

The Implication of Higher Yields

Commodity Prices Rise Sharply, Driving Yields Higher while Earnings Underpin AI Trade
Oil rallied sharply in the quarter as global conflicts (Ukraine-Russia and US-Iran) threatened supplies. Despite the jump in commodities, global equity markets rallied on the heels of continued and sustained investment in AI. Treasury yields rose substantially due to commodities, expectations of higher inflation and faster economic growth.

Rockingstone Performance

Our 3Q results were solid relative to benchmarks. Risk management principles that required tech reductions hurt us slightly (as AI-led names rallied on strong earnings), as did overweights in small cap and international. We benefited from individual stock performance, including AAPL, CNQ, and NTRA. We added gold (GLD) and CVX to portfolios via tax-efficient selling of MKC and OMC.

Equity Markets Powered by Higher Earnings

S&P 500 EPS could jump by 30%+ in 2026. Although partly tied to cross-holdings and market-to-market gains, EPS strength has allowed US equities to power through most concerns (war, tariffs, debt / deficits, yields). We worry higher interest rates could limit future gains, seeing “value” and fixed income as beneficiaries vs. “growth” assets.

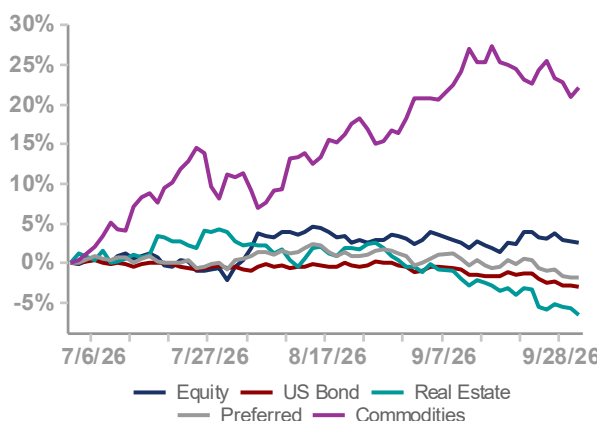
Implications for Portfolios

For the first time in many years, fixed income looks attractive and we are boosting exposure, although avoiding realized gains is a challenge. In equities, we continue selectively to increase “value” names while managing risk with “growth” assets. We don’t see the need for major changes in sector weightings or individual stocks at this point.

S&P 500 Forecast & Other Key Indicators

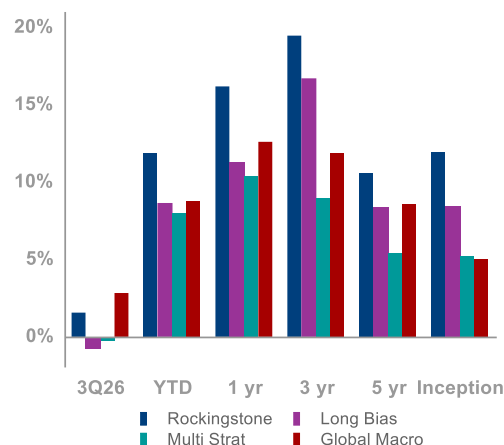
We forecast: EPS (2026/2027: \$360/\$400), S&P 500 (2026 year-end = 7600), GDP (2026: +3%), Gold (\$4300), Oil (\$105), 10-yr US Bond Yield (5.0%), Inflation (3.5%), 5-yr expected CAGR (US Large Cap -1%, US Mid Cap +8%, US Small Cap +11%, Developed +1%, EM +10%).

Figure 1: 3Q26 Asset Class Performanceⁱ



Source: FactSet

Figure 2: Rockingstone: 3Q26 & Historical Annualized Returnsⁱⁱ



Source: Rockingstone Advisors, Morningstar, Barclay Hedge Indices; Inception = 6/1/2009

ABOUT US

Rockingstone Advisors LLC, a boutique asset management firm founded in 2009, is co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separately managed accounts.

Our investment strategies aim to capitalize on pricing inefficiencies across broad asset classes and individual securities, with a strong emphasis on fundamental research and analysis.

Investors can find more information including regulatory documents at our website:

www.rockingstoneadvisors.com

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Rising Rates Become the Story

Why the 10-Yr Treasury is at a 24-Yr High, and What It Means for Portfolios

Last quarter we used this space to examine the sources of the remarkable surge in S&P 500 earnings. In the 3Q, the story shifted to the other side of the valuation equation: the discount rate. The 10-year US Treasury yield climbed from 4.44% at the start of the quarter to 5.29% on September 30, and pushed above 5.35% in early October, its highest level since 2002. Meanwhile, the 30-year yield closed the quarter at 5.63%, the 2-year rose from 3.47% to 4.88%, and on September 16 the Federal Reserve raised its policy rate for the first time since 2023, to 3.75%-4.00%.

Overview. Rising rates touch nearly every part of a client portfolio, not to mention the overall economy: they directly set the price of bonds, the hurdle rate that equities must clear, ripple into mortgages, corporate borrowing costs and the federal budget. Rising interest rates also help explain the narrow, top-heavy equity market we describe in the Equity Performance section of this report, in which a handful of AI-linked mega-caps held the index near its highs while the typical stock fell into a correction. In short, we think the level and the direction of long-term interest rates is now the single most important variable for asset allocation in the year ahead.

Figure 3: The Rate Backdrop at a Glance

Measure	Latest Reading	Context
Fed funds target range	3.75%-4.00%	First hike since 2023 (Sept. 16); next meetings Oct. 27-28 and Dec. 8-9
2-year Treasury yield	4.88% (Sept. 30)	Up from 3.47% on June 30; prices in further Fed hikes
10-year Treasury yield	5.29% (Sept. 30); >5.35% (Oct. 7)	Highest since 2002; up 85 bps in 3Q26, 54 bps in September alone
30-year Treasury yield	5.63% (Sept. 30); ~5.70% (Oct. 7)	Highest since 2002
10-year TIPS (real) yield	~2.9% (early Oct.)	Up from 1.90% at the start of 2026
10-year breakeven inflation	~2.4%	Little changed over the past several years
CPI, headline / core (Sept.)	3.7% / 2.6% year-over-year	Energy +20.4%, gasoline +34.2% year-over-year
30-year mortgage rate	~7.5%	Up from 7.30% at quarter-end

Source: Rockingstone Advisors, FactSet, Federal Reserve, US Bureau of Labor Statistics, Forbes (Oct. 7, 2026), Russell Investments. Breakeven is approximate (nominal 10-year yield less 10-year TIPS yield).

The more useful question is not whether rates are rising, but why, because the answer determines whether higher yields are a headwind to be endured or a warning to be heeded. A useful starting point is the simple arithmetic of the 10-year yield, which is the sum of the inflation rate investors expect and the “real” return they demand on top of it. Year to date, the 10-year TIPS yield (a direct market measure of the real yield) has risen roughly one full percentage point, while breakeven inflation (the market’s expected inflation rate) has barely moved. Russell Investments estimates that roughly 90% of the rise in the nominal 10-year since February has come from real yields rather than inflation expectations. Importantly, that finding runs against the popular narrative and shapes everything that follows.

We would highlight five commonly cited drivers: (i) persistent inflation and Federal Reserve policy, (ii) a resilient economy lifting real yields, (iii) heavy government and corporate debt supply, (iv) a higher “neutral” rate of interest, and (v) a rising term premium.

(i) Persistent Inflation and Fed Policy: Real, but Mostly a Short-Rate Story.

Inflation is clearly re-accelerating at the headline level. September CPI rose 3.7% year-over-year, up from 3.4% in August and ahead of expectations, with energy prices up 20.4% and gasoline up 34.2% as the US-Iran conflict kept refining capacity offline. Core inflation, however, is running at a comparatively modest 2.6%. The Fed's September hike and the market's pricing of further increases (Capital Economics now puts the odds of a second hike at the October 27-28 meeting at about 50%) explain most of the jump in the 2-year Treasury yield.

The link to longer maturities is less direct than many assume. Because breakeven inflation has been remarkably stable, the bond market is not, in our view, signaling a loss of confidence in the Fed's ability to contain inflation over a ten-year horizon. Where the Fed matters for long rates is through policy-related uncertainty. Since Kevin Warsh became Chair, the average move in the 2-year yield around FOMC meetings has been larger than under his predecessors, and options markets now price a wider range of outcomes, skewed toward further hikes. A Fed whose next move is genuinely uncertain is one that bond investors demand to be paid for, a point we return to under term premium below.

Implications for Portfolio Positioning. An energy-driven inflation shock is one a central bank cannot fix by raising rates, and it can reverse quickly: a ceasefire or a supply agreement in the Gulf would likely pull headline inflation, and short-term rate expectations, lower in short order. However, investors (and consumers) increasingly realize that geopolitical uncertainty combined with huge AI demand may create an upward bias longer term to everything energy-related. We continue to hold our energy exposure through individual names (CNQ, EQT and, as of this quarter, CVX) rather than a full sector weighting, and we view gold, which was added during the quarter, as a hedge against both inflation and policy uncertainty.

(ii) Real Yields and Economic Resilience: Well Supported, up to a Point.

Rising real yields are often a sign of economic strength rather than distress, and the current data support that reading. August retail sales rose 1.2% against expectations of 0.9%, S&P Global's September flash survey showed the fastest pace of US business expansion since July 2021, and nominal GDP is tracking growth of 5-6% this year. An economy growing that quickly in nominal terms can, in principle, carry higher borrowing costs. At the same time, corporate balance sheets remain sound: total debt for S&P 500 companies stands at roughly 3.4x EBITDA, compared with 7.1x at the peak of the 1999-2000 technology bubble.

There is, however, a threshold worth watching. At roughly 2.6-2.9%, the 10-year real yield now sits above most estimates of the economy's long-run potential growth rate (approximately 2.2-2.5%) and well above commonly cited estimates of the neutral real rate. In the three prior episodes when real yields reached or exceeded the economy's growth rate (1994, 2000 and 2007), the period ended with a financial or economic shock, and the 10-year yield subsequently fell between 2.4 and 3.7 percentage points within two years. We do not regard that history as a forecast, but it argues against treating today's "good news" interpretation of higher rates as open-ended.

- (iii) **Heavy Government Deficits and Corporate Debt Supply: Half Right.** The federal fiscal position is the most frequently cited explanation for higher yields, and the numbers are sobering. The Congressional Budget Office (CBO) projects a fiscal 2026 deficit of \$1.9-2.1 trillion, net interest costs now exceed \$1 trillion per year (more than the defense budget), and total federal debt has passed \$40 trillion (in excess of total annual US GDP). Yet the evidence that Treasury supply alone drove the third-quarter move is mixed. Russell Investments finds that gross note and bond issuance in the first half of 2026 was not materially different from late 2025 and that auctions were generally well absorbed. That began to change in late September 2026, when a \$70 billion 5-year note auction cleared at 5.03% (the highest for that maturity since 2006) with notably weak demand.

Two related developments are, in our view, under-appreciated. The first is the scale of AI-related corporate borrowing. Goldman Sachs estimates that roughly 24% of US dollar investment-grade bond issuance this year is AI-related, about \$489 billion year to date and much of it long-dated, with total investment-grade issuance running roughly 30% ahead of last year. Goldman's preliminary 2027 estimates call for \$2.4 trillion of gross corporate issuance. The same hyperscaler capital spending that powered the earnings growth we analyzed last quarter is now competing with the US Treasury for the same pool of long-term savings. The second critical development is a fading of foreign demand: net foreign purchases of Treasury notes and bonds fell from \$561 billion to \$329 billion over the twelve months through June, and purchases of Treasury bills collapsed from \$250 billion to \$49 billion (Figure 4).

