

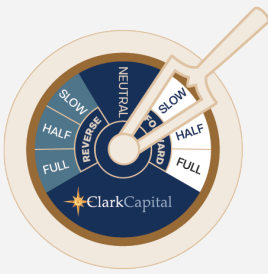


3<sup>rd</sup> Quarter 2026

# Guide to the Gauges

*Quarterly Economic and Capital Market Review*

Navigate Your Future. Enjoy the Journey.



ECONOMY



MONETARY POLICY



VALUATIONS



INVESTOR SENTIMENT



INTEREST RATES

# Guide to the Gauges

## Our Latest Assessment of Key Economic Indicators

We believe that over the long term, stock prices are driven by two things: earnings and what people are willing to pay for those earnings. These five gauges reflect our outlook for the factors that we believe drive stock prices.

Each gauge is comprised of a number of individual indicators, which the Investment Team evaluates on an ongoing basis to determine if the gauge is neutral, positive, or negative.

### Third Quarter Summary

We held the Economy gauge in the Slow Forward position. Despite headwinds from higher energy prices due to the conflict in the Middle East, the economy grew at a pace of 2.2% in Q2. The unemployment rate has been holding steady at 4.2% with layoffs and discharges little changed on a monthly basis. U.S. manufacturing has turned a corner with the ISM Manufacturing PMI posting nine straight monthly readings above 50. Inflation continues to be above the Fed's 2% stated goal.

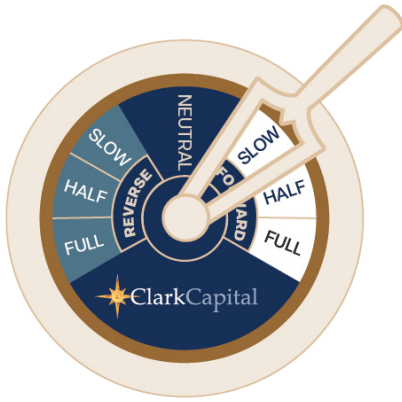
We moved the Monetary Policy gauge to the Slow Reverse position. At the September FOMC meeting, the Federal Reserve raised the federal funds rate by a quarter point, the first hike since July of 2023. Fed Chair Kevin Warsh described the move as removing "a dose of accommodation" but declined to signal whether more hikes would follow.

We held the Valuations gauge in the Neutral position. While the S&P 500 and other indexes are at or near new highs, earnings estimates for this year and 2027 have also been raised to new highs keeping valuations reasonable, in our view. All eleven S&P 500 sectors are projected to report year-over-year earnings and revenue growth in 2026. Valuations for small caps, mid caps, and international stocks remain at a discount to the S&P 500.

We moved the Investor Sentiment gauge to the Slow Forward position. In September, the All Investor Sentiment survey continued to have a bearish bias despite most major indexes trading at or near records. Other sentiment indicators, such as CNN's Fear & Greed Index, have moved closer to neutral. Enthusiasm around IPOs has waned with no major offering since several high-profile names debuted in June and July. The CBOE Volatility Index (VIX) has been relatively subdued, trading most of the quarter below 20.

We moved the Interest Rate gauge to the Slow Reverse position. Interest rates have moved higher across the yield curve since the start of 2026 as the Federal Reserve appears poised to continue to raise interest rates, and inflation expectations, hyperscaler bond issuance, and rising global yields have also weighed on the long end of the curve. High yield spreads, while historically tight, began to widen during the month of September. Investment grade credit spreads widened only modestly during the month.

*The gauges reflect the firm's market expectations and anticipated strategy impacts based on certain economic conditions and industry trends. These projections are subject to change without notice.*



# Economy

## No change in position

This quarter, we hold the Economy gauge in the Slow Forward position. The U.S. economy posted GDP growth above 2% during the first half of 2026. We acknowledge that there are risks to the economic outlook due to the ongoing conflict in the Middle East, but a recession occurring in the next 12 months is not our base case.

## KEY TAKEAWAYS

**GDP** — The third and final estimate of Q2 GDP came in at 2.2%, an increase from the prior estimate of 1.5%. The Atlanta Fed's GDPNow is forecasting 3.6% for Q3 GDP. Our forecast for GDP in 2026 is 2.5% down from 3.0%.

