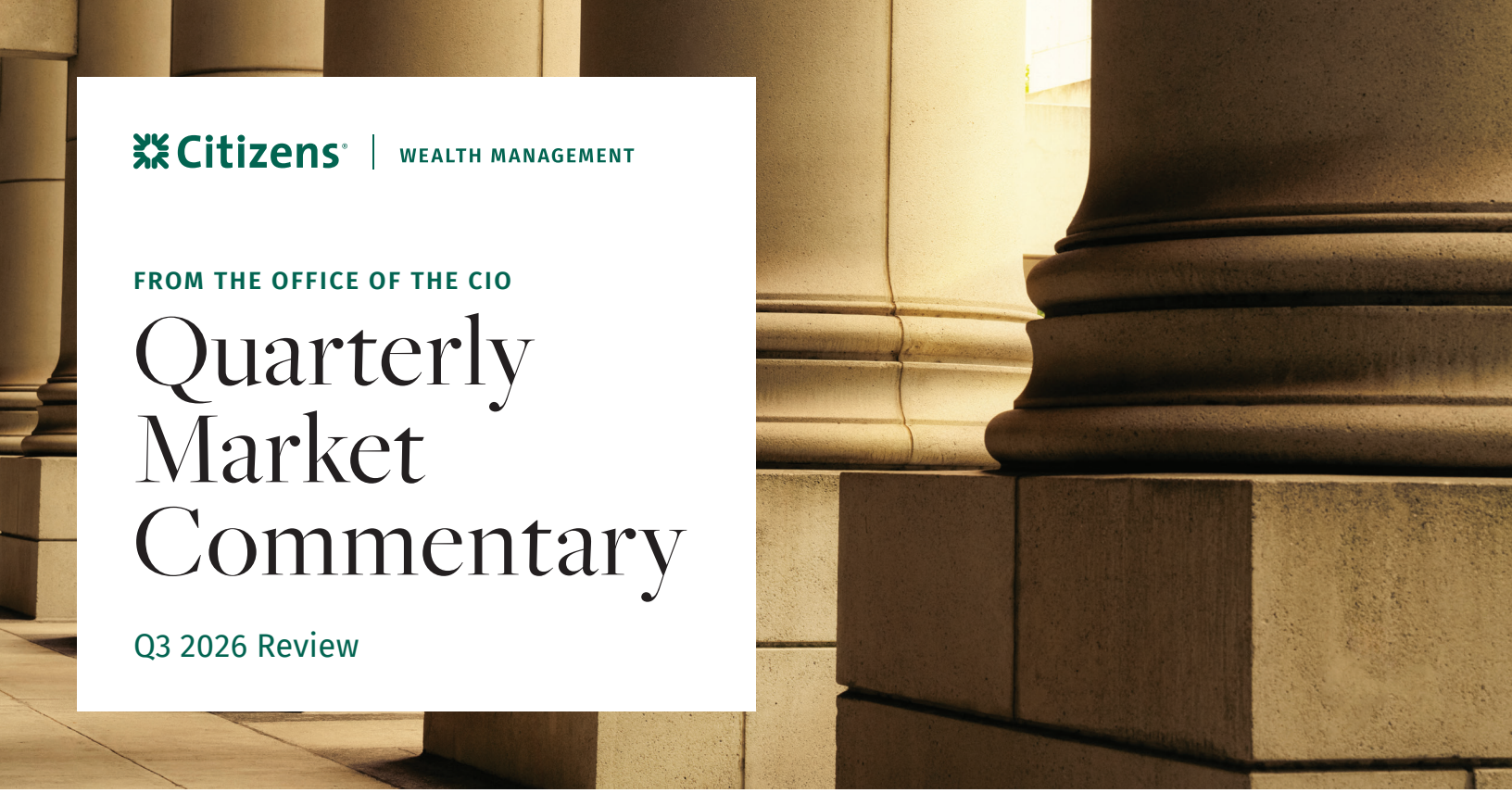


Citizens | WEALTH MANAGEMENT

FROM THE OFFICE OF THE CIO

Quarterly Market Commentary

Q3 2026 Review

KEY TAKEAWAYS

- Middle East conflict and associated supply disruptions kept oil prices elevated and volatile throughout the quarter. West Texas Intermediate crude climbed above $100 per barrel in September before retreating to roughly $90 by quarter-end, reinforcing near-term inflationary pressures.
- The Federal Reserve moved to tighten policy as inflation stayed well above its 2% goal, raising interest rates in September for the first time since 2023. The European Central Bank and the Bank of Japan also raised rates.
- U.S. large-cap growth companies posted modest gains, as strong profit growth tied to AI helped offset higher interest rates and energy costs. The S&P 500 index rose 2.3%, led by energy, technology and health care companies, while the sectors sensitive to interest rates fell. Major international stock markets had mixed results.
- Higher inflation and tighter monetary policy pushed Treasury yields sharply higher, weighing most heavily on longer-duration bonds. The 10-year Treasury yield ended the quarter at 5.29%, while the Bloomberg U.S. Aggregate Bond Index declined 3.5%.
- The economy remained resilient, though hiring slowed toward quarter end. Q2 economic growth was revised up to an annual rate of 2.2%, from an earlier estimate of 1.5%, driven by AI-related investment and consumer spending. Unemployment rose slightly to 4.2%.

