Month-End Summary – October 2026

Market Update – October 2026

October 2026 Market Review:

• **Market leadership broadened materially:** Equal-weighted, mid-cap, and small-cap equities improved while the largest technology-oriented indexes weakened. The shift reflected a rotation in leadership rather than a uniform market decline.

• **Value and defensive sectors gained support:** Energy, Consumer Staples, Utilities, and Health Care led as the market moved away from Technology and Communication Services. Companies with current earnings and durable cash flow attracted greater interest.

• **Treasury yields reversed lower after reaching early-month highs:** Safe-haven demand and concerns that borrowing costs have become restrictive pushed longer-term yields down by month-end. Even after the decline, financing costs remained elevated for households and businesses.

• **Economic growth remained resilient:** Third-quarter GDP accelerated as business investment and consumer spending remained firm. October hiring also improved, while unemployment stayed relatively low, reducing immediate recession concerns.

Key Drivers During October:

• **The Federal Reserve paused after September's rate increase:** The FOMC held its target range at 3.75% to 4.00%. Two members preferred another increase, showing that inflation remains the primary policy concern.

• **Strong earnings faced a higher market standard:** Third-quarter profits remain healthy and most reporting companies exceeded estimates. However, markets focused more closely on AI-related capital spending, free cash flow, and the timing of potential returns.

• **Inflation remained uneven:** October consumer prices continued to rise, led by shelter, food, and energy. Persistent cost pressure may limit the Federal Reserve's ability to lower rates quickly even as economic growth remains positive.

• **Geopolitical risks kept energy prices elevated:** The Iran conflict and risks to seaborne oil supply maintained a sizable premium in crude prices, creating potential pressure on household spending, corporate margins, and inflation.

Investment Committee Update – Month-End Review

• **The Investment Committee continues to monitor the evolving environment:** October's broader participation was constructive, but volatility in technology, persistent inflation, and elevated energy prices warrant continued discipline.

• **Potential strategy additions and removals remain under active review:** Any proposed changes will continue to move through our rigorous 5-step due diligence process, with emphasis on quality, valuation, cash-flow durability, and downside risk.

• **October reinforced the value of diversification and patience:** Improved performance outside mega-cap technology helped offset weakness in prior market leaders and reduced dependence on a narrow group of companies.

Primary themes shaping our outlook through the 4th Quarter of 2026:

• **Artificial Intelligence remains a long-term opportunity:** Demand for digital infrastructure remains strong, but markets increasingly expect companies to demonstrate that heavy capital spending can produce attractive cash flow and returns on invested capital.

• **Monetary policy remains restrictive:** The October pause did not signal a shift toward easier policy. Strong growth and continued inflation pressure may keep borrowing costs elevated until the Federal Reserve gains greater confidence in price stability.

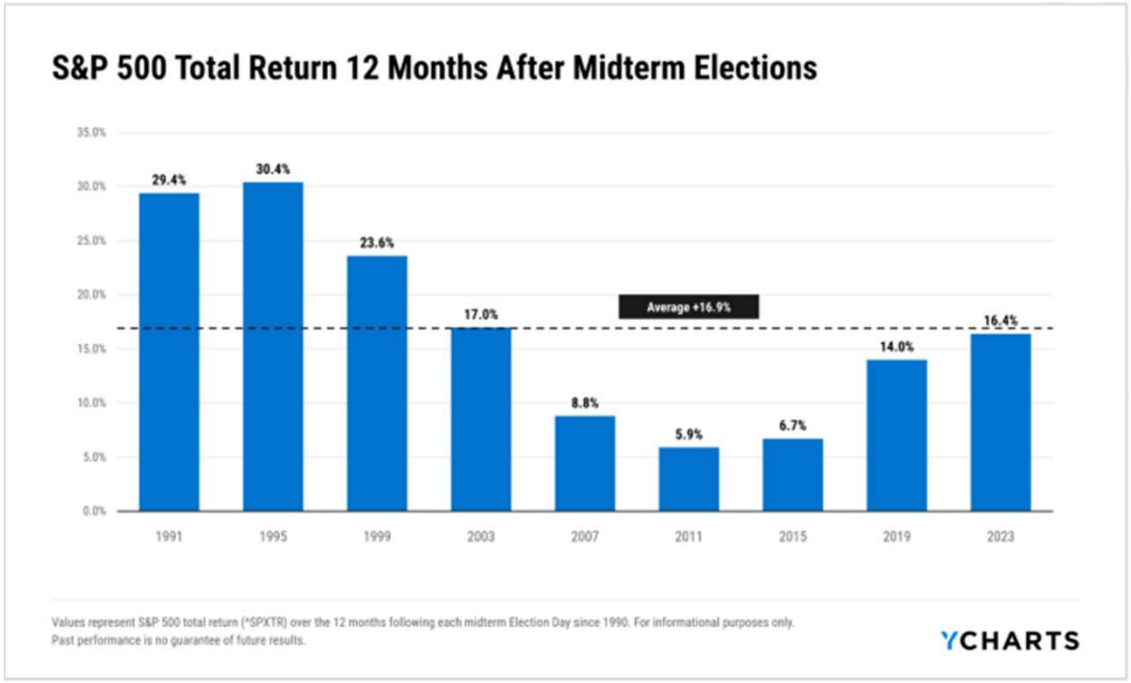
• **Fixed income offers attractive income and potential duration opportunities:** The pullback in longer-term yields supported bond prices, while starting yields remain appealing. We continue to favor a measured approach to maturity and credit exposure.

