QUARTERLY INSIGHTS · Q3 2026

# Back to the Future

*Two forces are reshaping the investment landscape: interest rates and artificial intelligence.*




## 2026 SO FAR TOTAL RETURNS BY ASSET CLASS · YEAR TO DATE AND Q3 · AS OF 9/30/2026

| STOCKS | | | | | | BONDS | |
|---|---|---|---|---|---|---|---|
| **+12.74%** YTD | **+9.88%** YTD | **+14.13%** YTD | **+9.89%** YTD | **+22.69%** YTD | **+7.65%** YTD | **-2.78%** YTD | **-3.67%** YTD |
| Q3 +2.31% | Q3 -6.40% | Q3 -7.94% | Q3 +0.01% | Q3 -2.37% | Q3 -6.21% | Q3 -3.50% | Q3 -5.56% |
| **U.S. Large Cap** VOO | **U.S. Mid Cap** IJH | **U.S. Small Cap** IJR | **Int'l Developed** EFA | **Emerging Markets** EEM | **Real Estate** SCHH | **U.S. Aggregate** AGG | **Municipal** VTEB |

Source: YCharts, 9/30/26. ETFs are used as asset class proxies; full fund names are listed at the end of this report.

S&P 500 · VOO

**+12.74%**

Vanguard S&P 500 ETF · year to date · +2.31% in Q3

INT'L DEVELOPED · EFA

**+9.89%**

iShares MSCI EAFE ETF · year to date · +0.01% in Q3

REAL ESTATE · SCHH

**-6.21%**

Schwab U.S. REIT ETF · Q3 · +7.65% year to date

The S&P 500 had a good quarter. That isn't what made this quarter important. The Vanguard S&P 500 ETF (VOO) returned 2.31%, bringing its year-to-date return to 12.74%. International stocks trailed their U.S. peers, with EFA returning 0.01% for the quarter and 9.89% year to date. Real estate was the big loser for the quarter as higher rates weighed on REITs. The Schwab U.S. REIT ETF (SCHH) returned -6.21% for the quarter and 7.65% year to date.

> ***"Roads? Where we're going, we don't need roads."***
>
> — DR. EMMETT BROWN

Those numbers tell us what happened. The key word in this report is "Insights" and this quarter deserves more than a recap. Two forces are reshaping the investment landscape: interest rates and artificial intelligence. For fixed income, we are going back to the future—to a rate environment we knew roughly 20 years ago. For AI, we are in the middle of one of the greatest technology revolutions ever, and we are looking ahead to a future that is already driving the market.

The two stories overlap, both in what is happening today and in what comes next. We'll start with bonds, then set our destination for AI. So, let's jump in our DeLorean. Yes, we built a time machine out of a DeLorean.