Introduction

Three forces shaped the markets this quarter: higher energy prices, rising interest rates and the continued buildout of AI. From a geopolitical perspective, the quarter started on a hopeful note. The United States and Iran signed a memorandum of understanding in June that eased tanker traffic through the Strait of Hormuz. However, that calm did not last as attacks on commercial ships and U.S. strikes on Iran broke the ceasefire in late July. By September, military activity had picked up across the region, and WTI crude oil prices climbed above $100 per barrel.

Higher energy costs kept inflation well above the Federal Reserve's 2% target and pushed central banks around the world toward tighter policies. In August, at the Jackson Hole symposium, Fed Chair Kevin Warsh signaled that the Fed was ready to act. In September, the Fed raised rates for the first time since July 2023. The ECB and the BOJ also raised rates during the quarter, putting upward pressure on bond yields across developed markets. Investors began to price in the likelihood of additional rate hikes, adding to the upward pressure on yields.

The economy remained resilient with Q2 GDP growth revised higher to 2.2% from an earlier estimate of 1.5%, driven largely by consumer spending and continued investment in AI-related infrastructure. However, labor market data showed some mixed signals. Hiring slowed in September and unemployment rose to 4.2%, but jobless claims hovered near historic lows. Consumer spending held up, though some of its increase reflected higher prices rather than more purchases. The divide between higher- and lower-income households persisted, making affordability an increasingly important economic issue ahead of the U.S. midterm elections.

We reiterate the importance of diversification as one of the most effective tools for achieving desired investment outcomes. Maintaining exposure across asset classes — while avoiding overconcentration in any individual sector or company — is critical. This strategy can help investors manage risk and potentially capitalize on opportunities in an uncertain market environment.

Economic backdrop

The U.S. economy continued to grow at a moderate but uneven pace. Q2 GDP growth was revised higher to an annualized 2.2%, supported by consumer spending and private investment, including continued spending on technology and data infrastructure. Labor-market data showed that hiring cooled toward the end of the quarter. Payrolls unexpectedly declined in July, and the May and June figures were revised lower. Hiring rebounded in August, but September brought a gain of just 29,000 jobs, well below expectations. At the same time, the unemployment rate edged up to 4.2% from 4.1%. Initial jobless claims held near multiyear lows as employers hired less than expected but did not meaningfully reduce headcount.

Consumer spending remained resilient, with retail sales rising 1.2% in August and 6.0% from a year earlier. However, some of the nominal increase reflected higher prices and spending strength remained uneven across income groups. Consumer sentiment weakened as affordability concerns intensified, while year-ahead inflation expectations rose. The University of Michigan Consumer Sentiment Index fell to 48.1 in September from 51.7 in August, while year-ahead inflation expectations rose to 4.6% from 4.0%.

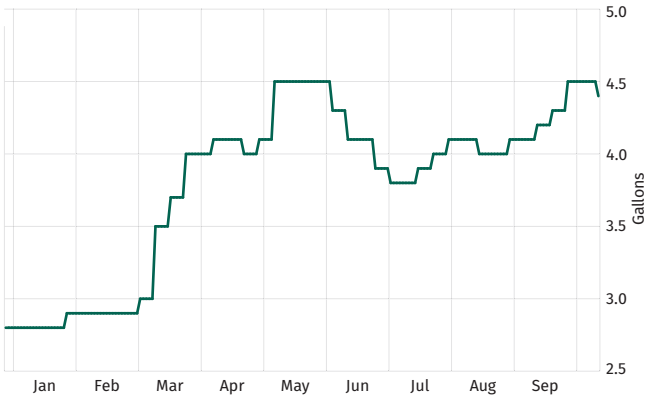
Business surveys closed the quarter on a strong note. The S&P Global U.S. Composite Purchasing Managers Index (PMI), which measures combined manufacturing and services activity (readings above 50 signal growth), rose to 58.4 in September, its highest level since mid-2021. Services activity led the gain as the S&P Global U.S. Services PMI climbed to 58.8 in September from 56.5 in August, its strongest reading since July 2021. The Institute for Supply Management (ISM) Services PMI told a similar story. On the manufacturing side, the ISM Manufacturing PMI registered 54.5 in September, marking a ninth straight month of expansion. Manufacturers also reported a sharp rise in input prices, a sign of increasing cost pressures in the economy.

