

Quarterly Market Review

Third Quarter 2026



Executive Summary

The third quarter of 2026 heightened the fundamental tension that has characterized this cycle. The U.S. economy has proven considerably more resilient than consensus anticipated at midyear, yet inflation remains too elevated, and too exposed to geopolitical supply shocks, for the Federal Reserve to relent. The Bureau of Economic Analysis's third estimate, released on the final day of the quarter, revised second-quarter real gross domestic product (GDP) growth sharply higher to a 2.2% annualized pace from 1.5%, and the accompanying annual revision lifted first-quarter growth to 2.5%. Underlying demand was stronger still, with real final sales to private domestic purchasers rising 4.6%. The business climate is buoyant at the top and more guarded on Main Street, where small-business owners report softer sales, elevated uncertainty, and persistent cost pressure.

Inflation, by contrast, remains above the Federal Reserve's target but continues to trend gradually lower beneath the surface. August headline Consumer Price Index (CPI) rose 3.4% from a year earlier, unchanged from July, while core CPI eased to 2.4%, its lowest reading since early 2021. The Fed's preferred measure delivered additional encouragement. August headline Personal Consumption Expenditures (PCE) price index inflation rose 3.4% from a year earlier, while core PCE slowed to 3.0%, its lowest annual rate of the cycle. Energy remains the decisive variable. Seven months into the conflict with Iran, disruptions around the Strait of Hormuz and attacks on alternative export routes have kept crude oil near or above \$90 per barrel, pushed diesel prices to record highs, and lifted the national average price of gasoline to roughly \$4.45 per gallon, compared with about \$3.13 a year ago.

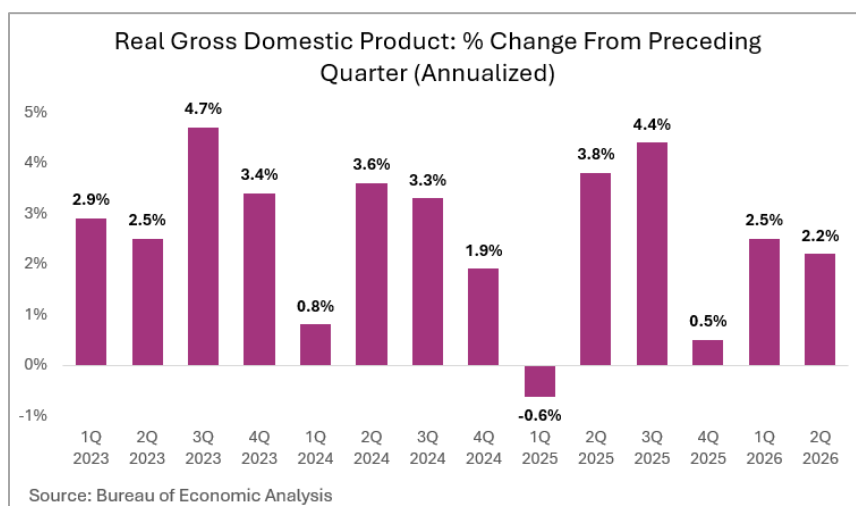
The Federal Reserve responded on September 16 with its first rate increase since July 2023, lifting the federal funds target range by 25 basis points to 3.75% to 4.00% on a unanimous vote. Sixteen of eighteen participants now anticipate at least one additional increase before year-end, and the median projection for 2027 no longer contains a single rate cut. Chair Kevin Warsh framed the decision as a matter of credibility, and subsequent remarks from Governor Michael Barr reinforced the expectation that further tightening is likely. At the end of the quarter, futures markets assigned roughly a 65% probability to another increase at the October meeting.

The labor market remains in a low-hire, low-fire equilibrium rather than a downturn. Payrolls rose 162,000 in August, the unemployment rate held at 4.1%, and the August Job Openings and Labor Turnover Survey (JOLTS) report showed 7.1 million job openings alongside layoffs that remain historically subdued. Households, however, are experiencing this economy far less favorably than the aggregate data suggest. The Conference Board's Consumer Confidence Index fell to 81.9 in September, its lowest reading since 2014, as respondents cited fuel prices and the broader cost of living with unusual frequency.

