



MONTHLY MARKET COMMENTARY

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STONEBRIDGE
Capital Advisors

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Michael Dashner, CFA / Director of Equity, Portfolio Manager

EQUITY REVIEW

Market Recap

And just like that, we officially closed out the third quarter of 2026. Year to date has not been without some of the more interesting geopolitical, domestic, and technological issues we've seen. Even with considerable disruptions, the equity market has carried everyone along kicking and screaming.

Through the end of September, the S&P 500 has returned 12.73% year to date. September, however, looked considerably different underneath the surface. The S&P 500 declined just 0.35% during the month, while the Equal Weight S&P 500 fell 4.81%. Despite the September decline, the Equal Weight Index remains up 10.01% year to date.

That divergence highlights one of the most important changes we saw during September: a tremendous shift in market leadership.

Throughout the year, we have been encouraged by the renewed participation of the average stock in the U.S. equity market, something we measure through market breadth. At the end of August, roughly 75% of companies in the S&P 500 were trading above their 200-day moving average. Today, that number has fallen to approximately 42%.



EQUITY REVIEW

Meanwhile, the S&P 500 remains near its all-time high. While the headline index has held up remarkably well, participation underneath the surface has deteriorated considerably. We believe the primary driver of this reversal has been the current interest-rate environment.

During the last Fed rate-hike cycle, investors piled into the Magnificent Seven stocks. In an environment of higher rates and inflation, investors placed a premium on revenue growth and, just as importantly, free cash flow growth.

We would caution against simply repeating the 2023 playbook. During the infancy of the AI expansion, the primary players were largely able to finance rapidly growing capital expenditures through tremendous internally generated cash flows. Today, the scale of the AI buildout has grown dramatically, and large technology companies are increasingly supplementing internally generated cash with debt financing.

Without a doubt, these are still amazing companies, and we still want to own them. We simply do not believe investors should assume they will provide exactly the same type of protection from higher interest rates that they did in 2023.

Under the Hood

Interest rates moved considerably higher during September. The 10-year Treasury yield ended the month at 5.29%, up from 4.75% at the beginning of September and 4.12% at the beginning of the year. The 30-year Treasury ended at 5.64%, compared with 5.25% at the beginning of September and 4.72% at the beginning of the year.

Energy has created another challenge. According to AAA daily averages, diesel prices are approximately 81% above their January lows, while gasoline prices are roughly 57% higher.

In many other environments, a simultaneous spike in interest rates and energy prices likely would have resulted in a much more significant equity-market correction.

But what's different?

Corporate earnings remain robust, while optimism surrounding the continued AI buildout has allowed equity investors, at least so far, to look through the current interest-rate and energy environment. The lesson is that corporate earnings matter. Strong earnings can sometimes drown out bad news that otherwise might have resulted in a significant market correction.



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At the same time, we find ourselves in another “good news is bad news” environment. At its September meeting, the Federal Reserve raised interest rates another 25 basis points. The following week, S&P Global PMI data came in considerably stronger than expected. Manufacturing PMI registered 57.0 versus expectations of 53.6, while Services PMI came in at 58.7 versus expectations of 56.0.

The bond market did not take the good economic news particularly well. Strong economic growth is normally something investors welcome. However, when inflation remains elevated and the Fed is attempting to cool the economy, stronger-than-expected activity can cause the bond market to question whether interest rates are high enough.

That raises an important question: if some inflation is supply-driven while the U.S. economy continues to run hot, does the Fed have the ability to curb inflation with just a handful of interest-rate hikes?

The Fed can influence demand, but higher rates cannot directly resolve supply disruptions. At the same time, continued economic strength can keep demand and inflationary pressures elevated.

We can see the impact of higher rates underneath the surface of the equity market. Utilities are approximately 16.9% below their year-to-date highs, Financials are down 9.38%, and Real Estate is down 11.64%.

These moves have not coincided with a broad deterioration in corporate earnings. We believe they are, at least in meaningful part, a recalculation of the interest-rate environment.

