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3Q 2026 Commentary

October 8, 2026

PSG'S PERSPECTIVES

Bond Market Selloff Creates Attractive Investment Opportunities

Bonds sold off as interest rates rose.

Yields on US Treasuries rose sharply during the third quarter, with both the 10-year and 30-year reaching levels last seen in 2002. Strong economic growth, persistent inflation and concerns about the level of federal borrowing pushed investors to demand greater compensation for holding longer-term Treasury securities. The Federal Reserve also raised its policy rate in September for the first time since 2023, as elevated energy prices, particularly diesel, added to inflation and affordability concerns.

Equity earnings growth continued.

Yet the higher interest rates did not produce a broad selloff across corporate bonds or large-cap equities. Large-cap stocks remained relatively resilient, while mid- and small-cap indices declined. Corporate earnings also remained exceptionally strong: second-quarter S&P 500 earnings increased 53% from a year earlier, and Russell 2000 (small cap) earnings rose 16%.[1] Consumer spending accelerated and Artifical Intelligence (AI) spending continued to ramp higher. In short, interest rates were rising against the backdrop of an economy and corporate sector that, looking backward, remained remarkably strong.

For bond investors, rising yields created opportunities. During the final weeks of September, we saw signs of dislocation in the municipal bond market, including an unusual number of high-quality municipal bonds offered at yields surprisingly close to comparable Treasuries.[2] In our experience, pricing like this can reflect liquidity-driven or forced selling rather than a deterioration in the underlying credits. While clients may see modest declines in bond values on their quarterly statements, our approach gives us confidence about the outcome – a positive return from purchase to maturity.

Bond Portfolios and Rising Interest Rates

Bonds are loans. We prefer high-quality loans.

We buy individual bonds. Bonds are generally in client portfolios to provide stability, a source of income, and as a source of cash for distributions. **Bonds are loans**, with contractual payments owed to the bond owner. We seek to buy and own high-quality bonds.

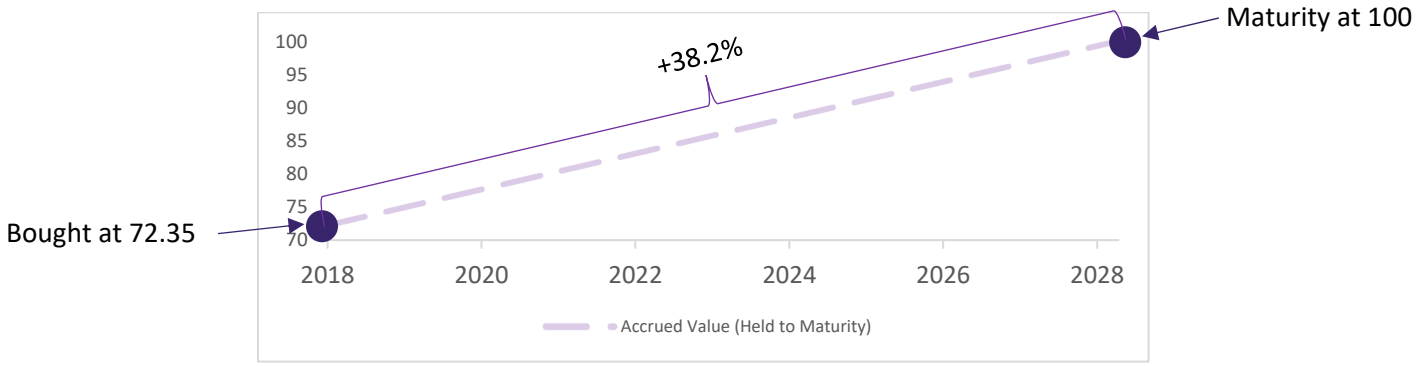
[1] Sources- S&P 500 – FactSet; Russell 2000 – Jeffries; growth numbers are year-over-year, or 2Q 2026 growth compared with 2Q 2025.

[2] High-quality tax-exempt municipal bonds are typically offered at yields 60-80% of US Treasuries since the income is not taxed, while US Treasuries and corporate bonds (and others) are subject to federal income tax.

Individual bonds held to maturity offer predictability of cash flows.

