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FINANCIAL

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Performance Review & Outlook

The S&P 500 slipped 0.5% in September, but the index average hid a split market. The Nasdaq gained 1.9% while the Dow fell 4.3% and the Russell 2000 fell 5.4%. Only five of the Dow's 30 stocks finished the month higher, and a small group of large technology companies did nearly all the work.

The Fed raised rates for the first time in more than three years. The FOMC voted unanimously for a quarter-point increase to 3.75%–4.00%, its first hike since July 2023, and 16 of 18 officials expect at least one more increase this year.

Long-term Treasury yields pushed through 5%. The 10-year opened the month near 4.75% and finished close to 5.30%, its highest level since 2007, while the 30-year reached levels not seen since 2002.

Oil jumped again when fighting between the U.S. and Iran resumed. Brent traded close to \$100 in mid-September after renewed attacks on shipping and Houthi missile strikes on Saudi Arabia, then eased on hopes for new talks. It finished the month near \$97, up about 8%.

The economic data and the national mood keep pulling apart. Payrolls rebounded by 162,000 in August. Jobless claims fell to 197,000, a level not seen since the late 1960s. Second-quarter GDP was revised up to 2.2%, and the Atlanta Fed's GDPNow model puts third-quarter growth at 5.0%. Consumer sentiment, by contrast, fell to a four-month low.

Looking ahead, October is packed. The September jobs report comes out October 2 and CPI on October 14. Third-quarter earnings season starts in mid-October, and the Fed meets again October 27–28. Markets scaled back bets on an October hike after the softer PCE report, though a move by December remains in play. One difference from last October: Congress has funded the government through December 11, which removes the risk of a shutdown before the midterms.

Equity Market Overview

Earnings Keep Rising. Fewer Stocks Are Doing the Work.

Last month we wrote that earnings strength was spreading beyond the AI-exposed mega-caps and into value stocks and small caps. September pushed back on that view. The S&P 500 ended the month down just 0.5%, but the gap underneath was wide. Deutsche Bank noted that mega-cap growth and technology stocks are up 14% since the end of July, while the rest of the S&P 500 is down 3% and has fallen 5.5% over the past five weeks. The Nasdaq 100 gained 3.2% for the month while the Russell 2000 lost 5.4%, a gap of more than eight percentage points, and only five of the Dow's 30 stocks finished September higher.

Rates explain most of the gap. A 10-year Treasury above 5% and a Fed that has started raising rates weigh most on companies that borrow to grow, which includes small caps, housing-related names, and anything valued on distant cash flows. Large technology companies with net cash on their balance sheets feel it much less. Energy went the other direction. Energy has posted the biggest price gain of any sector since June 30, up 18.3%, as oil rose 36% over the same period through late September. Financials were the weakest sector in September as higher bond yields raised the cost of capital.

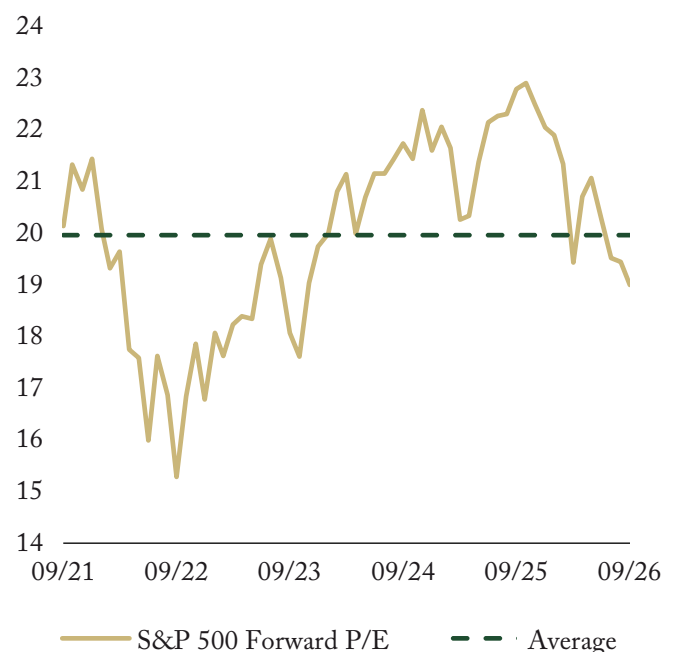
The earnings picture remains unusually strong. Analysts now expect third-quarter S&P 500 earnings growth of 29.1%, up from 26.7% at the end of June. That direction is itself unusual. Over the past five years, quarterly estimates have typically fallen about 2.2% during the quarter; this time they have risen 1.3%. Look closer, though, and the same concentration appears. Of

