Fall 2026
Market Outlook



HELLO@HOWEANDRUSLING.COM • (585) 325-4140 • 165 CULVER ROAD, ROCHESTER, NEW YORK 14620

2 INVESTMENT OUTLOOK

3 ARTIFICIAL INTELLIGENCE

5 LABOR MARKET

6 INFLATION

7 FISCAL POLICY

7 MONETARY POLICY

7 STOCKS

10 FIXED INCOME

13 OUR OUTLOOK

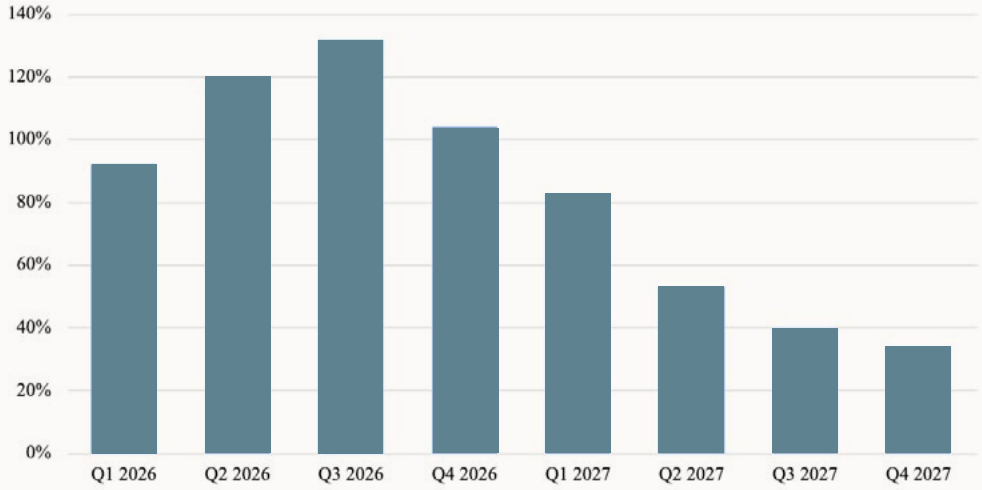
Fall 2026 Investment Outlook

During the third quarter of 2026, subdued volatility in the S&P 500 masked sharp swings in individual stocks and industry groups (Advisor Perspectives). For example, software and services stocks, which declined 20% in the first half of the year amid concerns about AI-driven disruption, rebounded 28% in Q3, accounting for 98% of the S&P 500 Index's approximately 2.3% total return for the quarter. Meanwhile, U.S. economic growth remained resilient, Treasury yields rose to levels not seen in decades, and inflation remained above 3%, well above the Federal Reserve's 2% target (Morningstar).
In our Fall 2026 Investment Outlook, we examine these developments and share our latest views on the markets, the economy, and the investment implications for clients.

In our Summer 2026 Investment Outlook, we noted that semiconductors, technology hardware and equipment, and capital goods accounted for more than 100% of the S&P 500 Index's gain in the first half of the year. According to Goldman Sachs, at the start of 2026, consensus estimates called for 36% capital spending growth among major technology companies providing AI cloud services. Those estimates have since risen sharply, with consensus now projecting growth of nearly 100% for the full year. Both the magnitude of the expected spending increase and the substantial upward revisions to those forecasts helped drive the exceptional performance of several AI suppliers highlighted in our previous outlook.

