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INVESTMENT STRATEGY QUARTERLY

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Letter from the Chief Investment Officer

The Long Voyage: Discipline Through Uncertainty

Few stories have endured like *The Odyssey*. At its heart is a lesson that investors know well: The journey toward an important destination is rarely straightforward. Odysseus faced storms, distractions, false paths and unexpected setbacks that repeatedly threatened to push him off course. More than 3,000 years later, investors can probably relate. This year has presented no shortage of challenges. Geopolitical conflict, trade tensions, rising energy prices, shifting interest rate expectations and an increasingly active political backdrop have each taken turns dominating the sirens of headlines. Yet despite these obstacles, the economy has continued to expand, corporate profits have marched higher and markets have climbed one wall of worry after another. At its core, *The Odyssey* is a story about staying focused on the destination despite the distractions. Successful investing often requires the same discipline. That idea serves as the foundation for our fourth-quarter outlook.

The economy is the ocean investors must navigate. Some days the waters are calm. Other days they are rough. And while investors often focus on the waves above the surface, it is the currents below that ultimately determine where the voyage leads. Growth, inflation, employment, consumer spending, productivity and energy prices all influence those currents. The goal is not to predict every storm. It is to understand where the economy is headed and position portfolios accordingly.

As we enter the fourth quarter, those currents continue to point toward an economic expansion. Consumer spending has cooled but remains healthy. The labor market continues to create jobs. Meanwhile, investment tied to artificial intelligence, data centers, infrastructure and productivity-enhancing technologies remains a powerful tailwind. Taken together, these forces support our expectation for US economic growth of ~2.3% in 2026.

That does not mean the waters are free of hazards. Inflation has remained above the Federal Reserve's (Fed) 2% target for more than six years. Oil prices remain vulnerable to geopolitical disruptions, with gasoline having risen back above $4 per gallon. Fed policy expectations continue to shift, while the approaching midterm elections add another layer of uncertainty. While conditions may become choppier as the support from tax refunds fades, the economy continues to demonstrate enough underlying strength that we see only limited recession risk as we move toward 2027.

Navigating those waters remains one of the Fed's most difficult tasks. One of the most memorable moments in *The Odyssey* comes when Odysseus must navigate a narrow strait with dangers lurking on both sides. The lesson is not about the monsters on both sides of the channel. It is about navigating competing risks when there is no perfect path forward. The Fed faces a similarly delicate challenge. Cut rates too quickly and inflation could reaccelerate. Keep policy restrictive for too long and growth and employment could weaken. Like Odysseus, policymakers are not attempting to eliminate risk. They are trying to navigate between competing risks while keeping the economy on course.

Adding another dimension to that journey, we expect Chair Warsh to draw on the work of the Fed's five task forces as part of what appears to be an evolution, not a revolution, in the Fed's policy framework, decision-making process and communication strategy. While changes are likely to be gradual, investors should expect continued efforts to strengthen policy effectiveness and adapt the institution to an increasingly complex economic landscape. For now, the path appears manageable. Growth remains positive and job creation continues, but elevated inflation remains a concern. As a result, after raising rates in September, we expect one more rate hike before year-end in this mid-cycle adjustment. Progress on inflation could eventually create room for lower rates at the tail end of next year, but absent a more meaningful deterioration in the labor market, policymakers are unlikely to move quickly.

If the economy represents the ocean, bonds represent the ship that helps investors navigate it. They may not always be the most exciting part of a portfolio, but periods of uncertainty often serve as a reminder of their value. An important shift in the investment landscape has been the return of attractive income opportunities. After years of near-zero yields, high-quality fixed income once again offers compelling income, diversification and stability. Over the next 12 months, we expect the 10-year Treasury yield to be in the range of 4.50% to 4.75% and continue to favor investment-grade corporate

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bonds and municipal bonds. Importantly, investors do not need to move down in credit quality to generate attractive income.

While fiscal deficits, rising debt levels and elevated Treasury issuance remain long-term considerations, current yields provide a meaningful cushion against volatility while enhancing portfolio income. Strong demand for both Treasury and corporate debt should also help limit upward pressure on interest rates. Still, the story of the Trojan Horse offers a reminder that some risks build quietly over time. Deficit spending can support growth in the short run, but rising debt burdens, higher interest costs and reduced fiscal flexibility may eventually emerge as unintended consequences. For now, however, investors are well compensated for those risks. In our view, fixed income is no longer simply a source of diversification; it has once again become a source of return.

Cash, meanwhile, continues to offer attractive yields and a sense of safety. But safety and opportunity are not always the same thing. Holding too much cash for too long can create reinvestment risk if interest rates move lower and may cause investors to miss opportunities elsewhere. A harbor can provide shelter during a storm, but it is rarely where a successful voyage ends.

When it comes to equities, another lesson from Greek mythology may be useful. Today's market leadership looks a lot like Achilles: powerful, dominant and central to the market's success. AI continues to drive earnings growth, capital spending, productivity gains and market performance. Technology remains the market's Achilles.

Naturally, investors continue to search for the Achilles' heel. For some, that means concerns about valuations, concentration or the market's dependence on a handful of mega-cap technology companies. Yet the reality is that the fundamentals remain remarkably strong. Earnings growth across many technology companies has outpaced share price appreciation, leaving valuations at some of their most attractive levels in nearly a decade. Just as importantly, visibility into future earnings remains unusually strong, with consensus expectations calling for earnings growth above 25% throughout 2027. On a valuation-to-growth basis, Technology remains one of the most compelling opportunities in the market.

More broadly, our outlook for US equities remains constructive, though not complacent. Corporate earnings continue to solidly expand, outlooks remain favorable and market participation is gradually broadening beyond a narrow group of companies. As a result, we forecast the S&P 500 moving toward 8,450 over the next 12 months.

Against that backdrop, our preferred sectors remain Technology, Industrials and Consumer Discretionary. Industrials stand to benefit from ongoing investment in infrastructure, power generation, construction and defense. Meanwhile, the currently underperforming Consumer Discretionary sector should be supported by a resilient labor market, rising incomes and continued consumer spending.

Turning from a sectoral perspective to a geographic one, our preferred destination remains the United States, supported by stronger economic growth, superior earnings momentum, leadership in artificial intelligence, and, in our view, a still-attractive valuation backdrop. But as Odysseus discovered, not every destination offers the same opportunities. Outside the US, we continue to favor Japan over Europe, reflecting Japan's greater exposure to technology, improving earnings trends and renewed emphasis on corporate governance and shareholder value. We also remain constructive on emerging markets and view Emerging Asia as well positioned to benefit from the AI-driven investment cycle. In our view, international investing is becoming less about broad regional allocations and more about identifying the markets best positioned to benefit from the secular and cyclical forces shaping the global economy.

Ultimately, every investor has an Ithaca, a destination they are working toward. For some, it is a comfortable retirement. For others, it is preserving wealth, generating income, building a legacy or simply having confidence that a long-term financial plan remains on track. The challenge is that the journey is rarely linear. Markets will always test conviction with uncertainty, volatility and unexpected developments. The most successful investors are not those who anticipate every twist and turn correctly. They are the ones who remain focused on their destination when distractions and detours inevitably arise.

One of the enduring lessons of *The Odyssey* is that success comes from keeping sight of the destination despite inevitable obstacles. Guided by Athena's wisdom and perspective, Odysseus remained focused on Ithaca. Alongside your financial advisor, we seek to do the same: help investors look beyond today's distractions and stay focused on what matters most.

