

Quarterly Insights

EXECUTIVE SUMMARY

Stocks Up And Bonds Down In Q3

In the Third Quarter, the domestic S&P 500 Index was up 2.30%, in the range of all major regions and driven almost entirely by Technology and Energy. Emerging Markets was held back by semiconductors (Korea was down 9.57%). China was down 3.66% in Q3 and is down 11.86% year-to-date. In its September 16 meeting led by new Fed Chair Kevin Warsh, the Fed announced a 0.25% rate hike. In Q3, bond yields spiked. The Bloomberg US Aggregate Bond Total Return USD Index (AGG) fell 3.51% in Q3 and is down 2.91% year-to-date.

Roth Conversions: Our Better Approach

Conventional wisdom is to convert Traditional IRAs to Roth IRAs while limiting the distribution so that you remain in your marginal federal tax rate. New research suggests converting at higher tax rates may create benefits including

1. Lowers future RMDs (required minimum distributions)
2. Protects against possible future tax increases
3. Reduces tax bracket creep for a surviving spouse
4. Minimizes taxes for non-spouse beneficiaries
5. Decreases estate taxes for very high net worth families

We are here to help with your Roth Conversion assessment. Contact us anytime.

Third Quarter 2026

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Capping Roth Conversions To Your Marginal Tax Rate May Be Sub-Optimal

Roth Conversions are a hot topic of discussion. What is a Roth Conversion? A Roth Conversion is the transfer of money from a traditional pre-tax retirement account - commonly a Traditional IRA - into a Roth IRA. The taxable pre-tax account converted is included in ordinary income for that year; in exchange, the money can potentially grow and be withdrawn tax-free later if Roth distribution rules are met.

Federal income tax brackets (10%, 12%, 22%, 24%, 32%, 35%, 37%) are met at certain income levels for single filers and married couples filing jointly. The conventional wisdom is to consider doing Roth Conversions only to the dollar level of staying within your marginal federal tax rate. We do not concur with the consensus. In many cases, it may be worthwhile to reach a higher marginal federal tax rate with a Roth Conversion.

2026 federal bracket chart

These are **taxable-income** brackets—after deductions, not gross income or AGI. The figures below are for 2026 federal income tax. 

Marginal rate	Single taxable income	Married filing jointly taxable income	Roth-conversion use
10%	\$0–\$12,400	\$0–\$24,800	Usually automatically filled by ordinary income and deductions planning
12%	\$12,401–\$50,400	\$24,801–\$100,800	Attractive conversion space in low-income retirement years
22%	\$50,401–\$105,700	\$100,801–\$211,400	Common annual “fill-to” target
24%	\$105,701–\$201,775	\$211,401–\$403,550	Often reasonable for clients expecting higher future income, RMDs, or survivor filing-single exposure
32%	\$201,776–\$256,225	\$403,551–\$512,450	Requires a stronger case—large future RMDs, estate planning, or unusually long Roth horizon
35%	\$256,226–\$640,600	\$512,451–\$768,700	Generally selective; compare against likely future marginal rates
37%	Over \$640,600	Over \$768,700	Rarely a default conversion target; generally reserved for specific estate or long-horizon circumstances

There Are Other Important Considerations Beyond Gauging Your Marginal Tax Rate

An optimal Roth Conversion strategy should consider the following in addition to a marginal tax rate:

1. High Traditional IRA valuations at retirement age will immediately trigger a very high marginal tax rate
2. There may be higher future tax brackets due to US indebtedness
3. In the case of married couples filing jointly, the surviving spouse will file as a single taxpayer, effectively lowering the tax bracket limits and increasing the tax obligations
4. Your heirs will receive the remaining funds and will be subject to the 10-year distribution rules - most likely, the Inherited Traditional IRAs will add sizeable income to any other income the heirs earn, in effect likely pushing them into a higher tax bracket

Case Study: A Middle-Aged Couple Filing Jointly

Dave (57) and Anne (56) are married, both working, and file taxes jointly.