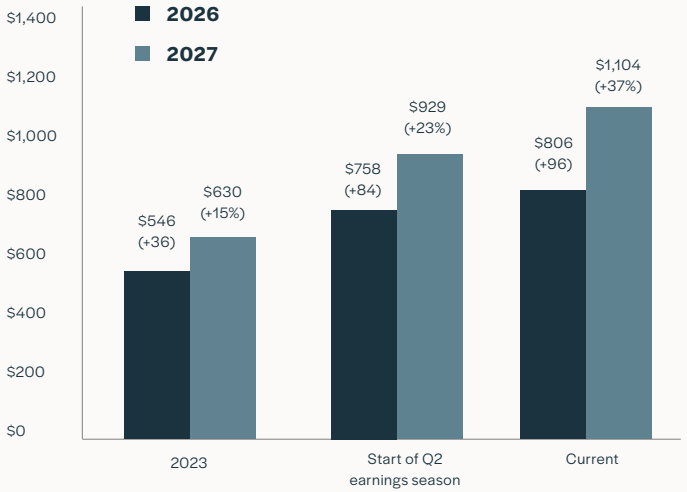
In Q3 2026, capital spending on artificial intelligence equipment remained strong, and Wall Street consensus forecasts for future spending continued to rise. Current estimates project year-over-year growth peaking at 132% in Q3 2026 before decelerating materially over the following year, to 34% by Q4 2027.

CONSENSUS CAPITAL EXPENDITURES GROWTH FORECAST
U.S. AI COMPUTE SERVICE PROVIDERS



Source: Bloomberg. Includes Microsoft, Amazon, Alphabet, Oracle, Meta, Space Exploration Technologies, CoreWeave, Nebius Group, and IREN Limited

CAPEX ESTIMATES HAVE BEEN REVISED HIGHER



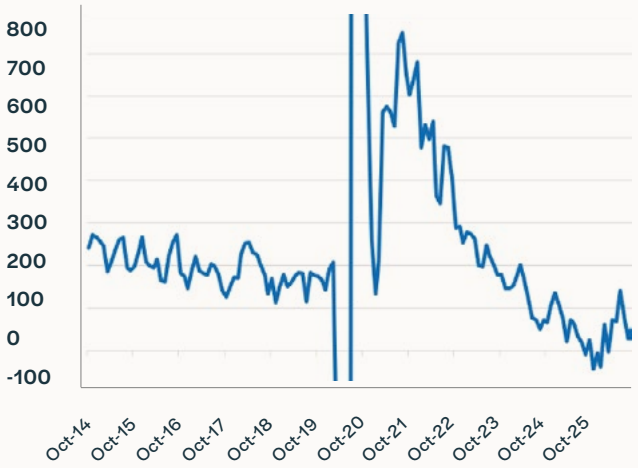
Source: FactSet, Goldman Sachs Global Investment Research

As we noted in our Summer 2026 Investment Outlook, profit margins for some suppliers of AI-related components, including memory semiconductors, have reached record levels (Seoul Economic Daily). High profit margins of suppliers can encourage customers to seek substitutes and efficiencies, while incentivizing existing producers to expand capacity and new competitors to enter the market (NetSuite). Thus, although we remain favorable on the long-term demand outlook for AI, we are concerned that some suppliers may be approaching peak growth and profitability, with margins potentially declining as competition intensifies and supply expands.

In the first half of 2026, AI-related stock performance was concentrated in semiconductors, technology hardware and equipment, and capital goods, while software and other consumer and commercial services lagged as investors reassessed the risks that AI could disrupt existing business models (Visual Capitalist; Investing.com; Bloomberg). That pattern reversed in Q3, when software and services stocks became the largest contributor to the S&P 500 Index's return. Research analysts at Goldman Sachs and Morgan Stanley expect AI applications to continue expanding, with a substantial share of the economic benefits potentially accruing to companies that successfully adopt the technology, including those in software, financial and business services, and health care (Morgan Stanley; Goldman Sachs). In our opinion, companies capable of using AI to improve productivity, reduce costs, or strengthen competitive positions may become increasingly important to investment returns.

