

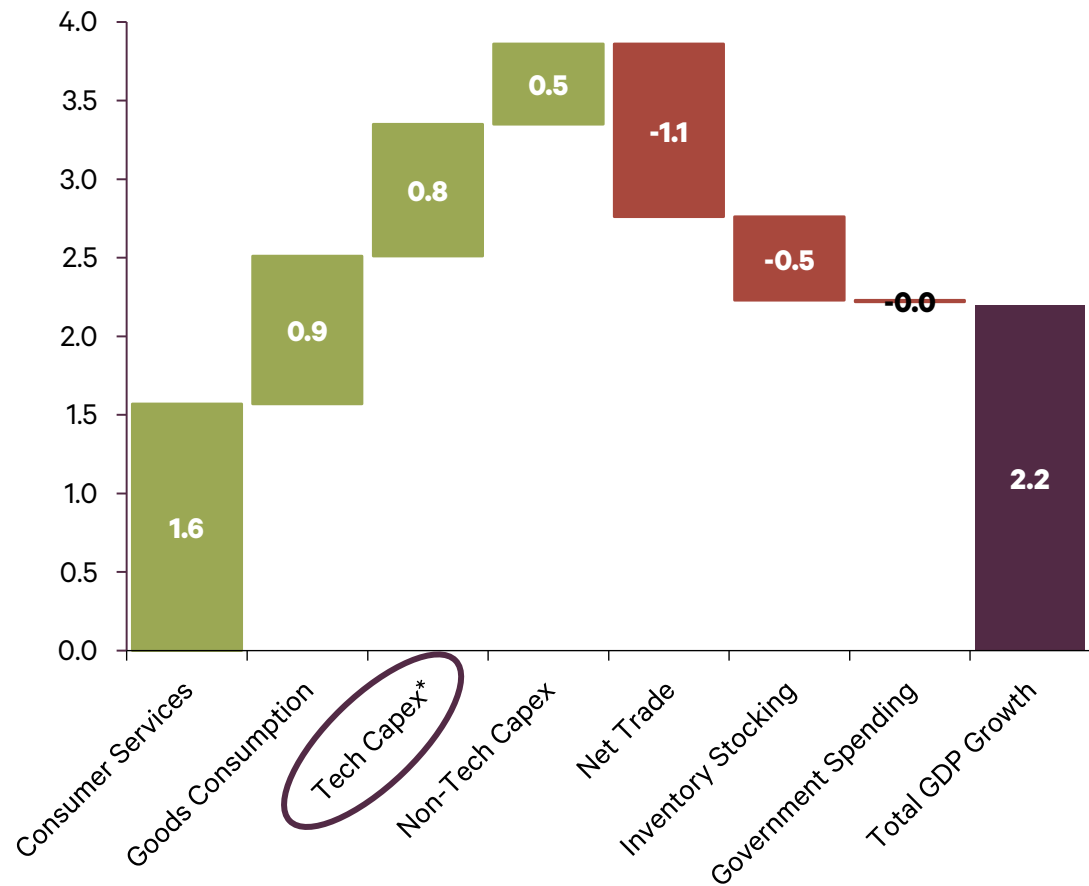


Quarterly Market Insights

October 2026

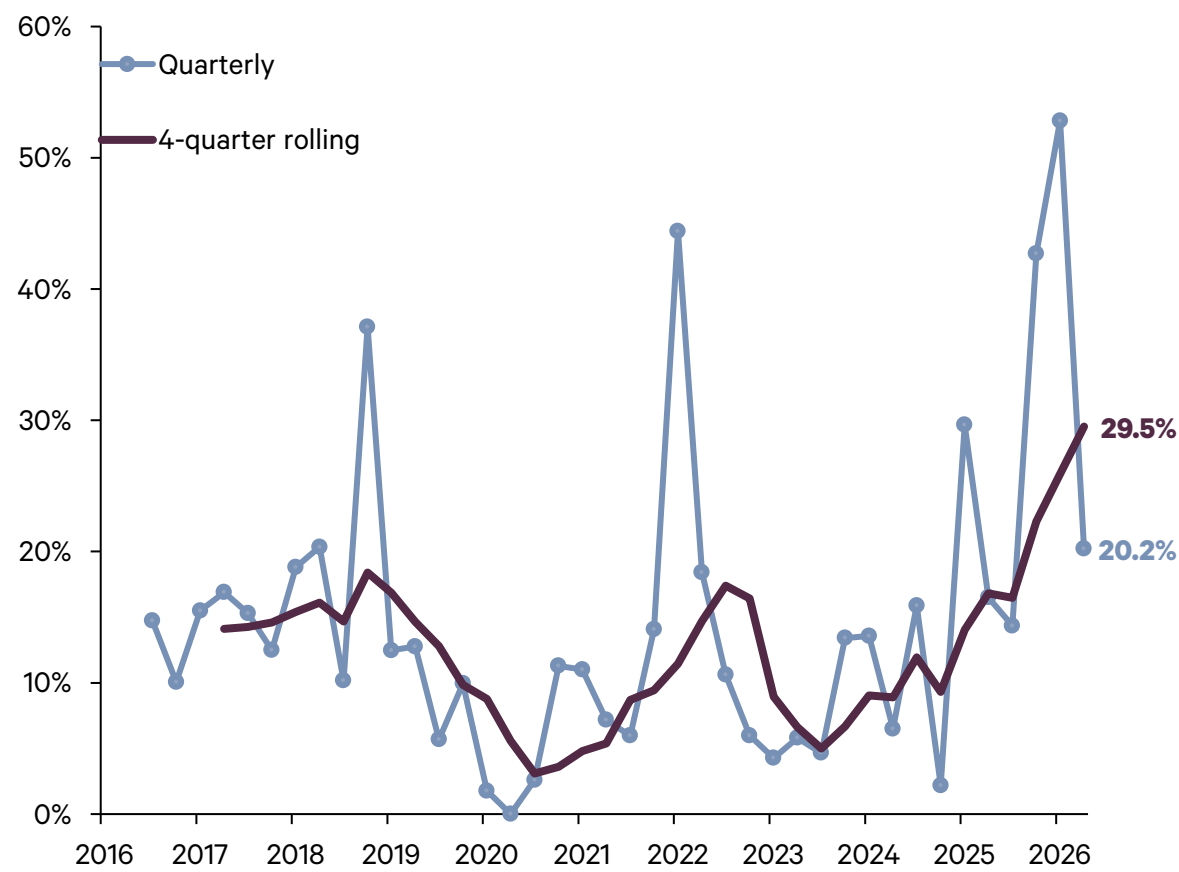
Consumption is driving, while Tech Capex contributes upside

