Five in Five

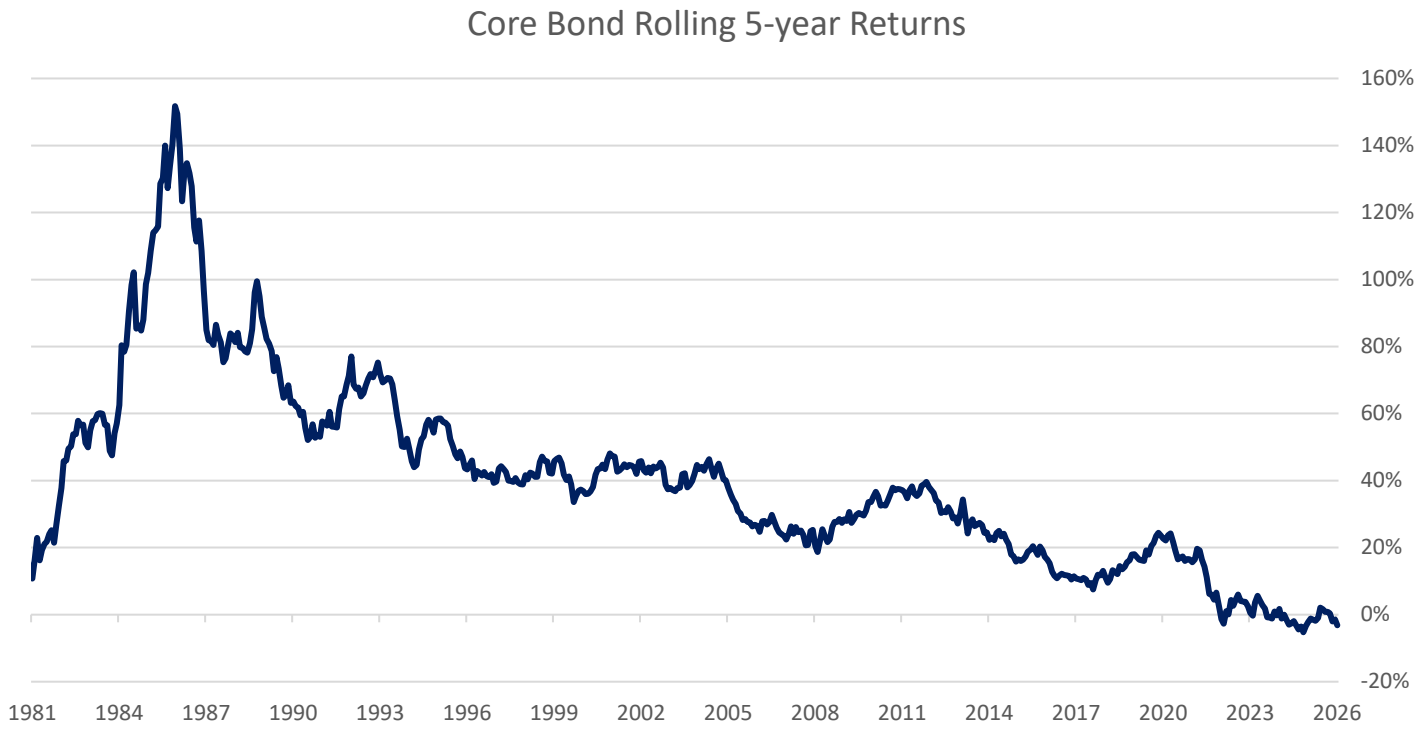
October 2026

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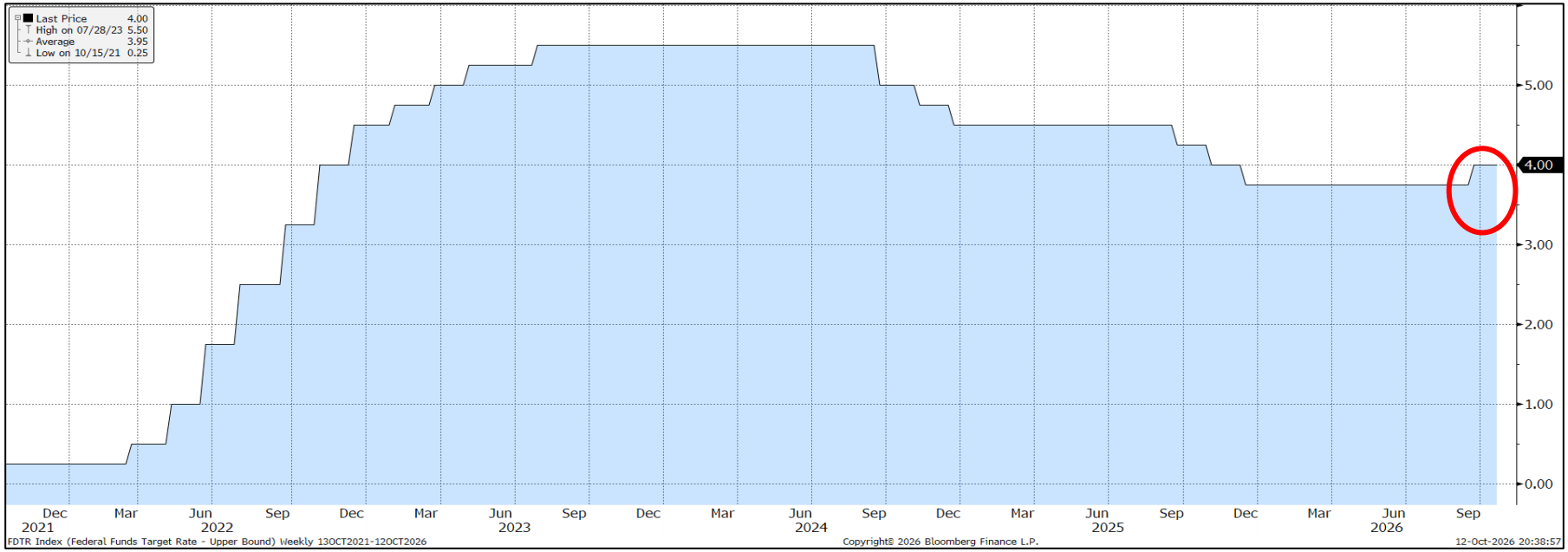
Fixed Income



Source: Bloomberg

- Core bonds have faced a difficult environment over the last six years.
- The return over the last five years is -3.1%, while the inflation adjusted return is -19.5%.
- 1981 troughed at -31%, inflation adjusted and in 2025 it hit -24%.
- Interest rates are now above 5% for most tenors, which is a return to a more normalized level.
- Probabilities are increasing for more consistently positive five-year forward returns.