U.S. equities delivered positive returns during the quarter, supported by resilient economic growth, solid corporate earnings, and continued enthusiasm surrounding artificial intelligence and related capital investment. Market leadership broadened beyond the largest technology companies, although performance varied significantly across sectors as interest rates moved higher. In fixed income, returns were challenged by a rise in Treasury yields, with investors adjusting to stronger-than-expected economic activity, persistent inflation pressures, and a more restrictive Federal Reserve. As a result, bond prices declined modestly while yields reached their highest levels in many years.

U.S. Growth Revised Higher as Private Demand Strengthens

Real GDP increased at a 2.2% annualized rate in the second quarter, according to the Bureau of Economic Analysis's third estimate released September 30, an upward revision of 0.7% from the second estimate and well above the 1.5% consensus expectation. The revision reflected higher readings for investment, consumer spending, and government spending, the latter concentrated in federal defense outlays. As part of its annual update of the national accounts, the Bureau also revised first-quarter growth to 2.5% from 2.1%, so the first half of the year now looks materially firmer than previously reported. Real gross domestic income, the income-side



counterpart to GDP, grew 2.6%, and the average of the two measures rose 2.4%. The earlier caution that the output data might understate underlying activity has now been largely vindicated.

Real final sales to private domestic purchasers, which combines consumer spending and private fixed investment, increased 4.6%, revised up a further 0.4%. That measure strips out the more volatile components of GDP and offers a cleaner view of underlying demand, and by that standard the private economy expanded at a notably robust pace. The industry details are instructive. Real value added rose 2.5% in private services-producing industries and 2.3% in goods-producing industries, with real estate, information, durable goods manufacturing, and finance and insurance leading the gains, while transportation and warehousing, retail trade, and nondurable manufacturing were the principal offsets. The pattern aligns closely with the investment themes discussed later in this review: technology, capital equipment, and finance are carrying growth, while the sectors most exposed to fuel costs and price-sensitive consumers are lagging.

Evidence from the third quarter points to additional acceleration. Even allowing for revision, the direction is clear: the economy entered the autumn with more momentum than it carried a year ago, not less. The larger question is whether that momentum can persist alongside elevated energy costs, restrictive monetary policy, and rising long-term rates. The inflation data embedded in the GDP report remain uncomfortable, with the second-quarter PCE price index increasing at a 5.0% annualized rate and core PCE rising 3.3%, even after downward revisions. More recent data, however, suggest additional progress. August core PCE increased just 0.2% for the month and 3.0% from a year earlier, indicating that underlying inflation continues to moderate despite renewed pressure from energy markets. The annual update also lowered first-quarter core PCE inflation to 3.9% from 4.4%, reinforcing the broader disinflation trend without eliminating concerns about inflation remaining above target. The support for growth also remains uneven. Affluent households benefit from strong balance sheets and financial asset gains, while lower- and middle-income households remain more exposed to gasoline, food, rent, and borrowing costs. Business investment is similarly concentrated, with large companies and AI-related industries spending aggressively while smaller firms remain more cautious.

The Fed Moves From Hawkish Hold to Rate Hike

The September FOMC meeting marked a decisive transition from warning about inflation to acting on it. The Committee voted 12-0 to raise the federal funds target range by 25 basis points to 3.75% to 4.00%. The statement described economic activity as expanding at a solid pace, domestic spending as resilient, productivity growth as strong, and capital investment as robust, before concluding plainly that inflation remains elevated. In his press conference, Chair Warsh explained that the Committee must be confident that underlying inflation is converging on its objective clearly and at sufficient speed, and that this standard had not yet been satisfied.

The updated Summary of Economic Projections reinforced that message. The median projection for 2026 real GDP growth rose to 2.3%, the unemployment-rate projection declined to 4.1% from 4.3%, and inflation projections moved higher, to 3.7% for headline PCE and 3.4% for core PCE. The median year-end federal funds projection increased to 4.1%, consistent with one additional increase, and four participants penciled in two. More consequential was the revision to the following year: the median projection for the end of 2027 rose to 4.1% from 3.6% in June, meaning the Committee's central view no longer includes easing next year. Projections are not commitments, but the direction of the revisions matters.