**Labor Market** — The unemployment rate increased by 0.1% to 4.2% in September on the heels of a softer jobs report. Nonfarm Payrolls increased by 29K, well below the estimate of 90K. Job openings fell in August to 7.1M compared to July's revised reading of 7.3M.

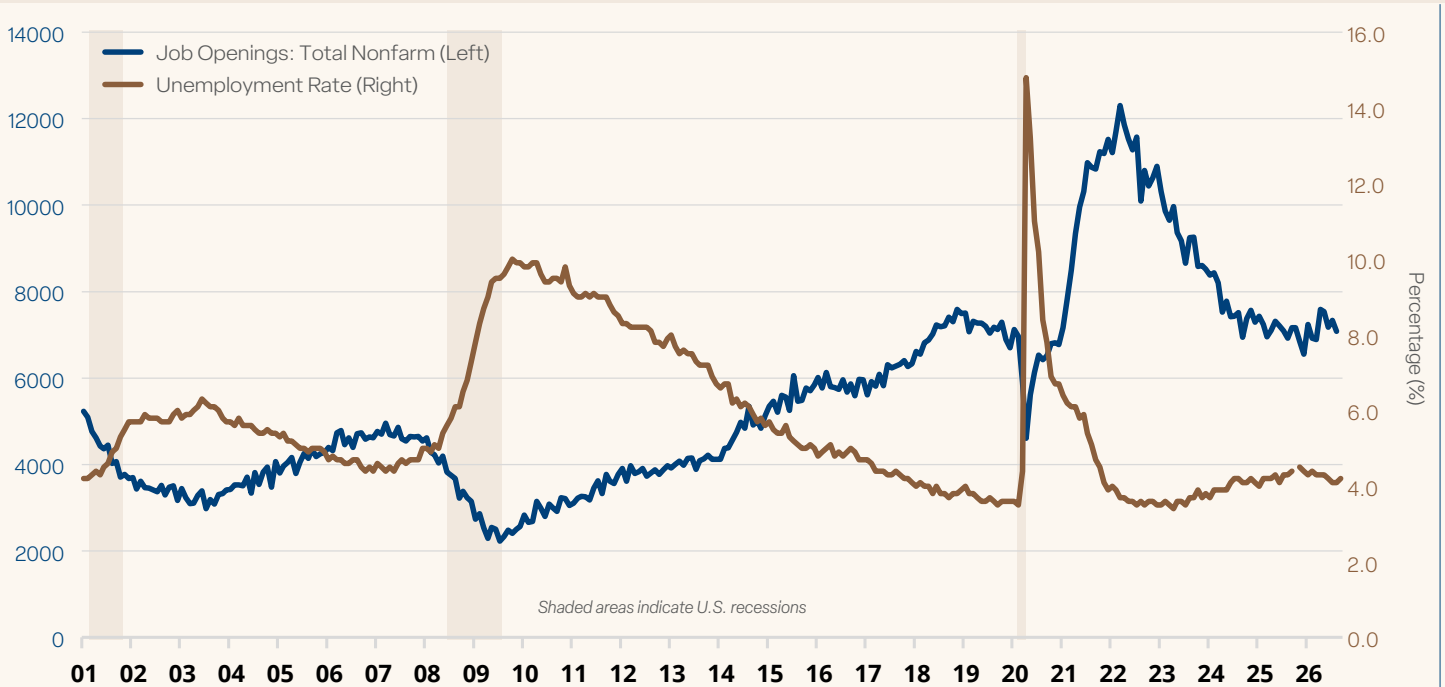
**Inflation** — Headline CPI for August came in at 3.4%, up from July's reading of 3.3%. Headline PPI for August rose to 5.4%, compared to July's reading of 4.8%. The Fed's preferred measure of inflation, Core PCE, for August came in at 3.0%, matching July's revised reading.

## Jobs Market

The U.S. labor market continues to be in a “low hire/low fire” environment.

