

Quarterly Investment Report

October 2026



Large-cap equities posted modest gains in the third quarter of 2026, but conditions beneath the index level were considerably less favorable. The S&P 500 advanced +2.30%, and the Nasdaq Composite rose +2.60%, while the Dow Jones Industrial Average declined -2.30%. Smaller companies lagged, with the S&P 400 MidCaps down -6.40% and the S&P 600 SmallCaps lower by -7.90%. Headline returns masked a further narrowing of market leadership. Investors continued to favor growth and artificial intelligence beneficiaries, while showing less tolerance for rate sensitivity, balance sheet leverage, and cyclical exposure. The quarter sharpened our focus on the durability of the current bull market. Earnings are strong, and the market is not showing signs of broad stress, but the advance depends on a set of conditions: sustained artificial intelligence investment, resilient consumer demand, contained credit stress, and inflation that stays elevated without forcing a much more restrictive Federal Reserve. When valuations already reflect high expectations and rates are rising, there is less room for disappointment. The latest earnings data remained supportive. S&P 500 sales growth was +15.55%, while earnings growth reached +53.10%. Information Technology again led, with sales growth of +37.62% and earnings growth of +77.44%. Our conclusion is not to reduce equity exposure, but to apply a higher standard to each holding and why we own it.

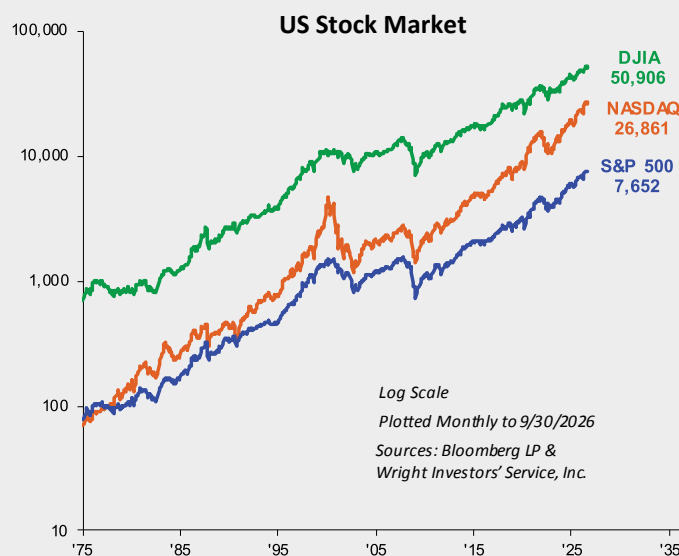
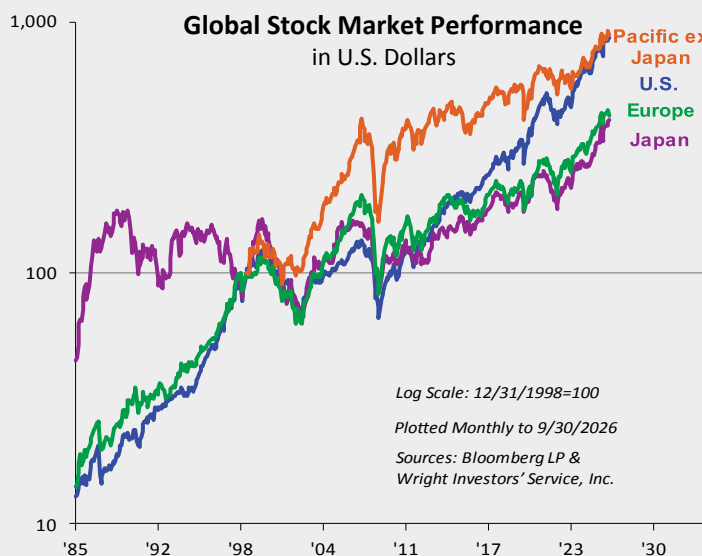
Stock Market

U.S. equity returns were mixed in the third quarter. The S&P 500 rose +2.30%, and the Nasdaq Composite gained +2.60%, while the Dow declined -2.30%. Results deteriorated further down the capitalization spectrum, with the S&P 400 MidCaps falling -6.40%, and the S&P 600 SmallCaps declining -7.90%. Healthy bull markets usually broaden over time. This quarter moved in the opposite direction, as investors penalized areas more exposed to financing costs, tighter liquidity, and cyclical uncertainty.