the 72 companies issuing positive guidance for the quarter, 44 are in Information Technology. Without the semiconductor industry, the Technology sector's expected growth rate would drop from 63.5% to 24.2%.

At today's prices, the S&P 500's earnings yield is about equal to what a 10-year Treasury pays.

Valuations have not run ahead of earnings. The forward P/E is 19.2, below its five-year average of 19.8 and down from 20.4 at the end of June, because forward earnings estimates have risen 8.9% while the index gained only 2.7%. The relevant comparison has changed, however. At 19.2 times earnings, the S&P 500's forward earnings yield is about 5.2%, roughly what a 10-year Treasury pays today. Stocks have not had to compete with a risk-free rate this high since before the financial crisis.

S&P 500 Forward P/E Falls Below Its Five-Year Average



We read this as another version of the 1996-versus-1999 question. The earnings are real, and the AI build-out is clearly showing up in the profit numbers. A market carried by one industry on the back of one spending cycle is still more fragile than one with broad participation, and higher rates make that fragility matter more. Third-quarter results will show whether the rest of the market can start contributing again. For portfolios that have drifted heavily toward the winners of the past two months, this is a reasonable time to check allocations against targets.

More ETFs, More Homework

The ETF market is on pace for a record year. According to Wall Street Horizon, 1,023 new ETFs launched in the first eight months of 2026, a 52% increase over the same period last year. Closures are rising as well, with 169 funds delisted through September 21, and the fourth quarter is usually the busiest time of year for liquidations. That number can sound alarming, but most closed funds are small products that never gathered enough assets to cover their costs. Issuers are shutting those down faster than they used to, which is what a competitive market is supposed to do.

Investors keep adding money. U.S. ETFs have taken in about \$1.47 trillion so far this year, close to an annual record. Technology and AI funds get most of the headlines, but broad, diversified index funds remain very popular. The lineup now runs from plain index funds to single-stock, leveraged, options-based and defined-outcome strategies.

This ties back to the concentration we described above. Many funds marketed around AI or technology own many of the same large companies that carried the market in September, so holding several of them may add less

diversification than it appears. ETFs are easier to buy than ever, but they are no longer built for the same purpose or with the same level of risk. Two funds with similar names can behave very differently in a down market. Before adding one, it is worth looking past the label at what the fund holds, how it produces its return, what it costs, and whether it fits the role it is meant to play in the portfolio.