PART I · BONDS

# Rates Going Back to the Future




10-YEAR TREASURY

**5.29%**

30-YEAR TREASURY

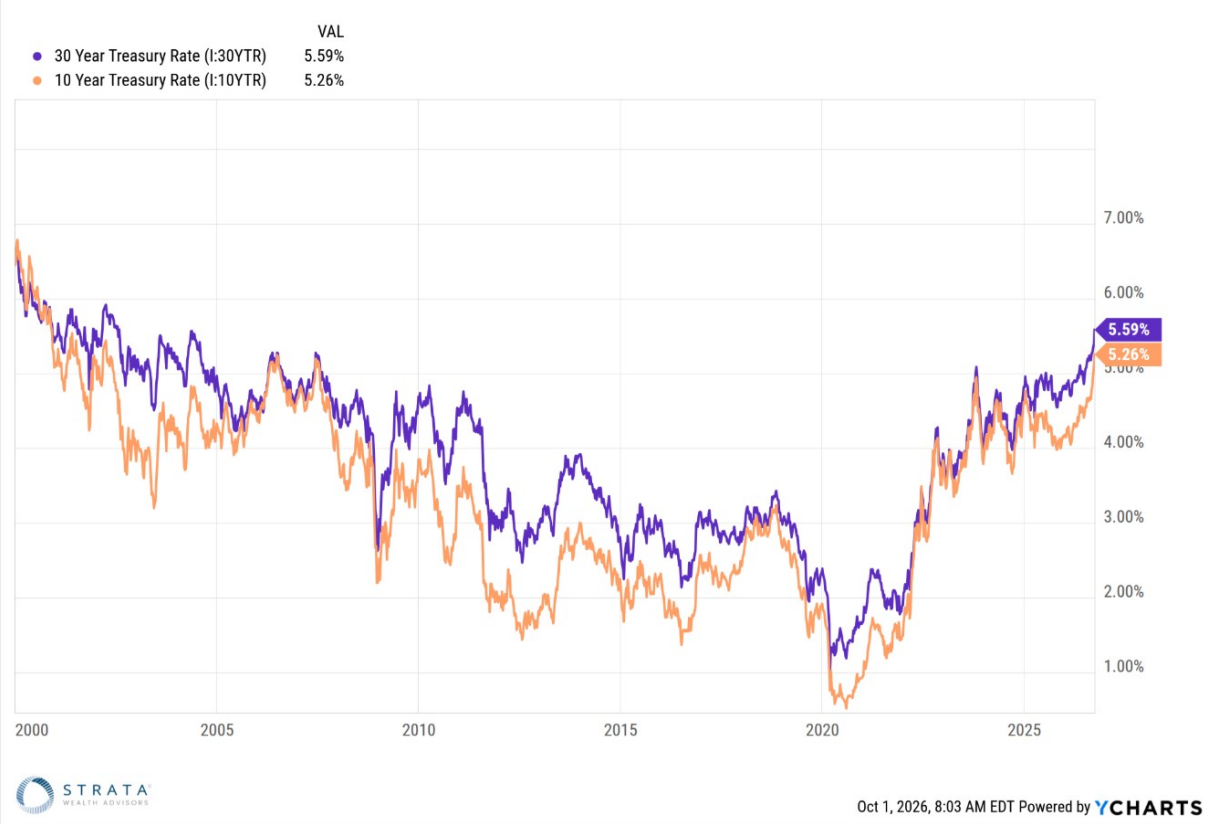
**5.64%**

Levels we haven't seen in roughly two decades

Interest rates have returned to levels we haven't seen in roughly two decades. Look at the 10-year and 30-year U.S. Treasury yields in the chart below. After years of exceptionally low rates, we are back in a world that looks much more like the years before the Global Financial Crisis.

## 10-year and 30-year U.S. Treasury yields since 2000

Source: YCharts, as of Oct 1, 2026




There is no shortage of explanations for rising rates. The U.S. budget deficit. Sticky inflation. The U.S.-Iran war and higher-for-longer energy prices. The enormous cost of building AI infrastructure, with corporate borrowers competing against the Treasury for investor dollars. Some point to foreign governments selling Treasuries because they are wary of the dollar. Others point to rising Japanese rates and investors unwinding the yen carry trade.

It could be a combination of all of them. Or perhaps, under Fed Chair Warsh, rates are simply returning to levels that were normal before the Global Financial Crisis. Markets have too many inputs for one explanation to tell the whole story. The reality is that rising rates are a global phenomenon this year. For investors, the more useful question is what today's rates mean for tomorrow's returns.

Starting bond yields tell us more about prospective returns than we can usually know about equities. With the U.S. 10-year and 30-year Treasury yields at 5.29% and 5.64%, respectively, buyers of individual Treasuries know the scheduled interest payments and principal repayment if they hold to maturity and those payments are made. They also know the yield to maturity at purchase, although their realized compound return depends on how the interest is reinvested. Bond funds muddy the waters

because they don't mature at par like an individual bond. Even so, their starting yield gives us useful information about their future return.

