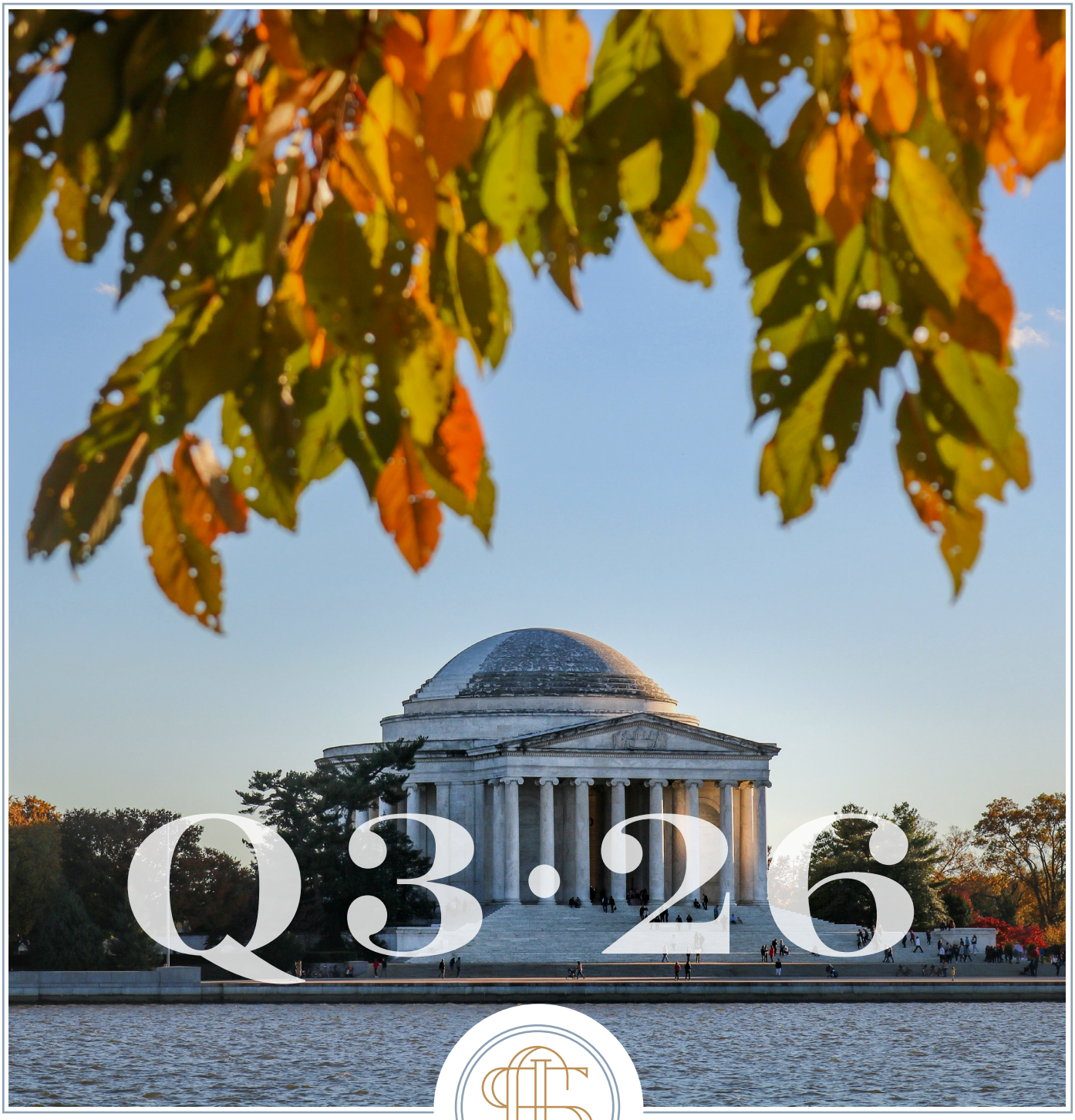
# QUARTERLY MARKET REVIEW

## THIRD QUARTER 2026




SARGENT

INVESTMENT GROUP

SARGENT

INVESTMENT GROUP

Dear Sargent Clients,

*Q3 2026 Summary*

- Higher interest rates are back, but the backdrop is different this time. The 10-year Treasury ended Q3 at 5.3%, its highest level in more than two decades. However, unlike 2002, larger fiscal deficits, reshoring, and higher energy costs are creating upward pressure on rates.[i]

