

Capital Markets Review | 3rd Quarter 2026

September 30, 2026



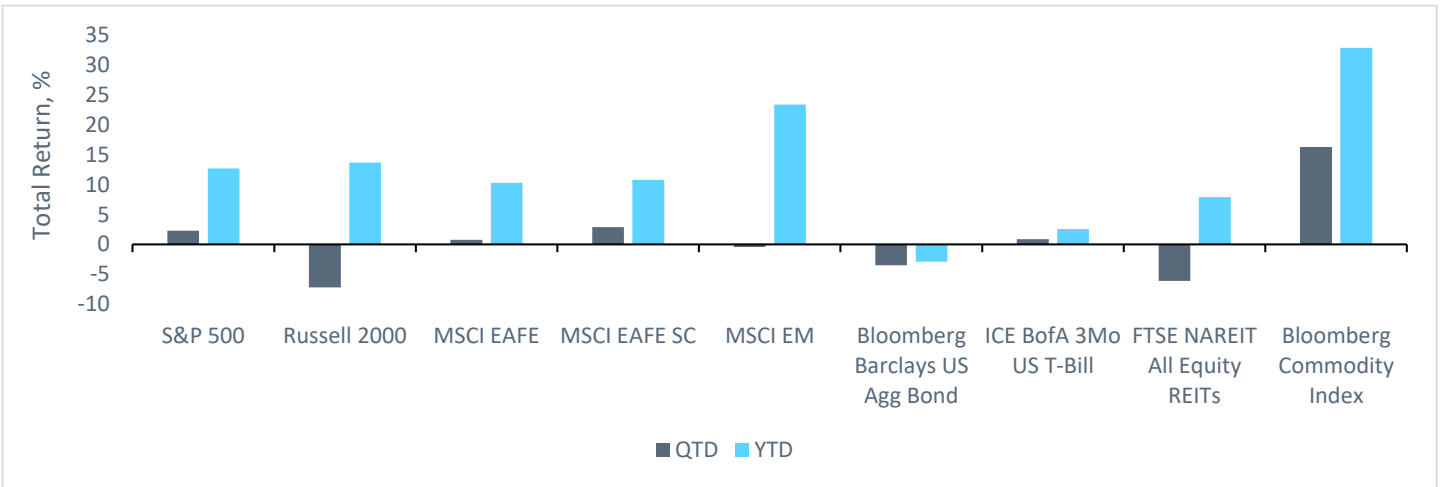
Overview

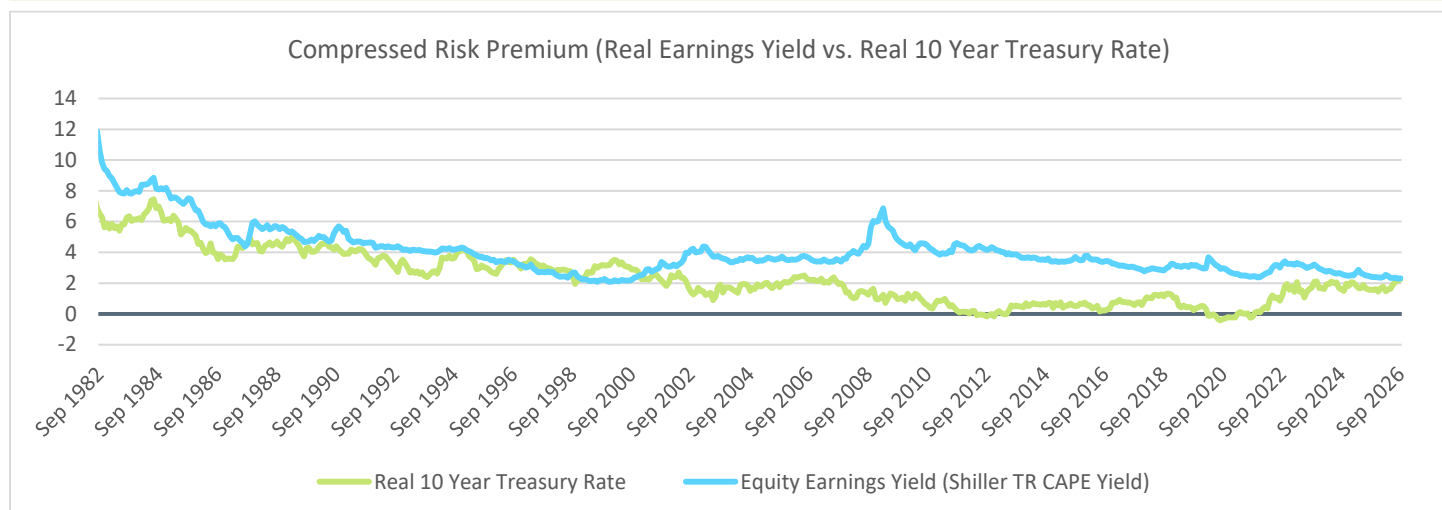
The third quarter of 2026 was characterized by tension between economic growth resiliency and persistent inflationary pressures. US equities posted modest gains, though performance beneath the surface was far more volatile, as securities related to artificial intelligence (AI) and semiconductors dropped abruptly in July. Treasury yields climbed sharply, particularly later in the quarter, with the 10-year Treasury yield moving above 5%, creating headwinds for duration-sensitive assets. However, credit markets remained relatively resilient despite tighter financial conditions, supported by solid corporate fundamentals and continued earnings growth. Given the rising yields in fixed income, investors are debating how to approach the shrinking equity risk premium. As shown in the exhibit on the following page, the spread between the real earnings yield and 10-year Treasury rate has compressed in recent months.

