

Third Quarter 2026 – Wealth Management Insights



Economic Overview

Steve Scranton, CFA, SVP, Economist

Even though the first official estimate of 3rd quarter Real Gross Domestic Product (GDP) will not be released until October 29, the supporting data that has been released shows an economy that continues to grow. Current forecasts range between 0.9% and 2.7% based on forecasts from economists surveyed by Bloomberg. The Atlanta Federal Reserve's real-time model is the outlier with a current forecast of 5.0%.

Despite the continued negative results from consumer sentiment surveys, the consumer continues to spend. The August Retail Sales data showed a strong increase of 1.2%. The Federal Reserve's regional survey (Beige Book) showed a continued "K-shaped" consumer spending pattern where high income earners continue spending while low income earners are becoming more price sensitive and selective.

Business spending was a powerful contributor to growth as well. It is not just data center building. The Beige Book showed strength in manufacturing, defense-related orders, data centers and commercial construction. Businesses are also spending on software and hardware to improve productivity as labor supply remains an issue.

Hiring remains positive but not booming. Many economists have highlighted that deportation of working undocumented immigrants has depleted the labor force, and the current tight restriction on new immigration is limiting a traditional source of labor. A consequence of this dynamic is a decline in Labor Force Participation rate from 62.3% in July to 61.6% in August.

Fiscal policy provided a tailwind to economic growth but also generated crosscurrents that are buffeting the economy. The fiscal stimulus from the One Big Beautiful Bill Act continues to flow into the economy to provide the tailwind, while trade policy continues to buffet businesses and consumers with uncertainty and higher costs.

The lack of progress on inflation caused a change in monetary policy in the 3rd quarter. With the potential for a rebound in the inflation rate due to the current trade dispute with Canada and ongoing price pressures from the war with Iran, the Federal Reserve raised the overnight borrowing rate by 0.25% at its September meeting. More importantly, bond investors have driven long-term borrowing costs higher over a variety of concerns, including – but not limited to – inflation concerns, lack of progress on the growing debt level of the US, and competition with international bond rates.

In summary, 3rd quarter activity remained positive despite the uncertainty of fiscal policy and higher borrowing costs from monetary policy. The important point to continue to remember is that the growth has not been homogeneous and a "K-shaped" economy remains in place.

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Strategy Review

Derrick Wilson, CIMA®, VP, Portfolio Manager

The 3rd quarter brought a modest increase in market volatility, as several headwinds continued to influence investor sentiment. Ongoing conflict in the Middle East kept oil prices elevated, while renewed inflation concerns and the growing cost of financing the federal budget deficit pushed bond yields higher. Equity markets continued to advance overall, and a modest strengthening of the US dollar contributed to international markets lagging their US counterparts.

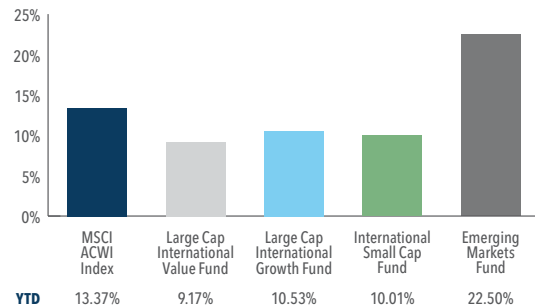
Global equities posted gains during the quarter. US stocks rose more than 2%, led once again by artificial intelligence-related companies and mega-cap technology firms as earnings growth remained strong. In contrast, US small-cap stocks declined more than 7%, pressured by higher borrowing costs. International equities finished slightly positive but underperformed US markets. Within international equities, developed markets generated positive returns, while emerging markets experienced modest declines.

Fixed income markets faced challenges as bond yields moved higher, reaching levels not seen in nearly two decades. Longer-duration bonds were affected most and consequently underperformed shorter maturities. Intermediate-term bonds declined 1.8% during the quarter, while short-term bonds were only slightly negative. The shortest maturities, those under one year, gained more than 0.8%. High-yield bonds fell 1.8% as credit spreads widened modestly, signaling increased concern about credit risk. Emerging market bonds experienced steeper losses, declining 3.8% for the quarter.