Each currently has \$1 million in retirement assets.

They have two children who will be equal heirs.

Dave and Anne project \$375,000 of taxable income in 2026 (very close to reaching a 32% federal tax bracket)

Name	Age	RMD Age	401(k)	IRA	Total Pre-tax
Anne	56	75	\$500,000	\$500,000	\$1,000,000
Dave	57	75	\$500,000	\$500,000	\$1,000,000

Dave will reach 75 years old in 2044 - this is the first year of his Required Minimum Distribution (RMD).

Left as is, with a 7.5% annual compounded rate of return, each will have \$3,419,353 in pre-tax assets by 2044.

Year	Dave	Factor	RMD	Anne	Factor	RMD	Total RMD
2044	3,419,353	24.6	138,998	3,419,353	N/A	0	138,998
2045	3,526,381	23.7	148,792	3,675,804	24.6	149,423	298,215
2046	3,630,908	22.9	158,555	3,790,860	23.7	159,952	318,507
2047	3,732,779	22	169,672	3,903,226	22.9	170,447	340,118
2048	3,830,341	21.1	181,533	4,012,738	22	182,397	363,930
2049	3,922,469	20.2	194,182	4,117,616	21.1	195,148	389,329
2050	4,007,908	19.4	206,593	4,216,654	20.2	208,745	415,338
2051	4,086,414	18.5	220,887	4,308,502	19.4	222,088	442,975
2052	4,155,441	17.7	234,771	4,392,895	18.5	237,454	472,224
2053	4,214,721	16.8	250,876	4,467,099	17.7	252,378	503,255
2054	4,261,133	16	266,321	4,530,825	16.8	269,692	536,013
2055	4,294,423	15.2	282,528	4,580,718	16	286,295	568,823

In 2045, their Total RMD itself puts Dave and Anne in a 24% Federal Tax Bracket (see previous page).

In 2050, their Total RMD itself bumps them into a 32% Federal Tax Bracket.

For the sake of illustration, let's say that Dave passes away at age 78 (in 2047). Anne would immediately be a single filer and catapult from a 24% federal tax bracket to a 35% federal tax bracket because of the RMD level.

A Roth Conversion at a 32% rate could act as "insurance" to protect Anne from a higher future tax bracket. Also, their two children would benefit from receiving their inheritance in a Roth IRA versus Traditional IRA.

Please Contact Us For A Roth Conversion Assessment

A bracket-only strategy is incomplete. Before executing a Roth Conversion, the following needs to be stress-tested to determine the conversion amount:

1. Medicare IRMAA - for clients on Medicare, a conversion can raise Part B and Part D premiums
2. Social Security Taxation - additional income may cause more Social Security benefits to become taxable
3. ACA Marketplace Subsidies - Pre-Medicare retirees should model subsidy effects of a conversion
4. State Income Taxes - some states (for example, California) have higher tax rates
5. Tax-Payment Source - paying the conversion tax from taxable assets usually preserves more Roth value
6. Cash Flow and Timing - Roth Conversions must be completed by December 31 to count for that tax year

We are here to help with your Roth Conversion assessment. Contact us anytime.

Stocks Up In Q3

In the Third Quarter, the domestic S&P 500 Index was up 2.30%, in the range of all major regions and driven almost entirely by Technology and Energy. Emerging Markets was held back by semiconductors (Korea was down 9.57% in Q3). China was down 3.66% in Q3 and is down 11.86% year-to-date.

