

QUARTERLY MARKET REPORT

THIRD QUARTER 2026



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THIRD QUARTER HIGHLIGHTS

U.S. ENERGY STOCKS SOAR AND INVESTORS SELL OFF U.S. TREASURY BONDS

FINANCIAL MARKETS

- The S&P 500 Index returned 2.30% for the quarter and 12.75% year-to-date, finishing near record highs. Energy stocks led the way by a wide margin, returning 40% in the third quarter as crude oil prices peaked in September. Technology stocks also were up 7% as the AI spending boom continued.
- U.S. small-capitalization (cap) stocks fell 7.23% during the quarter, with technology stocks down 10% as small software companies faced investors' concerns that artificial intelligence (AI) will make their applications obsolete.
- Taiwan continued to outperform, but emerging and international developed markets each returned less than 1% for the quarter. South Korea's export growth slowed, and its stock market fell after a red-hot first half of the year.
- Investors sold off U.S. Treasury bonds during the quarter, pushing the 10-year U.S. Treasury yield above 5%. It has been 24 years since the U.S. 10-year rate has remained above 5% for a sustained period.

OVERVIEW OF THE ECONOMY

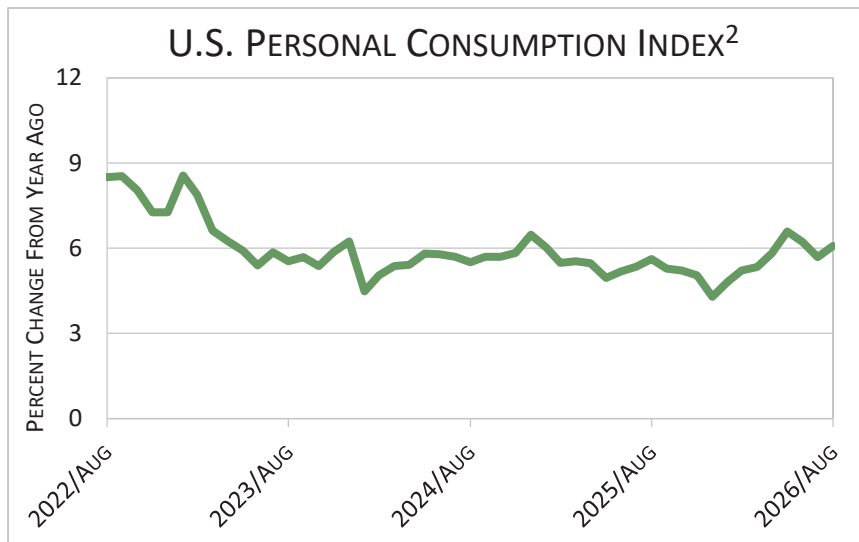
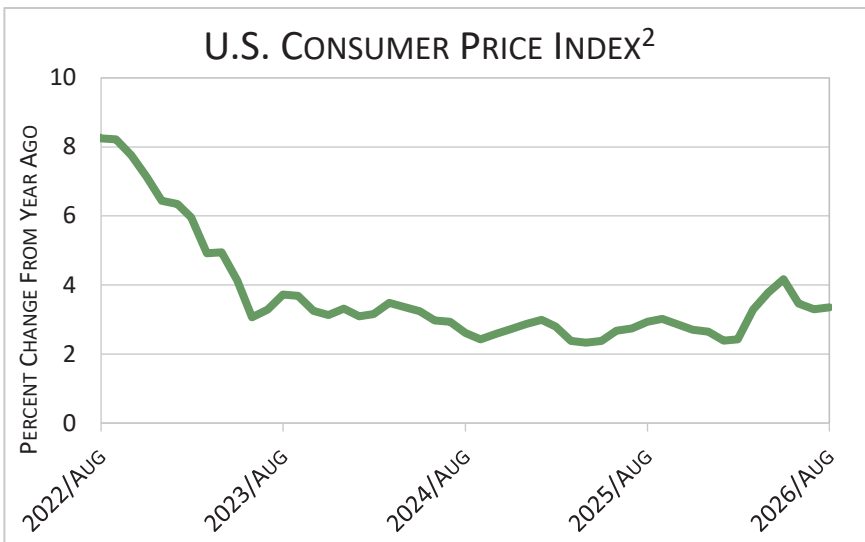
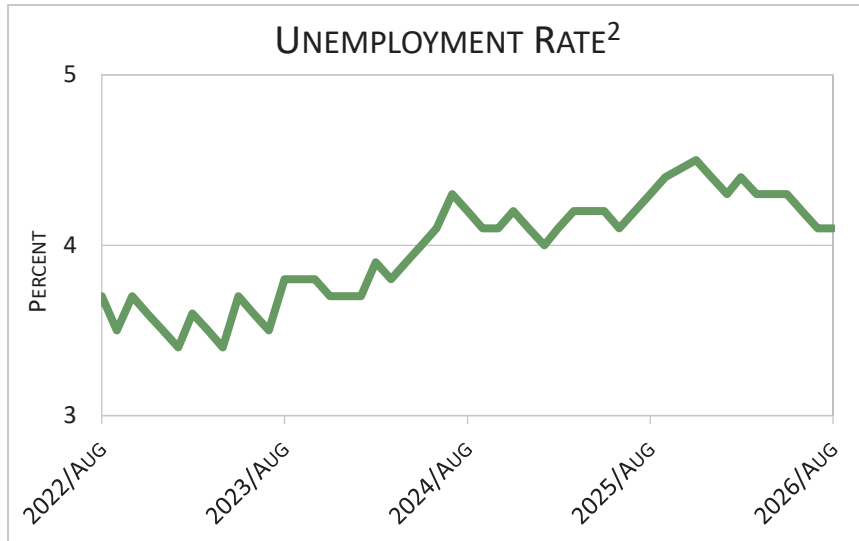
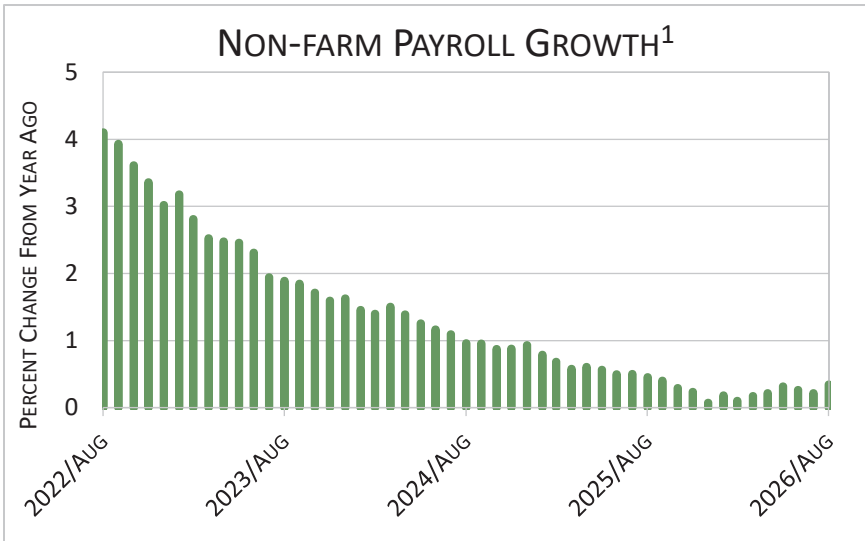
- U.S. gross domestic product (GDP) grew at approximately 3.6% annualized in the third quarter. Corporate earnings topped expectations as data center buildouts created demand for grid wiring, power transmission, and cooling capacity. Investors rotated capital from chip designers to hardware companies that provide memory devices, server assembly, and electrical hardware.
- U.S. unemployment held steady at 4.2%, remaining within a narrow range in 2026. U.S. employers added fewer jobs than expected during the third quarter, but labor force participation rose and the U.S. health care and manufacturing sectors added jobs.

NOTABLE EVENTS

- In September, the Federal Reserve (Fed) under new Chairman Kevin Warsh raised their policy rate a quarter of a percent to 3.75% - 4.00%. The committee had left the rate unchanged in Warsh's first two meetings as Chairman.



INFLATION TICKS UP IN Q3 – UNEMPLOYMENT AND PERSONAL CONSUMPTION STAY WITHIN A NARROW BAND



THIRD QUARTER HIGHLIGHTS

WARSH'S FED RAISES RATES AFTER TWO HOLDS

On September 16, the Federal Reserve voted 12-0 to resume policy tightening, raising the Fed Funds target rate range 25 basis points to 3.75% – 4.00%. The policy shift was due to inflation concerns driven mostly by rising energy costs. The Fed expressed confidence that the current scale of enterprise AI capital expenditures would counterbalance the contractionary nature of the rate hike. The committee meets again in October and December.

