



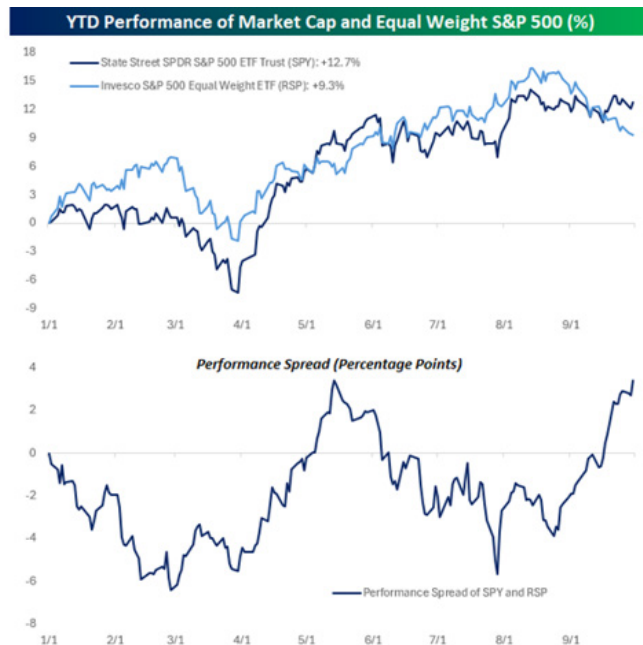
October 6, 2026

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Dear Reader,

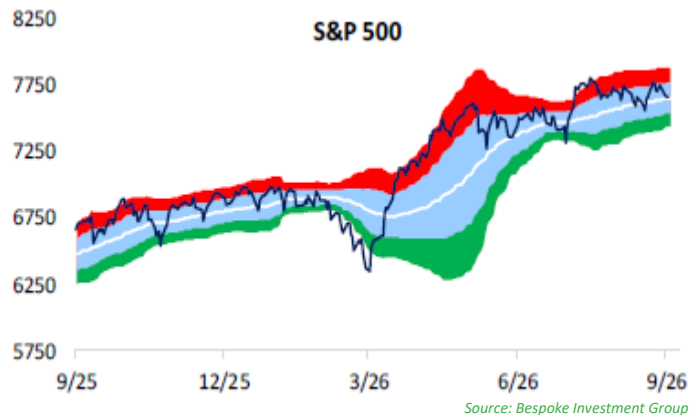
September Recap: Megacap Strength Masks Broader Weakness

At the index level, September was a quiet month: the S&P 500 finished essentially flat. However, continuing with the theme persisting over the past several months, there was plenty of volatility below the surface. Investors bid up the largest stocks while many smaller names weakened, so the market-cap-weighted index significantly outperformed its equal-weight counterpart.



Source: Bespoke Investment Research

S&P 500: Last 12 Months



Source: Bespoke Investment Group

The largest technology companies led that divergence - the Roundhill Magnificent Seven ETF, for example, rose 4% in September.

Macro Concerns Continue To Drive Volatility While Narrowing Market Breadth

The two macro concerns still dominating the financial press are interest rates and elevated energy prices. The 10-year U.S. Treasury yield finished the month at 5.29%, up from 4.76% a month earlier and 4.16% at the end of 2025. A 10-year Treasury yield slightly above 5% is relatively normal compared to historical standards but elevated compared to the low interest rate environment investors have become accustomed to since 2008.



Energy price volatility has become the new normal given the prolonged Iran conflict with no clear resolution on the immediate horizon. Together, these risks have dampened investor sentiment.

Higher rates and energy costs have recently weighed on smaller stocks and pushed investors toward the largest growth names, notably large-cap technology and the Magnificent Seven. The Russell 2000, for example, which tracks small-cap U.S. companies, fell 5.4% in September. Small caps are viewed as especially sensitive to the economy.

The largest growth stocks often have traits that cushion profits from temporary macro stress, such as low leverage (or the need for recurring financing), and revenue tied more to enterprise spending and capital investment than to the consumer cycle. Earlier in the year the largest technology stocks lagged as market breadth widened. September sharply reversed that trade.

Looking at the overall picture, we don't believe higher interest rates are cause for concern at current levels. Economic growth appears strong and accelerating - the Atlanta Fed's GDPNow tool forecasts third quarter GDP growth of 3.7% - driven by a resilient consumer and surging capital investment due to AI-related spending. While higher energy costs have depressed sentiment, consumers continue to spend - U.S. retail sales growth is tracking at 5.2% year-to-date.

Furthermore, the largest companies which dominate the market generally carry modest leverage, and much of the debt they do have is long-term and fixed-rate. In short, our economy, and stock market, are less energy and interest rate sensitive compared to past cycles.

