MARKET COMMENTARY

Q3 2026 COMMENTARY

Economic Summary

The S&P 500® continued its advance during the third quarter, gaining approximately 2% and bringing its year-to-date return to nearly 13%. If those gains hold through year-end, the Index would record its fourth consecutive year of double-digit returns. Robust corporate earnings have supported the rally, helping investors look past a steady stream of headline risks. Attention now turns to the fourth quarter, with corporate earnings expected to grow more than 30%, two Federal Reserve policy meetings ahead, and contentious midterm elections that will help shape the policy outlook for 2027. Whether earnings strength can sustain the market's momentum will depend in part on how companies navigate persistent inflation, higher borrowing costs, tariff pressures, and geopolitical tensions.



Chart 1
Source: Strategas Research Partners, "Quarterly Review in Charts", 10/1/26

Artificial Intelligence (AI) is reshaping the economy, helping propel corporate earnings to new heights and driving substantial capital investment. AI-related companies now account for nearly 50% of the S&P 500® (Chart 1), underscoring their influence on both market performance and expectations for future growth. While the potential for productivity gains and broader adoption remains significant, the scale of investment raises important questions about when that spending will translate into durable profits.

As the year enters its final quarter, the durability of corporate earnings and the valuations assigned to them remain central considerations. Businesses with strong balance sheets, sustainable cash flows, and disciplined management teams are well positioned to navigate an uncertain economic and policy environment. With expectations elevated, careful security

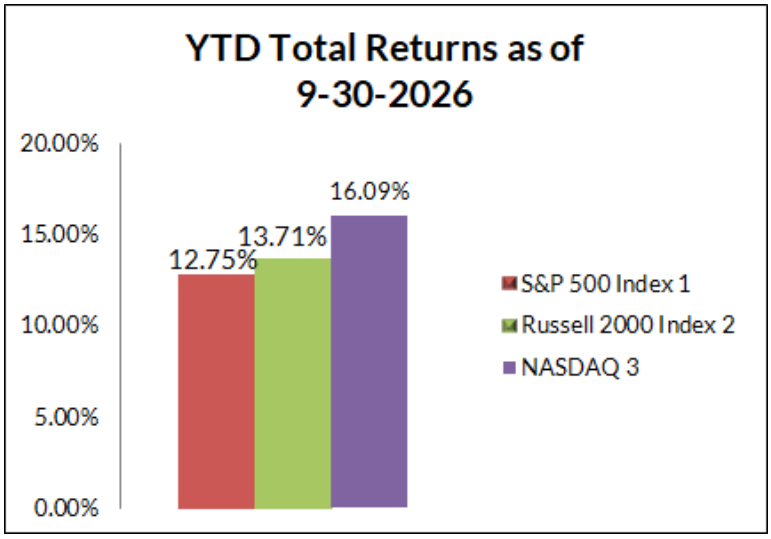
Economic Summary (continued)

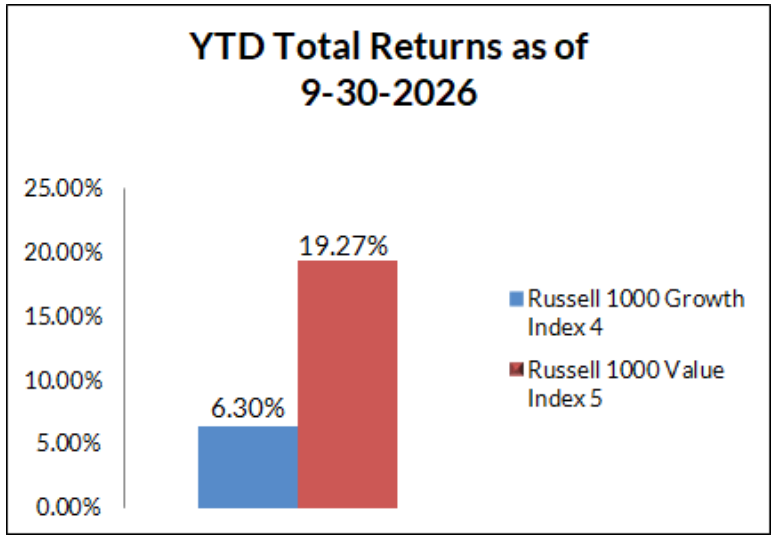
selection and valuation discipline remain essential to pursuing long-term growth while managing the risks to capital.