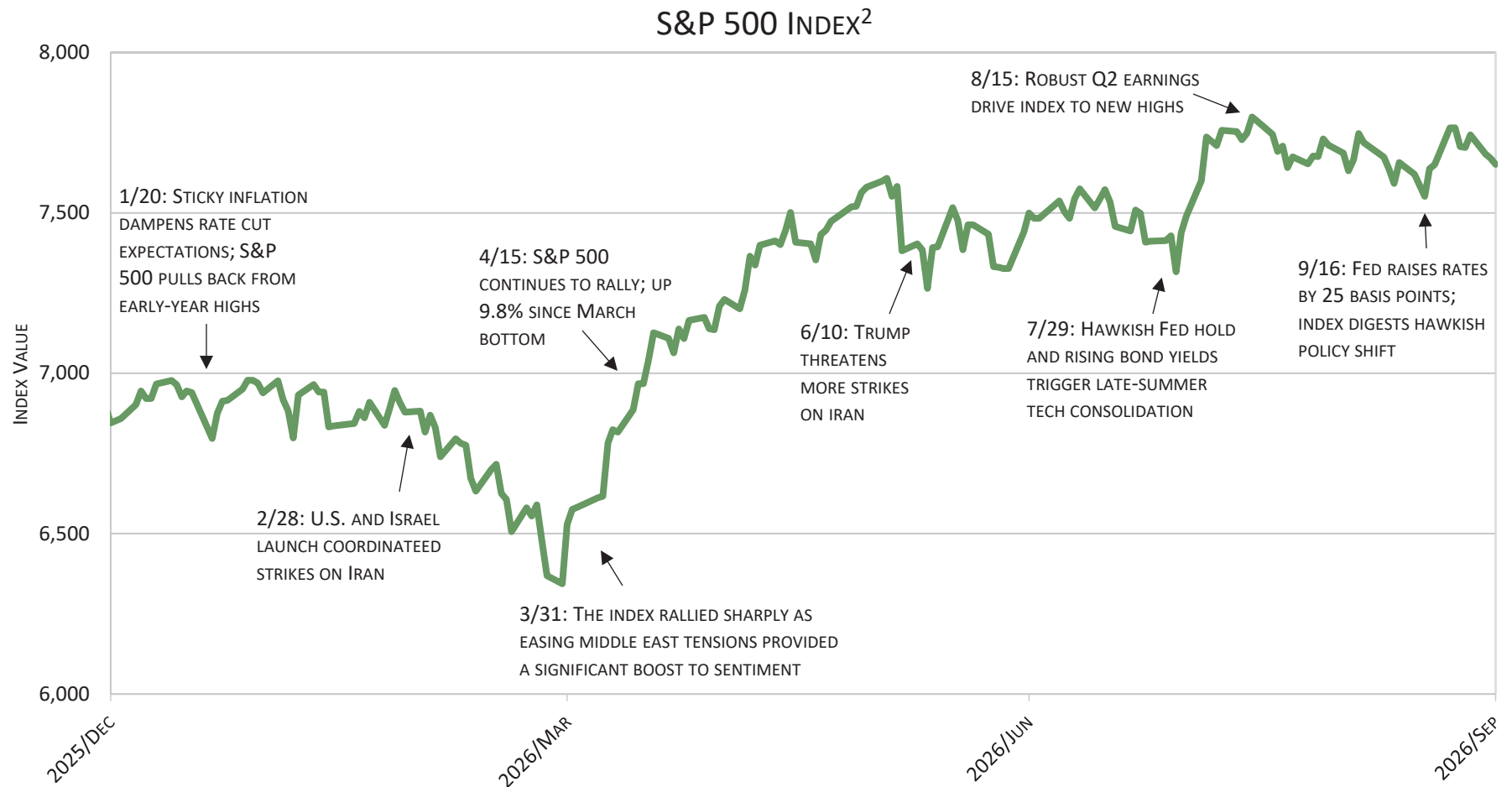
FEDERAL FUNDS TARGET RATE²



THIRD QUARTER HIGHLIGHTS

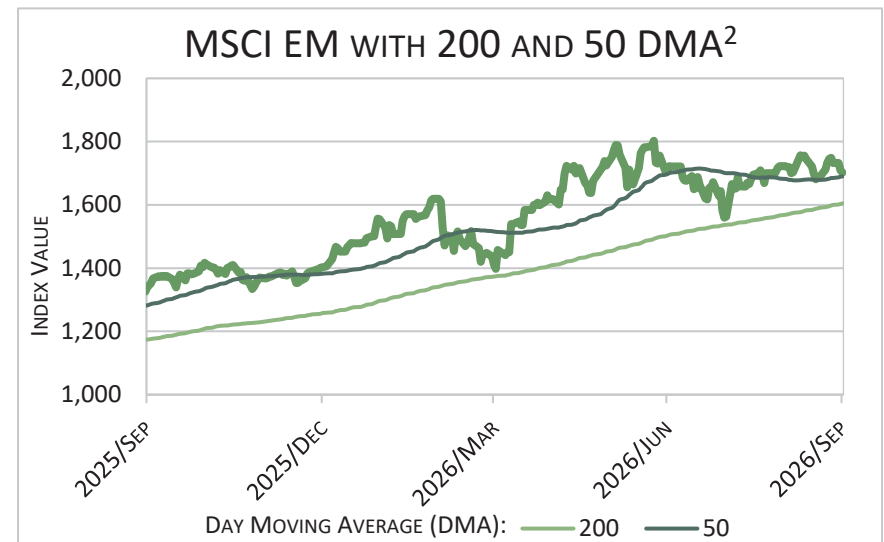
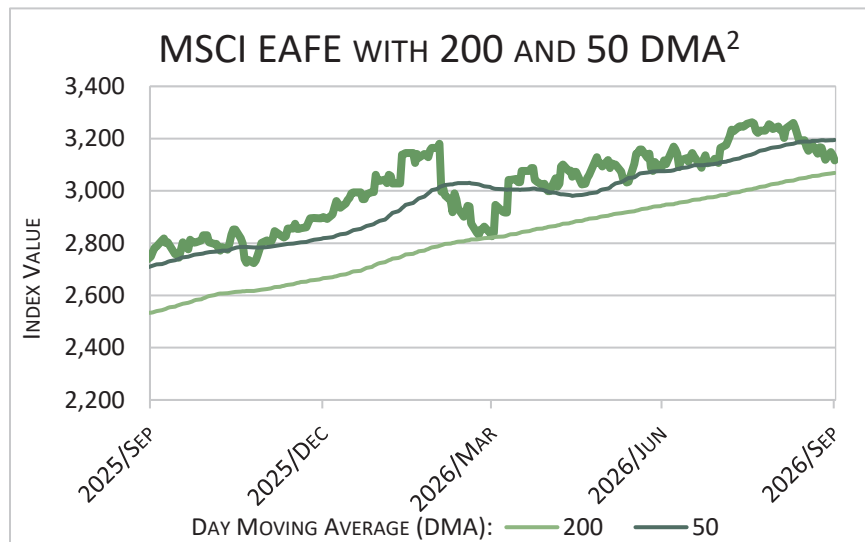
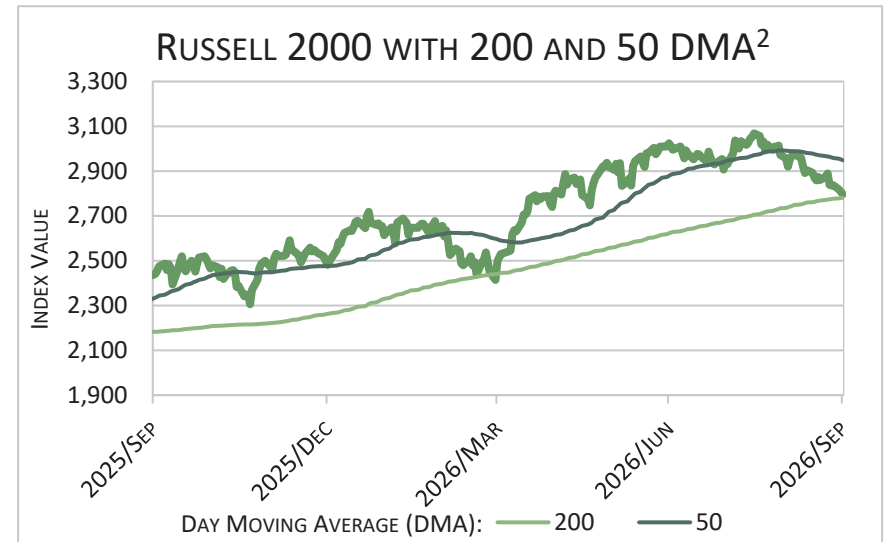
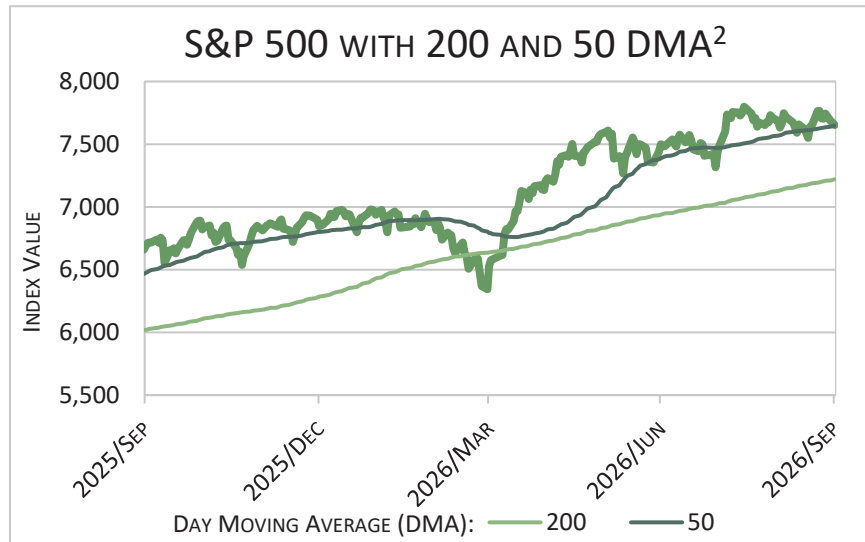
STRONG EARNINGS AND CAPITAL EXPENDITURES DELIVER A QUICK BOUNCE BACK AFTER FED RATE HIKE

The U.S. stock market bounced back swiftly after both the Fed's rate hold and its rate hike. A record 60% of S&P 500 companies issuing earnings guidance raised their EPS outlooks by quarter end. Driven by elevated fuel prices, net profit margins in the energy sector widened dramatically. Earnings for hardware enablers – companies in memory, storage, power, and advanced servers - continued to rise.