While macro concerns continue to dominate the headlines, we believe the overall economic picture remains supportive of a sustained secular bull market.

Follow The Earnings And Capital Investment

Earnings growth, and the outlook for corporate profits, remains at the heart of our bullish thesis. S&P 500 profits are on pace to rise roughly 30% in 2026, and consensus estimates call for 15% growth in 2027. Forecasts for both years have kept rising as companies continue to beat quarterly expectations. In our view, both the direction and the depth of those earnings revisions matter most for the medium-term outlook.



Source: Bespoke Investment Research

There's good reason why we tend to focus on corporate profits in our client letters – as renowned economist Larry Kudlow once put it, “earnings are the mother’s milk of stocks.” Stock prices are a function of two things: future earnings, and how much the market is willing to pay for them (i.e. the valuation multiple). While the multiple can fluctuate based on a number of factors – investor sentiment, perceived risk, or interest rates for example – a rising profit outlook is almost universally bullish, and the reverse is also true. Over the long run, the market has tracked earnings growth closely, which should continue.

We remain bullish because that strong earnings growth is expected to continue. The driver fueling the current profit expansion – AI-related capital investment – is a secular trend which should scale further in the years ahead. Therefore, we expect continued revenue gains for the key beneficiaries, such as semiconductors, industrials, and energy/power companies. Furthermore, as AI adoption accelerates, we expect further margin expansion and productivity gains across other sectors and the economy as a whole.

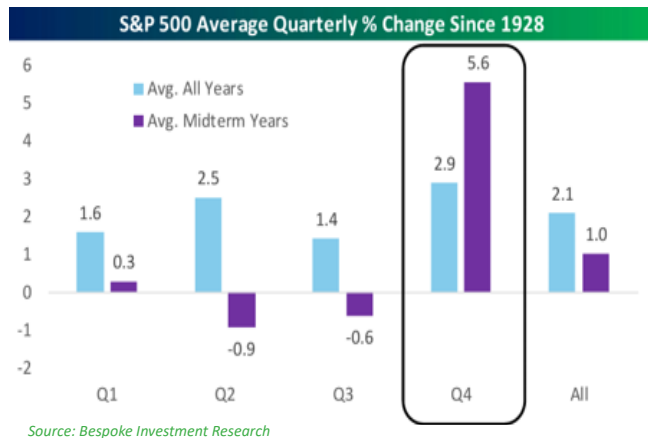
Looking Forward Towards The Fourth Quarter and 2027

Our optimistic outlook is anchored by company fundamentals – strong revenue and earnings growth, margin expansion, and solid corporate balance sheets.

Furthermore, given the degree of profit expansion, valuation multiples have contracted as earnings growth has outpaced stock appreciation. Based on 2027 consensus estimates, the S&P 500 currently trades at a forward price/earnings ratio of roughly 19x compared to 22x at the end of 2025. That multiple is only slightly elevated compared to the long-term average of roughly 17x.

Persistent concern about the macro backdrop is, in our view, keeping the market grounded. That is the setup for a prolonged secular bull market, not a late-1990s-style bubble. This advance may eventually end in a blow-off top, but that would likely come at much higher valuations. For now, the market trades at a historically average multiple even though earnings growth is running well above historical norms.

The fourth quarter has historically been a good period for stocks, especially late in the quarter as the year winds down. Earnings season ramps up in the coming weeks. We expect strong results and robust guidance to support our view of the underlying fundamentals. Capital spending also looks set to keep rising, which should further lift revenue for the main beneficiaries. However, with the midterm elections approaching in November and continued macro headwinds, we could see near term volatility, although we believe any sell-off, should it occur, would be short lived.



Taking a longer view, we remain optimistic into the new year and beyond. We expect the key underlying drivers to stay in place: earnings growth from capital investment and efficiency gains, and an economy that remains in expansion territory. The consumer has kept spending despite higher energy prices and rising rates. Some relief, such as a resolution to the Iran conflict and lower gas prices, would be a further tailwind.

A growing economy, robust capital investment, and elevated profit growth are the right mix for a sustained, healthy secular bull market. We expect those drivers to remain in place and earnings growth to keep pushing the market higher, especially with valuations that do not appear stretched.

We are watching for risks to that thesis, including a further rise in energy prices or a significant spike in bond yields. We see those as standing risks, not pressing concerns. Set against strong company fundamentals, we expect the fundamentals to keep winning out. The bigger downside risk would be a change in the trajectory of capital spending. All signs still point to acceleration rather than a slowdown, and we expect company guidance over the coming weeks to reaffirm that view.

As always, we value your trust in us and urge you to call with any questions concerning your financial matters

Sincerely,

CJ Brott

Karen Burns

Andrew Kerai