Inside themarket



Student of the Market

October 2026

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Source: Morningstar as of 9/30/26. U.S. stock market represented by the S&P 500 index. **Past performance is no guarantee of future results.** Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

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STRONG STARTS TO MIDTERM ELECTION YEARS

5th best start to a midterm election year

After a sluggish Q1 in 2026, stocks strongly bounced back in Q2, and held steady in Q3. Historically, the stock market has continued momentum after a strong first three quarters in midterm election years.

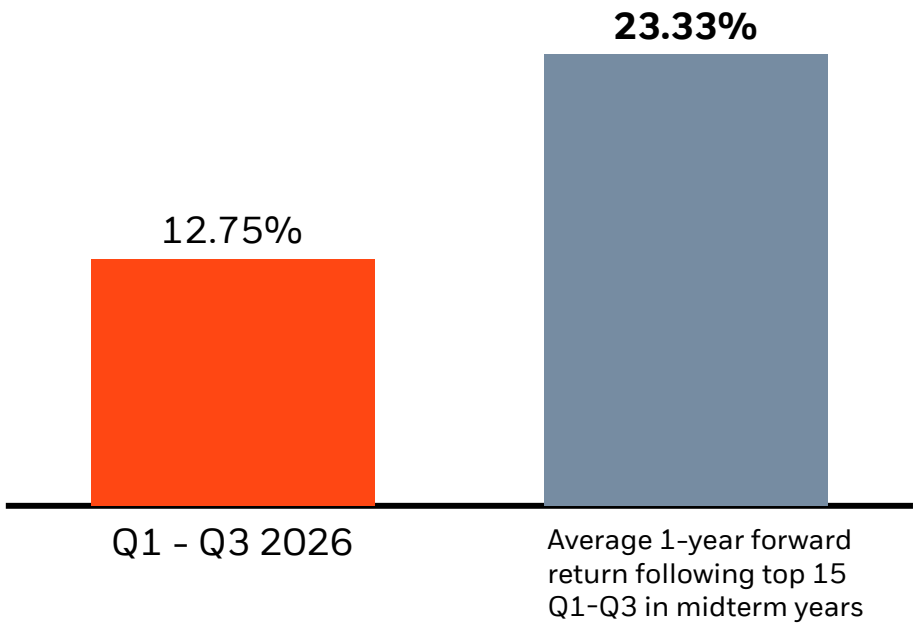
Top 15 Q1-Q3 for stocks in midterm election years

U.S. stocks returns (1926 - 9/30/2026)

Year	Q1-Q3 Return	1-Yr Forward Return
1954	35.06%	41.11%
1958	28.84%	17.33%
1950	22.08%	28.47%
1938	20.28%	11.45%
2026	**12.75%**	**-**
1986	12.40%	43.42%
1978	12.09%	12.60%
2018	10.56%	4.25%
1926	8.90%	34.65%
2006	8.53%	16.44%
2014	8.34%	-0.61%
1942	7.06%	44.17%
1998	6.00%	27.80%
2010	3.89%	1.14%
1982	2.79%	44.34%
Average	**13.31%**	**23.33%**

Momentum historically carries on after strong Q1-Q3

U.S. stock returns (1926 – 9/30/2026)



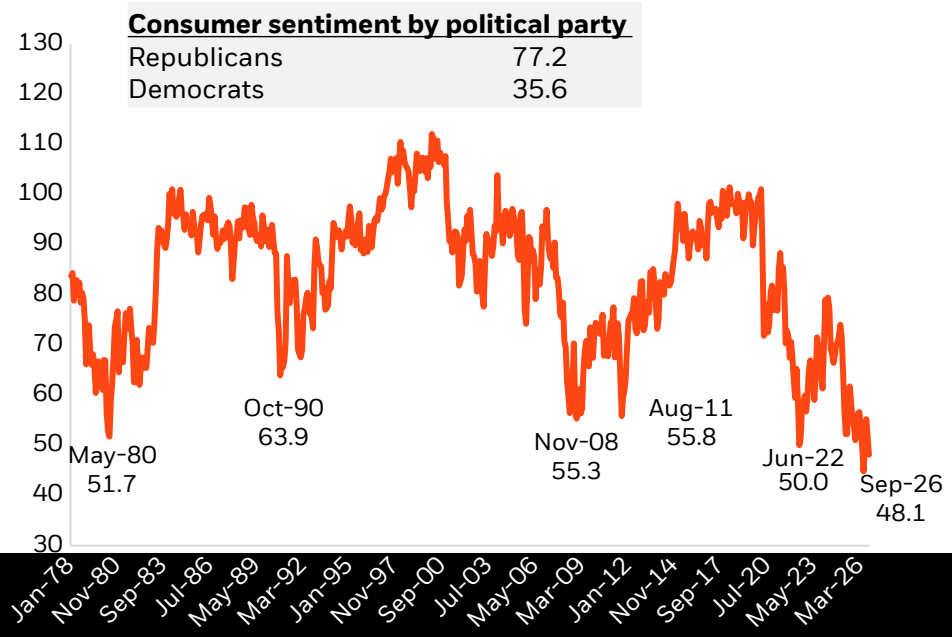
Source: Morningstar as of 9/30/2026. U.S. stocks are represented by the S&P 500 TR Index from 3/4/1957 to 9/30/2026 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/1926 to 3/4/1957, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.**