- Despite higher rates, equities have remained resilient, although performance is increasingly uneven. The S&P 500 gained roughly 2% in Q3, with energy (+16.5%) and technology (+7.1%) outperforming, while rate-sensitive sectors such as utilities (-13.0%) and industrials (-9.9%) struggled.[ii]

- It is worth noting that today's interest rates are not historically unusual; rather, the prior decades were. As a result, years of near-zero rates conditioned investors, consumers, corporations, and governments to believe unusually cheap capital was the "new normal," a dynamic that is now reversing and reverberating throughout the economy.

- Three forces are keeping long-term rates elevated today: persistent inflation, continued economic resilience, and large government fiscal deficits.

- While higher rates have hurt borrowers, there is a positive byproduct — it has ended the "TINA Era" aka "**T**here **I**s **N**o **A**lternative" to equities. Investors today can once again earn meaningful returns from cash, treasuries, municipal bonds, and high-quality corporate bonds without taking the same degree of equity, credit, liquidity, or duration risk that was necessary when rates were near zero.

- Portfolio positioning should adjust accordingly. After years in which equity appreciation caused portfolios to drift materially above their intended stock allocations, SIG believes investors should rebalance by adding capital to high-quality fixed income, selectively adding inflation protection and real assets such as energy exposure, and exercising caution given how far we are into the prolonged bull market.

- The investment environment argues for balance, selectivity, and patience. Higher yields provide income and optionality, but they also raise the hurdle rate for equities and other risk assets. The result is a portfolio approach emphasizing less risk-taking, greater diversification, and maintaining dry powder for differentiated opportunities.

**Back to the Future: A return to "normal" rate levels**

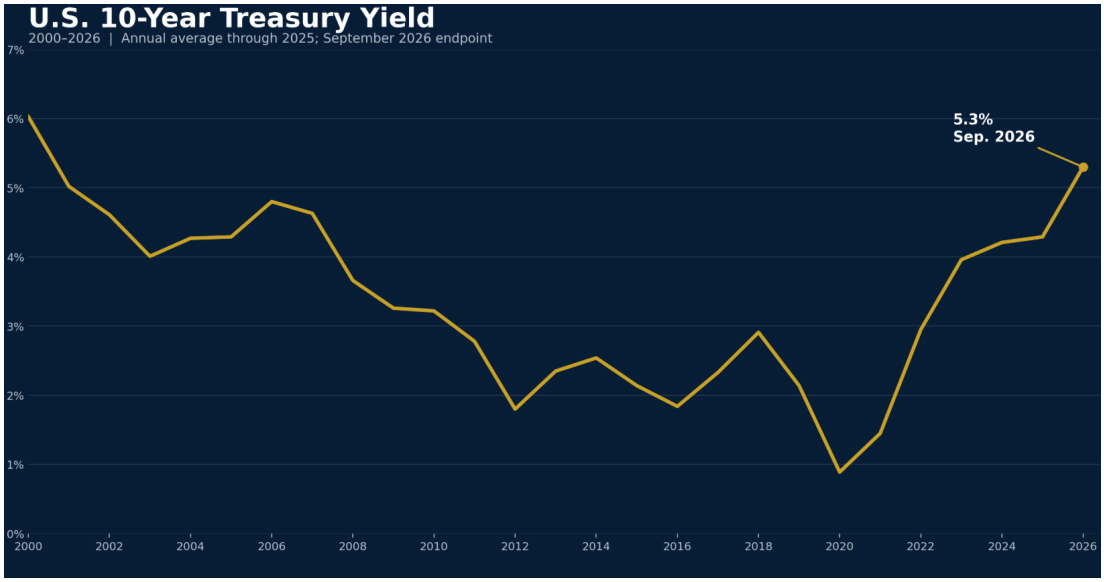
Imagine this. It's 2002. *The Lord of the Rings: The Two Towers* and *Spider-Man* are the current blockbusters. CDs still dominate the music industry, DVD sales are surging, and Kelly Clarkson becomes the first American Idol.

In sports, Tom Brady wins his first Super Bowl against the St. Louis Rams, Michael Jordan is playing. . .for the Washington Wizards, and Serena Williams and Tiger Woods both win multiple majors.