What We're Watching: AI

There is a growing national conversation around the expansion of data centers and the “not in my backyard” sentiment surrounding new development. This type of pushback is not uncommon when rapidly expanding technologies require significant new infrastructure. We believe compromises will eventually work themselves out as we learn more and more information becomes available to the public.

Leaders of some of the major AI firms have also recently expressed more caution surrounding the release and development of their newest models. We do not see these factors killing the AI movement, but rather potentially prolonging the long-term trend.

As investors, we should welcome this development.



EQUITY REVIEW

When technology comes on too fast and asset prices move in a straight line, it becomes difficult to discern between quality companies and those simply benefiting from the theme. At the beginning of the AI cycle, it sometimes seemed like all a CEO had to do on an earnings call was mentioned AI several times and you would immediately see it reflected in the company's stock price.

Fast forward to today: **results matter.**

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Portfolio Implications

It is impossible to know exactly when the current interest-rate environment will reverse or when geopolitical pressures will calm.

But what can we control?

We can control our asset allocation.

As the market becomes more concentrated, we must make sure our exposure remains appropriate. We do not necessarily need to replicate the market's increasing concentration within our clients' portfolios.

Likewise, collapsing market breadth can create opportunities for long-term investors who remain diversified across individual companies and sectors. There are parts of the market that, quite frankly, the run-up in AI hasn't impacted nearly as much. Staying disciplined and maintaining diversification should provide opportunities, particularly if we eventually see a hiccup or pause in the dominant factor driving market returns.

Higher interest rates have also improved the income available from high-quality fixed income. While we remain mindful of interest-rate risk, bonds once again provide meaningful income and diversification opportunities within an appropriately constructed portfolio.

The environment has changed considerably over the last several months, but our approach has not. We cannot control interest rates, energy prices, geopolitics, or the direction of the market over the next several weeks. What we can control is how much risk we take, where we take that risk, and whether the underlying investments we own continue to justify their place in the portfolio.



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FIXED INCOME REVIEW

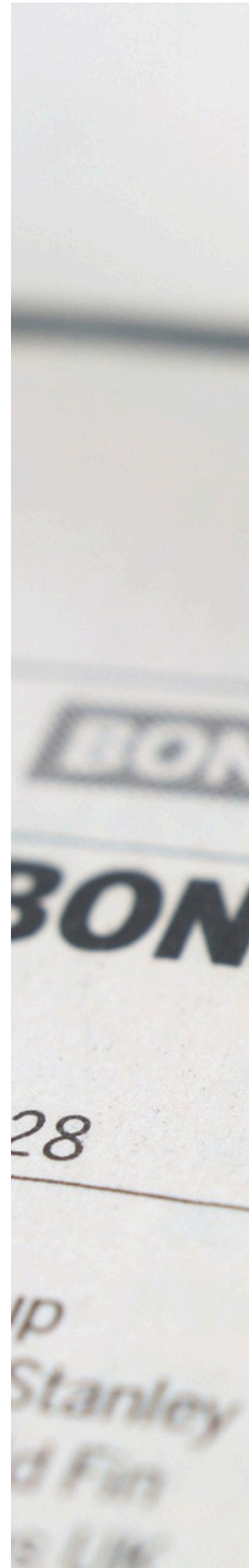
Interest Rates

A month's worth of headlines can be summarized as: key benchmark yields have reached levels not seen in over two decades. Today's Treasury curve features yields largely holding above 5% across most maturities, from short-term notes out to the 30-year bond. To put this historic move in perspective, consider how far rates have climbed this year alone: The 2-Year Treasury yield started the year under 3.50% and aggressively surged to near 4.95% close to quarter-end before retreating slightly from that level. Since the initial shift to a higher rate environment started in 2022, the 2-year has briefly crossed the 5% threshold on several occasions and now sits within striking distance of those highs. The 10-Year Treasury began the year around 4.20%, briefly dipped below 4.00%, and recently rocketed up to end Q3 at 5.29%, meaningfully besting its previous post-2022 high of 5.00%.