Figure 4: More Supply, Fewer Natural Buyers

Indicator	Latest	Comparison
Federal deficit, FY2026 (CBO projection)	\$1.9-2.1 trillion	~6% of GDP
Federal net interest cost	>\$1 trillion per year	Exceeds defense spending
Added debt per +1 pp in rates (10 years)	~\$3.5 trillion	Per CRFB estimate
AI-related USD investment-grade issuance, 2026 YTD	~\$489 billion	~24% of USD IG supply
Net foreign purchases, Treasury notes and bonds (12 mo. to June)	\$329 billion	\$561 billion a year earlier
Net foreign purchases, Treasury bills (12 mo. to June)	\$49 billion	\$250 billion a year earlier
5-year Treasury auction yield (Sept. 23)	5.03%	Highest since 2006; bid-to-cover 2.21

Source: Rockingstone Advisors, Congressional Budget Office, Committee for a Responsible Federal Budget, Goldman Sachs Research (via Russell Investments and Forbes), US Treasury TIC data (via Tipswatch).

Implications for Portfolio Positioning. The AI financing wave is a reminder that the bond market and the equity market are now tied to the same theme. This point alone is worth emphasizing with risk arguably increasing should AI growth and/or profitability fall short of already high expectations. The hyperscalers' shift from self-funding (i.e., asset-light) to borrowing has already slowed share buybacks, as we noted last quarter, and it is now adding supply to a fixed-income market with fewer natural buyers. Investment-grade credit spreads were near their tightest levels in two decades at mid-year, which leaves little cushion if issuance continues at this pace. We prefer to be paid for owning credit through higher all-in yields rather than through spreads that, in our view, do not fully reflect the coming supply.

- (iv) **A Higher Neutral Rate (r*): Plausible, but a Story for the Future.** The neutral rate is the interest rate that neither stimulates nor restrains the economy. A

growing body of opinion holds that it has drifted higher, as the global “savings glut” of the 2010s has unwound and as AI investment promises faster productivity growth, which would justify structurally higher real rates. We find the argument plausible over the medium term but premature as an explanation for this quarter’s move. Measured productivity growth, adjusted for capital and labor utilization, is currently negative, and the payoff from AI adoption outside the technology sector remains largely ahead of us.

Where the neutral-rate debate matters is with duration: not how high yields go this year, but how long they stay elevated. If AI ultimately lifts trend productivity growth toward 2.5-3.0%, today’s real yields would be sustainable and the historical pattern of rate spikes ending in a shock may not repeat. If it does not, real yields at current levels will likely prove restrictive, and rates will eventually fall.

- (v) **Term Premium: The Largest and Least Understood Driver.** The term premium is the extra compensation investors demand for locking up money in a long-term bond rather than rolling over short-term bills. It cannot be observed directly, but it is effectively where the other factors converge: policy uncertainty, heavy supply, fewer foreign buyers and inflation risk. By Russell Investments’ estimate, more than 70% of the rise in the 10-year yield since February reflects higher expected real short-term rates plus a higher real term premium. As one market economist put it, “you can’t keep dumping duration into a market that doesn’t want it.” Notably, the Treasury’s attempts to ease the pressure through expanded buybacks of long-dated bonds in August and September did not stop yields from rising, and the market will be watching the early-November quarterly refunding announcement for any shift toward shorter-term borrowing.

What the Usual List Leaves Out. Two further forces deserve attention. First, current events point to a global repricing, not a uniquely American one (Figure 5). Japan’s 10-year yield has risen above 3% for the first time since the 1990s as the Bank of Japan continues to raise rates, UK gilt yields are at their highest since 2008, and French yields have climbed amid a difficult budget process. Higher yields at home give Japanese and European savers, long among the largest buyers of Treasuries, less reason to send capital abroad. Second, higher rates feed on themselves through the federal budget: higher yields raise interest costs, which widen the deficit (all else being held equal) and require still more issuance. Since 2023, most new federal debt has been issued at interest rates above the expected long-run growth rate of the economy, an arithmetic that cannot persist indefinitely.

Figure 5: A Global Repricing of Duration

Market	Benchmark Yield	Context
United States	10-yr: ~5.3%	Highest since 2002
Japan	10-yr: ~3.1%	Highest in roughly three decades; BoJ still hiking
United Kingdom	10-yr: ~5.2%; 30-yr: ~5.8%	Gilt yields highest since 2008
France	30-yr: ~5.0%	Budget and political uncertainty widening spreads to Germany
Germany	10-yr: ~3.3%	Lowest of the major markets, but rising

Source: Rockingstone Advisors, Forbes (Oct. 7, 2026), ECM Source. US and Japan as of early October; UK, France and Germany as of early September.

Equity Implications: The Valuation Cushion Is Gone. Higher discount rates matter most for the most richly valued stocks, yet the third quarter delivered the opposite of what textbook theory would predict: the growth-heavy Nasdaq-100 rose while the Dow Jones Industrial Average, the Russell 2000 and the equal-weighted S&P 500 fell.

The explanation, in our view, is that the market drew a sharp distinction between companies that need to borrow and those that do not. Mega-cap technology companies with net cash and accelerating AI revenue were treated as shelters, while smaller companies with floating-rate debt, banks facing mark-to-market losses on securities, and rate-sensitive sectors such as Utilities and Real Estate bore the brunt.

At roughly 19x forward earnings, the S&P 500's earnings yield of about 5.3% is now essentially equal to the yield on a risk-free 10-year Treasury. In other words, the traditional equity risk premium (the extra return investors expect for owning stocks rather than bonds) has largely disappeared. On trailing earnings, Treasuries now yield more than stocks by one of the widest margins since the early 2000s.

Yet history offers some reassurance: following the 22 prior six-month surges in real yields of comparable magnitude since 1982 (the recent 77 basis-point jump ranks in the 96th percentile), the S&P 500 rose an average of about 11% over the subsequent twelve months. But that average conceals very different outcomes, as Figure 6 illustrates.

Figure 6: Historical Parallels: How Prior Rate Shocks Ended

Episode	Rate Move	What Followed
1994	Fed doubled short rates (3% to 6%); 10-yr rose from 5.8% to 8.0% in nine months	S&P 500 roughly -1.5% for the year, then +34% in 1995; Mexican peso crisis. Federal debt ~47% of GDP vs. ~100% today
2000	Real yields rose above the economy's growth rate	Growth shock: S&P 500 -49%, Nasdaq -78%; 10-yr eventually fell to ~3.1%
2007	10-yr peaked at 5.32% in June	Stocks gained ~7% more before the credit crisis; S&P 500 then fell 57%
2023	10-yr rose from 3.3% to 5.0% (July-October)	S&P 500 fell ~10%, then fully recovered; finished the year +26%
2026	10-yr from 4.4% to >5.3%; real yields ~2.6-2.9%	To be determined

Source: Rockingstone Advisors, HB Wealth, Macro Mornings, Fidelity. In 1994, 2000 and 2007 the 10-year yield fell 2.4 to 3.7 percentage points within 24 months of its peak.

Two lessons stand out in our opinion. First, in both 1994 and 2023, value stocks and small caps led the declines while large-cap growth held up, which is precisely the pattern of the third quarter 2026. Second, the episodes that ended badly (2000 and 2007) were ones in which high rates eventually exposed a weakness elsewhere: an overvalued technology sector in one case and an overleveraged housing and credit market in the other. Today's candidates for that role include highly valued AI leaders whose capital spending is increasingly debt-financed, and a federal balance sheet carrying 2x the debt it did in 1994.

Bringing it Together. In Figure 7 we summarize our assessment of each driver. As with our earnings decomposition last quarter, the categories overlap and the weightings are judgment-laden. Our purpose is to separate the forces we expect to fade from those we expect to persist.

Figure 7: Rockingstone Framework: What Is Driving the 10-Year Yield?

Driver	Evidence	Our Weighting	Durability
Inflation and Fed policy	Headline CPI 3.7%, core 2.6%; breakevens stable at ~2.4%	Moderate (short end)	Fades if oil retreats
Real yields / resilient economy	TIPS yield up ~1 pp YTD; nominal GDP 5-6%	High	Cyclical; vulnerable to a slowdown
Deficits and corporate (AI) supply	\$1.9-2.1T deficit; ~\$489B AI-related IG issuance	Moderate to high	Structural, multi-year
Higher neutral rate (r*)	Productivity gains not yet visible	Low today	Depends on AI productivity
Term premium	>70% of the rise, with expected real short rates	Highest	Persists until policy clarity
Global repricing and foreign demand	JGBs >3%; gilts at 2008 highs; foreign buying down	Moderate	Structural

Source: Rockingstone Advisors analysis, drawing on Russell Investments, Forbes, Goldman Sachs Research, US Treasury and Federal Reserve data. Weightings are illustrative.

Implications for Portfolio Positioning. Several conclusions guide our thinking for the balance of 2026 and into 2027. First, bonds have become an asset class worth owning again. After six years in which the 10-year Treasury returned roughly -3% per year, starting yields now provide a meaningful cushion: at today's levels a 10-year Treasury can absorb a rise in yields of roughly 0.7 percentage points over a year and still break even, compared with almost no cushion in 2020. For context, today's yields remain below the 10-year Treasury's long-run average of about 5.9%. As noted in the Fixed Income Performance section, we are watching for opportunities to add duration selectively, with a preference for intermediate maturities until the Fed's path becomes clearer.

Second, we find Treasury Inflation-Protected Securities (TIPS) particularly attractive. Real yields near their highest levels in almost two decades allow investors to lock in a return of roughly 2.6-2.9% above inflation for ten years, an outcome that holds up whether the current rate pressure ultimately proves to be about inflation or about real rates. Third, we remain cautious on credit. All-in corporate bond yields above 5% are attractive, but spreads over Treasuries offer little compensation for heavy AI-related issuance. We prefer higher-quality issuers and shorter maturities.

Fourth, in equities, a near-zero equity risk premium reinforces our long-standing caution on US large-cap valuation and our 5-year expected return of -1% for the S&P 500. Our overweights in small and mid-caps hurt us this quarter as higher rates pressured those groups, but we believe their valuations now discount a great deal of bad news, and they would likely be among the largest beneficiaries if rates stabilize or fall. We continue to keep individual positions near or below our 5% ceiling and to balance AI exposure against companies with stronger free cash flow and less need to borrow.

Finally, we would remind clients that rate cycles tend to end not when the market expects, but when something gives or an exogenous unexpected shock appears. The near-term catalysts we are watching are the Fed's October 27-28 meeting, the Treasury's quarterly refunding in early November, the November midterm elections and any resulting fiscal commitments, and the trajectory of the US-Iran conflict and oil prices. A durable ceasefire would likely relieve much of the inflation pressure and some of the term premium; a growth scare would likely send yields sharply lower. Either way, we believe portfolios that combine reasonable equity valuations with high-quality, inflation-protected fixed income are well positioned for the range of outcomes ahead.

Forecast: 2026

Rockingstone Advisors: Our Latest Forecasts

In this section we focus on some key economic indicators for 2026 and select 2027 data points. These data help us frame our investment decisions from sector and geographic weightings vs. the appropriate client benchmark as well as which individual equities fill out a portfolio.