U.S. BONDS · AGG · Q3

**-3.50%**

iShares Core U.S. Aggregate Bond ETF · -2.78% year to date · -13.03% in 2022

PART I · 02

## Why own bonds?

There is always a reason to hate the market. These days, bonds give investors plenty of ammunition. The iShares Core U.S. Aggregate Bond ETF (AGG) returned -3.50% for the quarter and -2.78% year to date. Its five- and 10-year annualized returns were -0.62% and 1.10%, respectively. That is awful, particularly when those years included some of the highest inflation since the 1980s. After inflation, the experience has been even worse. So why own bonds after returns like that? It is a fair question.

First, those returns tell us where we have been. Investing is about where we go from here—and what we are being paid today.

AGG · 10-YR ANNUALIZED

**1.10%**

5-yr annualized: -0.62%

VOO · 10-YR ANNUALIZED

**15.30%**

5-yr annualized: 13.77%

Second, bonds complement equities. The Vanguard S&P 500 ETF returned 13.77% and 15.30% on an annualized basis over the last five and 10 years, well above the stock market's long-term historical average of roughly 9–10%. A balanced portfolio benefited from that equity strength even as bonds struggled. The two sides of a portfolio don't have to take turns on a convenient schedule.

TLT · 2022 NAV TOTAL RETURN

**-31.4%**

iShares 20+ Year Treasury Bond ETF

PART I · 03 · DESTINATION TIME: 2021

## The Bond Apocalypse

Third, the bond market and the doomsayers have been quite vocal this year, but they aren't always right. Bonds have been through one of the worst bear markets in their history, but look at where they started. The best example is 2022, one of the worst calendar years ever for bonds, particularly those with long maturities. The 30-year U.S. Treasury entered the year yielding about 1.9%, while December 2021 CPI inflation was 7.0%. Investors were taking a lot of interest-rate risk and receiving very little income in return.

30-YR YIELD ENTERING 2022

**~1.9%**

vs. 7.0% CPI inflation, Dec. 2021

To illustrate what investors did and what happened next, I use the iShares 20+ Year Treasury Bond ETF (TLT). Investors poured approximately $1.8 billion into TLT in 2021 and roughly $15.3 billion in 2022. Yet the ETF lost 31.4% on a NAV total return basis in 2022. That is a brutal result for an investment holding supposedly safe U.S. Treasuries. The credit risk may be low, but the price risk certainly wasn't. No wonder investors are leery of bonds and are anchoring to 2022.

FLOWS INTO TLT · 2022

**$15.3B**

~$1.8B in 2021

To understand why investors bought bonds, we have to go back to the narrative in 2021. There was a belief by many that rates could stay near zero or even go negative. Some European bonds actually did. To make matters worse, there were those in government preaching MMT and free money. I thought I was living in some bizarre world where investors willingly bought bonds with a negative nominal yield if held to maturity with out-of-control inflation. Yet money kept pouring into TLT and long bonds and rates stayed low. Investors drank the Kool-Aid that yields could go to zero or negative and prices would keep climbing. That was a bet on rate momentum. **We buy value.** That is a crucial difference.

For the record, we do not currently recommend TLT. It is simply a useful proxy for explaining long-duration bonds. Which brings us to bond math.

