

BIONDO PERSPECTIVES

THIRD QUARTER MARKET COMMENTARY

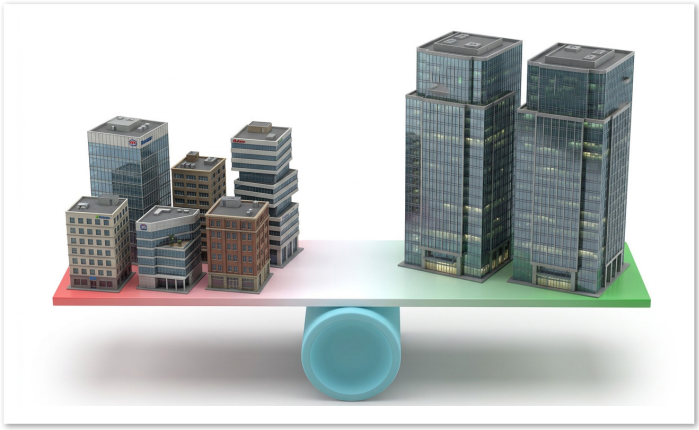


Joseph P. Biondo

What happened
The third quarter of 2026 will be remembered as the quarter the inflation fight came back. In September, the Federal Reserve raised interest rates for the first time since July 2023, and the 10-year Treasury yield climbed to its highest level in roughly two decades. Behind both was the same force that defined our first-quarter letter: the conflict with Iran and its grip on global energy prices. On the surface, the stock market held its ground. Underneath, only a small group of companies did the lifting.

Oil and energy
The second quarter brought real relief. An April ceasefire and a June agreement between the US and Iran reopened the Strait of Hormuz, oil fell back to pre-war levels near $70 per barrel, and stocks had their best quarter since 2020. That calm did not last. In early July, Iran attacked tankers in the Strait, the US struck targets inside Iran, and the agreement collapsed.

Oil climbed back to about $103 a barrel by the end of September, a gain of roughly 40% for the quarter. Most of us felt it at the pump: regular gasoline averaged $4.41 a gallon by October 1, and diesel set records above $6. Oil flows out of the Strait have improved, partly under US military escort, but there is still no ceasefire and no deal.



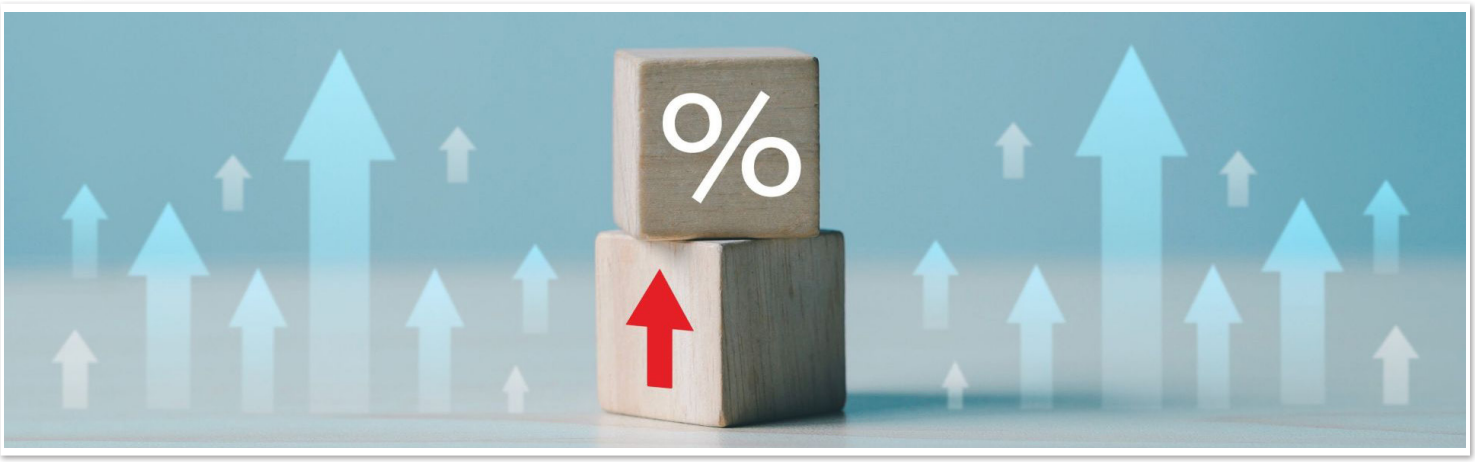
The stock market: a few companies did the work
The S&P 500 rose 2.3% for the quarter and is up 12.75% for the year. Those headline numbers hide a lot. Smaller companies fell, with US small-caps down 7.2%; international markets were roughly flat, and bonds lost 3.5% in the quarter as interest rates rose. Only four of the eleven S&P 500 sectors finished higher, led by Energy and Technology. If every company in the index counted equally, the S&P 500 would have fallen about 2%. **Put simply, a handful of very large companies carried the market.** Microsoft alone gained 37.5%, its best quarter in more than 25 years, on the strength of its AI and cloud business.

