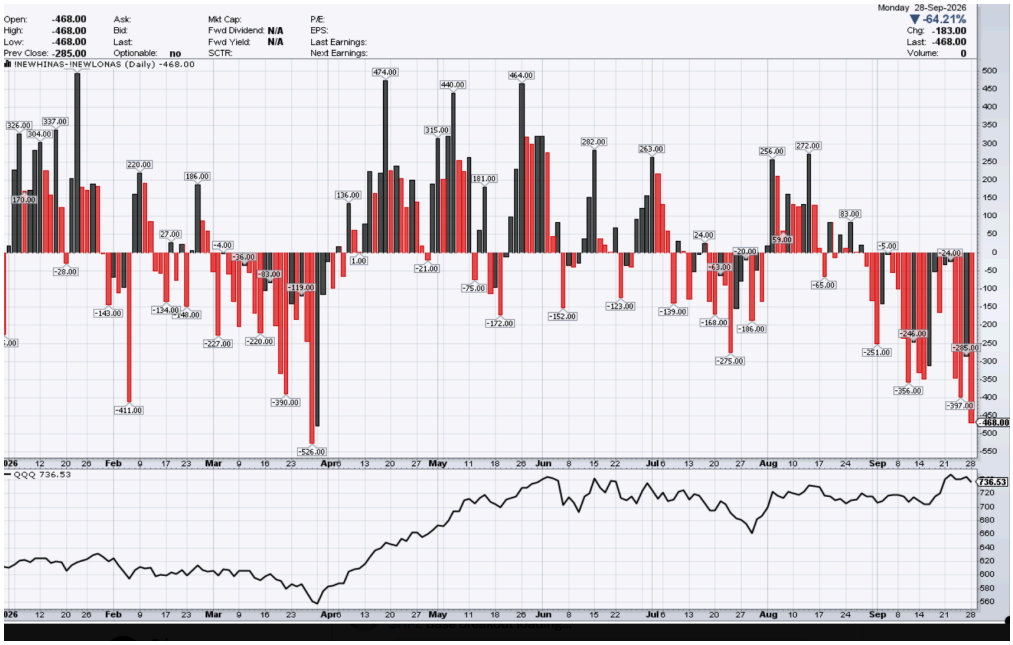
While Q2 was defined by a hostile, continuous V-shaped lockout rally off the March lows, the market underwent a structural character change going into Q3.It shifted to a phase marked by severe chop, harsh sector rotation, and aggressive whipsaw price action, with leadership rotating quickly between sectors and only energy and genomics holding up consistently. Throughout July, August, and September, Stocks that looked like clean breakouts failed, and days of gains were routinely erased in a single session. The lesson from Q2 was to follow price, not news. In Q3 the lesson became that **the reaction to news matters more than the news, and in chop, less is more.**

Inflation data gave the clearest example. On July 13, CPI and PPI both printed extremely cool, yet the market cheered CPI and sold PPI. Good data no longer guaranteed a good reaction, and rotation replaced trend.

What is market breadth? Breadth measures how many stocks are participating in a move. When an index rises because a handful of mega-caps carry it while most stocks fall, breadth is weak. That is a fragile advance, because the headline number hides what is happening underneath.

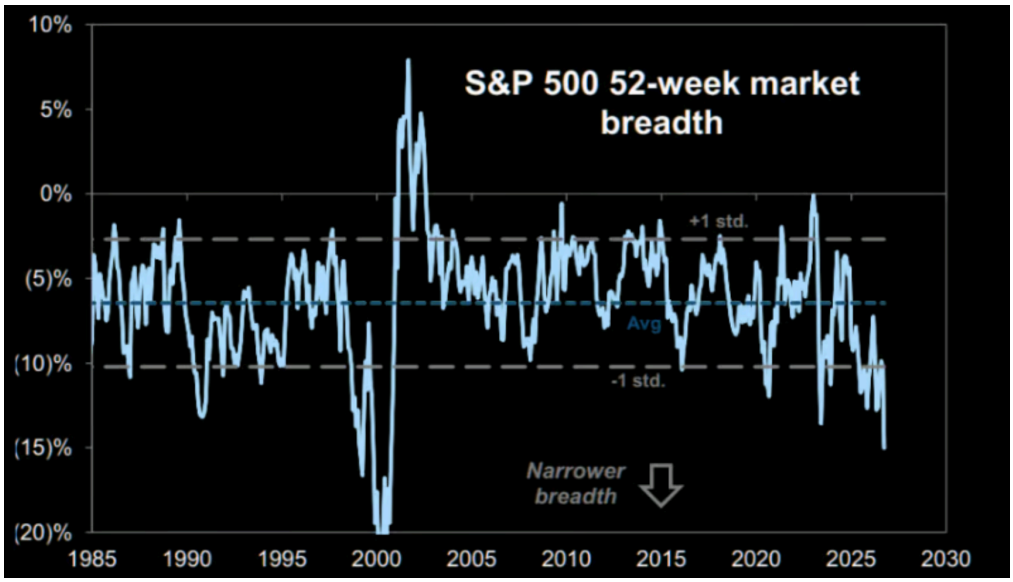
Breadth was the main problem of Q3. In the last week of August, only 35 stocks were up 4% or more, while 344 were down 4% or more, and SPY was down just 0.23%. The index looked calm while the average stock was struggling. MAGS held up the index while everything else deteriorated.