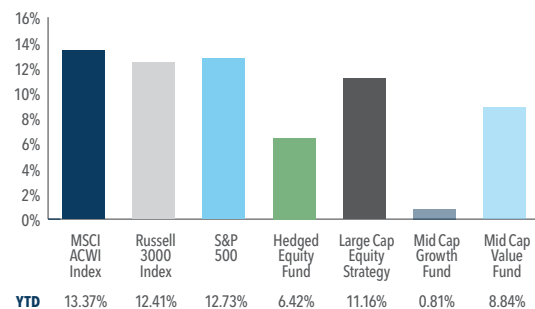
Within alternative assets, commodities were the strongest performer, with the broad basket gaining more than 16% during the quarter. Rising oil prices accounted for much of the return, although gains were broadly distributed across all commodity sectors. Real estate and global infrastructure declined as higher interest rates weighed on these interest rate sensitive assets. Global macro strategies gained just over 2%, benefiting from increased bond market volatility and their ability to position for rising rates. Managed futures strategies also performed well, gaining nearly 9% as stronger directional market trends supported trend-following approaches.

Overall, the quarter reinforced the importance of diversification and maintaining a disciplined investment approach during periods of heightened volatility. Although bonds have faced pressure from the recent rise in yields, higher yields also improve the outlook for future income generation and long-term return potential. Equity markets ultimately finished the quarter higher despite experiencing periods of weakness along the way. Meanwhile, alternative asset allocations helped offset some volatility and contributed an additional source of diversification across portfolios.

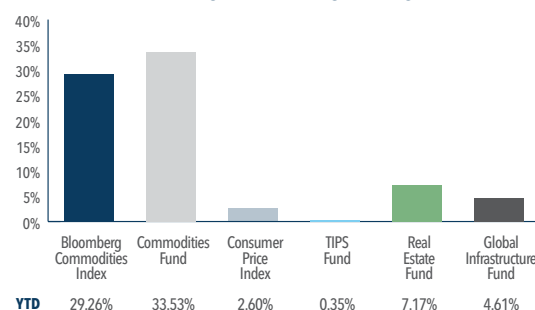
INTERNATIONAL DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



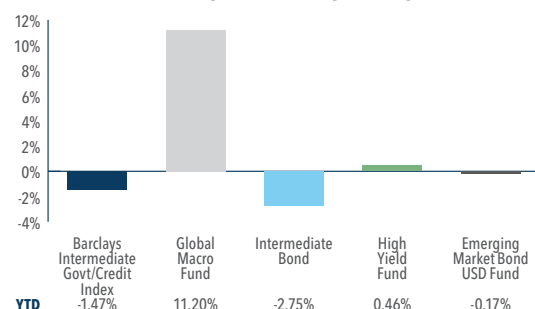
DOMESTIC DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



REAL RETURN (INFLATION PROTECTION) DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



INCOME DIVERSIFICATION YEAR-TO-DATE PERFORMANCE



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Domestic Equities

Allan Prins, CFA, Portfolio Manager

Despite the backdrop of higher bond yields, rising oil prices, and geopolitical uncertainty, US equities showed performance resilience at the index level in the 3rd quarter. Continued AI capital spending, solid economic growth, and robust earnings offset market headwinds, and helped both the Nasdaq Composite and S&P 500 Index touch all-time highs during the quarter and post quarterly gains of 2.6% and 2.3% respectively. The Dow Jones Industrial Average declined 2.3% and the Russell 2000 Index fell 7.2%. Beneath the surface, market breadth narrowed as the quarter progressed with a handful of mega-cap names acting as key performance drivers in the quarter.

Oil prices trended higher in the 3rd quarter as renewed military activity in the Middle East pushed West Texas Intermediate (WTI) crude above \$100/barrel; WTI ended the quarter above \$90/barrel. Elevated oil prices, robust AI capital spending, and steady economic growth intensified inflation concerns and lifted market expectations for tighter Federal Reserve policy ahead. Against a persistently sticky inflation backdrop, the Federal Reserve (Fed) increased the federal funds rate at its September meeting for the first time since 2023. After lifting its median interest rate projections higher, the Fed's hawkish stance left markets pricing in at least one additional increase before year end. These items, in conjunction with fiscal debt concerns and the flood of corporate debt issuance, pushed bond yields notably higher over the quarter, with the 10-year US Treasury yield reaching 5.3% by the end of September.