Figure 8: Key Metric Forecast

Metric	Year End December	
	Band	Point
US Real GDP (2026)	+2.7% to +3.3%	3.0%
S&P 500 2026 EPS (RSA/Street)	NA	\$360 / \$362
S&P 500 2027 EPS (RSA/Street)	NA	\$400 / \$419
S&P 500 2026 Index	7300 - 7900	7600
10-Yr US Treasury Yield	4.7% to 5.2%	5.0%
Oil (WTI - 2026 End)	\$95 - \$110	\$105
Gold (2026 End)	\$3,900 - \$4,450	\$4,300
Inflation (PCE - NTM)	+3.2% to +3.7%	3.5%

Source: Rockingstone Advisors, The Economist, FactSet, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. **S&P 500 EPS.** To say that US large-cap company earnings have powered ahead is an understatement. Using 2025 “operating” EPS of \$270, consensus now anticipates a remarkable growth rate in 2026 of 30%+ or EPS of \$360. While some of this growth is due to mark-to-market gains associated with cross-holdings, investors have been surprised at how management teams have navigated numerous challenges and the significant operating leverage built into the US’ largest tech companies. We are more cautious on 2027, expecting “just” 11% EPS growth vs. consensus’ 16%. How fundamentals change in 2027 and what impact mark-to-market gains (or losses) have on EPS remains to be seen with the latter being particularly difficult to forecast.
2. **S&P 500 Index Target.** Once again, we must admit to our EPS forecast being too cautious which also led to too low an S&P 500 Index prediction. Today we are applying a 19x forward P/E multiple on EPS of \$400 to derive our 7600 year-end target. We use the 19x multiple, which is below the P/E metric applied in the last few years, based on (i) higher interest rates, (ii) some moderation in expected growth in 2027, (iii) the impact of massive capital spending by AI hyperscalers and the potential for such expenditures to limit margins, and (iv) our 5-year asset return forecast points to -1% returns on the S&P 500.

Five-Year Asset Value Forecastⁱⁱⁱ

US Mid- & Small-Caps Look Attractive as Does EM

Our belief is that over the long run asset values mean-revert (with respect to operating margins and P/E multiples). Our analysis for equities uses four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/E multiples should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Based on our outlook for total returns, we expect the “give” of sales growth and dividends to be partly offset by the “take” of mean-reverting margins and changes in valuation multiple. Yet it is worth noting that after a decade of growth, led mostly by US large-cap tech companies, the thesis of mean reversion is being put to the test, as such companies have incredibly strong competitive moats, historically high returns on invested capital and massive addressable markets.

Our latest analysis vs. last quarter continues to point to limited returns for US large-cap stocks due to a combination of expected profit margin contraction and some valuation headwinds. Yet with small- and mid-cap equities suffering in the latest quarter, expected returns look fairly compelling with sales, dividend yield and valuation adding to potential gains in coming years.

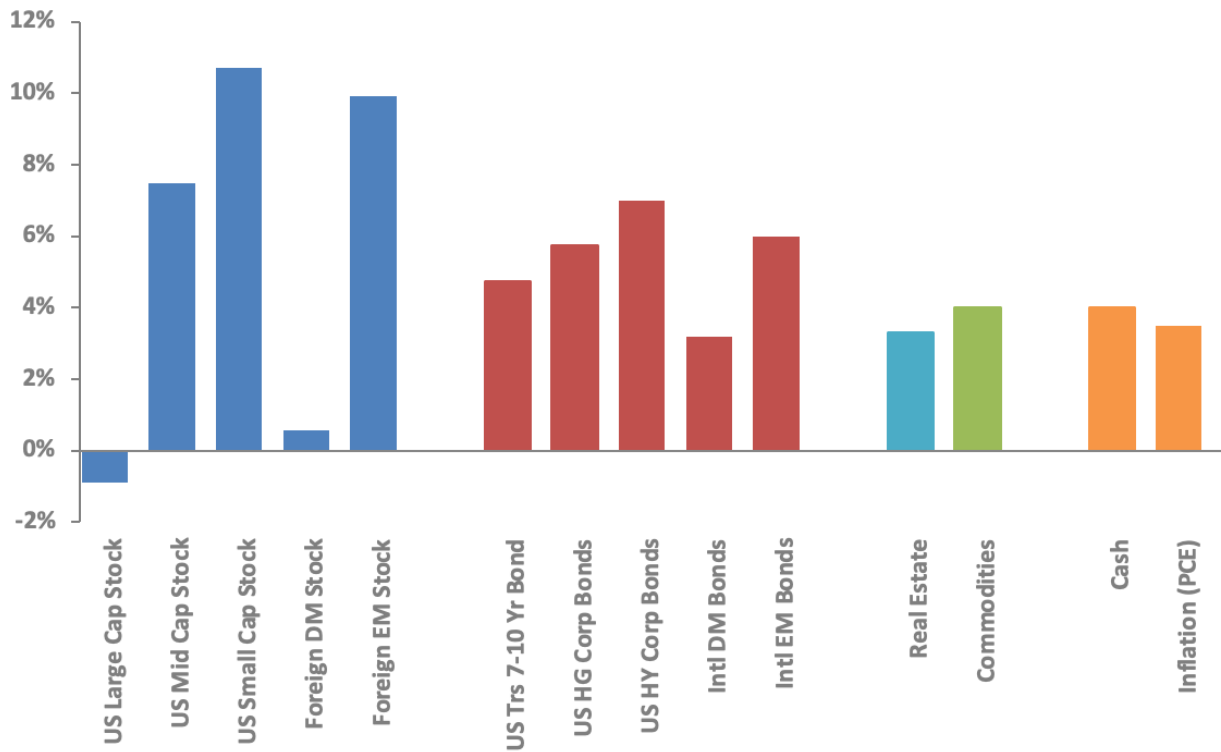
Figure 9: Five-Year Total Equity Return Calculations (Incremental Contribution)

Five Year Total Equity Return Calculations (Incremental Contribution)									
Asset	Index	LT Exp. Return		Sales		Profit Margin		Div. Yield	Valuation
US Large Cap Stock	S&P500	-0.9%	=	4.9%	-	4.5%	+	1.4%	- 2.7%
US S&P Equal Weight	RSP	5.4%	=	4.7%	-	2.6%	+	2.3%	+ 1.0%
US Mid Cap Stock	S&P400	7.5%	=	5.2%	-	1.9%	+	2.3%	+ 1.9%
US Small Cap Stock	S&P600	10.7%	=	5.6%	-	0.4%	+	2.9%	+ 2.6%
Foreign DM Stock	MSCI-EAFE	0.6%	=	1.4%	-	5.6%	+	3.1%	+ 1.7%
Foreign EM Stock	MSCI-EM	9.9%	=	6.7%	-	5.8%	+	3.4%	+ 5.6%

Source: Rockingstone Advisors

In fixed income (see the next page for assumptions), we assume yields move up slightly from current levels. Thus, we expect the total return to be somewhat less than existing yields would imply, as prices for fixed income instruments move in the opposite direction vs. yields. As noted in several spots in this report, fixed income yields are now at levels that offer relatively attractive risk-adjusted returns vs. large-cap equities.

Figure 10: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance

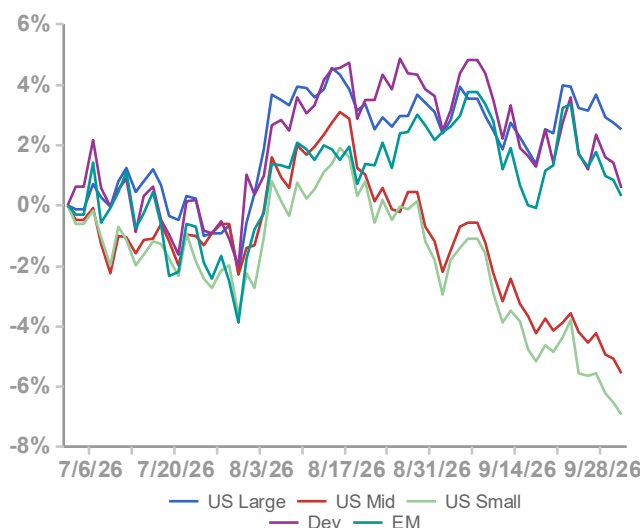
Higher Rates Narrow Leadership as Small- and Mid-Caps Retreat

Global equity markets delivered a mixed and decidedly narrow third quarter, in sharp contrast to the broad-based rally of 2Q26. US large-caps led, rising 2.5% for the quarter, followed by non-US developed markets (+0.6%) and emerging markets (+0.3%), while US mid-caps (-5.5%) and US small-caps (-6.9%) gave back a meaningful portion of their first-half gains. The backdrop shifted materially during the quarter: the breakdown of the US-Iran ceasefire pushed oil from roughly \$67 per barrel at the end of June to more than \$100 by mid-September, and the 10-year US Treasury yield climbed from 4.44% to 5.29%. Within the S&P 500, Energy (XLE) rose 17% and Technology (XLK) 7% in 3Q26, while Utilities (XLU) declined 12% and Industrials (XLI) 10% — notably, two of the AI-adjacent groups that led the market in 2Q26.

Beneath the surface, market breadth deteriorated considerably, and September was particularly unforgiving. The Russell 2000 fell 5.3% in the month — its worst since the March 2025 tariff selloff — and the DJIA declined 4.1%, while the Nasdaq-100 rose 3.3% on the strength of large-cap Technology and Communications. By quarter-end the S&P 500 sat roughly 2% below its 52-week high, yet 83% of its constituents were more than 10% below their own highs and 42% were more than 20% below. The value-over-growth rotation we highlighted last quarter also reversed, with growth outperforming value by roughly 250 bps (+3.4% vs. +0.9%). In our view, a market in which a handful of AI-linked mega-caps carry the index while the typical stock sits in a correction may be less healthy than the headline numbers suggest — and one that warrants discipline rather than chasing.

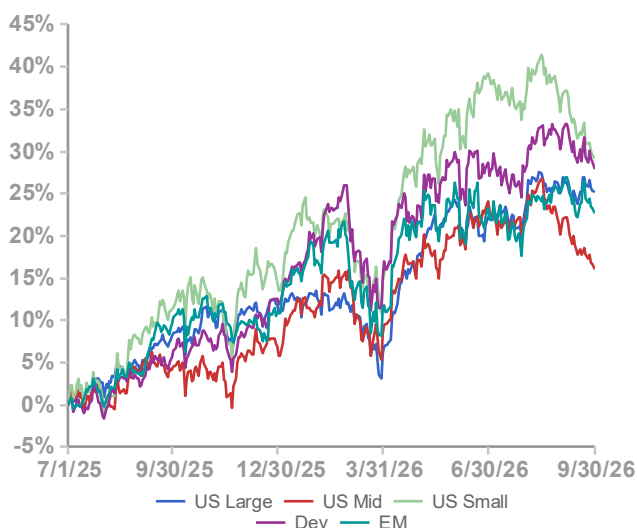
We note the following performance regarding 3Q26 and 12M26 results, respectively: US large-cap (+2.5% and +25.1%), US mid-cap (-5.5% and +16.1%), US small-cap (-6.9% and +28.9%), Developed (+0.6% and +27.8%), Emerging (+0.3% and +22.7%).

