GLOBAL

Q4 2026

Quarterly Outlook

Perspectives on Markets and Economic Conditions

Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

A More Hawkish Fed, a Resilient Economy

Main Takeaway

U.S. growth slowed modestly to a 2.2% annualized rate[1] in Q2, though underlying private demand remained robust and early Q3 data suggest momentum carried forward. The labor market has softened, with employers adding just 152,000 jobs[2] over the past three months. With headline inflation well above target and energy prices elevated, the Fed raised rates for the first time since 2023, a clear hawkish shift under Chairman Kevin Warsh.

Top Risks

Headline inflation remains well above the Fed's 2% target, and a hotter-than-expected core reading helped push the Fed to its first rate hike since 2023, with one more expected this year. A prolonged Strait of Hormuz disruption could keep energy prices elevated, fueling inflation while weighing on growth. Job growth slowed in Q3, and while the economy continues to expand, more restrictive monetary policy is clouding the outlook for growth.

Sources of Stability

Despite a modest slowdown in Q2, the U.S. economy remains resilient. Real GDP grew at a 2.2% annualized pace, while real final sales to private domestic purchasers rose a robust 4.6%[1], underscoring healthy underlying demand. The Atlanta Fed's GDPNow model projects Q3 growth near 3.7%[3]. Job growth has cooled but stayed positive, with 152,000 jobs added in Q3, and unemployment remains low at 4.2%[2] despite a slight uptick in September.

See Appendix for more information.

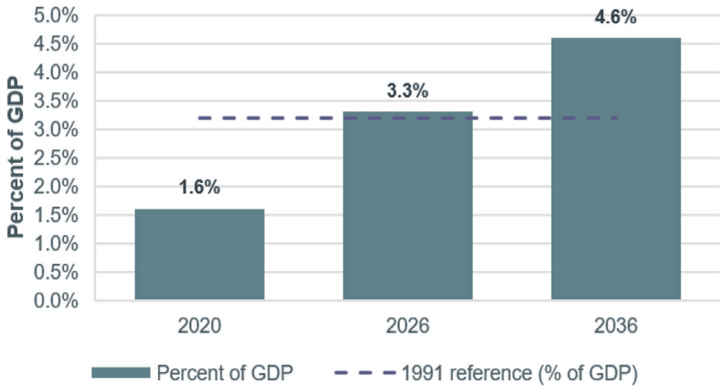
ECONOMIC SPOTLIGHT:

What $40 Trillion in Debt Means for Your Portfolio

The U.S. national debt passed $40 trillion in August, but the cost of carrying that debt matters more than its size. As older, low-rate bonds mature and are refinanced at higher rates, the average rate on outstanding Treasury debt has more than doubled from 1.5% five years ago. Together with debt growing from roughly $28 trillion to $40 trillion, this has pushed net interest costs to 3.3% of GDP, above the 1991 postwar high. The Congressional Budget Office projects annual net interest costs will more than double between 2026 and 2036.

Debt held by the public, which most economists consider the more meaningful measure, is 101% of GDP today and is projected to reach 120% by 2036, passing the 1946 record of 106%. Gross federal debt, which also counts what the government owes itself, is 123% of GDP and projected to reach 136%. Research by Elmendorf, Hubbard, and Liscow found that growth alone is very unlikely to stabilize the debt. Faster growth can reduce, but not replace, the tax increases or spending cuts eventually needed.

Net Interest Cost as a Share of the Economy



Sources: Congressional Budget Office; Peter G. Peterson Foundation.

Because Treasury yields set the baseline for most other borrowing, higher rates ripple across the economy. In August, the 30-year Treasury yield closed at 5.25%, its highest level since 2007, and the 30-year TIPS yield closed at 2.95%, the highest since 30-year TIPS issuance began in 2010. With market-implied inflation expectations steady at about 2.3%, higher rates mainly reflect investors demanding higher real yields. As a result, bonds now offer higher expected returns than at any point in the last 15 years.

High debt has not been a reliable signal to reduce stock exposure. Dimensional Fund Advisors examined 153 instances since 1975 in which a country's debt exceeded 100% of output and found stocks were positive about two-thirds of the time.

A well-built portfolio should account for debt-related risks by weighing exposure to interest rates, credit, and unexpected inflation. Longer-duration bonds carry more interest rate risk, and lower-quality bonds tend to move with stocks in market stress. Investors concerned about unexpectedly high inflation may consider TIPS or commodities, which have historically held up well in those periods. The debt is a real long-term problem, but it is not a reason to abandon your plan.

Source: Focus. "What $40 Trillion in Debt Means for Your Portfolio" September 23, 2026

Key Areas to Watch

U.S. Economic Growth

The U.S. economy rose at a 2.2%[1] annualized rate in Q2 2026, down slightly from 2.5% pace in Q1. Second quarter growth was driven by consumer spending, investment, and export growth. Underlying demand remained strong, with real final sales to private domestic purchasers rising 4.6%, up from 1.8% in Q1 and above the four-quarter average of 2.9%. Looking ahead, the Atlanta Fed's GDPNow model projects Q3 GDP growth of approximately 3.7%[2], while real final sales to private domestic purchasers are tracking near 3.8%, pointing to continued private-sector strength.