In the face of a meaningfully higher move in Treasury yields, major US indices were relatively resilient in the 3rd quarter. Beneath the surface, however, volatility was more pronounced and rate-sensitive areas experienced some pressure. Small-cap stocks lagged as their greater reliance on debt financing made them more vulnerable to higher borrowing costs. Utilities and Industrials were the S&P 500's worst-performing sectors, declining 12.4% and 9.7%, respectively. Utility's dividend yields became less competitive as Treasury yields rose, while higher financing costs pressured capital-intensive utility and industrial companies. Industrials also faced some cooling momentum in the AI infrastructure trade in addition to margin pressure concerns, an issue that weighed on performance within the Consumer Discretionary and Consumer Staples sectors as well.

Energy and Information Technology led sector performance, gaining 17.2% and 7.2% respectively. Energy benefited from higher oil prices, while Information Technology was supported by double-digit returns from Microsoft, Nvidia, and Apple. Momentum in agentic AI also drove robust quarterly gains in companies such as Meta Platforms. The mega-cap technology cohort was a primary source of US market resilience during the quarter.

Higher bond yields have yet to materially weaken the US economy, but elevated borrowing and input costs could meaningfully pressure margins and weigh on the demand backdrop. For now, resilient earnings continue to support equities. Valuations have moderated: the S&P 500's next-twelve-month price-to-earnings ratio ended the quarter just above 19.0x, below both its five- and 10-year averages. Third quarter earnings season, Fed policy, midterm elections, and geopolitical developments are some 4th quarter factors to watch.



Fixed Income

Callen Young, VP, Portfolio Manager

The dominant story of the 3rd quarter of 2026 was the relentless selloff in US Treasuries, particularly at the long end of the curve. Yields rose sharply across benchmark maturities as investors confronted persistent inflation, heavy federal borrowing, and expectations for tighter monetary policy.

The quarter opened on a somewhat constructive note. A soft June CPI report briefly disrupted rate-hike expectations in mid-July, pushing the 2-year yield below 4.2%. By mid-August, however, the 30-year Treasury yield had surged to 5.3%, its highest level since 2007, driven by above-target inflation, rising federal spending, and a flood of long-dated supply. The Treasury Department's August debt issuance guidance indicated that coupon auction sizes would remain unchanged for "at least the next several quarters," increasing its reliance on bill issuance.

September brought further turbulence. Spiking oil prices intensified inflation concerns, while disappointment over the size of a Treasury buyback sent the 2-year yield higher by the most since the April 2025 tariff rollout. Fed Chair Kevin Warsh's policy stance and other hawkish commentary, including Cleveland Fed President Beth Hammack's warning that "some number" of rate hikes might be needed, maintained upward pressure on yields. The Fed delivered its first rate hike since 2023 in September, and markets priced in an additional 80 basis points of tightening. By late September, the 30-year yield had reached 5.46%, its highest level since 2004, before ending the quarter at 5.63% – a level last seen in 2002.

Municipal bonds endured one of their worst quarters in decades as they followed Treasury yields sharply higher. July produced the worst monthly return since 2003, with the Bloomberg Municipal Bond Index falling approximately 1.72%. The decline reflected rising benchmark yields and record new issuance, with first-half supply already at \$295 billion, the highest level in a decade. Conditions deteriorated further in September. The ratio of benchmark 10-year municipal yields to comparable Treasury yields began the quarter at a relatively rich 65%, versus a five-year average of 71%. By late September, the 10-year municipal yield had climbed to 3.87%, its highest level since at least 2011, and the month was on track to produce the worst municipal bond returns since 1987. Selling pressure peaked on September 24, when investment managers put \$3.4 billion of bonds out for bid, the most since the onset of the pandemic in 2020. The quarter ended with a sharp reversal on September 30, when 10-year municipal yields fell 11 basis points in the largest one-day rally in more than a year as opportunistic buyers moved to capture historically elevated yields.