This is an unusual point in the cycle. The Fed is tightening not because demand is overheating in a classic sense, but because a resilient economy is absorbing repeated supply shocks without sufficient disinflation. Strong productivity growth is helpful over time, yet in the near term it sustains spending, profits, and hiring even as policy grows more restrictive. The decision also carried institutional significance. It came despite public calls from the administration for lower rates, and the unanimity of the vote conveyed a Committee intent on demonstrating its independence.

Markets have taken the message seriously and, at the long end of the curve, have extended it. The two-year Treasury yield reached its highest level since May 2024 in the week following the meeting, and by September 30 fed funds futures implied roughly a 65% probability of an October increase. Short-term rates are likely to remain higher for longer, while longer maturities must balance persistent inflation, substantial federal borrowing needs, and a credible growth outlook. Volatility around each inflation and employment report is likely to remain elevated, because the next policy move depends less on a predetermined path and more on whether the data confirm that inflation is genuinely receding.

Core Inflation Cools, But Energy Keeps the Pressure On

August CPI captured the two-sided nature of the inflation outlook. Headline prices rose 0.4% for the month and 3.4% over the past year. Core CPI increased 0.3% in August, slightly above expectations, yet the annual rate slowed to 2.4%, its lowest level since early 2021. Shelter rose 0.3%, while food increased only 0.1%. Core goods inflation remained modest at 0.7% over twelve months, suggesting that broader price pressures are not accelerating at the pace implied by the headline figure.

Energy tells a different story. The energy index rose 2.1% in August and 16.3% over the prior year. Gasoline increased 3.9% during the month, accounting for more than one-third of the monthly rise in the overall index, and was up 27.4% over twelve months, while fuel oil was up 52% and airline fares 23.4% from a year earlier. These increases affect households directly and

also flow through freight, air travel, manufacturing, and agricultural supply chains. Price pressure intensified further in September, as diesel reached record highs and Brent crude traded near or above \$100 per barrel for much of the month.

The encouraging development is that core CPI has moved closer to the Fed's objective and wage growth is no longer exerting the same degree of pressure. The more important signal, however, comes from the Fed's preferred inflation gauge. August core PCE rose just 0.2% for the month and 3.0% from a year earlier, down from 3.3% previously and well below consensus expectations. Headline PCE increased 0.3% in August and 3.4% over the prior twelve months, reflecting the continued influence of higher energy costs even as broader inflation pressures improved. The latest data suggest that disinflation remains intact across many categories of goods and services, and the gap between CPI and PCE has narrowed meaningfully. Policymakers are nevertheless unlikely to declare victory. Energy markets remain volatile, diesel prices remain elevated, and oil prices near \$100 per barrel continue to present upside risks to inflation and inflation expectations. Those expectations remain a concern. Respondents to the Conference Board's latest survey anticipate inflation of 6.1% on average over the coming year, underscoring how quickly a supply-driven energy shock can influence consumer psychology. Once inflation expectations begin to adjust higher, what initially appears to be a transitory energy story can become a broader policy challenge.

The Labor Market Finds Its Balance

August payrolls increased by 162,000, a meaningful rebound from the soft pace seen earlier in the summer. The unemployment rate held at 4.1%, labor-force participation edged up to 61.6%, and June and July payrolls were revised higher by a combined 55,000. The revisions turned July from a reported decline into a modest gain.