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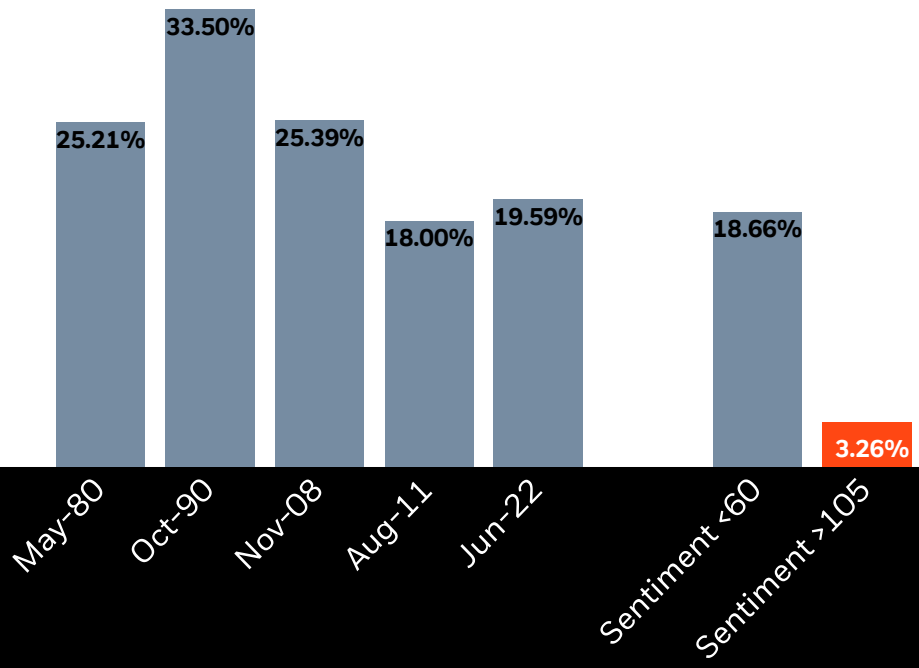
Consumer sentiment at all-time lows

Sentiment has fallen to record lows driven by a lack of affordability, war, and an unprecedented gap in sentiment between political parties. Historically, low sentiment has been a strong bullish signal for equities.

Consumer sentiment at an all-time low in April driven by the divide in sentiment by party



U.S. stock one-year returns following historic low points in consumer sentiment



Source: Bloomberg and the University of Michigan, data as of 9/30/2026. Left: Consumer confidence and inflation expectations represented by the University of Michigan surveys, as of 9/30/2026.U.S. stocks represented by the S&P 500 TR Index..