Figure 11: 3Q26 Equity Performance ^{iv}



Source: FactSet

Figure 12: 12M26 Equity Performance



Source: FactSet

Fixed Income Performance

Rising Yields Deliver the Weakest Quarter for Bonds Since 2022

Fixed income markets posted their weakest quarter since 2022 as a repricing of US rates — driven by stubborn inflation, AI investment, tariff refunds and heavy Treasury supply — pushed yields sharply higher across the curve. The 10-year US Treasury yield climbed from 4.44% at the start of the quarter to 5.29% by September 30 — its highest level since 2002 — with 54 of those 85 basis points occurring in September alone. The 30-year yield closed at 5.63% (a level last seen in 2002), and the 2-year yield rose from 3.47% to 4.88%.

The pain was concentrated in duration, and losses were broad across the complex. The aggregate US bond index (AGG) declined 3.3% for the quarter, its weakest showing in roughly four years. Within rates and high-grade credit, investment-grade corporates (LQD) fell 5.0% and 7-10 year Treasuries (IEF) declined 4.3%, with mortgages (MBB) off 4.0% — pressured by both the duration move and a 14 basis point widening of agency MBS spreads during September. Emerging market USD sovereigns (EMB) and the broader EM basket (VWO) each declined roughly 4.5%, giving back most of their strong first-half gains as USD strength and the Treasury selloff weighed on total returns. Interestingly, US high-yield (JNK) was the relative outperformer at -2.2%, with shorter duration and higher carry providing some cushion. Preferred securities (PFF) fell 2.2% and international developed corporates (PICB) declined 2.8%. On a trailing-twelve-month basis, only US high-yield (+0.9%) and EM USD sovereigns (+0.2%) are positive, with every other category between -0.2% and -4.2%.

The move in yields (and inversely, price) has restored meaningful carry across the curve: yields on new-issue intermediate corporates and high-grade credit are at their most attractive levels in years and we are watching for opportunities selectively to add duration as risk-reward improves. We focus on the following performance numbers for 3Q26 and 12M26, respectively: US High Grades (-5.0% and -4.2%), US Governments (-4.3% and -3.9%), US High Yield (-2.2% and +0.9%), Intl Developed (-2.8% and -3.4%), Emerging Markets (-4.5% and +0.2%).

Figure 13: 3Q26 Fixed Income Performance^v



Source: FactSet

Figure 14: 12M26 Fixed Income Performance



Source: FactSet

Commodity Performance

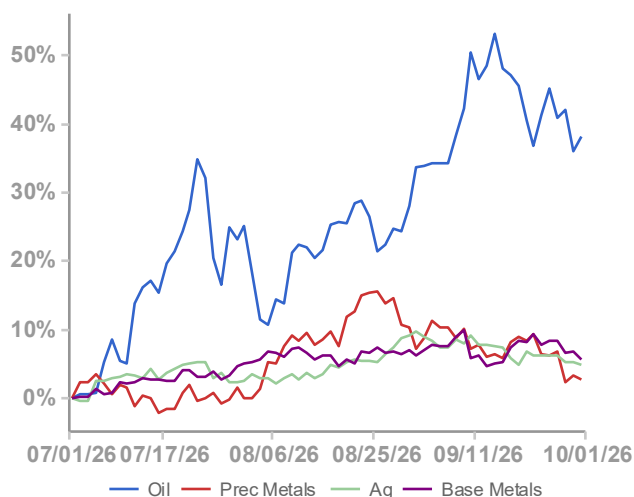
Energy Reasserts Itself; Metals Rally, Then Correct

We emphasize investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because commodities do not generate a stream of cash flows that can be discounted back to present value. Commodities are also susceptible to sudden supply and demand shocks. Because commodities are most often priced in USD and traded globally, they are considered a store of value, especially if the dollar declines. Last quarter saw the Iran war trade reassert itself across the energy complex. Oil (DBO) finished the quarter up 38.1% as WTI crude moved from roughly \$67 per barrel at the end of June to a mid-September high above \$106; the catalyst was the breakdown of the US-Iran ceasefire and renewed disruptions through the Strait of Hormuz.

The precious-metals basket (DBP) ended the quarter up 2.7%, but masked a sharp round trip — gold began the quarter near \$4,027 per ounce, rallied through mid-August as monetary debasement concerns resurfaced, and gave essentially all of that back in September alongside the broader risk-off tone. Within precious metals, silver (SLV) and gold (GLD) finished at +1.7% and +2.8% respectively for the quarter. Base metals (DBB) added 5.7%, benefiting from continued industrial demand in copper, where AI data center buildout and electrification remain supportive. Agriculture (DBA) was quietly positive at +4.8%. The broad commodity basket (DBC) rose 22.2%, pulled higher by its energy weighting.

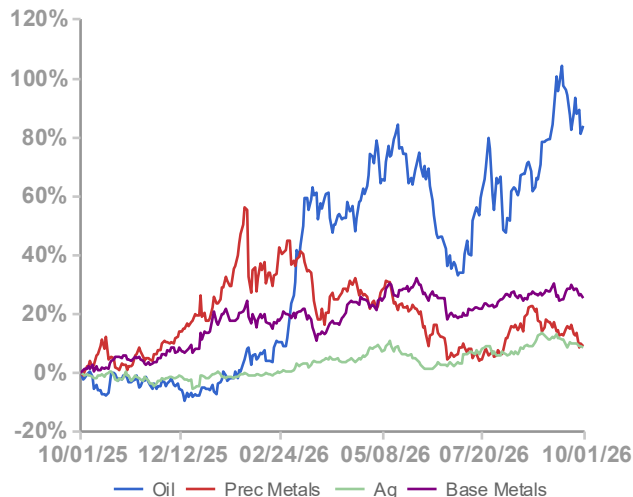
The trailing-twelve-month picture reflects the extraordinary two-year sequence in commodities. Oil (DBO) is up 81.1% over the past year as the Iran-related supply premium has repeatedly reasserted itself. We added energy exposure during the quarter, as well as gold; the former via Chevron (CVX) and the latter via the GLD ETF. We typically invest in commodities via ETFs and the graphs below display what we view as representative performance for the underlying commodities. We highlight the following returns during 3Q26 and 12M26, respectively: Oil (+38.1% and +81.1%), Precious Metals (+2.7% and +9.7%), Agriculture (+4.8% and +8.4%), Base Metals (+5.7% and +25.4%).

Figure 15: 3Q26 Commodity Performance^{vi}



Source: FactSet

Figure 16: 12M26 Commodity Performance



Source: FactSet

Digital Asset Performance

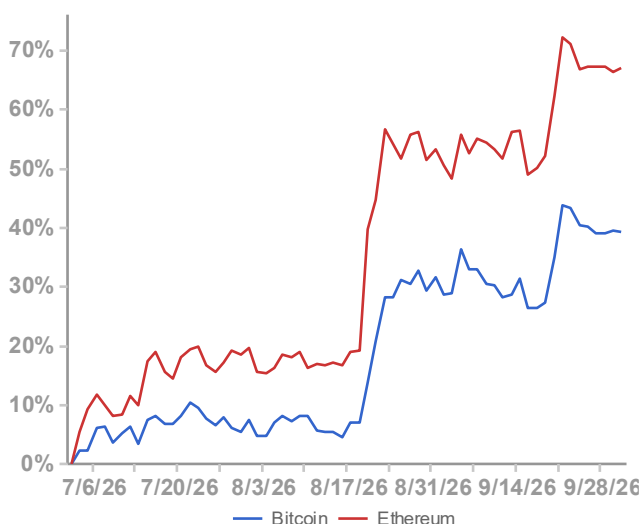
The Correction Reverses — Crypto’s Strongest Quarter in Years

Digital assets staged a sharp reversal of their two-quarter drawdown, with Bitcoin posting its strongest third quarter in nine years and Ethereum setting a record for its best 3Q ever. Bitcoin rose 42.7% during the quarter, opening at \$58,548 on July 1 and closing at \$83,517 on September 30 — a move that erased the first-half losses and pushed Bitcoin back into positive year-to-date territory at +11.6%. Ethereum rallied 71.2%, climbing from \$1,569 to \$2,687, bringing its own YTD return to +14.1%. In our view, a key catalyst was the Treasury’s expanded buybacks of long-dated bonds in August and September, which signaled official concern about rising yields, even though they did not stop yields from climbing.

As we have written in the past about digital assets, our belief is that they are not a substitute for equities or bonds or other cash flow-driven securities. There is no cash flow associated with the asset class, and as value investors, we generally prefer to acquire a stream of free cash flow. Yet it is worth recognizing that many assets do not generate cash flows but are widely recognized as stores of value — including art, precious metals, coins and rare books. All of these “non-cash flow generating” assets trade with intermittent price discovery, albeit through Dutch or private auctions.

The round-trip of the past three quarters — a cumulative 47% Ethereum drawdown through 2Q followed by a 71% recovery in 3Q — underscores the importance of position sizing over entry timing. As we have noted in prior Quarterlies, our view is that digital assets warrant a modest 1-2% allocation for most investors as an uncorrelated holding rather than a cash-flow substitute. We have not adjusted our allocation guidance in either direction. We note the following performance regarding 3Q26 and 12M26 results, respectively: Bitcoin (+42.7% and -29.1%) and Ethereum (+71.2% and -38.1%).