• **Energy and inflation risks require close monitoring:** Sustained oil strength could affect consumer spending, corporate profitability, and the path of monetary policy even as broader economic activity remains resilient.

• **Our long-term investment philosophy remains unchanged:** We remain focused on high-quality businesses with durable competitive advantages, dependable cash flow, strong balance sheets, and attractive long-term opportunities that meet our due diligence standards.

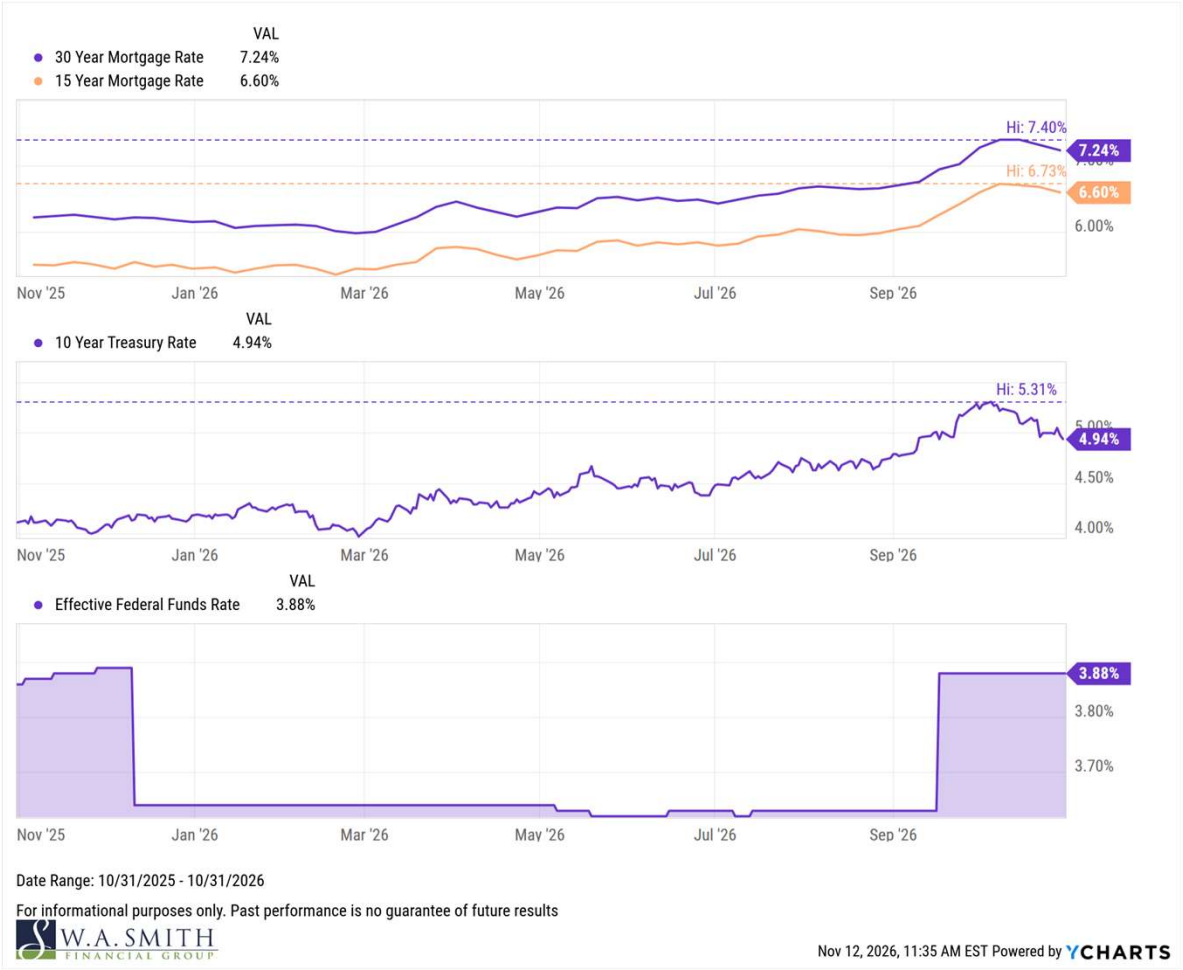
Midterm Elections Have Historically Been Followed by Positive Equity Returns

- **Post-midterm performance has been consistently positive:** The S&P 500 generated a positive total return during the 12 months following each of the nine midterm elections shown, with an average gain of approximately 16.9%
- **The strength of the advance has varied considerably:** Results ranged from mid-single-digit gains to returns above 30%, demonstrating that the economic, earnings, inflation, and monetary-policy environment still matters
- **How to Interpret:** The historical pattern supports maintaining a long-term investment approach through election-related uncertainty. However, the limited sample and wide range of outcomes suggest that midterm elections should provide context rather than serve as a stand-alone market-timing signal