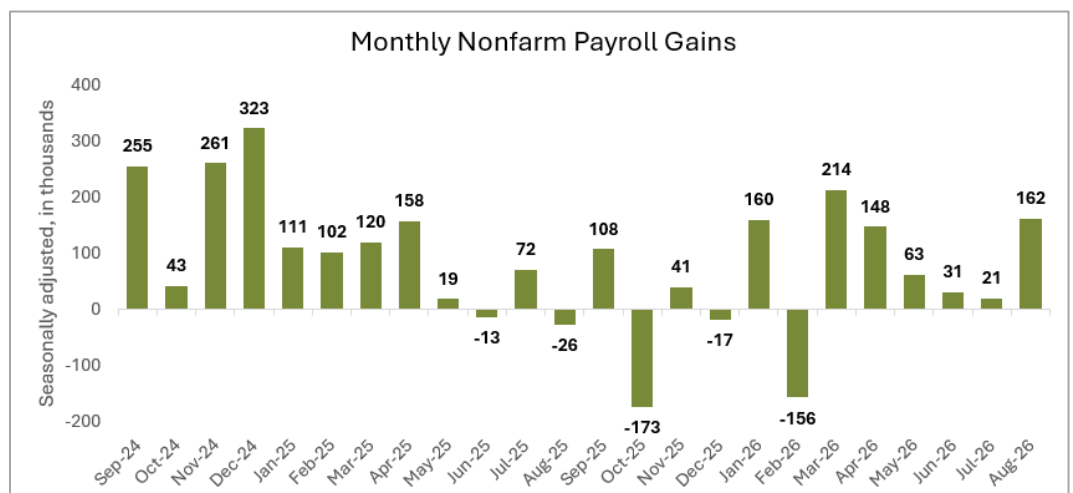
The details were mixed but generally stable. Food services and drinking places and local government education accounted for a large share of job growth, while information employment declined. Manufacturing and health care continued to add jobs, but the breadth of hiring remains narrower than it was earlier in the expansion.

Average hourly earnings rose 0.3% in August and 3.1% over the prior year. Wage growth has now moderated enough to reduce concern about a self-reinforcing wage-price spiral, though it also trails headline inflation. For many households, that means real income pressure remains visible in the categories they encounter most frequently.

The August Job Openings and Labor Turnover Survey reinforced that picture. Job openings declined to 7.1 million from a revised 7.3 million in July, while hires edged up to 5.2 million and layoffs and discharges fell to 1.6 million, a layoff rate of just 1.0%. The quits rate held at 1.9%, indicating that workers remain reluctant to leave existing positions.

Employers continue to signal demand for labor, yet they are slow to convert openings into hires, a hesitancy that economists attribute in part to the uncertainty created by the conflict in the Middle East and its effect on costs.

The most useful description therefore remains low hire, low fire. Employers are selective, job creation is uneven, and labor-force growth has slowed, but layoffs remain contained and unemployment is stable. That balance supports consumer spending and reduces near-term recession risk. It also gives the Fed little reason to provide relief through lower rates.



Consumer Spending and Sentiment: A Widening Divergence

Consumer spending accelerated during the second quarter and appears to have strengthened further in the third, yet household sentiment has deteriorated sharply. The Conference Board's Consumer Confidence Index fell 6.7 points to 81.9 in September, well below consensus expectations and its lowest reading since April 2014, below even the trough reached during the pandemic. Assessments of current business conditions turned negative for the first time since September 2024, and expectations for business conditions, the labor market, and household income all weakened. The University of Michigan's survey told a similar story, with sentiment falling to its second-lowest reading on record.

This disconnect between what households say and what they do is familiar, but its magnitude is notable. Households often report concern about inflation and politics while continuing to spend from current income, accumulated wealth, and available credit. The distribution of spending is central to reconciling the two. Higher-income households continue to provide an outsized share of discretionary demand, are more insulated from food and energy inflation, and benefit more directly from gains in equity

and housing wealth. Lower-income households face tighter budgets, higher financing costs, and far less capacity to absorb another increase in gasoline or utility bills.

This concentration is both a support and a risk. As long as employment remains stable and asset values hold, affluent consumers can keep overall spending firm. The cushion beneath that spending is thin, however, with the personal saving rate at just 3% in July. If market volatility, higher borrowing costs, or tighter financial conditions weaken the confidence of upper-income households, the effect on aggregate consumption could be larger than broad sentiment measures imply. Credit performance, revolving balances, and delinquency trends therefore deserve as much attention as retail sales.