September Index and Sector Performance

-0.5%	S&P 500
-4.3%	Dow Jones Industrial Avg.
+1.9%	Nasdaq Composite

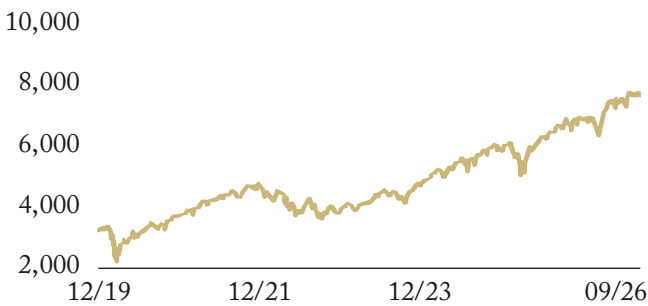
Outperforming Sectors

+4.4%	Technology
+4.3%	Communication Services
-1.0%	Health Care

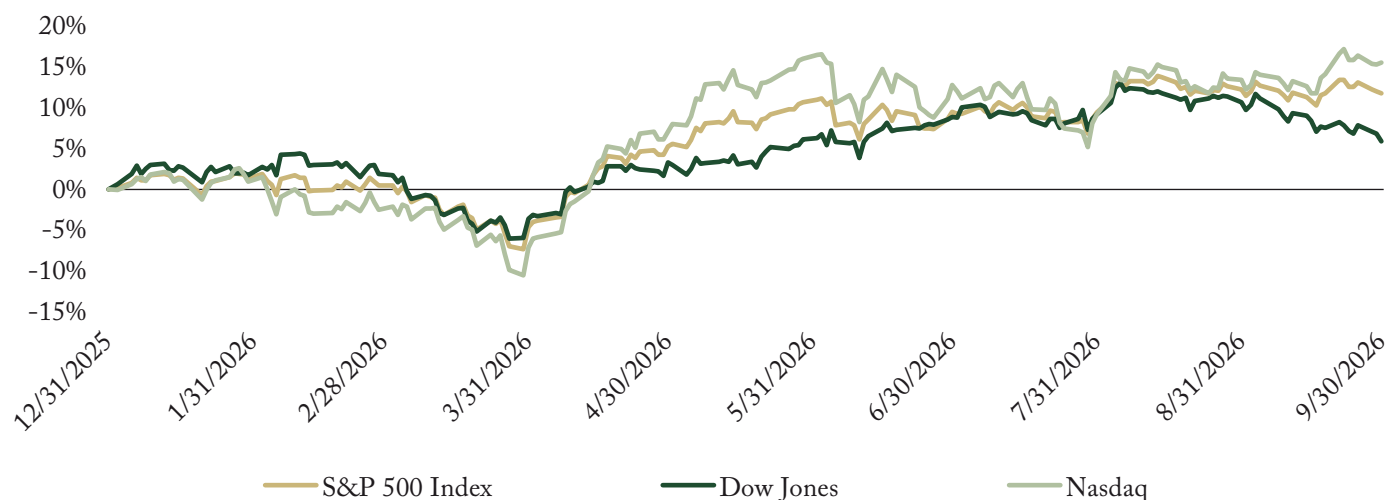
Underperforming Sectors

-7.3%	Financials
-6.9%	Materials
-6.4%	Real Estate

S&P 500 Price Index



Index Returns YTD



Fixed Income Market Overview

September marked one of the sharpest increases in U.S. interest rates we have seen in recent years. The 10-year Treasury opened the month at 4.80% and closed at 5.30%, rising nearly 50 bps and leaving both the 5% and 5.25% levels behind with little to no resistance on its way past its 2007 peak. The 30-year long bond, while slightly less dramatic, rose roughly 40 bps to close the month near 5.65%, leaving the 5.50% level behind it like a ghost in the night and reaching its highest level since 2002. Even the shorter 5-year pushed past 5% to close the month at 5.08%, spurred on by the Federal Reserve's decision to raise rates at its September FOMC meeting for the first time since July 2023.

The Fed did little to ease fears of further hikes. Fed Chair Warsh continued his straight-to-the-point approach to monetary policy, stating in his post-FOMC press conference that “the plain fact is that inflation is too high and has been for too long.” He also attributed the rapid rise at the longer end of the curve to a stronger economy and

to competition for capital as hyperscalers raise funds for AI capital spending, two themes we have frequently discussed in our monthly publications. Several Fed officials have since pointed to further hikes this year, although the slightly cooler-than-expected PCE numbers released on the last day of September may have lowered the odds of an October hike in favor of a December hike to close out the year.

With yields dominating financial headlines across all markets, this is a perfect opportunity to pause and put today's levels in historical perspective. Recent memory points to the very low yields the U.S. carried after the financial crisis and for more than a decade beyond. But looking further back tells a deeper story. Since 1962, the 10-year Treasury has averaged roughly 5.80%, and the 30-year long bond, which began regular issuance in 1977, has averaged roughly 6.20% since inception. In that light, today's levels, while certainly higher than what we have grown used to since the early 2000s, are right in line with long-term averages. We often ask clients with longer-term market experience, “Did you have a mortgage in the '80s? What was your interest rate?” The 15% rates always offer perspective, and usually a light chuckle.