### Job Openings vs. Unemployment Rate

1/1/2000 to 8/31/2026



Sources: U.S. Bureau of Labor Statistics, fred.stlouisfed.org

For illustrative purposes only. Past performance is not indicative of future results.



# Monetary Policy

## Moved one notch to the left

This quarter, we moved the Monetary Policy gauge to the Slow Reverse position. Given inflationary impacts from a surge in energy prices, the Federal Reserve has begun to raise interest rates.

## KEY TAKEAWAYS

**Interest Rate Policy** — At the September FOMC meeting, the Federal Reserve raised the federal funds rate by 0.25% to a range of 3.75%–4.00%, the first hike since July 2023. The vote was unanimous at 12-0.

**Fed Funds Futures** — Fed funds futures are pricing in no change in rates at the October 28 meeting and a 0.25% increase at the December 9 meeting as the most likely scenarios. Looking out to 2027, Fed funds futures are pricing in two more rate increases with the fed funds rate reaching a range of 4.5%–4.75%.

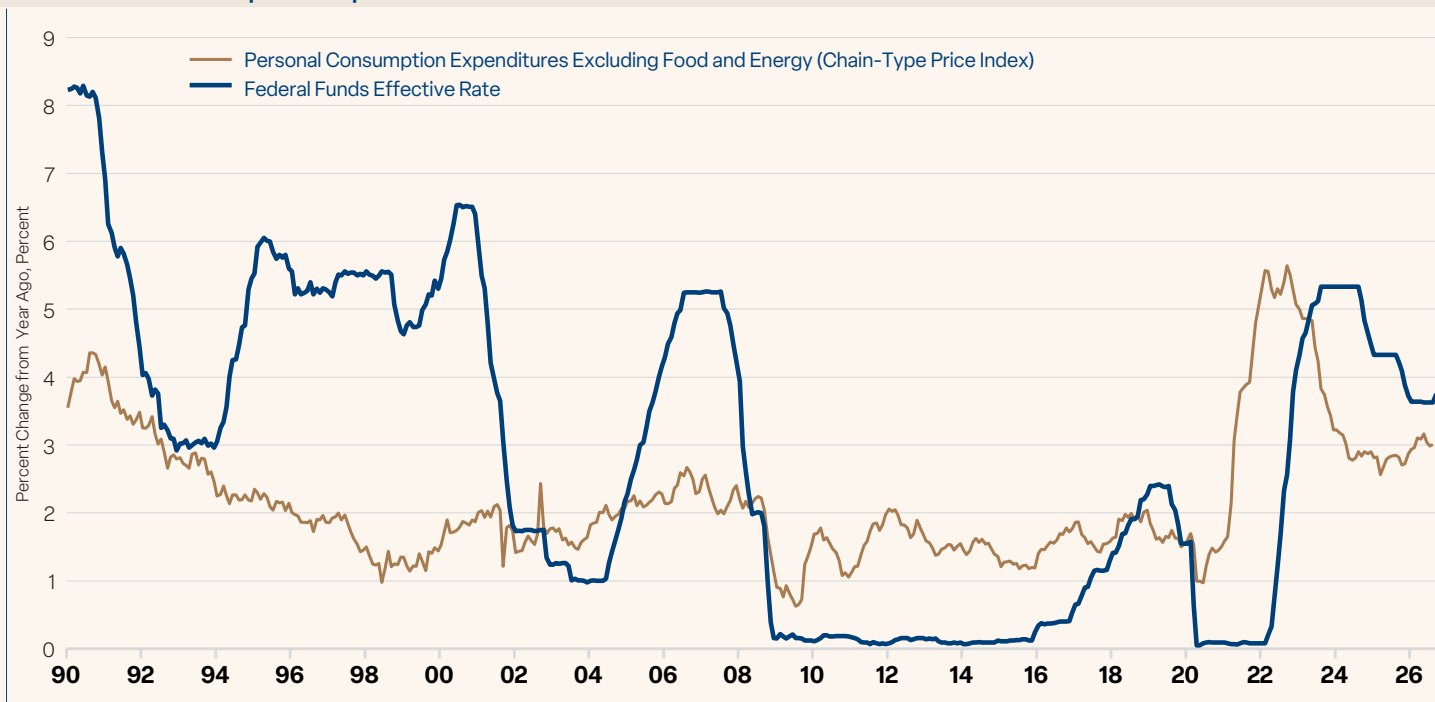
**New Fed Chair** — At his September press conference, Fed Chair Kevin Warsh said the quarter-point rate increase was warranted because the economy and labor market remained strong while inflation was still too high. He described the move as removing “a dose of accommodation” but declined to signal whether more hikes would follow.