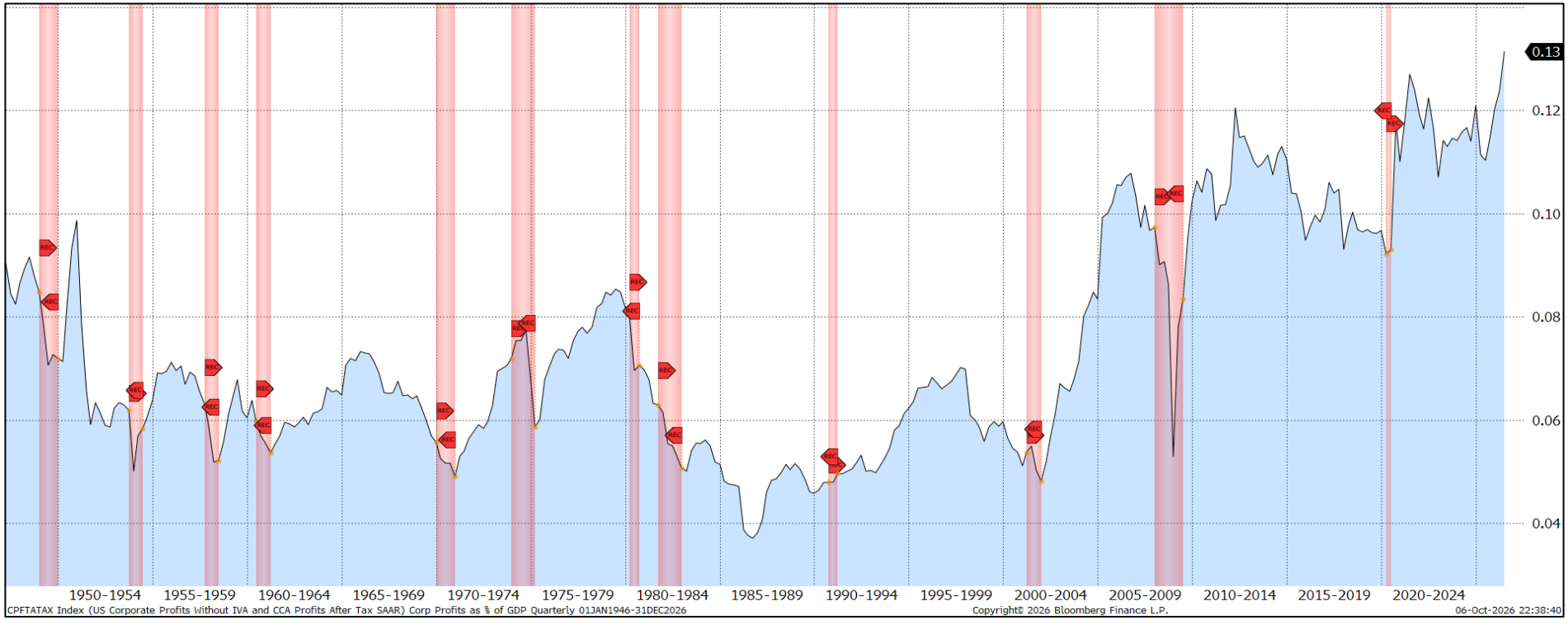
Federal Reserve Overnight Borrowing Rate Increase



Source: Bloomberg

- **Rate Increase:** The Federal Reserve raised its overnight bank borrowing rate (the rate banks charge each other) by 25 basis points, moving the target range from 3.75% to 4.0%.
- **Consumer Impact:** This policy adjustment directly trickles down to consumers, increasing the interest rates paid on loans, mortgages, credit cards, and savings accounts.
- **Economic Drivers:** The Federal Open Market Committee (FOMC) was driven to raise the rate by a higher-than-expected August CPI reading, which indicated the economy was expanding faster than anticipated.
- **December Expectations:** Financial markets are currently pricing in an 81% probability of another rate increase during the December 9 Federal Reserve meeting.
- Rising interest rates typically lead to lower stock returns. When central banks raise rates to slow down an overheating economy, it creates a chain reaction that directly impacts risk assets like stocks.

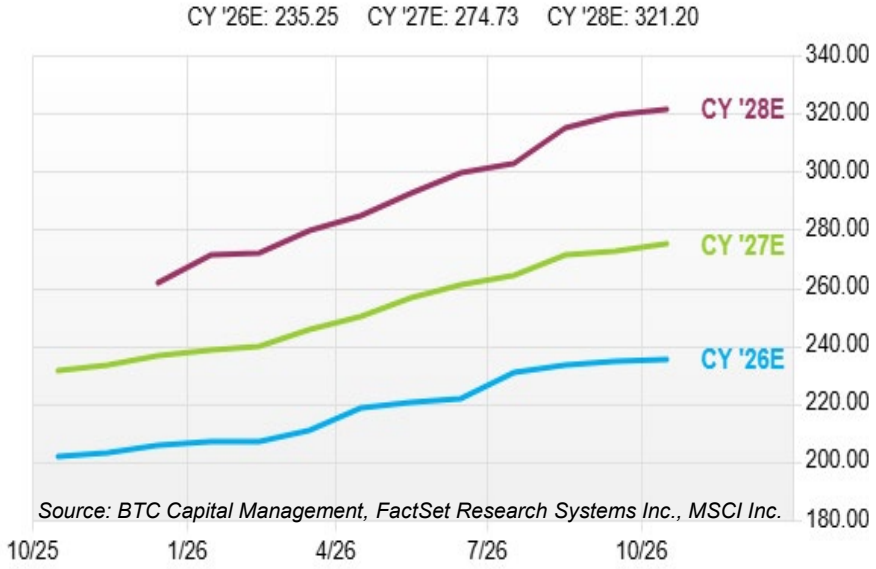
U.S. Corporate Profits as a Percentage of GDP