Q2 Real GDP Components (SAAR%)



Source: Pathstone with data from FRED

Tech Capex as a Percent of GDP Contributors

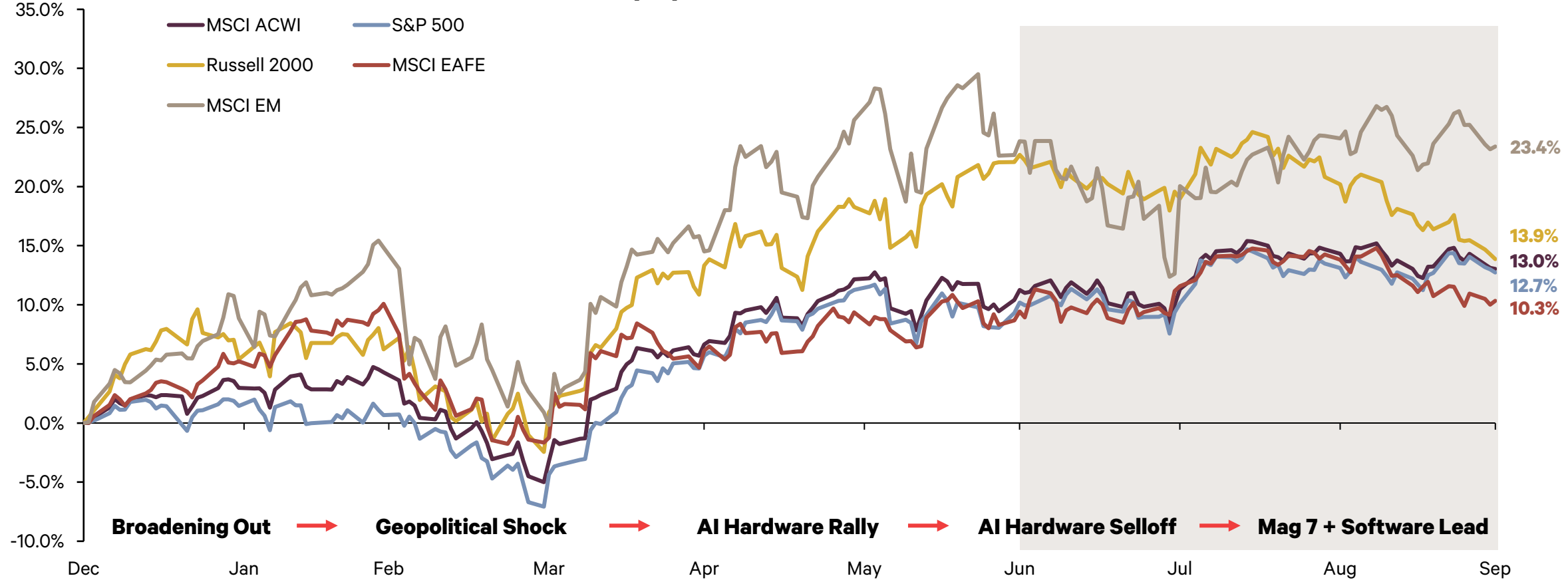


Sources: Pathstone with data from FRED, BEA

AI drove narrow returns with rotations and dispersion underneath

Equities are up this year on strong earnings and AI investment, but leadership is narrow: three AI chip and memory names drove most of EM's lead, and ten AI-linked stocks delivered about two-thirds of the S&P 500's gain. Small caps led into the summer before giving back ground in 3Q as higher rates and oil prices weighed, and developed international markets have lagged, partially due to fewer AI winners.