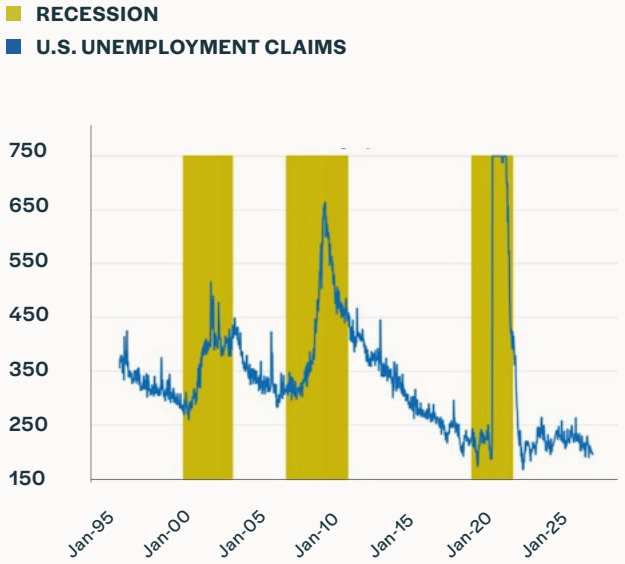
The labor market remained resilient in Q3 2026. Job growth continued, and initial jobless claims remained low by historical standards despite uncertainty surrounding the conflict in the Middle East and higher energy prices. The unemployment rate was 4.2% at the end of September, unchanged from its level at the end of Q2 and low by historical standards.

NONFARM PAYROLL ADDITIONS
(3 MONTH AVERAGE, THOUSANDS)



Source: Bloomberg, Bureau of Labor Statistics

U.S. UNEMPLOYMENT CLAIMS

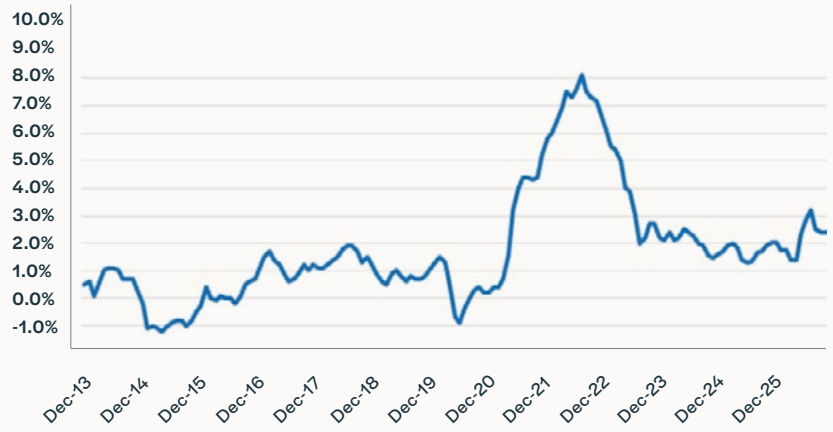


Source: Bloomberg, Bureau of Labor Statistics

In our Spring 2026 Outlook, we noted that the war in Iran could push headline inflation higher through much of 2026, with the impact depending on the conflict's duration and the extent of damage to energy infrastructure. The conflict has continued, and some refineries have sustained extensive damage (Kpler). By October 2026, crude oil exports from the Middle East had recovered to near pre-war levels, aided by alternative pipelines, ports, and ship-to-ship transfers (The Wall Street Journal). These alternative transportation methods are less feasible for refined products, however, and exports of key products, including jet fuel, diesel, and gasoline, remained well below pre-war levels because of these constraints and refinery damage (Kpler). Consequently, crude oil and key refined-product prices remained well above pre-war levels and have contributed to inflationary pressures.

In addition, the rapid buildout of AI infrastructure is adding to inflationary pressures in several supply-constrained industries, particularly semiconductors, power transformers, and other technology equipment. Higher input costs are beginning to spill over into prices more broadly, affecting both businesses and consumers. Federal Reserve officials have expressed concern about these pressures, with some citing them as a factor in their support for the rate hike in September (New York Fed)

CONSUMER PRICE INDEX YEAR OVER YEAR CHANGE



Source: Bloomberg, Bureau of Labor Statistics

MONETARY POLICY

Kevin Warsh became Federal Reserve Chair in May 2026, and the FOMC voted unanimously to raise its target range for the federal funds rate by 0.25% in September. According to the meeting minutes, most participants expected another rate increase to be appropriate before the end of 2026, reflecting concerns about persistent inflation and the need to bring inflation back toward the Fed's 2% target (CNBC).