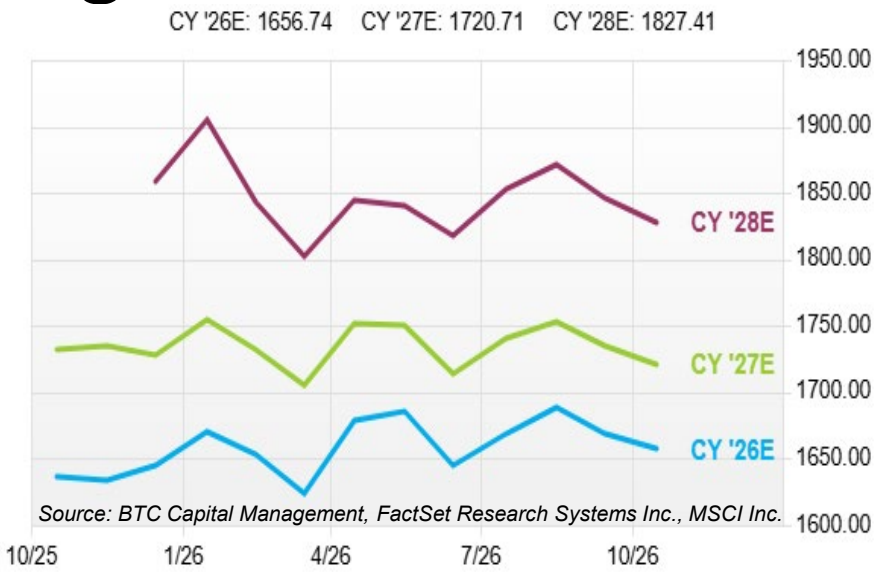


Source: Bloomberg

- Corporate profits as a precent of GDP reached new highs during second quarter 2026.
- Historically, corporate profits turn downward prior to a recession.
- This strength in corporate profits is a reason probability of a recession has declined to 20%.
- Stock prices trend higher on average for another eight months following a peak of corporate profits.
- Third quarter outlook for earnings releases for stocks remain strong.

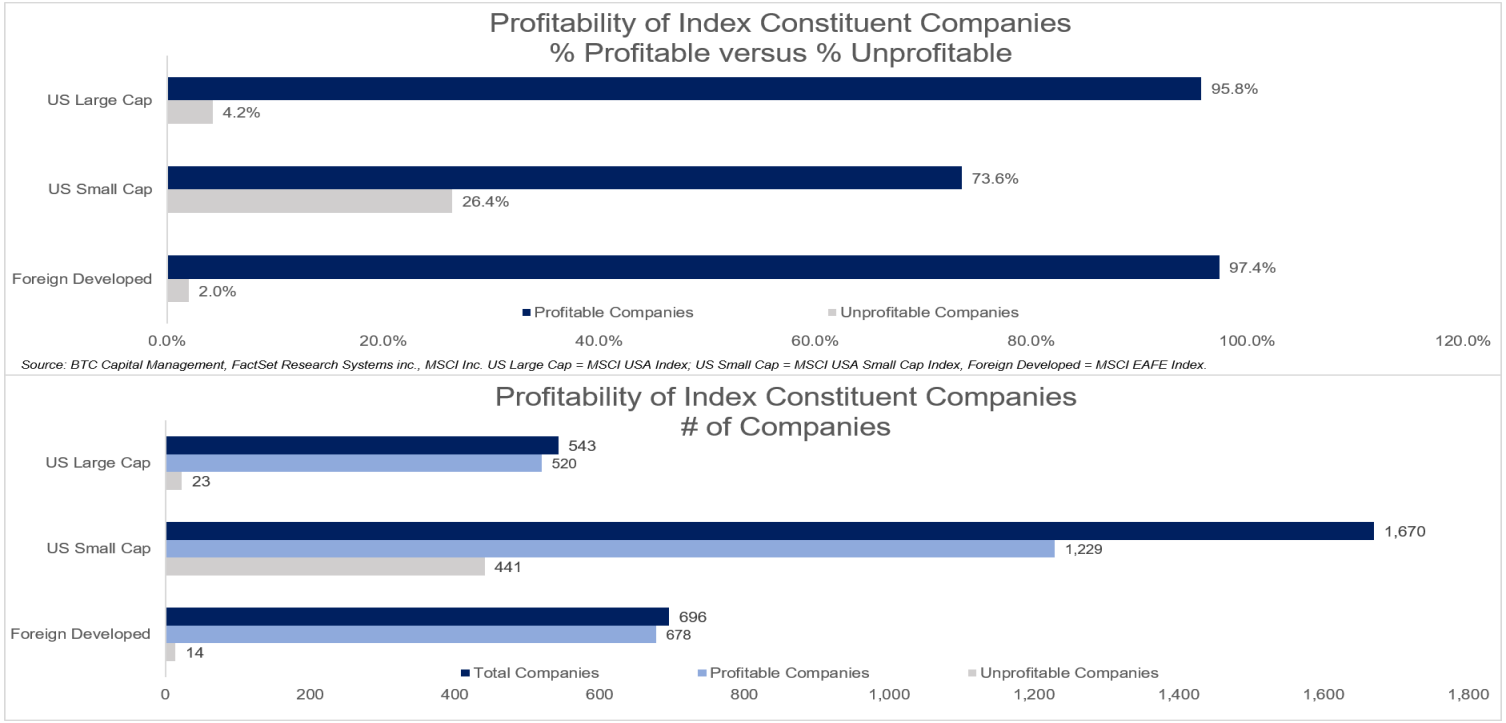
Projected Earnings Growth – U.S. vs Foreign





