

Fall Into Opportunity: Markets Continue Their Ascent

Market Review Commentary for the Third Quarter 2026

Key Takeaways

- ➔ Earnings growth continues to support equity markets, with expectations for S&P 500 earnings continuing to improve.
- ➔ Interest rates may remain elevated for longer than many investors expected at the start of the year.
- ➔ Higher yields have improved opportunities across areas of fixed income, including municipal bonds.
- ➔ From our perspective, quality small-cap strategies continue to offer attractive valuations while providing exposure to companies with strong balance sheets and lower leverage.
- ➔ Despite recent headlines, direct lending continues to attract strong investor interest within private credit.
- ➔ We believe infrastructure remains an area of opportunity due to its exposure to AI, energy, and essential services, as well as its ability to pass through price increases during inflationary periods.
- ➔ We maintain that diversification across asset classes and investment approaches remains important amid ongoing market and economic uncertainty.

As we close out the third quarter of 2026 and turn our attention to opportunities in the remainder of the year, investors continue to assess a market shaped by earnings growth, evolving interest rate expectations, and continued investment in artificial intelligence infrastructure. September is typically one of the more volatile months of the year, while fourth-quarter market rallies are well documented. This year, the fourth quarter also includes the much-anticipated backdrop of the midterm elections.

This quarter's commentary will touch on several topics, including continued earnings growth, midterm elections, the effects of higher interest rates, asset allocation considerations, and solutions clients are finding helpful in a concentrated market.

September Has Historically Been the Worst Month for U.S. Stocks (Including Midterm Election Years)

Still, U.S. Stocks Made Better-than-Average Gains in the 4th Quarter of Midterm Election Years

Figure 1: U.S. Stocks Average Return by Month

January 1, 1926 through August 31, 2026

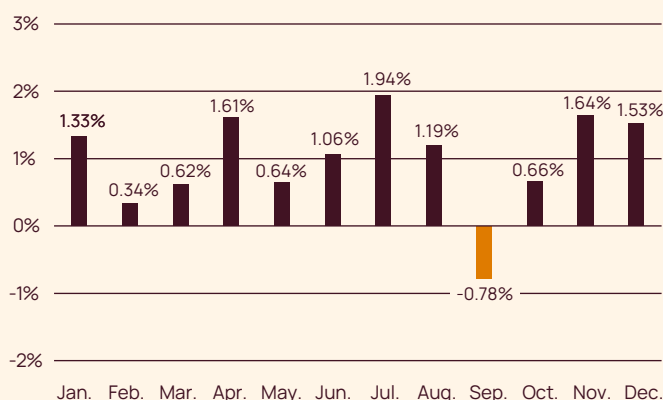
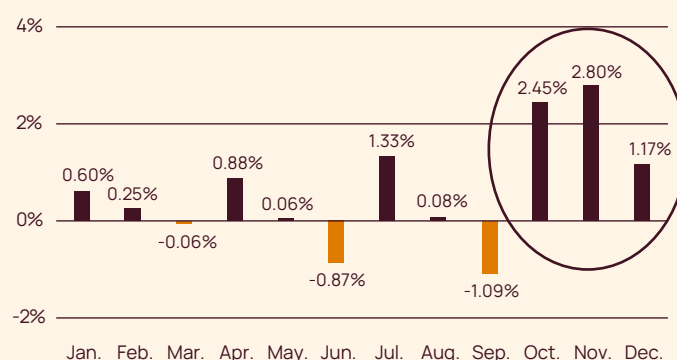


Figure 2: Midterm Election Years: U.S. Stocks Average Return by Month

January 1, 1926 through August 31, 2026



Source: Blackrock and Morningstar. Data as of August 31, 2026. U.S. stocks are represented by the S&P 500 TR Index from March 4, 1957 to August 31, 2026 and the IA SBBI U.S. Lrg Stock TR USD Index from January 1, 2026 to March 4, 1957. Forward looking estimates may not come to pass. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. **Past performance is no guarantee of future results.**

The third quarter saw a considerable unwind in large-cap AI-related momentum stocks, leading to further outperformance by the equal-weighted S&P 500, which gives similar weight to each company in the index. Small caps also continued their outperformance over large caps. However, we have seen a meaningful shift in September as higher interest rates and yields have added pressure to large portions of the Russell 2000 that are reliant on floating-rate debt.