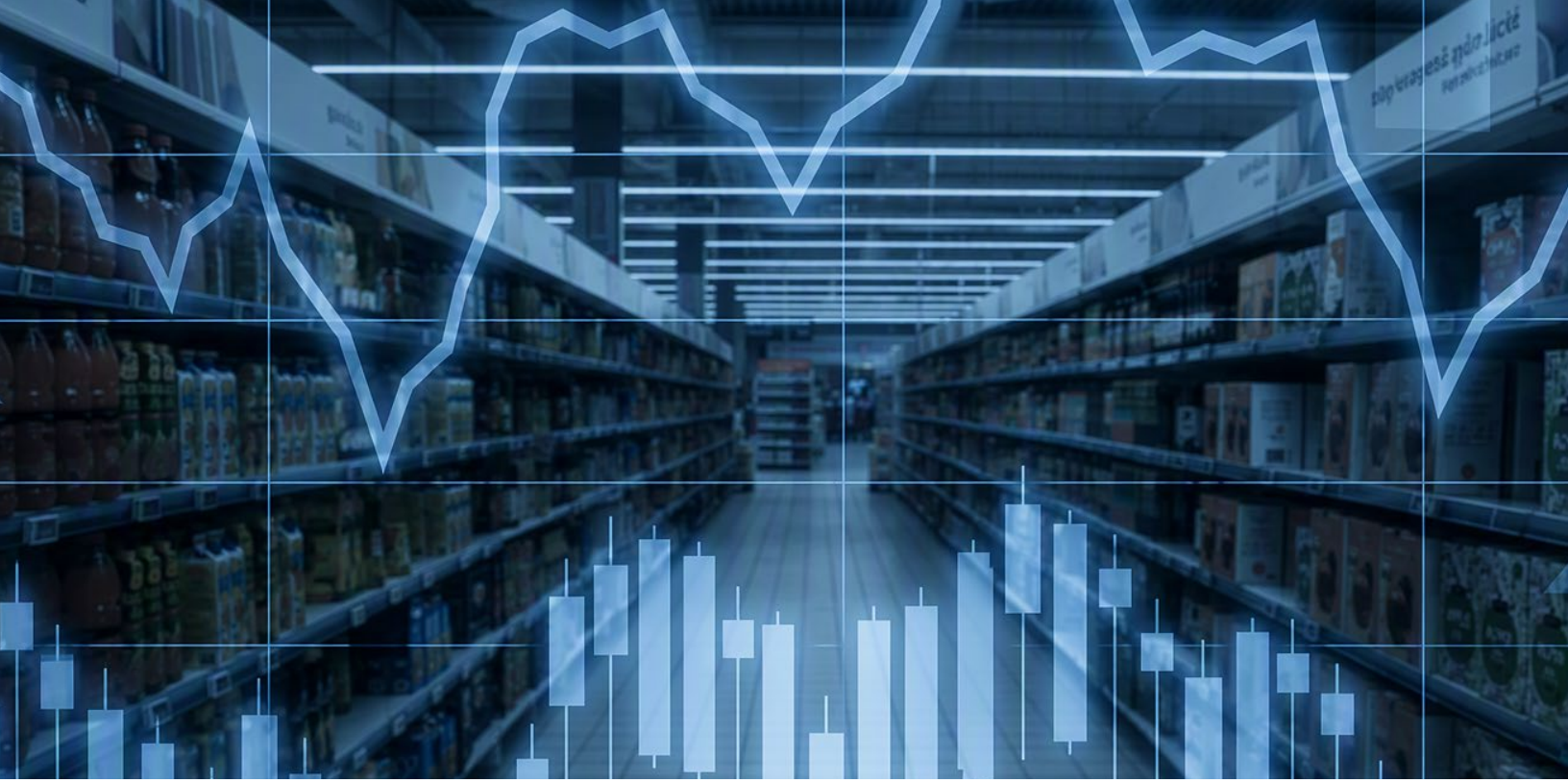
As we enter the fourth quarter, our message remains unchanged: Successful investing is not about predicting every twist in the road. It is about maintaining perspective, staying disciplined and keeping your eyes on Ithaca. Markets will test patience and conviction, but long-term success comes from tuning out the noise and remaining focused on the journey's ultimate destination.

Wishing you a steady voyage into year-end.



Lawrence V. Adam, III, CFA, CIMA®, CFP®
Chief Investment Officer

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What is Inflation?

Eugenio J. Alemán, PhD, *Chief Economist,* Raymond James
Giampiero Fuentes, CFP®, *Economist,* Raymond James

Many times, when the price of a good or service increases, we hear that the increase is, by default, inflationary. While this can sometimes be true, it is not always the case. The distinction is more nuanced than many realize. Terms such as food inflation or "eggflation," for example, are frequently used to describe increases in the prices of specific goods, even though such price increases may not increase the price level, i.e., do not necessarily increase the rate of inflation. So, what is inflation? Inflation is defined as "a sustained increase in the general price level of goods and services in an economy over time." The key phrase here is "general price level." Inflation is not simply an increase in the price of a particular good or service, or many of those goods and services; rather, it refers to a sustained and broad-based increase in prices across the economy.

A VERY BASIC EXAMPLE OF INFLATION

To illustrate this concept, consider a simplified example. We will ignore factors such as seasonality and the relative weight of each item in the consumer price index. Assume a consumer purchases the same quantity of goods each month with a monthly budget of $100. In the first month, the consumer spends the entire $100 budget purchasing the goods shown in Scenario One.

The following month, the consumer goes back to the supermarket and the gas station and buys the same quantities of the same goods as shown in Scenario Two.

Although the prices of several goods have changed, the consumer still spends exactly $100.00. How is this possible? The answer is that prices moved in different directions, i.e., some prices went up, some down and some remained unchanged. In this example, gasoline and cereal prices fell, while bread, milk, beef, eggs and soda prices increased. This is typical of what happens in real life.

Gasoline prices, for example, often change significantly from month to month while the prices of other goods may rise or fall for a variety of reasons.

Even though almost all prices increased, the overall price level remained unchanged because the increases were offset by price declines elsewhere. Thus, inflation between the two months was 0%. In this simple example, there was no inflation even though many of the goods purchased by the consumer became more expensive. It is also important to point out that, in this very simple example, the consumer did not have to sacrifice the quantity of goods purchased in the previous month. If gasoline prices had fallen even further, the overall price level would have declined and there would have been a negative rate of change in prices, which is called deflation.

Next, we are going to look at a scenario where the prices go up so much that the consumer is faced with the choice of either decreasing the number of goods purchased or spending more than the budget allows. Let's say that the price of five of the goods remains the same as in the previous example, but the poultry industry is struck by bird flu, and the price of eggs increases further, while the price of gasoline increases again. As we can see from the table below, now the consumer needs to decide whether to either stay within budget, which would be an adjustment in purchases or borrow money from a bank,

> Inflation is a sustained increase in the general price level of goods and services across the economy, not just a rise in the price of one product.

or dip into a rainy-day fund, i.e., savings. If the consumer borrows money and/or uses a rainy-day fund to purchase the same number of goods as before at higher overall prices, it is validating this increase in the price level between one month and the next and thus, the rate of inflation during this month will be 5%.

If the consumer would like to continue to live within the budget, then he/she will probably have to either drive less and/or purchase fewer goods. This will reduce their consumption of gasoline, and/or reduce their consumption of, for example, sodas, which is typically a discretionary item. The consumer could also shop around and look for cheaper alternatives or brands (i.e., generic products) that would keep him within budget. For simplicity, we are not going to contemplate this valid alternative in this example. In this case, the possibility that the consumer could access extra funds, either via borrowing or a rainy-day fund, makes inflation possible.