Energy prices were volatile and trended higher over the course of the quarter, weighing on inflation and consumer spending power. WTI crude climbed from nearly $70 per barrel in early July to over $100 in mid-September. Prices moderated toward quarter-end as Saudi Arabia restarted its pipeline to half capacity and tanker traffic through the Strait of Hormuz partially recovered. On September 30, WTI remained roughly one-third above its pre-conflict level of approximately $67 in late February 2026.

Higher fuel prices were a key source of inflation pressure. Gasoline prices increased approximately 18% to $4.47 per gallon (see Figure 1 on Page 3), while diesel prices rose about 39% to $6.38 per gallon. Higher crude oil prices, constrained refining capacity, and low inventories contributed to the

increase. Because diesel continues to fuel much of the nation's freight transportation and industrial equipment, higher prices raise shipping and production costs that often work their way through the supply chain and into consumer prices.

Figure 1: Price of Unleaded U.S. Gasoline



Source: FactSet.

Higher energy costs and sticky services prices kept inflation above the Fed's 2% target. Headline U.S. consumer prices increased 0.4% month-over-month in August, pushing the annual Consumer Price Index rate to 3.4%. Core CPI, which excludes food and energy, rose 0.3% MoM, its largest increase since April and more than economists expected. The Fed's preferred measure of inflation, the Personal Consumption Expenditures Price Index, rose 0.3% MoM in August, pushing the annual PCE rate to 3.4%. Core PCE, which excludes food and energy, increased 0.2% in the month pushing its annual rate to 3.0%.

Other measures suggested that broader price pressures across the economy were gradually easing. Housing prices continued to slow due to higher interest rates while goods inflation was relatively contained. However, the rebound in energy prices reinforced concerns that progress toward the Fed's inflation target could remain uneven. As a result, investors entered Q4 against a backdrop of elevated inflation and hawkish Federal Reserve rhetoric, supporting expectations that policymakers would maintain a restrictive stance and keep interest rates higher for longer.

U.S. Federal Reserve policy

During the quarter, the Federal Reserve shifted from a wait-and-see approach toward additional policy tightening as inflation remained above target. At its July 29 meeting, the Federal Open Market Committee (FOMC) held the federal funds target range at 3.50%–3.75% on a 9–3 vote. The three dissenters all favored a rate hike.

Fed communication became increasingly hawkish in August. At the Jackson Hole symposium, Warsh said recent inflation readings did not yet show a meaningful improvement in underlying trends, and that the Fed would have "work to do" if inflation were to move toward its target. Markets took the remarks as a signal that a hike was possible and the 2-year Treasury yield, which is most sensitive to Fed policy, moved higher.

The FOMC followed through on September 16, voting unanimously to raise the target range by 0.25 percentage points to 3.75%–4.00%. It was the Fed's first rate hike since July 2023 and ended a stretch of five straight Fed meetings without a change. The Fed's statement described economic activity as expanding at a solid pace and inflation as elevated.

The median projections of FOMC participants pointed to a stronger economy, lower unemployment and higher interest rates. As shown in Figure 2 (Page 4), policymakers raised the median 2026 forecast for GDP growth to 2.3% from 2.2%, lowered their unemployment forecast to 4.1% from 4.3%, and raised their core PCE inflation forecast to 3.4% from 3.3%. The most significant change was the higher projected path for interest rates. The median federal funds rate forecast for year-end 2026 increased to 4.1% from 3.8%, implying one additional 25-basis-point rate hike this year. Policymakers also projected rates remaining near 4.1% through 2027 before gradually declining to 3.9% in 2028.

Global central banks took similar steps and a firmer stance against inflation as the quarter progressed. The BOJ raised its policy rate by 0.25 percentage points to 1.25% in September, continuing its move away from years of exceptionally low rates. The ECB raised its deposit rate by 0.25 percentage

Figure 2: FOMC Summary of Economic Projections – September 2026

Variable (Median %)	2026	2027	2028	2029	Longer Run
Change in real GDP	**2.3**	**2.4**	**2.2**	**2.1**	**2.0**
June projection	2.2	2.3	2.2		2.0
Unemployment rate	**4.1**	**4.1**	**4.1**	**4.1**	**4.2**
June projection	4.3	4.3	4.2		4.2
PCE inflation	**3.7**	**2.3**	**2.1**	**2.0**	**2.0**
June projection	3.6	2.3	2.0		2.0
Core PCE inflation	**3.4**	**2.5**	**2.2**	**2.0**	
June projection	3.3	2.5	2.1		
Federal funds rate	**4.1**	**4.1**	**3.9**	**3.6**	**3.2**
June projection	3.8	3.6	3.4		3.1

Source: Federal Reserve, September 16, 2026.