Meanwhile, the technology-led dot-com bust is beginning to bottom, oil trades in the $20–30 range, federal debt stands at $6.2 trillion, and Amazon's viability is still in question.

While things are obviously very different today, one thing isn't: 2002 was the last time the U.S. 10-year Treasury yield reached the levels it recently breached.

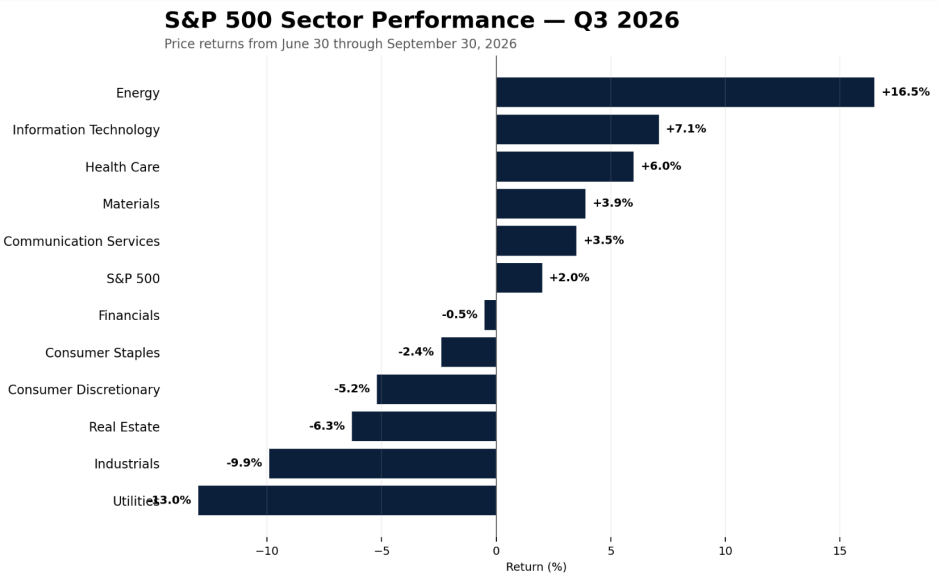
However, in 2002 rates were trending lower, supported by globalization, relatively modest fiscal deficits, and inexpensive energy. Today, many of those forces have reversed: reshoring manufacturing, large fiscal deficits, and higher energy prices are pushing rates *upward*.




Source: Bloomberg

**That tension came into sharp focus during the third quarter as long-term interest rates moved decisively higher, representing one of the largest quarterly increases in a generation.**

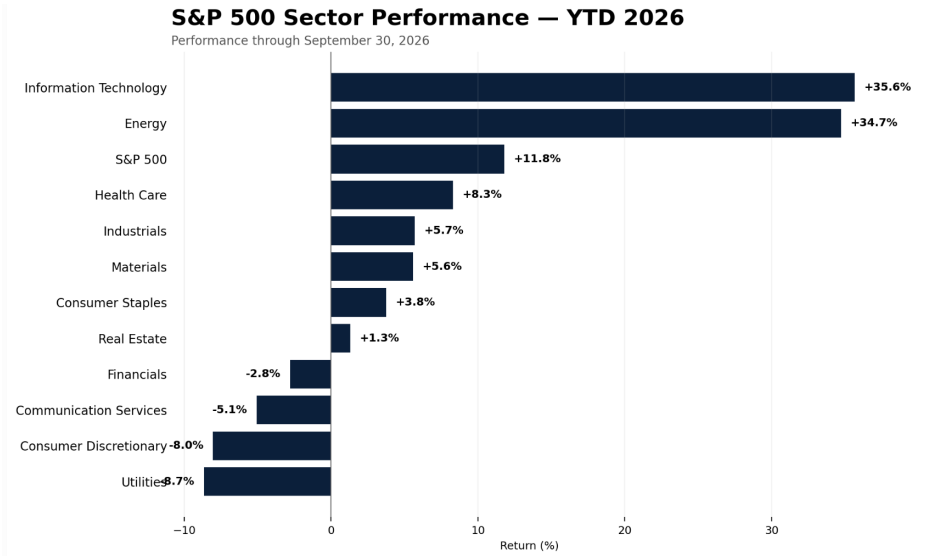
Despite this rise, equity markets surprisingly proved to be resilient with the S&P 500 gaining roughly 2% on a price basis despite significant volatility beneath the surface.[iii]




Source: Bloomberg

This said, higher rates disproportionately affected interest-rate-sensitive sectors such as utilities (-13.0%) and industrials (-9.9%). Energy was the upside outlier at +16.5%, helped by higher oil prices, while information technology (+7.1%) continued to benefit from the data-center buildout.