Figure 17: 3Q26 Digital Asset Performance ^{vii}



Source: FactSet

Figure 18: 12M26 Digital Asset Performance

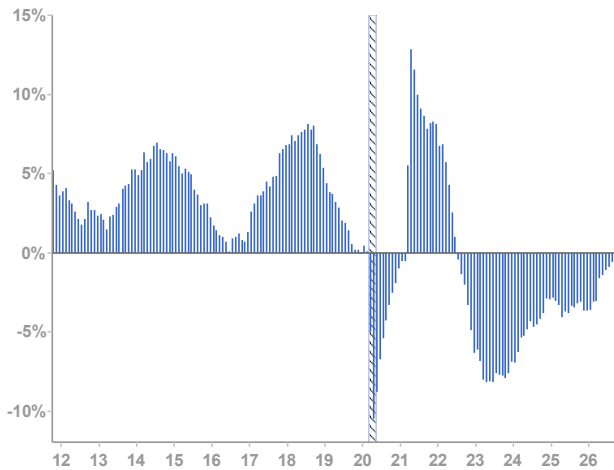


Source: FactSet

Chart Book

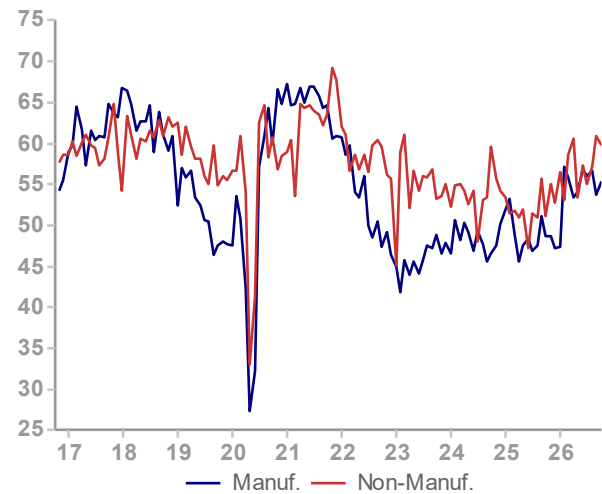
Leading Indicators

Figure 19: Index of Leading Economic Indicators



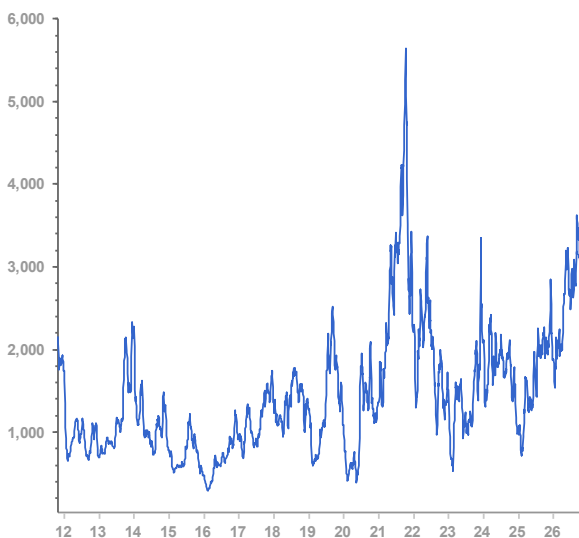
Source: FactSet

Figure 20: ISM New Orders



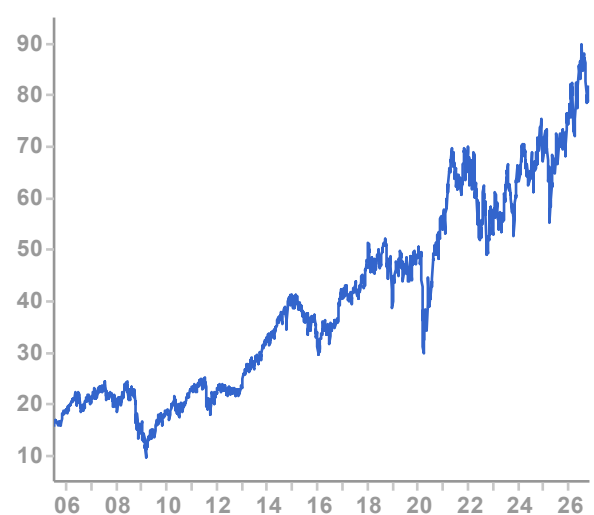
Source: St. Louis Federal Reserve, FRED Database

Figure 21: Baltic Freight Index



Source: FactSet

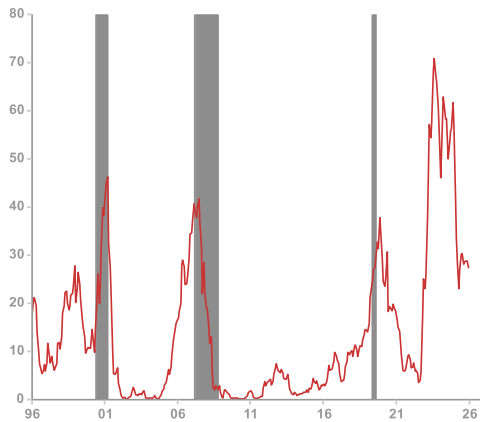
Figure 22: DJ Transports



Source: FactSet

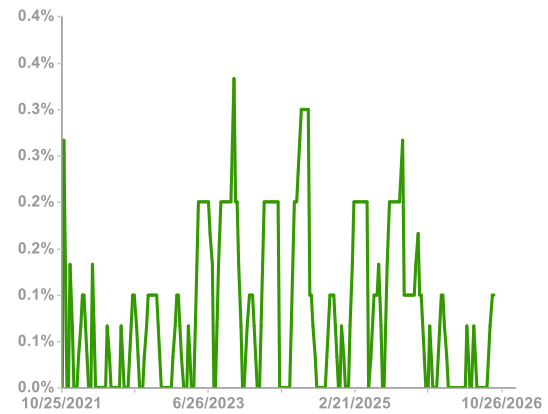
Real-time Recession Risk Indicators

Figure 23: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 24: Sahm Real-time Recession Predictor



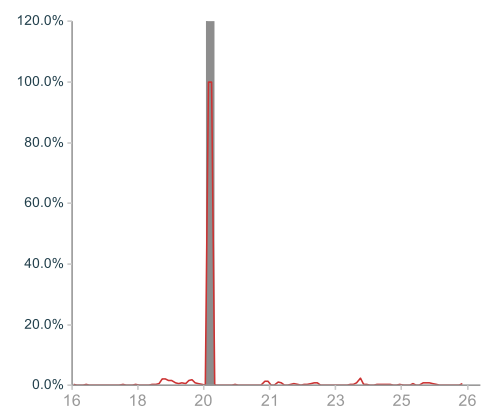
Source: St. Louis Federal Reserve, FRED Database

Figure 25: GDP Now (Atlanta Fed)



Source: FactSet, FRED Database

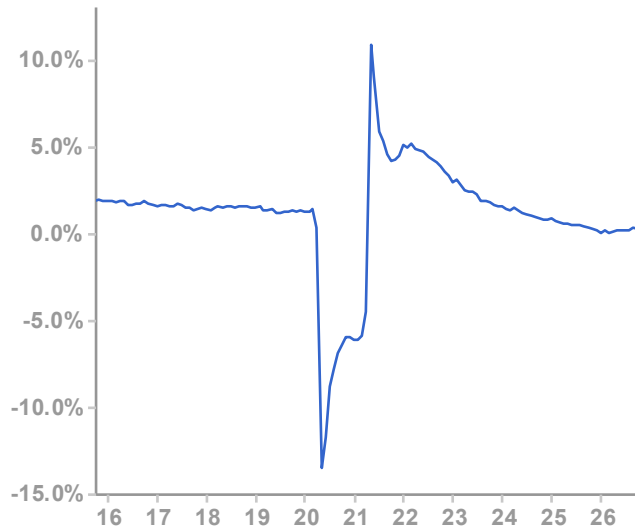
Figure 26: Smoothed US Recession Probabilities



Source: FactSet, FRED Database

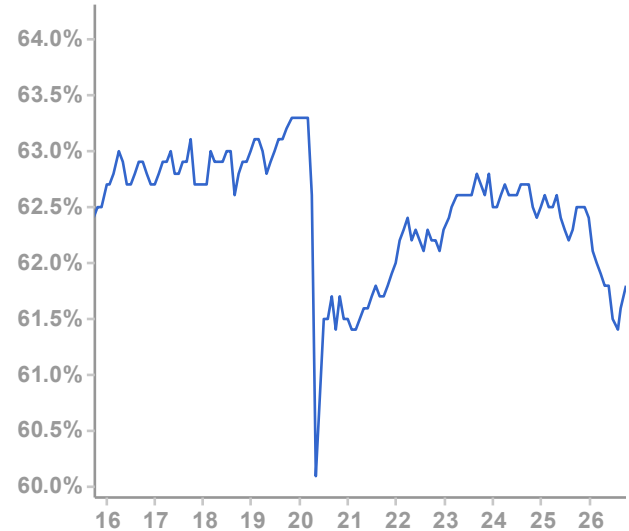
Labor Market Indicators

Figure 27: Payroll Growth (Establishment Survey, % Chg YoY)



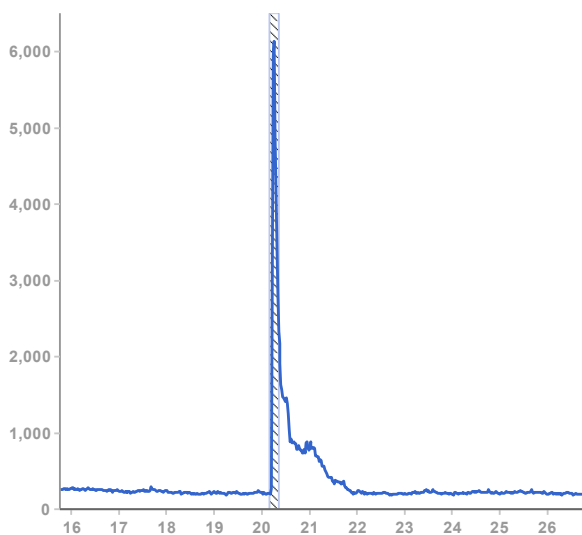
Source: FactSet

Figure 28: Labor Participation Rate (% of Workforce)



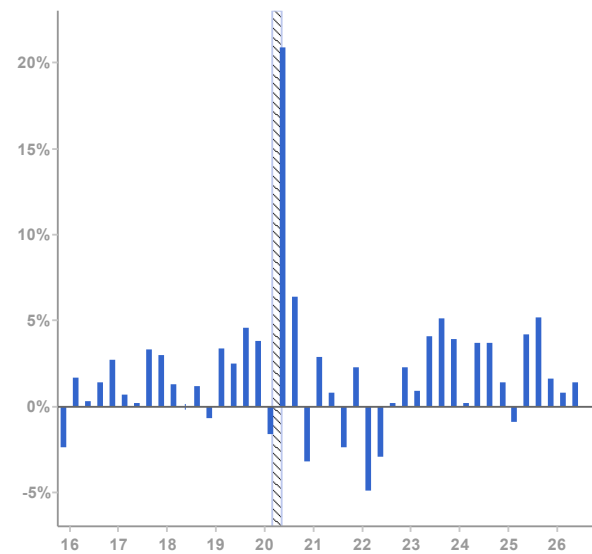
Source: FactSet

Figure 29: Initial Unemployment Claims



Source: FactSet

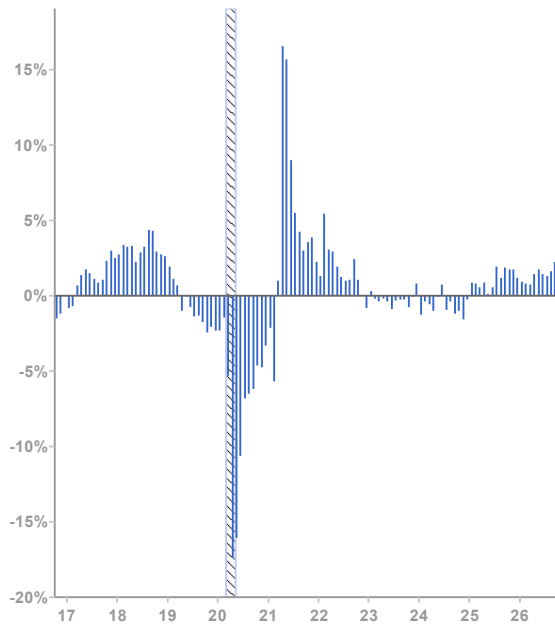
Figure 30: Non-Farm Productivity (% Chg YoY)



Source: FactSet

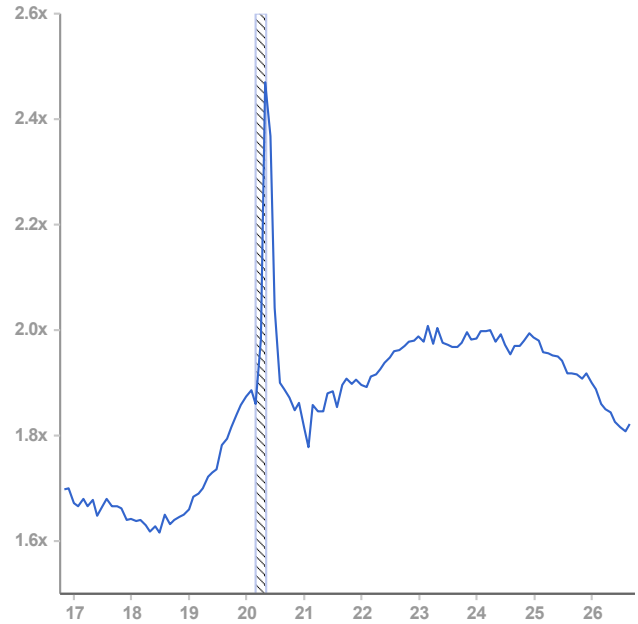
Production and Business Activity Indicators