SCENARIO 1

Original prices and quantities

ITEM	PRICE (P)	QUANTITY (Q)	P x Q
Bread	$3.00	4	$12.00
Milk	$2.50	4	$10.00
Gasoline	$4.00	7.5	$30.00
Cereal	$4.50	3	$13.50
Beef	$5.50	3	$16.50
Eggs	$3.00	3	$9.00
Soda	$4.50	2	$9.00
	Total budget:		**$100**
	Actual expense:		**$100**

SCENARIO 2

Different prices, same total

ITEM	PRICE (P)	QUANTITY (Q)	P x Q
Bread	$3.10	4	$12.40
Milk	$2.55	4	$10.20
Gasoline	$3.59	7.5	$26.93
Cereal	$4.00	3	$12.00
Beef	$5.60	3	$16.80
Eggs	$3.50	3	$10.50
Soda	$5.60	2	$11.20
	Total budget:		**$100**
	Actual expense:		**$100**

SCENARIO 3

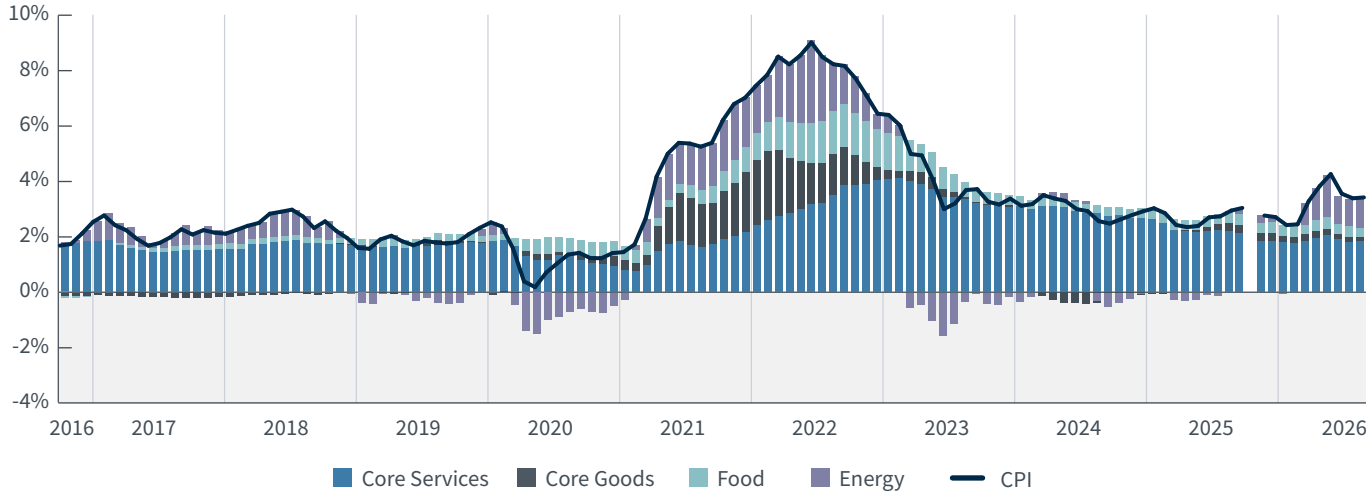
Different prices, higher total

ITEM	PRICE (P)	QUANTITY (Q)	P x Q
Bread	$3.10	4	$12.40
Milk	$2.55	4	$10.20
Gasoline	$3.75	7.5	$28.12
Cereal	$4.00	3	$12.00
Beef	$5.60	3	$16.80
Eggs	$4.76	3	$14.28
Soda	$5.60	2	$11.20
	Total budget:		**$100**
	Actual expense:		**$105**

Note: Numbers rounded to simplify the examples.

Contributions to CPI

(Year-over-year)



Source: Bloomberg; monthly dates as of 8/1/26

THE FEDERAL RESERVE'S ROLE

Here is where the Federal Reserve (Fed), the central bank of the US, could help control inflation, or the increase in the price level.

The Fed can help bring inflation under control by increasing interest rates and thus reducing the rate of growth of the money supply as banks reduce lending. If the Fed increases interest rates, then borrowing becomes more expensive and reduces the incentives for consumers to access credit to make purchases. At the same time, the rate of interest is, in some sense, what determines whether we consume today and don't save or save more today and consume more tomorrow. Thus, by increasing interest rates, the Fed reduces the incentive to consume today and increases the incentive to save more, also contributing to lower consumption, and thus, lower inflation.

BOTTOM LINE

The fact that the price of one good or of many goods increases doesn't mean that it is inflationary, as there is a possibility that other goods' prices are declining during the same period of time and the overall, net effect may be inflationary, deflationary or even show no change in the rate of inflation.

> Higher interest rates reduce incentives to borrow and spend, helping cool demand and easing inflationary pressures over time.

What is important is that the Fed has tools to address inflation when it moves away from its target. It does that by increasing the short-term interest rate, the federal funds rate, which reduces the rate of growth of money supply, helping to reduce the rate of inflation over time. This is what is at the base of Milton Friedman's famous quote, "inflation is always and everywhere a monetary phenomenon."

KEY TAKEAWAYS

- Inflation is not the same as a price increase. Inflation occurs when there is a sustained increase in the overall price level across the economy, not simply when the price of a single item or several items rises.
- Individual prices move in different directions. Some prices rise, some fall and others remain unchanged. Inflation depends on the net effect of these changes on the overall price level.
- Inflation affects purchasing power. When overall prices rise faster than income, consumers must either spend more, save less, borrow and/or reduce consumption.
- The Federal Reserve fights inflation through interest rates. By raising short-term interest rates, the Fed makes borrowing more expensive, slows spending growth, and helps bring inflation back toward its target.



Q&A: The US National Debt

Eugenio J. Alemán, PhD, *Chief Economist,* Raymond James
Giampiero Fuentes, CFP®, *Economist,* Raymond James

The national debt is often treated as a political scorecard, but the central challenge has to do less with the United States' ability to pay than with the political system's willingness to put its fiscal account on a sustainable path.

Q: Who actually owns the US national debt – and does it matter to whom we owe the money?

A: First, we need to separate gross federal debt from debt held by the public. Gross debt includes Treasury securities held within the federal government, particularly in trust funds such as Social Security. These are assets to one government account and liabilities to another, so they do not directly represent financing raised from outside the federal government. Debt held by the public, by contrast, is owned by outside investors, including households, funds, banks, insurers, the Federal Reserve and foreign investors, and is the more economically relevant measure. This debt must be financed in capital markets, requiring the government to continually attract investors and make interest payments. As it grows, it can increase borrowing costs, consume a larger share of federal tax revenues and potentially compete with private investment for capital. Today, net interest payments on the federal debt exceed $1 trillion annually, more than four times the roughly $240 billion paid just a decade ago.

Who owns the debt matters, but the cost of financing it matters more. The US relies on a broad mix of investors to buy Treasury securities and refinance debt as it comes due. As long as there is strong demand for Treasuries, the government can continue to borrow and refinance its obligations. The bigger concern is what happens when interest rates rise, because refinancing becomes more expensive and interest payments take up more of the federal budget. For investors, the key things to watch are the ability and the willingness of the US government to commit the resources necessary to pay the interest on the debt.

Q: How much national debt is too much? Is there a number where we should genuinely start to worry?

A: There is no universally accepted dollar total or debt-to-GDP ratio that automatically triggers a crisis. A large economy with deep markets, its own currency and strong demand for its bonds can support more debt than a smaller, less credible borrower. The nominal debt total alone is therefore an incomplete signal. A better question is whether the burden is becoming harder to service relative to the economy and federal revenue, and persistent primary deficits (the deficit without including interest payments on the debt) require borrowing not only to refinance old debt, but also to fund ongoing operations. A debt ratio near 100% of GDP is not a precise cliff; it signals a smaller margin for error. A recession, war, financial crisis, pandemic or rate shock can add to an already elevated fiscal deficit, which adds to an already elevated base. Higher interest costs can create a loop: more borrowing increases debt, raises future interest expense and requires still more borrowing.