The macroeconomic backdrop remained broadly stable despite higher energy prices, rising borrowing costs, and persistent geopolitical uncertainty. Business surveys improved across several major economies, labor markets generally remained stable, and corporate profitability exceeded expectations in many sectors. However, inflation concerns resurfaced as oil prices exceeded \$100 per barrel before some incremental retracement. Generally, the combination of robust private-sector balance sheets, expanding AI-related capital expenditures, and fiscal spending are viewed as supportive of global growth. On the other hand, higher energy costs and tighter monetary policy are viewed as potential headwinds for economic activity heading into 2027, especially in regions that are more vulnerable to energy inflation.

In the US, policymakers shifted toward a more hawkish stance with core inflation remaining above target at 2.6% year-over-year in September. After holding rates steady for much of the year, the Federal Reserve raised its policy rate by 25 basis points in September, its first increase since 2023—and signaled that additional tightening may be required. Other than inflation, economic data remained broadly solid throughout the third quarter. Employment conditions remained healthy, though the unemployment rate increased slightly from August to September to 4.2%. Economic growth forecasts improved as second-quarter GDP was revised higher from an initial estimate of 1.5% up to 2.2%. Fiscal policy also remained supportive, with continued public spending and sizeable Treasury issuance contributing to upward pressure on longer-term yields. *(continued on next page)*