Figure 31: Industrial Production (% Chg YoY)



Source: FactSet

Figure 32: US Inventory to Shipment Ratio



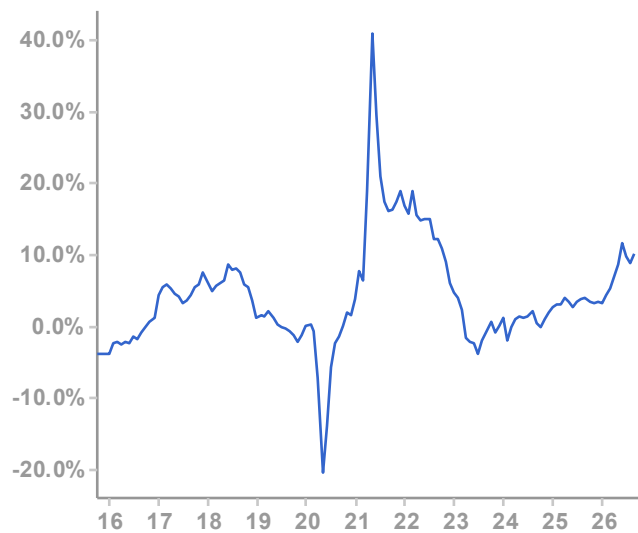
Source: FactSet

Figure 33: Unfilled Orders (% Chg YoY)



Source: FactSet

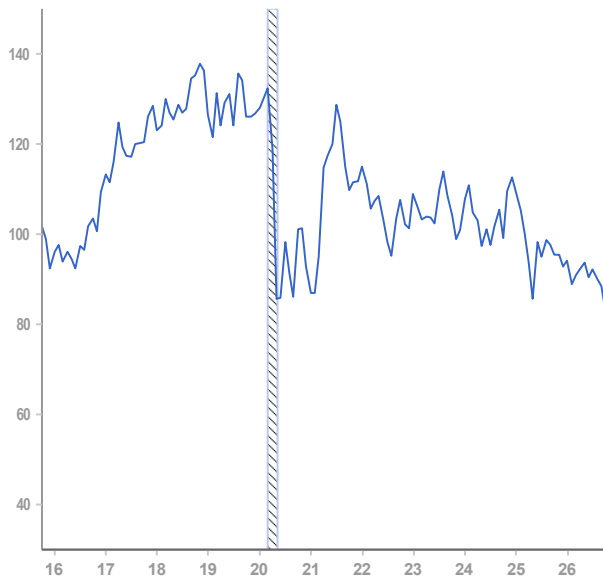
Figure 34: Business Sales (% Chg YoY)



Source: FactSet

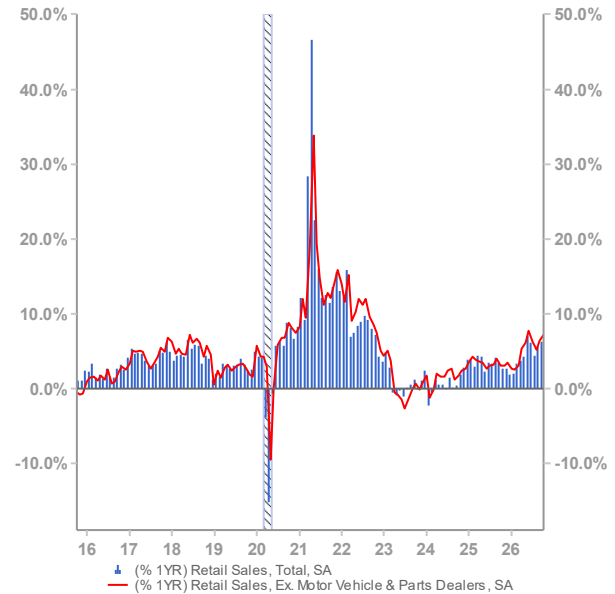
Consumer and Household Activity Indicators

Figure 35: University of Michigan Consumer Sentiment



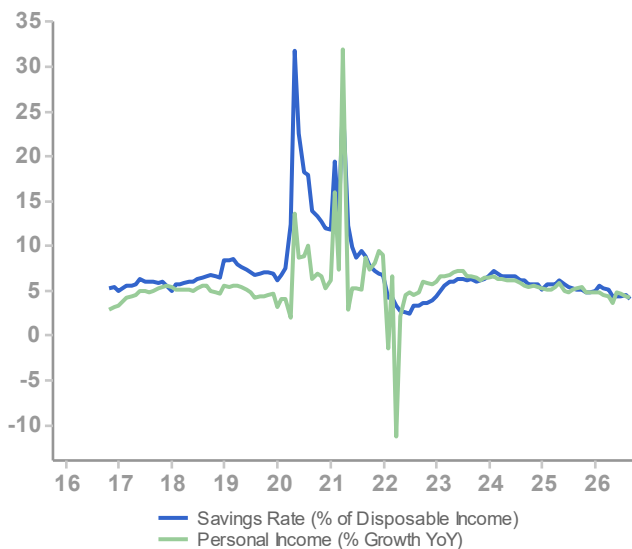
Source: FactSet

Figure 36: Retail Sales



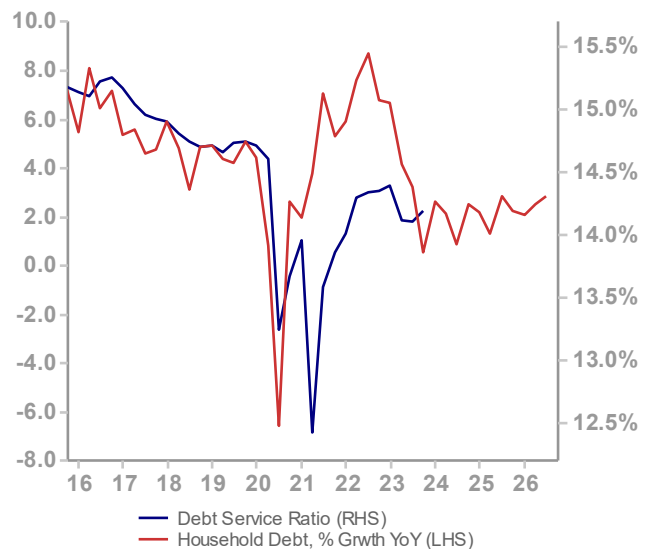
Source: FactSet

Figure 37: Personal Income and Savings Rate



Source: FactSet

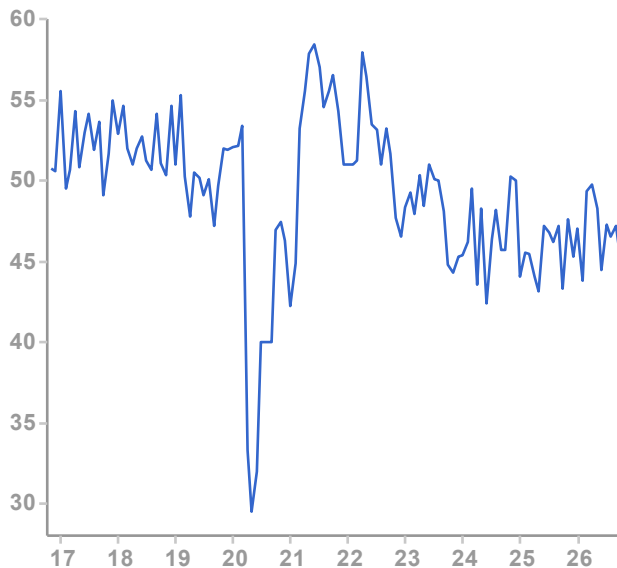
Figure 38: Household Debt



Source: FactSet

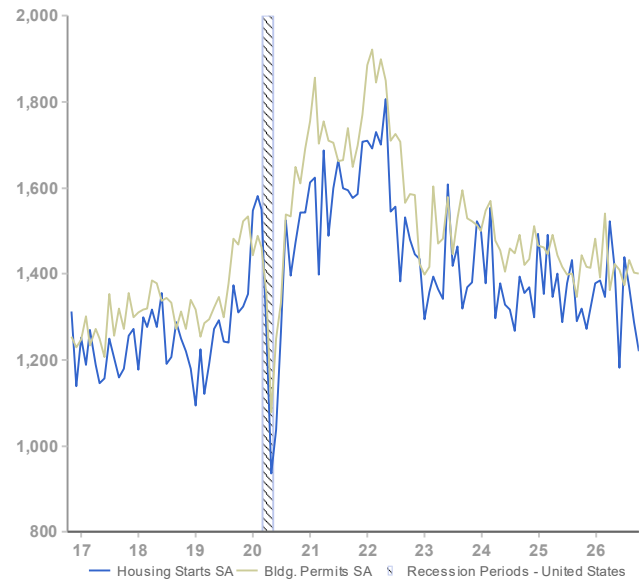
Housing and Construction Indicators

Figure 39: Architecture Billings Index



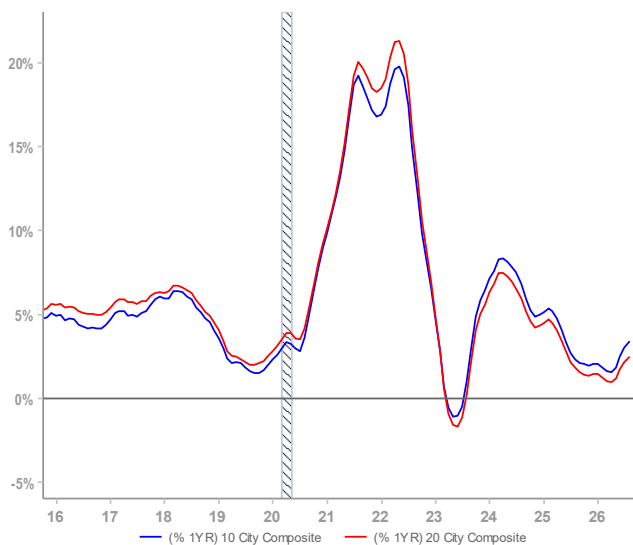
Source: FactSet

Figure 40: Housing Starts and Building Permits



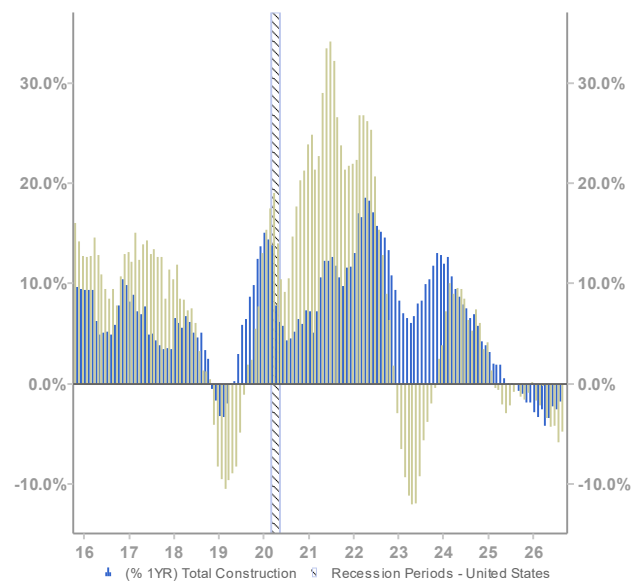
Source: FactSet

Figure 41: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

Figure 42: Private and Total Construction (% Chg YoY)