Housing remains a binding constraint. Freddie Mac reported that the average 30-year fixed mortgage rate reached 7.03% in the week of September 24, the first reading above 7% since January 2025 and a striking reversal from the sub-6% rates briefly available at the end of February. Existing-home sales declined 2% in August, and at a median price of roughly \$429,000, each percentage point increase in mortgage rates translates into hundreds of dollars in additional monthly cost for buyers. Owners with low existing mortgage rates have little incentive to move, leaving a market with restricted supply, expensive financing, and uneven transaction activity. Slower rent growth is helpful for inflation, but the improvement in affordability has stalled rather than advanced.

The Business Climate: Strong Demand, Stretched Capacity

Business surveys moved decisively higher late in the quarter. S&P Global's flash composite Purchasing Managers' Index (PMI) rose to 58.4 in September from 56.0 in August, the fastest expansion since July 2021 and the fourth consecutive month of accelerating growth. The services activity index climbed to 58.7 and the manufacturing PMI reached 57.0, a 52-month high. New orders grew at the fastest pace since the spring of 2022 in both sectors, supported principally by domestic demand as goods exports continued to decline, and firms added staff at the fastest rate since June 2022.

The Institute for Supply Management surveys confirm expansion, though with somewhat more nuance. The ISM Manufacturing PMI registered 54.6 in August, its eighth consecutive month above 50, although new orders and backlogs softened from July. The ISM Services PMI rose to 55.4, with business activity at 61.7 and new orders at 60.9, yet its employment index contracted for a second consecutive month. Purchasing managers identified graphics processing units, memory components, labor, steel, and wire and cable among the commodities in short supply, a list that reads almost as an inventory of the AI and electrification buildout.

Main Street tells a more measured story. The NFIB Small Business Optimism Index eased to 98.7 in August, still above its 52-year average of 98.0, but the share of owners expecting better business conditions fell five points, reported sales weakened to their lowest reading since November 2025, and inflation now ties taxes as the second most frequently cited problem. The NFIB Uncertainty Index, at 89, remains far above its historical average of 68. The Federal Reserve's September Beige Book described overall activity as rising modestly, with manufacturing strengthened by defense and data-center orders and nonresidential construction increasing while residential construction declined. In the Seventh District, which includes Wisconsin, activity rose only slightly, business spending edged lower, and contacts reported consumers trading down to discount retailers in response to higher food and fuel prices. The Federal Reserve Bank of Kansas City characterized Tenth District activity as largely unchanged but softening beneath the surface, as firms conserved working capital amid elevated input costs, even as regional manufacturing strengthened and price pressures reached their most intense level since mid-2022.

The composite picture is one of a business cycle running on two tracks. Large firms tied to technology, defense, and infrastructure are operating near capacity with strong order books and ready access to capital, while smaller, consumer-facing, and interest-sensitive businesses are contending with softer demand, higher financing costs, and elevated uncertainty.

Business Investment and the AI Capital Cycle

Business investment remains one of the strongest parts of the economy, and artificial intelligence (AI) is a major reason. Spending on semiconductors, information-processing equipment, software, data centers, power infrastructure, networking, and cooling systems is supporting activity well beyond the technology sector. The AI capital cycle increasingly reaches utilities, engineering firms, construction companies, industrial suppliers, and specialized lenders. This broader footprint helps explain why the investment boom matters not only for equity markets, but also for economic growth, electricity demand, credit markets, and inflation. The scale of spending is historically significant. Oxford Economics estimates that AI-related capital expenditures accounted for 27% of U.S. fixed investment in the second quarter and that cumulative investment in the sector exceeded 2% of U.S. GDP over the past three years.

The constructive case for AI begins with productivity. AI has the potential to automate routine work, improve decision-making, accelerate research, and help companies use labor and capital more efficiently. If those benefits spread across industries, the economy may be able to grow faster without creating the same degree of inflation. Better productivity could support profit margins, real wages, and long-term returns while easing some of the demographic and labor-force constraints facing developed economies.