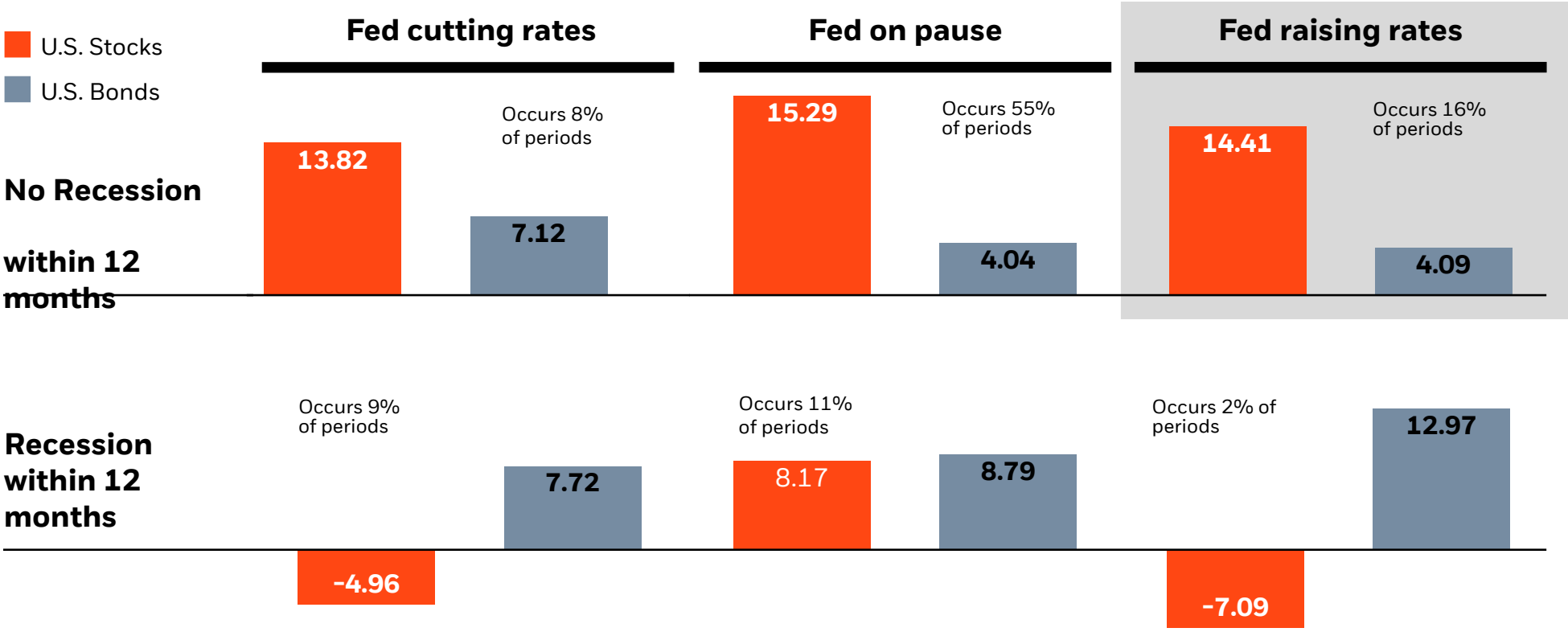
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HIGHER RATES AND NO RECESSION

Current market backdrop: The Fed is raising interest rates, and we don't expect a recession

Historically, the Fed raising rates and no recession has been positive for stocks and near average for bonds.

1 year avg. forward returns (1/1/1990 - 9/30/2026) (%)



Source: Morningstar, St. Louis Federal Reserve, as of 9/30/26. U.S. stocks are represented by the S&P 500 Index, U.S. bonds represented by the Bloomberg U.S. Aggregate Bond Index. Returns shown are average forward 12-month total returns, measured from each month classified as a Fed pause, hike, or cut. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.**

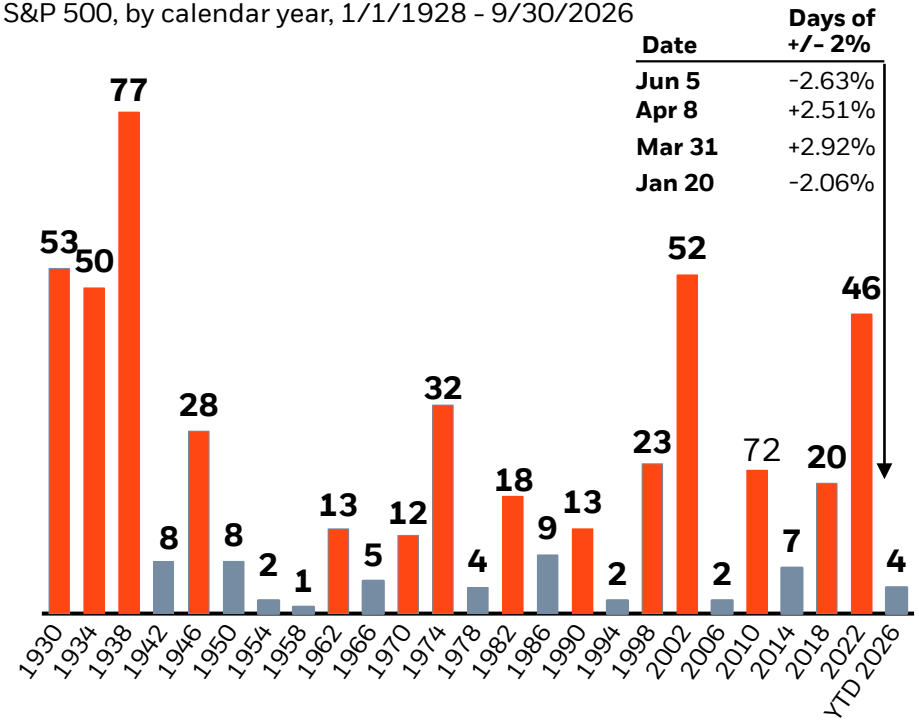
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Stock volatility by midterm election year