TLT EFFECTIVE DURATION

**14.74 yrs**

~18.6 years entering 2022

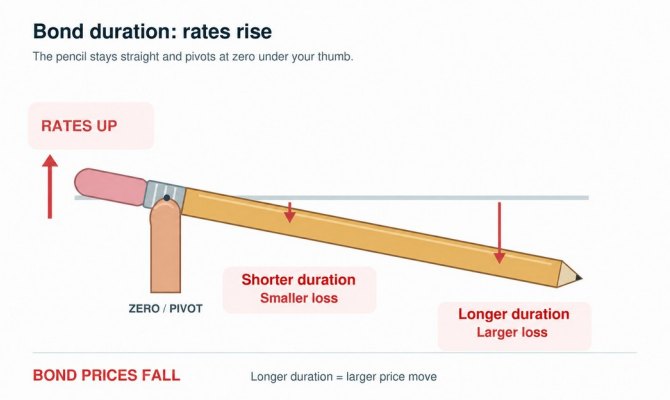
PART I · 04

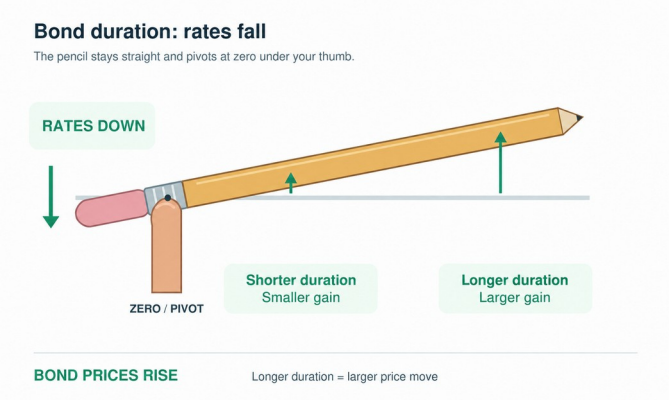
## Bond math

> DOC BROWN: ***"Obviously the time continuum has been disrupted, creating a new temporal event sequence resulting in this alternate reality."***
>
> MARTY MCFLY: ***"English, Doc!"***

Bond math gets a little geeky, but it explains why the opportunity today looks different from 2022. Start with duration. In bond speak, duration measures how sensitive a bond's price is to changes in interest rates and is expressed in years. A bond with a duration of 10 would move roughly 10% in the opposite direction of an instantaneous one-percentage-point move in rates. That is a rule of thumb; convexity, or the curvature in the price response, also affects the result.

When I explain duration in person, I use a pencil. I hold it at the metal band between the eraser and the wood. The eraser represents interest rates. The distance along the wooden part represents duration and the size of the bond-price move.




TLT YIELD TO MATURITY · 9/30

**5.65%**

vs. 1.90% entering 2022 (30-yr proxy)

My thumb is the pivot point. Tilt the pencil, and the part near my thumb barely moves. The far end moves much more. Bond prices behave the same way: short-duration bonds move less when rates change, while long-duration bonds move more even with small moves in rates. And the eraser (rates) moves in the opposite direction from the wood (bond prices). Rates up, bond prices down. Rates down, bond prices up.

Put duration together with starting yield, and we know quite a bit about a bond holding's risk and potential return. We still don't know where rates will go. But we can estimate how the investment will respond. That is why the starting point matters so much. Compare the yields, duration and inflation backdrop entering 2022 with what we have today.

## TLT comparison: then and now

| Measure | 12/31/2021<br>Entering 2022 | 9/30/2026 |
|---|---|---|
| Closing price | **$148.19** | **$77.78** |
| **Starting yield / YTM** | **1.90%**<br>30-year Treasury proxy | **5.65%** |
| 30-day SEC yield | **~1.5–1.7%** | **5.49% (9/29)** |
| Trailing distribution yield | **1.50%** | **4.97% (9/29)** |
| **Effective duration** | **~18.6 years** | **14.74 years** |
| Average maturity / coupon | **~26 years / ~2.8%** | **26.03 years / 3.34%** |
| CPI inflation, year over year | **7.0%**<br>December 2021 | **3.4%**<br>August 2026 — latest available |
| Net fund flows | **$15.3 billion**<br>Subsequent full year 2022 | **+$742 million**<br>2026 YTD through 9/29 |
| NAV total return | **-31.41%**<br>Subsequent full year 2022 | **-7.54%**<br>2026 YTD through 9/29 |

Sources: YCharts, BlackRock/iShares and BLS. Current values are as of 9/30/2026 unless otherwise labeled; August is the latest available CPI. The 2021 starting yield is a 30-year Treasury proxy, not TLT's portfolio yield; historical duration and SEC yield are estimates. Historical flow and return rows show the subsequent full year 2022.

