

Market Commentary

September 30, 2026



U.S. Equities Market

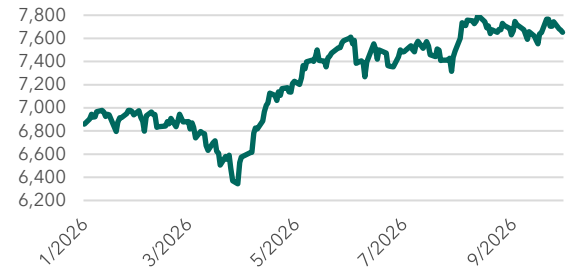
Super AI

Equity markets, as measured by the S&P 500® Index, ended the quarter up 2.3%. Technology stocks contributed the most to equity markets as rising capital expenditures for the continued buildout of artificial intelligence ("AI") infrastructure persisted despite negative sentiment regarding datacenter construction. Industrials were among the weakest-performing sectors, impacted by the perceived slowdown in AI spending as well as the rise in interest rates. Consumer Discretionary stocks also performed poorly due to rising interest rates and concern that the U.S. consumer is under pressure from high energy and food prices. Value outperformed Growth as an expanding economy spread earnings growth beyond just a few mega cap technology companies. The biggest surprise in performance, however, was the differential between large- and small-cap companies. The Russell 1000® Index, representing the largest U.S. companies, was up 1.8% in the quarter whereas the Russell 2000® small-cap index returned -7.2% as higher interest rates and higher import costs affect smaller companies more than larger companies.

Economically, the U.S. is chugging along and even accelerating in certain areas. Unemployment remains around 4%, historically low and what the Federal Reserve (the "Fed") considers full employment. However, mobility among American workers is near all-time lows as people are hesitant to quit jobs for fear of not finding something better, and reticent to move as so many homeowners are "locked in" to very low mortgage rates. The housing market is moribund to say the least, with prices remaining stable, but transactions scarce due to affordability concerns exacerbated by mortgage rates above 7%. Additionally, the Fed has begun to raise short-term rates in an attempt to combat the sticky inflation experienced since COVID. Though nowhere near the high single-digit inflation seen a few years ago, inflation remains stubbornly above 3%, and the new Fed Chair, Kevin Warsh, is determined to get it to the committee's 2% target in the most hawkish tone heard in decades.

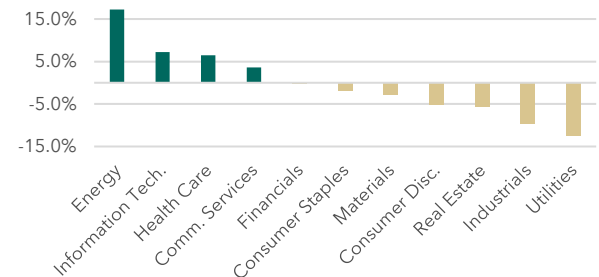
With all these seemingly big headwinds, why are the economy and corporate profits doing so well? Two things: consumer spending and AI capital expenditures. Despite consumer sentiment being quite low, consumers have jobs and are spending at a brisk pace, especially among the higher income cohorts. The market appears to be discounting this spending, as seen in the sector performance mentioned above, but seemingly not worried at all about the massive amounts of capital being invested in AI. Technology companies that used to generate substantial cash flows are now spending all of that and more to build out and explore this new frontier. Significant debt is being issued and balance sheets, though healthy by historical standards, are not as pristine. Whatever one calls it - "super" or "artificial" - this technology is indeed a game changer, and its effects will be immense, despite its controversy. However, in light of much higher interest rates, the sustainability of this spending and the return on this capital being invested remain the largest unknowns for future equity performance.