Sector dispersion reflected the same divide. Energy led the market with a +17.20% return as crude oil prices rose sharply. Information Technology gained +7.20%, Health Care advanced +6.50%, and Telecoms rose +3.60%. Utilities declined -12.40%,

Industrials fell -9.70%, Real Estate lost -5.60%, and Consumer Discretionary declined -5.10%. The defensive profile of Utilities offered little protection, as higher rates outweighed the sector's income appeal. Real Estate was pressured by rising yields, which weighed on capitalization rates and refinancing assumptions.

Entering earnings season, analyst and corporate commentary on the third-quarter outlook has been more constructive than usual. Consensus S&P 500 earnings estimates for the quarter are higher today than at the start of the period. This indicates that equity prices are supported by improving fundamentals rather than price momentum alone. Better earnings expectations help explain why investors remain committed to large-cap equities despite higher rates and weaker breadth.



Earnings remain the most compelling support for equities.

S&P 500 earnings growth of +53.10% substantially outpaced sales growth of +15.55%, indicating considerable operating leverage. Information Technology was again the largest contributor, though the improvement extended beyond that sector: Consumer Discretionary, Communication Services, Energy, Materials, and Financials also reported strong earnings growth. That breadth does not remove risk, but it gives the market a firmer fundamental foundation.

Artificial intelligence remained the dominant investment theme.

Capital spending continues, and demand appears to exceed available supply across compute, data centers, power, cooling, and related infrastructure. The risk is not that AI spending is imaginary. It is real. The issue is that the market is already giving companies credit for returns that still must be earned. If monetization takes longer than expected, a repricing would not be confined to software and semiconductors. It would also reach parts of Industrials, Utilities, Real Estate, power infrastructure, and the credit markets financing the buildout.

International results were mixed. MSCI Developed World excluding the U.S. gained +0.90%, Japan rose +6.00%, the United Kingdom gained +1.90%, and China advanced +3.70%. Emerging Markets slipped -0.40%, and Europe excluding the United Kingdom declined -2.60%. Dispersion across regions remains wide, with Japan's strength and China's stabilization the most notable developments.

Bond Market

The bond market sent the clearest message of the quarter.

The Bloomberg U.S. Aggregate Bond Index fell -3.50%, the Bloomberg U.S. Credit Index declined -3.80%, and the Bloomberg U.S. High Yield Bond Index lost -1.80%. Bank Loans rose +1.90%, aided by their floating-rate structure, while Treasury bills returned +0.90%. This was a rate shock, not a credit event. Duration was the main source of losses, while high yield was cushioned by shorter duration and carry.

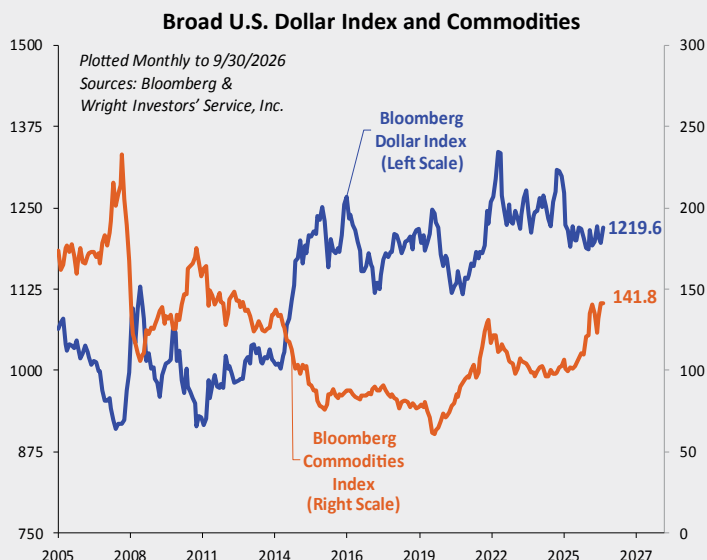
Treasury yields rose sharply across the curve. The 2-year U.S. Treasury yield increased to 4.89% from 4.17% at the end of June. The 5-year rose to 5.09% from 4.23%, the 10-year to 5.28% from 4.47%, and the 30-year to 5.63% from 4.95%. Real yields moved higher as well. The 10-year TIPS yield rose to 2.91% from 2.22%, and the 30-year TIPS yield to 3.33% from 2.78%. That is a meaningful tightening of financial conditions and raises the hurdle rate for equities, real estate, and leveraged borrowers.