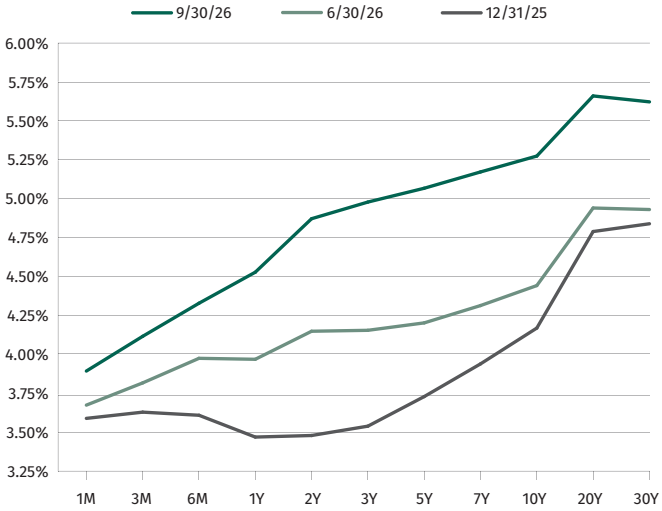
points to 2.50% on September 10 in a unanimous decision after euro-area inflation reached 3.2% in August, driven by higher energy prices. The Bank of England held its policy rate at 3.75% in July and September, even though U.K. inflation rose to 3.1% in August from 2.6% in July.

Fixed income

Fixed-income markets faced a challenging quarter. Strong economic growth, elevated energy prices and inflation that remained above the Fed's target pushed Treasury yields higher. Fiscal pressure added to the move. With U.S. federal debt exceeding $40 trillion and annual interest expense surpassing $1 trillion, heavy Treasury issuance pushed longer-term yields higher. As a result, longer-duration and rate-sensitive sectors posted the largest losses during the quarter, while short-term and floating-rate assets held up better.

As shown in Figure 3, Treasury yields moved sharply higher across the curve. The 2-year Treasury yield climbed from 4.15% to 4.90%, reflecting expectations that the Fed would raise rates further. The benchmark 10-year Treasury yield rose from 4.44% to 5.29%, its highest level since 2007. Simultaneously, the 30-year Treasury yield rose to 5.64%, its highest reading since 2002.

Figure 3: Change of U.S. Treasury Yield Curve



Source: FactSet, September 30, 2026.

Despite the rise in yields, the Treasury curve remained upward sloping. The gap between 10- and 2-year yields widened to about 39 bps from 29 bps at the start of the quarter.

The Bloomberg U.S. Aggregate Bond Index declined 3.51%, erasing its first-half gains and leaving the benchmark down 2.91% YTD. The Bloomberg U.S. Treasury Index fell 3.04%, while the Bloomberg U.S. Corporate Bond Index declined 3.83%. Performance was driven primarily by duration risk rather than credit risk. As interest rates moved higher, longer-maturity bonds experienced the largest declines, highlighting their greater sensitivity to changes in yields. The Long-Term U.S. Treasury Index declined 8.03%. By comparison, the Bloomberg U.S. Treasury 1-3 Year Index declined just 0.17%. (See Figure 4 on Page 5.)

Investment-grade corporate bonds followed a similar pattern, with weakness concentrated in longer-maturity issues. Corporate balance sheets remained healthy, and default rates stayed low throughout the quarter. As a result, credit spreads, or the additional yield investors require to hold corporate bonds instead of comparable Treasuries, widened only modestly. Therefore, higher yields, rather than weaker credit conditions, drove most of the decline.

Figure 4: Fixed Income Market Performance

Index	Q3 2026	YTD	Trailing 1 Yr
Bloomberg US Aggregate Bond	-3.51%	-2.91%	-1.84%
Bloomberg Municipal 1-10Y Blend 1-12Y	-4.12%	-3.06%	-2.11%
Bloomberg U.S. Treasury	-3.04%	-2.77%	-1.89%
Bloomberg U.S. TIPS	-3.24%	-2.12%	-1.99%
Bloomberg U.S. Corporate Bond	-3.83%	-3.01%	-2.17%
Bloomberg High Yield Corporate	-1.82%	0.10%	1.41%
FTSE WGBI Non-USD	-2.03%	-2.83%	-3.30%

Source: Index performance data, as of September 30, 2026. All index data are USD total return.

High-yield bonds declined by 1.82%, a smaller loss than other sectors because of their higher coupons and shorter duration. Leveraged loans, measured by the Morningstar LSTA U.S. Leveraged Loan Index, were among the strongest-performing fixed-income assets, returning 1.95% as their floating-rate coupons reset higher. High-yield spreads widened modestly toward quarter-end but remained near historically tight levels.

Securitized assets also faced pressure with the Bloomberg U.S. MBS Index falling 3.38% in September. As long-term Treasury rates moved higher, the average 30-year fixed mortgage rate topped 7%, slowing refinancing and housing demand. As a result, the average life of agency mortgage-backed securities extended, causing performance to lag relative to other fixed-income sectors.

Developed market fixed income outside the United States declined as major global central banks maintained restrictive policy stances and government borrowing requirements remained elevated. The FTSE World Government Bond Index ex-U.S. fell 2.03% during the quarter, while U.S. dollar-denominated emerging-market debt, as measured by the J.P. Morgan EMBI Global Diversified Index, declined 4.46%.