Equity Index Performance

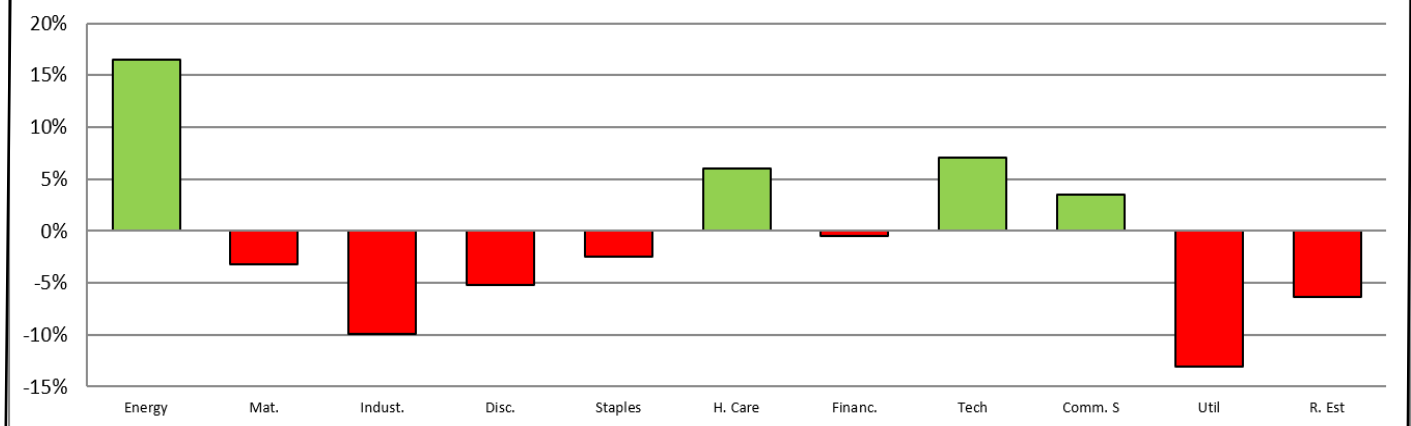
Index	Q3 2026	2026 YTD
S&P 500 (Domestic)	2.30%	12.75%
MSCI EAFE (Foreign) *	0.81%	10.33%
MSCI Emerging Markets	(0.37%)	23.38%
MSCI EMU (European Monetary Union)	(2.16%)	7.17%
MSCI Japan	5.96%	22.67%

* Europe, Australia and the Far East

Technology and Energy Were The Bright Spots In Q3

There were two main events in Q3. First, the large Technology stocks (the Magnificent 7) rebounded to single-handedly push the S&P 500 Index into positive territory. Second, tensions did not ease with the Iran conflict and oil prices rose. Given its high (over 50%) correlation to oil prices, the Energy sector also rose accordingly.

S&P 500 Index Sector Performance - Q3 2026



Portfolio Strategy Considerations

The S&P 500 Index has never been more concentrated in just three stocks (Nvidia, Apple, Microsoft) than it is today, representing 21% of the index. We have exposure to each of these stocks but are cognizant of concentration risk. Consequently, we continue to diversify your stock holdings.