## Inflation

Core PCE, the Fed’s preferred measure of inflation, has remained above their target of 2% for the past 66 months.

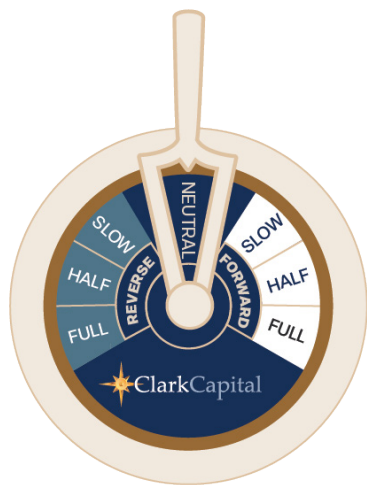
## Personal Consumption Expenditures vs. Federal Funds Effective Rate

1/1/1990 to 9/1/2026



Source: FRED

For illustrative purposes only. Projections or other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially.



# Valuations

## No change in position

This quarter, we held the Valuations gauge in the Neutral position. While most major indexes ended the quarter near record levels, earnings growth has outpaced market gains keeping valuations reasonable in our opinion.

## KEY TAKEAWAYS

**P/E Multiples** — While the S&P 500 and other indexes are at or near new highs, earnings estimates for this year and 2027 have also been raised to new highs keeping valuations reasonable, in our view. In fact, earnings have risen faster than stock prices, which has led the P/E ratio to contract.

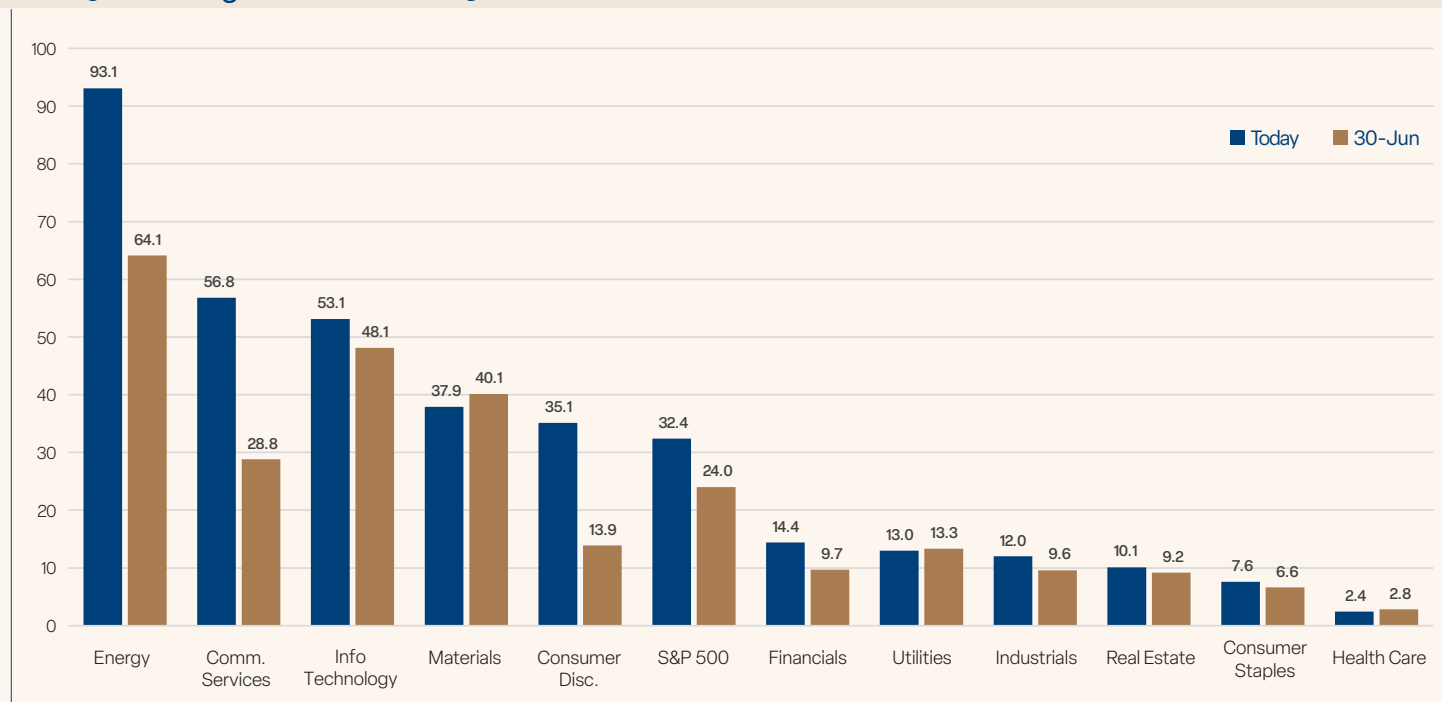
**Earnings** — Analysts are currently forecasting ~32% EPS growth in 2026 and ~16% growth in 2027. Both would represent record S&P 500 earnings. We acknowledge that these estimates could potentially be impacted by the conflict in the Middle East, tariffs, a slow down in AI spending, and other factors.