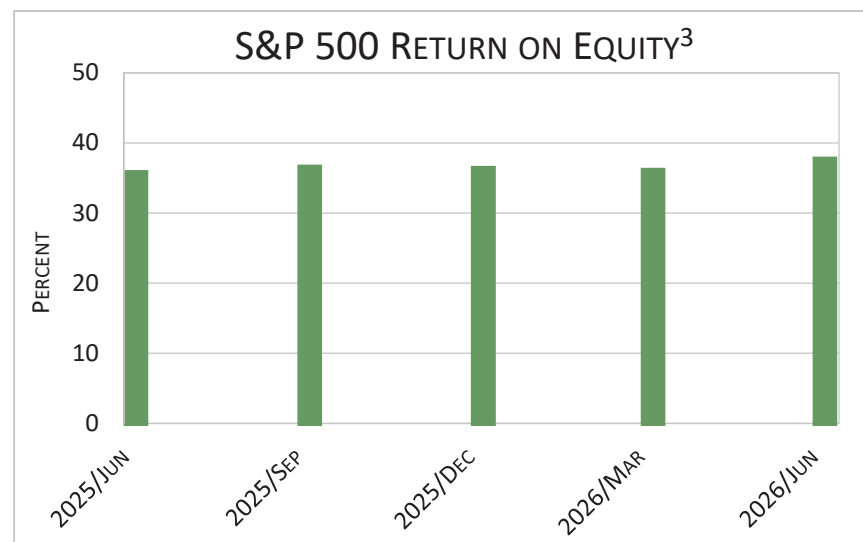
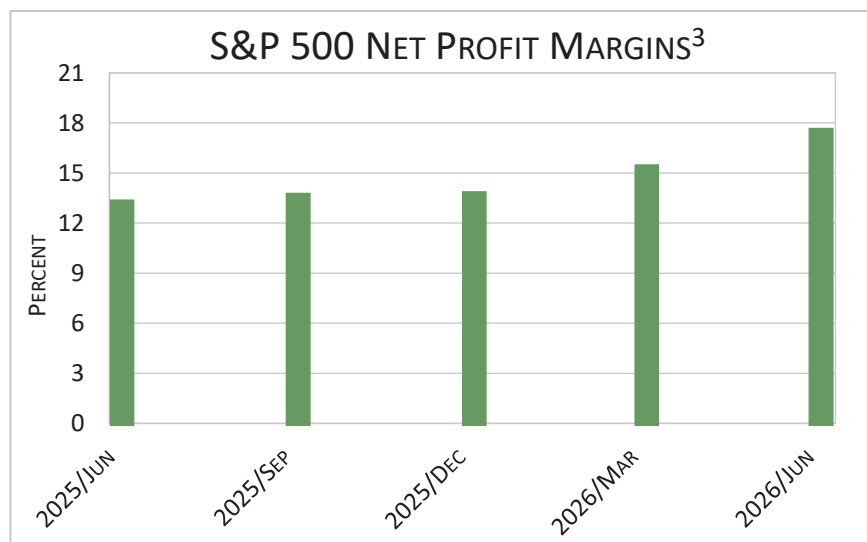
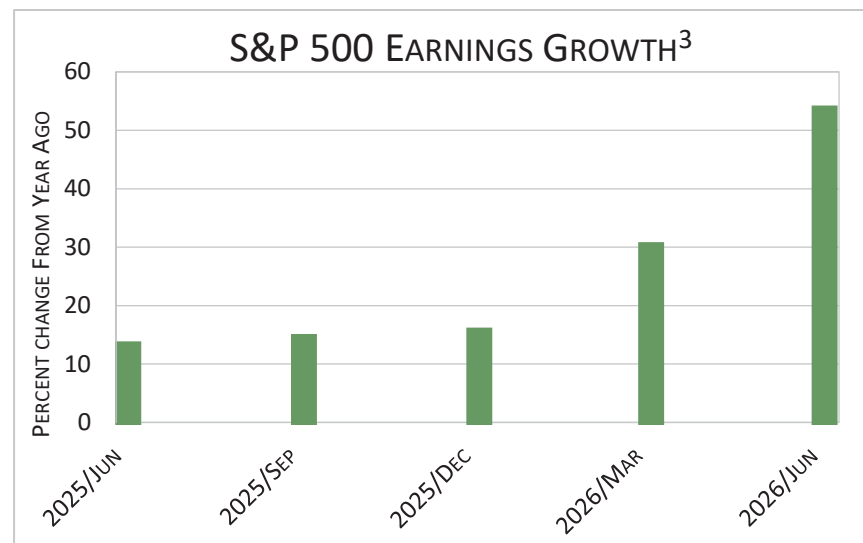
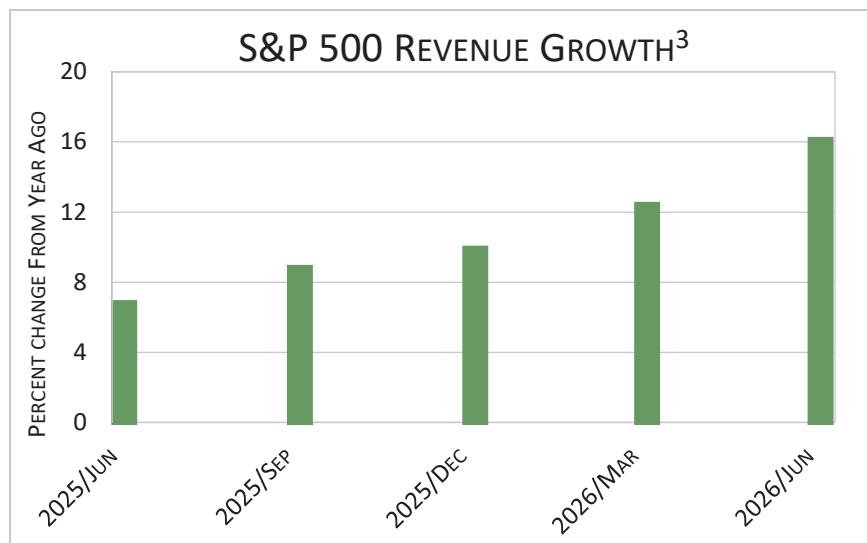
THIRD QUARTER HIGHLIGHTS

EMERGING MARKETS AND U.S. LARGE-CAPS ADVANCE; U.S. SMALL-CAPS SLIDE DUE TO BORROWING COSTS



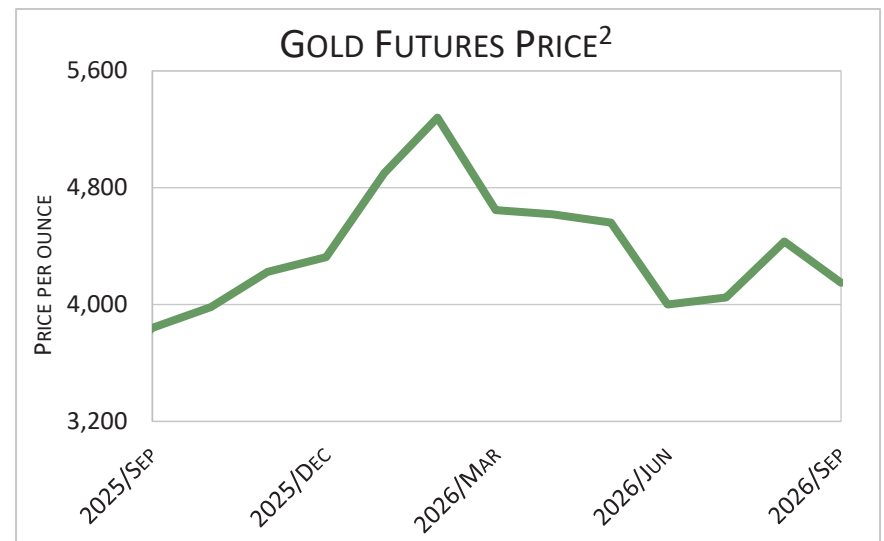
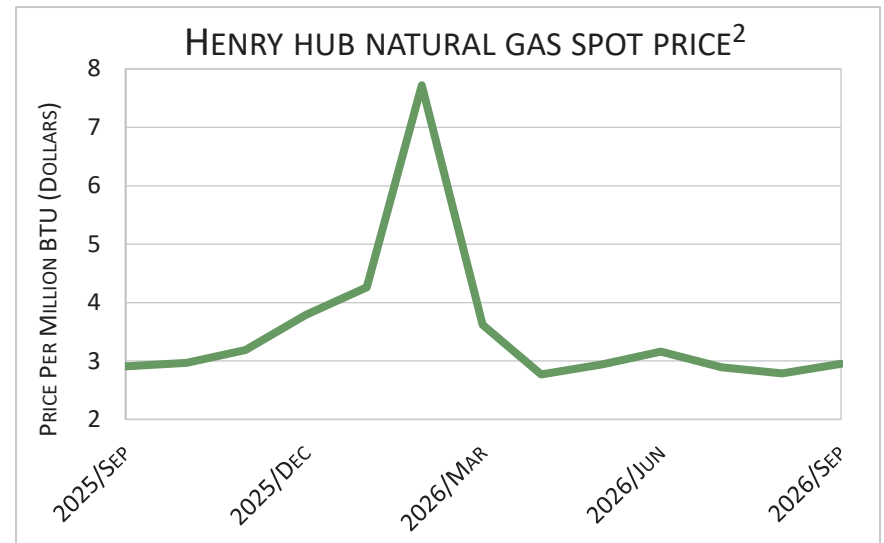
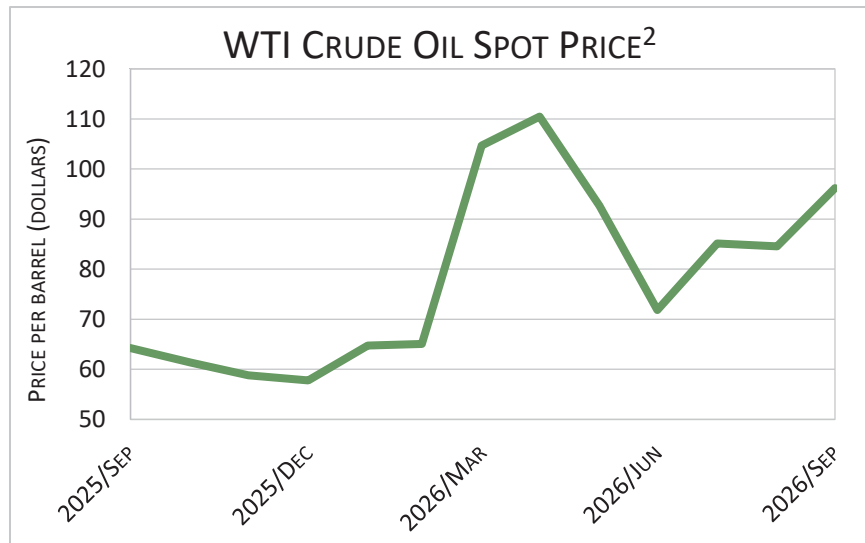
THIRD QUARTER HIGHLIGHTS