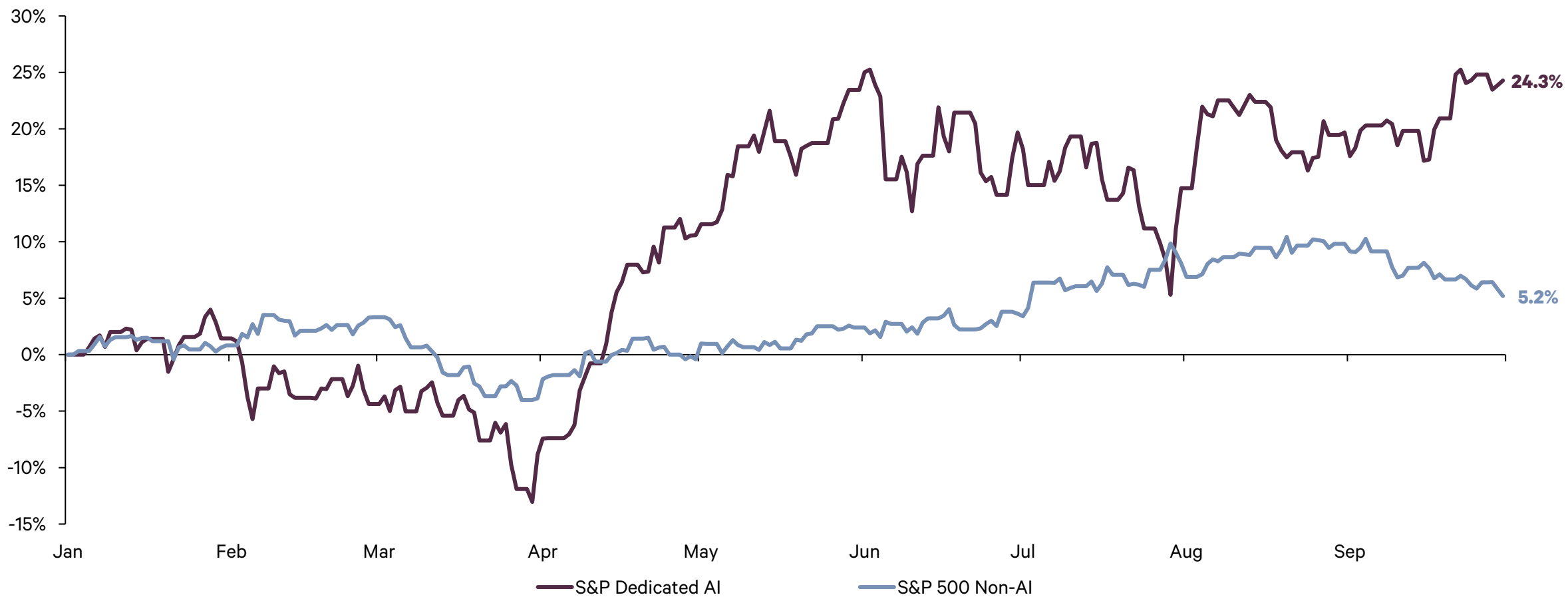
Equity Index YTD Performance



Sources: Pathstone with data from Bloomberg. Data as of 9/30/2026.

