The Quarterly Perspective

Insights, updates, and encouragement for the clients we serve

Dear Friends and Clients,

As we move into the final quarter of 2026, we want to thank you for the trust you place in our team. Inside this first edition of our quarterly newsletter, you'll find market commentary, a word from our portfolio managers, news from the office, and a few thoughts to carry with you into the season ahead.

-Jeff Lyons, President

Timely Reminders

- Through November and December, if you are retired, Chelsea may be contacting you to ensure you have taken your Required Minimum Distribution (RMD) to avoid penalty.
- If you have a child starting college next year, the FAFSA (Free Application for Federal Student Aid) typically opens in October. Apply as early as you can, because states and colleges use it to award grants, scholarships, and loans. The award money is limited.
- Estimate your 2026 income tax bill now so you have time to plan before year-end and avoid surprises.
- Consider making charitable gifts before year-end. Donations to qualified charities, or to a donor advised fund (a special account where you make a gift now and choose which charities receive it over time), may be tax-deductible.

Lyons Capital Group does not provide tax or legal advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

Market Update

This update synthesizes key observations from First Trust Portfolios' Cash Flow and Carey series (Robert Carey, CFA) and Monday Morning Outlook series (Brian S. Wesbury et al.) covering July–September 2026. The period has been defined by resilient corporate earnings, AI-driven equity leadership, elevated energy prices linked to the ongoing Iran conflict, a low-immigration labor market, and a Federal Reserve under Chairman Kevin Warsh navigating the tension between strong growth and sticky inflation.

Macroeconomic Backdrop

- **Labor Market & Immigration:** Net immigration has turned negative over the past 18 months under current policy, reversing prior trends. This has contributed to faster wage gains for lower-skilled workers (median earnings for those without a high-school diploma +7.1% YoY versus +2.1% for bachelor's degree holders). August nonfarm payrolls rose 162,000 (well above the 55,000 consensus), raising market odds of a September rate hike.
- **Fed Policy & Rates:** Chairman Warsh has emphasized data dependence and productivity potential from AI/data-center investment. Markets shifted from near-even odds of a hike to favoring one after the strong jobs report. The real 10-year Treasury yield stood near 1.6% (nominal ~5.0%, CPI ~3.4% as of mid-September). Rising yields have drawn blame from various quarters, though analysts note structural fiscal pressures and energy-driven inflation.
- **Fiscal & Debt:** The national debt remains a growing longer-term threat. Calls for greater Fed independence are paired with recommendations to restrain government spending growth.
- **Energy & Inflation:** The multi-month conflict with Iran has kept oil prices elevated, sustaining inflationary pressure and weighing on rate-sensitive and discretionary sectors.

Equity Markets & Corporate Fundamentals

- **Earnings Strength:** 2026 S&P 500 earnings growth estimates rose sharply from 14.6% at the start of the year to approximately 25% by early July. Beat rates remain elevated (mid-80% range in recent quarters versus a longer-term average near 78%). Profit margins and valuations continue to support a constructive backdrop for quality earnings growers.
- **Sector & Subsector Leadership:** Information Technology has been the standout, with Q2 total return of +31.8% driven by AI-related semiconductor and software demand. Industrials and Consumer Discretionary also led in Q2. Conversely, several Consumer Discretionary subsectors (e.g., Footwear –29%, Construction Materials) ranked among the worst YTD performers through early August, reflecting higher energy costs and rate-hike concerns.

• **Growth vs. Value & Size:** Growth has generally outperformed Value over multi-year horizons, though shorter periods show more rotation. Small- and mid-cap indices posted stronger YTD returns than large-caps through early August (SmallCap ~+24%, MidCap ~+16% vs. LargeCap ~+12%), consistent with broadening participation.
• **Structural Trends:** Passive fund flows continue to dominate active. Money-market fund assets reached approximately $7.9 trillion by mid-September, remaining elevated despite equity strength—suggesting residual caution or attractive short-term yields. S&P 500 international revenue exposure varies meaningfully by sector.

Fixed Income Snapshot

•Global government bond yields have generally risen over the past year amid higher near-term rate expectations. Bond indices trading near or below par highlight the challenges of "chasing par" in a rising-rate environment. Short-term yields reflect both energy-driven inflation risks and the Fed's evolving stance under Warsh.

Sources: First Trust Portfolios L.P. research publications — Cash Flow and Carey (Robert Carey, CFA / Peter Leonteos) and Monday Morning Outlook (Brian S. Wesbury, Robert Stein, CFA, et al.), July–September 2026. Specific notes include earnings estimates (July 7), growth vs. value (July 21/23), technology & semiconductors (July 28), passive/active flows (July 30), subsector performance (Aug 6/11/13), earnings beat rates (Sept 1), profit margins & valuations (Sept 10), real 10-year rates (Sept 17), money-market assets (Sept 22), and Fed/labor commentaries (Sept 8/14/21/28). Past performance is no guarantee of future results. This summary is for informational purposes only and does not constitute investment advice.

From our Portfolio Managers

Investment Committee Review – Q3 2026

Here's a clear, concise summary of the latest quarterly review from SS&C ALPS Advisors, along with current positioning highlights drawn from Fidelity research as applied in our representative models. The team remains constructive overall on markets heading into the second half of 2026, while emphasizing diversification, quality, and flexibility given ongoing geopolitical and inflation risks.

Macro Backdrop

Financial conditions eased in Q2 as global risk sentiment improved and liquidity remained supportive, outweighing temporary volatility from Middle East tensions. Global money supply continues to grow, inflation has moderated (June headline 3.5%, core 2.6%), and economic growth looks resilient.