Cap-weighted indices, large-cap companies, and the Magnificent Seven have generally been less affected by higher rates due to their strong cash positions and greater access to investment-grade debt markets and asset-backed finance solutions in the private markets. The combination of historically strong fourth-quarter seasonality and the potential for post-election relief provides a historical reference point that may support optimism and opportunity for equity markets.

Figure 3: S&P 500® Index 3Q 2026 Earnings Per Share (EPS) Progression



Source: Baird Strategas, FactSet Research Systems. Data as of October 2, 2026. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment. **Past performance is no guarantee of future results.**

Earnings growth remains an important support for the equity market. Earnings estimates for the S&P 500 continue to trend higher, while revenue growth remains largely concentrated in the technology and energy sectors. Investors have benefited from an earnings-driven market alongside lower valuations, a stark contrast to the dot-com era. Beneath the surface, however, many sectors continue to underperform the broader indices, making tactical shifts more difficult to time. As earnings continue to grow and the economy remains healthy, price-to-earnings ratios could continue to trend lower as earnings growth outpaces gains in stock prices.

We remain overweight on equities relative to fixed income and continue to favor a balanced approach among large-cap companies that provide exposure to AI-related growth opportunities. From our perspective, large-cap and technology companies have a greater ability to weather higher interest rates, which is one reason we believe cap-weighted indices may continue to outperform equal-weighted indices for the remainder of the year.

Allocations to actively managed quality small-cap strategies may provide diversification beyond AI-related investments at attractive valuations. As we see it, quality small-cap companies often utilize less debt and leverage on their balance sheets, which may help them weather a rising interest rate environment.

We continue to believe international developed markets offer diversification benefits relative to AI-driven U.S. markets, while emerging markets have benefited from spending by large technology companies building AI-related infrastructure. Emerging markets do face greater risks from higher oil prices, though their ability to weather these headwinds may provide insight into the broader economy's ability to withstand elevated energy costs.

Figure 4: Average Performance After First Fed Hike

Gauge	+20D	+65D	+125D	+250D
S&P 500® Index	-0.6%	-2.1%	2.8%	1.3%
Russell 2000® Index	1.0%	1.6%	5.2%	3.8%
10-Year Yield	13.7 bps	46.3 bps	61.1 bps	96.5 bps
IG Corp. Spreads	-1.4 bps	4.6 bps	-4.4 bps	2.4 bps
HY Corp. Spreads	-3.8 bps	16.8 bps	-12.8 bps	-15.0 bps
Gold	0.0%	2.9%	2.0%	1.5%
Oil	2.2%	20.9%	22.4%	32.1%
U.S. Dollar	-0.6%	0.1%	-0.5%	1.0%

Source: Baird Strategas, Bloomberg. Data as of September 12, 2026. Average from first hikes starting June 1975 to March 2022. Corporate Spread Data starts as of 1994. IG= Bloomberg U.S. Aggregate Corporate Average OAS Index; HY= Bloomberg U.S. Corporate High Yield Average OAS Index. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **Past performance is no guarantee of future results.**

Coming into 2026, many expectations called for multiple rate cuts. Instead, we have seen a 25-basis-point increase, with additional hikes remaining a possibility as markets look toward 2027. We are seeing levels on the 10-year U.S. Treasury that have not been seen for quite some time, even as major indices remain near all-time highs. Historically, higher interest rates have often led to lower corporate debt issuance and increased investor interest in defensive sectors and consumer staples, though that has not broadly been the case during this cycle.

In our view, rates are primarily moving higher due to a strong economy (although some may debate that view), continued AI infrastructure buildout, higher energy-related inflation driven largely by geopolitical developments, and non-business-cycle pressures such as growing fiscal deficits. Unfortunately, this continues to leave us in a market where stock and bond correlations remain elevated, limiting some of the diversification benefits investors have expected from traditional bonds.

At the same time, today's higher starting yields can provide a nice cushion and a meaningful source of return while maintaining a focus on quality when aligned with an investor's goals and objectives.