Quarter-to-Date (QTD) and Year-to-Date (YTD) Performance

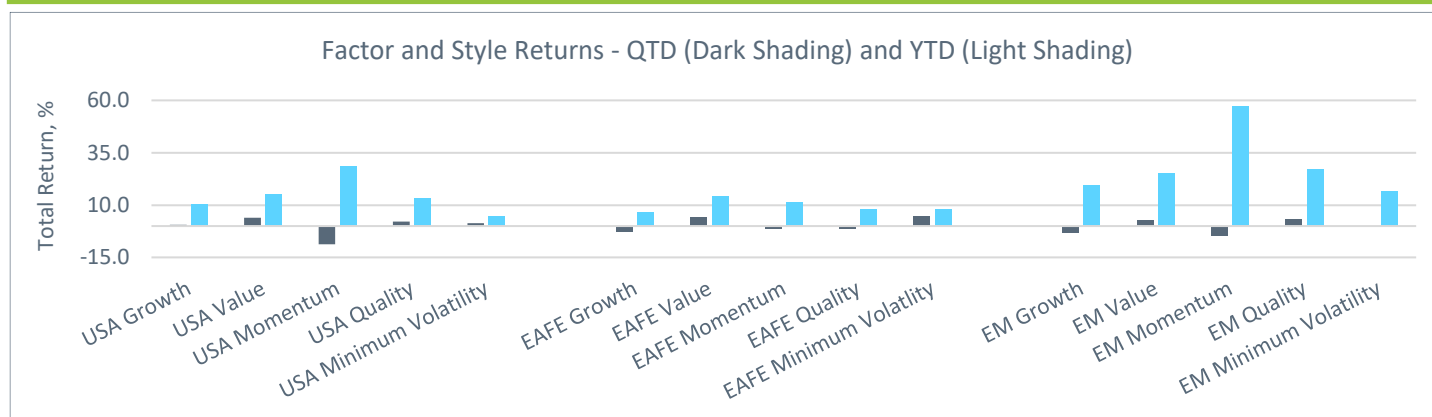




Outside the US, economic and market performance diverged sharply across regions. In Europe, equity returns were mixed. Some sectors were supported by stronger defense spending, while others struggled amid renewed inflation pressure and news about growing fiscal concerns in France. Japan outperformed many developed peers supported by corporate reforms, improving profitability, and the gradual normalization of monetary policy. China's economy continued to exhibit a pattern similar to recent quarters, with stable exports and industrial production offset by lackluster household demand and credit growth despite additional policy support. International equity returns reflected these crosscurrents. Energy and financial stocks benefited from higher oil prices and rising rates, while real estate and utilities lagged. Looking ahead, investors face a landscape shaped by elevated yields, persistent geopolitical risks, and continued AI-driven investment.

Expanded Review of Key Economic Indicators

	Q3 2026	Q2 2026	Q1 2026	10-Year Average
Federal Funds Rate	3.88	3.63%	3.64%	2.43%
Treasury (2-Year)	4.87	4.15%	3.79%	2.55%
Treasury (10-Year)	5.27	4.44%	4.32%	2.89%
Treasury (30-Year)	5.62	4.93%	4.91%	3.30%
Breakeven Inflation (5-Year)	2.36	2.26%	2.54%	2.11%
Breakeven Inflation (10-Year)	2.36	2.24%	2.30%	2.11%
Breakeven Inflation (30-Year)	2.31	2.18%	2.19%	2.11%
BB US Corp: Hi Yld Index - OAS	3.11	2.70%	3.17%	3.70%
Capacity Utilization	76.30%	76.24%	75.62%	76.63%
Unemployment Rate	4.20%	4.20%	4.30%	4.54%
ISM PMI - Manufacturing	54.50%	53.30%	52.70%	53.15%
ISM PMI - Service	54.90%	54.00%	54.00%	55.58%
Consumer Confidence (Conf. Board)	81.90	91.20	91.80	109.70
CPI YoY (Headline)	3.70%	3.50%	3.30%	3.30%
PPI YoY - Producer Prices	6.34%	5.59%	4.29%	3.49%
US Dollar Total Weighted Index	120.33	120.89	121.04	117.63
WTI Crude Oil per Barrel	\$90	\$70	\$101	\$67
Gold Spot per Ounce	\$4,157	\$4,008	\$4,667	\$2,077



US Equity

US equities posted modest gains in Q3 2026 despite a volatile backdrop. The quarter opened with a sharp unwind of the AI and momentum trade that had driven markets earlier in the year. As the quarter progressed, sentiment improved as investors focused on business investment, AI-related capital spending, and persistent consumer spending supporting stable US economic growth.