Stock market volatility during elections has been generally subdued unless there is a broader downturn or rally.

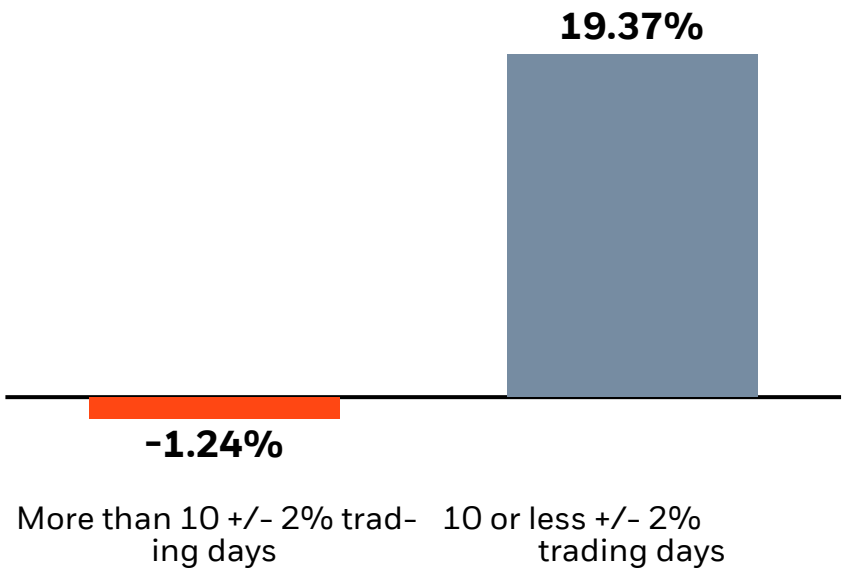
Number of single day stock market returns of +/-2% or more in midterm election years

S&P 500, by calendar year, 1/1/1928 - 9/30/2026



Average stock return based on number of +/- 2% trading days in midterm election years

Average returns of the S&P 500 based on calendar years since 1930



Source: Morningstar as of 9/30/2026. Stock market represented by the S&P 500 PR Index and calendar year performance by the IA SBBI US large stock index. **Past performance does not guarantee or indicate future results**. Index performance is for illustrative purposes only. You cannot invest directly in the index.

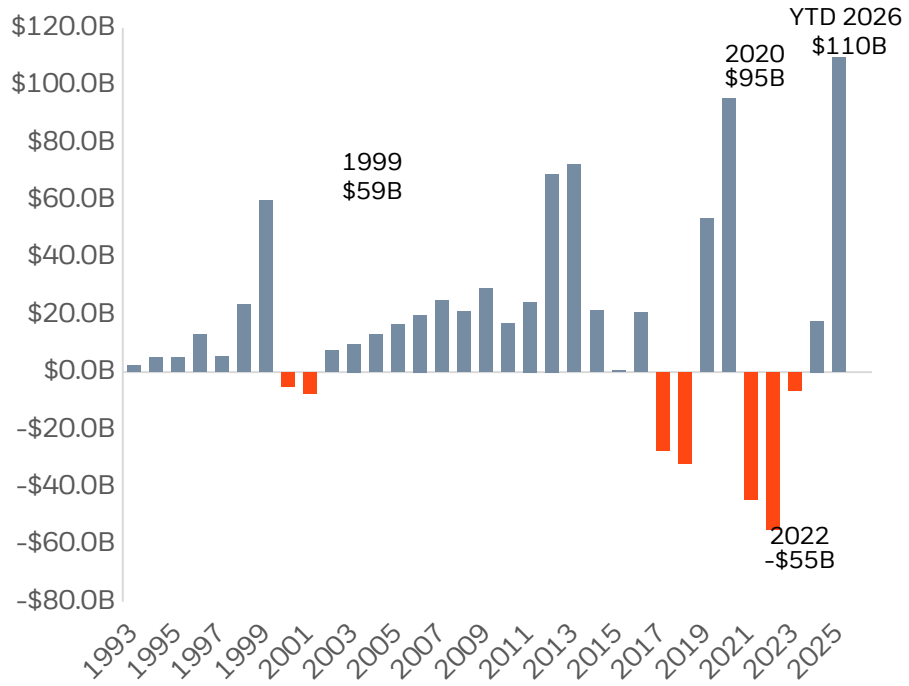
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RECORD SECTOR FUND FLOWS

