Market Observations

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Overview

The economy entered October with solid momentum after Q3 U.S. GDP growth exceeded expectations, and the Federal Reserve described economic activity as "strong." Inflation remained elevated and above the Fed's long-term objective, with higher energy costs adding to price pressures. The labor market continued to normalize gradually. Job growth slowed, but low and stable weekly jobless claims and a relatively low unemployment rate pointed to resilience rather than meaningful deterioration. Against this backdrop, the Fed held the federal funds rate steady in October, as widely expected. Chair Warsh stressed that inflation remains a concern and that future decisions will depend on incoming data. Other major central banks were likewise balancing persistent inflation against shifting economic conditions.

October's equity market performance reflected a sharp rotation rather than a broad risk-off move. After reaching a new all-time high early in the month, the S&P 500 finished slightly lower as declines in Information Technology and Communication Services weighed on the market. Together, the two sectors account for roughly half of the index, allowing their declines to outweigh gains in the other nine sectors. Semiconductors and several AI-linked leaders were the main drags on performance. Investment performance was considerably stronger beneath the headline return. Developed international equities were relatively resilient as most stocks rose even as the index fell, although emerging markets came under pressure from weakness in the Industrial and Information Technology sectors.

Treasury yields ended the month lower after the 10- and 30-year yields reached multi-decade highs in the first days of October. Declining yields supported broad fixed income gains, particularly among longer-duration bonds, while also benefiting rate-sensitive assets such as REITs and infrastructure.

U.S. equity market performance broadened across sectors, style, and market capitalizations. Geopolitical uncertainty, inflation and fiscal pressures remain material risks, reinforcing the importance of diversification to reduce reliance on any single market outcome.

U.S. Equity Summary:

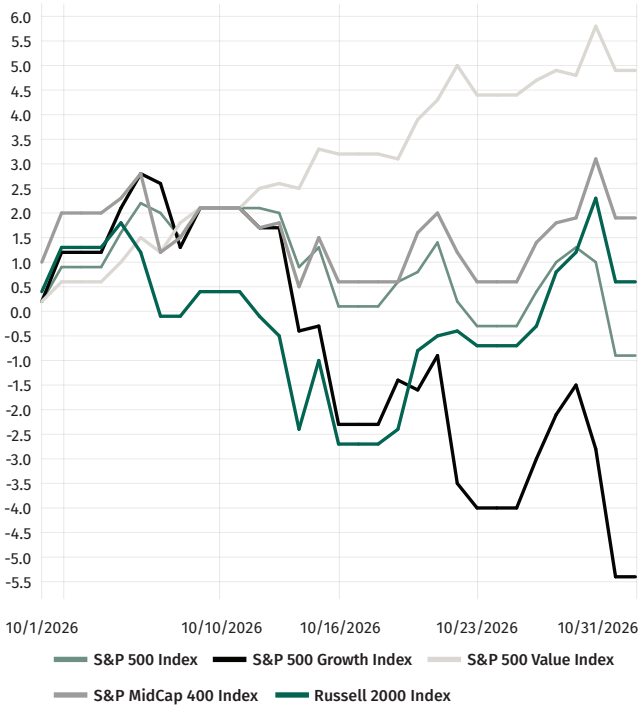
	October	YTD	Trailing 1 Year
S&P 500 Index	-0.9%	11.8%	12.4%
S&P MidCap 400 Index	1.9%	12.0%	14.4%
Russell 2000 Index	0.6%	14.4%	15.4%

Source: Factset Data as of October 31, 2026.

October was a month of rotation, not a broad selloff. Although the headline index slightly declined, participation in other parts of the market improved considerably. Investors moved out of the year's crowded growth, momentum and high-beta trades, and into value, dividend payers and defensive sectors. The S&P 500 slipped 0.9% as a sharp drop in semiconductors and AI-linked mega caps offset gains elsewhere. Breadth was far stronger beneath the surface as the S&P 500 Equal Weight Index gained 5.0%, outpacing the cap-weighted index by about 5.9 percentage points.