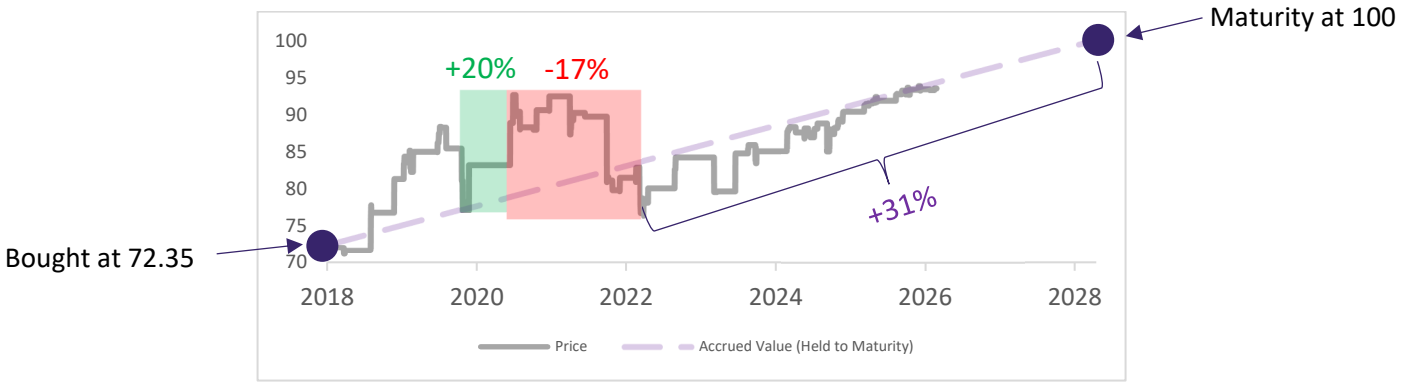
Bonds have a maturity date, when the bond owner must be paid back.[3] We view the biggest risk to owning a bond is the borrower not getting paid back, also known as defaulting. Buying high-quality bonds lowers the risk of default. For the rest of this paper, we will assume the bonds we buy will not default.

When PSG buys a bond, we expect to hold it to maturity.[4] It provides a defined stream of cash flows, a known maturity value, and a positive, certain rate of return over the life of the bond. Fluctuations in the bond's market price along the way do not change those contractual payments. The example below of a bond purchased in 2018 makes this particularly easy to see because this bond pays no interest.[5]



The path of the future market price of a bond is not predictable.

Assuming PSG purchased the above bond at 72.35, the owner will receive 100 at maturity, a 38.2% total return over ten years (purple bracket above). This is predictable. Yet, **despite knowing the bond's contractual cash flows and maturity value at purchase, the path of its market price is not predictable.** As interest rates changed, the price of the bond changed, too (grey line below). These price movements do not impact the return of the bond from purchase to maturity (above). It generated unrealized gains and losses on paper on the way to the maturity date.



[3] Many bonds we purchase also have call dates, which allows the borrower to pay the loan back early. Some preferred bonds are "perpetual" bonds, with no maturity date. There are exceptions to almost everything in this section but to keep things simple we will focus on the most basic characteristics of typical bonds.

[4] Or call date- see footnote above.

[5] Bond Details – Issuer: Triborough Bridge & Tunnel Authority; Coupon: 0%; Maturity Date: 11/15/2028; Maturity Price: 100; Purchase Date: 8/3/2028; Purchase Price: 72.35; Yield at purchase: 3.17%; Price Increase to Maturity: 27.65 (100-72.35=27.65); Total Return to Maturity: 38.2% (27.65÷72.35 = 38.2%); For illustrative purposes. Actual results may differ.

Holding bonds to maturity makes planning around client needs more predictable.

From May 2020 to January 2021 (green shading above), the price of the bond went up 20% as interest rates fell. From January 2021 through October 2022 (red shading above), the price of the bond fell 17% as interest rates rose. From the price bottom in 2022 until maturity, the bond will return 31% (purple bracket above). Those price changes are only realized if the bond is sold before maturity. They matter much less when the bond is matched to a future liquidity need and can be held until maurity, when the cash can be reinvested or used as a source of liquidity. **This cannot be predictably accomplished by owning a bond fund.**

Individual Bonds vs. Bond Funds

Many bond funds and ETFs cannot offer that predictability.