The level of debt becomes a problem when the cost of servicing it requires fiscal adjustments large enough to meaningfully weaken the economy. For example, if the government must raise taxes, or increase tax revenues by improving tax collections, or reduce spending so aggressively to meet rising interest costs, it could push the economy into recession, and a vicious cycle could emerge: weaker growth reduces tax revenues, increases fiscal pressures and makes the debt burden even harder to stabilize.

The key distinction is between the ability and willingness to pay. Because the United States borrows in its own currency, it avoids a common source of sovereign default risk: owing debt in a foreign currency while collecting taxes in US dollars. The US also has another important advantage: compared with many other developed economies, it has greater capacity to raise additional revenue through higher taxes or just by collecting those taxes that have not been collected for lack of resources, if needed. However, higher taxes and/or higher tax collection are sometimes bad for elections, and politicians are typically unwilling to do what is needed. The challenge is whether the political system is willing to make the necessary choices, through higher tax revenues, slower spending growth, or some combination, to put the debt on a sustainable path.

Q: Could the United States ever actually pay off the national debt, and should that even be the goal?

A: The United States could meaningfully improve its debt situation through one or a combination of the following: sustained primary surpluses, stronger growth, slower spending growth, higher tax revenues, higher taxes and/or lower financing costs. Completely eliminating the debt is theoretically possible, but neither necessary nor clearly desirable. However, the more realistic goal is sustainability: stabilize publicly held debt relative to GDP by slowing down the growth in government expenditures and/or collecting more taxes and then allow the economy to grow faster than the growth in the debt so the debt comes down as a percentage of GDP.

Achieving that goal will require difficult choices and trade-offs. Slower government spending growth and higher tax revenues can improve the fiscal outlook, but they may also weigh on economic activity and gains in economic well-being, particularly if implemented too aggressively. The good news is that there is room to increase federal tax revenues as a share of GDP, particularly relative to many other developed economies. For investors, the national debt is not a bill that must someday be paid in full, but a continuing financing obligation that must remain credible and affordable. The goal is not to eliminate the debt, but to keep it from growing faster than the country's capacity to support it.

“ For investors, the national debt is not a bill that must someday be paid in full, but a continuing financing obligation that must remain credible and affordable. ”



A New Industrial Revolution?

Ed Mills, *Managing Director,* Washington Policy Analyst, Equity Research

Over the last decade, a series of policy decisions in DC support the reindustrialization of the United States. Key policy movers include investments in infrastructure, tax policy that allows significant tax benefits for corporate capital expenditures (capex) and domestic research and development, the CHIPS & Science Act and tariff policies, especially the sector-specific 232 tariffs. Recent data is promising, but is concentrated in the buildout of AI; longer-term questions remain on the impact on inflation and continuity of government policy for businesses to make these investments.

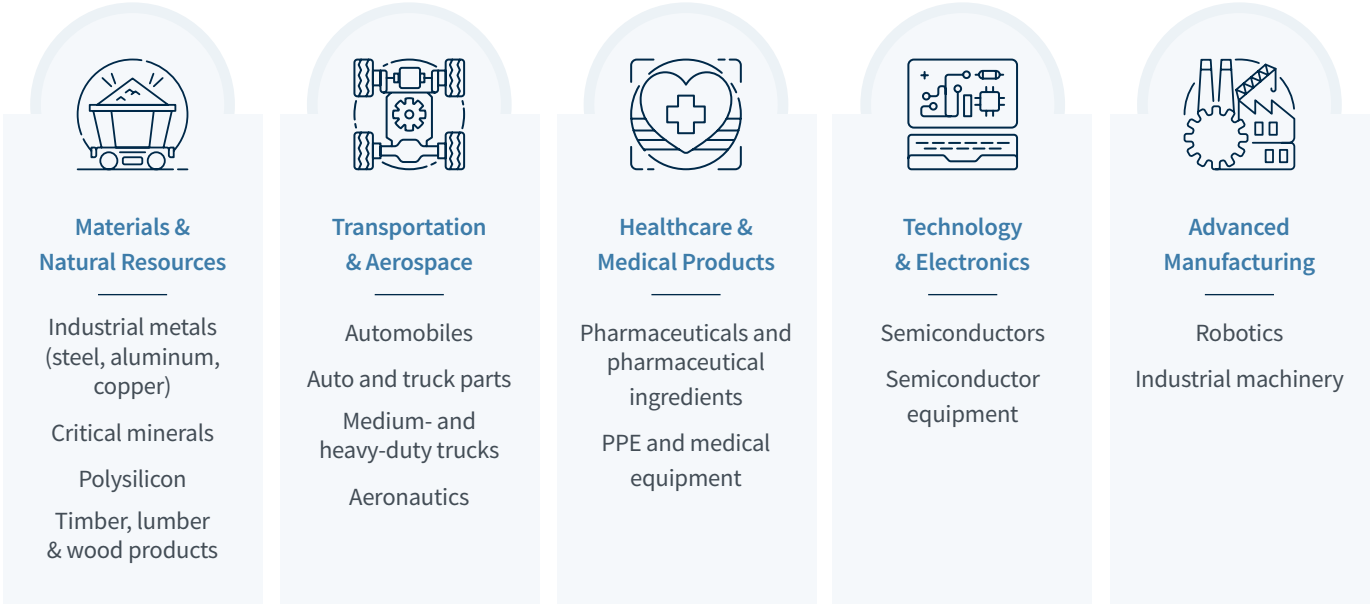
TAX POLICY DRIVING CAPEX AND R&D?

The 2025 tax bill, known as the One Big Beautiful Bill Act (OBBBA), included significant tax incentives for businesses investing in the United States. The law includes a permanent 100% bonus depreciation for capital expenses (capex) and immediate expensing for domestic research and development (R&D) costs. Both provisions had been features of the 2017 Tax Cuts and Jobs Act but had expired. Supporters of these provisions argue that they will incentivize corporations to invest in the United States and focus more of their R&D expenditures domestically, promoting innovation.

According to data compiled by the Federal Reserve (Fed), capex investments rose to an annual rate of 11% in the first quarter of 2026, following a 5.5% increase in 2025. Much of this growth is tied to building the infrastructure to support AI technology, especially the construction of data centers. The Fed notes that outside AI-related categories, capex investment, particularly for offices and manufacturing structures, has “been fairly weak.”

While the robust increase in headline annualized capex expenditures is promising, the longer-term impact of these tax provisions will need to be closely monitored to determine their impact on the reindustrialization of the US. This will be particularly important to monitor given the significant increase in data center moratoriums, which could slow some of the annualized increase in capex observed by the Fed.

Section 232 Tariffs Reach Critical Industries Across the US Economy



TARIFF POLICY DRIVER OF US INVESTMENT?

Traditionally, tariffs have been used as a tool to protect domestic industries, but can a tariff policy promote the onshoring of manufacturing and increase production of key goods and services?

The trade deals that the Trump administration has been negotiating call for significant investments in the US, tariff reductions by other countries, reduced trade barriers and increased market access for US-made goods. The Trump administration argues that these trade deals will make US-made goods more competitive globally, increasing the incentives for expanded domestic production.

The sectoral tariffs, known as Section 232 tariffs, are targeted at industries that the Trump administration has determined have a strategic and/or national security importance to the US.