This upward pressure on rates is fueled by a mix of persistent geopolitical tensions, heavy overall debt issuance, and stubborn inflation jitters. While inflation naturally erodes the real purchasing power of fixed payments over time, nominal yields have risen so fast that real rates (nominal minus inflation) have also increased this year, to a point of offering investors true value despite current pricing pressures.

Corporates: Resilience in High-Quality Credit

The corporate bond sector felt the ripples of this rate surge, but quality dispersion is becoming evident. High-yield credit spreads widened by nearly 50 basis points over the month, likely reflecting some additional concern regarding riskier borrowers as well as a spike in new supply over previous months. Conversely, investment-grade corporate spreads rose more modestly, underscoring little credit stress among the highest quality issuers. Bolstering that sentiment, rating upgrades for that segment of the market outpaced downgrades by a strong 5-to-1 ratio for the previous three months.



FIXED INCOME REVIEW

Municipals: Seizing Dislocated Opportunities

The sharp sell-off did not spare tax-exempt debt. For example, as a proxy for the general market, Vanguard's Tax-Exempt Bond Index Fund (VTEB) dropped 3.31% in September alone as municipal benchmark yields quickly surged to their highest levels in at least 15 years. As of late, the very attractive yields are doing exactly what they typically do: attracting smart money. Investors have started to divert cash into municipal bond funds to lock in these generationally high, tax-free yields.

Much like investing in equities during a market correction, buying bonds (whether taxable or tax-exempt) when prices fall can trigger psychological hesitation as investors worry that prices will drop further. However, our experience has been just taking advantage of whenever these opportunities present themselves typically reward patient, long-term investors handsomely in the long-run.



OVERVIEW

Key Market Moves

8/31/2026 - 9/30/2026

S&P 500:

7686.14 to 7651.54 (down 34.6)

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Dow Jones:

53185.90 to 50906.05 (down 2279.85)

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NASDAQ:

26730.89 to 26861.06 (up 490.17)

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Key Market Moves

8/31/2026 - 9/30/2026

2-Year Treasury:

4.34% to 4.88% (up 54 bps)

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10-Year Treasury:

4.75% to 5.29% (up 54 bps)

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10-Year A-rated Corporate:

5.51% to 6.03% (up 52 bps)

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10-Year AAA-rated Municipal:

3.37% to 4.04% (up 67 bps)

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Equity

Stonebridge's equity investment style seeks to provide methods for growth and income generation. Within this style, we utilize three equity strategies to invest in industry-leading, domestic companies with solid fundamentals. We focus on companies with attractive fundamentals, highlighted by strong profit margins, cash flows, and balance sheets. Prioritizing portfolio diversification, we take advantage of lagging sectors and identify best-in-class companies on an ongoing basis. Our disciplined approach allows for us to actively manage portfolios, regardless of market conditions.

EQUITY LARGE CAP GROWTH

est. January 2001

EQUITY DIVIDEND INCOME

est. March 2011

EQUITY GROWTH & INCOME

est. March 2015

Fixed Income

Stonebridge's approach to fixed income seeks to provide principal protection, asset liquidity and income generation. We manage two fixed income strategies that both utilize individual securities, and are broadly diversified across sectors and issuers. Maintaining a conservative risk profile, we favor high quality investment-grade credit and capitalize on yield curve relative value. We focus on opportunities along the yield curve to help provide income and lower volatility.

FIXED INCOME TAX-EXEMPT

est. June 1997

FIXED INCOME TAXABLE

est. December 1998

Important Disclosure Information

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Additional Risk Considerations

Forecasts and targets are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. There can be no assurance that any investment strategy will be successful and meet its investment objectives. Investments fluctuate with changes in market and economic conditions and across different environments due to multiple factors, some of which may be unpredictable. Asset allocation and diversification do not guarantee investment returns or eliminate risk of loss.

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Additional information may be available upon request.



For more information: We always welcome the opportunity to work with you. If you are interested in learning more about how our expertise can elevate your investment strategies, please do not hesitate to contact us today!