AI cycle prices & earnings looks different than the Dot Com bubble

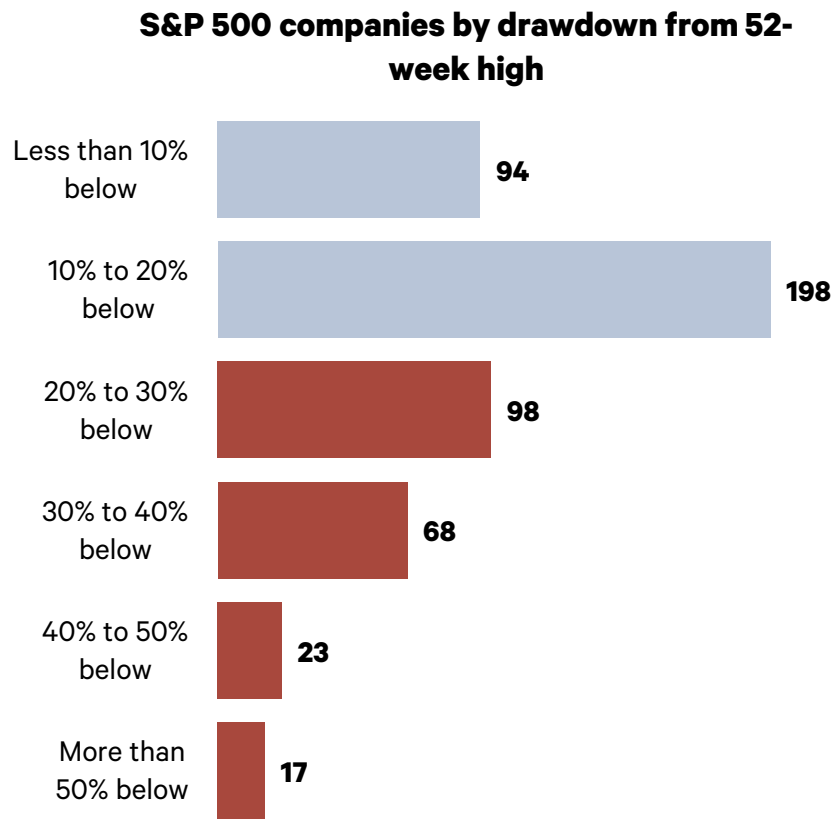
SP 500 Non-AI vs Dedicated AI



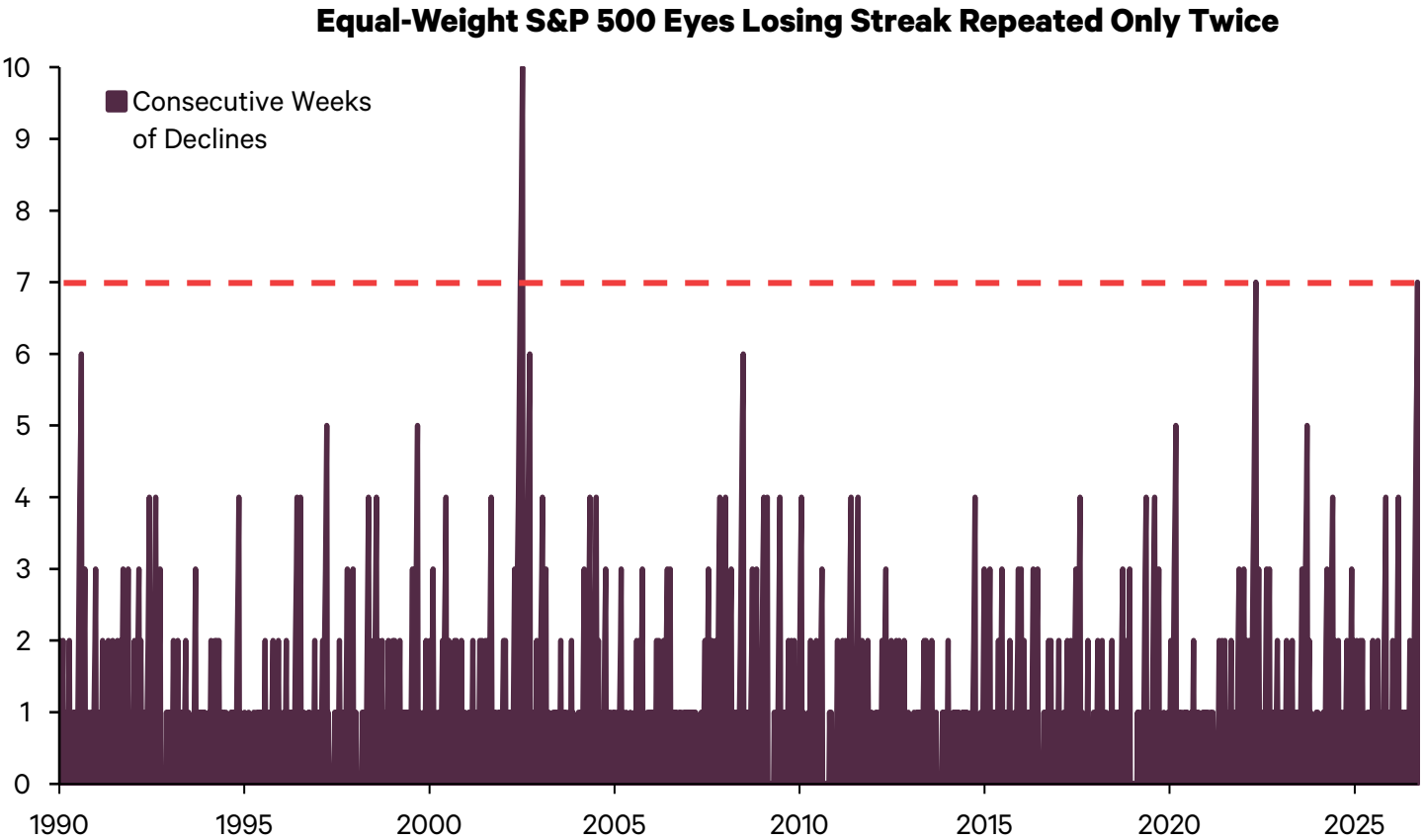
Sources: Pathstone with data from Bloomberg as of 9/30/2026

Returns were concentrated, 41% of S&P 500 is down >20% from highs

The S&P 500 is up 12.7% this year, but ten AI-linked stocks, about 26% of the index, delivered 8.3 points of it, and seven chip names alone added 6.1. With 41% of companies at least 20% below their highs, the Equal-Weight S&P 500 has fallen seven straight weeks, a streak matched only twice since 1990, and is down 1.9% this quarter while the cap-weighted index is up 2.3%. Portfolios light on a smaller number of AI winners and chip stocks have trailed the benchmark.



Sources: Pathstone with data from Bloomberg as of 9/30/2026

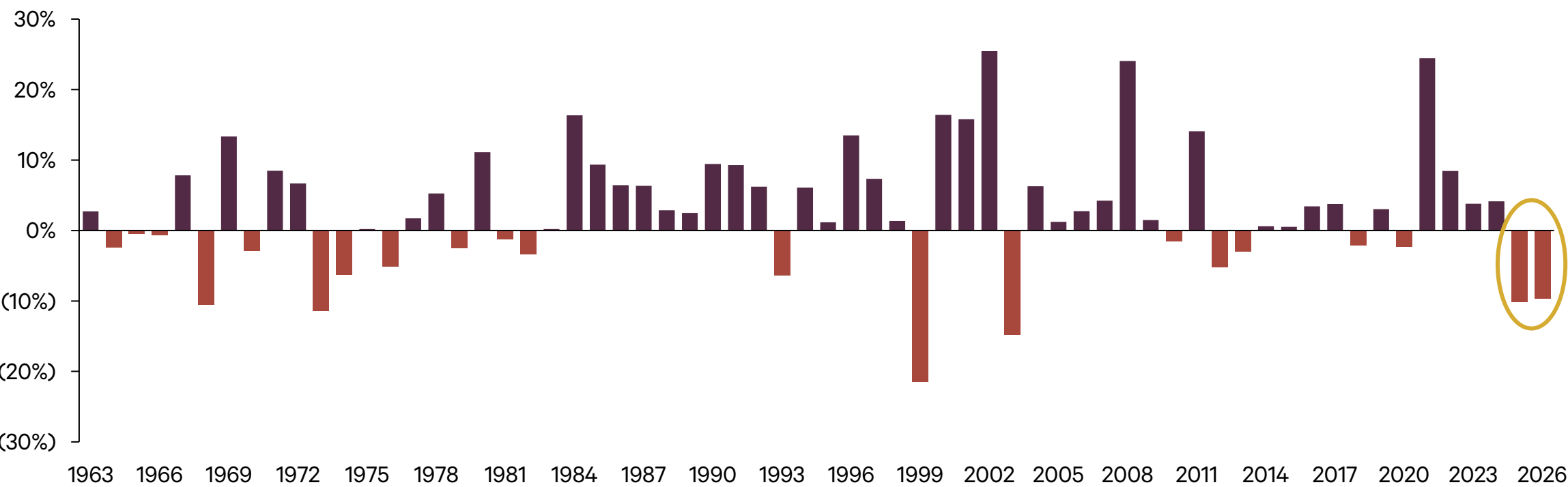


Sources: Pathstone with data from Bloomberg as of 9/30/2026

Quality has underperformed despite **good fundamentals**

The quality factor is now on pace for the 2nd year in a row of underperformance. While AI companies sit on both sides of the ledger – cash rich companies on one side, speculative and/or cyclical AI companies on the other – the speculative and/or cyclical AI gains have outpaced broader quality stocks. Importantly, non-AI company earnings growth has still been quite robust in 2026, so this isn't due to deteriorating fundamentals within quality, rather quality being left behind by parts of the AI trade.