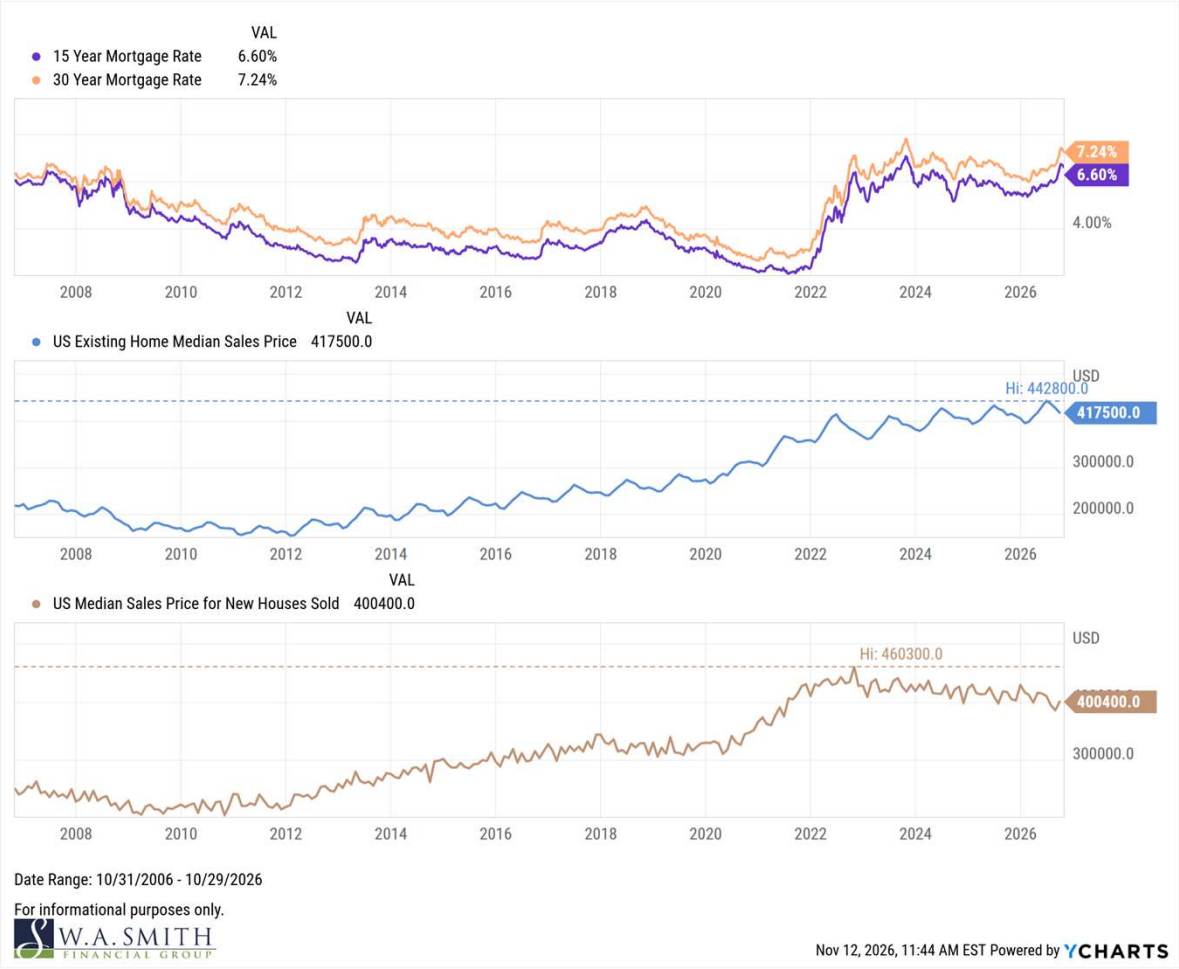
Elevated Mortgage Rates Continue to Pressure Housing Affordability

- **Mortgage rates remain near their recent highs:** The 30-year mortgage rate eased from 7.40% to 7.24%, while the 15-year rate declined to 6.60%. The modest pullback provides limited relief because both remain well above levels seen earlier in the year
- **Long-term Treasury yields remain the primary driver:** Mortgage rates track the 10-year Treasury more closely than the federal-funds rate. The 10-year yield remains near 5% as inflation, Treasury issuance, and higher term premiums keep longer-term borrowing costs elevated
- **How to Interpret:** High mortgage rates reduce purchasing power, discourage refinancing, and reinforce the rate-lock effect that limits existing-home supply. This could weaken sales and housing-related spending, although constrained inventory may continue supporting home prices



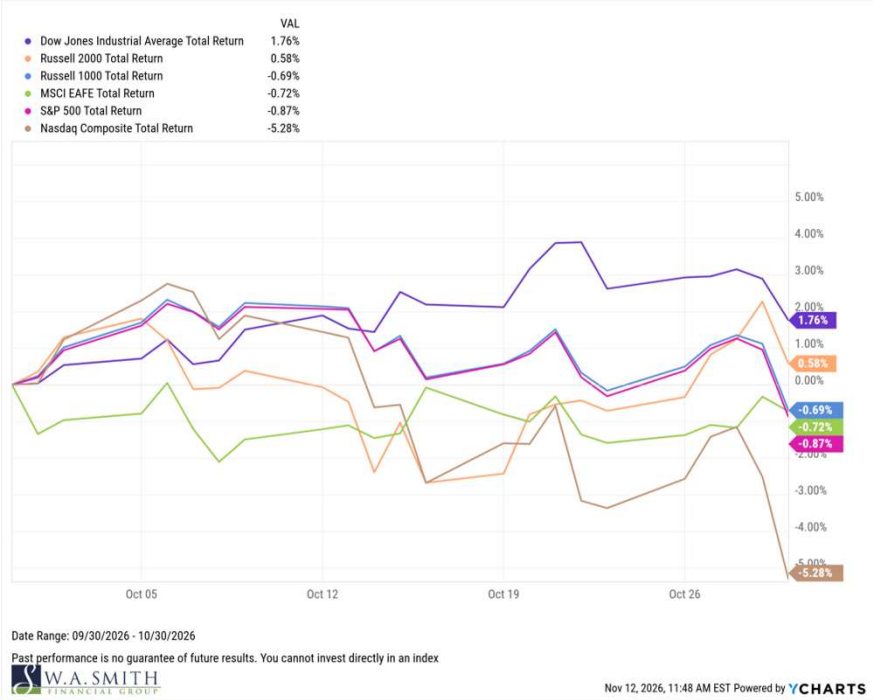
High Mortgage Rates Create Diverging Housing-Market Pressures

