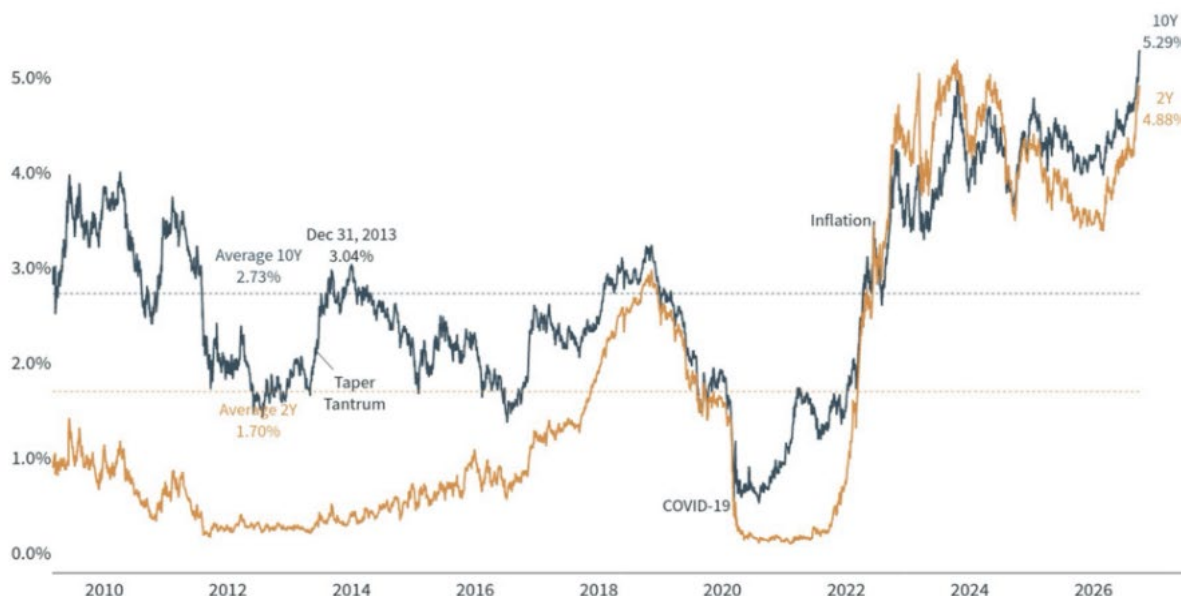


Market Commentary – Q3 2026

After a very strong second quarter, the third quarter was a much quieter one for stocks and a difficult one for bonds. U.S. equities finished with small gains, carried almost entirely by the largest technology companies, while most other areas of the market slipped. Bonds, on the other hand, had one of their worst quarters in decades as interest rates climbed to levels we haven't seen since the early 2000s.

The broad U.S. bond market (the Bloomberg U.S. Aggregate Index) lost about 4% in the quarter, and municipal bonds fell about 6%. The reason is straightforward: bond prices move in the opposite direction of interest rates. When rates rise, existing bonds paying lower rates become less valuable, and their prices fall. The 10-year Treasury yield rose from about 4.5% to 5.3% over the quarter, its highest level in roughly 25 years.

Interest Rates – 10-year vs. 2-year Yields Since 2010



Source: Cleonomics, Inc. Data as of 9/30/2026.