CPI · AUGUST 2026

**3.4%**

Core CPI: 2.4%

Entering 2022, TLT offered very little income and a lot of duration risk. With inflation at 7%, investors weren't close to being compensated for that risk, in my view. Today's inflation picture is different. August 2026 headline CPI was still high at 3.4%, but core CPI, which excludes food and energy, was 2.4%. PCE inflation, a measure used by the Fed, came in at 3.4% in August and below expectations. There is a case for further improvement, particularly if the Iran war de-escalates or is resolved. In other words, inflation does not seem to be out of control. Above target, yes; high and out of control, no.

FLOWS INTO TLT · SEPTEMBER

**~$5B**

+$742 million YTD through 9/29

Investor interest picked up in September, with roughly $5 billion flowing into TLT. Yet year-to-date net inflows through September 29 were just $742 million, showing how much money had left earlier in the year. Investors are starting to come back.

We don't have to predict the direction of rates to see the difference. Higher starting yields give us more income to cushion a price decline. If yields stay unchanged, the simple illustration below puts the one-year total return near the starting yield. That is a return estimate, not a promise about the fund's cash distributions. We can also estimate what happens if yields rise or fall one percentage point—or, in bond speak, 100 basis points.

## Higher starting yields provide a larger cushion

Illustrative one-year total return

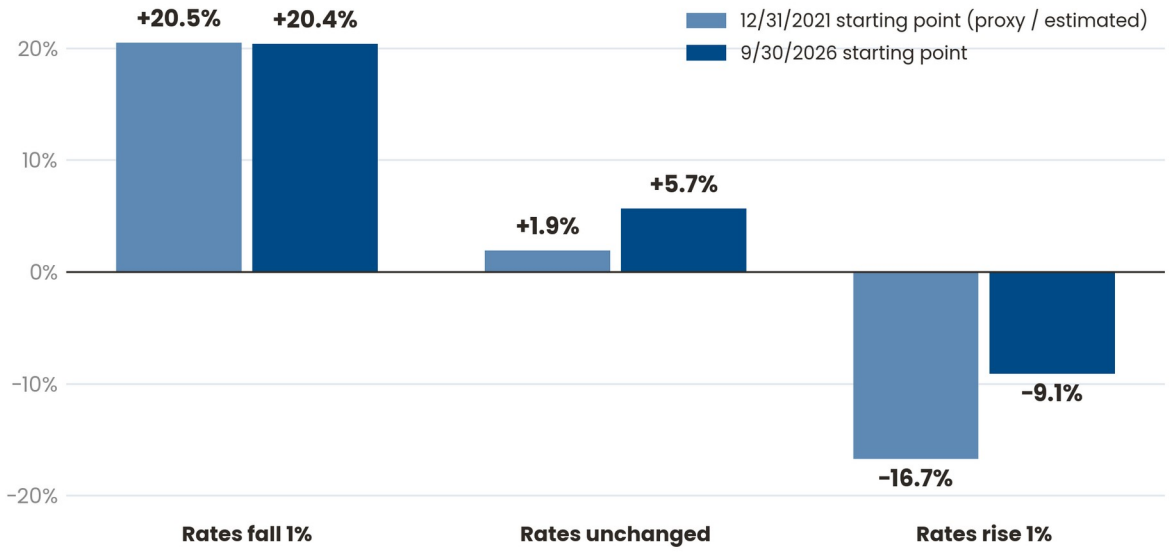



Illustration only: return ≈ starting yield - duration × yield change. Inputs: 1.90% and 18.6 years for the historical proxy; 5.65% and 14.74 years for TLT on 9/30/2026. Assumes an immediate, parallel yield change and a one-year holding period. Excludes convexity, fees, reinvestment effects and portfolio changes. Not a forecast or TLT backtest.