By market cap, mid-caps led as small caps posted modest gains, while large cap growth weighed on the broader index. Small caps remain the strongest performers YTD. By investment style, value outperformed across all capitalization ranges, with the widest gap in large caps as the S&P 500 Value outperformed S&P 500 Growth by roughly 10 percentage points (+4.9% vs. –5.4%), as shown in Figure 1. The S&P factor indices told a similar story. Defensive and income factors led, while momentum-driven and growth lagged. Even the broad S&P 500 Quality index slipped 1.4%, as investors favored defensive, dividend-paying stocks over quality alone.

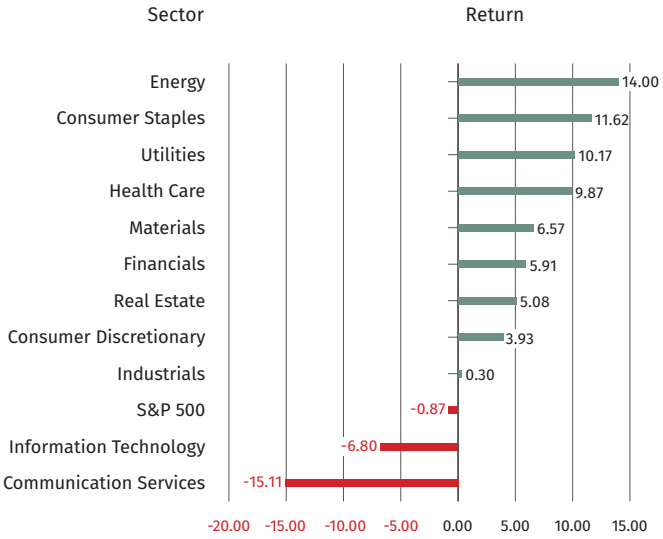
Figure 1: Performance of U.S. Equity Markets by Style and Market Capitalization



Source: Factset Data as of October 31, 2026.

As shown in Figure 2, nine of the 11 S&P 500 sectors advanced, reflecting the underlying rotation within the broader market. Declines in Information Technology (–6.8%) and Communication Services (–15.1%), which together make up nearly 50% of the index, outweighed gains in other sectors. Weakness centered on semiconductor, memory and AI-linked names, including Nvidia, Alphabet, Intel, Meta, Micron, AMD, and Broadcom, while Apple and Microsoft advanced. Energy continued its outperformance and was the strongest-performing sector, supported by higher oil prices amid developments in the Middle East. Consumer Staples and Utilities also posted strong gains, with falling interest rates being an added tailwind for Utilities. Health Care benefited from a stronger earnings outlook from a number of companies and investor demand for defensive exposure.

Figure 2: S&P 500 Sector Returns for October 2026



Source: Factset Data as of October 31, 2026.

October highlighted the concentration risks within widely followed equity indices and the importance of mantaining broader diversification. A small group of AI-linked mega-cap stocks weighed on the S&P 500 even as most stocks and sectors advanced. While one month does not establish a trend, October reinforced the importance of diversifying U.S. equity exposure beyond a narrow group of market leaders.

International and Emerging Market Equity Summary:

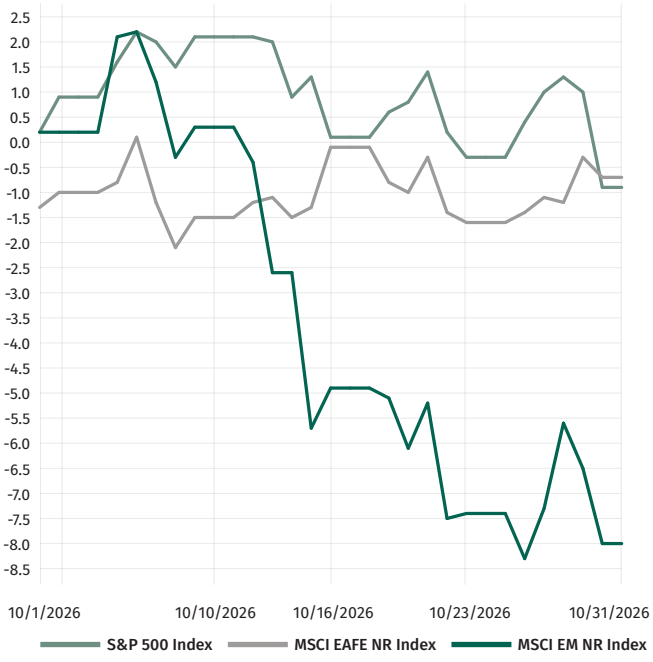
Developed international equities declined modestly in October, with the MSCI EAFE NR Index returning -0.7% (see Figure 3) broadly in line with the S&P 500's -0.9% return. Performance weakness was concentrated in technology and AI-linked industrials, while more defensive areas such as Health Care, Consumer Staples and Energy moved higher. Despite performing roughly in line with U.S. equities in October, the MSCI EAFE NR Index trails the S&P 500 by 2.3% on a YTD basis.

	October	YTD	Trailing 1 Year
MSCI EAFE NR Index	-0.7%	9.5%	13.5%
MSCI EAFE Small Cap NR Index	-2.2%	8.4%	12.2%
MSCI Emerging Markets NR Index	-8.1%	13.5%	14.1%

Source: Factset Data as of October 31, 2026.

From a regional perspective, Europe outperformed Asia-Pacific, as the MSCI Europe NR gained 0.40% while the MSCI Pacific NR declined 2.70%, largely reflecting weakness in Japan. European equities advanced despite political protests in France that weighed on sentiment, with MSCI France NR declining 1.7%. At the index level, Japan, the Netherlands and Spain were the largest country detractors, while Switzerland, the U.K. and Australia contributed positively.

Figure 3: Performance of U.S. Equities vs. International



Source: Factset Data as of October 31, 2026.

Style dispersion was relatively modest in October, with EAFE Value outperforming Growth by approximately 0.8%. From a market capitalization perspective, EAFE small caps lagged with a -2.2% return. YTD dispersion was considerably wider, however, with EAFE Value returning 13.9% compared with 5.2% for Growth, an advantage of approximately 8.7%.

Sector performance reflected a rotation toward more defensive areas of the market. Health Care (+11.2%), Energy (+10.9%) and Consumer Staples (+9.0%) led the MSCI EAFE Index, helping offset negative returns in Financials (-4.2%) and Information Technology (-9.2%). Technology was pressured by semiconductor weakness, while declines in European and Japanese banks weighed on Financials. Overall, the pattern was similar to the U.S., with investors moving away from technology and other cyclical areas in favor of defensive and income-oriented sectors.

International developed-market factor performance diverged sharply in October. Defensive and income-oriented characteristics led, and Minimum Volatility significantly outperformed the broader World ex USA Index. Quality also posted positive returns, while Growth was modestly higher. In contrast, Enhanced Value and Momentum lagged, highlighting that the month's leadership was concentrated in dividend, defensive, and quality characteristics rather than just a broad rotation into value.

Emerging Markets

Emerging market equities came under pressure in October, with the MSCI EM NR Index declining 8.1%, as shown in the table on Page 3. Weakness was concentrated in semiconductors and AI-related hardware, pushing Information Technology (-12.3%) sharply lower. Industrials, Materials and Communication Services also fell during this time. Emerging markets' large weighting in information technology magnified the decline, leaving gains in Energy (+0.9%) and Consumer Staples (+0.8%) too small to provide a meaningful offset. Value (-5.9%) outperformed Growth (-10.2%), reflecting the broader rotation away from growth-oriented market leaders. Regionally, Korea, Taiwan and China accounted for most of the weakness, while India and Mexico posted gains.

Emerging-market factor performance was broadly negative in October, although defensive characteristics held up better. Minimum Volatility (-3.6%) and High Dividend Yield (-2.4%) were the strongest relative performers,

while Momentum (-13.5%) experienced the sharpest decline. Growth (-8.8%), Quality (-9.6%) and Enhanced Value (-9.0%) also fell, reinforcing the broader shift toward lower-volatility and higher-dividend exposures during the month.