Approaching April lows for the Nasdaq New Highs/Lows reading:



Source: stockcharts.com

The median stock trades 16% below its 52-Week high. Weakest level since the Dot-Com Bubble:



Source: Goldman Sachs Market Breadth

Rates and oil became real headwinds. After the hawkish Fed in late July, the 30-year yield reached 5.2%. That matters because a risk-free 5%+ return competes directly with equities for investor capital. By September, the 30-year was at its highest since 2007, the 10-year was near 5%, and oil was back above $100 a barrel. On September 16 the Fed raised rates by 25 bps with a hawkish tone. The hike was about 80% priced in, so the market's reaction mattered more than the decision. It sold off initially, closed strong, and gapped up the next day with improving breadth.

US 30-year yield trading at 5.6% at the end of the quarter:



Source: TradingView

Bonds are suffering as a result (US 20-year):



Source: TradingView

What is NAAIM? The NAAIM Exposure Index tracks how much equity exposure active fund managers hold. Readings near 100 mean they are fully invested, so there is less buying power left. It ranged from 95 in April to 89 in early September and 72 by mid-September, alongside a Fear & Greed reading of 33. That is a lot of fear given how many headwinds the market had already absorbed, and it looked much like the setup before the April bottom.

Navigating Through Chop

July: the AI trade tops. Semiconductors and memory, the leaders of Q2 (MU crossed $1 trillion in late May), finally began to top out in early July and broke structure by mid-month. Oil returned to leadership (VLO, USO), which is rarely a good sign for the broader market. Rotation was violent: on the week of July 20, DRAM rose 11%, NBIS 18%, and AEHR 27%, and most of them gave it all back by Friday. The Fed's hawkish stance that Wednesday produced large swings higher before the market closed lower. Big-tech earnings then split the market, with MSFT and AMZN up about 15% and META and AAPL down about 8%. The index bounced anyway, but with no real leadership behind it.

August: a rally that mostly wasn't. On August 3, SPY hit all-time highs, driven by earnings from MSFT, NET, and AMZN. The rally repeated the April pattern: support flushed, the day closed at the lows, then a gap-and-go that reclaimed the prior day's open and the key moving averages. It did not carry over into the rest of the month. By mid-August the AI trade looked dead, with failed breakouts across memory and semiconductors, while capital rotated into commodities (gold, silver, uranium) and even bitcoin. Moderna's cancer vaccine headline sent the stock up more than 170%, and ARKG rose about 10% in sympathy. NVDA and CRWD earnings at the end of August helped software and cyber, but breakouts kept failing on the following day.

September: the reset. Indices went essentially nowhere for two weeks, with brutal rotation underneath. Leadership narrowed to computer hardware (DELL, HPE, NTAP, SMCI). Then in the week of September 21 the market gapped up and ran to all-time highs, with a breadth thrust led by CPUs (ARM, INTC, AMD). Semis and software rallied together for the first time in months off the FOMC interest rate decision, but this did not last long. The catch is that breadth is not being well represented in the indices and there has been no real follow through, so the jury is still out on whether this is a true character change.

The Only Consistent Themes

Crypto. Led by Bitcoin (BTCUSD), Ethereum (ETHUSD), and Robinhood's own crypto (ZECUSD), crypto was the top performer for this quarter. It recently broke out of its stage 1 accumulation base and changed structure, which shifts our attention into crypto and crypto-related names into year end as long as this structure holds.

Energy and oil. Energy fell 13.5% in Q2 (XLE), then reversed. Oil rose above $100 and became a headwind for equities, and stocks stopped ignoring it the way they had in April.

Genomics and biotech. The trend began in mid-June while tech chopped. Genomics (TWST, NTRA, GH) and healthcare names were the standouts in July and August, and the Moderna headline in mid-August added fuel. It was not smooth: genomics fell sharply on August 28 alongside crypto, metals, and cyber.

Semiconductors vs. Software (SMH vs. IGV)

Through Q2, semiconductors and software sat on opposite tracks. SMH returned 74% for the quarter while IGV returned 16% but remained down about 12% year to date. The split was already visible in April, when software was struck down on the 8th and 9th while semis and optics posted the largest one-day gains. Q3 kept that pattern, only with faster rotations and less follow-through.