The challenge is timing. The current investment effort is large, while evidence of an economy-wide productivity dividend remains limited. This is where the distinction between a technological success and an investment success becomes important. AI can

meaningfully change the economy while some companies, projects, or securities still disappoint. History offers many examples in which new infrastructure created enormous social value but early investors earned poor returns because too much capital arrived too quickly, competition compressed margins, or the benefits accrued primarily to customers rather than providers. The relevant question is therefore not simply whether AI will matter. It is who will capture the value, how durable that value will be, and how much has already been reflected in market prices.

Key Rates

	12/31/2025	6/30/2026	9/30/2026
2-year U.S. Treasury	3.48%	4.20%	4.90%
10-year U.S. Treasury	4.17%	4.47%	5.29%
30-year Fixed Mortgage (Freddie Mac)	6.15%	6.49%	7.03%
Fed Funds Target Rate (upper)	3.75%	3.75%	4.00%
U.S. Dollar Index	98.32	101.19	101.46
Crude Oil Futures (WTI)	\$57.42	\$69.83	\$90.31
Gold Futures	\$4,341	\$3,993	\$4,191
Unemployment Rate	4.40%	4.30%	4.10%*

*August 2026. Sources: WSJ, BLS, and Freddie Mac.

Oil, Trade, and the Global Backdrop

Oil markets remained at the center of the macro outlook throughout the third quarter. The International Energy Agency's September report estimated that global production fell by 1.6 million barrels per day in August to 100.1 million, as more than 10 million barrels per day of Gulf output remained shut in amid security risks. Observed global inventories have now declined by roughly 507 million barrels since February, refining margins reached record levels in the Atlantic Basin, and tanker costs surged. The agency now expects the recovery in Gulf supply to be deferred until 2027 and projects that world oil demand will contract by 2.5 million barrels per day this year, a reflection of demand destruction rather than economic health.

September illustrated how fragile the supply chain has become. Drone attacks forced the temporary closure of Saudi Arabia's East-West pipeline, the principal route for moving Saudi crude to the Red Sea without transiting the Strait of Hormuz, and North Sea Dated Brent briefly surged above \$113 per barrel. The pipeline has since been brought back into service, and preliminary shipping data indicate that Middle Eastern crude exports recovered in September to their highest level since February. Diplomacy remains halting. U.S. and Iranian officials have held talks through intermediaries, the President suggested that an agreement could follow the November midterm elections, and on September 28 the administration rejected Tehran's latest terms for reopening the strait. Prices have become acutely headline-driven, with Brent on course for a double-digit gain in September.

The economic impact extends well beyond crude prices. Reduced availability of diesel, jet fuel, liquefied natural gas (LNG), and petrochemical feedstocks affects transportation, agriculture, manufacturing, and global trade. Qatar's LNG exports have fallen by more than 90%, extending force majeure notices to buyers in Europe and South Asia. Asian economies remain especially exposed because of their dependence on Gulf energy and long shipping routes, while Europe faces imported energy costs against a structurally weaker growth profile.

Trade policy also remains unsettled, though the tone with China has improved. Following the expiration of the temporary Section 122 framework, attention shifted toward targeted country and product measures. The Trump-Xi summit in Washington from September 23 to 25 produced a two-month extension of the U.S.-China trade truce through January 10, reciprocal tariff reductions on roughly \$30 billion of non-sensitive goods, and an agreement to establish a formal dialogue and communication channel on AI risks. The shorter-than-expected extension, however, leaves disputes over rare earths, semiconductor export controls, and agricultural purchases unresolved. Relations with Canada moved in the opposite direction, with new tariffs of 50% on certain Canadian imports. For businesses, the practical effect is continued uncertainty around sourcing, landed costs, and supply-chain design.

Abroad, central banks are confronting the same energy shock with similar resolve. The European Central Bank raised its deposit rate by 25 basis points to 2.50% on September 10, citing inflation that is set to remain well above target for an extended period. Euro area inflation reached 3.2% in August, with energy prices up 14.3%, and Spain's September flash estimate rose to 4.9%. China's growth remains policy managed and uneven. Emerging markets are not a single trade in this environment. Energy importers face a different set of pressures than commodity exporters, and AI-linked Asian markets differ materially from economies dependent on domestic credit or Chinese demand.