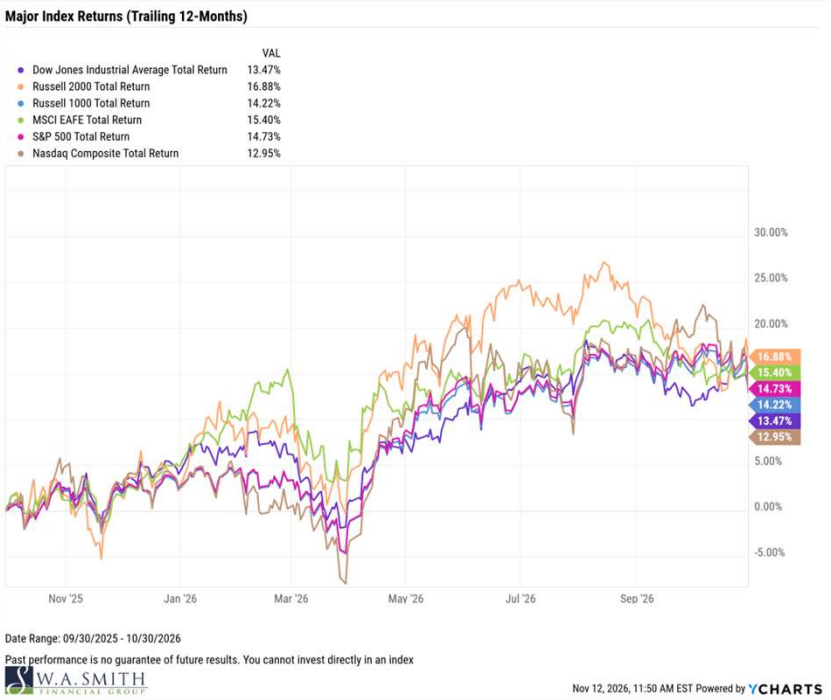
- **Elevated mortgage rates continue to pressure affordability:** With 30-year and 15-year rates at approximately 7.2% and 6.6%, higher monthly payments are limiting purchasing power and constraining demand
- **Existing-home prices remain resilient despite high borrowing costs:** The median price remains near its record high, as homeowners with lower-rate mortgages hesitate to sell and limited resale inventory supports prices
- **New-home prices have adjusted more noticeably:** Builders have used smaller homes, price reductions, and financing incentives to maintain demand, pushing the median new-home price below the existing-home median. The divergence suggests housing stress may appear more clearly in sales and construction activity than in existing-home prices
- **How to Interpret:** The gap between existing- and new-home prices reflects different supply dynamics. Limited resale inventory continues to support existing-home values, while builders can adjust prices, home sizes, and financing incentives to preserve demand. Housing-market stress may therefore appear more clearly in weaker sales, construction activity, and affordability than in a sharp decline in existing-home prices



October's Rotation Favored Blue Chips and Small Caps

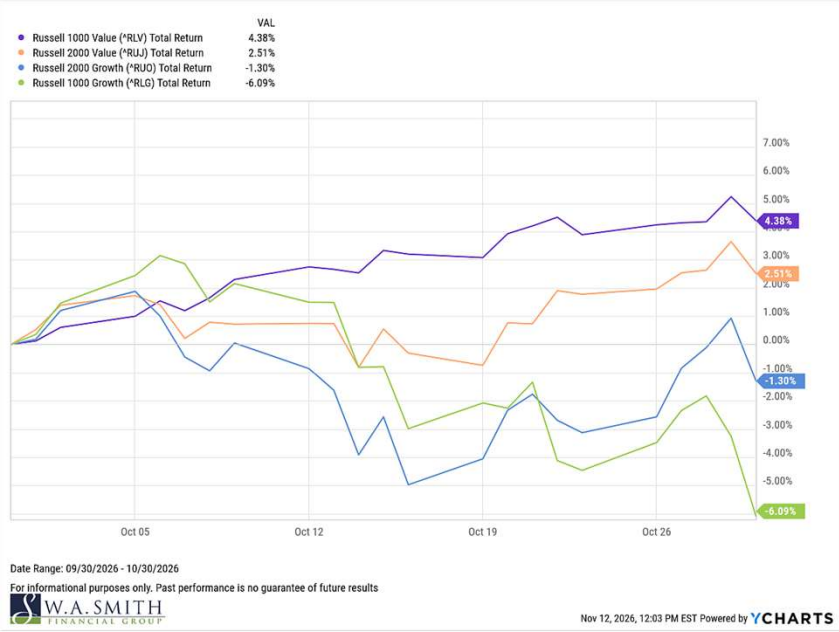
- **October produced a meaningful leadership shift:** The Dow and Russell 2000 finished higher, while the Nasdaq experienced the sharpest decline, reflecting weakness and profit-taking across technology-oriented companies
- **The trailing 12-month picture remains broadly constructive:** Every major index remained firmly positive, with small caps, international equities, and the broader U.S. market demonstrating participation beyond a narrow group of mega-cap growth stocks
- **How to Interpret:** October's divergence appears more consistent with rotation and valuation reassessment than broad market deterioration. Continued strength outside technology may improve market breadth, although the Nasdaq's weakness highlights the importance of diversification as leadership evolves