Investment-grade corporate bonds held up relatively well through most of the quarter. Credit spreads on the Bloomberg US Investment Grade Corporate Bond Index remained within a range of 76 to 82 basis points, even as underlying Treasury yields surged. Corporate issuance was also exceptionally heavy. Investment-grade supply reached \$1.6 trillion year to date through August, up 35% from the prior year, led by financing for artificial intelligence-related capital expenditures and merger and acquisition activity. Notable transactions included Alphabet's \$25 billion offering in August and Paramount's \$30 billion, eight-part deal on September 30. By quarter-end, the sector's yield to worst had climbed to approximately 5.95%, reflecting the full effect of the Treasury selloff even as credit spreads remained broadly disciplined.

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International

Matthew Clarke, CIMA*, VP, Senior Client Portfolio Manager

After a strong first half of the year, the international markets lost momentum in the 3rd quarter. Much of the year's advance remained intact, but the 3rd quarter brought a more challenging backdrop as renewed Middle East tensions lifted energy prices, central banks raised interest rates, and investors reassessed the rally in technology.

Developed international stocks finished the quarter with muted gains. The MSCI Europe, Australasia, and Far East (EAFE) Index returned 0.91%, leaving year-to-date gains close to 11%. Japan's Nikkei 225 declined 0.87% in the 3rd quarter, giving back a small portion of its substantial second-quarter advance. European stocks also weakened, with the STOXX Europe 600 falling 1.3% for the quarter as rising bond yields and energy costs weighed on sentiment. **The United Kingdom's FTSE 100 gained just over 1% and held up better than continental Europe,** helped by its exposure to energy and financial companies.

Emerging markets retained strong year-to-date gains despite a modest third-quarter decline. The MSCI Emerging Markets Index slipped approximately 0.4% in the 3rd quarter but remained up more than 23% through September. A July semiconductor selloff interrupted the rally that had powered technology-heavy markets earlier in the year. Continued AI spending supported parts of Asia later in the quarter but did not produce another broad advance. China was among the markets that struggled in September with the Shanghai Composite declining 4.2%.

Global bonds struggled in the 3rd quarter as rising yields drove prices lower, sending the Bloomberg Global Aggregate ex-U.S. Index lower by 1.79%. **The Federal Reserve, European Central Bank, and Bank of Japan raised interest rates in September** as inflation concerns intensified. Government borrowing and debt issuance to finance AI infrastructure added pressure. Longer-maturity government bonds were particularly vulnerable, while high yield bonds held up better than investment-grade credit over the quarter. Emerging market dollar-denominated bonds also suffered in September as US Treasury yields climbed.

The remainder of 2026 will test whether earnings strength can continue to outweigh higher financing costs and geopolitical uncertainty. Continued AI investment and improving business activity offer reasons for optimism, while higher bond yields create more attractive income opportunities. However, prolonged energy disruptions, further rate increases, and shifting trade policies could challenge that progress. **Diversification and discipline remain important as both opportunities and risks vary considerably across countries and industries.**

Additional and expanded information to this newsletter discussion may be obtained by contacting your relationship manager. We will be happy to expand our discussion with you to meet your individual requirements as a client of Wealth Management & Advisory Services.

Contact our advisors:

WESTERN WASHINGTON

• Seattle

601 Union St., Suite 3100
Seattle, WA 98101
206.667.8954
888.254.0622

• Bellevue

10500 NE 8th St., Suite 1100
Bellevue, WA 98004
425.467.1781
888.445.7166

• Spokane

717 W Sprague Ave., Suite 900
Spokane, WA 99201
509.353.3898
800.725.4449

• Portland

760 SW Ninth Ave., Suite 1900
Portland, OR 97205
503.778.7060

• Southern Idaho / Boise

945 W Bannock St.
Boise, ID 83702
208.345.3343

• North Idaho

218 Lakeside Ave.
Coeur d'Alene, ID 83814
208.667.7993

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