Selected Period Returns

	2025	Q3 2026	YTD 2026	Last 3 Years annualized	Last 5 Years annualized
MSCI All-Cap World Index	22.13%	1.08%	12.95%	21.25%	11.00%
S&P 500 Index	17.88%	2.30%	12.75%	22.88%	13.79%
Russell 2000	12.81%	-7.23%	13.71%	17.72%	6.34%
MSCI EAFE Index	31.22%	0.81%	10.33%	18.40%	9.32%
MSCI Emerging Markets Index	33.57%	-0.37%	23.38%	24.09%	8.94%
Bloomberg 1-3 Year U.S. Treasury	5.17%	-0.17%	0.46%	4.07%	1.85%
Bloomberg U.S. Aggregate Bond	7.30%	-3.51%	-2.91%	4.06%	-0.64%
Bloomberg Municipal Index	4.25%	-2.09%	-0.81%	2.97%	1.02%

Source: Morningstar Direct.

Market Commentary

The third quarter tested whether markets could absorb a more restrictive Fed without losing confidence in the growth outlook. Equities largely passed that test; bonds did not. Stocks advanced through a historically difficult September despite rising yields, geopolitical risk, and growing expectations of further rate increases. Perhaps most encouraging for long-term investors was the continued expansion in market breadth. Unlike recent years when a handful of mega-cap technology companies drove a disproportionate share of index returns, the Magnificent Seven and the remaining 493 stocks in the S&P 500 produced broadly similar performance during the quarter.

Domestic equities advanced modestly during the third quarter, with the S&P 500 adding a low-single-digit gain as a mid-August peak gave way to late-September pressure from surging long-duration Treasury yields and renewed Federal Reserve tightening. Year to date, the index has returned 12.75% on a total-return basis. Sector leadership remained narrow and decidedly bifurcated. Energy, buoyed by elevated crude prices, gained 17% for the quarter and now leads all sectors with a year-to-date advance of 40%, while technology, sustained by persistent enthusiasm for artificial intelligence, has risen approximately 28% this year. Health Care also delivered solid third-quarter gains. By contrast, rate-sensitive and consumer-oriented sectors bore the brunt of higher borrowing costs, with utilities declining 12% during the quarter, and consumer discretionary, financials, and utilities now registering losses for the year.

Small-capitalization equities, which had outpaced their large-cap counterparts for much of the year, proved especially vulnerable to rising rates, with Russell 2000 retreating 7.23% during the quarter but retaining a year-to-date gain of 13.71%, just slightly better than the S&P 500 index. International returns were shaped by currency movements, energy exposure, and the degree of participation in the global technology investment cycle. Developed international markets have gained 10.33% year to date, led by Japan, where the Nikkei 225 has advanced nearly 35%, while emerging markets, although essentially flat for the quarter, remain the standout performer for the year with a gain of 23.38%. That strength has been highly concentrated in South Korea and Taiwan, beneficiaries of the global semiconductor buildout, while India and China have lagged considerably.

The most consequential development occurred in the Treasury market. The 10-year yield, which stood at 4.47% at the end of June, closed at 5.29% on September 30, its highest close since July 2006. The 30-year yield rose as high as 5.65%, a level last seen in 2002. The drivers were cumulative: hawkish Fed commentary, persistent energy-driven inflation, stronger-than-expected purchasing managers' surveys, and a rising term premium as investors demanded greater compensation for fiscal supply and for an investment boom that is competing aggressively for capital. Rising yields pushed the Bloomberg Aggregate bond index lower by 3.5% in the quarter, down 2.9% for the year.

The U.S. Treasury Yields chart highlights the evolution of the Treasury yield curve across three points in time. Yields generally declined between October 2023 and December 2025 before moving higher across all maturities by September 2026. The most pronounced increases occurred in intermediate- and long-term maturities, with the 10-year and 30-year Treasury yields rising to

5.29% and 5.63%, respectively. As a result, the yield curve shifted from an inverted structure in 2023, where short-term rates exceeded long-term rates, to a more traditionally upward-sloping shape by the end of the third quarter of 2026.