In July, semiconductors and memory finally began to top after a historic run and broke structure by mid-month. Software was just as unstable, with whippy action and no clean trend. In the week of July 20, DRAM rose 11%, NBIS 18%, and AEHR 27%, and all three gave it back by Friday. Software's disconnect from the AI trade was clearest during earnings week, when MSFT rose about 15% and IGV still closed down on the day. Mega-cap earnings were driving price action while the group itself had no leadership.

August traded on alternating weeks. In the week of August 10, NBIS earnings lit up AI infrastructure and memory showed massive relative strength (STX, SNDK, MU) while software took a breather. A week later the roles flipped: failed breakouts hit memory and semiconductors, and software had shakeouts that mostly ended lower. By early September the two were trading inverse to each other. Semis bounced for two days (AMD, INTC, MRVL, TER) but stayed well off their highs, and most breakouts in either group failed.

That changed in the week of September 21. The market gapped up on Monday with a breadth thrust led by CPU names (ARM, INTC, AMD), and software and semiconductors traded together for the first time in months. The indices followed through to all-time highs on Tuesday, though breadth did not match, so this is a promising signal that still needs confirmation.

IGV/SMH:

Rotation between IGV and SMH has been sporadic, with big displacements in either direction (shown by the large daily moves, which represent the differences between the sectors)



Source: TradingView

Sector Performance (Quarter and Year-to-Date)

Market Indices and Gauges

Example ETF	% Change Quarter	% Change YTD
VFV	2.27%	15.30%
VSP	1.69%	9.78%
XIC	1.42%	10.87%
TSE:XIU	1.45%	11.24%
VCN	1.44%	10.72%
XEQT	0.98%	13.40%
XCS	2.07%	18.18%
XSMH	-8.25%	10.85%
ZLB	-4.39%	1.43%
ZCN	1.39%	10.83%
TSE:WXM	-4.21%	11.53%
XQQ	-0.26%	18.40%
XQQU	0.22%	24.30%
VDY	-0.38%	21.23%
XDV	-0.59%	18.09%
ZDV	1.09%	18.31%
ZEB	-2.53%	25.86%
XEG	17.66%	43.48%
ZUT	-8.80%	8.38%
XRE	-9.12%	0.19%
TXF	-4.87%	17.20%
FINN	2.61%	24.13%

Sector Performance

Sector	Example ETF	% Change Quarter	% Change YTD
Etherium	ETHA	69.64%	-14.46%
Bitcoin	IBIT	41.12%	-7.77%
Genomics	ARKG	23.56%	79.60%
Oilers	IEO	20.36%	45.20%
Gold Miners	GDX	16.85%	2.83%
Energy	XLE	16.25%	35.25%
Software	IGV	15.49%	1.96%
Cybersecurity	HACK	13.12%	49.70%
Medical	XLV	6.91%	9.07%
HealthCare	VHT	6.29%	10.07%
Coal	COAL	4.53%	2.92%
Growth Stocks	VUG	4.31%	10.88%
AI & Robotics	ROBT	3.93%	11.46%
Medical Devices	IHI	3.95%	-17.01%
Agriculture	VEGI	3.76%	17.30%
Steel	SLX	3.71%	18.11%
Communications	XLC	3.39%	-5.25%
Silver Trust	SLV	2.82%	-16.38%
Technology	XLK	2.10%	34.80%
A&D Defence bias	SHLD	1.02%	-9.20%
Pharmaceuticals	PPH	1.12%	6.61%
Latin America	ILF	0.59%	10.12%
Financials	XLF	0.50%	-1.91%
China Internet	KWEB	-0.86%	-31.91%
Blockchain	BLOK	-1.02%	4.64%
Consumer Staples	XLP	-1.95%	4.84%
Social Media	SOCL	-1.73%	-24.15%
Biotechnology	XBI	-1.61%	28.13%
Emerging Markets	EEM	-1.96%	19.26%

Telecom	IYZ	-2.65%	20.97%
Metals/mining	XME	-3.13%	-3.67%
Insurance	KIE	-3.26%	-0.84%
Materials	XLB	-3.70%	6.14%
Argentina	ARGT	-5.74%	-5.56%
Retail	XRT	-6.35%	-4.34%
Travel	PEJ	-6.29%	1.58%
Real Estate	VNQ	-6.48%	1.88%
Banking	KBE	-6.63%	4.14%
Consumer Discretionary	XLY	-7.20%	-8.04%
Semiconductors	SMH	-7.58%	62.39%
Robotics	BOTZ	-7.67%	-4.58%
Quantum Computing	QTUM	-8.39%	34.81%
Uranium	URA	-8.79%	-13.46%
Transports	IYT	-8.73%	5.12%
Industrials	XLI	-8.95%	6.75%
Optics	XTL	-10.75%	29.77%
Utilities	XLU	-13.12%	-8.78%
Self-driving	IDRV	-13.60%	-14.58%
Aerospace	ITA	-13.70%	-5.77%
AI Power	AIPO	-14.70%	23.11%
Airlines	JETS	-14.84%	0.00%
Home Construction	ITB	-15.86%	-9.83%
Space	UFO	-16.28%	5.21%
Memory	DRAM	-17.63%	
Photonics	FOTO	-23.00%	
Clean Energy	PBW	-25.84%	-10.60%
Solar	TAN	-27.40%	-16.78%