Manufacturing and services surveys are expansionary, commercial lending has strengthened, and AI-driven investment is supporting corporate profits and productivity. The base case is continued trend GDP growth, though near-term inflation pressures from energy, shipping, and input costs remain a watchpoint.

Equities

Q2 delivered a sharp rebound after the first-quarter energy shock. The S&P 500 rose 15.2%, the Nasdaq 100 surged 27.7%, and smaller-cap stocks led, signaling broader market participation. Energy remained the top sector year-to-date despite giving back some gains.
Outlook: Constructive but deliberately "barbelled." Maintain an overweight to energy as a hedge against renewed geopolitical risks, while favoring international and emerging-market equities if tensions ease. Preference remains for high-quality companies that generate strong free cash flow. Expensive growth stocks are viewed more cautiously. Key risks include a flare-up in the Middle East, a slowdown in AI infrastructure spending, or inflation keeping rates higher for longer.

Fixed Income

Markets faced volatility as Middle East tensions pushed oil higher and the Fed's tone turned more hawkish, shifting expectations from rate cuts toward possible hikes. The Bloomberg U.S. Aggregate Bond Index still posted a modest +0.62% gain in the first half. Credit sectors outperformed Treasuries, and higher-quality, shorter-duration exposures held up best.
Outlook: Favor active management focused on credit selection, selective duration (especially the 3–10 year area in high-quality bonds), and diversification. Base case assumes moderating inflation and trend growth, which should eventually support a more constructive rate environment. Stay disciplined on quality; lower-rated credit looks less attractive.

Real Estate (REITs)

REITs extended their recovery, returning +10.73% in Q2. Lodging and office led; cell towers lagged. Valuations remain attractive versus equities (higher dividend yields ~3.7%, favorable implied cap rates).
Outlook: Favorable. Improving fundamentals, slowing new supply in many sectors, stabilizing rates, and AI-driven demand (especially data centers and health care) support continued recovery. Watch for higher rates, tariff-related costs, or slower AI investment as risks.

Commodities

The Bloomberg Commodity Index fell 8.08% in Q2 after a strong prior 12-month rally (still +25% over the past year).

Industrial metals held up best on AI, electrification, and supply constraints; energy and precious metals pulled back.
Outlook: Favorable on a selective basis. Long-term structural demand (AI infrastructure, power grids, critical minerals) remains supportive. Commodities continue to offer diversification benefits, particularly in periods of sticky inflation or slower growth.

Private Markets

Activity improved but remains uneven and concentrated among the largest managers and AI-related deals. Private equity dealmaking softened amid uncertainty; venture capital stayed strong thanks to AI megadeals. Private credit faces rising scrutiny around software exposure and rapid growth in AI infrastructure lending. Private infrastructure and real estate show more constructive sentiment.
Outlook mixed:

- Private equity – cautious (exit backlog remains a headwind).
- Venture capital – neutral (depends heavily on upcoming mega-IPOs).
- Private credit – selective (favor asset-backed and infrastructure-related strategies over pure direct lending).
- Infrastructure and private real estate – positive.

Current Portfolio Positioning (Representative 60/40 Fidelity Models)

- Looking at the Lyons Capital Group 60/40 models as representative of the suite, our benchmark-relative positioning and rationale (drawing on Fidelity research) is as follows:
- Overweight international equity — Driven by expectations for higher real GDP growth and moderate starting valuations according to Fidelity's Asset Allocation Research Team (AART). This adds geographic diversification and positions portfolios to participate if market leadership broadens beyond the U.S.
- Overweight Consumer Cyclical / Consumer Discretionary sectors — Supported by Fidelity's Quantitative Market Strategist Group, which cites attractive forward valuations and favorable risk-reward characteristics.
- Overweight Industrials — Reinforces the pro-cyclical tilt. Industrials appear well-positioned to benefit from improving manufacturing activity, continued infrastructure spending, and stable business investment if economic growth remains positive.
- Meaningfully overweight High Yield credit — High Yield carries the highest long-term expected return within Fixed Income per AART's Capital Market Assumptions (CMAs). This positioning seeks to enhance income and return potential.
- Duration neutral (qualified models) — Maintaining duration of approximately 5.4 years to limit benchmark-relative interest-rate risk.

Bottom Line

The investment environment remains constructive but requires a balanced approach. Focus on quality, free-cash-flow generators, selective energy exposure, international diversification, and active fixed-income management. Stay flexible—geopolitical developments, inflation, and the pace of AI investment will likely drive the next leg of market performance.
As always, portfolios should be tailored to individual goals, time horizons, and risk tolerance.

SS&C ALPS Advisors. Investment Committee Review: Outlook Q3 2026.
Fidelity Asset Allocation Research Team (AART) and Quantitative Market Strategist Group research (as applied in Lyons Capital Group 60/40 models).
Past performance is not a guarantee of future results. One cannot invest directly in an index.

> *An investment in knowledge pays the best interest.*
>
> BENJAMIN FRANKLIN

Anchored: A Word of Encouragement

"If any of you lacks wisdom, you should ask God, who gives generously to all without finding fault, and it will be given to you."

James 1:5 (NIV)

Whether we're navigating finances, relationships, or the decisions of everyday life, we can seek God's wisdom rather than relying solely on our own understanding. His guidance is always available when we ask.

Around the Office

Highlights from this year:

- Jonathan Terry received his Certified Financial Planning designation (CFP®). Congratulations, Jonathan!
- Cole Smith completed his Series 65 examination. Congratulations, Cole!
- Claire Prda and Boston Durrett joined the Lyons Capital Group team.
- Cole and his wife Sydney welcomed their first child, Shepherd James Smith, this year. Congratulations to the Smith family on their beautiful new addition!



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