



SEPTEMBER 2026

Still looking good, but don't get complacent

"You've got to know when to hold'em, know when to fold'em"

- Kenny Rogers, "The Gambler"

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Jeff Krumpelman, CFA
Chief Investment Strategist
& Head of Equities, Mariner

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With numbers like these, we suspect more than a few investors are feeling the urge to press their bets, chase the winners or otherwise deviate from their long-term plan. Our message this month is the same one Kenny Rogers gave us decades ago: know when to hold. In the pages that follow, we'll check on the trends in fundamental, valuation and technical metrics (FVTs), recap our Mid-Year Outlook and 12-month targets through mid-2027 and close with a couple of items we're watching closely.

Checking in on the FVTs

Before diving into our updated outlook, it's worth stepping back and reviewing the FVTs that underpin our thinking. Encouragingly, the picture has continued to improve on nearly every front.

On the fundamental side, the data remains a mixed bag month to month, but the overall mosaic is solid.

Earnings continue to be the standout, with broad-based growth across sectors and revisions still trending upward. Elsewhere, we're seeing some genuine pockets of strength, primarily AI-related capital spending that continues to soar, alongside pockets of softness: hiring



has been uneven and inflation has ticked higher on the back of energy prices, yet credit spreads remain historically tight and consumer spending continues to hold up.

No single data point tells the whole story, and we'd caution against reading too much into any one release. But when we step back and look at the full mosaic rather than any individual thread, the picture remains constructive. It's this fundamental backdrop, more than any headline, that continues to anchor our outlook.

On valuation, the market has actually gotten cheaper as earnings growth has outpaced price appreciation for much of the year. Today's gains, therefore, continue to be built on a firmer earnings foundation rather than an expanding multiple.

Technicals have also strengthened. The advance/decline line continues to trend higher, and market breadth has improved meaningfully as leadership broadens beyond a handful of megacap names. This is exactly the kind of participation we like to see supporting a durable advance.

Revisiting our mid-year crystal ball

Back in July, we walked clients through our updated 12-month outlook, running through mid-2027. Our base case, which we assign the highest probability at 50%, calls for the S&P 500 to reach 8,400, a roughly 12% price gain from where we started the period.

The math behind that target is straightforward: we're assuming forward 12-month earnings of about \$380 per share, a deliberate 10% discount to the more optimistic consensus estimate of \$422, and applying a 22-times multiple to that figure. We'd rather be conservative on the earnings assumption and let results surprise us to the upside than build our target around the consensus number on the Street.

We also see a lower-probability optimistic path to 8,900, which assumes consensus has it right and the more optimistic earnings materialize. We assign this scenario only a 10% probability, but it's clearly on the table, given how resilient earnings growth has been all year.





On the other side, we outline two more cautious scenarios. A disappointing case, carrying a 30% probability, still assumes earnings develop as we expect but multiples compress amid one or more wall-of-worry concerns—think Fed policy surprises, midterm election uncertainty, or a pullback in AI-related spending.

That scenario would leave the S&P roughly flat. Further out, our pessimistic case, at a 10% probability, envisions a mild recession, resulting in a decline of roughly 20%. We'd note that a recession has never occurred with earnings growth and capital spending as robust as they are at present.

Put it all together, and we like the odds: We assign a 60% probability to double-digit returns over the period and view the most likely disappointing outcome as flat to modestly positive rather than sharply negative.

That skew—more upside scenarios than downside ones—and a base case built on conservative assumptions are exactly the kind of setup that keeps us comfortable staying invested at normal equity allocations.

What we're watching

Clearly, we expect healthy, positive returns, but that doesn't mean we expect things to go up in a straight line. Our message throughout the year has been consistent with our RAD 2.0 thesis: avoid overconcentration, whether at the stock, sector or asset class level, and stay close to your long-term target allocations. With that in mind, we'll begin to close this month's commentary with the two items we're watching most closely and strategizing around internally.