### Earnings Estimates

All eleven S&P 500 sectors are projected to report year-over-year earnings growth in 2026, led by Energy, Communication Services, and Information Technology.

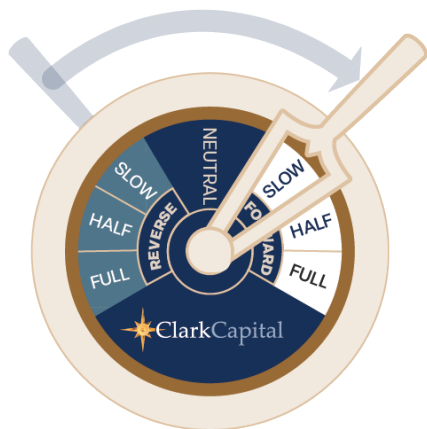
### S&P 500 Earnings Growth (Y/Y): Q3 2026

As of 9/30/2026



Source: FactSet

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# Investor Sentiment

## Moved two notches to the right

This quarter, we moved the Investor Sentiment gauge to the Slow Forward position. The more fear and pessimism among investors, the more positive for stocks, and vice versa. This gauge is sensitive and can change quickly.

## KEY TAKEAWAYS

**Sentiment Surveys** — In September, the AAI Investor Sentiment survey continued to have a bearish bias despite most major indexes trading at or near records. Other sentiment indicators, such as CNN's Fear & Greed Index, have moved closer to neutral.

**IPOs and Margin Debt** — Enthusiasm around IPOs has waned with no major offerings since several high-profile names debuted in June and July. FINRA margin debt rose slightly to \$1.45T in August but is down from a record \$1.5T in June.

**CBOE Volatility Index** — After spiking above 30 at the outbreak of the war in the Middle East, the VIX has been relatively subdued. The VIX has remained below 20 for the last two months and was little changed in September, closing the month at 16.34.