REVENUES, EARNINGS, AND MARGINS CONTINUE TO RISE DUE TO MASSIVE AI-RELATED CAPITAL EXPENDITURES



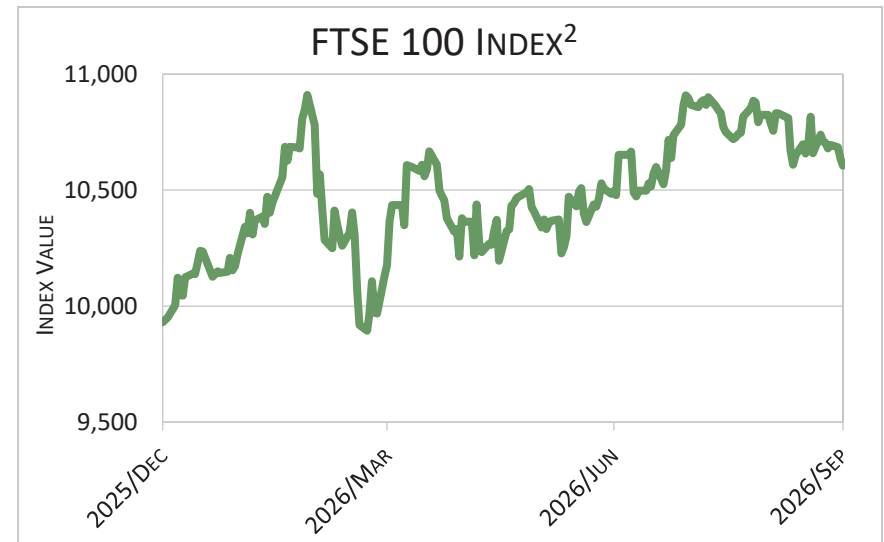
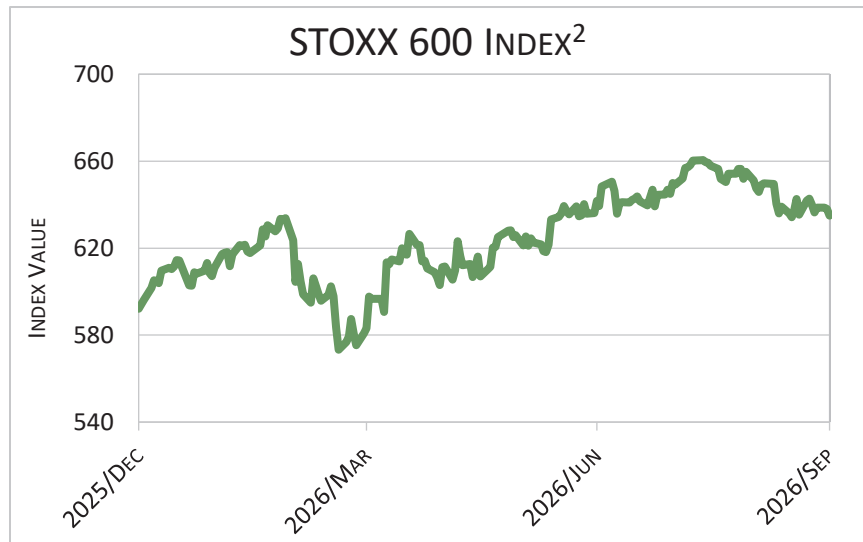
THIRD QUARTER HIGHLIGHTS

PRECIOUS METALS BEGIN TO SLIDE AS FED COMMITS TO FIGHT INFLATION; OIL GETS A SECOND BUMP IN Q3



THIRD QUARTER HIGHLIGHTS

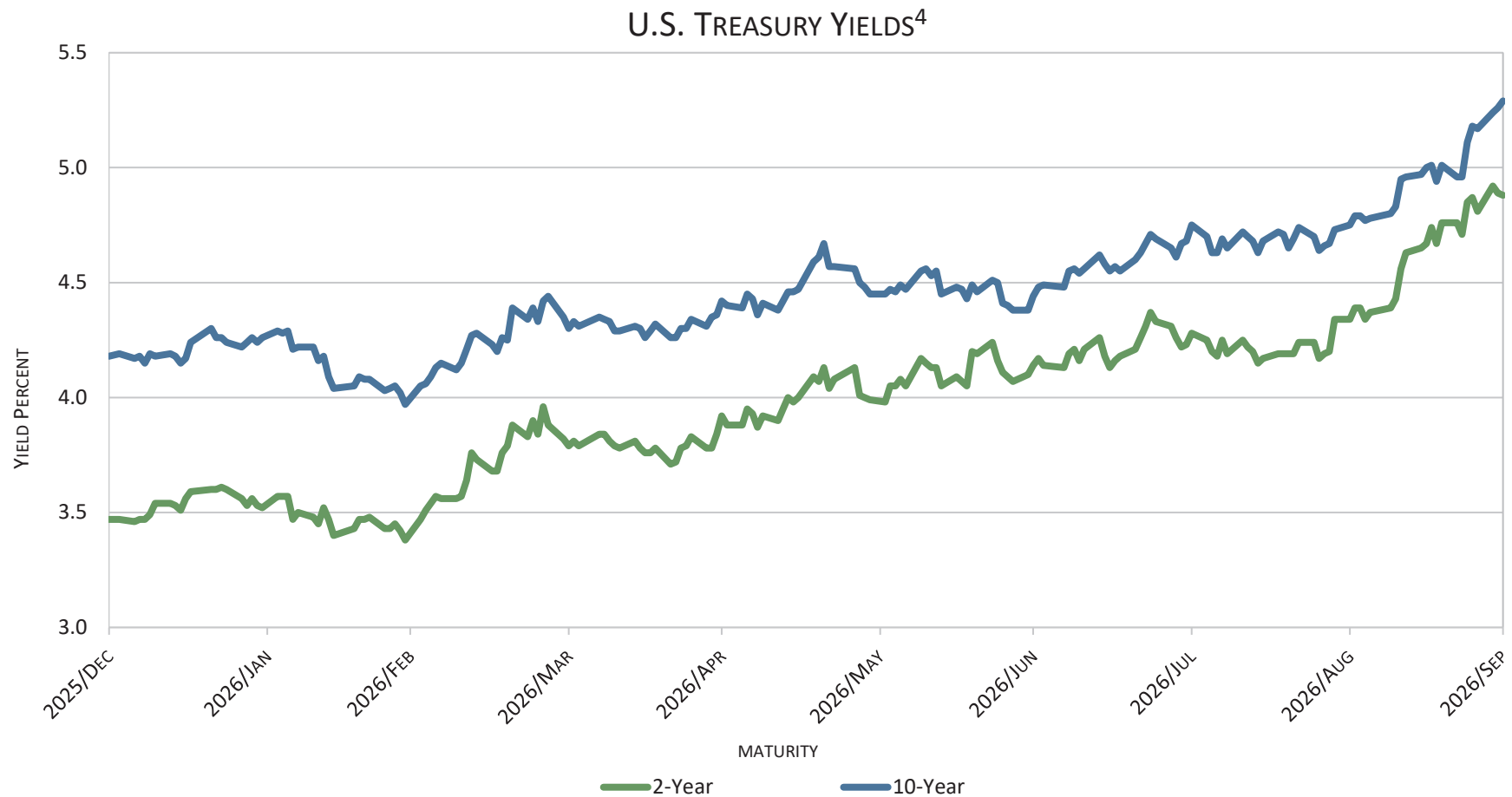
U.K. ENERGY, JAPAN REFORMS, AND WAGE GROWTH LIFT MARKETS WHILE CHINESE REAL ESTATE FALLS



THIRD QUARTER HIGHLIGHTS

10-YEAR U.S. TREASURY YIELD CLIMBS TO LEVELS NOT SEEN SINCE 2002; 2 TO 10-YEAR SPREADS TIGHTEN

The 10-year U.S. Treasury yield rose to 5.29% by quarter-end, its highest level in 24 years. Led by oil and industrial metals, commodity indices rose over 40% year-to-date, causing inflation and changing investors' inflation expectations, which are reflected in the 10-year yield. Because the 2-year yield is more closely tied to near-term monetary policy, the Fed's September rate hike made the 2-year Treasury yield rise more sharply than the 10-year yield, tightening the spread between the two yields. Rising Treasury yields raises the cost of borrowing for all credit qualities, which reduces investment.



THIRD QUARTER HIGHLIGHTS

U.S. DOLLAR TRADES WITHIN A TIGHT RANGE AS THE FED PRIORITIZES INFLATION CONTROL

After spending a year below the baseline index level, the U.S. dollar broke out above 100 twice in 2026, including a sharp rise at the end of the third quarter. The Fed's September 16th rate hike and conservative future guidance strengthened the dollar. Heightened geopolitical risks in the Middle East also drove safe-haven inflows into U.S. dollar cash assets. Finally, global investors continued to sell emerging market currencies and buy the dollar.