The first is the path of long-term interest rates, and more specifically, what's driving it. We'd offer one clarifying thought on Fed policy here: whether the Fed hikes once, twice or simply holds steady over the coming months matters far less to us than the underlying trend in long-term rates and credit conditions. A modest Fed hike or two to contain inflationary pressures, should it prove necessary, doesn't strike us as a particularly negative outcome for equities, provided it keeps the Fed's credibility intact and reassures the bond market that policymakers are staying ahead of the problem.

That's why we're watching bond yields themselves with far more intensity than we are parsing the Fed's most likely next move. We've seen long-term yields drift higher recently, and the concern isn't just the level of rates; it's the message the bond market may be sending about fiscal discipline. Should fixed-income investors, sometimes referred to as bond vigilantes, grow increasingly worried about the trajectory of deficits and government borrowing, that could translate into a more persistent rise in long-term yields, creating a headwind for equity valuations independent of anything the Fed does.

Again, this is a mosaic. Alongside rates, we're keeping a close eye on credit spreads. They've remained historically tight, which tells us credit investors aren't yet worried about a deterioration in the economy. Should both of these metrics move materially higher, swiftly and with magnitude, it would be an important signal to become more cautious.

The second area we're monitoring closely is the AI capital spending story. Growth in this area has been a meaningful driver of both earnings and economic growth this year, but we're seeing rising rhetoric, and in some cases political pressure, around data center buildouts. Whether this is around energy usage, local zoning pushback or broader skepticism toward the pace of AI infrastructure investment, the question we're asking is whether this noise remains just that, noise, or whether it eventually spills over into a genuine slowdown in capital spending plans.

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Earnings continue to be the standout, with broad-based growth across sectors and revisions still trending upward. Elsewhere, we're seeing some genuine pockets of strength, primarily AI-related capital spending that continues to soar, alongside pockets of softness: hiring



has been uneven and inflation has ticked higher on the back of energy prices, yet credit spreads remain historically tight and consumer spending continues to hold up.

No single data point tells the whole story, and we'd caution against reading too much into any one release. But when we step back and look at the full mosaic rather than any individual thread, the picture remains constructive. It's this fundamental backdrop, more than any headline, that continues to anchor our outlook.

On valuation, the market has actually gotten cheaper as earnings growth has outpaced price appreciation for much of the year. Today's gains, therefore, continue to be built on a firmer earnings foundation rather than an expanding multiple.

Technicals have also strengthened. The advance/decline line continues to trend higher, and market breadth has improved meaningfully as leadership broadens beyond a handful of megacap names. This is exactly the kind of participation we like to see supporting a durable advance.

Revisiting our mid-year crystal ball

Back in July, we walked clients through our updated 12-month outlook, running through mid-2027. Our base case, which we assign the highest probability at 50%, calls for the S&P 500 to reach 8,400, a roughly 12% price gain from where we started the period.

The math behind that target is straightforward: we're assuming forward 12-month earnings of about \$380 per share, a deliberate 10% discount to the more optimistic consensus estimate of \$422, and applying a 22-times multiple to that figure. We'd rather be conservative on the earnings assumption and let results surprise us to the upside than build our target around the consensus number on the Street.

We also see a lower-probability optimistic path to 8,900, which assumes consensus has it right and the more optimistic earnings materialize. We assign this scenario only a 10% probability, but it's clearly on the table, given how resilient earnings growth has been all year.





On the other side, we outline two more cautious scenarios. A disappointing case, carrying a 30% probability, still assumes earnings develop as we expect but multiples compress amid one or more wall-of-worry concerns—think Fed policy surprises, midterm election uncertainty, or a pullback in AI-related spending.

That scenario would leave the S&P roughly flat. Further out, our pessimistic case, at a 10% probability, envisions a mild recession, resulting in a decline of roughly 20%. We'd note that a recession has never occurred with earnings growth and capital spending as robust as they are at present.