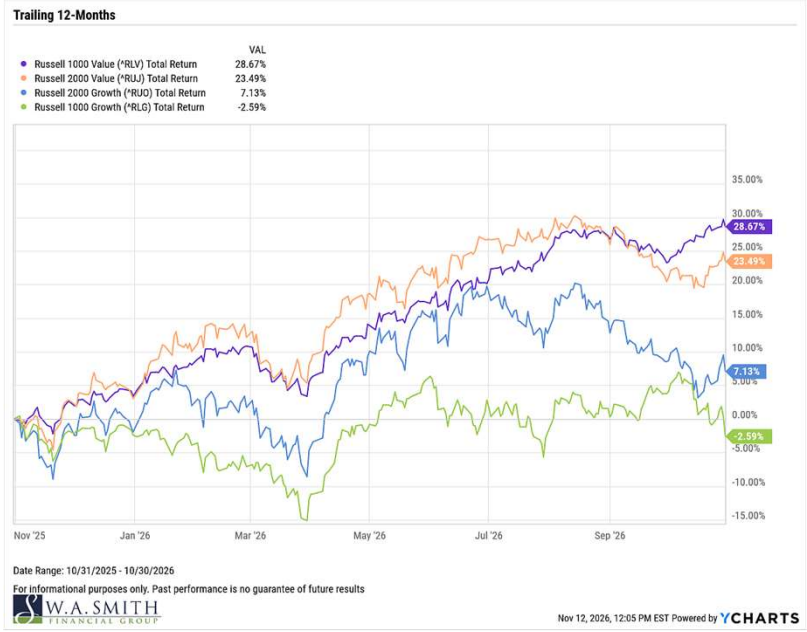


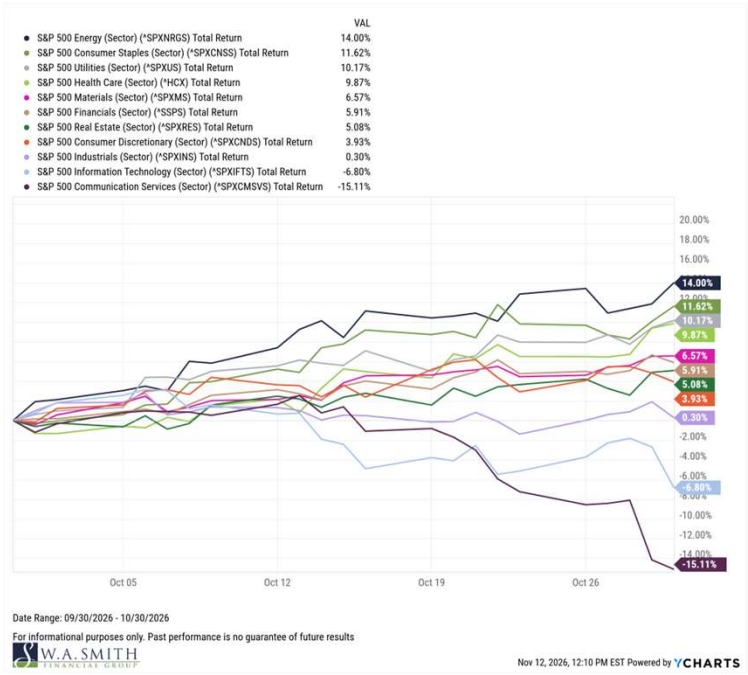


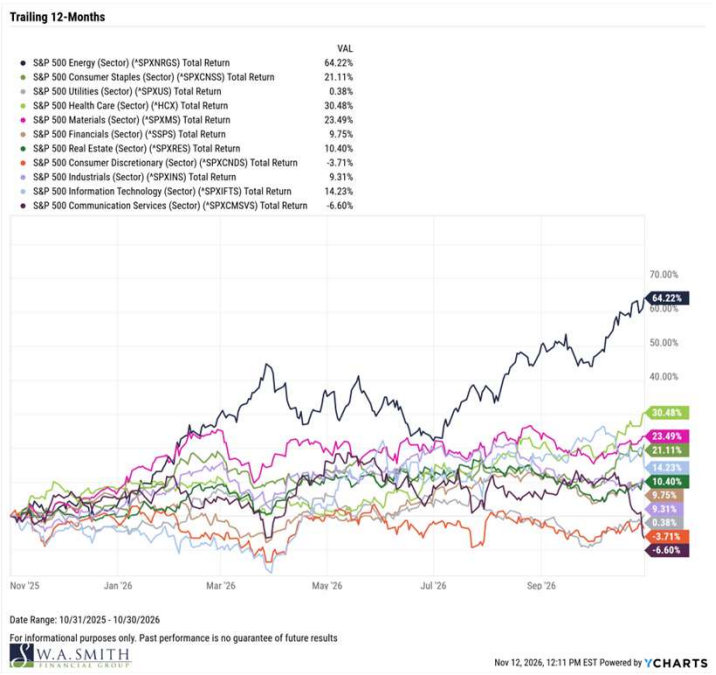
Value Leadership Strengthened as Growth Stocks Retreated

