

QUARTERLY UPDATE

LETTER FROM OUR CIO

OCTOBER 1, 2026

As we close out the third quarter of 2026, we wanted to take a moment to share our perspective on where the U.S. economy stands today and how global financial markets performed over the past three months. As always, our goal is to keep you informed, engaged, and confident in your long-term plan. Here is what we are seeing:

Key Economic Developments

The third quarter brought a meaningful shift in the economic backdrop; one defined by renewed geopolitical tension, rising energy prices, a cooling labor market, and a more hawkish Federal Reserve. The optimism that followed June's US-Iran peace agreement proved short-lived. In early July, attacks on commercial shipping in the Strait of Hormuz prompted renewed U.S. strikes on Iran, and traffic through the strait remains well below normal. Oil prices climbed throughout the quarter, with WTI crude rising roughly 29% to about \$90 per barrel and Brent finishing above \$100. Higher energy costs have kept inflation elevated, with the PCE price index up 3.4% year-over-year in August, although both headline and core readings came in below expectations. In response, the Federal Reserve raised its benchmark rate by 25 basis points to a range of 3.75%–4.00% at its September meeting, its first rate hike since 2023. Fed Chair Kevin Warsh noted that inflation remains too high, and the Fed's median projection points to one additional hike before year-end. However, the market has reduced the probability of that hike to just 30%. The labor market, which had been one of the economy's bright spots, has lost momentum. Payrolls rose just 29,000 in September, prior months were revised lower, and the unemployment rate stands at 4.2%. Bond yields moved sharply higher, with the 10-year Treasury yield rising nearly 90 basis points to approximately 5.3%. The overall picture is one of an economy that continues to grow at a solid pace, supported by resilient consumer spending, but faces meaningful headwinds from elevated energy prices, higher interest rates, and a geopolitical landscape that remains fluid. We continue to monitor these developments closely on your behalf.

Market Performance

After the notable gains of Q2, global equity markets delivered a more muted and uneven third quarter. The S&P 500 index rose roughly 2% and the NASDAQ gained about 2.5%, with leadership once again concentrated in a small group of mega-cap technology and AI-related companies. Beneath the surface, however, market breadth was weak, as the majority of S&P 500 stocks declined in September even while the index hovered near record highs. The Dow Jones Industrial Average fell 2.7%, and small-cap stocks gave back a portion of their strong first-half gains, with the Russell 2000 down 7.5% as rising rates weighed on smaller companies. Energy and Technology were the top-performing sectors, while rate-sensitive areas such as Utilities and Real Estate lagged. The bond market, however, was weaker on the back of those higher interest rates. The Bloomberg US Aggregate Bond Index (the Agg) returned -3.85% in Q3 2026. The negative performance was largely driven by a difficult September, where the index dropped over 2.5%, registering its largest single-month decline in years.

Looking Forward

After a strong first half, Q3 served as a reminder that markets rarely move in a straight line. As we head into the final quarter of 2026, we are closely watching the path of energy prices and the conflict in the Middle East, the Fed's next policy steps, the direction of long-term interest rates, a softening labor market, and third-quarter corporate earnings, which have grown at a robust pace this year. Consensus continues to call for moderate growth in the US economy. Our overweight positions in Value and Small Cap stocks were a headwind this quarter, but we believe these areas offer attractive valuations and diversification relative to an increasingly concentrated large-cap technology market. We remain tactically underweight in equities, having reduced stocks in August. We continue to remain constructive on sectors such as semiconductors to take advantage of AI trends, cybersecurity, consumer staples, industrials, and infrastructure. We are actively positioning your portfolio to weather uncertainty while remaining invested in the opportunities we believe are most compelling, and we believe clients remain well positioned for their financial goals according to their risk temperament. Considering all of this, we believe clients remain well positioned for their financial goals according to their risk temperament.



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