IF RATES RISE 1% · TODAY

**-9.1%**

vs. -16.7% from the 2021 starting point (illustration)

The difference shows up most clearly when rates rise: today's higher starting yield absorbs much more of the price decline. If rates fall, investors can receive income plus price appreciation. Neither outcome is guaranteed, but the starting position is substantially better. These are not the bonds investors were buying at the start of 2022. **Fixed income has income!**

That doesn't mean the pain is over. Buying bonds after a selloff is a little like rebalancing during a stock-market decline. You rarely get the exact bottom, and prices can fall further. But lower prices and higher yields improve the longer-term opportunity. We believe balanced investors are better off owning some duration, particularly because longer-term Treasuries can help protect a portfolio in a recession should rates fall.

Future inflation will determine the actual real return, but investors are being paid much more to take the risk. That is why we are more interested in bonds—and why we increased duration this quarter.

Looking at value, I don't think now is the time to hate bonds. There are risks. A return to 1970s-style stagflation could bring more pain and that is not our base case. Our base case is simple:

**Fixed income has yield again.**

**Fixed income offers yields above the latest inflation reading.**

**Fixed income is back to the future. Look forward, not backward.**

Now, back to one of the explanations for higher rates: the enormous amount of financing needed to build AI infrastructure. It competes for the same investor dollars. And that is where Part I meets Part II.

> ***"2015? You mean we're in the future?"***
>
> — MARTY MCFLY

PART II · ARTIFICIAL INTELLIGENCE

# The Future of AI




**AI INFRASTRUCTURE SINCE 2024**

**$1.15T**

Chips, power, construction and networking (Barron's)

**AI SHARE OF NET IG ISSUANCE**

**~54%**

Apollo Global Management estimate

**S&P 500 EARNINGS GROWTH · Q2**

**~52%**

FactSet · CY2026 estimate: 32%, vs. ~12% at the start of the year

**S&P 500 · VOO · YTD**

**+12.74%**

Including dividends

In Back to the Future Part II, 2015 was the future. Here we are in 2026, setting our destination for 2030. **We didn't get the hoverboards (but we did get drones). We got AI.** For equities, that is the story. AI is driving an enormous infrastructure buildout, and the spending is flowing through the economy and into corporate earnings. We are watching an industrial revolution unfold, and the pace is remarkable.

Since the start of 2024, roughly $1.15 trillion has been spent on AI infrastructure: $500 billion on chips, $350 billion on power, $200 billion on construction and $100 billion on networking, according to Barron's. That scale of investment takes financing. Apollo Global Management estimates that AI-related names account for roughly 54% of net investment-grade corporate issuance.

Nearly $250 billion of AI-related debt had been issued earlier in 2026—more than comparable AI-related investment-grade issuance from 2015 through 2024 combined. Apollo expects AI-related companies could issue up to $1 trillion more over the next few years. It is mind-boggling. And with the Treasury also asking investors for enormous sums, it is easy to see how that competition could put upward pressure on rates.

For equities, the other side of that spending is earnings, and the impact is massive. According to FactSet, S&P 500 earnings grew roughly 52% in the second quarter of 2026 on top of about 15% revenue growth compared with the second quarter of 2025. For the third quarter, FactSet estimates earnings growth of 29%. For the full calendar year, it expects earnings growth of 32%, versus approximately 12% at the start of the year.

Given that earnings backdrop, it is surprising that VOO, which tracks the S&P 500, returned just 12.74% year to date, including dividends. Rising stock prices don't automatically mean rising valuations. When earnings grow faster than prices over the same period and on the same earnings basis, the price-to-earnings multiple falls. In that case, investors are paying less for each dollar of earnings, even as the market rises. That is a much healthier foundation than a rally that depends entirely on investors paying a higher multiple.