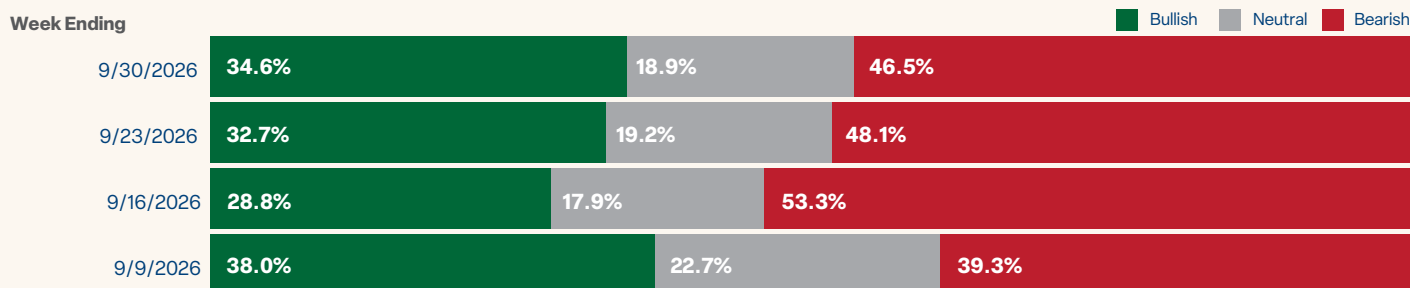
### AAII Survey

Since its inception in 1987, the AAI Investor Sentiment survey has been a widely followed contrarian indicator.

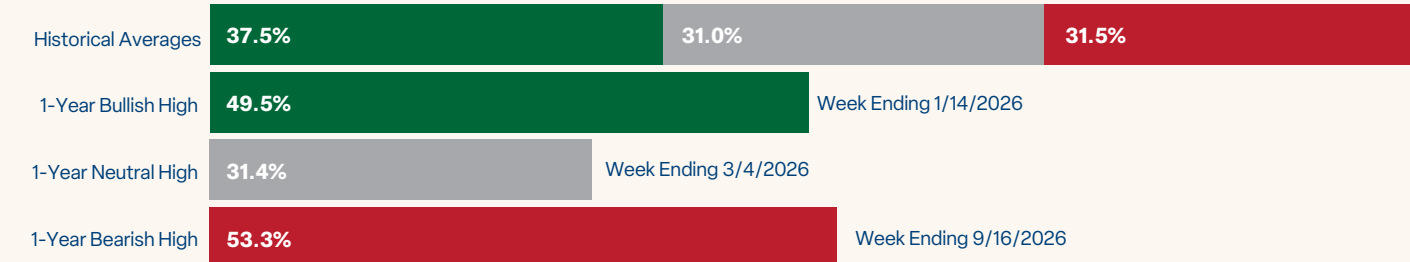
### What Direction Do AAI Members Feel The Stock Market Will Be in the Next Six Months?

As of 9/30/2026

#### Sentiment Votes



#### Historical View



Source: American Association of Individual Investors

For illustrative purposes only. Past performance is not indicative of future results.



# Interest Rates

## Moved two notches to the left

This quarter, we moved the Interest Rates gauge to the Slow Reverse position. While rates have risen sharply since the beginning of the year, they have not presented much of a headwind to equity markets.

## KEY TAKEAWAYS

**Change in Yields** — Interest rates have moved higher across the yield curve since the start of 2026 as the Federal Reserve appears poised to continue to raise interest rates and inflation expectations have increased due to rising energy prices.

**Credit Spreads** — High yield spreads, while historically tight, began to widen during the month of September. Investment grade credit spreads widened only modestly during the month.