Real Assets Summary:

	October	YTD	Trailing 1 Year
FTSE Nareit All Equity REITs Index	4.7%	13.0%	13.1%
Bloomberg Commodity Index	-0.1%	32.8%	36.6%
S&P Global Infrastructure Index	6.9%	8.2%	10.9%

Source: Factset Data as of October 31, 2026.

Real assets performed well in October, led by global infrastructure (+6.9%) and U.S. REITs (+4.7%). At the same time, commodities were roughly flat (-0.1%) despite a sharp rise in oil prices. Income-oriented and rate-sensitive assets benefited from falling interest rates, with long-term Treasuries gaining 5%, providing a supportive backdrop for Utilities, REITs and infrastructure. Commodity performance was mixed, as strength in oil was offset by declines in precious metals and grains. Despite October's flat return, the Bloomberg Commodity Index remained a strong performer YTD, gaining 32.8%.

The FTSE Nareit All Equity REITs Index gained 4.7%, led by strength in self-storage, hotels and retail, while industrial REITs lagged. Global infrastructure gained 6.9%, with U.S. regulated utilities among the strongest performers. Energy related infrastructure also benefited from higher oil prices in October, as shown in Figure 4.

Brent crude rose 19.7% and WTI 12.1% respectively, but declines in precious metals, natural gas and agricultural commodities offset oil's contribution to the broad commodity index. Gold was down 6.6% and silver 18.4% for the month, bringing YTD returns to down 10.7% and 30.4%, respectively.

Figure 4: West Texas Intermediate Oil Prices



Source: Factset Data as of October 31, 2026.

Fixed Income Summary:

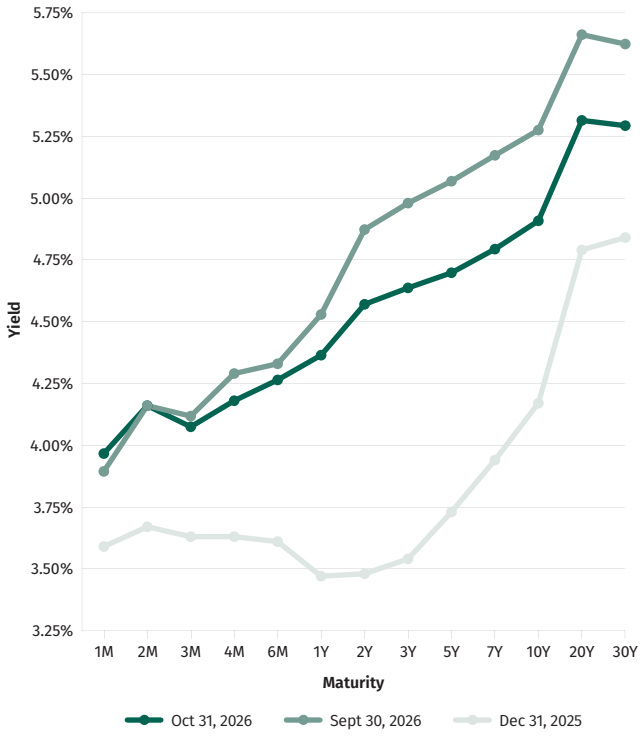
	October	YTD	Trailing 1 Year
Bloomberg U.S. Aggregate Index	2.4%	-0.5%	-0.1%
Bloomberg Municipal 1-10 Blend (1-12) Index	3.4%	0.2%	0.7%
Bloomberg U.S. Treasury Index	2.4%	-0.5%	-0.2%
Bloomberg U.S. Treasury TIPS Index	2.6%	0.4%	0.2%
Bloomberg U.S. Corporate Investment Grade Index	2.2%	-0.9%	-0.5%
Bloomberg U.S. High Yield Index	0.3%	0.4%	1.6%
FTSE WGBI non-USD Index	0.7%	-2.1%	-1.7%

Source: Factset Data as of October 31, 2026.