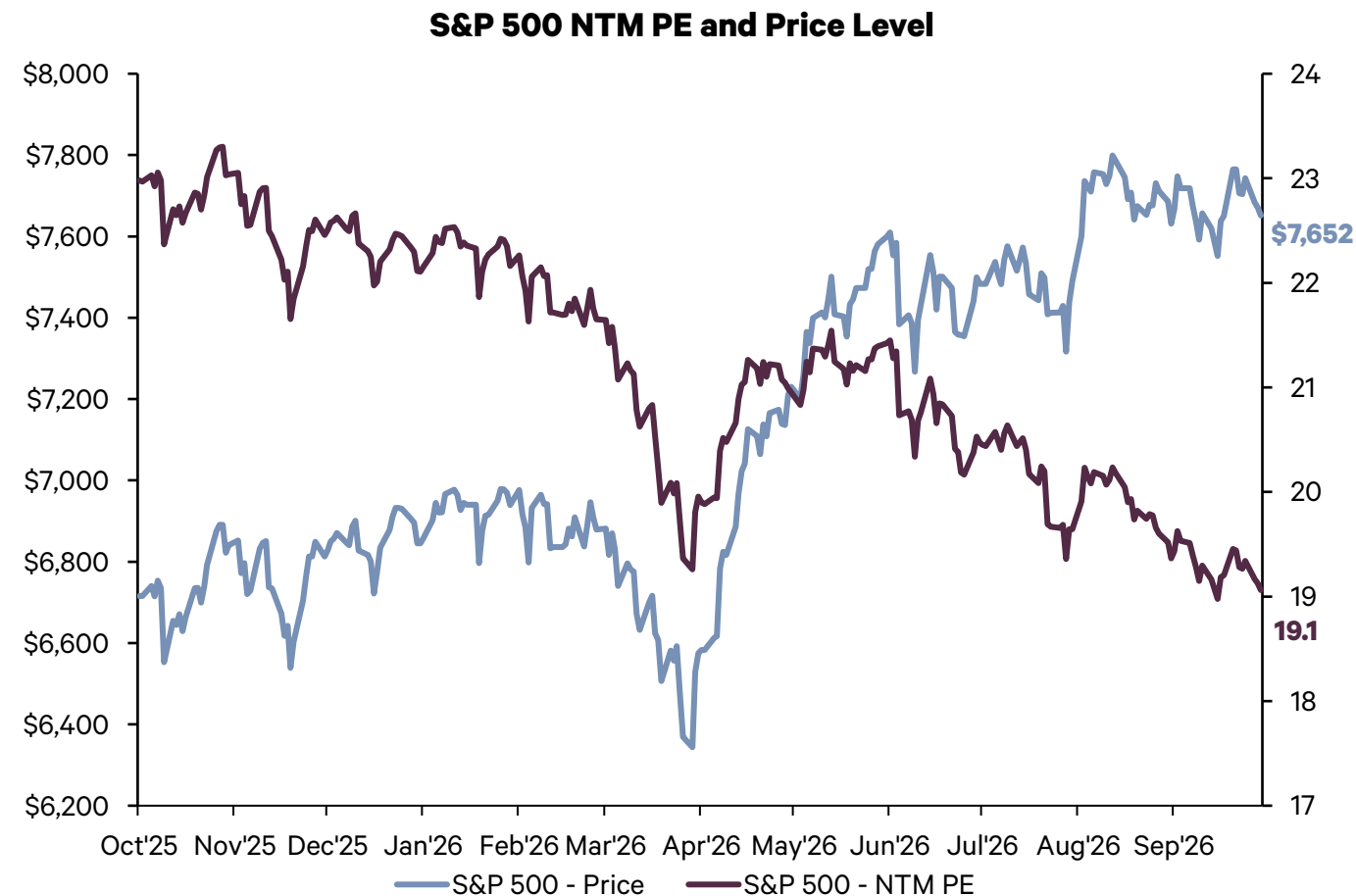
Fama/French Profitability Factor (RMW): High Profitability Stocks minus Low Profitability Stocks
Calendar-Year Returns



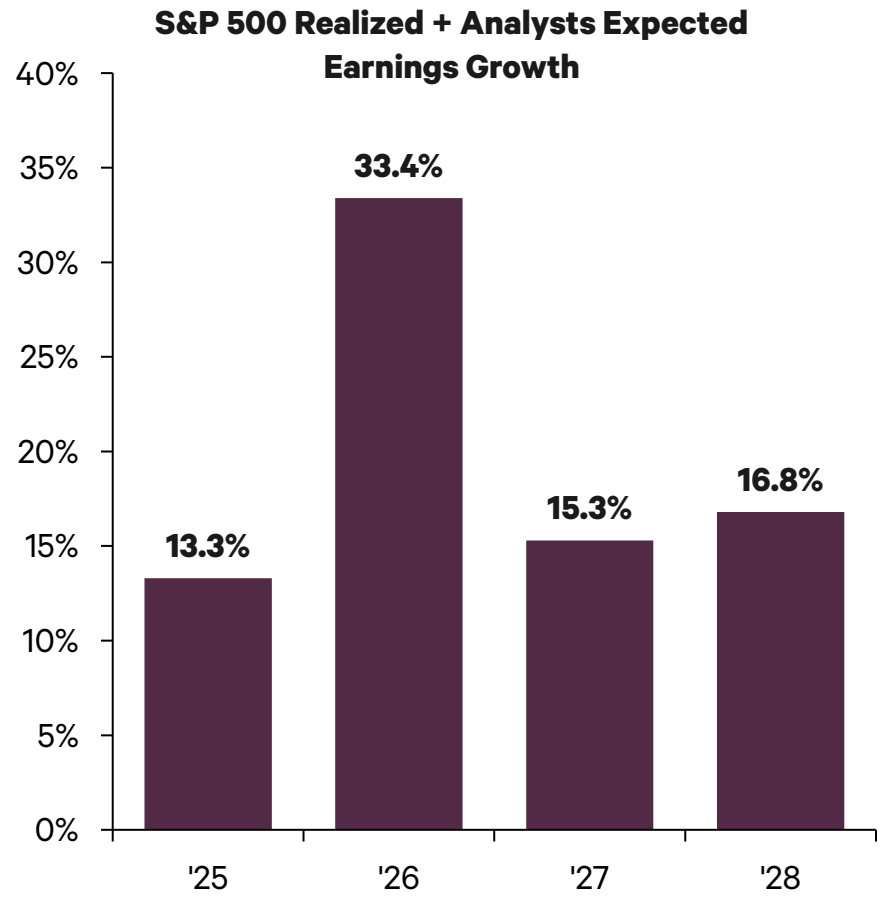
Sources: Pathstone with data from Kenneth R. French Data Library as of 8/31/2026.