U.S. DOLLAR INDEX²

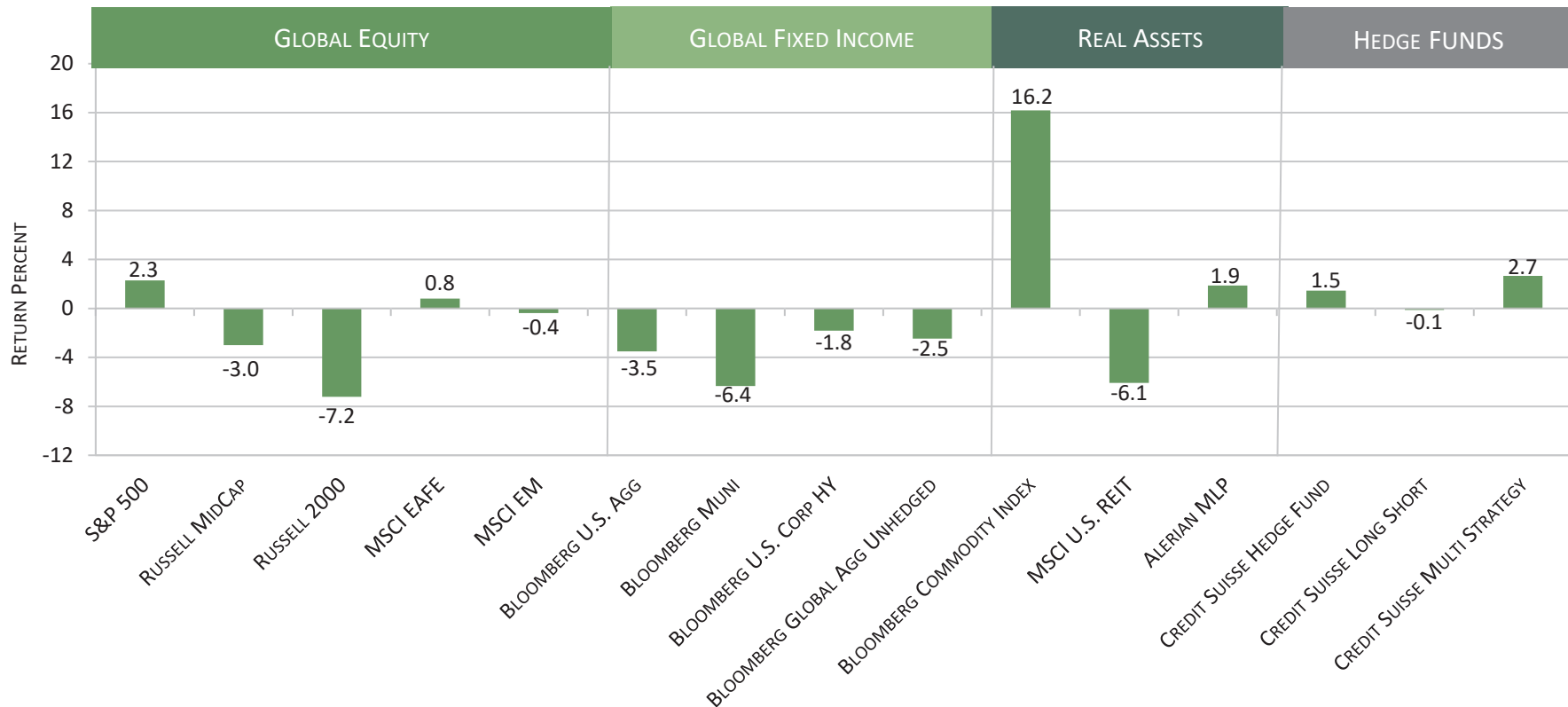


THIRD QUARTER HIGHLIGHTS

U.S. SMALL-CAP EQUITIES AND MUNICIPAL BONDS STRUGGLE AS COMMODITIES CONTINUE TO CLIMB

The negative return of U.S. small-cap equities was driven by a combination of increased borrowing costs, momentum reversals, and macroeconomic headwinds. For the muni market, the third quarter marked one of the lowest quarterly returns in decades. This was due to Fed actions, a surge of muni bonds brought to market, and muni mutual fund redemptions. The prices of oil, industrial metals, and agriculture commodities like cocoa, coffee, and grains jumped due to both supply and demand issues, leading to a 16% commodity index return for the quarter.

MARKET RETURNS: THIRD QUARTER 2026⁵

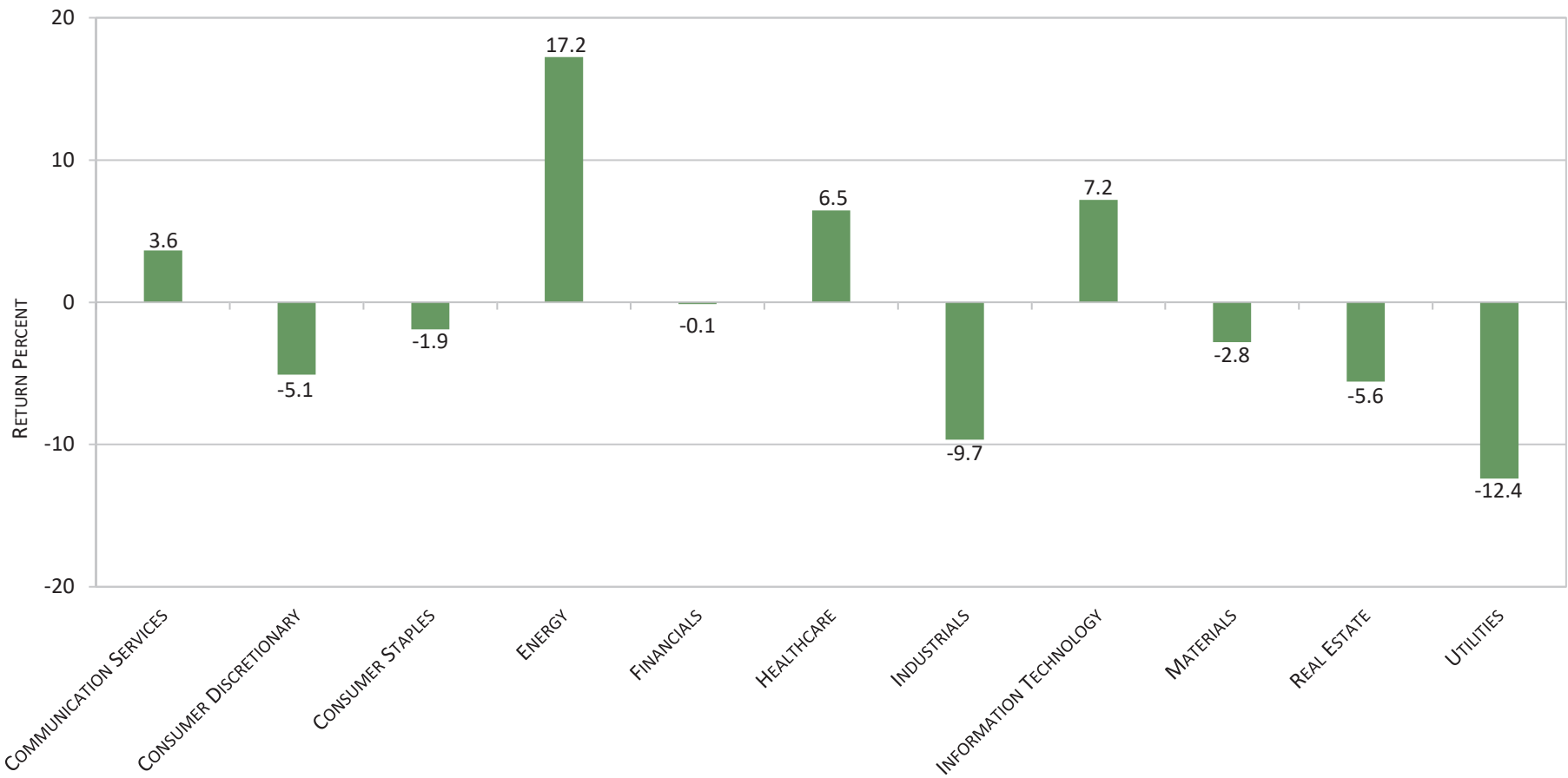


THIRD QUARTER HIGHLIGHTS

OIL REFINERS AND SEMICONDUCTOR EQUIPMENT PROVIDERS ADVANCE WHILE INDUSTRIALS AND UTILITIES FALL

Refiners like Marathon Petroleum (+48%) and Valero Energy (+45%) were the energy sector performance leaders in the third quarter, buoyed by low global inventories and regional supply disruptions. In the technology sector, semiconductor equipment makers like Applied Materials (+100%) and Lam Research (+92%) jumped due to strong demand for the equipment required for high-bandwidth memory chips.