- **Value decisively outperformed growth during October:** Large-cap value led the four style categories, followed by small-cap value, while both growth indexes declined—particularly large-cap growth
- **The longer-term trend also favors value:** Large- and small-cap value posted substantially stronger trailing 12-month results, while large-cap growth remained negative despite a modest rebound in small-cap growth
- **How to Interpret:** The widening performance gap suggests the market is placing greater emphasis on reasonable valuations, current earnings, and cash-flow durability. Maintaining exposure across both styles remains important, but value may provide diversification if highly valued growth companies remain under pressure



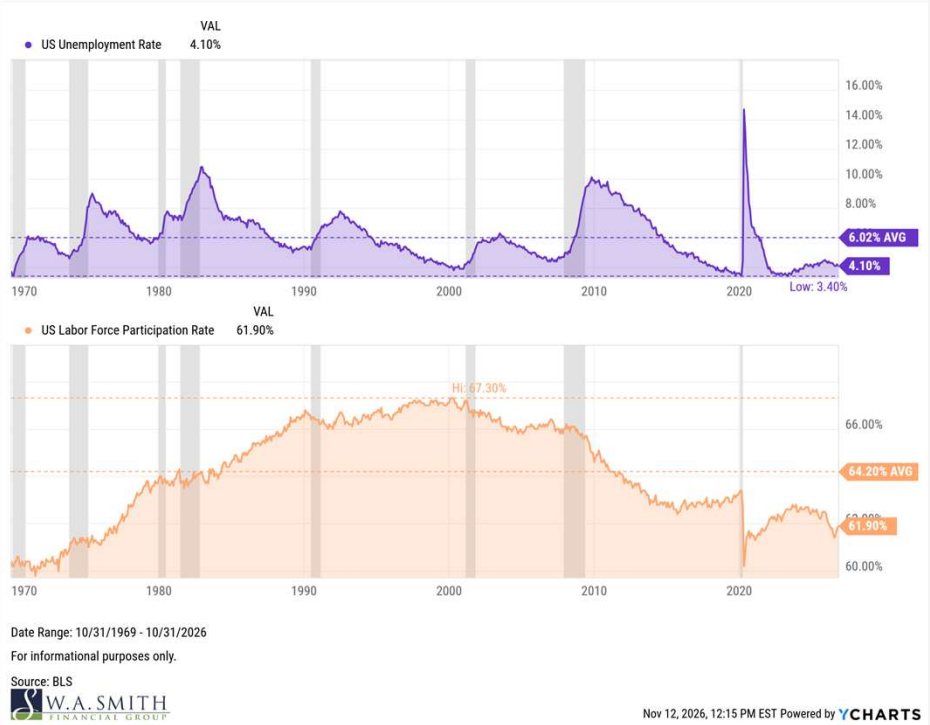


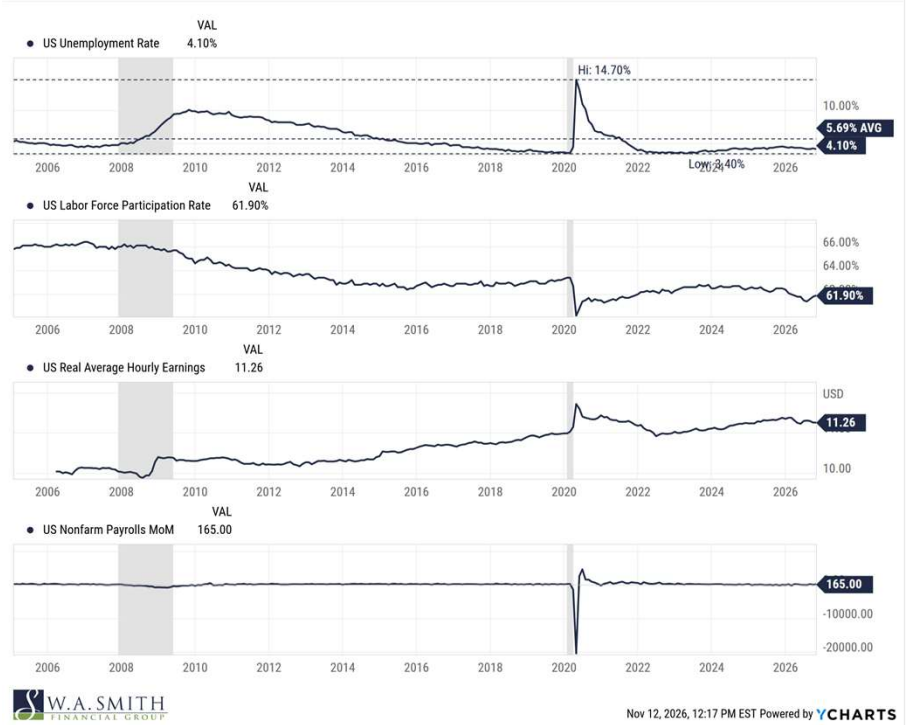




October's Sector Rotation Favored Energy and Defensive Areas

- **October produced a pronounced sector rotation:** Energy led the market, while Consumer Staples, Utilities, and Health Care also advanced strongly—signaling increased demand for defensive earnings, essential services, and inflation-sensitive assets
- **Technology-oriented leadership weakened considerably:** Communication Services and Information Technology experienced the largest declines as concerns surrounding valuations, capital spending, and the timing of returns from AI investments increased volatility
- **How to Interpret:** The divergence reinforces the importance of sector diversification. Energy and defensive exposure can provide alternative return sources when growth stocks consolidate, while the breadth of October's leadership suggests rotation rather than uniform market deterioration