Earnings growing faster than price in 2026 = lower valuations

The S&P 500 hit new all-time-highs in 3Q. Surging 2Q earnings plus optimistic forward estimates means the forward price/earnings multiple compressed, leaving valuations multiple points lower than a year ago. Of course, these earnings need to come to fruition, but tailwinds remain if AI spend and adoption continue.



Sources: Pathstone with data from FactSet as of 9/30/2026

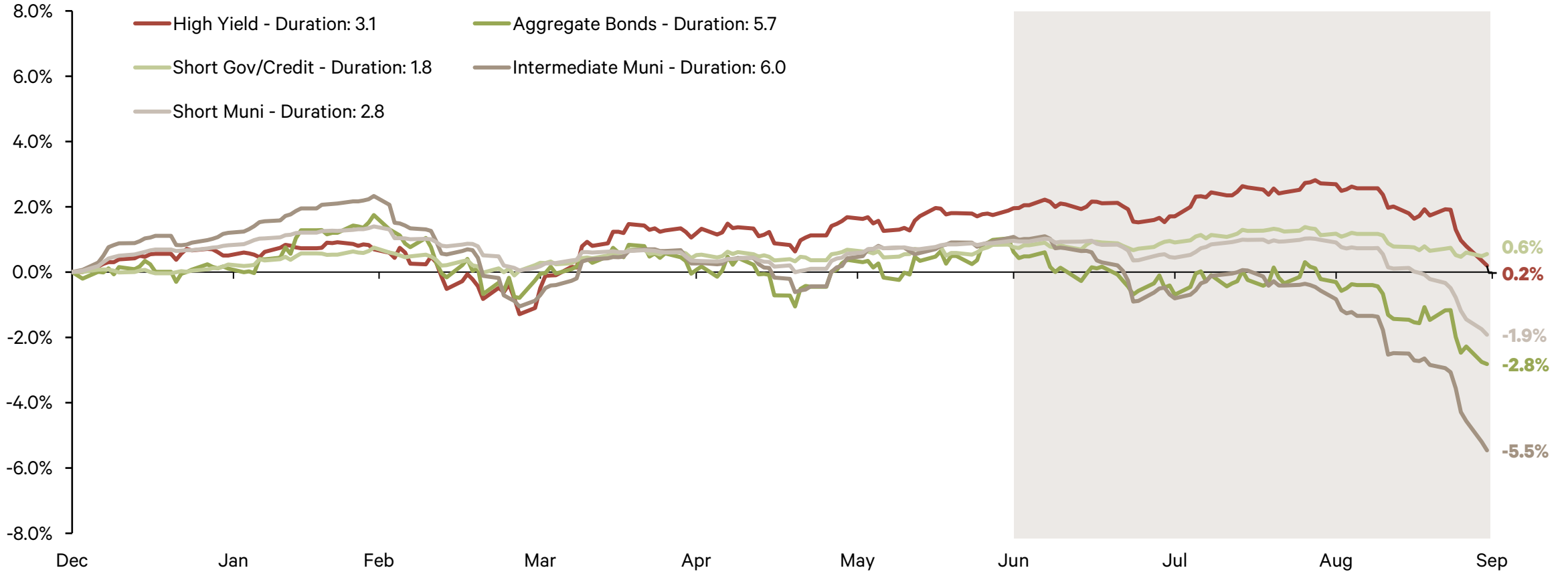


Sources: Pathstone with data from FactSet as of 9/30/2026

Rising rates led to a **tough 3rd quarter for bonds**

Bonds have struggled as yields rose on strong growth, Fed hikes and fiscal concerns, with markets moving from pricing five rate cuts at the start of the year to further hikes into 2027. Losses deepened in Q3 and longer duration hurt most: short government/credit held near flat, high yield gave back its gains late, and intermediate munis fell the most.