That is a sharp reversal from the first half of the year. In our first-quarter letter, we described the shift toward more reasonably priced companies and away from expensive growth stocks as a healthy and overdue correction. In the third quarter, the market swung back the other way, with large growth companies again leading while smaller companies lagged. We do not view one quarter as a verdict on either style, but we would be less than candid if we did not point out that market leadership has narrowed again, and narrow markets carry more risk.

Our strategies
For the third quarter, net of fees, our Focus composite returned 5.79%, our Growth composite returned 3.30%, and our Dividend composite returned 2.27%. While these returns outpaced most US benchmarks, our performance is still lagging the S&P 500 for both the year-to-date and one-year periods. The US markets are still being largely driven by a handful of memory and hardware stocks that we do not own and whose performance has been on a tear in the past year, despite retreating in the past quarter. We have had many conversations about why we don't own these high flyers, why we have

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refused to chase them, and why we believe the way we are positioned is the right approach for the long term. Should you wish to discuss this in further detail, please reach out to your Wealth Advisor or to the Portfolio Management team.

The Fed and your interest rates
The Federal Reserve's story changed considerably this quarter. Kevin Warsh was sworn in as Fed Chair on May 22, succeeding Jerome Powell. On September 16, the Fed raised its key short-term rate by a quarter of a percentage point, to a range of 3.75% to 4.00%, in a unanimous vote. Chair Warsh was direct about his reasoning: "The plain fact is that inflation is too high and has been for too long." The Fed now projects one more increase in 2026. At the start of the year, markets were expecting two to three rate cuts. That is a meaningful shift in nine months.

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The inflation data explains why. Consumer prices rose 3.4% over the twelve months ending in August, driven largely by energy, with gasoline up 27% from a year earlier. Excluding food and energy, inflation was a more modest 2.4%. In other words, the problem remains concentrated in energy, much as we described in April. The Fed raised rates anyway because it is concerned that higher energy costs will eventually spread into everyday prices. Consumers share that worry. The University of Michigan's long-running consumer sentiment survey fell in September to below its level at the start of every recession since the survey began.

Higher rates are being felt by borrowers and bondholders alike. The average 30-year mortgage rate reached 7.28% on October 1, its highest level since November 2023. The 10-year Treasury yield climbed from 4.44% to 5.29% during the quarter, and rising yields push the prices of existing bonds down, which explains the weak quarter for bonds. The silver lining: high-quality government bonds now pay more than 5%, the most attractive income in roughly two decades, and that gives us more options when building the bond side of a portfolio.

The economy and company profits
The broader economy has been more resilient than the mood would suggest. Second-quarter GDP growth was revised up to 2.2%, and early estimates for the third quarter are stronger. The job market, however, has cooled noticeably. Employers added just 29,000 jobs in September, and the unemployment rate edged up to 4.2%.

Corporate earnings remain the strongest pillar supporting stocks. Even after excluding large one-time investment gains at Alphabet and Amazon, second-quarter S&P 500 earnings grew over 30%, and analysts expect growth of about 30% for the third quarter. The S&P 500 trades at about 19 times the profits companies are expected to earn over the next twelve months, in line with its 10-year average. That tells us the market as a whole is not excessively priced, even after this year's gains. The catch is concentration. Nvidia and Micron alone are estimated to account for about a third of the S&P 500's earnings per share growth this year. When so much depends on so few, any disappointment carries outsized weight.

Looking ahead
Trade policy stayed active, with a new round of tariffs in July, an escalating dispute with Canada, and a short extension of the US-China trade truce. Congress avoided a government shutdown with a funding bill that runs through December 11.

The fourth quarter brings a full calendar. Companies begin reporting third-quarter results on October 13, the Fed meets in late October and again in December, and the midterm elections take place November 3. Historically, markets have often been choppy ahead of midterm elections and have tended to find firmer footing once the uncertainty clears.

The single largest variable remains Iran. A durable agreement that reopens the Strait of Hormuz would likely bring oil prices down quickly, as it did in June, easing pressure on inflation and on the Fed. A further escalation would do the opposite. We are not positioning portfolios around a single scenario.

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are reasonable relative to earnings, and bonds are offering their best income in years. What concerns us: a Fed that is raising rates into a cooling job market, oil prices that remain hostage to events in the Gulf, and a stock market that is leaning heavily on a small group of companies. In our view, this is an environment that rewards discipline, diversification, and patience rather than chasing the latest leaders.

We continue to monitor conditions closely and remain committed to the disciplined, long-term approach that has always guided our work on your behalf. If portfolio adjustments are warranted, we will make them. Please do not hesitate to reach out with any questions or to schedule a review of your portfolio or financial plan. We appreciate the trust and confidence you have placed in our firm, and we look forward to navigating the rest of the year together.