Investors utilize sector funds more than ever

Investors are using sector funds to lean into the AI-driven rally (tech) more than anytime in history. Industrials (defense) has been popular as well given all the geopolitical turmoil.

Sector mutual fund and ETFs having their best year ever for inflows



Tech funds continues to lead sector fund flows

Morningstar Category	2024	2025	2026 YTD
Technology	$22.3B	$21.0B	$69.0B
Industrials	$5.5B	$13.9B	$19.3B
Natural Resources	-$2.1B	$2.5B	$13.0B
Infrastructure	$1.8B	$7.0B	$12.5B
Equity Energy	-$10.1B	-$12.0B	$7.3B
Real Estate	$3.5B	$1.7B	$5.4B
Energy Ltm Part.	-$0.9B	$0.9B	$2.0B
Miscellaneous Sector	-$2.0B	$0.2B	$1.0B
Global Real Estate	-$4.9B	-$0.5B	$0.1B
Equity Digital Assets	-$2.4B	$1.0B	-$0.3B
Utilities	$0.9B	$6.2B	-$1.0B
Consumer Defensive	-$1.5B	-$1.4B	-$1.2B
Health	-$22.7B	-$21.0B	-$1.6B
Consumer Cyclical	-$1.7B	-$3.1B	-$3.0B
Equity Precious Metal	-$2.6B	$0.6B	-$3.5B
Financial	$10.0B	-$2.4B	-$4.0B
Communications	-$1.7B	$3.2B	-$5.6B
Sector Funds (total)	**(6,472,583,987)**	**17,862,637,808**	**109,730,822,014**

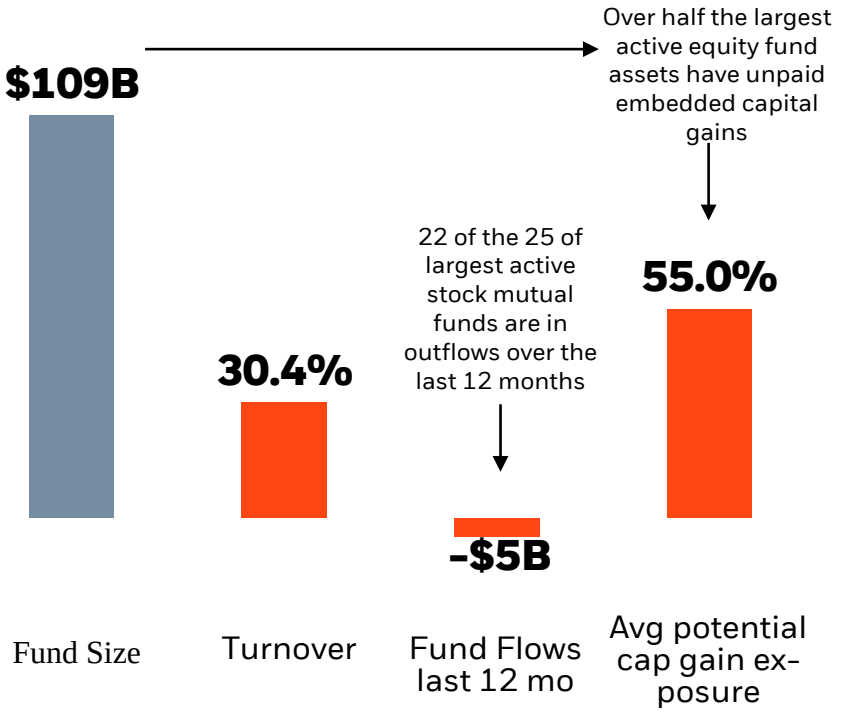
Source: Morningstar and BlackRock, flows as of 8/31/26. All fund categories represented by their respective Morningstar Fund category defined by Morningstar. **Past performance does not guarantee or indicate future results.** Forward looking estimates may not come to pass. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Capital gain distributions may pose challenges for the largest equity mutual funds