STOCKS

The S&P 500 Index returned 2.3% in Q3 2026. The energy sector led the market as prices for crude oil and refined products surged. Technology, health care, and communication services also posted positive returns, while utilities, industrials, and real estate lagged. Value stocks outperformed growth stocks, as measured by the Russell 1000 Value and Russell 1000 Growth indexes, respectively. This relative performance was consistent with the greater sensitivity of higher-valuation growth stocks to changes in interest rates, compared with lower-valuation value stocks (MorningStar).

STOCKS

One notable feature of the market in recent years has been the S&P 500 Index's outperformance relative to high-quality stocks. Goldman Sachs' High Quality stocks basket comprises companies with strong balance sheets, a history of stable sales and earnings growth, above-average return on equity (a measure of profitability), and low historical drawdown risk (Business Insider). After outperforming the S&P 500 for more than a decade, the basket has significantly underperformed the S&P 500 Index since early 2023. Although high quality stocks have outperformed over the long run, they have tended to lag during periods of accelerating growth and greater investor risk appetite (CFA Institute).

SECTOR	3Q 2026 STOCK RETURNS
Energy	17.2%
Information Technology	7.3%
Health Care	6.5%
Communication Services	3.1%
Financials	-0.1%
Consumer Staples	-1.9%
Materials	-2.9%
Consumer Discretionary	-5.1%
Real Estate	-5.5%
Industrials	-9.7%
Utilities	-12.4%

Source: Bloomberg

3Q 2026 STOCK RETURN	
Russel 1000 Value Index	2.6%
Russel 1000 Growth Index	0.9%

Source: Russell, Bloomberg

Historically, Goldman Sachs' High Quality basket has traded at a valuation premium to the S&P 500 index, but it now trades at a lower price-to-earnings (P/E) multiple than the index. As evidenced by the relative price and valuation graphs, most of the underperformance of Goldman Sachs' High Quality basket has been due to valuation compression vs. the S&P 500. This is consistent with historical periods of underperformance during episodes of higher investor risk taking (J.P. Morgan). As shown in the chart on the next page, the underperformance is not explained by poor earnings growth of quality companies.

GOLDMAN SACHS HIGH QUALITY STOCK BASKET PRICE RELATIVE TO S&P 500 (INDEXED TO 100)