Municipal bonds lag

Tax-exempt bonds faced a challenging Q3 as rising Treasury yields and increased issuance weighed on the market. The Bloomberg Municipal 1-10Y Blend 1-12Y Index declined 4.12%, leaving the index down 3.06% YTD. Higher interest rates were the primary driver of weakness, with longer-dated municipal bonds experiencing the largest declines. Municipal issuance remained particularly strong, exceeding $400 billion through August, making it the strongest August on record, according to industry estimates. Investor demand for tax-exempt debt remained strong, with municipal bond mutual funds recording approximately 21 consecutive weeks of net inflows through mid-September. Steady demand helped absorb current issues brought to market.

Municipal-to-Treasury-yield ratios improved, creating more attractive entry points for tax-exempt investors. High-quality municipal bonds yielded roughly 4.32% at quarter-end, as measured by the Bloomberg Municipal 1-10 Year Blend (1-12Y) Index, providing investors in the highest federal tax bracket an attractive taxable equivalent yield of 7.30% once the tax savings are factored.

While elevated issuance is expected to continue as state and local governments fund infrastructure projects and refinance debt, today's higher yields and improved valuations provide a stronger foundation for future returns than was available earlier in the year.

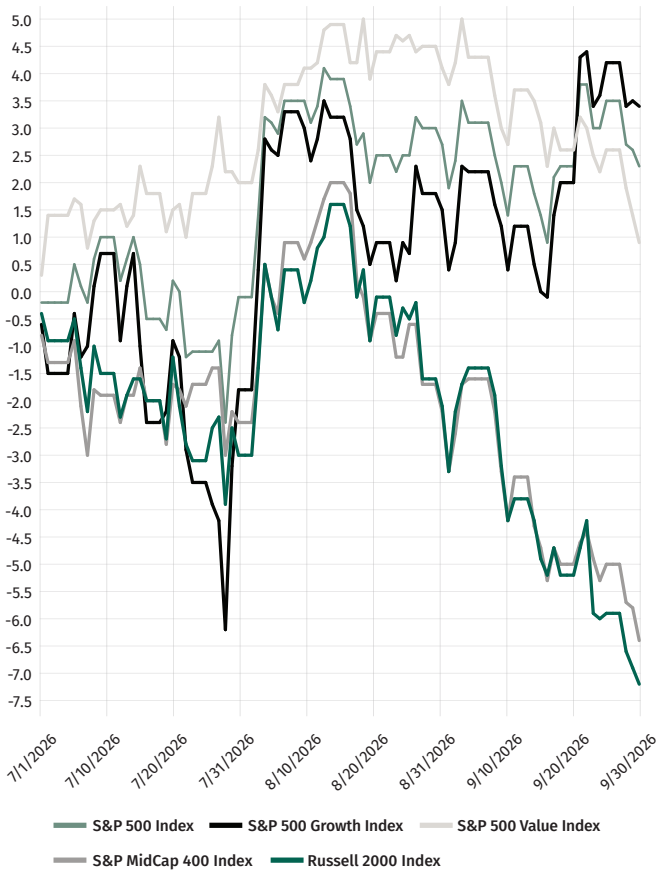
Global Equities

U.S. Equity Markets

U.S. large-cap stocks gained in Q3, while mid- and small-cap stocks fell, as shown in Figure 5 (see Page 6).

Large caps weakened ahead of the July Fed meeting, rallied afterward, and dipped modestly following Warsh's hawkish comments at the Fed's symposium. A sharp rise in Treasury yields and higher oil prices in September weighed

Figure 5: U.S. Equity Performance by Market Capitalization and Style

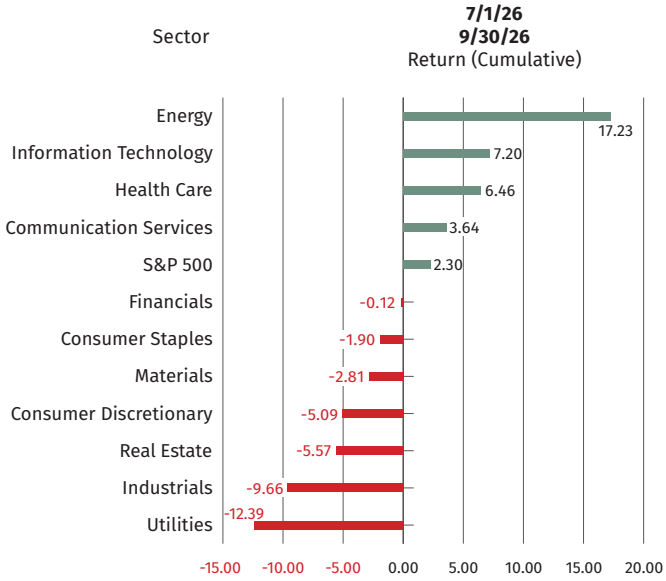


Source: FactSet as of September 30, 2026. All index data in USD total return.

on rate-sensitive sectors. The S&P 500 returned 2.30% for the quarter, bringing the YTD return to 12.75%. As shown in Figure 6, energy, information technology and health care led, while utilities, industrials and real estate lagged.