Average of the top 25 largest stock mutual funds

Top 25 largest active mutual funds, as of 9/30/2026



Why Unrealized Gains + Turnover + Outflows Set Up Capital Gains Distributions

1	**Unrealized gains:** Large stock market gains create large amounts of unrealized gains embedded in mutual funds (almost half the funds today, 43%).
2	**Selling stocks to meet redemptions or reposition portfolio:** A mutual fund that has outflows has to sell stocks in order to meet redemptions, often triggering capital gains distributions.
3	**Remaining shareowners bear the burden:** A mutual fund shrinking due to redemptions also amplifies the tax consequence for remaining shareowners.

Source: Morningstar as of 9/30/26. Equity mutual funds are represented by the Morningstar Broad U.S. Equity category, oldest share class only. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

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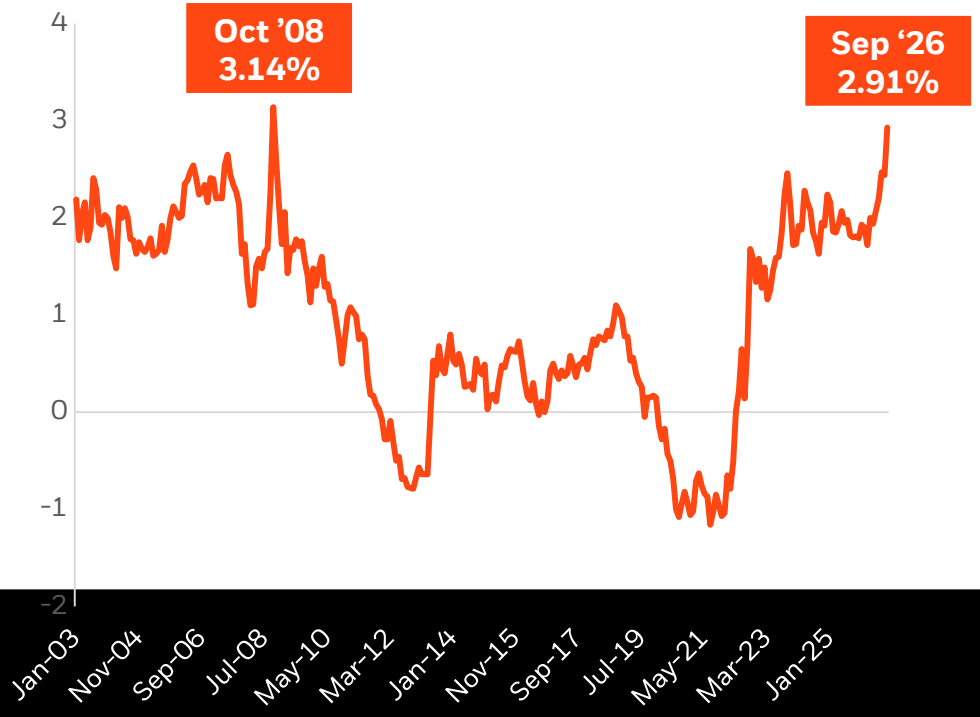
REAL YIELDS FOR BONDS

Higher real yields could boost bonds

Inflation-adjusted yields ("real") for bonds are at their highest levels since 2008, which could lead to better bond performance.