10-Year Treasury Yield is Back Near its Long-Term Average



So, what does all this mean for investors as we face the highest interest rates in nearly 20 years? We say opportunity. As previously mentioned, the S&P 500's earnings yield is now roughly equal to the yield on the 10-year Treasury. Intermediate-term, investment-grade corporate debt is pushing toward yields near 6%, and intermediate AA-rated municipal yields have surpassed 5%. For the first time in nearly 20 years, fixed income is competing with equities for a real place in the investment portfolio, and portfolio managers are having to ask whether bonds make more sense than stocks from a risk/return standpoint. So we are asking our investors the following: did you realize that these are the highest yields we have seen in nearly 20 years? Concerned the equity market could be frothy after such an amazing run? Worried about AI exposure in tech stocks? All are excellent reasons to consider bonds at today's 20-year highs.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	September	YTD	12-Month
S&P 500	7,651.54	-0.5%	11.8%	14.4%
Dow Industrials (DJIA)	50,906.05	-4.3%	5.9%	9.7%
Nasdaq	26,861.06	1.9%	15.6%	18.5%
Russell 2000	2,796.878	-5.4%	12.7%	14.8%
U.S. 2yr Treasury	4.90	12.9%	41.1%	35.8%
U.S. 10yr Treasury	5.30	11.6%	27.2%	27.7%
Gold (NY Spot \$/oz)	4,166.60	-6.1%	-3.6%	8.0%
Silver (NY Spot \$/oz)	60.40	-9.3%	-15.7%	29.5%
Copper (\$/lb)	6.57	-0.4%	15.6%	35.9%
Oil (WTI Spot/bbl)	90.40	5.4%	57.5%	44.9%
Oil (Brent Spot/bbl)	97.42	7.7%	60.1%	45.4%
Natural Gas (\$/mmBtu)	3.03	3.2%	-17.8%	-8.3%

Data as of September 30, 2026. Price returns. Source: FactSet/Bloomberg

Economic Overview

Key Economic Indicators



JOB MARKET

Employment Report

Hiring returned in August after a quiet summer. Nonfarm payrolls rose 162,000 against a consensus of 53,000, and the unemployment rate held at 4.1%. Revisions also moved in the right direction this time. July's initial 23,000 loss was revised to a 21,000 gain and June was raised to 31,000, adding 55,000 jobs to the prior two months combined. That lifts the three-month average to about 71,000. The mix was less encouraging than the total. Restaurants and bars added 59,000 jobs against a 12,000 monthly average over the past year, and local government education added 42,000, mostly recovering July's decline. Manufacturing added 16,000 and is up 58,000 since December, while health care slowed to 13,000, well below its 32,000 monthly average. The information sector lost 23,000 jobs, including 8,000 at computing infrastructure and data processing firms. Participation edged up to 61.6% but is still down half a point since January. Average hourly earnings rose 0.3% on the month and 3.1% over the year, which is below the 3.4% rise in consumer prices. The typical paycheck is still losing ground to inflation.

Initial Jobless Claims

Layoffs remain very rare. For the week ending September 19, initial claims fell 1,000 to 197,000, and the four-week average dropped to 202,250. Economists had expected 201,000, and claims are running at levels not seen since the late 1960s. Continuing claims rose 2,000 to 1.719 million, down from about 1.78 million in late August. People who lose jobs are finding new ones somewhat faster than they were this summer.

HOUSING MARKET

House Prices

Home prices picked up modestly in July. The S&P Cotality Case-Shiller National Index rose 1.9% from a year earlier, up from 1.6% in June, with the 10-City Composite up 3.4% and the 20-City up 2.5%. The monthly picture was softer. National prices rose just 0.1% before seasonal adjustment, well short of the 0.5% July average from 2015 to 2019. Home prices fell in real terms for the 14th straight month. Chicago led again at 6.9%, while Seattle was weakest at -1.6%, a spread of nearly nine points. These figures reflect sales that closed in May through July, before September's jump in borrowing costs. Freddie Mac's 30-year fixed rate reached 6.95% in mid-September, the highest of this administration, and the 10-year Treasury has kept rising since. The fall numbers will show how much that affects demand.