Source: Bloomberg

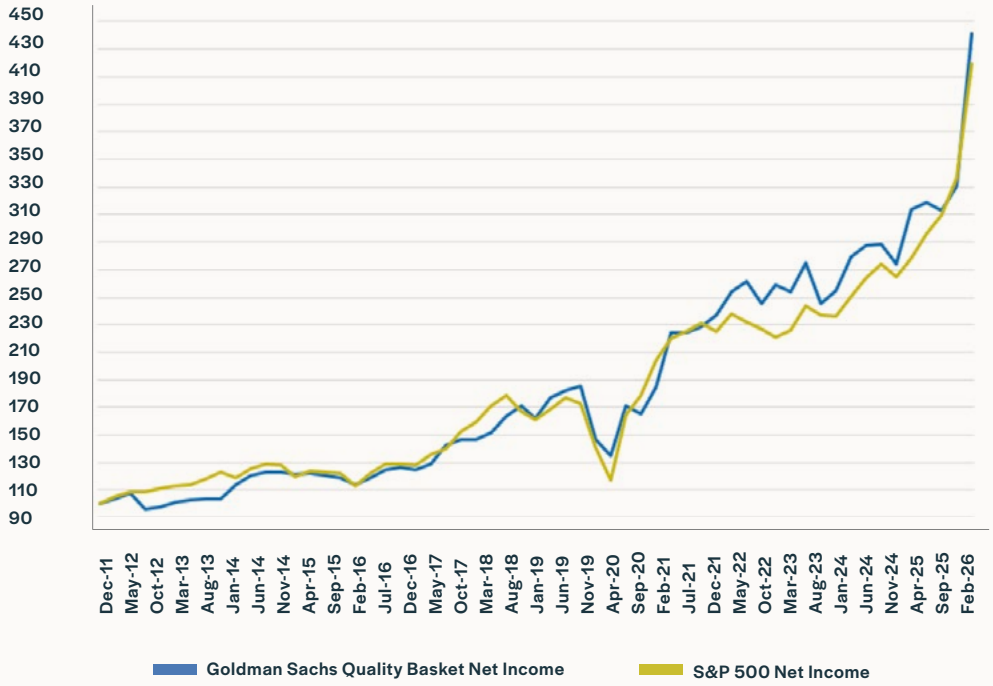
GOLDMAN SACHS HIGH QUALITY STOCK BASKET P/E VALUATION RELATIVE TO S&P 500



Source: Bloomberg

In our view, the recent underperformance may partly reflect investor enthusiasm for AI infrastructure suppliers, including memory semiconductor and technology hardware and equipment companies (T. Rowe Price; MSCI; Russell Investments; Wellington). However, the historically cyclical nature of some of these industries raises questions about the sustainability of their exceptional earnings growth and investor enthusiasm. Meanwhile, the Federal Reserve's interest rate increases are expected to slow economic growth, although the effects of monetary policy typically occur with long and variable lags (St. Louis Fed). According to Morgan Stanley, historically, high quality stocks have historically tended to perform well when economic growth slows (Morgan Stanley). Against this backdrop, high-quality companies now trade at a lower relative valuation than they have in many years. Taken together, these factors suggest that high-quality stocks may offer a more attractive combination of relative valuation and resilience than they have in recent years.

GOLDMAN SACHS HIGH QUALITY STOCK BASKET NET INCOME RELATIVE TO S&P 500 INDEX

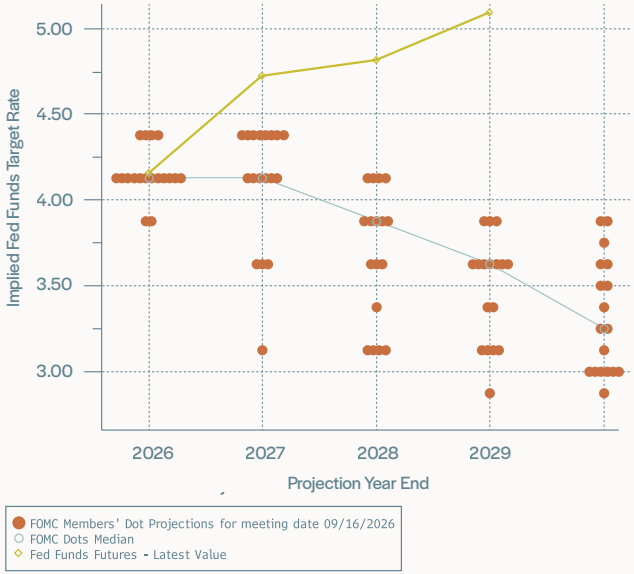


Source: Bloomberg

Fixed income markets during the third quarter of 2026 reflected higher energy prices, changing inflation expectations, and a shift in expectations for Federal Reserve policy. Treasury yields increased across the curve, with the largest moves occurring in September as market expectations for Federal Reserve policy shifted. Municipal yields also moved higher amid elevated issuance, while investment-grade corporate spreads remained relatively stable amid elevated primary-market activity.

Market conditions changed over the course of the quarter. Inflation data moderated during portions of July and August, contributing to variability in expectations for Federal Reserve policy. By September, higher energy prices, inflation data, and continued economic activity coincided with a broader repricing of policy expectations and Treasury yields.

FED DOT PLOTS



Note: Each dot represents one FOMC member's forecast. Source: Bloomberg; Federal Reserve.