S&P 500 SECTOR RETURNS: THIRD QUARTER 2026⁵

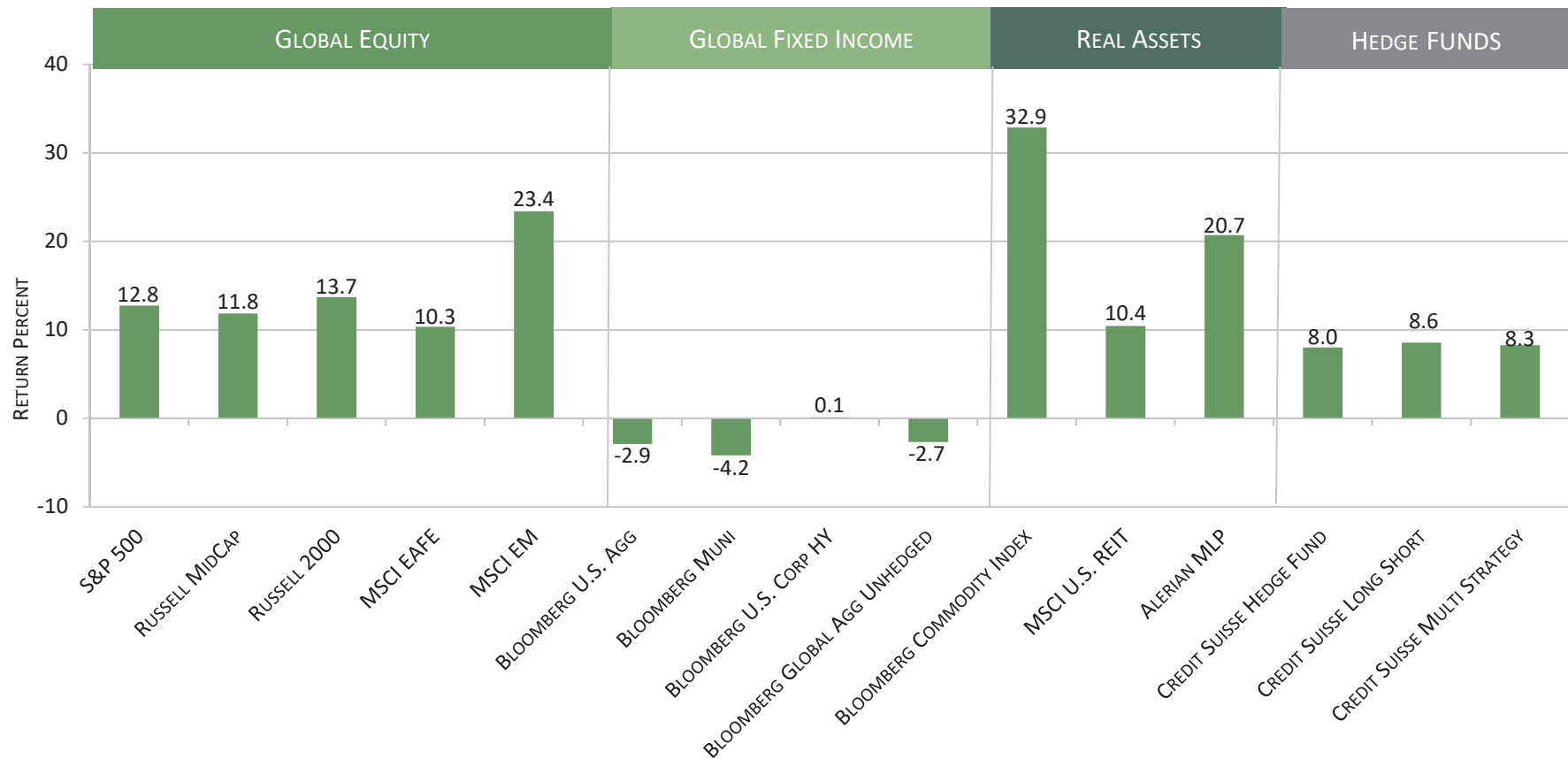


THIRD QUARTER HIGHLIGHTS

EMERGING MARKETS EQUITY, OIL, AND REAL ESTATE MLP'S LED THE WAY WHILE FIXED INCOME STRUGGLED

The performance of emerging markets stocks strategically positioned in the global AI chain, like Taiwan's Unimicron Technology (+428%) and South Korea's Samsung Electro-Mechanics (+534%), fueled emerging markets' outsized returns. Oil, copper, and battery metals prices jumped, pushing the commodities index over 30%. Fixed income continues to struggle in a difficult inflation and interest rate environment.

MARKET RETURNS: FIRST NINE MONTHS 2026⁵

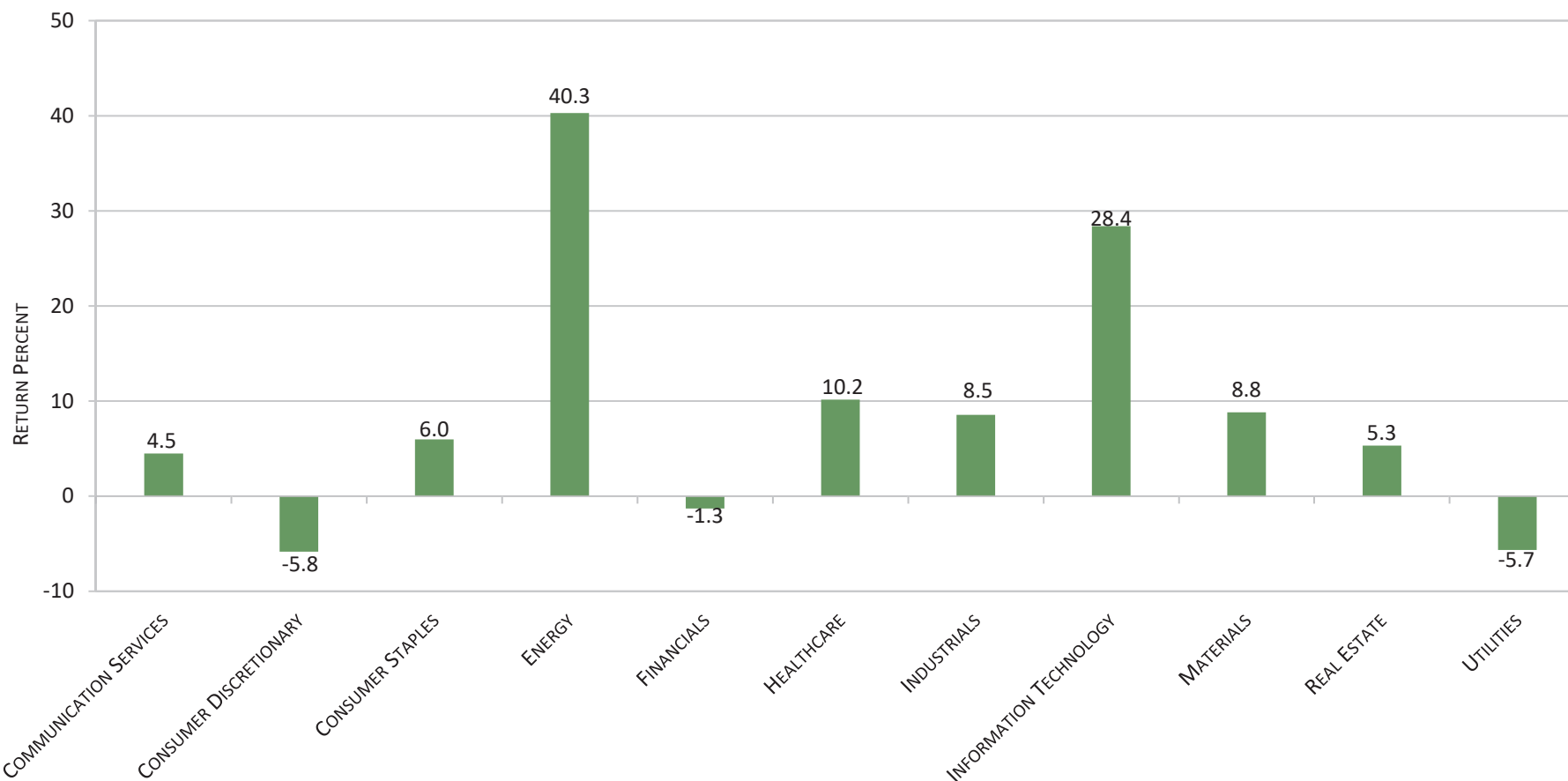


THIRD QUARTER HIGHLIGHTS

ENERGY AND INFORMATION TECHNOLOGY LEAD THE WAY IN A 2026 U.S. EQUITIES BULL MARKET

The year began with the Middle East conflict driving up the price of oil. The energy sector has sustained its outperformance through a combination of continuing supply disruptions, rising commodity prices, and structural power demand. The technology sector is up over 28% year-to-date as extraordinary levels of capital expenditures on data centers, custom semiconductors, and servers have lifted the sector.

S&P 500 SECTOR RETURNS: FIRST NINE MONTHS 2026⁵



OUTLOOK

AS U.S. AI DATA CENTER BUILDOUT CONTINUES, OTHER COUNTRIES AIM TO JOIN THE ECOSYSTEM

- Capital expenditures by large U.S. companies remain the single largest engine for U.S. equity market growth. Corporate investment has grown over 40% over the last twelve months, driven primarily by AI data center demands for grid infrastructure, server hardware, and high-bandwidth memory. While stock market indices sit near historic highs, gains continue to be disproportionately carried by a small handful of Mega-Cap AI leaders, while most index members trade below their nine-month moving averages. Valuations for many Large-Cap growth and AI-related stocks remain elevated, leaving less room for earnings and revenue disappointments in the fourth quarter.
- U.S. Small-Cap companies will be negatively affected by higher borrowing costs and rising yields on floating-rate debt. However, forward earnings multiples for small cap equities are near 15- to 20-year lows relative to Large-Caps. Private equity funds and cash-rich U.S. Mega-Caps are currently taking advantage of those cheap Small-Cap valuations through acquisitions, driving an acceleration in M&A activity.
- The U.S. economy remains resilient in the face of conflict in the Middle East, spikes in oil prices, and rising inflation. Consensus estimates for fourth quarter real GDP are in the 2.0% to 2.5% range. U.S. aggregate demand remains supported by solid household balance sheets and strong corporate earnings. Equity markets typically exhibit heightened volatility and sluggish returns leading up to midterm elections, followed by a multi-month post-election equity market rally.
- Strong demand for high-bandwidth memory, server hardware, and electrical grid infrastructure continues to support technology and industrial companies globally, especially in Japan, Western Europe, and Southeast Asia. European countries continue to rely on historic amounts of fiscal stimulus, especially in the defense industry. Government borrowing to fund these stimulus packages will eventually push yields higher.
- Taiwan and South Korea have led the emerging markets in 2026. Other emerging Asian economies like Malaysia and Vietnam are becoming more integrated into the global AI ecosystem and should see strong export order backlogs.