Year to date, the dispersion is even more striking. Information technology and energy have dramatically outperformed the rest of the market (both returning approximately 35%). In fact, if the S&P 500 itself were treated as a sector, its return would rank third, behind only those two sectors.




Source: Bloomberg

Understandably, the magnitude of the move in interest rates attracted attention and concern. Yet, when viewed through a historical lens, today's rates are less remarkable than they appear. In fact, the story really isn't where rates are today, but rather where they *have been*.

Following the Global Financial Crisis, investors operated in an environment of extraordinarily low interest rates, largely due to the Federal Reserve holding short-term rates near zero, while the 10-year Treasury spent much of the 2010s below 3% (and briefly fell below 1% in 2020).

**Historical Interest Rates (1960 – 2026)**




Source: Clearnomics

*Latest data point is Oct 2, 2026*

The trouble is that this experience conditioned an entire generation of investors, homeowners, businesses, and governments to think of incredibly low borrowing costs as normal. In doing so, they grew accustomed to cheap financing.

This matters because interest rates are effectively the price of money and, when that price rises as quickly as it has, the effects ripple through nearly every part of the economy. Nowhere has that been more apparent than housing.

The average 30-year fixed mortgage rate moved above 7% during September, compared with rates below 3% only five years ago. Consider a family purchasing a $1 million home with an $800,000 mortgage. At 3%, monthly principal and interest is approximately $3,400. At 7%, that same mortgage costs approximately $5,300 per month.

**30-Year Fixed-Rate Mortgage Rates (1990 – 2026)**




Source: Clearnomics

*Latest data point is Oct 1, 2026*

The house did not change, and neither did the amount borrowed. *But the monthly cost increased by nearly $2,000.*

That math helps explain why housing affordability has deteriorated so significantly and transaction activity has remained so constrained. Existing homeowners locked into historically low mortgage rates have little incentive to move, while prospective buyers face substantially higher financing costs.

The same dynamic is affecting commercial real estate and corporations. Properties financed at lower rates must increasingly refinance at higher costs, while companies that spent the previous decade issuing inexpensive debt face quite a different calculation as that debt matures. Investments that made sense when capital cost 2% or 3% may look considerably less attractive at 6% or 7%.

The question is, why have long-term rates risen so dramatically?

Largely because three forces are colliding:

- **Inflation** – Remains stubbornly high, in part due to higher energy prices and other persistent cost pressures.
- **Economic Resilience** – The economy continues to expand, which has supported borrowing demand and capital expenditures.
- **Outsized Government Deficits** – This has required substantial Treasury issuance at a time when investors are increasingly sensitive to inflation and fiscal uncertainty.

Together, these forces are putting upward pressure on the compensation investors demand to lend money for 5, 10, 20, or 30 years. Larger deficits require more borrowing, and when Treasury supply increases without a corresponding increase in demand, yields rise to attract investors.

But that is only the negative side of higher rates. There is also a positive: for every borrower paying interest, someone else is receiving it.

Consider what was historically required to generate a 7.5% portfolio return. Thirty years ago, an investor could theoretically achieve that objective largely by investing in high-quality bonds. Ten years later, bonds could represent just half the portfolio, with the remainder requiring greater exposure to global equities, real estate, and other risk assets. By the era of zero interest rates, bonds had become almost an afterthought for an investor targeting the 7.5% return.




Source: Wall Street Journal / Callan[iv]

Wall Street eventually gave the phenomenon a name: TINA—**T**here **I**s **N**o **A**lternative. Meaning, there is no alternative to *equity assets.*