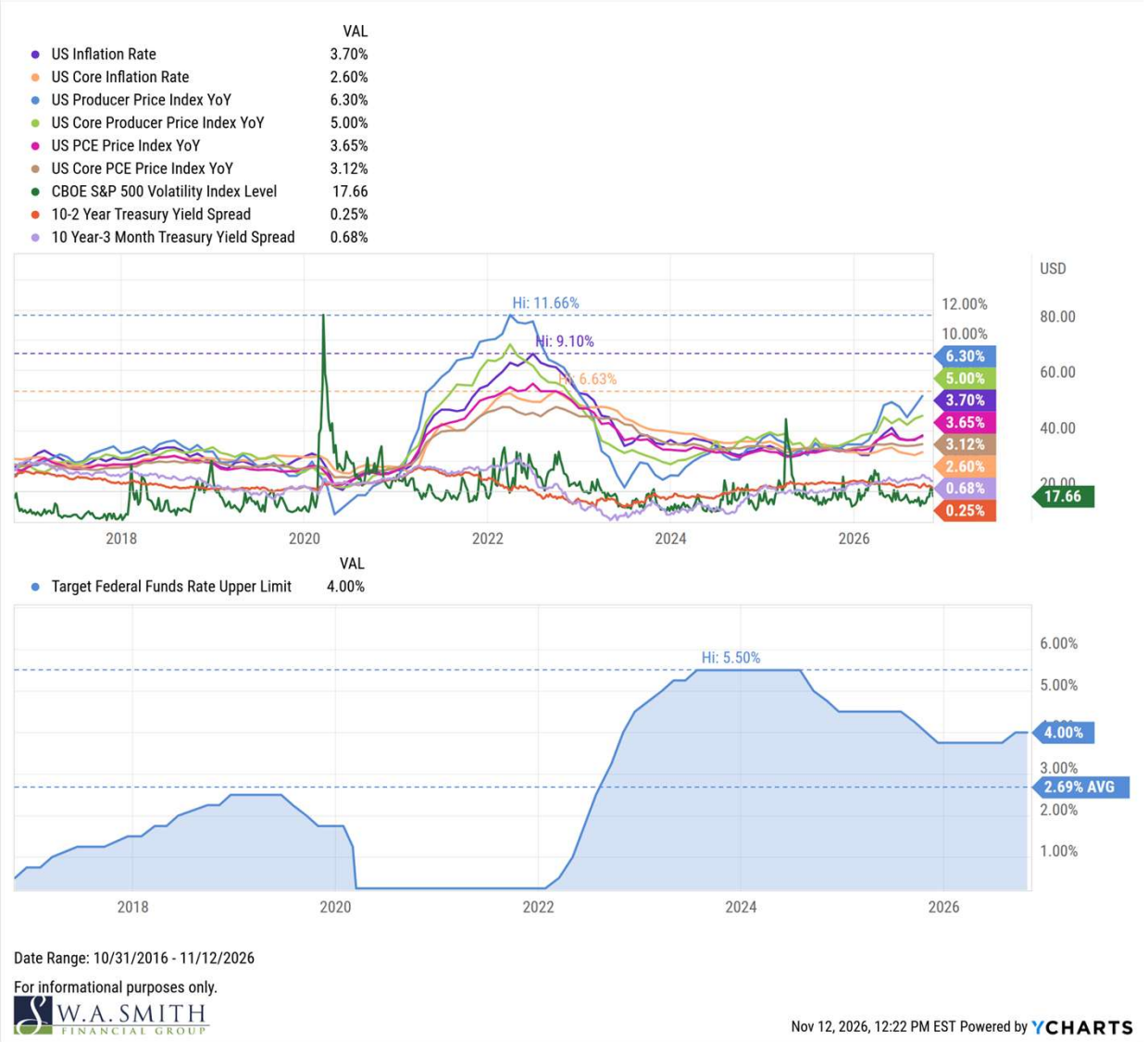


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Labor Market Remains Resilient Despite Lower Participation

- **The labor market remained relatively healthy in October:** Nonfarm payrolls increased by 165,000, while unemployment held at 4.1%—well below its long-term average and consistent with continued economic expansion
- **Labor-force participation remains a structural concern:** Participation stands at 61.9%, below both pre-pandemic levels and its longer-term average, limiting labor supply and potentially contributing to persistent wage pressure
- **How to Interpret:** Steady hiring, low unemployment, and resilient real earnings remain supportive of household spending. However, subdued participation and continued wage pressure could complicate the Federal Reserve's effort to contain inflation and keep monetary policy restrictive for longer