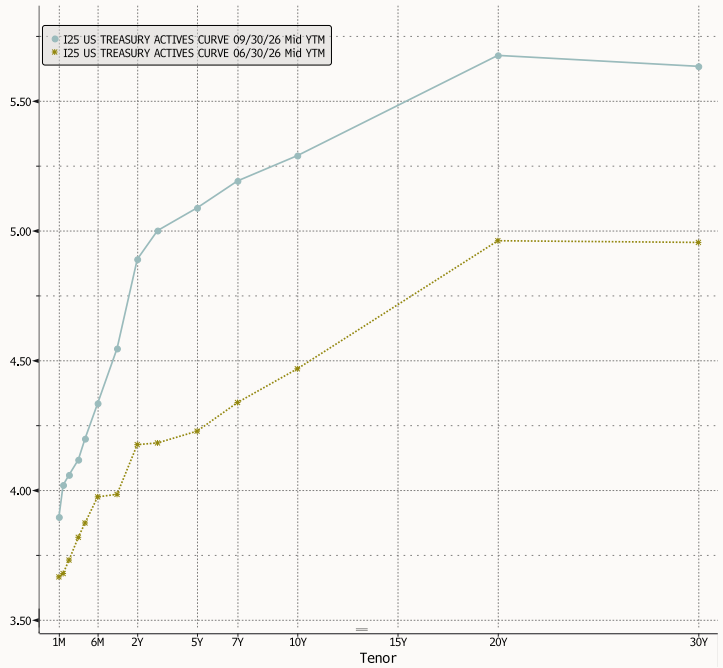
Federal Reserve

The Federal Reserve left the federal funds rate unchanged at its July meeting, with three voting members dissenting in favor of an increase. Expectations for subsequent policy changes varied during July and August as inflation, employment, and economic activity data provided mixed signals. July inflation data contributed to lower market-implied probabilities of a September increase, while Chair Kevin Warsh's Jackson Hole remarks and subsequent economic data were accompanied by a reversal in those expectations.

By September, market pricing reflected a substantially higher probability of additional tightening. August CPI and PPI data showed continued inflation pressures, including higher energy prices, while fed funds futures reflected approximately a 90% probability of a 25-basis-point increase immediately ahead of the September meeting. The Federal Reserve subsequently raised the target range by 25 basis points to 3.75%–4.00%, its first increase since July 2023.

The September Summary of Economic Projections also reflected a higher projected policy path. According to the Federal Reserve's September Summary of Economic Projections, sixteen of eighteen FOMC participants indicated at least one additional rate increase by year-end, while the median projection for 2027 was 4.1%. The dispersion of projections remained consistent with continued uncertainty regarding the path of monetary policy.

U.S. TREASURY YIELD CURVE

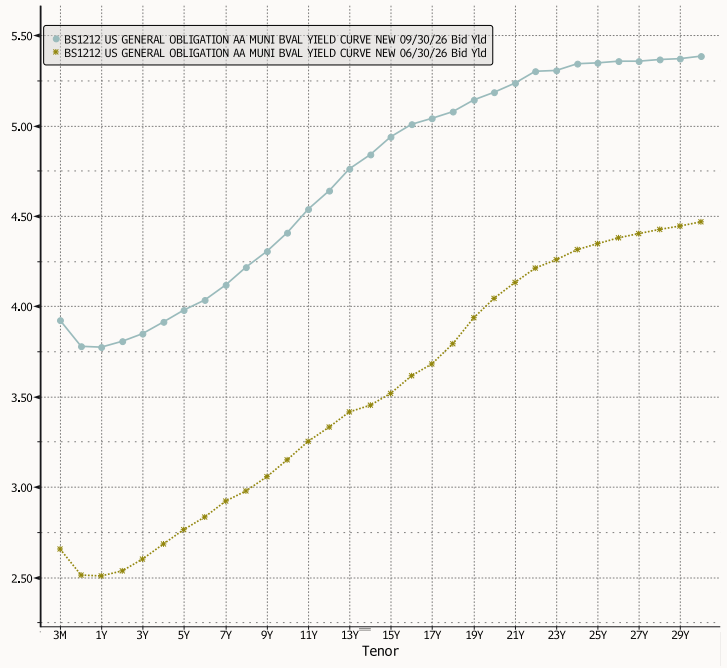


Note: Yellow line represents the Treasury yield curve as of 06/30/26; green line represents the Treasury yield curve as of 09/30/26. Source: Bloomberg.