What Could Go Right From Here?

The constructive case remains credible. Productivity growth could allow the economy to expand without generating the inflation that would normally accompany stronger demand. Core CPI has fallen to its lowest annual rate since 2021, and August core PCE eased to 3.0%, providing further evidence that underlying inflationary pressures are becoming more contained than headline energy-driven measures suggest. AI-related investment could broaden further into industrial capacity, power infrastructure, and services, and core inflation could continue to ease even if energy remains volatile, allowing the Fed to pause after restoring a measure of policy restraint.

A favorable AI outcome would not require every current investment to earn an exceptional return. It would require enough projects to produce measurable efficiency gains, broaden demand beyond the largest technology companies, and create new profit pools across the infrastructure and application layers. In that scenario, some current leaders may face margin pressure even as the economy benefits. For diversified investors, broader adoption could therefore be more important than continued concentration in the same small group of winners.

Consumer spending could also prove more durable than sentiment suggests. Stable employment, historically low layoffs, and strong household balance sheets at the upper end of the income distribution provide support. The most powerful potential catalyst, however, lies in the Gulf. The recovery in Middle Eastern crude exports during September shows how quickly supply can respond when routes reopen. A durable agreement restoring traffic through the Strait of Hormuz would rapidly relieve pressure on gasoline, diesel, freight, and headline inflation, improving real purchasing power and potentially easing the pressure on long-term yields.

The risks are equally clear. A failure of diplomacy or a renewed disruption to Gulf supply could push oil and yields higher and test equity valuations, particularly with the 10-year Treasury already above 5%. The Fed may need to raise rates more than once more if inflation expectations continue to drift upward. An AI-related pullback could amplify that pressure if capital spending slows, financing becomes less available, governance concerns intensify, or highly valued companies fail to meet aggressive cash-flow expectations. The sharp decline in consumer confidence could begin to translate into weaker spending, and the calendar carries identifiable event risk, including the November midterm elections and the January 10 expiration of the U.S.-China trade truce.

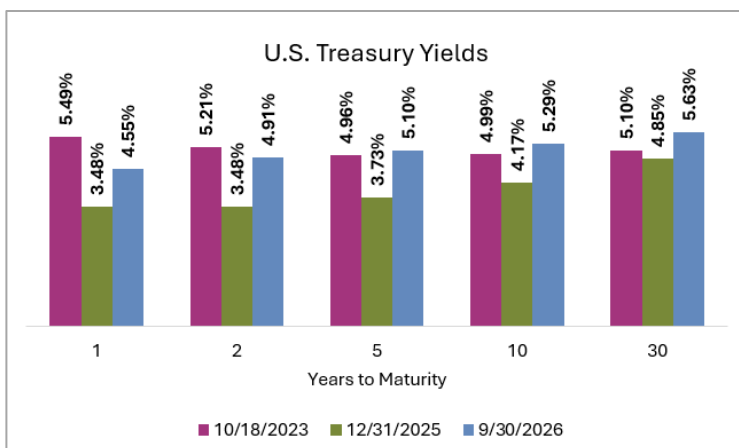
This remains a market environment for discipline rather than retreat. Higher rates increase the value of income and create a broader opportunity set across fixed income, while strong productivity and capital investment support carefully selected equities. The appropriate response is not to chase each change in the macro narrative, but to maintain quality, diversification, and a clear connection between portfolio risk and long-term objectives. In an environment defined by persistent inflation, elevated energy costs, and rising real asset demand, we believe global infrastructure and natural resources merit an allocation within a diversified portfolio. Infrastructure assets, often supported by regulated or contracted revenue streams with inflation-linked pricing, offer a measure of cash-flow stability, while natural resource equities provide direct exposure to the commodity price pressures that tend to erode returns elsewhere. Together, these allocations can broaden a portfolio's sources of return, temper its sensitivity to traditional stock and bond correlations, and position investors to benefit from secular themes such as energy security, grid modernization, and the capital-intensive buildout of data-center capacity.

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