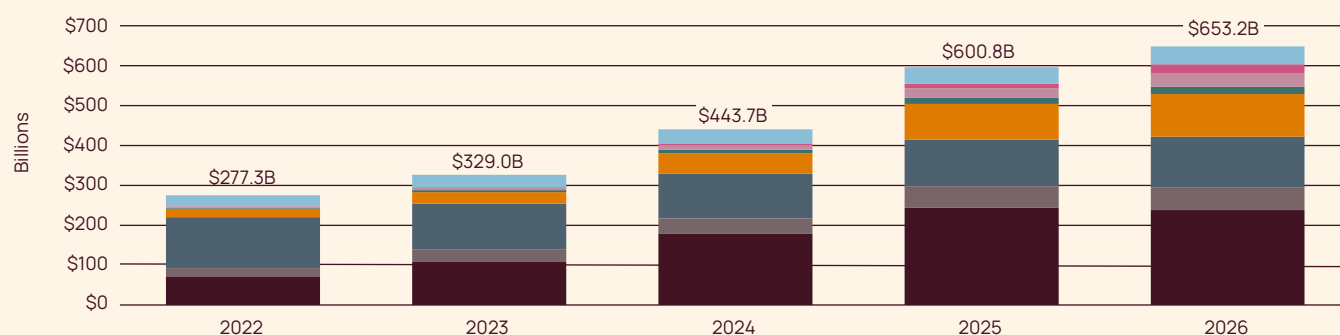
We believe there may be further room for yields to move higher and remain elevated for longer, barring any major events or pullbacks in spending. Given higher yields and the rapid pace at which they have risen, some investors may wonder why we remain optimistic. Historically, long-term interest rates have been a better guide for future economic growth, and high-yield credit spreads remain relatively muted, providing support for equity markets.

The rise in interest rates has also created what we believe is an attractive entry point for municipal bonds, where tax-equivalent yields are approaching or exceeding 10% for certain investors, depending on their state of residence and tax situation.

Figure 5: Evergreen Fund Net Assets by Strategy

2026 Assets Under Management

Nonprivate Markets: \$45.1B Venture Capital: \$22.1B Infrastructure: \$34.5B Private Multi-Asset: \$18.4B Private Equity: \$107.7B
Real Estate: \$127.6B Alternative Credit: \$57.8B Direct Lending: \$239.9B



Data as of September 15, 2026. Source: Morningstar and Pitchbook. **Past performance is no guarantee of future results.**

Alternative investments across all asset classes continue to outpace the previous year, and despite the headlines surrounding private credit, direct lending remains the largest asset-gathering segment within the evergreen space (funds that are offered continuously). Private credit continues to be a high-conviction asset class for institutional investors, while much of the recent attention has focused on the retail side, leading to continued gating of funds. Direct lending strategies may benefit from higher-rate environments, and investors continue to find value in the floating-rate structure of many loans.

Real estate equity remains challenged by higher interest rates, but we believe real estate lending continues to offer compelling opportunities, particularly for higher-quality Class A properties.

The opportunity within alternatives and private markets remains in private equity and infrastructure, which, in our view, can provide diversification beyond AI-related investments while helping address the increased correlation between equities and fixed income. Within private equity, niche areas such as sports investing may provide an additional source of diversification while allowing investors to maintain equity exposure.

Infrastructure continues to provide exposure at the intersection of AI, energy, and essential services, while offering bond-like characteristics that may provide downside protection. With inflation still sticky and partially driven by AI-related spending and higher oil prices, certain infrastructure investments may help alleviate some of those upward pressures through their ability to pass along price increases tied to rises in the Consumer Price Index.

As market fundamentals remain strong, we acknowledge the risks associated with higher yields, persistent inflation, AI spending, and market fatigue. These are important reminders of why a balanced and diversified approach remains necessary, particularly should any of these risks result in increased market volatility. Please contact your advisor with any questions regarding asset allocation or investments. We appreciate your continued trust and confidence.



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Mr. Grant began his career in the wealth management industry in 2003. Before joining Kayne Anderson Rudnick in 2023, Andrew was the Director of Portfolio Management at IDA, an RIA based in San Diego. Prior to that, he worked for LPL Financial as an Analyst and Trader, and at Morgan Stanley as a Financial Advisor and Analyst. Andrew earned a B.A. in Political Science from the University of New Hampshire.

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Investments commonly known as "alternative investments" are not suitable for all investors, and "alternative investments" often have minimum eligibility requirements that must be met. Whether an investment in an "alternative investment" is suitable or appropriate for a particular investor will depend on several factors, including the investor's risk tolerance, investment time horizon, and liquidity needs. Please consult with your advisor to better understand the risks of "alternative investments" before making such investments.

The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. **The Russell 2000® Index** is a free float-adjusted market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested.

The Bloomberg U.S. Aggregate Bond Index measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis.

The Bloomberg U.S. Corporate High Yield Bond Index measures fixed rate non-investment grade debt securities of U.S. corporations, calculated on a total return basis. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.