**Today, there *are* alternatives.**

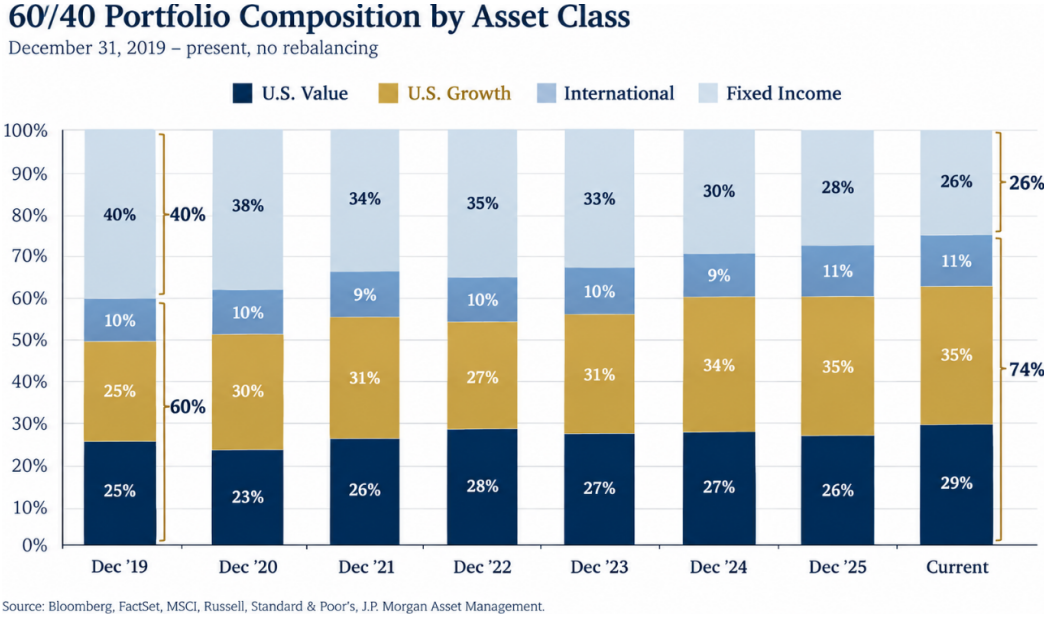
For the first time in many years, investors can earn meaningful income from cash, Treasury securities, municipal bonds, and high-quality corporate bonds without assuming the same degree of equity, credit, liquidity, or duration risk required during the zero-interest-rate era. This represents an important change in portfolio construction.

As we wrote in our memo a few weeks ago, higher yields also create something investors had little of during the previous decade: optionality.

Capital that is earning 4%, 5%, or more while waiting for an attractive investment opportunity is vastly different from capital earning virtually nothing. Investors can afford to be patient as the hurdle rate for new investments is higher. Additionally, the opportunity cost of saying "no" has declined considerably.

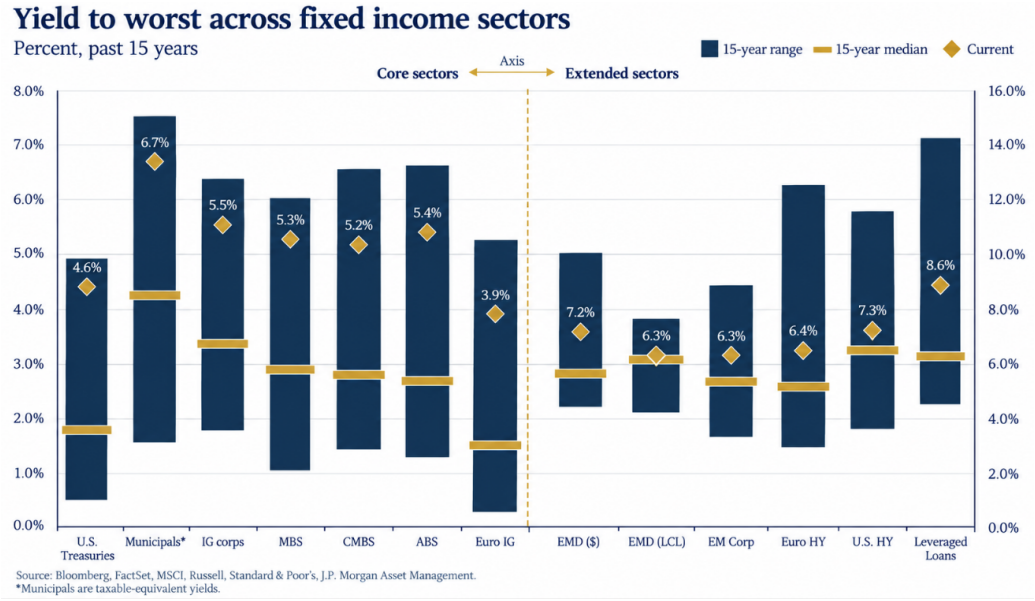
So, how are we thinking about portfolios as a result?