Source: FactSet

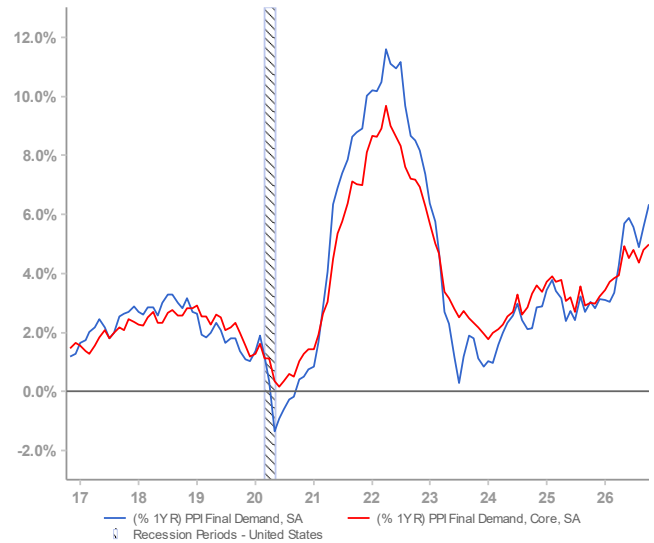
Price Indicators

Figure 43: Consumer Price Index



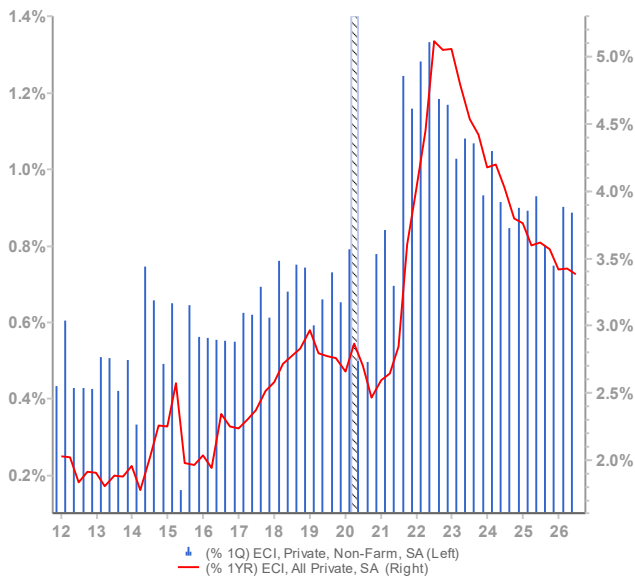
Source: FactSet

Figure 44: Producer Price Index



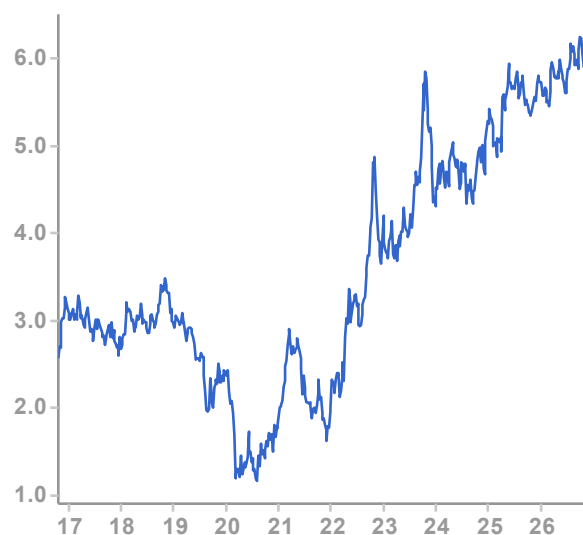
Source: FactSet

Figure 45: Employment Cost Index



Source: FactSet

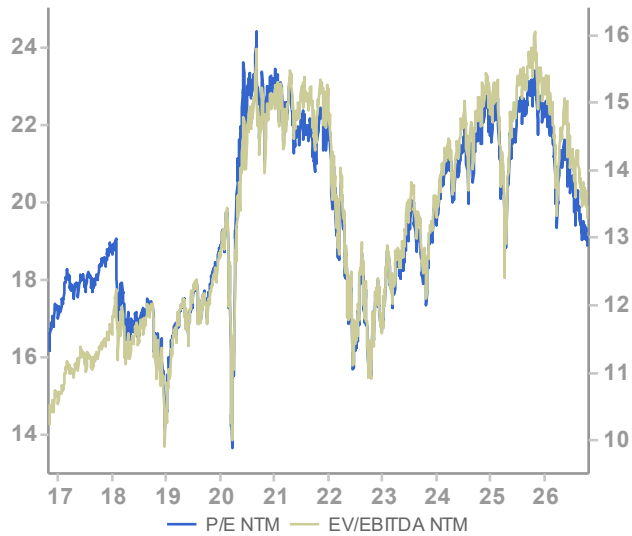
Figure 46: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

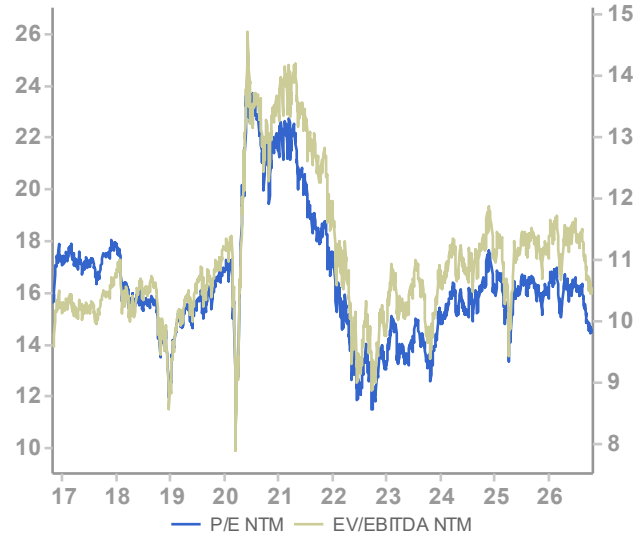
Valuation Indicators

Figure 47: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



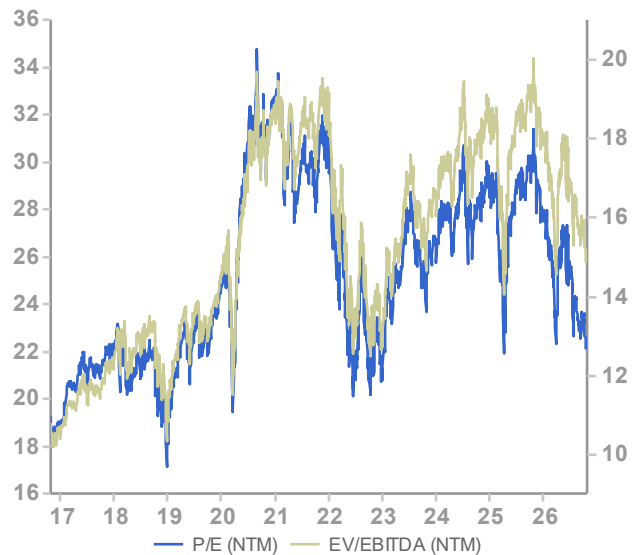
Source: FactSet

Figure 48: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



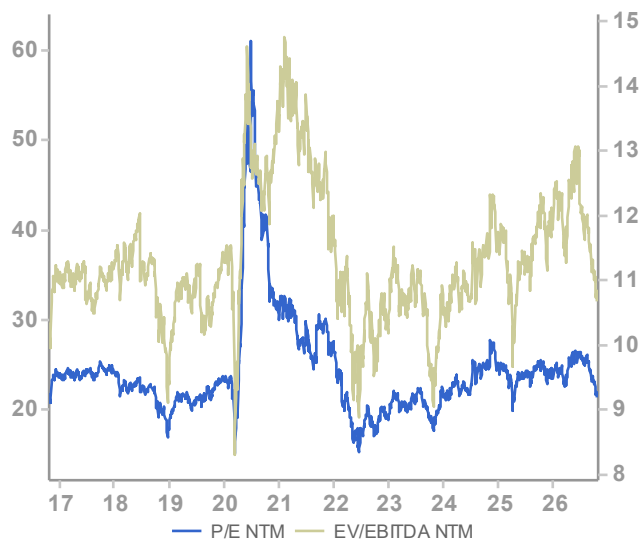
Source: FactSet

Figure 49: Nasdaq-100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

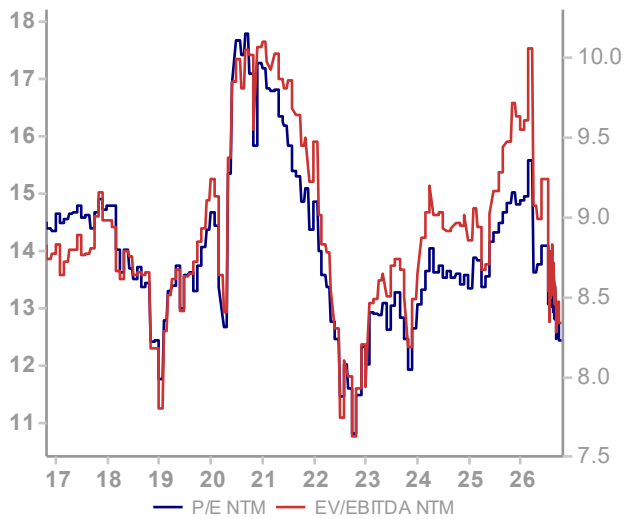
Figure 50: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

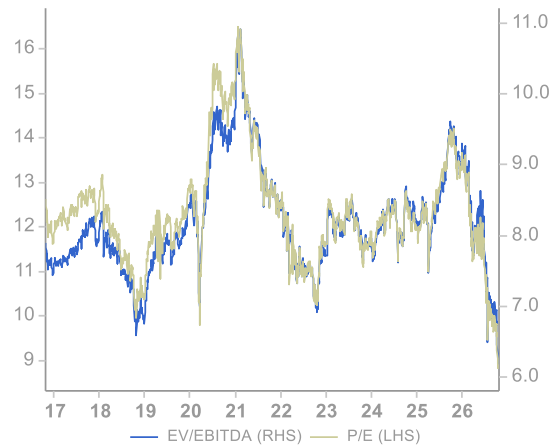
Valuation and Volatility Indicators

Figure 51: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



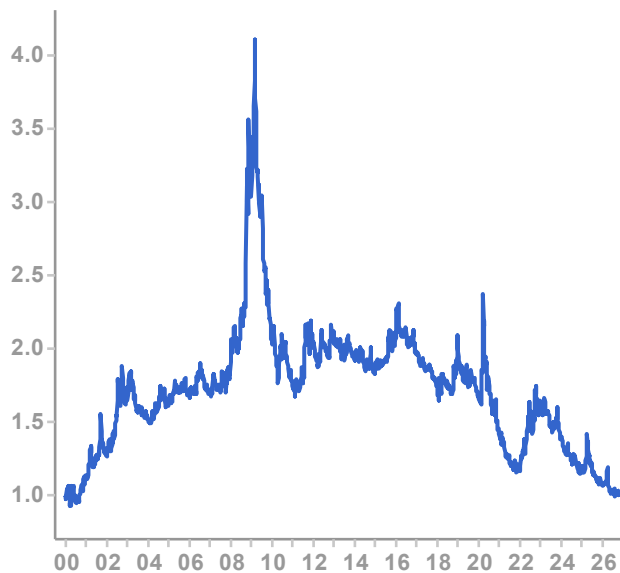
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 52: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