S&P 500® Index



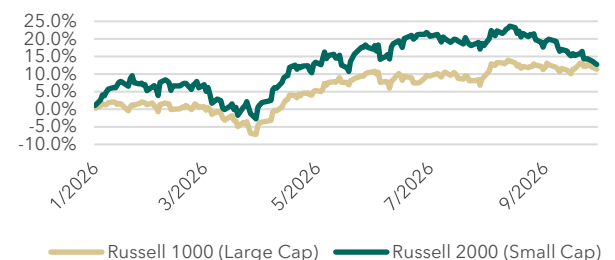
Source: Bloomberg

Q3 2026 S&P 500® Index Sector Performance



Source: Bloomberg

Year-to-Date Large Cap vs. Small Cap Performance



Source: Bloomberg

U.S. Taxable Fixed Income Market

A Higher Floor

Treasury yields rose sharply across the curve, with the 10-year yield ending September at 5.29%, up over 80 basis points during the quarter. Although concerns about U.S. borrowing and Treasury supply remain important, the repricing was neither uniquely American nor solely a fiscal story. Longer-term yields also moved materially higher across other developed markets, reinforcing our view that global interest rates are settling into a higher range.

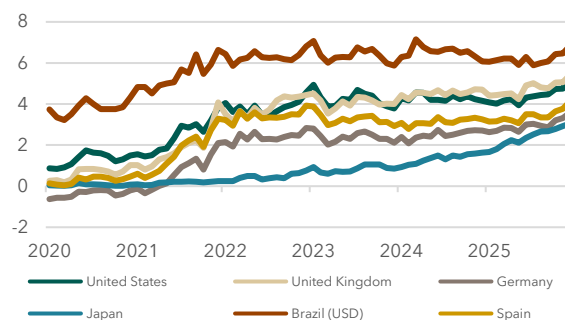
Several forces appear to be contributing to this higher floor. Economic growth has remained resilient, inflation has proven persistent, and investors increasingly expect policy rates to settle above the unusually low levels that prevailed before the pandemic. At the same time, geopolitical uncertainty, recurring supply disruptions and reduced central-bank bond buying have increased the compensation investors demand to hold longer-maturity bonds. These factors do not imply that yields can only move higher, but they suggest that a return to the post-financial-crisis rate environment is unlikely without a meaningful deterioration in economic conditions. A higher neutral rate could also keep longer-term yields elevated.

Consumer spending and the labor market have remained relatively firm despite weak sentiment, while technology-related capital spending, including the buildout surrounding AI, has provided another source of investment. The economy also appears less sensitive to short-term rates than in previous cycles. Many households and companies entered the tightening period with fixed-rate debt and relatively healthy balance sheets, limiting the immediate impact of higher borrowing costs. Higher short-term rates have also generated additional interest income for households and businesses holding cash and short-duration assets.

Inflation remains the principal obstacle to lower policy rates. The Personal Consumption Expenditures ("PCE") price index increased 3.3% over the year through August, while the core measure rose 3.0% – both still above the Fed's 2% objective. In September, the Fed raised its target rate by 25 basis points, and policymakers projected another quarter-point increase by year-end. This is broadly consistent with our expectation for a measured, mid-cycle adjustment of approximately 50-75 basis points rather than a return to the more aggressive tightening of 2022-2023.

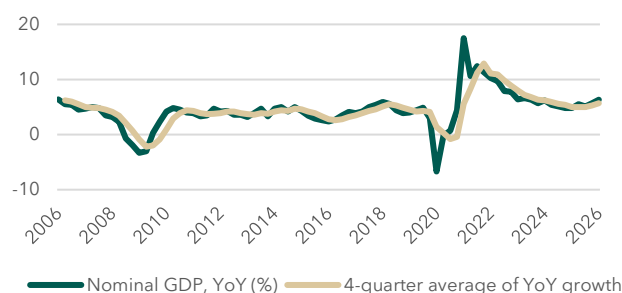
When inflation is the dominant risk, stocks and bonds can decline together, as they did when yields began rising from exceptionally low levels. We do not believe that experience means fixed income has permanently lost its diversification value. Today's higher starting yields provide substantially more income to offset price volatility and more room for bonds to appreciate if weaker growth eventually pushes rates lower. With meaningful real income and potential downside protection during equity-market corrections, the case for the 60/40 portfolio may be stronger than when bond yields were near historic lows.