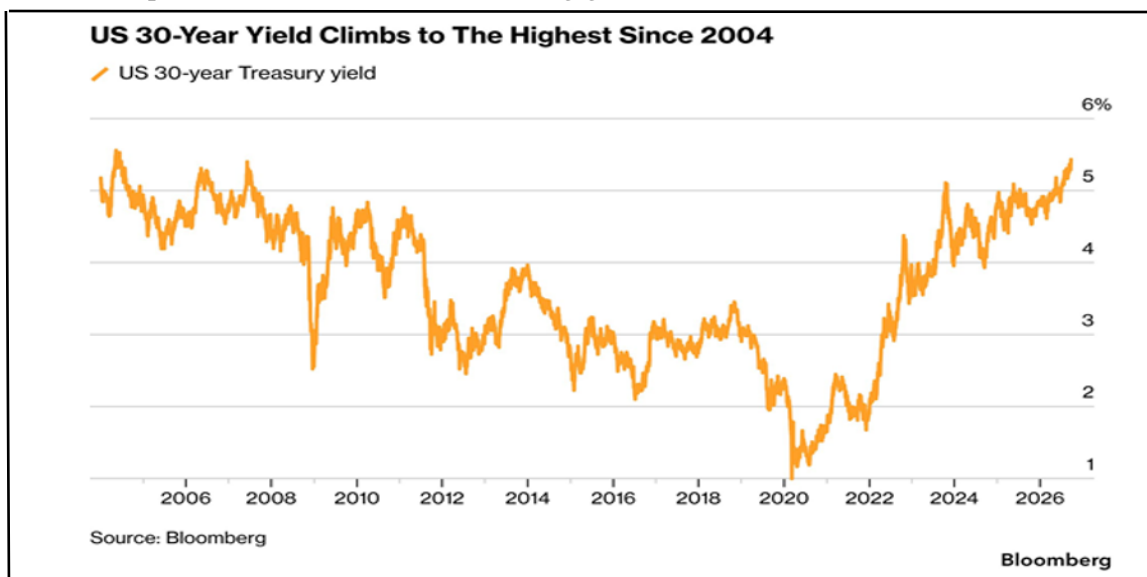
Bonds Fall In Q3

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, fell 3.51% in the Third Quarter. Year-to-date, the index is down 2.91%. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures Index, rose 3.4% in August. In its September 16 meeting, the Fed announced a 0.25% rate hike. The market expects another rate hike.

Key US Interest Rates	Sept 30, 2026	June 30, 2026	Change
Federal Reserve Board Funds Target Rate	3.75% - 4.00%	3.50% - 3.75%	+ 25 basis points
2-Year Treasury (Constant Maturity)	4.88%	4.14%	+ 74 basis points
5-Year Treasury (Constant Maturity)	5.09%	4.19%	+ 90 basis points
10-Year Treasury (Constant Maturity)	5.29%	4.44%	+ 85 basis points

Treasury Yields Hit Highest Level Since 2004

Yields have risen due to rising oil prices and associated inflation concerns, worries about ballooning government debt, and elevated borrowing demand from both the government and AI hyperscalers. Policymakers judged that the economy had strengthened enough to tolerate tighter policy: domestic spending was resilient, productivity growth was strong, and business capital spending was robust. With concerns about further Fed rate hikes to combat inflation, longer-term bond yields have risen as investors demand more compensation for the risks of holding government debt.