BEATING THE INDEX

**35%**

of S&P 500 companies (Ben Carlson)

IN CORRECTION

**25%**

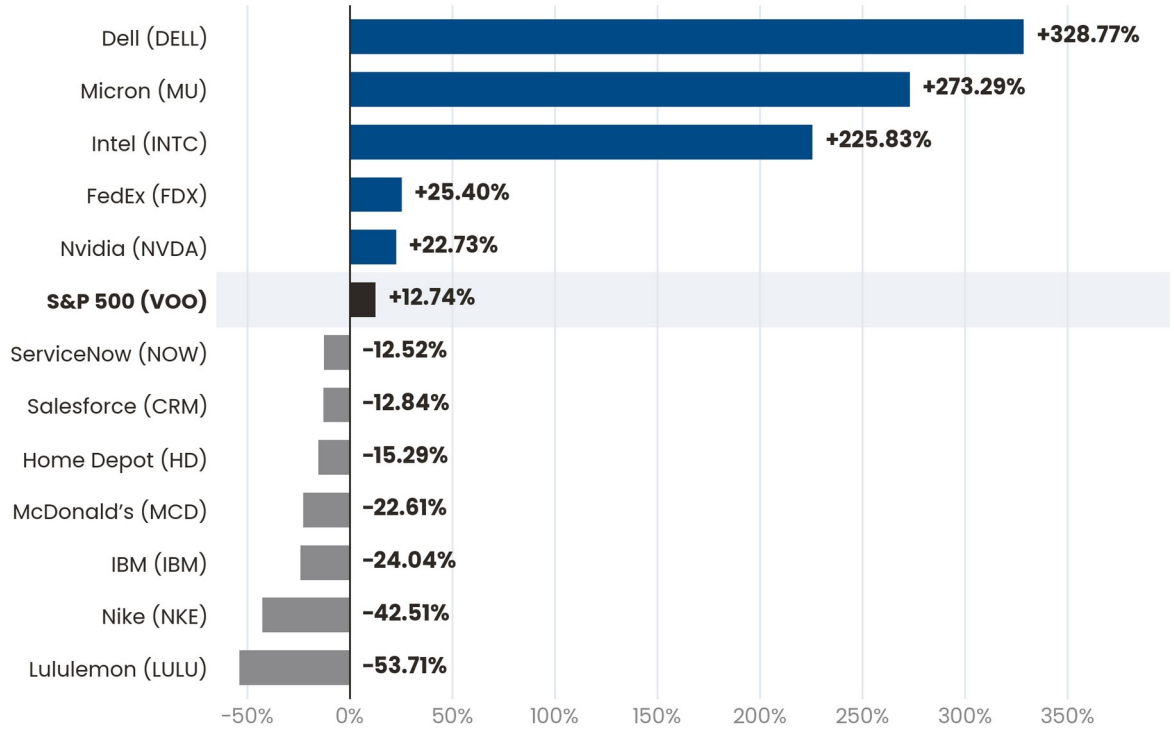
down more than 10% from their highs

But the index doesn't tell the whole story. According to Ben Carlson of A Wealth of Common Sense, at the time of his analysis just 35% of S&P 500 companies were outperforming the index, while 25% were in correction territory, down more than 10% from their highs. The winners have included AI infrastructure companies such as Dell, Intel, Nvidia and Micron.

On the other side are software and IT companies viewed as vulnerable to AI disruption, including IBM, Salesforce and ServiceNow. A number of Main Street companies have struggled as well: Lululemon, Nike, McDonald's and Home Depot. FedEx shows why the time frame matters: it fell 8.57% in the third quarter but was still up 25.40% year to date.

## A market of haves and have-nots

YTD total returns through September 30, 2026



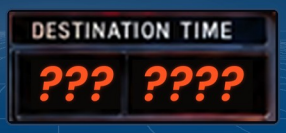

Includes reinvested distributions. VOO is the S&P 500 ETF comparison.

Source: quarter-end ETF and stock return data, September 30, 2026. All bars use the same percentage scale.

It is a market of haves and have-nots, and the discussion extends well beyond Wall Street. I expect AI's effect on jobs and opportunity to be part of the debate in the U.S. midterm elections.

PART III · YOUR FUTURE

# Where Do You Want to Go?




OUR VIEW

## Net positive

We believe AI will be a net positive.