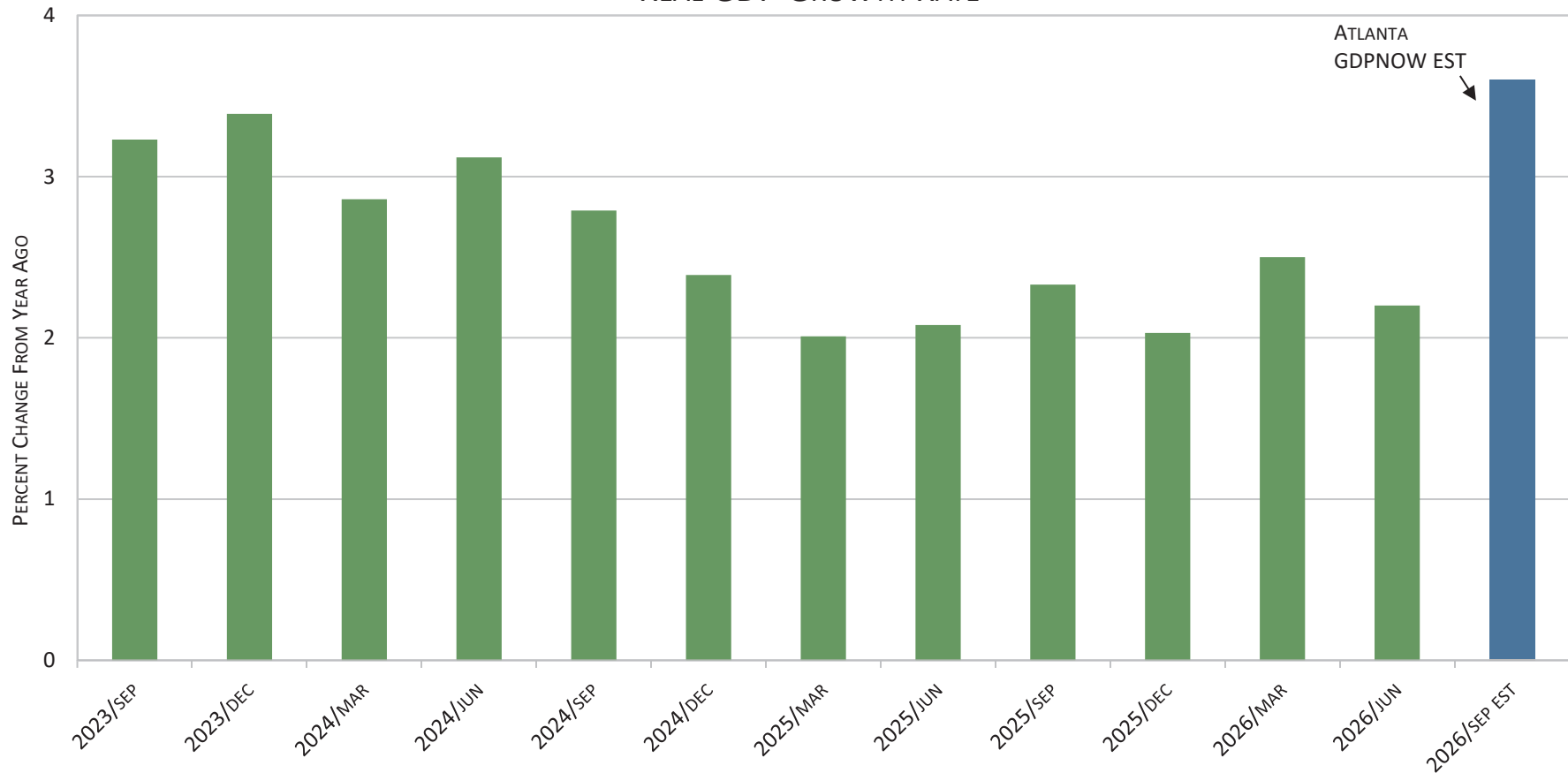


OUTLOOK

FED ESTIMATES STRONG THIRD QUARTER GDP GROWTH DUE TO INVENTORY REBUILD AND CAPEX

U.S. real GDP is set to expand in the third quarter due to inventory re-building, corporate capital expenditures, and consumer spending. The Federal Reserve's GDP estimate model trimmed its estimate from 5.0% down to 3.7% on September 30th due to widening U.S. trade deficit data. Corporate capital expenditures - particularly those tied to data centers, industrial machinery, and energy technology - remained resilient despite elevated borrowing costs.

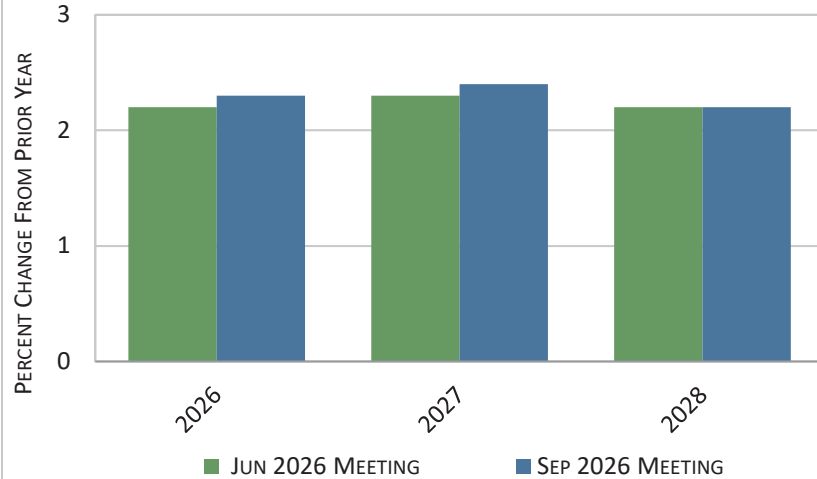
REAL GDP GROWTH RATE^{1, 6}



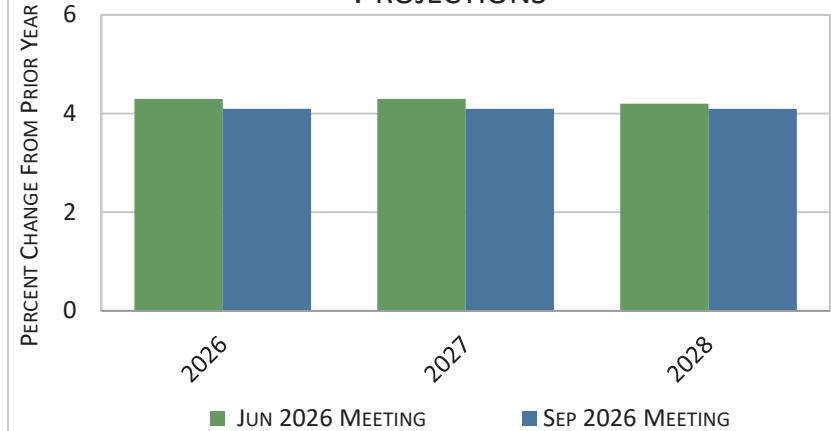
OUTLOOK

FED SIGNALS POTENTIAL FOR ADDITIONAL RATE HIKES AS ECONOMY REMAINS RESILIENT

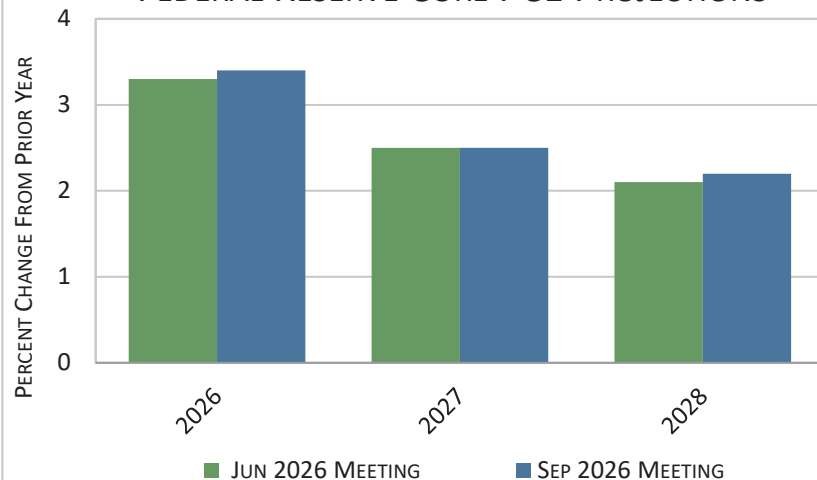
FEDERAL RESERVE REAL GDP PROJECTIONS⁷



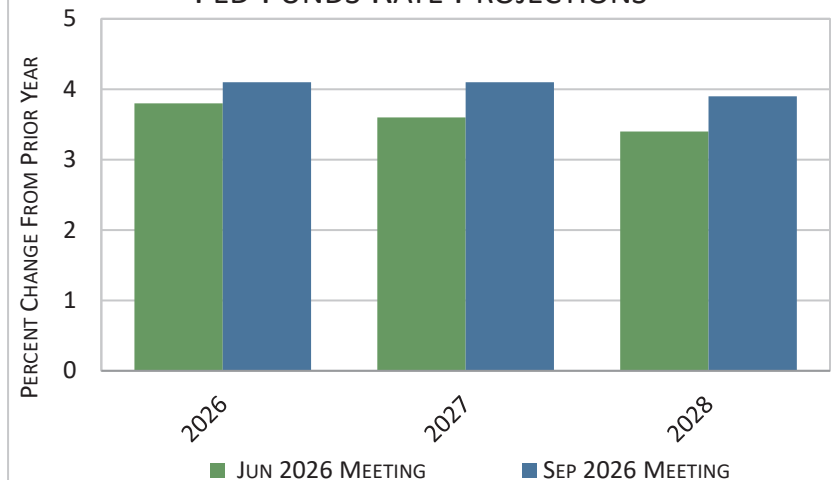
FEDERAL RESERVE UNEMPLOYMENT PROJECTIONS⁷