Global 10-Year Yields (%)



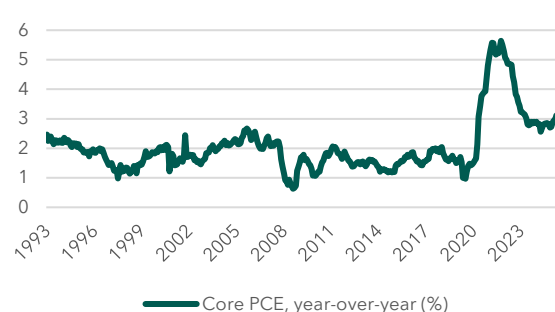
Source: Bloomberg

Nominal GDP Growth (YoY, %)



Source: Bloomberg

Core PCE Inflation (YoY, %)



Source: Bloomberg

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U.S. Municipal Fixed Income Market

A Challenging Quarter – A More Compelling Market

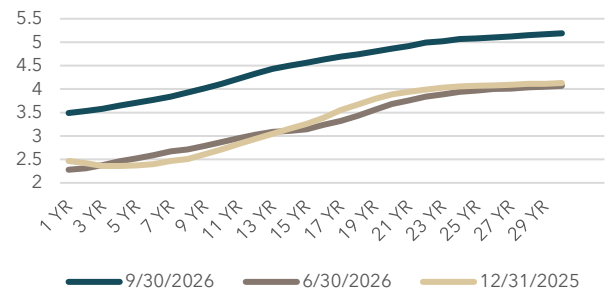
Through the end of third quarter 2026, the Bloomberg BVAL Muni AAA Callable Curve rose an average 118 basis points across one- to thirty-year maturities. Nearly all of that move occurred during the quarter, when yields increased 122 basis points on average. The sharp selloff produced the second-worst quarterly result for the Bloomberg 1-15 Year Municipal Bond Index since data began in December 2001: a 5.1% decline. September accounted for most of the damage, with the index falling 3.7%, its worst monthly return in at least a decade. Many bonds also slipped below their de minimis threshold, adding pressure to prices.

Treasury weakness explains only part of the move. Across the same maturities, Treasury yields rose about 76 basis points during the quarter, substantially less than municipal yields. Elevated new-issue supply remained the market's defining theme. September issuance was nearly 20% above its year-earlier level, and year-to-date supply through September was almost 10% higher than in 2025, itself a heavy issuance year. Although several deals were postponed late in the quarter, higher borrowing costs did not materially deter issuers. Catch-up financing for delayed infrastructure projects remained an important source of issuance. Persistent supply periodically left dealers and investors absorbing a crowded calendar.

Heavy supply was compounded by the growing number of bonds trading below de minimis. For buyers whose purchase price creates market discount above the de minimis limit, gain up to accrued market discount generally faces ordinary income tax on sale or redemption. Other appreciation may qualify as capital gain. Buyers therefore demanded additional yield compensation, further weakening prices. Demand nevertheless remained resilient through much of the year, supported by inflows into mutual funds and separately managed accounts. That pattern continued through July and August but reversed in September as mutual funds began experiencing outflows. During the second half of the month, many investors appeared reluctant to add exposure until municipal yields stabilized, reducing liquidity as the selloff accelerated.

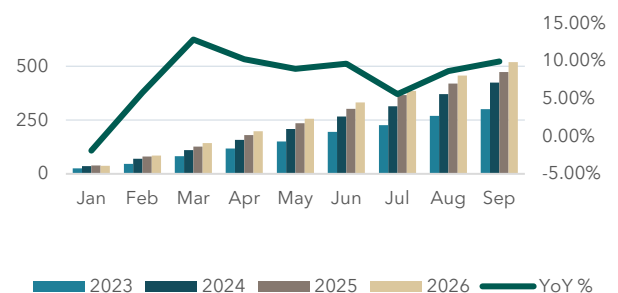
The speed of the adjustment left little time for coupon income to offset price declines. However, the reset has made municipal yields considerably more attractive, both in absolute terms and relative to Treasuries. Muni-to-Treasury yield ratios across most maturities are at their 2026 highs. Further increases could attract crossover buyers, who typically enter when tax-exempt yields compare favorably with taxable alternatives. The municipal curve has also flattened from its early-year profile, and the spread between 10-year and two-year yields has stopped widening. Intermediate maturities now offer broader opportunities: although the 15- to 20-year range remains compelling, investors can also find attractive income in the seven- to 12-year portion of the curve. This improved valuation backdrop should support demand once volatility eases, though a still-heavy issuance calendar may continue to test market capacity.