While individual bonds have specific maturity dates and value, bond funds and ETFs work differently. Investors in bond funds/ETFs own shares in a portfolio whose holdings change over time rather than an individual bond with specific maturity dates and values. There is no date on which the fund/ETF is guaranteed to pay the investment back. During periods of heavy redemptions or market stress, portfolio managers may also become sellers at unattractive prices. The pricing we saw the last week of September appeared consistent with forced or liquidity-driven selling. We believe PSG clients were the beneficiaries as bonds were offered for purchase at very attractive yields.

Higher Interest Rates & Client Portfolios

Higher interest rates may alter asset allocation decisions; equities are still important for long-term plans.

Higher yields could materially alter portfolio construction. Many clients' financial plans "require" long-term returns in the 4%-7% range. When a greater portion of that required return can be generated from high-quality bonds, there may be opportunities to reduce portfolio risk and still achieve client objectives. There is an important limitation, however. A bond yielding 4%-5% cannot preserve purchasing power if inflation remains persistently near or above that level for the life of the bond. Many of our clients have told us they are experiencing a higher inflation rate than the "official" measure of 3.4%.[6] There is also the opportunity cost over time. Bond yields were similarly attractive in October 2023. Purchasers of a Pepsi bond in October 2023 that matured this past September 15 were rewarded with assurance of a 16% return over the following three years.[7] The S&P 500 returned 86% over the same time period.[8] Equities therefore remain a critical component of long-term portfolios even though bonds have become substantially more attractive.

Our goal is to help clients meet their objectives with as little risk as possible. Higher returns for bonds, with lower risk than equities, are advantageous for our clients, particularly for those who look to their investment portfolio as a regular source of cash.

THIRD QUARTER REVIEW

Spending and Earnings Drive Growth; Higher Rates Add Complexities

Earnings growth continues to surprise to the upside.

Equities continue to produce earnings growth normally associated with strong economic growth. These strong results could make comparable earnings growth in the next year more

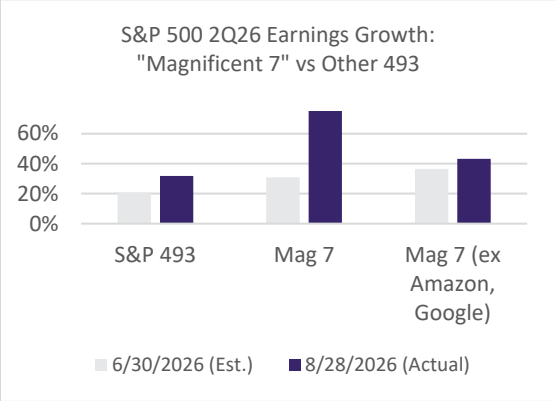
[6] August CPI y/y. Source- FactSet

[7] This reflects the total return (assuming no reinvestments of interest) on a Pepsi 7.44% bond maturing 9/15/2026 bought on 10/20/2023 at 104.65 (the price that day). Many Treasury bond yields generally peaked 10/20/2023. Source: Bloomberg

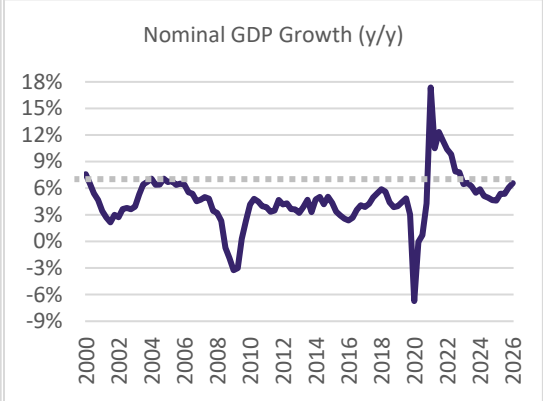
[8] S&P return from 10/20/2023 – 9/15/2026. Source: FactSet

challenging, setting up markets for potentially disappointing results, but for now growth continues to be strong and equities reflect these improving results. The consumer continued to spend as well, bolstered by continued strength in the labor markets and wealth creation from capital markets. Stronger consumption plus inflation led to nominal GDP growth of over 6%. This is stronger than we have seen outside of the post-COVID recovery since 2004-2006, and likely one factor that led to higher interest rates in the quarter.

Nominal economic growth is very strong.