Fixed Income Index YTD Performance



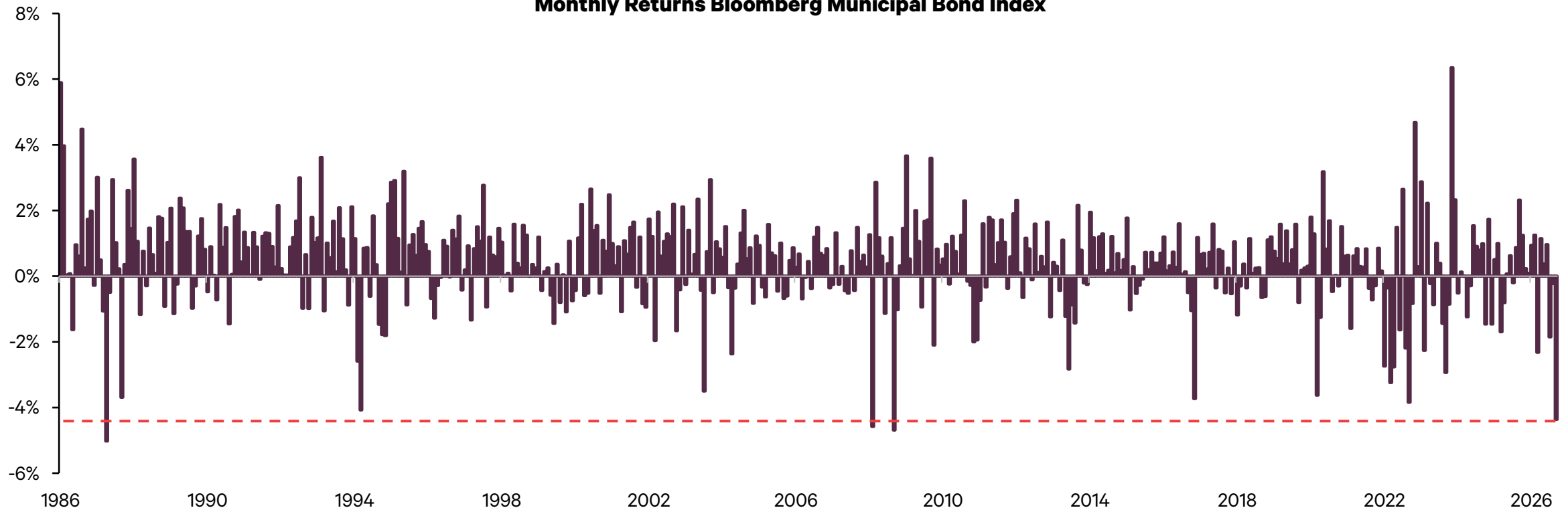
Sources: Pathstone with data from Bloomberg. Data as of 9/30/2026.

Municipal bonds experience 4th worst month in 40 years

Munis have decoupled from Treasuries due to technical pressures, despite strong fundamentals.

- **Continued elevated supply:** September net issuance is tracking near record highs coming after a couple of years of elevated issuance.
- **Weak near-term demand:** Fund outflows, tax-loss harvesting and record dealer bid-wanted volumes have compounded the selloff.
- **Thinner structural demand:** Reduced bank/insurance demand particularly further out the curve over recent years has required higher yields to clear supply.
- **Not a credit story:** Fundamentals remain broadly strong and credit spreads have actually continued to tighten.

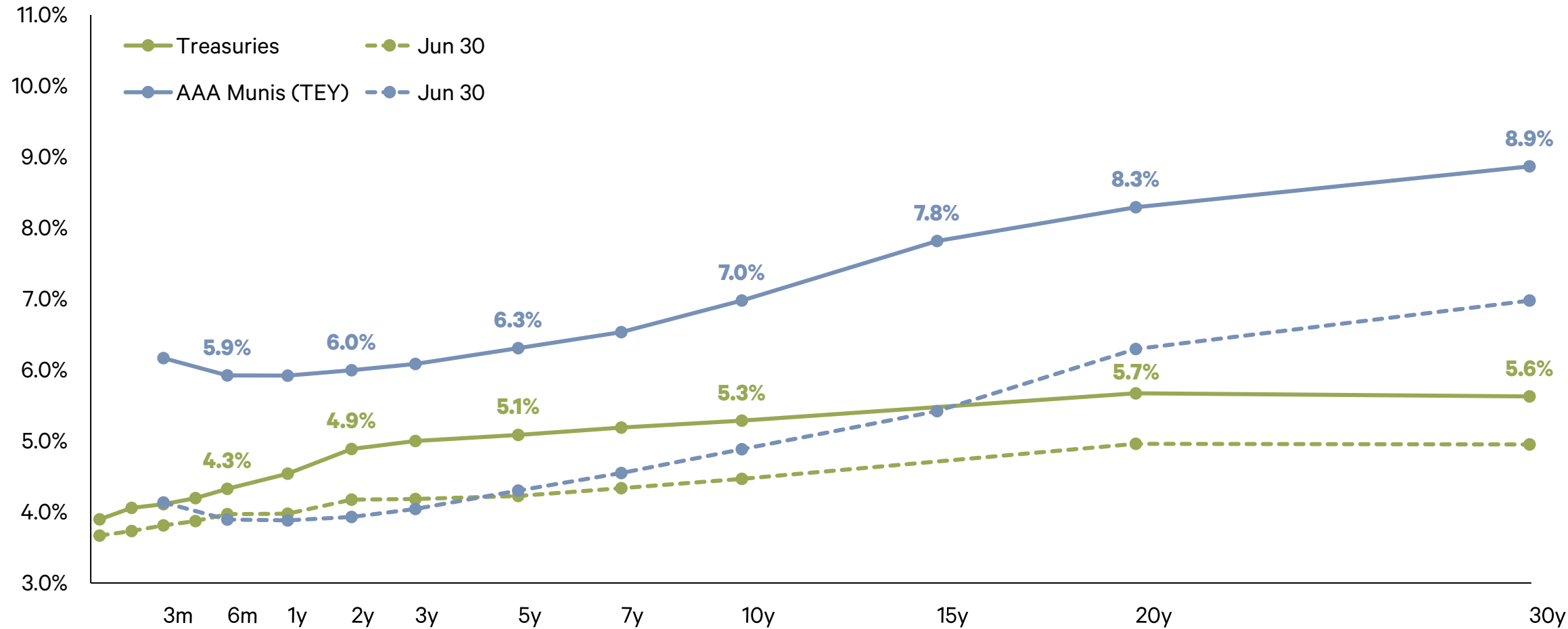
Monthly Returns Bloomberg Municipal Bond Index



Sources: Pathstone with data from Bloomberg as of 9/30/2026

A confluence of factors have pushed up **yields to cycle highs**

US Treasury & Muni Curves (9/30 vs. 6/30)



Sources: Pathstone with data from Bloomberg. As of 9/30/2026.