AAA Municipal Yield Curve Changes



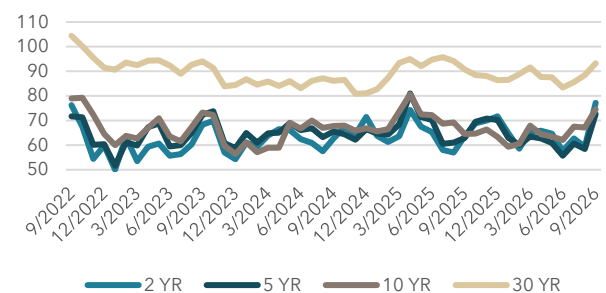
Source: Bloomberg

Muni Issuance YTD by Year (Billions)



Source: Bloomberg

BVAL AAA Muni Yield % of Treasury



Source: Bloomberg

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International Equities Market

Fragile Markets

Equity performance overall was uninspiring during the third quarter. Developed markets outperformed emerging markets as U.S. equities led with a return of 1.4% for the Russell 3000® Index and the MSCI EAFE® Index followed with a modest 81 basis points. The laggard was the MSCI Emerging Markets® Index, down 37 basis points for the quarter. The dollar finished down 22 basis points over the quarter, a very slight tailwind to international equity performance and not really reflective of the exchange rate volatility witnessed across some markets.

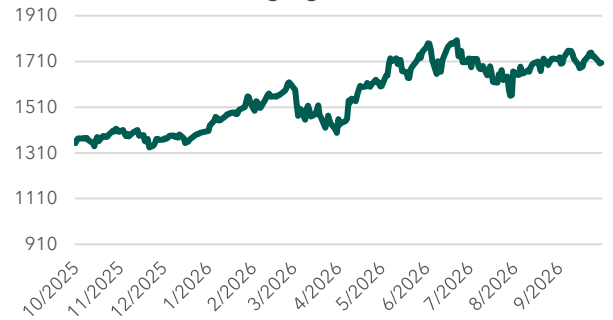
The primary driver of this quarter's lackluster performance was the market's concern about higher persistent inflation and its bleed-through effect on global interest rates. Renewed tensions in the Middle East drove oil prices above \$100 per barrel during the quarter, reigniting inflation concerns and prompting markets to price-in multiple rate hikes from major central banks.

Because of higher rates, bonds sold off, pressuring equity valuations in all three equity indices. The MSCI Emerging Markets® Index experienced the sharpest valuation contraction falling by almost 15% during the quarter, which is notable given its total return for the quarter was nearly flat, implying earnings estimates rose faster than prices. The primary culprit was Korea. Korean stocks were on a tear during the first half of this year but their performance reversed course because the market became too concentrated and crowded in two stock positions, which represented nearly half of the KOSPI Index. The selloff was characterized more as a positioning correction rather than a deterioration in fundamentals. Nevertheless, it serves as a good lesson in the dangers of market concentration and the importance of diversification.

While the third quarter's equity performance was dreary and lackluster, the profit outlook for all three indices continued to be positive. Calendar year 2027 earnings estimates continued to climb higher during the quarter. The increases are reflective of resilient economic activity and positive earnings momentum driven primarily by the AI boom. It is paramount that this trend continues.

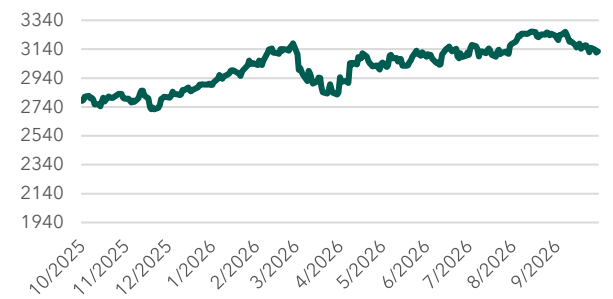
Interestingly, the bond market will probably need to stabilize first in order for global equity performance to return. If rates continue to climb, global profit growth could be at risk as the costs to fund that growth increase. Consequently, equity valuations could decline further as growth expectations reset lower. Central Banks will be handcuffed because inflation remains stubbornly high. This scenario shows the fragility we currently see in equity markets. High energy prices, geopolitics, war, tariffs and a consumer getting squeezed more and more everyday are just some of the reasons why global equity risk is rising.