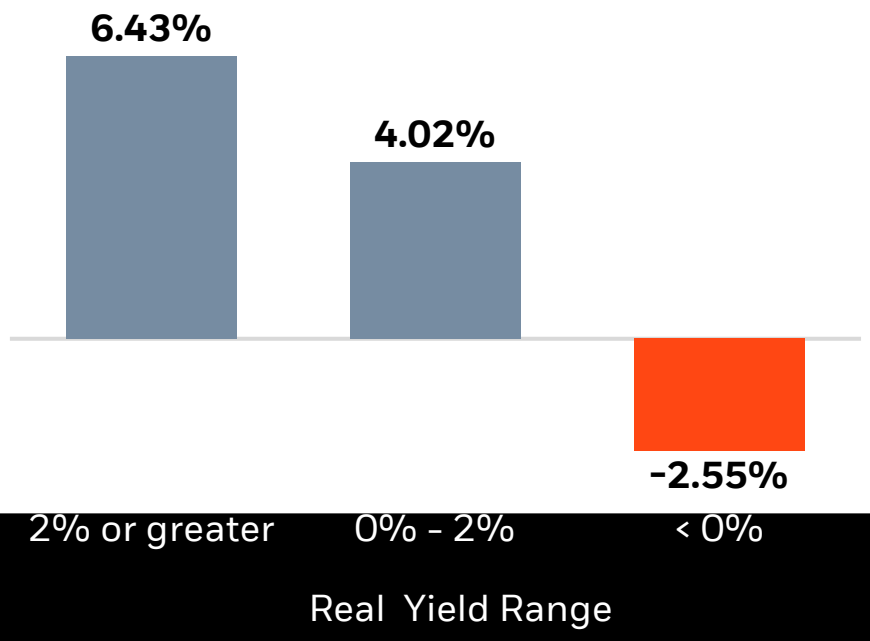
Real yields for the 10-year U.S. Treasury bond

10-year Treasury Inflation Protected Bond Yield, 1/1/2003 - 9/30/2026



Bonds have historically performed significantly better when real yields are higher

Average annual returns over following 12 months, since 2003



Source : Morningstar and the St Louis Federal Reserve as of 9/30/26, U.S. bonds represented by the Bloomberg U.S. Agg Bond Intermediate TR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

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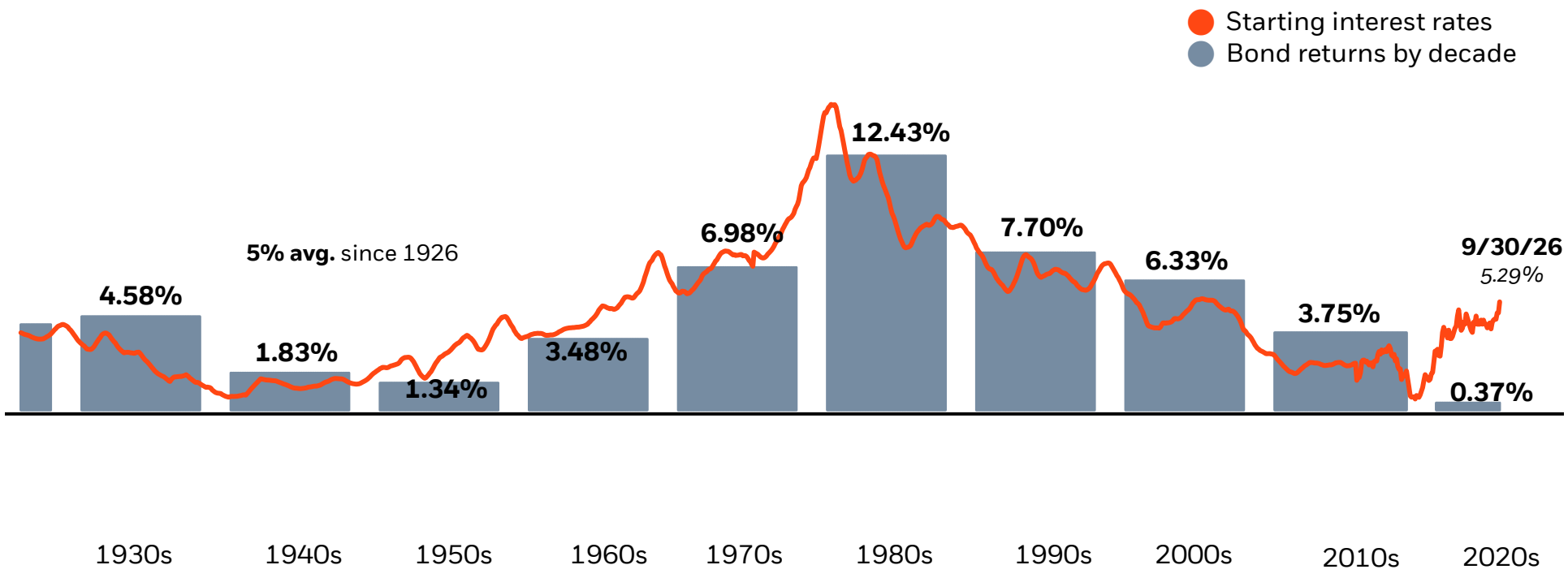
BOND LONG-TERM RETURNS

Interest rates and long-term bond returns

Like the 1940s–50s, low bond returns reflected rates resetting from historic lows. This cycle adjusted far more quickly—potentially improving forward bond returns.