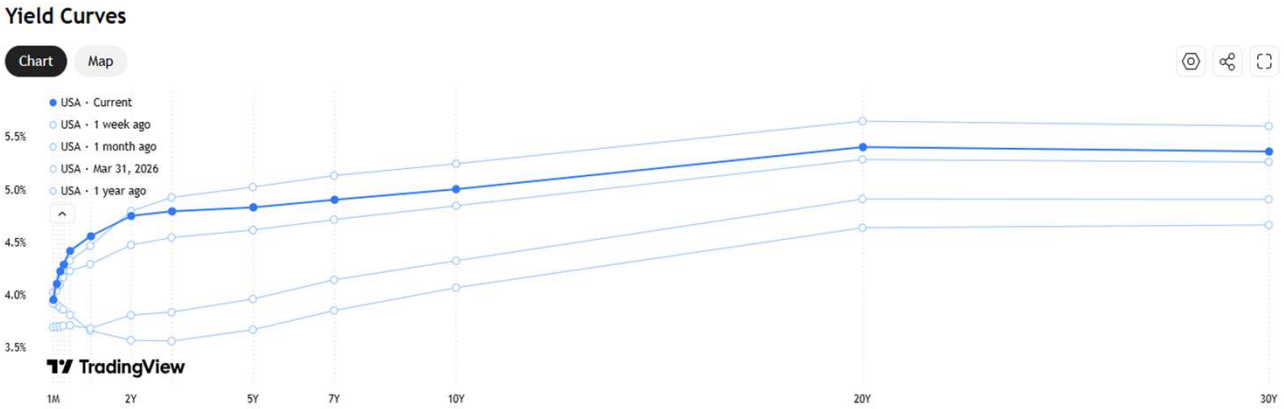
Renewed Inflation Pressure Keeps the Federal Reserve Restrictive

- **Inflation remains above the Federal Reserve's target:** Headline CPI and both PCE measures remain elevated, indicating that underlying price pressures have not been fully contained
- **Producer prices are the primary concern:** Headline and core PPI are rising faster than consumer inflation, suggesting businesses face renewed input-cost pressure that could eventually affect consumer prices or corporate profit margins
- **How to Interpret:** Persistent inflation and elevated producer costs support maintaining a restrictive policy stance. With the federal funds upper limit at 4%, the Fed has less flexibility to ease unless inflation improves—even if economic growth begins to slow



Yield Curve Remains Positive as Recent Rate Moves Flatten the Curve

- **The Treasury curve remains positively sloped:** Yields rise from approximately 4% at the short end to roughly 5.4% at longer maturities, reflecting continued compensation for inflation, fiscal, Treasury-supply, and duration risks
- **The curve experienced a bull flattening over the past month:** Intermediate- and long-term yields declined, with the 10- and 30-year yields falling more than shorter maturities. This may reflect safe-haven demand and concerns that elevated borrowing costs could eventually slow economic growth
- **The past week produced a partial bear flattening:** Yields increased across the curve, but short- and intermediate-term rates rose more than long-term rates. This suggests markets are reassessing the near-term path of Federal Reserve policy while long-term yields remain elevated enough to provide attractive income opportunities alongside continued duration risk
- **How to Interpret:** The curve's positive slope is healthier than the prolonged inversion experienced previously, but recent flattening suggests markets remain uncertain about inflation, Federal Reserve policy, and the durability of economic growth. Elevated yields continue to pressure borrowing costs while also creating attractive income and potential future appreciation opportunities in high-quality fixed income



Compare yields

Country	On date	1M	2M	3M	4M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
USA	**Current:** Nov 11, 2026	3.950%	4.101%	4.221%	4.283%	4.414%	4.553%	4.746%	4.790%	4.828%	4.900%	5.000%	5.400%	5.358%
USA	1 week ago: Nov 4, 2026	3.916%	4.036%	4.094%	4.165%	4.223%	4.288%	4.471%	4.541%	4.613%	4.712%	4.843%	5.282%	5.259%
USA	1 month ago: Oct 11, 2026	4.022%	4.053%	4.159%	4.224%	4.322%	4.462%	4.791%	4.923%	5.021%	5.130%	5.242%	5.647%	5.600%
USA	Mar 31, 2026	3.690%	3.695%	3.696%	3.704%	3.707%	3.679%	3.805%	3.833%	3.958%	4.140%	4.321%	4.907%	4.904%
USA	1 year ago: Nov 11, 2025	3.942%	3.908%	3.877%	3.859%	3.807%	3.658%	3.566%	3.558%	3.666%	3.848%	4.065%	4.634%	4.661%



Equal-Weight Rebound Signals Improving Market Breadth

- **Market breadth has improved sharply:** The rising RSP-to-SPY ratio indicates that the equal-weighted S&P 500 has recently outperformed the capitalization-weighted index, suggesting gains are expanding beyond the largest companies
- **The ratio has moved above its key moving averages:** This shift supports a more constructive near-term trend, although the ratio remains near prior resistance and will require continued participation from the average stock to confirm a durable breakout
- **How to Interpret:** A rising ratio generally reflects broader and healthier market leadership, while a declining ratio signals increasing dependence on mega-cap companies. Continued strength would improve diversification across sectors and individual holdings

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- **NASDAQ Composite Index** – a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **Russell 1000** – The index measures the performance of the large-cap segment of the US equity securities. It is a subset of the Russell 3000 index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.
- **Dow Jones Industrial Average Price Return Index** – a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.
- **Russell 2000 Index** – measures the performance of the small-cap segment of the US equity universe.
- **MSCI EAFE Index** – a stock market index that is designed to measure the equity market performance of developed markets outside of the US & Canada. It is maintained by MSCI, Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.