Market Commentary

September 2026

Equity and Bond Market Update

(as of August 31, 2026)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+11.8%	+18.6%
S&P 500 Total Return Index	+13.1%	+20.4%
Russell 2000 Total Return Index	+20.0%	+26.5%
MSCI EAFE Index (net)	+13.8%	+21.6%
MSCI Emerging Markets Index (net)	+24.4%	+39.7%
Bloomberg US Aggregate Bond TR	-0.3%	+1.9%

Recent Economic Indicators

	Statistic	As of
Unemployment Rate	4.1%	Jul 2026
Real Gross Domestic Product (Second Est., annualized)	+1.5%	Q2 2026
Consumer Price Index (CPI) – Y/Y	+3.4%	Jul 2026
Consumer Confidence (1985=100)	89.4	Aug 2026
30-year fixed mortgage rate	6.76%	7/31/2026
Housing Starts (single family)	808,000	Jul 2026
10-Year Treasury Yield	4.76%	7/31/2026

Index returns are presented for general market comparison and do not represent the performance of any LSAM account, strategy, or recommendation. Index performance is unmanaged, assumes the reinvestment of dividends or other distributions where applicable, and does not reflect advisory fees, transaction costs, taxes, or other expenses. Investors cannot invest directly in an index. Past performance is not indicative of future results.

Earnings, Interest Rates, Oil and the Importance of Staying the Course

The stock market enters September with a familiar combination of opportunity and uncertainty. Corporate earnings remain strong, artificial intelligence continues to reshape investment and economic expectations, and the U.S. economy has demonstrated considerable resilience. At the same time, rising Treasury yields, higher oil prices and continued conflict between the United States and Iran have introduced a meaningful source of risk.

For investors, however, an important long-term consideration has not changed: **corporate earnings and cash flow growth have been significant drivers of stock market returns, even though valuations, interest rates, inflation, geopolitical events and investor sentiment can also materially affect results.** That distinction is particularly important in an environment where daily news flow can easily overwhelm the bigger picture.

Earnings Remain the Foundation

The stock market ultimately represents ownership in businesses. Over time, the value of those businesses is determined by their ability to generate and grow earnings and cash flow. Interest rates and valuations certainly influence what investors are willing to pay for those earnings, but sustained market appreciation cannot occur indefinitely without underlying corporate-profit growth.

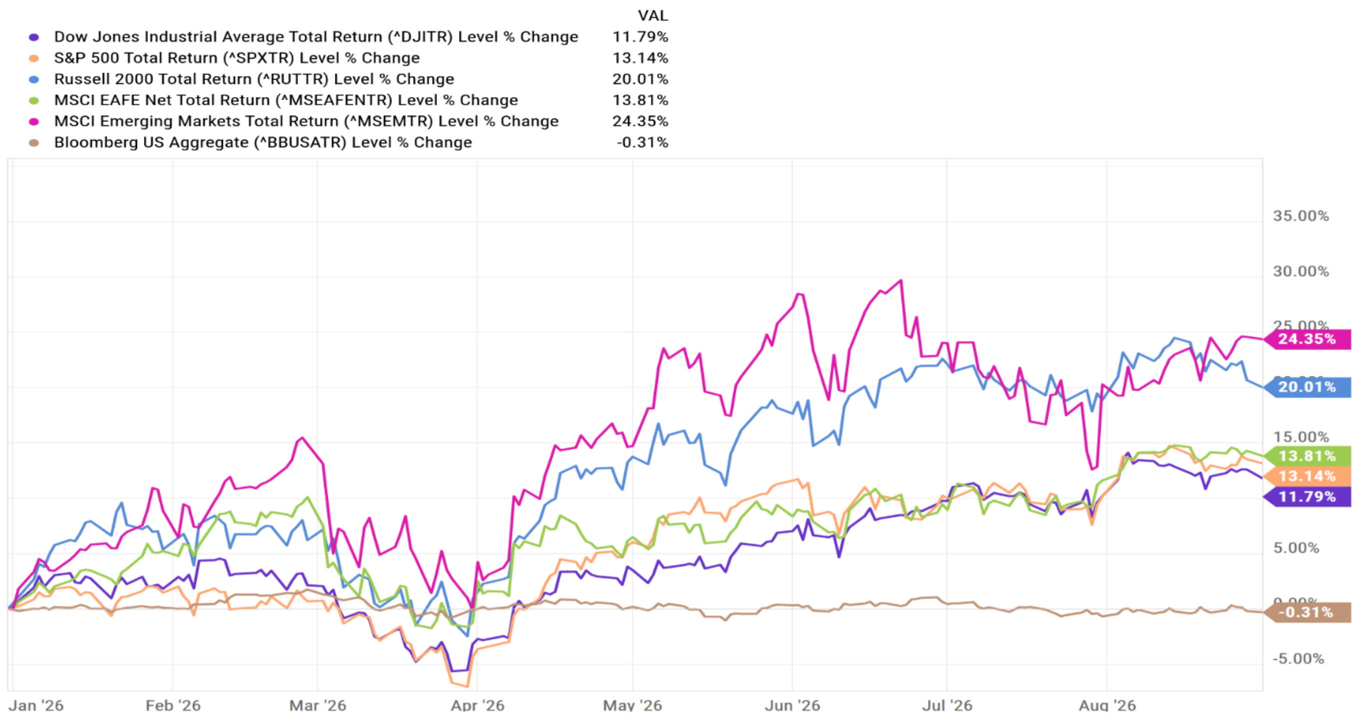
The most recent earnings season provided considerable support for the longer-term outlook. Approximately 88% of S&P 500 companies had reported results by late August, with roughly three-quarters exceeding revenue expectations and approximately 86% surpassing earnings expectations. The strength of those results has contributed to continued optimism about the earnings outlook and helped support expectations for additional market gains.