We have described the Section 232 tariffs as the industries needed for the US economy to function if key trading partners shut off access to these products. The supply chain shocks of COVID-19 brought many of these issues to the forefront and the increased tensions between the US and China have exposed significant vulnerabilities.

The industries covered by the Section 232 tariffs include: steel, aluminum, automobiles, auto parts, copper, timber, lumber and wood products, medium- and heavy-duty trucks, truck parts, critical minerals, pharmaceuticals and pharmaceutical ingredients, semiconductors and semiconductor equipment, aeronautics, polysilicon, robotics and industrial machinery, personal protective equipment and medical equipment.

While we are still waiting for final decisions on some of the Section 232 tariffs, announced tariffs range from 25% to 100%. However, these tariffs can be avoided if an importer is committed to onshoring production. These onshoring plans require Commerce Department approval, which comes with strict benchmarks and penalties for non-compliance. Recently, the Trump administration has included provisions in Section 232 tariff announcements that would allow manufacturers to import tariff-free all the equipment needed to support these onshoring plans.

One criticism of this approach is that US production is significantly more expensive than the cost of production in other countries, even when the new tariff rate is applied. In an attempt to respond to this concern, President Trump recently established price floors as part of the polysilicon 232 tariffs via a minimum import price (MIP). The goal of the MIP is to level the playing field between US producers and imported products. In the case of polysilicon, it is a base material to produce semiconductors. Semiconductor manufacturing capacity has become a significant national security focus, as seen by the passage of the bipartisan CHIPS & Science Act in 2022, providing for more than $50 billion in funding to support the expansion of the domestic semiconductor industry.

The US remains heavily dependent on foreign sources for many rare earth and critical minerals, exposing supply-chain and national security vulnerabilities.

Lower production costs by using forced labor and excess capacity are the focus on the Section 301 tariff investigations. The Trump administration has argued that the use of forced labor artificially lowers foreign production costs, resulting in competitive distortion. For the excess capacity investigation, the Trump administration has argued that foreign government policies that create or sustain production capacity beyond domestic and global demand distort (lower) pricing, displace US production and deter investment in US production. President Trump has declared a tariff rate of 10% or 12.5% as a result of the 301 investigation into forced labor, which covers 60 economies, covering more than 99% of imports to the US. The tariff rates for the section 301 investigation into excess capacity are not yet finalized.

CRITICAL AND RARE EARTH MINERALS: A CAUTIONARY TALE

In 2025, after President Trump imposed hefty tariffs on Chinese goods, Beijing responded with restrictions on the export of magnets derived from rare earths. These magnets are vital components for products ranging from aircraft to MRI machines. These restrictions, if not reversed, would have had a crippling impact on US industrial production. The 100% import reliance on key critical and rare earth minerals is a clear national security risk and there are efforts to correct this through 232 tariffs and other investments. The US and China have a temporary deal to keep these minerals flowing, but longer-term self-reliance and trade pacts with key allies are key to preserving access and protecting the industrial and military capacity of the US.

STICKINESS OF US POLICY & INFLATION

While tax and tariff policy are seeking to incentivize the onshoring of manufacturing, the political volatility in the US will limit some of this success. The ability of President Trump to unilaterally impose or change tariff policy and the legal limits he has exceeded make it hard for businesses to know the longer-term industrial policy of the US government.

While President Trump and his administration are hopeful that these tariff policies support the onshoring of manufacturing and expanded domestic production, the impact on American consumers and businesses also needs to be addressed. We have seen persistent inflation in recent years, remaining higher than the 2% target set by the Federal Reserve. Onshoring production, while beneficial to domestic manufacturing, could also add to inflationary pressures.

CONCLUSION

Support for the increase in domestic industrial production is a clear bipartisan policy goal that has been supported by Democratic and Republican administrations and congresses. However, it is too early to know the longer-term success of these policies and the continued volatility in DC policy outcomes further cloud the picture.

KEY TAKEAWAYS

- Reindustrialization is now a bipartisan policy objective. Democratic and Republican administrations have supported policies aimed at expanding domestic manufacturing, strengthening supply chains and boosting strategic industries.
- Tax incentives are encouraging business investment. Permanent bonus depreciation and immediate expensing of domestic R&D are designed to increase corporate investment in US facilities, equipment and innovation.
- AI is currently driving much of the investment boom. Recent growth in capital expenditures has been concentrated in data centers and AI-related infrastructure, while investment in some traditional manufacturing categories remains relatively subdued.
- Tariffs are being used as an industrial policy tool. Section 232 tariffs seek to encourage domestic production in industries deemed critical to economic and national security, including semiconductors, pharmaceuticals, critical minerals and industrial machinery.
- Success is not guaranteed. Policy uncertainty, political volatility and the potential inflationary effects of onshoring production remain important challenges to a sustained US industrial renaissance.



The Return of Income: Bonds Reclaim Their Role

James Camp, CFA, *Managing Director & Co-Head*, Eagle Income*
Alexandria White, CFA, *Managing Director, Co-Head & Investment Strategist*, Eagle Income*

After years when yield was scarce and investors were pushed farther out on the risk spectrum, income is investable again. High-quality bonds can once more provide meaningful cash flow, portfolio stability and a credible path to total return without requiring an aggressive call on interest rates or credit. The 30-year Treasury recently moved above 5%, returning to a level not seen since before the Global Financial Crisis. Across the broader market, Treasuries and high-quality fixed-income sectors now offer yields in the mid-4% to mid-5% range, substantially above the dividend yield available from the broad equity market with the current spread between the 10-year Treasury and the S&P dividend yield the highest it's been since mid-2002. The result is a materially different portfolio environment, one in which bonds can again serve as both a defensive allocation and a meaningful source of return.

FROM YIELD SCARCITY TO YIELD CHOICE

For more than a decade following the Global Financial Crisis (mid-2007 through early 2009), investors seeking income faced an uncomfortable choice: accept very little from high-quality bonds or reach for yield through longer duration, lower-quality credit, dividend-paying equities and less-liquid alternatives. That environment reflected slow growth, disinflation, central bank bond purchases and strong demand for a limited supply of high-quality assets. It lasted long enough that ultra-low rates began to feel permanent. They were not.

Although yields will continue to move with the economic cycle, we believe the equilibrium has shifted higher. Larger fiscal deficits, heavy Treasury issuance, more persistent inflation and a capital-intensive investment cycle are creating greater competition for capital. We also believe those forces leave longer-term yields with an upward bias, particularly as investors demand greater compensation for absorbing growing Treasury supply and duration risk. The Federal Reserve can

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> Income is no longer scarce. The challenge has shifted from finding yield to selecting the right kind of yield.

exert considerable influence over short-term rates, but longer-term yields are set primarily by the market's view of growth, inflation, supply and term premium. Slower growth or market stress can still pull yields lower, but our base case is a higher structural range, not a return to the persistently low yields of the 2010s.