Put it all together, and we like the odds: We assign a 60% probability to double-digit returns over the period and view the most likely disappointing outcome as flat to modestly positive rather than sharply negative.

That skew—more upside scenarios than downside ones—and a base case built on conservative assumptions are exactly the kind of setup that keeps us comfortable staying invested at normal equity allocations.

What we're watching

Clearly, we expect healthy, positive returns, but that doesn't mean we expect things to go up in a straight line. Our message throughout the year has been consistent with our RAD 2.0 thesis: avoid overconcentration, whether at the stock, sector or asset class level, and stay close to your long-term target allocations. With that in mind, we'll begin to close this month's commentary with the two items we're watching most closely and strategizing around internally.

The first is the path of long-term interest rates, and more specifically, what's driving it. We'd offer one clarifying thought on Fed policy here: whether the Fed hikes once, twice or simply holds steady over the coming months matters far less to us than the underlying trend in long-term rates and credit conditions. A modest Fed hike or two to contain inflationary pressures, should it prove necessary, doesn't strike us as a particularly negative outcome for equities, provided it keeps the Fed's credibility intact and reassures the bond market that policymakers are staying ahead of the problem.

That's why we're watching bond yields themselves with far more intensity than we are parsing the Fed's most likely next move. We've seen long-term yields drift higher recently, and the concern isn't just the level of rates; it's the message the bond market may be sending about fiscal discipline. Should fixed-income investors, sometimes referred to as bond vigilantes, grow increasingly worried about the trajectory of deficits and government borrowing, that could translate into a more persistent rise in long-term yields, creating a headwind for equity valuations independent of anything the Fed does.

Again, this is a mosaic. Alongside rates, we're keeping a close eye on credit spreads. They've remained historically tight, which tells us credit investors aren't yet worried about a deterioration in the economy. Should both of these metrics move materially higher, swiftly and with magnitude, it would be an important signal to become more cautious.

The second area we're monitoring closely is the AI capital spending story. Growth in this area has been a meaningful driver of both earnings and economic growth this year, but we're seeing rising rhetoric, and in some cases political pressure, around data center buildouts. Whether this is around energy usage, local zoning pushback or broader skepticism toward the pace of AI infrastructure investment, the question we're asking is whether this noise remains just that, noise, or whether it eventually spills over into a genuine slowdown in capital spending plans.

Given how much of the earnings and economic growth story this year has been tied to AI-related investment, any real disruption here would be a meaningful data point for us to track.

Closing

We remain constructive on the outlook for equities into mid-2027. We reiterate our base case target of 8,400 for the S&P 500 by mid-2027, supported by continued earnings growth, a Fed that appears to be threading the needle reasonably well, and an economy that, while showing some pockets of unevenness, remains fundamentally healthy.

The nuance of the conversation within our internal equity team and the message to our clients is threefold:

1. If the returns for the last three years and eight months have taken your equity allocation well above normal, be sure to rebalance back to your normal equity target and remain diversified across market cap, sectors, style (growth vs. value), and domestic vs. international according to our guidelines.
2. Tactically, for our internal strategies that have significant exposure to AI and interest-rate sensitivity, be sure to have a game plan should a more challenging environment develop, driven by the items referenced above.
3. Be ever vigilant in monitoring the metrics that bond vigilantes will be watching as signals of fiscal stress, such as a weakening dollar, failed Treasury auctions, declining central bank reserves held in U.S. dollars, etc. We see few signs of this at present, but current conditions inspire us to monitor this more closely than we may have in the past.

Again, we remain constructive, but we are not complacent. Rising long-term rates and the evolving AI capital spending story are the two items most likely to complicate this outlook, and we'll be watching the trend in the underlying data, not the headlines, for any signs that our views need to change.

In the meantime, we encourage clients to stay disciplined, remain at their long-term target allocations and avoid the temptation to chase performance in any one area of the market. We'll continue to monitor conditions closely and keep you updated as the year progresses.



¹ Source: Factset

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