The Stock Market

Small-cap stocks faced a challenging quarter, with the Russell 2000® Index declining -7.23%, while the S&P 500 Index and NASDAQ Composite gained 2.30% and 2.61%, respectively. Despite this setback, the Russell 2000® returned 13.71% through the first nine months of the year, trailing the technology-heavy NASDAQ Composite's 16.09% gain but remaining ahead of the S&P 500®'s 12.75% return (Chart 2). The quarterly divergence marked a shift toward larger companies, although small-cap stocks retained much of their earlier gains.

Value stocks outperformed growth stocks during the quarter, with the Russell 1000® Value Index advancing 2.61%, compared with a 0.92% gain for the Russell 1000® Growth Index. This relative strength extended value's substantial lead through the first nine months of the year, as shown in Chart 3, highlighting a broader pattern of leadership beyond growth-oriented stocks.





Charts 2 & 3
Source: Morningstar Direct

[1]The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. [2]The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. [3]The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks). You cannot invest directly in an index. [4]The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. [5]The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

Past performance does not guarantee future results.

The Stock Market (continued)

Sector performance varied widely during the third quarter. Energy led with a gain of 17.2%, followed by Information Technology at 7.2%, and Health Care at 6.5%, all comfortably exceeding the S&P 500®'s return. Utilities, Industrials, and Real Estate lagged, declining -12.4%, -9.7%, and -5.6%, respectively. The nearly 30-percentage-point gap between the strongest and weakest sectors underscored the sharp differences in performance beneath the market's modest overall gain.

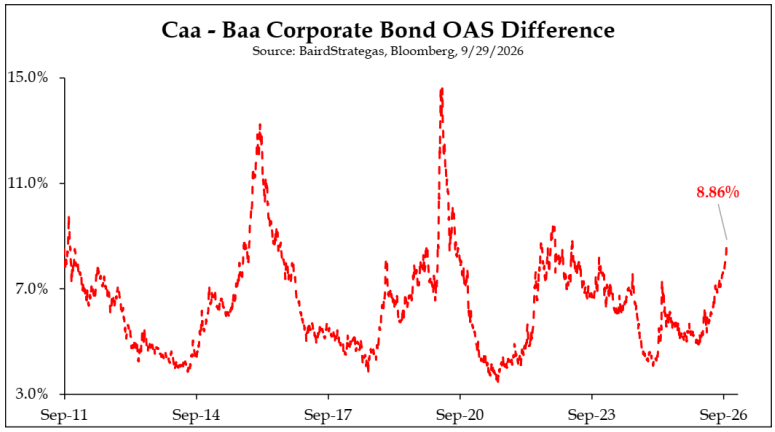


Chart 4
Source: Strategas Research Partners, "Quarterly Review in Charts", 10/1/26

The Bond Market

Treasury yields rose sharply during the third quarter, with the 10-year U.S. Treasury yield increasing from 4.4% to 5.3%. Persistent inflation, higher energy prices, and resilient economic activity pushed yields higher and shifted expectations for monetary policy. In September, the Federal Reserve raised the federal funds target range by 0.25% to 3.75%–4.00%, reinforcing its commitment to bring inflation under control. While rising yields weighed on bond prices, they also improved the income available on new investments.

Within corporate credit markets, performance diverged by credit quality. Investment-grade spreads widened modestly during the quarter but remained tight by historical standards, supported by healthy corporate fundamentals and steady demand for high-quality bonds. In contrast, signs of strain emerged in the non-investment-grade, or high-yield, market, where spreads widened significantly year-to-date (Chart 4). This divergence suggests that investors became more selective, demanding greater compensation for exposure to issuers less equipped to withstand higher borrowing costs and persistent inflation.

Past performance does not guarantee future results.

The Bond Market (continued)

Higher Treasury yields and historically narrow investment-grade spreads call for continued discipline in fixed-income investing. Although income opportunities have improved, the additional compensation for assuming credit risk remains limited in higher-quality corporate bonds. We therefore continue to favor U.S. Treasuries and selectively invest in corporate issuers with durable cash flows and strong balance sheets. This approach emphasizes income and capital preservation while preserving flexibility to add credit exposure when valuations become more compelling.

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