- The charts above exhibit analyst earnings estimates for calendar years (CY) 2026, 2027, and 2028. The chart on the left presents the MSCI USA Investable Market Index. The chart on the right presents the MSCI World ex-USA Index. Both present earnings in U.S. dollars.
- Since year-end 2025, the trend in earnings for U.S. companies has been stable to rising, exhibiting the perceived sustainability of earnings growth within the U.S.
  - According to FactSet, although the year-to-date (YTD) trend in CY earnings-per-share (EPS) has been rising, recently analysts' downward revisions to EPS estimates have been outpacing upward revisions for U.S. companies.
  - According to FactSet, for the last three months the percent change in CY EPS estimates has been +6.6% CY 2026, +5.3% CY 2027, and +6.7% CY 2028.
- The trend for foreign companies has been more variable to that of U.S. peers.
  - According to FactSet, analysts have exhibited some fits and starts given the geo-political situation exhibited in the modest positive trend in earnings estimates for CY 2026 and CY 2027, while CY 2028 has retraced below estimates as of year-end 2025. Recently, analysts' upward revisions have outpaced down revisions.
  - According to FactSet, the percent change in analysts' CY EPS estimates over the last three months has been +3.0% CY 2026, +2.6% CY 2027, +2.2% CY 2028.

Profitability of Index Constituent Companies – 09/30/2026



- Corporate profitability is a key factor of future performance. When considering the constituent companies of the MSCI USA Index (domestic large cap companies), MSCI USA Small Cap Index (domestic small cap companies), and the MSCI EAFE Index (foreign developed companies), the number and percentage of profitable companies has been fairly static since our review during the second quarter 2025.
- According to FactSet, of the 543 companies comprising the MSCI USA Index, 520 (95.8%) were profitable versus 519 (95.1%) of the 546 index constituents as of the second quarter 2025.
- Of the 1,670 companies comprising the MSCI USA Small Cap Index, 1,229 (73.6%) were profitable versus 1,215 (73.0%) of the 1,664 index constituents as of the second quarter 2025.
- Of the 696 companies comprising the MSCI EAFE Index, 678 (97.4%) were profitable versus 675 (97.1%) of the 695 index constituents as of the second quarter 2025.

Disclosures

- *Sources: BTC Capital Management, Bloomberg, FactSet, LSEG Datastream*
- *The information provided has been obtained from sources deemed reliable, but BTC Capital Management and its affiliates cannot guarantee accuracy. Past performance is not a guarantee of future returns. Performance over periods exceeding 12 months has been annualized.*
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