Joseph P. Biondo
CEO, CIO & Portfolio Manager

Sources: Index, sector, strategy returns – Bloomberg, Orion, Novel Investor, Quartz; Interest rates – Federal Reserve, Central Banking, CBS News, Fox Business; Treasury yield – US Dept of the Treasury; Oil and gas prices – Cetera Investment Management, US Energy Information Administration, AAA; Market review – Royce Investment Partners, Advisor Perspectives, JP Morgan: Economic data – Bureau of Labor Statistics, Trading Economics, CRE Finance Council; Earnings and valuation – FactSet, Yahoo Finance

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TEAM NEWS

Welcome Ken Pickett, CFP®



We are excited to have Ken Pickett, CFP®, join our team as a Wealth Advisor. As a CFP® professional, Ken has met rigorous standards for education, examination, experience, and ethics, and is committed to acting in clients' best interests when providing financial advice.

He previously served as Director of Financial Planning at the Sanczyk Group and brings additional experience from AXA Advisors and E*TRADE Morgan Stanley, where he provided guidance to individuals and families on investments, retirement strategies, tax-smart financial planning, and legacy planning. He holds a Bachelor of Science degree from Fairfield University.

His knowledge and experience are a welcomed addition that enhances our firm's continued commitment to our clients' success. Feel free to contact Ken to discuss how he can help guide you toward achieving your financial goals.

ONE DECISION AT A TIME:

Why Financial Planning Works Better With A Guide

"Markets swing between hype and fear.
A clear plan, and a guide who knows the terrain, can help you make each decision with confidence."



Hype and Fear Are Nothing New
Every generation has its big new thing. Today it's artificial intelligence. A few decades ago it was the internet. Before that, it was something else entirely.

The pattern tends to look the same. Early on, few people notice. Then excitement builds, sometimes far past what reality can support. Eventually pessimism takes over, often just as excessively. The truth usually lands somewhere in the middle.

The challenge is that history rarely looks like history while it's happening. In the moment, it's hard to tell whether you're looking at the next Google or the next Pets.com. That uncertainty is exactly why a plan matters.

Why Going It Alone Is Hard
Markets are made up of people, and people have emotions. When things are going well, we tend to assume they'll keep going well. When things turn, we assume the worst will last forever. Both feelings get stretched too far into the future.

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That's what makes market timing so difficult. There's a reason the saying "markets can stay irrational longer than you can stay solvent" has lasted so long. Even seasoned investors struggle to call the top or the bottom.

When you're managing your own money alone, there's no one to slow you down when headlines push you toward a rash move. There's also no one to point out when fear is keeping you from an opportunity that fits your goals.

Financial Planning Is About Decisions
"Financial planning" can sound like a binder full of projections. In reality, it's a means to an end, and that end is a decision.

Someone approaching retirement might go through a great deal of planning to answer a few practical questions:

How much of my income should I be saving and investing?
How much of that belongs in the stock market?
When can I realistically stop working?
How will I turn my savings into income I can rely on?

Each answer is a decision, and those decisions add up. Occasionally, a choice that seems small at the time has a large impact years later. Other decisions that feel daunting in the moment turn out to be a rounding error twenty years on.

What a Financial Plan Covers
Investing is only one piece of the puzzle. For those approaching retirement, a thorough plan typically looks at how all the pieces fit together:

• **Retirement income.** How savings, pensions, and Social Security can work together to cover your spending, and in what order to draw on them.

• **Social Security timing.** When to claim can meaningfully change the benefits you receive over your lifetime.

• **Taxes.** Which accounts to withdraw from, and when, can affect how much of your money you keep.

• **Health care**. Planning for coverage before Medicare eligibility, and for costs that tend to rise with age.

• **Risk and protection.** Making sure insurance and an emergency reserve are in place so one setback doesn't derail the plan.

• **Estate and legacy.** Keeping beneficiaries and documents current so your wishes are carried out.

Each of these areas affects the others. A decision about when to retire, for example, touches your income, your taxes, and your health coverage all at once. Looking at them together helps avoid surprises.

What an Advisor Brings to the Table
A good advisor can't predict the future, but they can bring structure and perspective when markets feel unsteady. That starts with a consistent investment philosophy that keeps decisions from being driven by headlines, and a disciplined process for selecting and maintaining investments that holds up in both good markets and bad. It also means keeping your investments tied to a clear purpose that reflects your goals and timeline, and offering an outside perspective that helps you think a decision through before acting on emotion. As a fee-only advisor, our role is to help you make the best decisions possible with the information available at the time, then revisit them as your life and the markets change.

A Plan That Changes With You
A financial plan isn't a one-time document that sits in a drawer. Life moves, and the plan should move with it. A new grandchild, a change in health, an inheritance, the sale of a home, or an earlier-than-expected retirement can all shift the right next step.

That's why we revisit plans regularly with our clients. Each review is a chance to check progress, adjust for what's changed, and make the next decision with current information. Over time, those small, steady adjustments tend to matter more than any single forecast.

Prepared, Not Predicting
Standing at the top of a black diamond ski trail, or heading into rough water, can be terrifying if you're unprepared or on your own. With preparation and a capable guide, the same experience becomes something people gladly take vacation days to enjoy.

Planning your financial future should work the same way. It should bring more confidence than fear. At Biondo Investment Advisors, LLC, our aim is to be the guide who helps you feel prepared for, and excited about, what comes next.



Karl A. Wagner, III
Partner, Senior Wealth Advisor

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