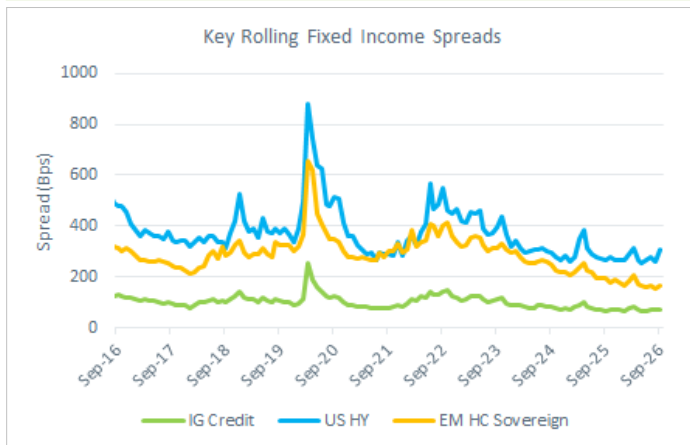
Value stocks led during the quarter, with strong contributions from the Energy sector and new additions within the Technology sector following the Russell rebalance in June. The Russell 3000 Value Index returned 2.3% vs. 0.5% for the Russell 3000 Growth Index. Within growth, leadership rotated away from AI beneficiaries as some managers trimmed positions in richly valued AI-related holdings. Mid- and small-cap stocks significantly underperformed large-cap stocks, as rising rates weighed on these more rate-sensitive securities. Small-cap growth was the weakest segment, with the Russell 2000 Growth Index returning -9.4%.

In a reversal from prior quarters, active value managers generally struggled to keep pace with their benchmarks, as strong returns from cyclical sectors presented challenges for active positioning. Conversely, active growth managers fared relatively better—with increased volatility and shifting market leadership among AI-related stocks creating opportunities for active stock selection.

Non-US Equity

Developed international markets edged higher in Q3, with the MSCI World ex US Index returning 0.9%. Value stocks rebounded sharply and significantly outperformed growth, as higher oil prices and interest rates supported energy, banks, and materials, while semiconductors and AI infrastructure stocks declined after July's momentum reversal. Small-cap stocks outperformed large-cap stocks. Energy-driven inflation prompted the European Central Bank to raise rates for the second time in 2026, to 2.50%. The Bank of Japan also raised its policy rate, to 1.25%—its highest level in more than 30 years—as it continued to normalize monetary policy. The US and Japan also coordinated a rare intervention in foreign exchange markets to purchase and strengthen the yen, their first coordinated action since 1998. Most active international developed managers underperformed during the quarter as stock prices reacted more to energy inflation and macro factors, rather than company fundamentals.

Emerging markets trailed developed markets in Q3, as the MSCI Emerging Markets Index declined -0.4%. Similar to developed markets, value significantly outperformed growth, while small-cap stocks outpaced large-cap stocks. Korea fell particularly sharply, ending the quarter down -9.4%, reflecting its heavy concentration in semiconductor and memory chip stocks. Similar to their developed-market counterparts, the majority of active emerging market managers underperformed in the quarter.



Fixed Income

In September, the Federal Reserve raised the federal funds target range by 25 basis points to 3.75% - 4.00% after holding rates steady in July. A combination of persistent inflation, strong labor market data, and resilient consumer spending led to the decision. Treasury yields ended the quarter significantly higher, driven largely by moves in September. The 2-year yield rose 71 basis points to 4.88%, while the 10-year yield climbed 81 basis points to 5.29%, steepening the “2s-10s” spread to 41 basis points from 30 basis points at end of Q2, although still below the year-end level of 71 basis points in December 2025.

Fixed income markets declined against this backdrop of rising rates. The Bloomberg US Aggregate Bond Index declined -3.5% during the quarter, while elevated corporate debt issuance contributed to additional upward pressure on yields across credit markets. The Bloomberg US Corporate Investment Grade Index returned -3.9% and the Bloomberg US Corporate High Yield Index returned -1.8%.

Emerging markets debt (EMD) was not immune to the broader fixed income weakness. Hard currency EMD, represented by the JPM EMBI Global Diversified Index, declined -3.9% for the quarter. Local currency EMD proved comparatively resilient, benefiting from reduced sensitivity to rising US Treasury yields and declining only -0.9%, as measured by the JPM GBI-EM Global Diversified Index.