AI continued to drive market leadership and investor enthusiasm during the quarter. Robust spending on computing power, data-center capacity and software infrastructure supported technology companies and other AI beneficiaries, helping propel the Nasdaq Composite to a new all-time closing high in late September. However, equity gains remained concentrated in a relatively small group of technology-related companies. Investors periodically reassessed valuations, the scale of capital investment and the sustainability of earnings growth, which led to bouts of volatility.

Figure 6: S&P 500 Sector Returns for Q3 2026



Source: FactSet.

Q2 earnings reported in July and August showed S&P 500 earnings growth above 25% for a second straight quarter, according to estimates from FactSet. A high share of companies beat analysts' forecasts, though the largest gains came from technology and AI-related companies. Strong profit growth helped offset worries about high interest rates, inflation and market concentration. FactSet estimates full-year 2026 earnings growth is now projected to be in the low-30% range, an extraordinary pace driven heavily by technology and AI-adjacent sectors.

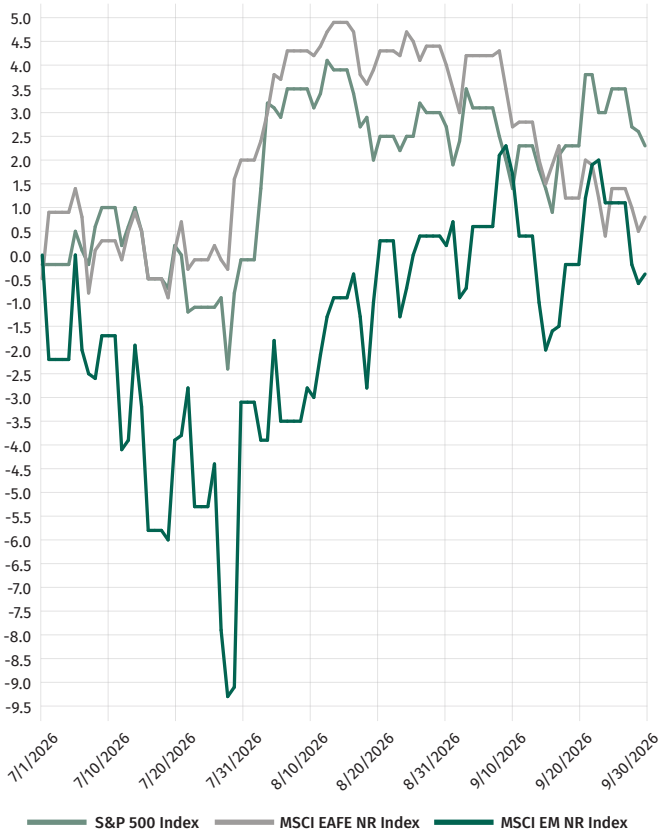
The S&P 500's forward price-to-earnings multiple declined during the quarter as earnings growth outpaced share-price gains. At quarter end, the index traded at 19.0x expected earnings over the next 12 months, above its 20-year average of 16.8x. While valuations remain elevated relative to history, stronger earnings growth helped support current price levels, leaving the market less stretched than the headline multiple might suggest.

Earnings growth remained concentrated in a relatively small group of large-cap technology and AI-related companies. The 10 largest companies accounted for roughly 41% of the S&P 500's market capitalization. The equal-weighted

S&P 500 Index continued to lag its market-cap-weighted counterpart.

Heading into reporting season, analysts expected Q3 S&P 500 earnings growth of 29.1%, up from 26.7% at the end of June. Analysts expect all 11 sectors to report gains, led by energy, information technology, communication services and materials. Broader profit growth would strengthen the market's foundation and reduce its reliance on a small group of leaders.

Figure 7: Performance of U.S. Equities vs. International



Source: FactSet as of September 30, 2026. All index data are USD total return MSCI indexes reflect net returns.

International developed markets

As illustrated in Figure 7, international developed equities posted modest gains during the quarter but continued to trail U.S. large-cap stocks. The MSCI EAFE Index returned 0.81% and was up 10.33% YTD. Relative performance was restrained by the region's lower exposure to technology and AI-related companies, which continued to drive a significant portion of U.S. market returns.

Performance varied considerably across countries. As shown in Figure 8 (Page 8), Japan was among the strongest major markets, with the MSCI Japan Index returning 5.96%. Continued corporate-governance reforms, shareholder-friendly capital allocation policies and solid performance across financials, industrials and consumer sectors supported returns. A weaker yen for much of the quarter also helped export-oriented companies. In contrast, the MSCI Europe Index declined 1.65% as higher energy costs, restrictive monetary policy and sluggish economic growth weighed on earnings expectations.