THE EQUITY-BOND INCOME HURDLE HAS RESET

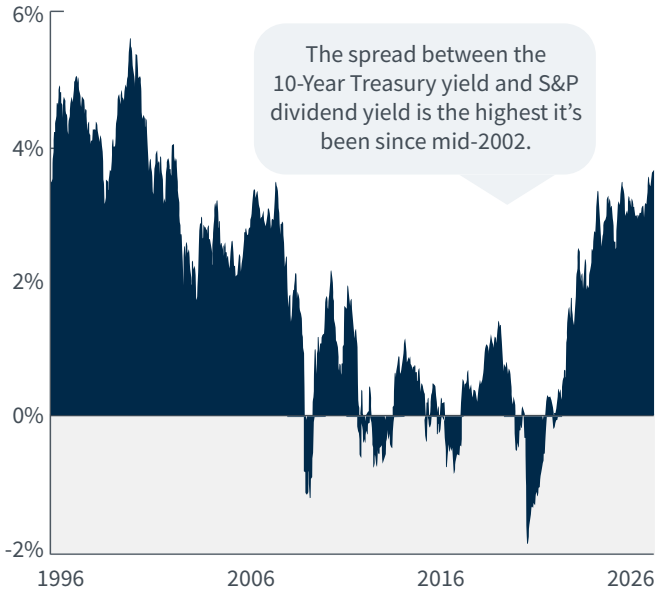
The change is particularly visible in the comparison between bond yields and equity dividend yields. Treasuries and high-quality taxable fixed income sectors currently offer yields in the mid-4% to mid-5% range, while municipal bonds can provide even higher income on a tax-equivalent basis. That stands in sharp contrast to the dividend yield available from the broad equity market and represents a significant reversal from much of the post-Global Financial Crisis period.

The divergence extends beyond the index-level comparison. As of August 31, fewer than 4% of S&P 500 constituents offered dividend yields above the 10-year Treasury yield, according to Ned Davis Research, the lowest share since May 2007. In July 2016, more than 60% did. That reversal illustrates how much the current-income hurdle for equities has changed.

That does not mean bonds should replace stocks. A bond's coupon is generally contractual, subject to the issuer's ability to pay. An equity dividend is not guaranteed, but a well-selected dividend stream can grow over time, helping preserve purchasing power and participate in the growth of the underlying business. Bonds can provide higher current income and lower volatility; high-quality dividend-paying equities can provide growing income and long-term appreciation. Both can play distinct roles in an income-oriented portfolio.

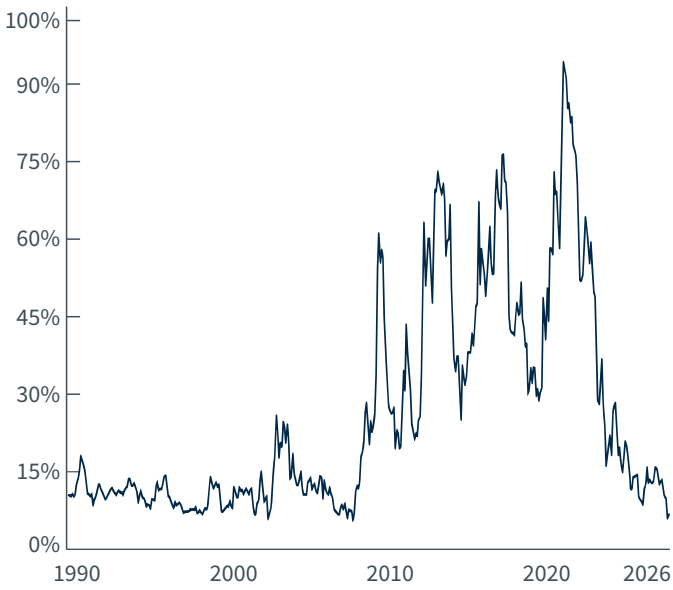
The Income Hurdle Has Reset

10-Year Treasury Yield
Minus S&P 500 Dividend Yield [3.7%]



Source: Bloomberg; data as of August 31, 2026

Percentage of S&P 500 Constituents
with Dividend Yields Above the 10-year Treasury Yield



Source: Ned Davis Research; monthly data as of August 31, 2026

BOND MATH IS WORKING AGAIN

The scars of 2022 remain fresh because bonds failed to provide the stability many investors expected. Yields rose rapidly from an exceptionally low starting point, and coupons were too small to offset the price decline, particularly in longer-duration portfolios. Today's starting point is different after that 'rip the band-aid' moment. As of August 2026, the Bloomberg US Aggregate Bond Index had generated positive trailing 12-month returns in 35 of the prior 36 months despite continued rate volatility. Higher coupons, carry and reinvestment income have helped absorb periodic price weakness, while intermediate-maturity bonds may also benefit from roll down as they move closer to maturity.

The diversification case is also more nuanced than it was during the low-inflation era. Stock-bond correlations tend to become more positive when inflation is elevated, so bonds may not rally every time equities decline. But diversification was never solely about maintaining a permanently negative correlation. Bonds still provide contractual cash flows, daily liquidity and exposure to different economic risks. The protection bonds provide today, with income doing the heavy lifting, is more stable and sustainable than negative price correlations as investors can benefit over a longer time horizon. Treasuries can also regain their traditional ballast when growth, rather than inflation, becomes the market's primary concern. For investors with ongoing spending needs, a high-quality bond allocation can also provide liquidity during periods of equity stress, reducing the risk of becoming a forced seller.

ATTRACTIVE YIELDS, BUT NOT EVERYTHING IS CHEAP

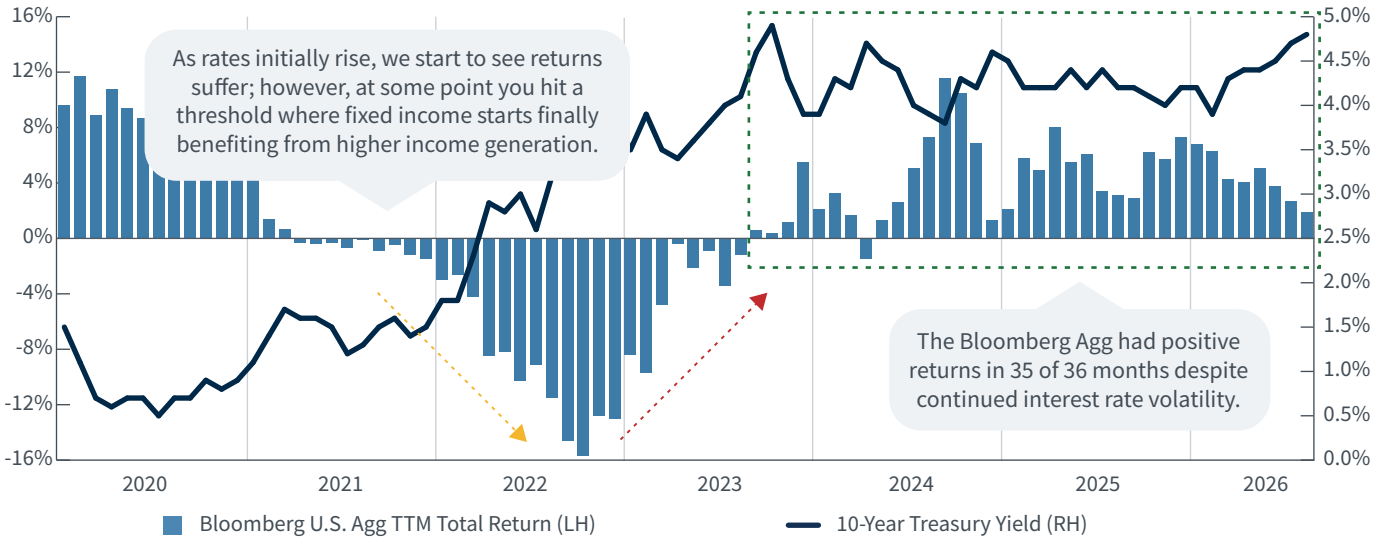
Investment-grade corporate bonds recently offered yields around 5.5%, but option-adjusted spreads were approximately 0.78%, well below their non-recessionary average of approximately 1.28%. Much of today's all-in yield therefore comes from the higher underlying Treasury rate rather than unusually generous compensation for credit risk. Tight spreads leave less room for deteriorating fundamentals and less potential return from further spread compression. That reinforces the case for selectivity. Investors can earn attractive income without stretching aggressively down in quality or relying on further spread tightening. We favor staying up in quality, managing duration deliberately and using periods of heavy new issuance or spread widening to add exposure more opportunistically.