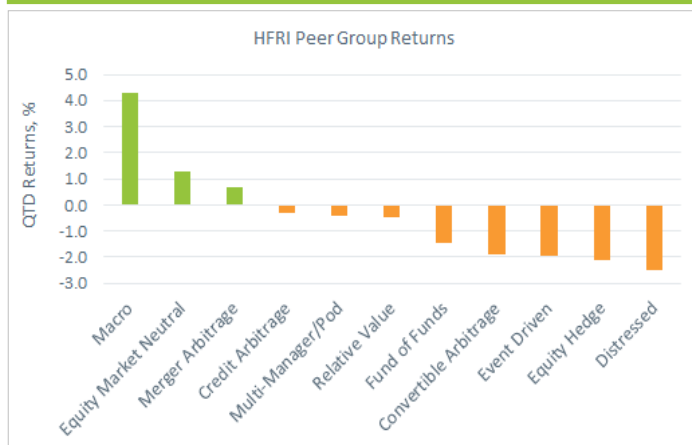


Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely delivered disparate results in Q3, although several outperformed a US-centric blend of 60% equity and 40% fixed income (60/40 blend). During the quarter, the top-performing long-biased GTAA strategies maintained greater emphasis on value-oriented exposures, energy equities, and/or allocations to alternative strategies. Managers who lagged peers tended to hold higher exposures to long-duration bonds, and global and US core bonds.

Multi-asset managers who target reduced correlations, low volatility, and limited market sensitivity generally posted mixed results in Q3, while Alternative Risk Premia strategies that RVK follows closely posted positive returns. The best-performing managers benefited from positive contributions across both equity and macro sleeves. Value and factor-selection signals were positive contributors, while macro performance was led by trend strategies, particularly short-fixed income and long energy positions.

Managers in the Diversified Inflation Strategy (DIS) category who are closely monitored by RVK reported disparate performance, with several outperforming a US-centric 60/40 blend. Top-performing managers benefited from larger allocations and strong selection in commodities and natural resources. Underperformers generally had higher allocations to assets with higher financing costs, such as REITs and listed infrastructure.



Diversified Hedge Funds

Results from hedge funds were mixed in Q3, with a relatively high dispersion among strategies, although most strategies remained positive on a year-to-date basis. Preliminary performance suggests that the HFRI Asset Weighted Composite Index returned 1.2% in Q3, increasing its year-to-date performance to 7.4%.

Macro managers delivered the top performance in Q3 as geopolitical conflicts, rising oil prices, and tightening financial conditions garnered significant investor attention. The HFRI Macro Index returned 4.3% in Q3 increasing its year-to-date performance to 10.8%.

Results for disciplined market neutral strategies were mixed, though most Equity Market Neutral managers produced slightly positive results, led by gains in the Energy sector. The HFRI Equity Market Neutral Index returned 1.3% in Q3, bringing its year-to-date return to 4.8% while the HFRI Relative Value Index returned -0.5% in Q3 with year-to-date performance of 3.3%.

Strategies oriented around corporate actions delivered weaker performance in Q3, as economic uncertainty contributed to a lack of dealmaking. The HFRI Distressed/Restructuring Index returned -2.5% in Q3, bringing its year-to-date performance to 9.1%. The HFRI Event Driven Index returned -1.9% in Q3, bringing its year-to-date performance to 5.0%.

Real Estate

Core private real estate generated a 1.7% total return in Q3 (preliminary and gross of fees), as reported by the NFI-ODCE Index. Performance was driven by a 1.0% income return and price appreciation of 0.7%. While income continues to be the primary driver of returns for NFI-ODCE, appreciation has been a positive contributor during the first three quarters of 2026. The one-year income return of 4.1% as of Q3 2026 remained above the three- and five-year trailing income returns.

While the recovery in private real estate remains muted relative to other risk assets, the trailing one-year appreciation return has now been positive for two consecutive quarters. The positive returns in Q3 mark the ninth consecutive quarter of positive returns, with quarter-over-quarter returns continuing to trend upward. Conversely, publicly traded real estate declined in Q3 with a total return of -6.1%, as measured by the FTSE/NAREIT All Equity REITs Index. Most of the negative return for REITs during the quarter occurred in September, when the Index was down -5.7%.

Private real estate investors remain cautious as they continue to balance mostly positive fundamentals with uncertainty around the economy and global geopolitics. Transaction activity in 2025 and 2026 has increased from the lows observed in 2023 and 2024. However, with interest rates remaining elevated, and potentially moving higher in the coming months, activity remains below longer-term averages.

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