PART III · 01

## Learning from the past

> ***"Your future hasn't been written yet. No one's has. Your future is whatever you make it. So make it a good one."***
>
> — DOC BROWN

What does that future look like? I don't have Doc Brown's DeLorean. I have the past and the lessons it has taught me. One is not to bet against the U.S. stock market over the long term. Another is that when fear takes over and everyone is preaching doom and gloom, opportunity is often greatest. If there is a doom-and-gloom market today, it is the bond market.

I have also learned not to invest for Armageddon. I love AI Armageddon movies like Ex Machina or I, Robot, but I am not building a portfolio for that outcome. If it happens, the stock market won't be my biggest concern. Survival will.

We believe AI will be a net positive. It will be disruptive, but it will also create opportunity. Greater productivity can expand corporate margins and grow earnings over time. We are already seeing massive productivity gains in our own small world of financial planning. We think the value we deliver to clients will continue to grow because of AI. There are times when it simply blows our minds.

PART III · 02

# Our protective vest

> **MARTY MCFLY:** *[Doc has just been shot. Marty runs over to him]* *Doc! Doc!*
>
> **MARTY MCFLY:** *[Marty turns Doc's body over to reveal it is apparently bullet-ridden and lifeless. Marty begins to cry]* *No! No!*
>
> **MARTY MCFLY:** *[Doc suddenly blinks and sits up]* *You're alive.*
>
> **MARTY MCFLY:** *[Doc unzips his radiation suit to reveal a bulletproof vest underneath]* *Bulletproof vest? How did you know? I never got a chance to tell you.*
>
> **MARTY MCFLY:** *[Doc smiles and removes a weathered piece of paper from his pocket. Marty unfolds the paper to reveal it is the warning letter he had written in 1955, taped back together]* *What about all that talk about screwing up future events? The space-time continuum?*
>
> **DR. EMMETT BROWN:** *Well, I figured, what the hell?*

If I could go back to the future, what would I tell myself? What would you tell yourself? With hindsight, investing looks easy. I am willing to bet your answer would be something like, "I would buy Apple, Nvidia, Tesla or whatever stock when it got hit." You probably wouldn't say, "I wish I had sold stocks during that scary period." More likely: "I wish I hadn't sold. I wish I had held on."

Buying and holding is easy when you already know how the story ends. The hard part is doing it while the outcome is still uncertain. That is the lesson for today.

Doc read Marty's warning from the past and knew to wear a bulletproof vest. We don't get a letter telling us what happens next. We have to learn from the past and prepare for more than one possible future.

**Diversification is our protective vest.** And that means owning bonds despite their poor recent returns, because they are offering some of their highest yields since early this century. In fact, we recently increased duration and yield in our bond portfolios, understanding that we won't time the exact bottom.

Not every asset in a diversified portfolio will be working at the same time. We spread our investments across different opportunities because we don't know exactly how the future will play out.

**However, what we do know is that fixed income has income again, and that is a good thing.**


## Mark Whidby, CFA

Chief Investment Officer

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FUND GUIDE

## Funds referenced in this report

Exchange-traded funds (ETFs) are used as proxies for asset classes. Tickers appear in parentheses after first use.

| TICKER | FUND | USED AS A PROXY FOR |
|---|---|---|
| VOO | **Vanguard S&P 500 ETF** | U.S. large cap stocks |
| IJH | **iShares Core S&P Mid-Cap ETF** | U.S. mid cap stocks |
| IJR | **iShares Core S&P Small-Cap ETF** | U.S. small cap stocks |
| EFA | **iShares MSCI EAFE ETF** | International developed stocks |
| EEM | **iShares MSCI Emerging Markets ETF** | Emerging markets stocks |
| SCHH | **Schwab U.S. REIT ETF** | U.S. real estate |
| AGG | **iShares Core U.S. Aggregate Bond ETF** | U.S. investment-grade bonds |
| VTEB | **Vanguard Tax-Exempt Bond ETF** | Municipal bonds |
| TLT | **iShares 20+ Year Treasury Bond ETF** | Long-term U.S. Treasuries |

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