As shown in Figure 5, fixed income rallied broadly in October as Treasury yields declined benefiting longer maturity securities. Long Treasuries (defined as the Bloomberg U.S. Treasury 10+ Year Total Return) gained 5.1%, reversing some of the YTD's losses. Treasury returns generally increased with maturity as the Bloomberg U.S. Treasury 20+ Yr TR gained 5.6%, the strongest return along the curve, although it remains down 3.2% over the trailing year. In contrast, the Bloomberg US Treasury

Bills TR is up 3.08% YTD, outperforming every other Treasury Index segment. TIPS also participated in the October rally, gaining 2.6% and modestly outperforming nominal Treasuries as the index benefited from an average duration profile of 6.2 years and elevated levels of inflation.

Figure 5: Change of U.S. Treasury Curve



Source: Factset Data as of October 31, 2026.

The Bloomberg U.S. Aggregate Bond Index returned 2.4% in October, benefiting from the decline in Treasury yields, although it remains down 0.5% YTD and 0.1% over the trailing year, as shown in the table on Page 4. Shorter-duration fixed income strategies also generated positive returns during the month and on a YTD basis, supported by higher current income and the broader decline in interest rates.

At the sector level, corporate credit generated positive returns but generally lagged Treasuries. The Bloomberg U.S. Corporate Investment Grade Index gained 2.2%, compared with 2.4% for the Bloomberg U.S. Treasury Index. U.S. High Yield and leveraged loans lagged investment-grade credit, reflecting their shorter average duration and floating-rate characteristics, respectively. Within securitized credit, agency mortgage-backed securities outperformed both Treasuries and investment-grade credit, with the Bloomberg MBS 1000 TR Index gaining 3.1%. Commercial mortgage-backed securities returned 1.5% in October, bringing YTD gains to 0.5%.

Municipal bonds were among the strongest-performing U.S. fixed income segments in October as falling yields supported a broad bond market rally. The rebound followed September's sharp selloff, when elevated issuance and rising rates left municipal yields more attractive relative to Treasuries. Higher starting yields also strengthened the appeal of tax-exempt income for investors in higher tax brackets. The Bloomberg Municipal 1-10 Blend (1-12) Index gained 3.4%, outperforming the Treasury Index. (See Performance Summary on Page 4.). High-yield U.S. municipals also advanced, returning 3.5% for the month and 1.8% year to date, substantially outperforming taxable high yield in October. The rally highlighted municipals' potential to combine tax-efficient income with price appreciation when yields decline, although credit quality and interest-rate exposure remain important considerations.

International fixed income generally lagged U.S. bonds in October, as higher yields and a stronger dollar weighed on returns for international sovereign debt. The FTSE WGBI non-USD returned 0.7% versus 2.4% for the U.S. Treasury Index. As shown in Figure 6, the U.S. dollar gained 0.4% for the month and 3.6% YTD, contributing to weakness in international fixed income.

Figure 6: U.S. Dollar Index



Source: Factset Data as of October 31, 2026.

Emerging-market debt was mixed in October. Falling U.S. Treasury yields supported hard-currency sovereign bonds, which gained 1.5%, while EM corporate bonds returned 0.6%. Local-currency debt declined 0.6% as a stronger dollar weighed on returns. Despite the uneven month, EM debt remained among the stronger fixed income categories over longer periods. The JPM EMBIG Index returned nearly 10% annualized over three years, and local-currency debt (JPM GBI-EM Index) led EM fixed income YTD and over the trailing year.

October's rally in fixed income highlighted the return potential of the asset class. However, we note that record issuance is adding to supply and competing with government borrowing for investor capital. Elevated fiscal deficits, persistent inflation and geopolitical uncertainty could sustain interest-rate volatility. Against this backdrop, we favor a disciplined approach that emphasizes credit quality, diversified income sources and measured duration exposure rather than relying on a sustained decline in yields to generate performance.

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