1. **Rebalancing capital to fixed income**
   Given the strong performance of equities and historically weak performance of fixed income since 2019, a traditional "60/40" portfolio that was not rebalanced would have drifted substantially toward equities. In fact, such a portfolio could now have an equity allocation approaching 74%, depending on its starting date and underlying investments. Today, we believe it is prudent to move portfolios closer to their intended targets.




Source: J.P. Morgan Guide to the Markets (September 30, 2026) [v]

Beyond risk management, from a return perspective, fixed-income yields sit near the high end of their 15-year ranges and well above their 15-year medians. Because starting yields have historically been one of the best predictors of a bond's subsequent long-term return, prospective fixed-income returns are considerably more attractive than they




Source: J.P. Morgan Guide to the Markets (September 30, 2026)

have been for most of the past 15 years.

2. **Adding inflation protection and real assets**

   While we don't pretend to know where inflation is headed, several inflationary forces remain, including large government deficits, significant AI-related capital spending, and resilient economic growth.

   At the same time, the extraordinary outperformance of growth-oriented equities over the past decade has left many portfolios with relatively little exposure to things like energy and other real assets. We believe selectively adding to these areas can provide inflation protection and additional diversification.

   Interestingly, despite energy's impressive performance over the past five years, its 10-year relative performance remains among the weakest of the major sectors — a reminder of how depressed the sector had become before its recent recovery.

3. **Being cautious about risk**

   The world has changed. The adjustment back toward an environment in which money has a meaningful cost will undoubtedly create periods of discomfort. When something becomes expensive very quickly, especially debt, things can break.

   As a result, today we favor a cautious approach over an aggressive one. As Howard Marks of Oaktree Capital is fond of saying, "We may never know where we're going, or when the tide will turn, but we had better have a good idea of where we are."

   We may not know where interest rates or the markets are headed next, but we certainly have a much clearer understanding of where we are today.

For the first time in years, investors are being compensated meaningfully to lend money. At the same time, higher borrowing costs are creating new challenges for businesses, consumers, and governments, while raising the hurdle rate for equities and other risk assets.

To us, this argues for a more balanced approach to portfolio construction, greater selectivity, and the patience to take advantage of opportunities as they emerge.

**The objective is not to predict what comes next. It is to build portfolios that are prepared for a wider range of outcomes.**

Sincerely,

Sargent Investment Group

## Important Considerations:

*Sargent Investment Group is a registered investment advisor. Market index information, where included, is presented to show relative market performance for the periods indicated. Market indices are not available for direct investment.*

*The contents, views and opinions of this document, including, without limitation, any forward-looking statements, simply reflect the opinions and views of the authors as of the date hereof, are subject to change without notice and are not intended to be relied upon as investment advice or a recommendation to buy or sell securities. Forward-looking statements (which could include, without limitation, forward, projected and/or target returns), are often characterized by words such as "believes," "anticipates," "plans," "expects," "projects," and other similar words, that indicate future possibilities. Due to known and unknown risks, other uncertainties and factors, please note that any such statements are not guarantees of any future performance. Actual results or developments may differ materially from those discussed and there is no guarantee that they will come to pass. All investments involve risk, including the loss of principal. While diversification can limit specific company or sector risk, it cannot protect investors from general market downturns or economic crises where independent asset movements (or asset class movements) may break down and in other instances, it may cap potential portfolio upside.*

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

*This document contains information derived from third party sources and AI may have been used in the compilation of information. Although we believe these third-party sources to be reliable, we make no representations as to the accuracy or completeness of any information derived from such third-party sources. SIG has reviewed and edited AI generated content but note that AI tools may produce inaccurate or biased content*

---

[i] Bloomberg. *U.S. 10 Year Treasury Rate*. 30 September 2026

[ii] S&P Dow Jones Indices. *Dashboard: U.S. Sector*. 30 September 2026.

[iii] Orion Advisor Solutions. *Benchmark Performance*. 30 September 2026.

[iv] Martin, Timothy. *Pension Funds Pile on Risk Just to Get a Reasonable Return*. 1 June 2016.

[v] J.P. Morgan Asset Management. *Guide to the Markets – U.S., 4Q 2026*. 30 September 2026.