Sector composition remained an important driver of relative performance. Unlike the U.S. market where technology and AI-related companies have dominated returns, international developed markets have greater exposure to financials, industrials and other cyclical sectors that were more sensitive to higher energy prices. Currency movements also influenced results, creating both headwinds and tailwinds across individual markets.

International developed equities continue to trade at lower valuations than U.S. stocks, partly reflecting differences in sector composition rather than broad market undervaluation. Nevertheless, the asset class remains an important source of diversification, providing exposure to different sectors, economies, and currencies than are available in U.S.-centric portfolios.

Emerging markets

As also shown in Figure 8, the MSCI Emerging Markets Index declined 0.37% in a flat quarter, though it remained the strongest-performing major equity region YTD, gaining 23.38%. Returns were driven largely by developments in the technology sector, where AI-related semiconductors and memory-chip companies experienced increased volatility. After strong gains earlier in the year, investors reassessed valuation levels and the pace of future earnings growth, leading to a sharp selloff in several AI-linked stocks during July that only partially reversed by quarter-end.

Figure 8: Performance of Select International Developed and Emerging Markets

Index	Q3 2026	YTD	Trailing 1 Yr
MSCI EAFE	**0.81%**	**10.33%**	**15.69%**
MSCI Europe	-1.65%	6.03%	12.61%
MSCI Japan	5.96%	22.67%	26.64%
MSCI United Kingdom	1.90%	8.22%	15.79%
MSCI Emerging Markets	**-0.37%**	**23.38%**	**29.22%**
MSCI China	3.66%	-11.86%	-18.37%

Source: FactSet. Index performance data as of September 30, 2026. All returns in USD. MSCI indexes reflect net returns.

Given the index's significant exposure to information technology, performance was heavily influenced by developments in Taiwan and South Korea. Taiwan was among the strongest positive contributors, supported by continued demand for advanced semiconductor manufacturing and AI infrastructure investment. In contrast, South Korea lagged as weakness in memory-chip manufacturers weighed on returns. Taiwan and South Korea represent a substantial share of the benchmark, and performance in these markets had an outsized impact on overall index returns.

China provided a modest offset to weakness elsewhere. The MSCI China Index gained 3.66% during the quarter, outperforming the broader emerging markets benchmark. However, Chinese equities remained down 11.86% YTD and 18.37% over the trailing 12 months, reflecting persistent concerns about economic growth and the health of the property sector.

Beyond company- and country-specific factors, the macro backdrop became less supportive as the quarter progressed. Higher U.S. Treasury yields, a stronger U.S. dollar, and rising energy prices tightened financial conditions (see Figure 9). These pressures were most pronounced in countries reliant on external financing or energy imports, while commodity and energy exporters generally benefited from higher prices. Diverging inflation and growth trends also led emerging-market central banks to follow different policy paths, creating wider differences in country-level returns.

Figure 9: U.S. Dollar Index



Source: FactSet.

Earnings expectations remained relatively strong, particularly across parts of the Asian technology supply chain, and valuations stayed below long-term averages and at a discount to developed markets. The quarter reinforced the need for selectivity because returns remained concentrated in a limited number of countries, sectors, and companies. As a result, benchmark performance depended heavily on a relatively small group of technology and AI-related market leaders.

Alternatives

Alternatives had a mixed quarter. Public real estate fell as higher rates pressured values and financing, while commodities rose sharply, led by energy, with gains in agriculture and industrial metals. Private markets can broaden the opportunity set and provide sources of return that behave differently from public stocks and bonds.

Figure 10: Public Real Estate and Commodity Performance

Index	Q3 2026	YTD	Trailing 1 Yr
FTSE Nareit All Equity REITs	-6.06%	7.93%	5.61%
Bloomberg Commodity	16.19%	32.87%	40.64%

Source: Index performance data as of September 30, 2026. All index data are USD total return.

Real estate

As shown in Figure 10 (on Page 8), the FTSE Nareit All Equity REITs Index declined 6.06% during the quarter as higher interest rates and financing costs weighed on listed real estate. Data centers outperformed, benefiting from continued investment in AI infrastructure and growing demand for computing capacity. Conversely, office, retail, residential and self-storage REITs posted larger declines as higher borrowing costs pressured valuations and earnings expectations. While elevated interest rates remain a headwind for the asset class, underlying fundamentals continue to vary considerably across property sectors, underscoring the need to distinguish among property types.

Commodities

Commodities were among the strongest-performing asset classes during Q3, demonstrating their value as a portfolio diversifier amid elevated inflation, supply constraints and geopolitical uncertainty. Also shown in Figure 10, the Bloomberg Commodity Index gained 16.19%, bringing its YTD return to 32.87%.

Energy was the primary driver of performance, as higher crude oil prices lifted gasoline, diesel and refined products. In contrast, natural gas declined 11.45%, showing the wide variation within the energy complex. Outside of energy, agricultural commodities posted strong gains, supported by advances in corn, soybeans and wheat, while industrial metals benefited from strength in copper and aluminum. Precious metals generated more modest returns as higher interest rates and a stronger U.S. dollar created headwinds late in the quarter.