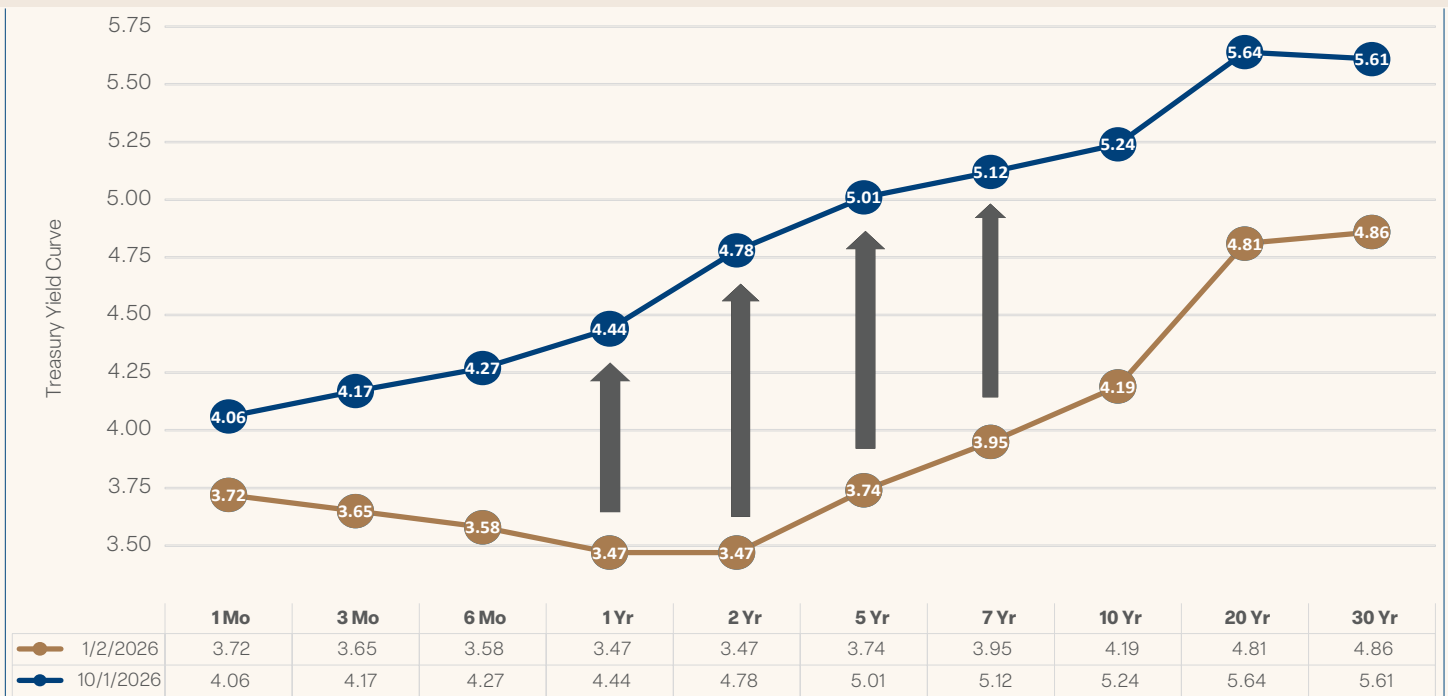
**Interest Rate Volatility** —The ICE BofAML MOVE Index closed the month of August at 75.32 and surged to 110.45 by the end of September as Treasury yields rose sharply.

### Yield Curve

Treasury yields have surged to levels not seen since the early 2000s in many parts of the yield curve presenting an attractive opportunity for fixed income investors in our opinion.

### U.S. Treasuries Yield Curve

As of 10/1/2026



Source: [www.ustreasuryyieldcurve.com](http://www.ustreasuryyieldcurve.com)

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The "Economic Gauges" represent the firm's expectations for the market, and how changes in the market will affect the strategy, but are only projections which assume certain economic conditions and industry developments and are subject to change without notice.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

The 3 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 3 months.

The 10 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 10 months.

The MOVE Index measures U.S. interest rate volatility. The index tracks the movement in U.S. Treasury yield volatility implied by current prices of 1-month OTC options.

Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share.

GDPNow is a forecasting model that provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis.

Core PCE, or Core Personal Consumption Expenditures, is a measure of inflation that excludes food and energy prices. It represents the prices of goods and services purchased by consumers, but with the most volatile components (food and energy) removed to provide a clearer picture of underlying inflation trends. The Federal Reserve uses Core PCE as a key indicator when making monetary policy decisions.

The Fear & Greed Index is used to gauge the mood of the market. Many investors are emotional and reactionary, and fear and greed sentiment indicators can alert investors to their own emotions and biases that can influence their decisions. When combined with fundamentals and other analytical tools, the Index can be a helpful way to assess market sentiment.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

VIX of VIX (or VVIX) is a measure of the volatility of the Chicago Board Options Exchange (CBOE) Volatility Index (VIX). The CBOE's VIX measures the short-term volatility of the S&P 500 indexes, and the VVIX measures the volatility of the price of the VIX. In other words, VVIX is a measure of the volatility of the S&P 500 index and alludes to how quickly market sentiment changes.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

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