This is important because the market's performance in 2026 has not simply been a story of expanding valuations. Earnings growth has been an important part of the equation. Companies have generally demonstrated an ability to maintain margins, grow revenues and adapt to an economy that continues to evolve rapidly.

The earnings picture is also increasingly tied to investment in artificial intelligence, data centers, semiconductors, cloud infrastructure and the broader digital economy. These investments are enormous, but investors are beginning to see evidence that at least some of that spending is translating into real revenue and earnings growth.

That does not mean every company benefiting from the AI theme will ultimately be a successful investment. Expectations are high, valuations vary considerably, and some investments will undoubtedly produce disappointing returns. But the underlying economic

Major Market Indices Total Return (YTD through August 31, 2026)



Source: YCharts; data retrieved September 1, 2026. Returns shown are total returns from December 31, 2025 through August 31, 2026.

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transformation is real, and the earnings being generated by many of the industry's leaders are providing tangible support for the market.

Treasury Yields Are Becoming a Bigger Headwind

One of the most significant developments entering September has been the sharp increase in longer-term Treasury yields. As of September 1st, the 10-year Treasury yield was approximately 4.8%, while the 30-year Treasury yield was approximately 5.2%. These yields were elevated relative to much of the post-financial crisis period and create a headwind for interest rate sensitive investments.

There are several reasons behind the move.

First, the federal government continues to run substantial budget deficits and must issue enormous quantities of debt. Investors require compensation for absorbing that supply, particularly at longer maturities.

Second, inflation remains a concern. Higher energy prices resulting from the Iran conflict have added another potential source of inflation just as markets had been expecting inflation to continue moderating.

Third, investors are questioning how much demand there will be for U.S. Treasury securities at current yields. Foreign investors remain important participants in the Treasury market, but concerns about fiscal discipline, currency risk and alternative investment opportunities can influence their appetite for U.S. government debt.

Finally, the enormous investment required to build the infrastructure supporting artificial intelligence is competing for capital. Major technology companies are spending aggressively on data centers, power generation and computing infrastructure, and some of that investment is increasingly being financed through the corporate bond market. This adds another source of demand for capital at a time when the U.S. government itself is borrowing heavily.

The rise in long-term yields matters because Treasury rates represent the foundation upon which many other financial assets are priced. Higher yields increase mortgage rates, corporate borrowing costs and the required return investors demand from stocks.

That does not necessarily mean stocks must fall. It does mean that the earnings growth required to justify current equity valuations becomes increasingly important.

Iran, Oil and the Federal Reserve

The unresolved conflict with Iran represents perhaps the most significant near-term macroeconomic wildcard.

The concern is not simply the possibility of continued military conflict. The greater economic risk is a prolonged disruption to energy markets. As of September 1st, Brent crude was trading above approximately $90 per barrel, while West Texas Intermediate crude had also increased as market participants evaluated the possibility of disruptions involving Iranian oil production and the Strait of Hormuz.