WHAT THIS MEANS FOR PORTFOLIOS

The rise of bonds does not demand a wholesale retreat from equities. High-quality fixed income can once again fund spending needs, provide liquidity and carry more of a portfolio's return requirement. That allows equity allocations to focus on long-term growth and dividend-growth potential rather than asking stocks to provide both current income and appreciation.

Bond Math is Now Working in Your Favor

Bloomberg US Aggregate Bond Index Trailing 12-Month Returns and 10-Year US Treasury Yield



Source: Bloomberg; monthly dates as of August 31, 2026.

For investors approaching or in retirement, that liquidity can be particularly valuable. Aligning the fixed income allocation with near and intermediate-term spending needs can provide a source of capital during an equity market downturn and reduce the likelihood of having to sell stocks after prices have fallen. Forced selling can lock in losses and limit participation in an eventual recovery. With equity valuations elevated and bonds offering substantially more income than they did for much of the last decade, investors have an opportunity to build that liquidity before it is needed. The objective is not to predict the next downturn, but to structure the portfolio so that a downturn does not dictate when long-term assets must be sold.

Cash remains useful for near-term liquidity, but it is not a complete substitute for fixed income. Cash yields can reset quickly when monetary policy changes. Selectively extending into short- and intermediate-maturity bonds can lock in income for longer, reduce reinvestment risk and add the possibility of price appreciation if growth slows. With longer-term rates likely to remain elevated and potentially move higher, we continue to favor a deliberate approach to duration rather than relying on a large decline in yields to generate returns. That makes decisions around duration, credit and tax treatment increasingly important.

BOTTOM LINE

The low-rate era trained investors to think of income as scarce and risk-taking as the price of participation. Today, that trade-off looks very different. Quality fixed-income sectors offer meaningful yields, the income advantage of high-quality bonds over the broad equity market is historically wide and higher starting coupons provide a better cushion against volatility. Higher rates create challenges for borrowers and governments; for savers and income-oriented investors, they create a more investable market. Income is back. The opportunity now is to capture it with quality, discipline and flexibility.

KEY TAKEAWAYS

- The ultra-low-rate environment of the 2010s was exceptional, not permanent.
- Long-term rates are likely to fluctuate within a structurally higher range.
- Higher starting yields have improved bond math, but tight credit spreads reinforce the need for selectivity.
- Bonds and dividend-growing equities offer complementary sources of current and future income.

Municipals: The After-Tax Comparison Matters

Municipal bonds deserve a prominent role for tax-sensitive investors. A municipal yield near 3.90% may initially appear less compelling than a taxable corporate yield above 5%, but the comparison changes materially after taxes. At a 40.8% federal tax rate, a 3.90% tax-exempt yield equates to a taxable-equivalent yield of approximately 6.59%, before accounting for any potential state-tax benefit. The relative advantage can become even more pronounced for investors subject to higher state and local income taxes. That compares favorably with many taxable alternatives while maintaining the generally high credit quality of the municipal market. In addition to the attractive relative income, municipal yields are currently above their long-term and three-year average, offering a compelling entry point. This is particularly important for fixed-income investors, as starting yields are a key component of long-term return potential.

Relative value is not uniform across every maturity, and heavy issuance can create periods of weaker technical performance. Those supply-driven dislocations can also create better entry points. At the same time, federal funding uncertainty and differing fiscal pressures across states, local governments, healthcare systems and higher-education issuers are creating a more differentiated credit environment. Attractive yields do not eliminate the need for rigorous research; they make careful security selection more valuable.

For high-tax investors, the decision should therefore be based on after-tax income rather than headline yield alone. Municipal bonds can provide a compelling combination of tax-exempt cash flow, quality and diversification, particularly when paired with taxable bonds and dividend-growing equities in a broader income portfolio.

Taxable-equivalent yield assumes a 40.8% federal tax rate (37% top marginal tax bracket plus 3.8% Net Investment Income Tax). An investor's actual taxable-equivalent yield depends on individual tax circumstances. Interest on municipal bonds may be subject to the federal alternative minimum tax and state or local taxes. Capital gains may also be taxable.

Economic Snapshot

EUGENIO J. ALEMÁN, PhD
Chief Economist

As 2026 enters its final quarter, the economy continues to show resilience, even as some of the temporary tailwinds that supported activity earlier in the year begin to fade. The economic lift from the World Cup and America's 250th anniversary is largely behind us, but tax incentives, accelerated depreciation and continued investment in automation, AI and advanced manufacturing should remain supportive of business spending and productivity. We expect growth to remain near its long-term trend through year-end, even as labor market momentum gradually cools and consumer spending advances at a more moderate pace. At the same time, higher oil prices and tariffs have slowed the disinflationary process and squeezed real incomes, although the pass-through into broader price pressures has remained relatively contained. Policy uncertainty continues to delay some investment decisions, while high mortgage rates, affordability constraints and elevated construction costs remain significant headwinds for housing. Meanwhile, persistent federal deficits should keep upward pressure on long-term interest rates, while competing forces from global instability and fiscal concerns should keep the US dollar broadly range-bound.

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	GROWTH	Economic growth momentum slowed during the second quarter of the year but is expected to reaccelerate in the third quarter and remain near its long-term trend rather than move toward a recession.
	EMPLOYMENT	The labor market momentum has been slowing but should remain at healthy levels through year-end, while the unemployment rate remains relatively stable.
	BUSINESS INVESTMENT	Policy uncertainty around tariffs and global trade continues to weigh on some investment decisions. However, strong investment in AI and data center construction remains a key driver of overall capital spending, offsetting more moderate investment across other sectors of the economy.
	MANUFACTURING	The manufacturing sector remains in expansionary territory, and with continued investments in advanced manufacturing, we expect the strength in the sector to remain throughout the year.
NEUTRAL	CONSUMER SPENDING	Consumer spending remains positive albeit at a slower pace. Lower-income households are facing greater financial strain from rising prices, while higher-income consumers continue to support overall spending.
	MONETARY POLICY	The Federal Reserve has a challenging path ahead, with the disinflation progress slowing while the administration calls for lower interest rates. Expect the dual mandate between inflation and employment to become unbalanced once again.
	LONG-TERM INTEREST RATES	The acceleration in inflation seen as a result of the Iran war and the strong fiscal expansion during this year has the potential to keep interest rates high through next year.
	THE DOLLAR	The US dollar remains range-bound and around levels seen heading into the year as global instability is providing a tailwind, while fiscal deficit fears remain a headwind.
	REST OF THE WORLD	We continue to believe the US will outperform other developed economies. Among other advantages, the US is not dependent on energy imports.
UNFAVORABLE	HOUSING AND RESIDENTIAL CONSTRUCTION	High mortgage rates, rising construction costs and tariffs will keep this sector of the economy in the red. Meanwhile, the relatively low supply of homes will keep upward pressure on prices and reduce the number of potential home buyers.
	INFLATION	Inflation remains on a disinflationary path but has been slowed down by tariffs and higher oil prices. As a result, policymakers are experiencing a difficult tradeoff.
	FISCAL POLICY	With an expected increase in the fiscal deficit due to higher spending, high interest rates, lower taxes and tax collections, the fiscal deficit debate will continue to keep the markets on edge.