Economic Overview

Key Economic Indicators



PERSONAL INCOME & SPENDING

Personal Income & Spending

Consumers spent freely in August. Personal consumption expenditures rose \$190.8 billion, or 0.9%, with goods accounting for \$114.1 billion of the increase and services \$76.7 billion. Adjusted for inflation, spending rose 0.6%, a sharp pickup from 0.1% in July. Income did not keep up. Personal income rose \$66.6 billion, or 0.2%, led by wages and Social Security and Medicare benefits, and disposable income rose 0.3%. After inflation, disposable income was flat for the month.

This release also carried BEA's annual revision of the national accounts, which reworked the monthly data back to January 2021, and the biggest change was to saving. The personal saving rate now stands at 4.1% for August, well above the 3.0% reported for July before the revision. Households appear to have more of a cushion than the earlier data suggested, which helps explain how spending held up in a month when consumer sentiment fell to a four-month low. Spending cannot outrun income indefinitely, though, and flat real income is the figure we will be watching over the next few months.

CONSUMER SENTIMENT

University of Michigan Consumer Sentiment

Americans grew gloomier in September even as the economic data improved. The final sentiment reading fell 7% to 48.1, with current conditions down to 50.9 and expectations dropping 10.4% to 46.3. Sentiment is now 12.7% below its level a year ago. The gauge of the year-ahead economic outlook fell to its lowest point since 2022, and the decline showed up across Republicans, Democrats, and independents. Inflation expectations moved the wrong way. Year-ahead expectations rose to 4.6% from 4.0%, and long-run expectations rose to 3.4%, the highest since May. Fuel prices drove much of the decline, and consumers told the survey they expect gasoline prices to keep rising in both the short and long run. So far, low sentiment has not reduced spending.



Economic Overview

Key Economic Indicators



ECONOMIC GROWTH

GDP Growth

The annual revision made the first half of the year look considerably better. BEA's third estimate put second-quarter growth at 2.2%, up 0.7 percentage point from the 1.5% reported in August, with investment, consumer spending and government spending all revised higher. First-quarter growth was raised to 2.5% from 2.1%. Real final sales to private domestic purchasers, the measure we rely on most for underlying demand, rose 4.6%, up from 4.2% in the prior estimate. Real gross domestic income grew 2.6%, and the average of GDP and GDI rose 2.4%. Most of the weak headlines that concerned markets over the summer have now been revised away.

The third quarter looks stronger still. The Atlanta Fed's GDPNow model put third-quarter growth at 5.0% as of September 25, which would be the strongest quarter since late 2021. The advance estimate is due October 29.

INFLATION

Consumer Price Index (CPI)

Energy drove inflation higher again in August. The CPI rose 0.4% for the month after 0.1% in July, and the annual rate held at 3.4%. Gasoline rose 3.9% and accounted for over a third of the monthly increase. Energy prices are up 16.3% from a year ago, with gasoline up 27.4%. Core inflation is running a full point lower. Core CPI rose 0.3% on the month but eased to 2.4% year over year from 2.5%. Shelter rose 0.3% after 0.1% in July, and airfares jumped 2.7%. Medical care and auto insurance both declined. Most of the inflation problem comes from energy prices. The Fed is concerned that it spreads into other prices from there.

Personal Consumption Expenditures (PCE) Price Index

The Fed's preferred inflation gauge came in lower than last month's reading, though the revision accounts for part of that. The headline PCE price index rose 0.3% in August and 3.4% from a year earlier. Core PCE, which excludes food and energy, rose 0.2% for the month and 3.0% over the year. Last month we reported July at 3.7% headline and 3.3% core, but those figures came before BEA's annual update, which revised price data back to 2021 and changed how it measures prices for software, legal services and portfolio management fees. The new figures should not be read as a straight decline from what we printed in September. Both measures remain well above the Fed's 2% target, and September's reading will reflect a month in which oil traded close to \$100.

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