The rise in yields appears to reflect more than the next Federal Reserve decision.

Markets appear to be adjusting to a world in which the disinflationary forces of recent decades are less dependable. Supply chain redundancy, higher labor costs, larger fiscal deficits, heavy Treasury issuance, and artificial intelligence-related corporate borrowing are all consistent with a structurally higher cost of capital. One implication is that slower growth may not, on its own, return rates to pre-pandemic levels. Fixed income continues to offer value, but maturity, quality, and liquidity now matter more.

Inflation remains the central policy challenge. CPI rose +3.40% year-over-year in August and core CPI +2.40%, while PCE inflation was +3.70%, and core PCE inflation +3.30%. These readings are below the peak inflation prints, but still too elevated for the Federal Reserve to ease. Producer prices were also firm, with final demand PPI up +5.40% year-over-year. In September, the Federal Reserve raised the target range for the federal funds rate by 0.25% to 3.75% to 4.00%. For investors, the more relevant question is not the timing of a rate cut, but whether inflation stays firm enough to keep policy tight for longer.

Credit conditions merit close monitoring. Public credit held up reasonably well, and bank loans benefited from higher short-term rates. Rising yields, however, carry a cost. Private credit remains an area of concern, particularly semi-liquid vehicles where elevated redemption requests can pressure liquidity.



Highly leveraged software companies remain vulnerable where artificial intelligence threatens pricing power, customer retention, or the durability of recurring revenue. Strong earnings can mask stress for a period, but higher refinancing costs eventually matter.

Alternatives

Commodities rebounded sharply in the third quarter, with the Bloomberg Commodities Index rising +16.20%. Crude oil gained +30.10%, closing the quarter at \$90.42 per barrel. Heating oil rose +49.40%, unleaded gasoline increased +14.00%, and copper gained +6.90%. Gold advanced +2.90%, while natural gas declined -7.60%. The commodity rally compounded inflation concerns at the same time Treasury yields were rising.

Energy was again the most consequential component of the alternatives landscape. The rebound in crude oil and refined products presents a direct headwind for consumers and businesses. Higher fuel costs can strain household budgets, raise transportation costs, and slow progress on headline inflation. Supply risk remains a relevant consideration.

Copper's strength also stands out. Unlike oil, copper is more directly linked to electrification, power infrastructure, industrial activity, and artificial intelligence-related data center demand. Artificial intelligence can support growth, but it requires substantial power, equipment, land, and capital. That creates opportunity, but it may also add pressure to inflation and interest rates.

U.S. Economy

The U.S. economy remained resilient, though the data were not uniformly strong. Second quarter real GDP was revised to +2.20% annualized, with personal consumption rising +3.80%. Retail sales advanced +1.20% in August, while retail sales excluding autos increased +1.40%. Personal spending rose +0.90%, and real personal spending increased +0.60%. These figures are not consistent with an economy entering contraction.

The consumer, however, remains divided. Aggregate spending is holding up even as sentiment remains weak: University of Michigan sentiment was 48.10 in September, and Conference Board Consumer Confidence fell to 81.90. Higher-income households continue to benefit from employment, asset values, and accumulated savings. Lower-income households remain more exposed to higher prices, rent pressure, and borrowing costs. That divergence helps reconcile solid spending with poor sentiment.

The labor market is cooling down without deteriorating. Nonfarm payrolls increased by +162,000 in August, and the unemployment rate held at 4.10%. Average hourly earnings rose +3.10% year-over-year. ADP reported +90,000 private-sector jobs in September, and initial jobless claims remained contained at 197,000 in the week ended September 19. The labor market is no longer overheated, but it continues to support consumption.

Business activity remained constructive. ISM Manufacturing registered 54.60 in August, and ISM Services 55.40. Durable goods orders were flat in August following a strong July, while core capital goods orders excluding aircraft rose +1.60%. These data are consistent with continued support for the industrial economy from infrastructure, defense, energy, and technology investment. The industrial renaissance remains a part of the growth narrative, although higher rates raise the bar for project economics.