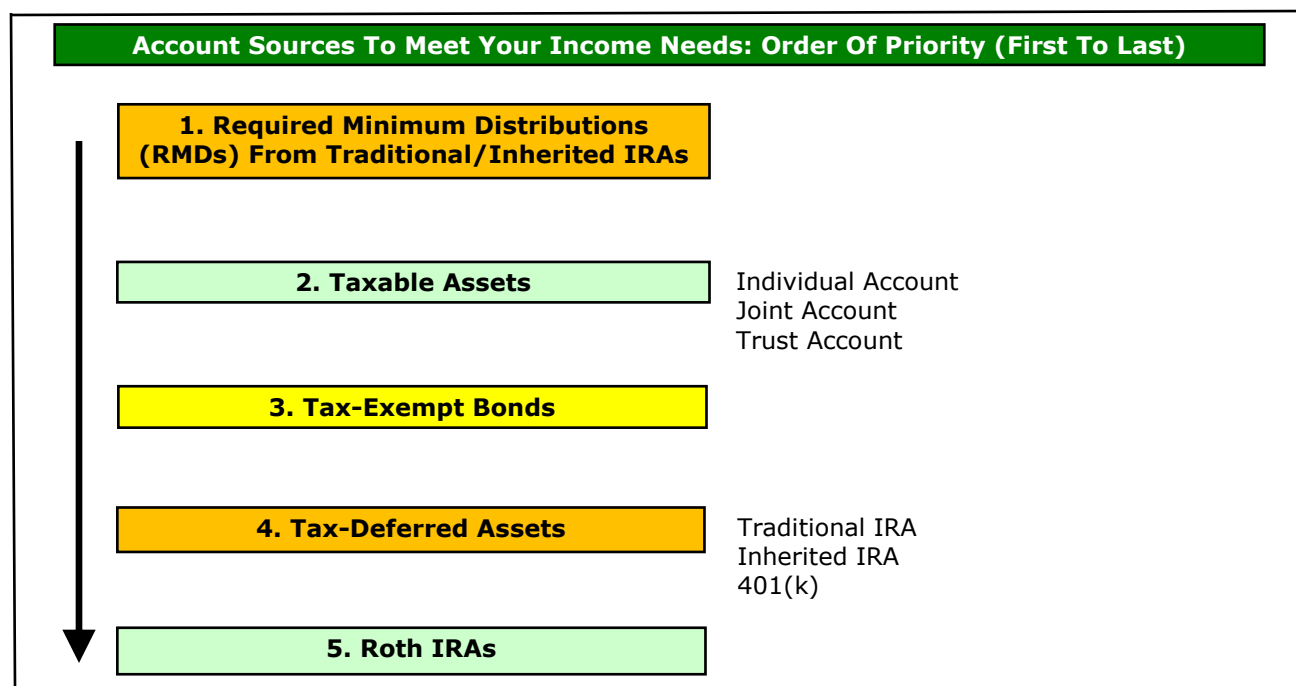
Portfolio Strategy Considerations

With the mid-term elections around the corner, current pessimism may be over-exaggerated. Buying longer-term bonds yielding a 5%+ risk-free rate of return has great upside bond appreciation potential. Why? Bond yields may be lower soon because of the following (as bond yields fall, bond prices rise):

1. A deal with Iran seems more likely, which would lower oil prices and inflation
2. A likely shift in government power may force budget negotiation and more fiscal restraint
3. Lower inflation concerns will temper future Fed rate hike expectations, which will ease bond yields

Tax Efficiency: Why Roth IRA Accounts And Roth Conversions Are So Important

Before and/or during retirement, it is almost certain that you will need to access funds from your portfolio assets to meet income needs. From which type of account(s) should funds be taken? There is an order of priority regarding income sources to meet your needs. Call us to discuss!



1. Required Minimum Distributions (RMDs) From Regular/Inherited IRAs

RMDs are taxed at your individual tax rate and must be taken from Regular/Inherited IRAs no matter if you need these funds or not.

2. Taxable Assets

Realized capital gains are generally cheaper than individual tax rates - hence it is usually better (once your RMDs are satisfied) to access funds from Taxable Assets versus Tax-Deferred Assets. There are three considerations we bear in mind in an effort to minimize your taxes - keep investments for at least one year, tax-loss selling, and legacy considerations.

3. Tax-Exempt Bonds

It is desirable to preserve tax-exempt bonds if possible. For example, some municipal bonds issued in an investor's home state avoid state taxes on interest income (very desirable for high-income investors).

4. Tax-Deferred Assets

Tax-deferred asset withdrawals are taxed at individual tax rates (a higher rate than capital gains).

5. Roth IRAs

Roth IRAs (funded by post-tax funds) can appreciate tax-free and any withdrawals are tax-free. Therefore, this is the most valuable type of account to preserve if at all possible.

On September 16, Fed Chair Kevin Warsh sent out a warning to all Americans with a bank savings account when he delivered a blunt assessment:

“The plain fact is that inflation is too high, and has been for too long.”

The Fed raised its target rate from 3.75% to 4.00% - the first rate hike in three years. The vote was unanimous.

Higher rates could offer better returns for savers, but banks still set their own deposit rates. If your account earns less than how much prices are rising, the balance can grow while its buying power falls.

For people keeping part of their nest egg in savings accounts, the danger is clear: if the interest being earned fails to keep pace, inflation can steadily erode the value of their money. This is why Warsh’s warning matters.

If you have funds in a bank account, check the rate of interest you are earning. Is it competitive as compared to risk-free Treasury rates and money market rates offered by Charles Schwab?

We can help you with this assessment. If your bank rate is not competitive, we can explore the following:

1. Place these funds in a higher-yielding Schwab money market instrument
2. Place these funds in a higher-yielding risk-free Treasury bill

We look forward to further discussion.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.