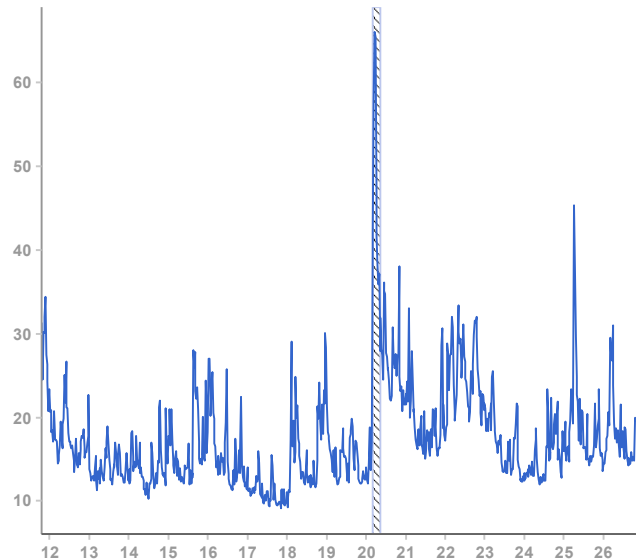
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 53: S&P 500 Dividend Yield



Source: FactSet

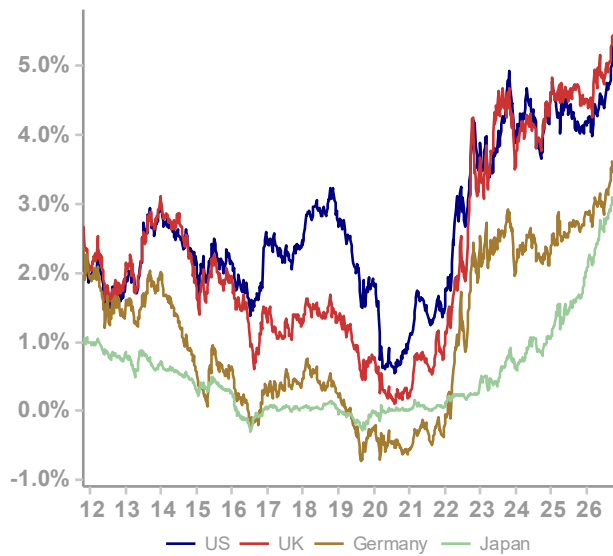
Figure 54: CBOE Volatility Index



Source: FactSet

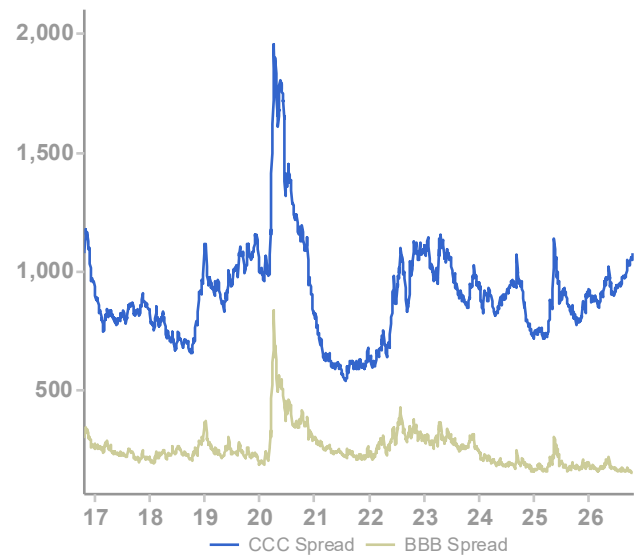
Bond Market Indicators

Figure 55: 10-Year Global Bond Yields



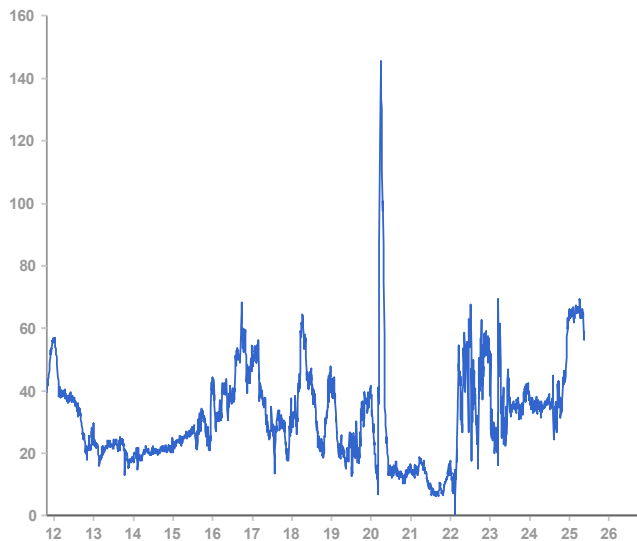
Source: FactSet

Figure 56: CCC and BBB Spreads (Option Adjusted)



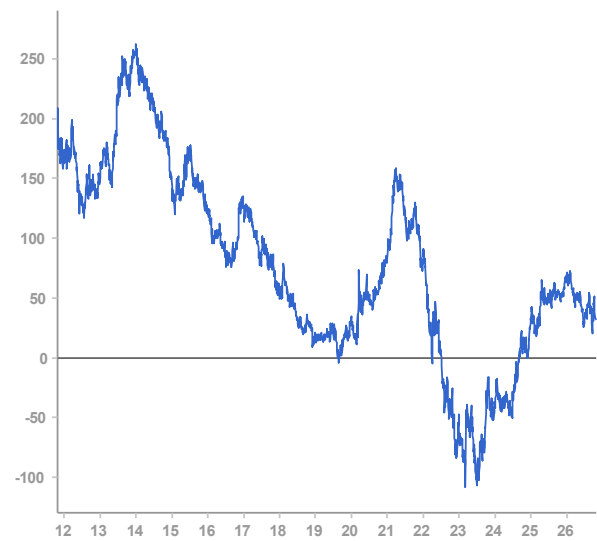
Source: FactSet

Figure 57: TED Spread (bps)



Source: FactSet

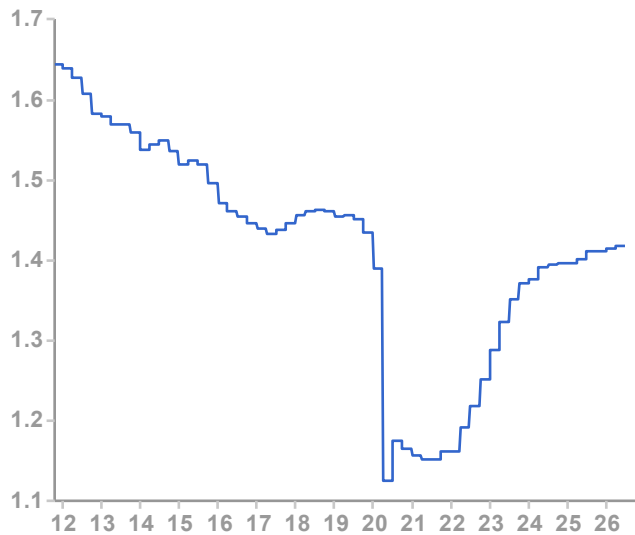
Figure 58: 10-Year Minus 2-Year Treasury



Source: FactSet

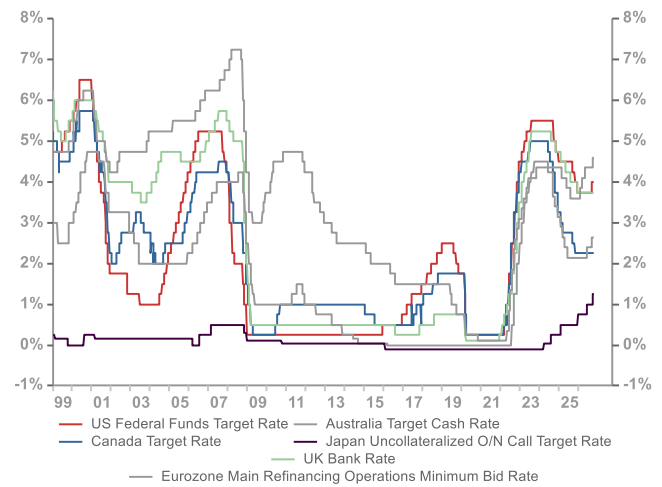
Liquidity and Other Indicators

Figure 59: Velocity of M2 Money Stock



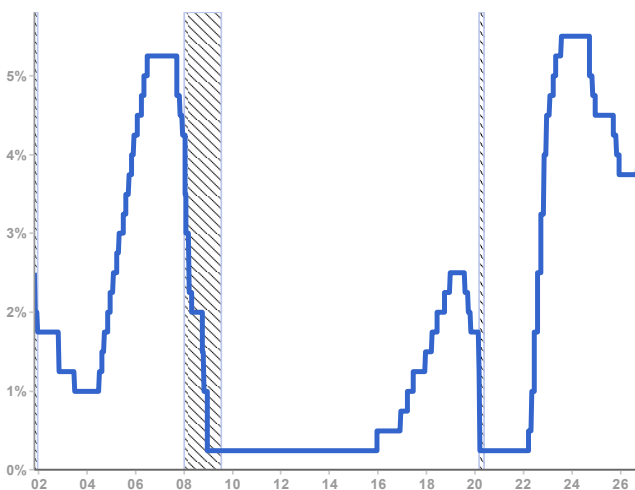
Source: FactSet

Figure 60: Central Bank Policy History



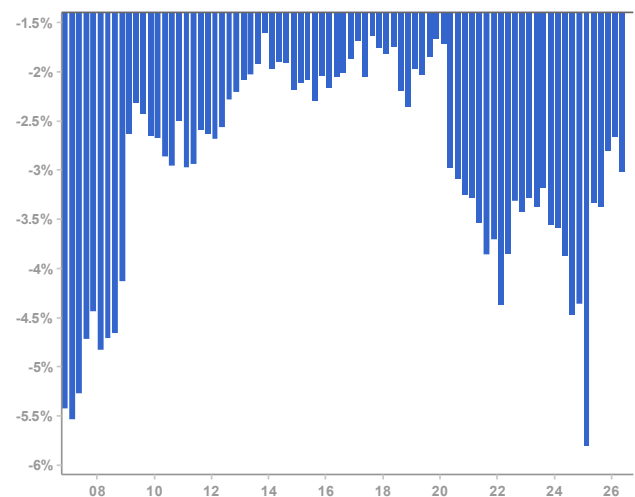
Source: FactSet

Figure 61: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 62: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PIK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are not available to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and/or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of—nor a predictor of—future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of Sept 30, 2026; most other prices and yields are as of Oct 26, 2026.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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eric@rockingstoneadvisors.com

i Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

ii Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and/or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

iii Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

iv Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO’s valuation and total return was inflated as of the end of the first quarter.

v Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

vi Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

vii Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.