Potential Headwinds & Tailwinds

HEADWINDS

Concentration Risk

Narrowest breadth since 2000; ten AI stocks drove ~2/3 of S&P gains, and three drove 75% of EM

AI Regulation & Bottlenecks

Societal backlash, power and permitting limits could slow the buildout, raise costs and shift return metrics

Sticky Inflation & Fed Hikes

Fed hiked with more priced in, but hikes may not cool all the supply- and demand-side factors

Valuations & Earnings Optimism

Valuations have compressed and fall if earnings deliver, but high earnings estimates leave little room for misses

Geopolitical Risks

No clear off-ramp with Iran, keeping Brent near \$100 and diesel at records; midterms add uncertainty

Rising Long-Term Yields

10-yr hit 5.22% on growth, fiscal and AI debt supply, pressuring valuations, small caps and munis

TAILWINDS

AI Supercycle & Capex

~\$800B of hyperscaler capex drove ~30% of 1H26 GDP growth, with upside risk to estimates

AI-Driven Productivity

If AI can lift output and revenue per employee, it supports a growing pie and wider margins

Earnings Momentum

AI earnings rose 50%+ in Q2 and forward estimates keep climbing, with earnings outpacing prices

Room to Broaden

Equal-weight sits at 2003 lows vs. cap-weight; continued growth could lift the rest of the market

Consumer & Labor Resilience

Payrolls and unemployment remain firm, and steady jobs and equity wealth effects keep spending firm

Middle East Tension Ease

A US-Iran deal reopening Hormuz would pull oil lower and ease inflation and Fed pressure

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US Equities by Size and Style		
US Large Cap	Russell 1000 TR USD	The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index.
US Large Cap Growth	Russell 1000 Growth TR USD	Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
US Large Cap Value	Russell 1000 Value TR USD	Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
US Small Cap	Russell 2000 TR USD	The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
US Small Cap Growth	Russell 2000 Growth TR USD	Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
US Small Cap Value	Russell 2000 Value TR USD	Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
US Mid Cap	Russell Mid Cap TR USD	Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
US Mid Cap Growth	Russell Mid Cap Growth TR USD	Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.
US Mid Cap Value	Russell Mid Cap Value TR USD	Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.
Global Equities		
US Large Cap	S&P 500 TR USD	The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
US Large Cap Tech	NASDAQ	The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.
European Large Cap	MSCI Europe Large GR USD	The MSCI Europe Large Cap Index is a free-float weighted equity index. Europe Small Cap - Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and UKMSCI's Developed Market Indices are based on the share prices of approximately 1.60
European Small Cap	MSCI Europe Small Cap GR USD	The MSCI Japan Index is a free-float weighted equity index. This index prices in real time in USD.
Japan	MSCI Japan GR USD	The MSCI Taiwan Index is a free float weighted equity index. This index prices in real time in USD
Taiwan	MSCI Taiwan USD	The MSCI Korea Index is a free float weighted equity index. This index prices in real time in USD
Korea	MSCI Korea USD	The MSCI India Index is a free float weighted equity index. This index prices in real time in USD
India	MSCI India USD	
Asia ex-Japan	MSCI AC Asia Ex Japan GR USD	The MSCI AC Asia ex Japan Index is a free-float weighted equity index. This index is priced in USD.
China	MSCI China USD	The MSCI China Index is a free-float weighted equity index. This index is priced in USD.
EM Latin America	MSCI EM Latin America GR USD	The MSCI EM Latin America Index is a free-float weighted equity index. This index is priced in USD.
EM Europe	MSCI EM Europe GR USD	The MSCI EM Europe Index is a free-float weighted equity index. This index is priced in USD.
Magnificent 7	Magnificent 7 Index	The Mag 7 index tracks the performance of the seven largest US-listed technology and communication companies: Apple, Tesla, Nvidia, Meta, Amazon, Google, and Microsoft
Expanded Tech Software	iShares Expanded Tech Software Sector ETF	An exchanged-traded fund that tracks U.S.-listed companies in the software industry, including application, systems, and interactive home entertainment software.
Semiconductors	iShares Semiconductor ETF (SOXX)	An exchanged-traded fund that tracks U.S.-listed companies engaged in the design, manufacture, and distribution of semiconductors.
Memory	Roundhill Memory ETF (DRAM)	An exchanged-traded fund that provides exposure to companies manufacturing dynamic random access memory chips and related semiconductor suppliers serving data center and computing industries
Fixed Income		
Short-term Treasuries	Bloomberg 1-3 Yr US Treasury TR USD	The Bloomberg US Treasury 1-3 Yr Index measures the performance of US Treasuries with a maturity of between 1-3 years.
Long-term Treasuries	Bloomberg US Treasury 10+ Yr TR USD	The Bloomberg US Treasury 10+ Yr Index measures the performance of US Treasuries with a maturity of at least 10 years.
Inflation-Linked Bonds	Bloomberg US Treasury US TIPS TR USD	The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.
Municipal Bonds	Bloomberg Managed Money Short/	Bloomberg Managed Money Short/Intermediate Total Return Index Unhedged USD
Mortgage-Backed Securities	Bloomberg US MBS TR USD	The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
Short-term Investment Grade	Bloomberg USD Corp Bd 1-5 Yr TR USD	Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD.
Long-term Investment Grade	Bloomberg US Corp Bond TR USD	The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield	Bloomberg US Corporate High Yield TR USD	The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.
EM Aggregate Bonds	Bloomberg Emerging Markets Hard Currency Aggregate Index	The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.