FEDERAL RESERVE CORE PCE PROJECTIONS⁷

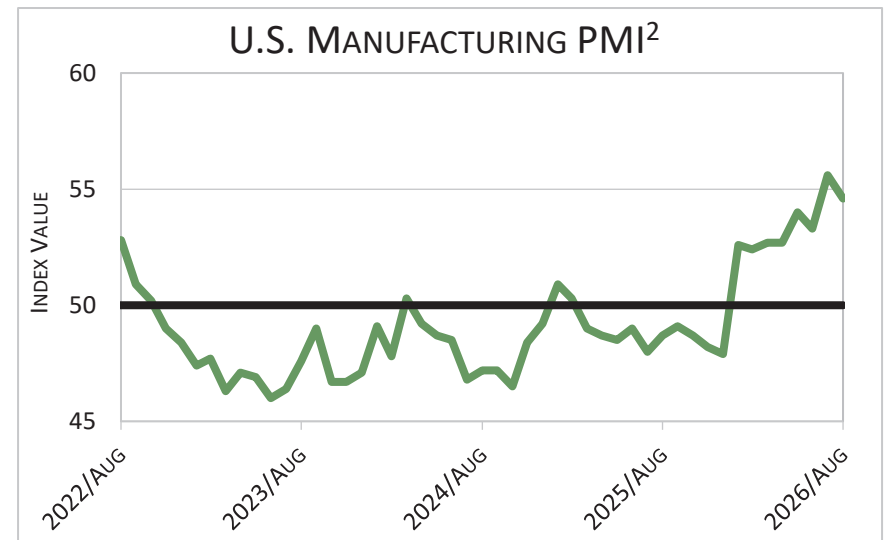
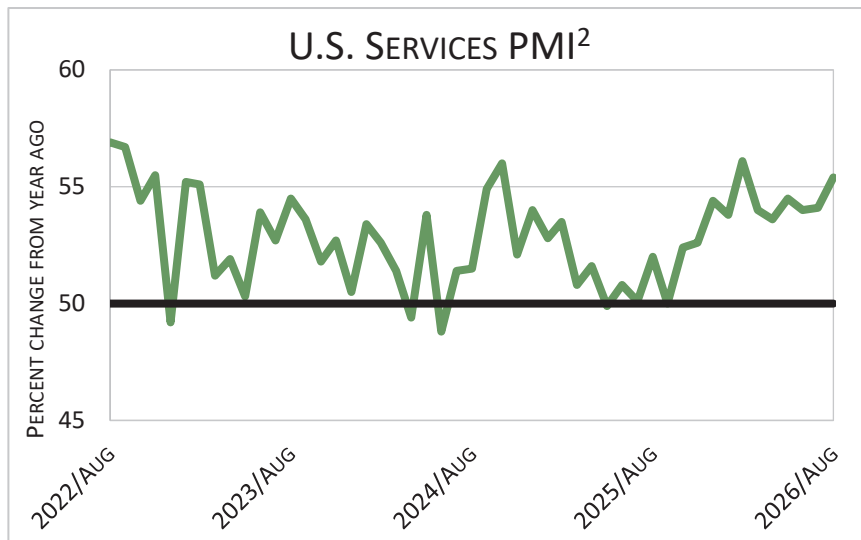
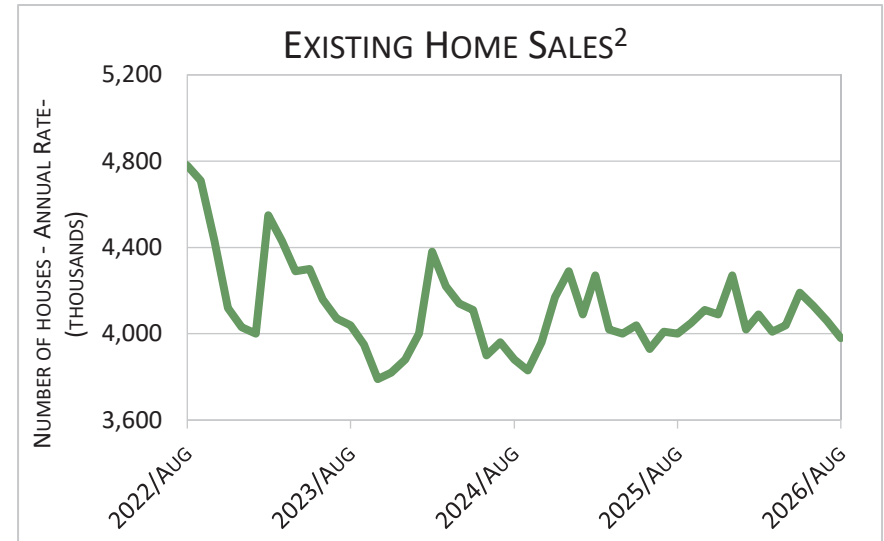
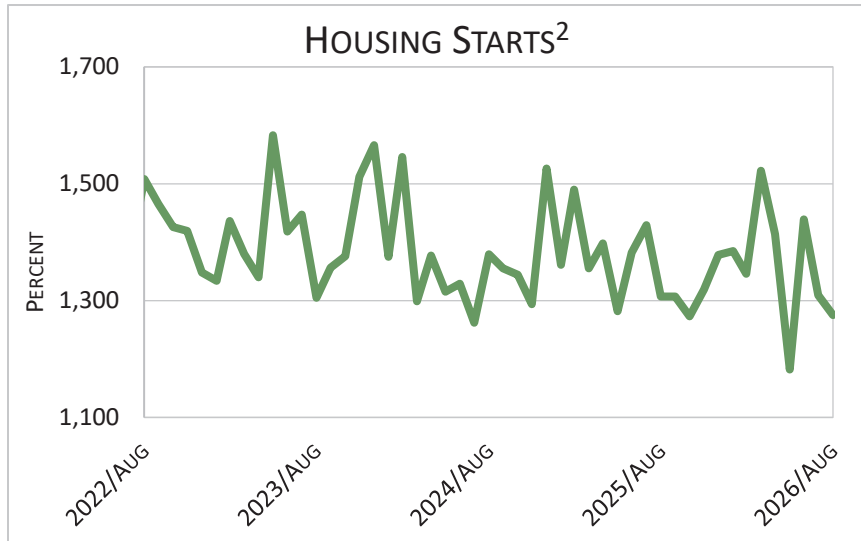


FED FUNDS RATE PROJECTIONS⁷



OUTLOOK

HIGHER RATES CONTINUE TO WEIGH ON HOUSING AS MANUFACTURING ACTIVITY STRENGTHENS



VOGEL TACTICAL RECOMMENDATIONS

EQUITIES CHARGE FORWARD BENEFITING FROM THE AI SPENDING BOOM; BOND MARKET FACES HEADWINDS

ASSET CLASS	ACTION	COMMENTARY
Domestic Large-Cap Equity	EQUAL WEIGHT	The largest tech-oriented companies continue to dominate the total return of the market. We are overweight Large-Cap growth and underweight Large-Cap value partly due to the greater investments in innovation that growth companies make.
Domestic Mid-Cap Equity	EQUAL WEIGHT	Mid-Cap value stocks have beaten Mid-Cap growth stocks YTD as many Mid-Cap value companies help build and maintain data centers. In addition, the high-performing energy and industrials sectors are more heavily weighted in the mid cap value index.
Domestic Small-Cap Equity	EQUAL WEIGHT	Small-Cap stocks have done well year-to-date as heavy infrastructure buildouts, supply chain re-shoring, and investments in equipment have provided a boost to Small-Cap companies' revenues and earnings.
International Developed Equity	EQUAL WEIGHT	European and U.K. indices benefited directly from elevated global energy prices. European governments are borrowing liberally to invest in defense and infrastructure.
International Emerging Market Equity	OVERWEIGHT	Our overweight to emerging markets is working well due to emerging markets' significant role in the AI global ecosystem. Taiwanese and South Korean semiconductor companies are key players in the global AI supply chain.
Fixed Income	EQUAL WEIGHT	Bond markets have experienced headwinds in 2026 driven by yield curve steepening and elevated long-term rates. The 10-year U.S. Treasury yield sits around 5.29%, its highest level in over two decades. The hawkish comments that accompanied the Fed's September rate hike put downward pressure on bond prices.
Hedge Strategies	UNDERWEIGHT	Hedge funds may be moving into a favorable environment as opportunities caused by stock return dispersion, rate volatility, and macro divergence have returned.
Real Assets	EQUAL WEIGHT	Energy commodities, natural resource equities, and infrastructure boomed. Listed real estate stabilized and rebounded as broader interest rate expectations settled.
Cash	UNDERWEIGHT	Cash provides a cushion to protect the portfolio but also can be a drag on total return. We are currently underweight cash due to the equity market opportunities we see.



QUARTERLY MARKET REPORT

DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

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2. Telemet America, Inc.
3. John Butters, *Earnings Insight: Q3 2026* (FactSet Research Systems Inc., September 30, 2026)
4. Daily Treasury Yield Curve Rates, retrieved from U.S. Department of Treasury; <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>, October 1, 2026.
5. Advent Software Inc.
6. [Atlantafed.org/chcs/GDPNOW](https://atlantafed.org/chcs/GDPNOW).
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