Source: FactSet



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis

Higher interest rates bring pluses and minuses for investors.

Higher interest rates are a multi-edged sword. For borrowers, higher rates are negative – it costs more to do business, buy a house, take out a car loan, and carry credit card debt. Historically, higher rates slow economic growth, and slower growth tends to slow inflation. This is why the Federal Reserve raises interest rates – to slow the economy and associated inflation. These impacts take time to be realized.

For investors, higher rates bring mixed results. Money market fund rates tend to rise, a positive. Bond investors can put cash to work and earn more than they have in a number of years. Current bond holders will see the value of their bonds decline, but owners of individual bonds that are held to maturity have no harm done. If you need to sell a bond, the price is lower than a few months ago. Owners of bond funds may have losses because bond funds typically have no fixed maturity and some holders will sell at the lower prices. For stocks, higher interest rates cause competition for the stock market, which can weigh on future equity returns.

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EQUITIES

Large Cap and Value did best in the quarter.

3rd Quarter – Value Outperformed Growth; Large Cap Up, Mid & Small Down

- Both the S&P 500 and Russell 3000 were up in the quarter, +2.3% and +1.4%, respectively.
- Large Cap Value (+2.6%), Mid Cap Value (+2.5%), and Large Cap Growth (+0.9%) were the best performers.
- Microcap Growth (-12.0%), Small Cap Growth (-9.4%), and Small Cap Core (-7.2%) were down the most.
- Developed International were up (+1%) while Emerging Markets slipped (-1%).
- Gold (+3%) and Bitcoin (+45%) were the best performers.

S&P 500 and Russell 3000 were up double digits.

2026 YTD – Value Indices Leading

- The three best performing sectors were Large Cap Value (+19%), Small Cap Value (+15%), and Mid Cap Value (+15%).
- The three worst performing sectors were Mid Cap Growth (+1%), Large Cap Growth (+6%), and Microcap Growth (+9%), but all had positive returns.
- The S&P 500 and Russell 3000 Indices returned +13% and +12%, respectively.
- Developed International (+11%) slightly trails core US indices, while Emerging Markets continued to be the best performer (+21%).
- Gold (-4%) and Bitcoin (-3%) are both down for the year.

BONDS

Higher interest rates drove down bond prices, which are generally negative for the quarter and year.

3rd Quarter – Negative Returns

- Bond index returns were -3% to -6% as interest rates surged higher (***See Table 1)***.
- The Federal Reserve raised interest rates in September for the first time since 2023, and markets are pricing in another increase before year-end.

2026 YTD – Yields Up 1%+ Across Most of the Yield Curve

- Bond returns were negative as interest rates continued to move higher.
- Interest rates for bonds maturing in 2 – 10 years were much higher, up over 1%.
- Generally speaking, portfolios with more short-term bonds performed better than those with more longer-term bonds.

Table 1

US Treasury Yields *(source: FactSet; numbers may not sum due to rounding)*

Maturity	12/31/25	6/30/26	9/30/26	*3Q26 Yield Change*	*YTD Yield Change*
3 Month	3.6%	3.8%	4.1%	*0.3%*	*0.5%*
2 Year	3.5%	4.1%	4.9%	*0.7%*	*1.4%*
5 Year	3.7%	4.2%	5.1%	*0.9%*	*1.4%*
10 Year	4.2%	4.4%	5.3%	*0.8%*	*1.1%*
30 Year	4.8%	4.9%	5.6%	*0.7%*	*0.8%*

Higher interest rates may offer opportunities for investors.

SUMMARY

Equity markets consolidated gains after a very strong first half of the year. Higher interest rates for Treasury, corporate, and municipal bonds generated both negative returns for the quarter and interesting opportunities to invest at higher yields today. Earnings growth continued to be strong across market sectors, and there are few worrying economic indicators. Higher interest rates can slow economic growth, but the effects often take more than one quarter to be felt.

FUN FACTS

- The price of diesel peaked at $5.26/gallon on September 15, an all-time high, which is equivalent to $221/barrel. (NYMEX, FactSet, PSG)
- For the week ending July 18, 2026, weekly jobless claims were the lowest level since 1969 (189,000). (FactSet)
- The semiconductor index (SOX) fell 12% in the third quarter after having risen 230%+ the prior six quarters. (FactSet)

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