Long-term bond returns follow interest rates- bodes well for future bond returns

Average annual 10-year returns for U.S. bonds since 1926



Source: Morningstar and U.S. Treasury as of 9/30/26. U.S. bonds represented by the IA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 9/30/26. **Past performance does not guarantee or indicate future results**. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Returns as of 9/30/2026	1 Year Return	5 Year Avg. Annual Return	10 Year Avg. Annual Return
US Fund Communications	2.05	6.19	10.31
US Fund Consumer Cyclical	-9.59	1.63	9.83
US Fund Consumer Defensive	2.68	3.85	5.67
US Fund Energy Limited Partnership	19.31	19.81	8.40
US Fund Equity Digital Assets	-5.65	1.79	
US Fund Equity Energy	33.86	17.69	6.19
US Fund Equity Precious Metals	23.44	24.55	12.16
US Fund Financial	2.25	6.87	10.13
US Fund Global Real Estate	0.82	0.08	3.07
US Fund Health	29.08	4.50	9.41
US Fund Industrials	7.45	10.79	12.10
US Fund Infrastructure	5.62	7.40	7.31
US Fund Natural Resources	19.37	10.18	10.14
US Fund Real Estate	3.98	1.82	4.55
US Fund Technology	32.45	12.87	19.17
US Fund Utilities	-4.32	8.13	7.92
S&P 500 (TR) (1970)	15.74	13.79	15.33
IA SBBI US Large Stock TR USD Ext	15.74	13.79	15.33
Bloomberg US Agg Bond TR USD	-1.84	-0.64	1.14

Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

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Index Definitions:

- The S&P 500 Index is an unmanaged index that is generally considered representative of the U.S. stock market and includes 500 large-capitalization U.S. companies. Performance may be shown on a price return or total return basis, with total return including reinvested dividends.
- The Bloomberg U.S. Aggregate Bond Index is an unmanaged index that measures the performance of the U.S. investment-grade, fixed-rate, taxable bond market, including U.S. Treasuries, government-related securities, corporate bonds, mortgage-backed securities, asset-backed securities, and commercial mortgage-backed securities. Performance is shown on a total return basis.
- The IA SBBI U.S. Large Stock Index is an unmanaged index from the Ibbotson® Stocks, Bonds, Bills, and Inflation® (SBBI®) series that represents the historical performance of U.S. large-capitalization stocks and is commonly used for long-term historical market analysis.
- The Morningstar US Fund Communications is an average of funds within the communications category as defined by Morningstar.
- The Morningstar US Fund Consumer Cyclical is an average of funds within the consumer cyclical category as defined by Morningstar.
- The Morningstar US Fund Consumer Defensive is an average of funds within the consumer defensive category as defined by Morningstar.
- The Morningstar US Fund Energy Limited Partnership is an average of funds within the energy limited partnership category as defined by Morningstar.
- The Morningstar US Fund Equity Digital Assets is an average of funds within the equity digit asset category as defined by Morningstar.
- The Morningstar US Fund Equity Energy is an average of funds within the equity energy category as defined by Morningstar.

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Index Definitions:

- The Morningstar US Fund Equity Precious Metals is an average of funds within the equity precious metals category as defined by Morningstar.
- The Morningstar US Fund Financials is an average of funds within the financials category as defined by Morningstar.
- The Morningstar US Fund Global Real Estate is an average of funds within the global real estate category as defined by Morningstar.
- The Morningstar US Fund Health is an average of funds within the health category as defined by Morningstar.
- The Morningstar US Fund Industrials is an average of funds within the industrials category as defined by Morningstar.
- The Morningstar US Fund Infrastructure is an average of funds within the infrastructure category as defined by Morningstar.
- The Morningstar US Fund Natural Resources is an average of funds within the natural resources category as defined by Morningstar.
- The Morningstar US Fund Real Estate is an average of funds within the real estate category as defined by Morningstar.
- The Morningstar US Fund Technology is an average of funds within the technology category as defined by Morningstar.
- The Morningstar US Fund Utilities is an average of funds within the utilities category as defined by Morningstar.

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