2026 Stocks to Watch: Update

The Space Economy

Our thesis of the broader space buildout gaining traction into the SpaceX IPO played out perfectly. However, space stocks faced a sharp selloff closer to the date of the SpaceX IPO, following the old saying to "buy the rumour and sell the news." We capitalized upon this trend from the middle of April to the end of May, primarily through the broader sector ETF, ($UFO) and Rocket Labs Inc ($RKLB). We capitalized on this theme for the time being, and it does not remain a focus.

$GE *- GE Aerospace Inc.*

2026 peak performance YTD: +23.10% *Price as of June 30, 2026: $318.50*

2026 performance YTD: -1.64%

$CRS *- Carpenter Technology Corporation*

2026 peak performance YTD: +93.29% *Price as of June 30, 2026: $389.67*

2026 performance YTD: +14.61%

$PL *- Planet Labs PBC* ***Speculative*

2026 peak performance YTD: +167.4% *Price as of June 30, 2026: $16.18*

2026 performance YTD: -21.86%

Semiconductors/AI Value Chain

After the massive rally, the leaders in the industry showed their hands for how deep they went in their bases. The industry was choppy all quarter, and is now moving up the right side of the base that it built. We have began re engaging in the industry, as we have noticed that the main driver of market health and index performance has been related to AI sentiment. Leadership has shown itself across several stocks in different layers of the AI trade, such as AMD, INTC, MRVL, and SMTC, which we are positioned in from lower.

$ASML *- ASML Holdings Inc.*

2026 peak performance YTD: +83.26% *Price as of September 30, 2026: $1823.41*

2026 performance YTD: +50.43%

$COHR *- Coherent Corp.*

2026 peak performance YTD: +137.96% *Price as of June 30, 2026: $294.05*

2026 performance YTD: +48.77%

$GOOG *- Alphabet Inc.*

2026 peak performance YTD: +29.12% *Price as of June 30, 2026: $335.99*

2026 performance YTD: +5.78%

AI-Applied Software

Reddit and UiPath have been neglected by the market since the beginning of the year, and we are not one to argue with the market. Since being stopped out at a minor loss at the very beginning of the year, these stocks and the sector as a whole have not been engaged with. They are not leaders, and did not benefit much when the software landscape became more positive. In software, we are mainly focused on cybersecurity which has plausible demand, and the price action to support it.

$RDDT *- Reddit Inc.*

2026 peak performance YTD: +15.64% *Price as of June 31, 2026: $144.54*

2026 performance YTD: -41.95%

$PATH *- UiPath Inc.* ***Speculative*

2026 peak performance YTD: +9.07% *Price as of June 31, 2025: $12.08*

2026 performance YTD: -23.75%

Conclusion

Q3 was a reminder that a rising index does not always mean a healthy market. Beneath relatively resilient headline performance, breadth deteriorated, leadership became increasingly narrow, and sector rotation made sustained exposure difficult. Breakouts repeatedly failed, strong days were often erased immediately, and the market rewarded selectivity far more than conviction. The clearest lesson was that the reaction to information mattered more than the information itself. Cool inflation data, earnings beats, and even Fed decisions produced inconsistent responses, making price action the better signal than the headline.

The setup into Q4 remains conflicted. Rates and oil are significant headwinds, with the 30-year yield at levels not seen since 2007 and crude above $100. At the same time, positioning has come off crowded levels, sentiment has weakened, and parts of the market are approaching breadth readings associated with prior resets. September also showed the first meaningful attempt in months for semiconductors and software to trade together, but the lack of sustained follow-through means it is too early to call that a durable character change. Pasted text
For now, the priority is not predicting which headline breaks the market higher or lower. It is identifying where capital is actually moving and whether that leadership can persist. Energy and genomics were among the few themes that consistently held up through the quarter, while AI-related leadership spent much of Q3 rebuilding after its Q2 run. If breadth begins to expand and leadership becomes more durable, the environment can improve quickly. If not, the same rotational conditions that defined Q3 are likely to continue.

The lesson from Q2 was follow price, not news. Q3 added another layer: follow the reaction, respect rotation, and understand when doing less is the better trade. In a market where certainty is scarce and leadership can disappear overnight, there is little value in pretending to know exactly what comes next. The job is to stay flexible, manage risk, and let the market reveal where the next sustained opportunity is developing.

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