If the conflict remains unresolved and oil prices stay elevated, the consequences could extend well beyond the energy sector.

Higher oil prices function much like a tax on consumers and businesses. Consumers spend more on gasoline, heating and transportation, leaving less money available for discretionary purchases. Businesses face higher transportation, manufacturing and operating costs. Eventually, some of those costs are passed along to customers through higher prices.

That creates a particularly difficult problem for the Federal Reserve.

The Fed is attempting to balance economic growth against inflation. A persistent oil shock makes that task substantially more difficult because it can simultaneously weaken economic activity while pushing inflation higher. In other words, the Fed could find itself confronting a version of the classic "stagflation" problem.

The market has already begun adjusting to this possibility. Expectations for a Federal Reserve rate cut have weakened, while the possibility of another rate increase has gained attention as oil prices rise and inflation risks increase.

If the conflict is resolved relatively quickly, some of the oil premium could disappear almost as quickly as it appeared. If the conflict persists, however, elevated energy prices could keep inflation higher for longer, forcing the Fed to maintain a more restrictive policy than investors currently expect.

That would be a headwind for both bonds and stocks.

AI Stocks Continue to Demonstrate Resilience

Despite periodic bouts of volatility, the resilience of AI-related stocks has been notable.

The reason is straightforward: investors are increasingly looking beyond the speculative narrative and focusing on actual corporate spending and earnings. The largest technology companies are generating substantial cash flow and are investing that cash into computing capacity, data centers, networking equipment and semiconductors.

There will undoubtedly be periods when the AI trade corrects. Recent trading has already demonstrated that investors are willing to take profits when valuations become stretched or interest rates move sharply higher. Many semiconductor stocks experienced significant declines during late-August trading, demonstrating that even the strongest secular themes are not immune to volatility.

But a correction in AI stocks should not automatically be interpreted as the end of the AI investment cycle.

Markets routinely experience periods in which expectations move faster than fundamentals. What matters is whether earnings eventually catch up with those expectations. So far, the fundamental evidence remains encouraging.

Discipline Matters More Than Ever

The biggest danger facing investors today may not be the Iran conflict, Treasury yields or even an eventual correction in AI stocks. It may be the temptation to abandon a well-designed investment strategy because of them.

Investors will always have reasons to be nervous. There will always be another geopolitical crisis, recession prediction, inflation scare, interest-rate shock or market valuation argument. Attempting to move in and out of the market based on each development sounds appealing in theory but is extraordinarily difficult in practice.

The better approach is to recognize that markets are forward-looking and inherently uncertain. A long-term investment strategy should already account for the fact that corrections, bear markets and periods of elevated volatility will occur.

Remaining invested does not mean that a portfolio should never change. Rebalancing, increased liquidity needs, changes in financial circumstances, tax considerations, risk tolerance, time horizon or investment objectives may justify changes to an investor's allocation. The appropriate response to market conditions therefore depends on each investor's individual circumstances and should not be based solely on generalized market commentary.

Today's environment is a good example. Corporate earnings remain solid, but interest rates are rising. AI investment is creating significant economic opportunity, but valuations in portions of the technology sector are elevated. The U.S. economy remains resilient, but geopolitical risks have increased. Oil prices are higher, but the conflict could ultimately be resolved.

There are compelling arguments on both sides. That is precisely why discipline matters.

A disciplined long-term investment approach generally does not depend on predicting which headline will dominate the market next month. Instead, it typically involves maintaining an asset allocation and level of diversification appropriate for the investor's objectives, financial circumstances, time horizon and tolerance for risk, subject to periodic review and adjustment.

The market's short-term direction will always be difficult to predict. **Corporate earnings, economic productivity and innovation are much easier to understand over a long enough horizon.**

For investors with a long-term time frame, the objective should therefore remain unchanged: focus on the fundamentals, recognize the risks, take advantage of opportunities when they arise and resist the temptation to let short-term volatility dictate long-term decisions.

The headlines will change. Interest rates will move. Oil prices will rise and fall. Geopolitical conflicts will eventually be resolved or replaced by new ones.

But businesses will continue to innovate, produce goods and services, generate cash flow and grow earnings.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets
CME FedWatch Tool (www.cmegroup.com)
FTSE Russell (www.ftserussell.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Bloomberg US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

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