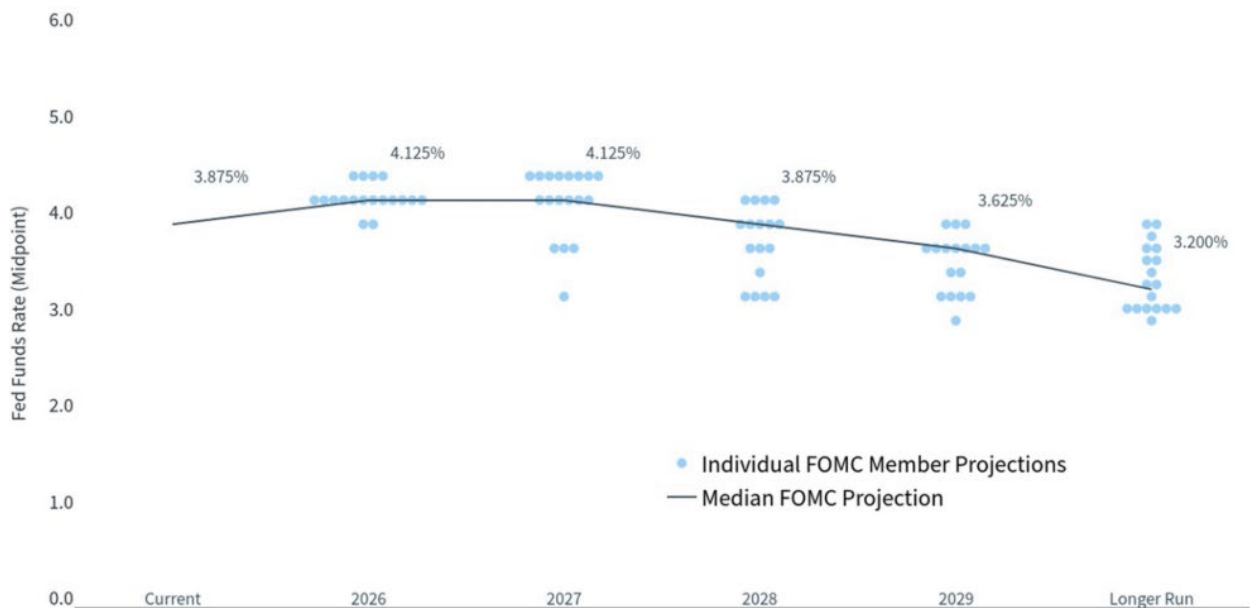
Obviously, it never feels good to have the 'low-risk' segment of a portfolio drag returns into negative territory. But there is important context to consider when bonds are what is rising or falling.

We see three main reasons rates moved so sharply:

- **The Fed started raising rates again** - In September the Federal Reserve raised its benchmark rate by a quarter point, its first increase since 2023, and a majority of the committee expects another hike before year-end. At the start of this year, markets were expecting cuts. So, the reversal in expectations created downward pressure on bond prices.

- **Inflation and the economy have stayed hot** - Higher energy prices have kept inflation above the Fed's target, and the economy has proven more resilient than many expected. The primary tool in the Fed's arsenal to combat inflation is by raising interest rates.

The graph below is the Federal Reserve's 'dot plot'. Each dot is an individual governor's expectation of where they expect rates to be at year-end for the next several years. While we fully expect the actual path of interest rates to differ from what's shown here, this is still valuable insight into how we expect bonds to be priced in the near- and intermediate future.



Source: Cleonomics, Inc. Data as of 9/30/2026.

- **There is simply more debt competing for buyers** - On top of ongoing federal deficits, the large technology companies building out AI infrastructure are borrowing heavily, and that debt competes with Treasuries for investors' dollars.

Here is the part we want to emphasize: higher yields today mean higher expected returns from bonds going forward. A bond's starting yield has historically been one of the best predictors of what it will return over the following years. The pain of rising rates is felt up front, but the payoff is that every bond you own, and every bond you buy from here, pays more income.

With yields at their current levels, rates would need to rise roughly another full percentage point over the next year before a broad bond portfolio would lose money over that year. We can't promise rates won't keep climbing, but bonds are now paying investors far more for their patience than they have for most of the past fifteen years. As we rebalance, new money going into fixed income is being put to work at these higher yields raising the expected return of the investment portfolio.

Additionally, there is a silver-lining to modest, unrealized bond losses. The past four years have been very good for our clients' equity portfolios. In non-retirement accounts, this outperformance has created large capital gains that can restrict our ability as an advisor to keep the portfolio in adherence with our targets. Paper losses on the bond-side of the portfolio may allow us to strategically rebalance these accounts without significant tax-impact for our clients that may be sensitive to realizing income for one reason or another.

As we enter tax planning season in Q4, we will seek to harvest losses in portfolios and take advantage of opportunities to better position our clients' accounts moving forward.

Past performance is no guarantee of future results.

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