MSCI Emerging Markets® Index



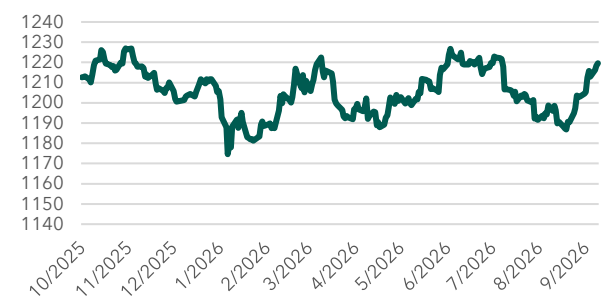
Source: Bloomberg

MSCI EAFE® Index



Source: Bloomberg

Bloomberg Dollar Spot® Index



Source: Bloomberg

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The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Quoted total returns assume reinvested distributions. Price-index charts exclude reinvested dividends. Index results exclude transaction costs, management fees and other expenses. Indices are not available for direct investment.

The S&P 500® Index measures large-cap U.S. equities across 500 leading companies. Its sector indices group constituents by industry sector. The Russell 1000®, Russell 2000® and Russell 3000® indices measure large-cap, small-cap and broad U.S. equity performance, respectively.

U.S. Treasury yields represent market yields on U.S. government securities and are commonly used as benchmarks for fixed income markets. Yield and yield-curve data are shown for informational purposes only and are not total-return measures.

The MSCI EAFE® Index covers large- and mid-cap equities in developed markets outside the U.S. and Canada. The MSCI Emerging Markets® Index covers large- and mid-cap equities in emerging markets. The Korea Composite Stock Price Index (KOSPI) is a market-capitalization-weighted index of common stocks on the Korea Exchange's main stock market.

Nominal gross domestic product (GDP) is the total monetary value of all final goods and services produced within a country's borders, measured at current market prices.

The Personal Consumption Expenditures (PCE) price index is a measure of the average change in prices paid for domestic goods and services by U.S. consumers. Compiled monthly by the Bureau of Economic Analysis (BEA), it tracks inflation and cost-of-living changes across a broad range of household and non-profit expenditures.

The Bloomberg Dollar Spot Index tracks the U.S. dollar against a basket of leading global currencies, with weights reflecting trade and liquidity. Its composition is reviewed annually.

The Bloomberg 1-15 Year Municipal Bond Index measures investment-grade, tax-exempt U.S. municipal bonds in the intermediate maturity segment.

Bloomberg BVAL (Bloomberg Valuation) municipal AAA curves are evaluated yield benchmarks. The AAA callable curve assumes a 5% coupon, non-call yields through year 10 and callable yields thereafter, quoted as offer-side yields to worst. A muni-to-Treasury ratio is the municipal yield divided by the Treasury yield of comparable maturity, multiplied by 100. Results depend on the curves and observation times used.

Global 10-Year Yields shows sovereign bond yields at approximately ten-year maturities, in percent. Brazil (USD) denotes U.S.-dollar-denominated debt. Yield comparisons reflect differences in currency, credit risk and security characteristics. Yields and yield curves are not total-return measures.

Nominal gross domestic product (GDP) measures economic output at current prices, without adjusting for inflation. GDP growth is shown year over year (YoY), with a four-quarter average of YoY growth. Core personal consumption expenditures (PCE) inflation is the YoY change in the PCE price index excluding food and energy.

Municipal issuance is cumulative year-to-date (YTD) bond issuance in U.S. dollars, in billions. The YoY line compares each YTD total with the same period a year earlier. One basis point equals 0.01 percentage point. Price-index levels exclude reinvested dividends and can differ from quoted total returns.