Sector Snapshot

This report is intended to highlight the dynamics underlying the 11 S&P 500 sectors, with a goal of providing a timely assessment to be used in developing your personal portfolio strategy. Our time horizon for the sector weightings is not meant to be short-term oriented. Our goal is to look for trends that can be sustainable for several quarters; yet given the dynamic nature of financial markets, our opinion could change as market conditions dictate.

Most investors should seek diversity to balance risk versus reward. For this reason, even the least-favored sectors may be appropriate for portfolios seeking a more balanced equity allocation. Those investors seeking a more aggressive investment style may choose to overweight the preferred sectors and entirely avoid the least favored sectors. Investors should consult their financial advisors to formulate a strategy customized to their preferences, needs, and goals.

MIKE PAYNE
Investment Strategy Analyst

These recommendations will be displayed as such:

Overweight: favored areas to look for ideas, as we expect relative outperformance

Market Weight: expect in line relative performance

Underweight: unattractive expectations relative to the other sectors; exposure might be needed for diversification

For a complete discussion of the sectors, please ask your financial advisor for a copy of *US Equity Strategy.*

	SECTOR	S&P WEIGHT	COMMENTARY
OVERWEIGHT	INFORMATION TECHNOLOGY	38%	The AI megatrend – encompassing advanced chips, cloud computing and specialized use cases – remains the preeminent driver of Technology earnings. Technology accounts for the vast majority of the year-to-date upward estimate revisions for the S&P 500, and consensus points to another year of market-leading earnings per share (EPS) growth in 2027. Additionally, the sector is trading at one of its narrowest premiums to the broader market since 2020, which we view as attractive given superior fundamentals.
	CONSUMER DISCRETIONARY	9%	As evidenced by Redbook retail sales and TSA screenings, overall consumer spending has remained resilient despite a wide range of inflation pressures. While elevated oil prices and interest rates are unhelpful for near-term spending on large-ticket items such as homes and autos, we believe these headwinds will subside in 2027 – and in the meantime, labor market dynamics are supportive. This is the weakest-performing sector year to date, making it a contrarian idea.
	INDUSTRIALS	8%	The buildout of AI data centers and associated modernization of the electric grid are potent demand drivers for the sector. Other themes are supportive as well: tariff-fueled reshoring of supply chains, robust defense spending by the US and its allies, and drought-related investments in water infrastructure. Consensus expects the sector's EPS growth to accelerate to 16% in 2027 – slightly outpacing the S&P 500.
MARKET WEIGHT	FINANCIALS	12%	Investment banking and capital markets activity is continuing to strengthen, though the timing of future mega-sized IPOs is difficult to predict. Meanwhile, Fed hawkishness has resulted in a somewhat flatter yield curve, which may pressure banks' net interest margins. The sector's multiple of book value is above average by historical standards, leading to what we see as a balanced risk/reward profile.
	COMMUNICATION SERVICES	10%	While some investors look at Communication Services as an AI derivative, we prefer Technology and Industrials to play AI. Although this sector's largest companies are Big Techs that benefit from robust spending on digital ads and cloud computing, it also includes telecom and traditional media firms, which have weaker growth profiles. For example, the traditional media space faces structural headwinds from shrinking TV audiences.
	HEALTH CARE	9%	Health Care is benefiting from secular trends, including an aging population and biotech innovation. Consensus expectations point to EPS growth accelerating sharply from 3% in 2026 to 22% in 2027, which we think is overly ambitious. Meanwhile, the sector's valuation relative to the S&P 500 has rerated from a ~20% discount six months ago to roughly in line. **We are downgrading the sector from Overweight to Market Weight as the risk/reward profile has become more balanced and political headwinds remain.**

Continued on next page

Sector Snapshot (cont.)

	SECTOR	S&P WEIGHT	COMMENTARY
MARKET WEIGHT	UTILITIES	2%	Amid the data center buildout, US power demand is poised to grow nearly as much between 2025 and 2030 as in the previous 25 years. While balance sheets in the sector are highly leveraged – resulting in hefty interest-rate sensitivity – most companies have a predictable revenue model, which translates into mild credit risk. Meanwhile, as rising electric bills lead to political pushback, the sector may face even stricter regulatory scrutiny.
	MATERIALS	2%	With all of the precious metals having fallen sharply from their all-time highs set in early 2026, they are less stretched than before. Industrial metals such as copper and lithium continue to have more robust demand trends. Meanwhile, Asian and European natural gas prices are at multi-year highs as a result of the US-Iran conflict, which creates headwinds for many producers of plastics and chemicals, though we expect these prices to ultimately subside.
	REAL ESTATE	2%	Although consensus points to only 6% EPS growth in 2027, we see modest upside if, as we expect, 10-year Treasury yields decline toward 4.50% to 4.75%. Lower yields would reduce the cost of capital for this rate-sensitive sector, while also making REITs more attractive for investors. Accordingly, **we are upgrading the sector from Underweight to Market Weight**. Fundamentals remain mixed: Commercial office space is facing structural headwinds, partially offsetting growth from data centers, healthcare facilities and logistics.
UNDERWEIGHT	CONSUMER STAPLES	5%	Consensus expects 7% EPS growth in 2027 – less than half that of the broader market. This reflects sluggish demand as inflation-stressed consumers balk at high prices on store shelves, as well as persistent input cost risk resulting from volatile prices for a wide range of commodities. Alcohol and tobacco face their own health-related headwinds. Perhaps counterintuitively given its subpar fundamentals, the sector trades at a slight premium to the S&P 500.
	ENERGY	3%	After a brief hiatus, the US-Iran conflict is once again curtailing oil exports from the Persian Gulf. Energy is the top performer year to date, and we would use these gains as an opportunity to take profits. The supply disruption is ultimately a transitory event, whereas the longer-term outlook is for sluggish growth in global oil demand – and some of this year's demand destruction may be permanent. We expect WTI to fall toward $65 per barrel by mid-2027.

Disclosure

All expressions of opinion reflect the judgment of the authors and are subject to change. Past performance may not be indicative of future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. The performance mentioned does not include fees and charges which would reduce an investor's return. Dividends are not guaranteed and will fluctuate. Investing involves risk including the possible loss of capital. Asset allocation and diversification do not guarantee a profit nor protect against loss. Investing in certain sectors may involve additional risks and may not be appropriate for all investors.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. Investing in emerging and frontier markets can be riskier than investing in well-established foreign markets.

Investing in small- and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

US government bonds and Treasury bills are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. US government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the US government.

While interest on municipal bonds is generally exempt from federal income tax, they may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bonds may be subject to capital gains taxes if sold or redeemed at a profit.

If bonds are sold prior to maturity, the proceeds may be more or less than original cost. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Investing in REITs can be subject to declines in the value of real estate. Economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur

Disclosure (cont.)

due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Beta compares volatility of a security with an index. Alpha is a measure of performance on a risk-adjusted basis.

The process of rebalancing may result in tax consequences.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. Investors should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Investors should only invest in hedge funds, managed futures, distressed credit or other similar strategies if they do not require a liquid investment and can bear the risk of substantial losses. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided.

The companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. Investing in the technology sector is not suitable for all investors.

The indexes mentioned are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The S&P 500 is an unmanaged index of 500 widely held securities. The Shanghai Composite Index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

The MSCI Emerging Markets Index is used to measure the financial performance of companies in fast-growing economies around the world. The MSCI China A Index measures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The MSCI Pacific Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in the Pacific region. The MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the US market. The MSCI Europe index is a European equity index which tracks the return of stocks within 15 European developed markets.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg US Treasury Index measures the performance of fixed-rate, nominal debt issued by the US Treasury and denominated in US dollars. It is a benchmark for the US Treasury market, excluding Treasury bills (which are covered by a separate index) and certain special issues according to Bloomberg.

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