Treasuries

U.S. Treasury yields increased across maturities during the third quarter, with the largest moves occurring in September as expectations for Federal Reserve policy shifted. The ten-year Treasury yield ended the quarter at approximately 5.29%, following more modest changes earlier in the period. The increase in market yields also placed downward pressure on the prices of existing fixed-rate bonds, contributing to negative total returns during the quarter. The yield curve also changed during the quarter, with shorter maturities experiencing larger increases in yields than longer maturities.

MUNI YIELD CURVE



Note: Yellow line represents the municipal yield curve as of 06/30/26; green line represents the municipal yield curve as of 09/30/26. Source: Bloomberg

Municipal Bonds

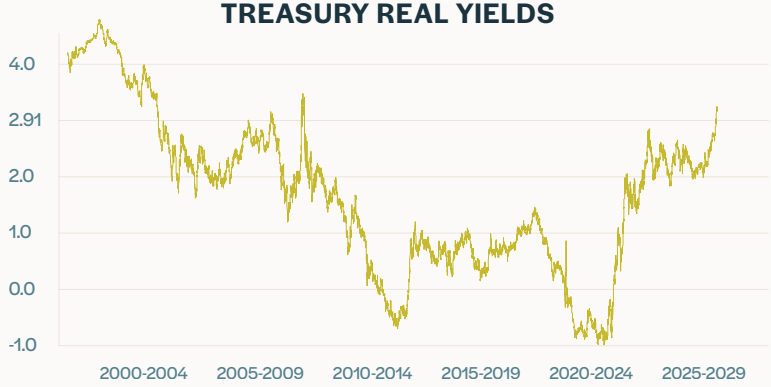
Municipal bond yields increased across much of the curve during the third quarter, with yields moving higher in July, followed by modestly positive returns in August and a broader increase in September alongside higher Treasury yields. According to Bloomberg, the Bloomberg Municipal Bond: Quality Intermediate Index recorded a third-quarter total return of approximately -4.5%, while August issuance exceeded $50 billion and year-to-date issuance approached $470 billion by quarter-end. A Bloomberg survey indicated a full-year issuance estimate of approximately $600 billion. Market technicals also changed during September as reinvestment proceeds declined from August levels, municipal fund inflows moderated, and bid-wanted activity and dealer inventories increased. The municipal curve also flattened during the quarter, with shorter maturities experiencing greater changes in yields.

INVESTMENT-GRADE CREDIT



Note: Bloomberg U.S. Aggregate Corporate Index (Option-Adjusted Spread), 06/30/26–09/30/26. Source: Bloomberg.

TREASURY REAL YIELDS



Note: Bloomberg U.S. Aggregate Corporate Index (Option-Adjusted Spread), 06/30/26–09/30/26. Source: Bloomberg.

Investment-Grade Credit

Investment-grade corporate credit experienced negative total returns during the third quarter, during which underlying Treasury yields increased. The Bloomberg U.S. Corporate Index posted a third-quarter total return of approximately -3.94%, while credit spreads moved modestly wider but remained within the range observed over the prior twelve months. Primary-market activity remained elevated, and Bloomberg data showed that investment-grade fund flows remained positive throughout the quarter. Overall, spread movements remained relatively contained amid higher Treasury yields, elevated issuance, and periods of increased market volatility.

Treasury Real Yields

Real yields also increased during the quarter. The yield on Treasury Inflation-Protected Securities provides a measure of Treasury yields after accounting for inflation. As of September 30, the 10-year U.S. Treasury real yield was approximately 2.9%, compared with an average of approximately 1.4% over the period shown. The current level is among the higher levels observed over the period presented.

Our Outlook

Although the conflict in the Middle East and rapid growth in AI capital spending have created additional inflationary pressures, economic growth has remained resilient. We expect the effects of the Federal Reserve rate hikes to take time to materialize (St. Louis Fed), and accordingly, believe conditions remain supportive of corporate profit growth through the remainder of 2026.

We believe AI capital spending will remain strong, although growth may be nearing a peak and future spending could fail to generate positive surprises on the scale seen in 2026. Meanwhile, we expect AI adoption to broaden, benefiting companies beyond those that supply the technology and equipment used in AI data centers. As a result, the market's AI winners may evolve, with future leaders potentially including AI adopters that can improve productivity, reduce costs, or increase profitability.