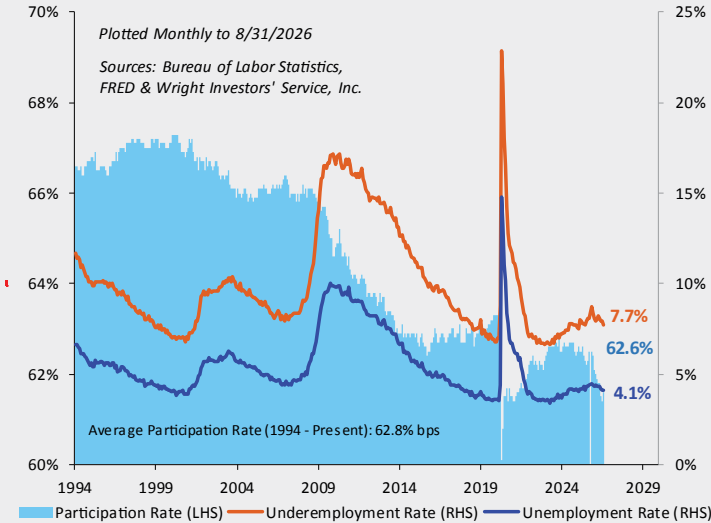
The midterm election has become a more relevant market consideration, not because investors should assume a major policy shift, but because expectations have moved away from a straightforward gridlock scenario. Prediction markets and generic ballot polling have recently indicated improved odds of Democrats gaining control of one or both chambers, which raises the possibility of a more difficult fiscal and legislative backdrop.

The U.S. Economy 2023-2026

		% Change In			End of Period Rates	
		Real GDP*	PCE Core Deflator*	Profits from Operations#	90-Day T-Bills	10-Year T-Notes
2023	Q1	3.4%	4.5%	4.8%	4.7%	3.5%
	Q2	2.2%	4.1%	1.9%	5.3%	3.8%
	Q3	4.5%	2.4%	-1.4%	5.4%	4.6%
	Q4	3.6%	2.6%	-0.9%	5.3%	3.9%
2024	Q1	1.4%	3.6%	0.6%	5.4%	4.2%
	Q2	3.6%	2.8%	2.7%	5.4%	4.4%
	Q3	3.2%	2.4%	6.7%	4.6%	3.8%
	Q4	2.4%	2.8%	7.6%	4.3%	4.6%
2025	Q1	0.1%	3.0%	10.4%	4.3%	4.2%
	Q2	4.0%	2.9%	11.7%	4.3%	4.2%
	Q3	3.9%	2.6%	11.7%	3.9%	4.2%
	Q4	0.2%	2.5%	12.7%	3.6%	4.2%
2026	Q1	2.5%	3.9%	12.1%	3.7%	4.3%
	Q2	2.2%	3.3%	15.9%	3.8%	4.5%
	Q3 e	2.8%	3.3%	26.0%	4.1%	5.3%
	Q4 e	2.1%	3.3%	29.3%	4.1%	4.9%

e: Bloomberg Consensus Estimates; *: Quarter-Over-Quarter Annual Rates; #: Year-Over-Year Change in S&P500 EPS Sources: Bloomberg LP, Wright Investors' Service, Inc.

U.S. Employment



Even under that outcome, a Republican White House and the Senate filibuster would constrain major tax, regulatory, healthcare, or climate legislation. For markets, the more practical risk is not sweeping policy change, but more contentious negotiations over the budget, debt ceiling, defense authorization, tax extensions, and healthcare provisions.