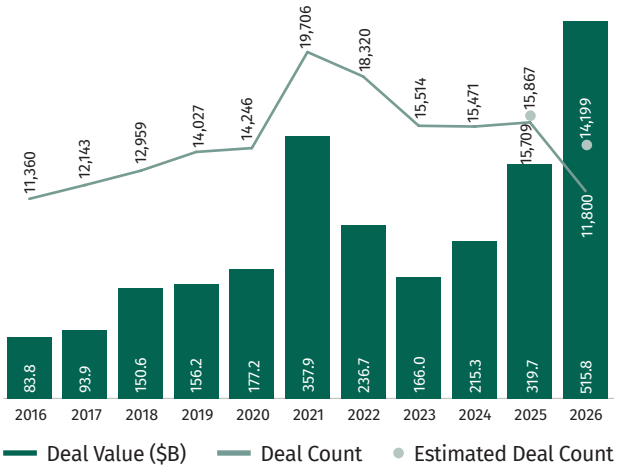
Performance across the commodity complex was driven more by supply-side factors than by broad economic growth. Geopolitical developments, shifting trade flows, transportation constraints, and changing production patterns influenced returns across multiple sectors. As a result, commodities helped diversify portfolios at a time when both equities and fixed income faced pressure from rising interest rates and inflation concerns.

Private equity

Private equity activity continued to improve during Q3. Fundraising, transaction activity and exit values all trended higher, although much of the recovery remained concentrated among larger, more established managers and a relatively small number of sizable transactions. Higher financing costs, elevated energy prices, and geopolitical uncertainty continued to temper broader deal activity.

One encouraging development was the gradual reopening of the exit market. The record-setting IPO of SpaceX in June and Anthropic's confidential IPO filing suggest that public markets may be becoming more receptive to mature private companies. A broader improvement in IPO activity could accelerate realizations across private equity and venture capital portfolios, improving liquidity and shortening holding periods for investors. (See Figure 11.)

Figure 11: U.S. VC Deal Activity



Source: PitchBook. September 30, 2026.

Demand for liquidity among existing investors continued to create opportunities for managers to acquire mature assets at attractive valuations. Pre-IPO and late-stage growth strategies drew attention as the exit environment improved.

Private credit

Private credit continued to benefit from elevated interest rates during Q3. Because most direct lending strategies invest in floating-rate loans, higher base rates translated into higher coupon payments, helping returns remain resilient despite broader market volatility.

Investors remained attentive to the impact of higher borrowing costs on corporate borrowers, as elevated interest expenses can pressure cash flow and credit quality over time. To date, lenders have reported healthy portfolio fundamentals, supported by stable earnings and low default rates.

Within private credit, asset-based lending remains one of the more attractive segments of the private-credit market. The opportunity set extends across consumer and corporate borrowers and is secured by tangible assets such as equipment, aircraft, infrastructure and real estate. In an environment characterized by higher interest rates and greater economic uncertainty, the combination of contractual income and collateral-backed lending continues to make asset-based strategies a compelling complement to traditional direct lending.

Private real assets

Private real assets remain an area where we see improving opportunity, particularly as higher interest rates and tighter financing conditions create better entry points. While private real estate is likely to remain a gradual recovery story rather than a source of near-term growth, the repricing that has occurred across the sector has begun to create selective opportunities for long-term investors.

Within real estate, we view real estate credit as particularly compelling. Lending against high-quality properties can provide attractive income while benefiting from improving collateral values, as markets recover from their recent lows. At the same time, higher long-term interest rates may continue to pressure property valuations and increase the number of motivated sellers, creating opportunities for experienced managers to acquire quality assets at attractive prices.

Infrastructure is another area of increasing interest. The rapid expansion of AI-related computing capacity and data-center development is driving substantial demand for capital across digital infrastructure. Beyond data centers, we see attractive long-term opportunities in energy production, transmission and related infrastructure, supported by rising electricity demand and the need to modernize energy networks. Across both traditional and alternative energy sources, we believe infrastructure offers the potential for durable cash flows, inflation sensitivity and attractive returns relative to risk.

Hedge funds

Hedge funds posted positive results through the latest available reporting periods, although performance varied considerably by strategy. The HFRX Global Hedge Fund Index gained 3.9% through September. Macro and systematic strategies were among the stronger performers, benefiting from significant moves in interest rates, currencies, and commodities. Other strategies produced more varied results, reflecting differences in positioning and risk exposures. Hedge fund performance data are subject to reporting lags and subsequent revisions.

We expect performance differences across hedge fund strategies and managers to remain wide. In an environment characterized by higher interest rates, greater market concentration and increasing macroeconomic uncertainty, manager selection and strategy diversification should remain important drivers of results.

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