Stocks outside the center of AI-related market enthusiasm have generally lagged in 2026, including those with high-quality characteristics. As of September 30, 2026, the Core and EIP portfolios had higher operating margins and return on equity than their respective benchmarks, along with lower beta and lower long-term debt-to-capital ratios.

These characteristics reflect stronger profitability, lower market sensitivity, and stronger balance sheets. In our view, if AI capital spending growth moderates and spending forecasts deliver fewer upside surprises, steady-growing, high-quality companies could become more attractive to investors.

Changes in yields and yield curve structure during the quarter remain relevant considerations in portfolio construction. Portfolio management continues to emphasize credit quality, security-level liquidity, and diversification, with interest-rate, maturity, and sector exposures evaluated within each strategy's investment mandate. Elevated issuance in the corporate and municipal markets also remains a consideration when evaluating individual securities, as applicable within each strategy. Portfolio construction continues to reflect a disciplined approach to risk management amid variability in inflation, monetary policy expectations, and broader market conditions.



From left to right: Sarah Swan, CFP®, Vice President, Wealth Manager; John Vanden Brul, Fixed Income Portfolio Manager; Todd Artwell, Director of Fixed Income; Ryan Tomko, CFP®, Vice President, Wealth Manager; Brian Lester, CFA, Chief Investment Officer; Mark Thompson, CFA, Senior Equity Analyst; Brett Boyer, CFA, Vice President, Senior Equity Analyst; Eric Udvari, CFP®, CPWA®, AAMS®, Wealth Manager; Dylan Potter, CFA, CFP®, Vice President, Senior Wealth Manager; John Trentacoste, Senior Fixed Income Analyst

DISCLOSURES

The views expressed are those of Howe & Rusling, Inc. as of the date of publication, are based on information available at that time, and are subject to change without notice. This material is provided for informational and educational purposes only and is not intended as personalized investment, tax, or legal advice, an offer or solicitation, or a recommendation to buy or sell any security or adopt any investment strategy. References to specific securities, sectors, industries, indexes, investment characteristics, or strategies are for illustrative purposes only and should not be interpreted as recommendations. Investing involves risk, including the possible loss of principal, and no investment strategy can assure a profit or protect against loss. Past performance is not indicative of future results. Any forecasts, estimates, targets, expectations, opinions, or other forward-looking statements are based on assumptions and information available as of the date of publication. Actual results may differ materially, and there is no assurance that any forecast or expectation will be realized. Index and benchmark performance is presented for comparison or illustrative purposes only, does not reflect the deduction of advisory fees, transaction costs, or other expenses, and is not available for direct investment. Comparisons to indexes, benchmarks, or third-party baskets may be affected by differences in holdings, investment objectives, methodology, risk, and other factors. Portfolio characteristics and comparisons are based on portfolio holdings, benchmark constituents, calculation methodologies, and data available as of the date indicated. Such characteristics may change and do not represent actual or projected portfolio performance or assure favorable investment results, lower volatility, or reduced risk of loss. References to Howe & Rusling portfolios or strategies are provided for general informational purposes and may not reflect the experience of any individual client. Individual client results and portfolio holdings will vary based on investment objectives, restrictions, timing, fees, and other circumstances. Information obtained from third-party sources, including Bloomberg, Goldman Sachs, Morgan Stanley, the Federal Reserve, and other sources identified in this material, is believed to be reliable, but Howe & Rusling does not guarantee its accuracy, completeness, or timeliness. Third-party names and data are the property of their respective owners and do not imply affiliation with or endorsement of Howe & Rusling. Howe & Rusling, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration with the SEC does not imply any level of skill or training.

FOR OUR QUARTERLY MARKET UPDATE PLEASE VISIT HOWEANDRUSLING.COM/LEARN

HELLO@HOWEANDRUSLING.COM ▪ (585) 325-4140 ▪ 165 CULVER RD, ROCHESTER, NEW YORK 14620