Investment Outlook

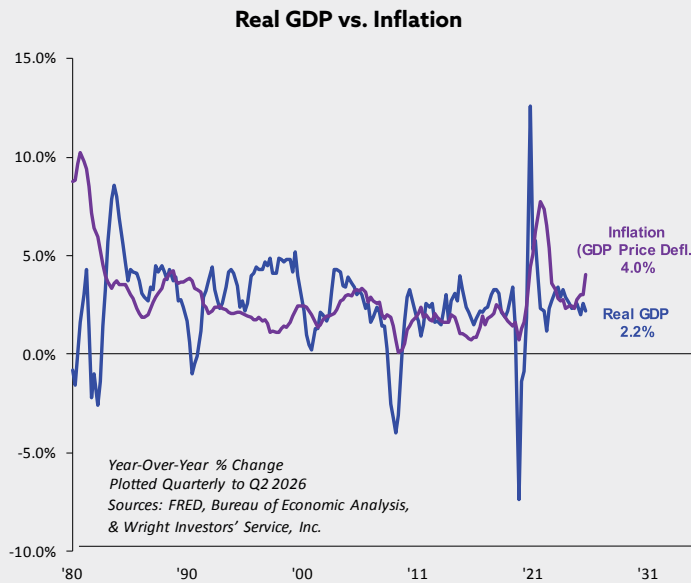
The third quarter was constructive, though not fully reassuring. The S&P 500 and Nasdaq advanced, earnings were strong, and artificial intelligence investment remained substantial. At the same time, market breadth narrowed, rates rose sharply, small- and mid-cap stocks weakened, and rate-sensitive sectors came under pressure. Such a backdrop does not argue for complacency. In our view, it calls for selectivity and patience.

We remain constructive on equities, but with greater selectivity. The economy is still growing, earnings are advancing, and capital spending remains an important source of support. However, the market now depends on several conditions holding. Artificial intelligence investment needs to translate into tangible revenue growth and productivity gains. Inflation needs to remain contained enough to avoid a more aggressive Fed. Consumers need to keep spending despite weak sentiment. Credit stress needs to remain isolated. Each assumption is reasonable, but together they narrow the margin of safety.

We do not view this as a market where investors should chase narrow momentum or rely on companies that need cheap capital to make the story work. Higher rates make balance sheets, free cash flow, and internal funding capacity more important. Companies with durable earnings, sound financial quality, and reasonable valuations should be better positioned than companies that need ideal conditions to justify their valuation.

The same thinking applies to fixed income. Higher yields have improved the income opportunity, yet the third quarter demonstrated that duration risk remains significant. We continue to use fixed income deliberately, with attention to credit quality, liquidity, maturity structure, and each position's role within the portfolio. Cash and short-duration bonds now offer meaningful yield. Longer-duration exposure should be sized carefully and aligned with client objectives, rather than with a forecast that rates will decline.

This is not a reason to retreat from risk assets. Earnings are still growing, the economy remains resilient, and the artificial intelligence investment cycle is real. But it is a reason to raise the bar. We want businesses that can compound through changing conditions, not only when liquidity is abundant. We want to balance growth and quality, income and duration, and opportunity and risk control. Market momentum persists, but the margin of safety has narrowed. Our focus remains on participating in growth while managing downside risk.



Global Investment Returns In U.S. Dollars

	Q3 2026		Trailing 12 Months	
	Stocks	Bonds	Stocks	Bonds
U.S.	2.2%	-3.5%	15.0%	-1.8%
Canada	1.5%	-2.8%	17.4%	-3.6%
Mexico	-5.0%	-4.2%	11.0%	-1.2%
Japan	6.0%	1.5%	26.6%	-12.5%
Pacific ex Japan	4.5%	2.1%	11.6%	6.1%
Australia	1.7%	-1.5%	9.2%	3.5%
China	3.7%	2.2%	-18.4%	9.5%
Hong Kong	6.6%	-2.3%	8.0%	-0.2%
Europe	-1.6%	-4.4%	12.6%	-5.5%
France	-5.5%	-5.5%	0.4%	-5.4%
Germany	0.7%	-4.0%	2.2%	-6.0%
Italy	0.0%	-4.1%	17.6%	-2.7%
Netherlands	-5.0%	-4.5%	37.4%	-6.0%
Spain	1.0%	-4.1%	27.2%	-4.8%
Switzerland	-5.7%	-5.0%	11.3%	-6.3%
U.K.	1.9%	-2.5%	15.8%	-0.6%
World	1.9%	-2.5%	15.2%	-2.4%
World ex U.S.	0.9%	-1.6%	15.9%	-3.0%

Sources: MSCI Stock & Bloomberg Barclays Bond Indexes as of 9/30/2026

Source: Bloomberg Index Services Limited. "Bloomberg", "Bloomberg Commodity Index" and the Bloomberg Bond Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Wright Investors' Service, Inc. Bloomberg is not affiliated with Wright Investors' Service, Inc. and Bloomberg does not approve, endorse, review, or recommend Wright Products. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Wright Products.

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