Monetary Policy

As expected, the Federal Reserve raised the federal funds rate by 25 basis points to 3.75%–4.00% at its September meeting, its first increase since 2023. The Summary of Economic Projections (dot plot) shows the median committee member expecting one more hike in 2026[4] and a hold in 2027. The move reflects a clear hawkish shift under Chairman Warsh. In his press conference, he emphasized that, "our predominant focus is on the price-stability side of our mandate" and that "inflation risks are to the upside."

Inflation Trajectory

Headline CPI rose 0.4% in August[3] and 3.4% year-over-year, both in line with expectations, driven largely by a 16.3% increase in energy prices over the past 12 months. Core CPI rose 0.3%, a tenth above expectations, while the annual rate eased to 2.4%, its lowest since March 2021. Airfares and hotels led the pickup. The higher-than-expected core reading added to the case for the Fed's September rate hike. Meanwhile, the renewed rise in oil, gasoline, and diesel prices risks filtering through to other goods and services and lifting inflation expectations.

Yield Curve Changes

U.S. interest rates rose across the curve in Q3, with 2-, 10-, and 30-year Treasury yields up 74, 85, and 73 basis points. The increase reflects a "perfect storm" of rising debt-to-GDP ratio lifting the term premium, massive AI-related capital spending financed through increased borrowing, and energy supply shocks from the Ukraine and Strait of Hormuz conflicts. Long-term Treasury yields have reached their highest levels since before the Global Financial Crisis, offering bond investors more attractive income opportunities while raising borrowing costs for households, businesses, and the federal government.

See Appendix for more information.

Key Areas to Watch (Cont.)

Labor Market

Employers added just 152,000 jobs in Q3, down from 242,000 in Q2. September's employment report was weaker than expected, with payrolls rising only 29,000[1] against a consensus of 84,000 and a prior 12-month average of 45,000. July and August were revised down by a combined 60,000, leaving July in negative territory. The unemployment rate rose 0.1 percentage point to 4.2% as labor force participation increased to 61.8%. Still, participation remains 0.3 points below January, and Conference Board and New York Fed surveys show workers remain pessimistic about job prospects.

Consumer Spending

Consumer spending rebounded strongly in Q2, rising at a 3.8% annualized rate[2], up from 0.7% in Q1 and above the 2.1% four-quarter average. Spending appears to be holding up in Q3, with Bank of America card data[3] showing spending up 3.7% excluding gasoline, roughly 2.5 times the 2025 pace. The Atlanta Fed projects Q3 consumer spending growth of approximately 2.3%. Consumers continue to spend despite higher energy prices and renewed trade tensions, which have pushed consumer sentiment near its five-year low.

Global Economy

Growth was positive across major economies in Q2. U.K. GDP grew at a 1.6%[5] annualized pace, down from 2.4% in Q1, while the Euro Area rebounded to 2.4%[5] after a flat Q1. In Asia, China expanded at a 3.6%[5] annualized rate and Japan at 1.4%[5]. Looking ahead, the OECD projects global GDP growth of 2.9%[6] in 2026 and 3.0% in 2027[6]. Stronger price pressures, weaker real income growth, and higher interest rates may moderate near-term momentum, but robust AI-related activity should help activity strengthen through 2027.

Private Credit

According to the Cliffwater Direct Lending Index (CDLI), unrealized losses have eroded private credit performance by roughly 140 bps through Q2[7]. Software loans account for about two-thirds of those losses, reflecting AI disruption concerns more than deteriorating fundamentals, with 2020-2021 loans hit hardest. Other major sectors experienced less than 100 bps of price declines. Overall credit quality remains stable, with realized losses totaling just 47 bps over the past four quarters. Historically, mark-to-market declines have often exceeded subsequent realized losses, suggesting current marks may be overly conservative.

See Appendix for more information.

Economic and Market Snapshot

Equity markets cooled noticeably in Q3. U.S. stocks rose 1.4% (Russell 3000), led primarily by energy and software. Developed international markets gained 1.2% (MSCI World ex-USA IMI), as strength in Japan, driven by earnings, buybacks, and governance reforms, offset weakness in Europe, where rising yields and energy prices weighed on investor sentiment. Emerging markets slipped 0.3% (MSCI EM IMI), weighed down by July's global semiconductor sell-off.

U.S. fixed income fell 3.5% (Bloomberg U.S. Aggregate), pressured by higher inflation, a rising term premium, and a more hawkish Fed under Chairman Warsh.

Major Asset Class Returns*

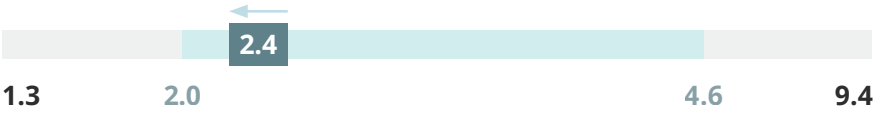
Q3 2026

		Quarterly Return	Past 12 Months
Stocks			
U.S. Stocks	▲	1.4	15.1
International Stocks	▲	1.2	15.7
Emerging Markets Stocks	▼	-0.3	27.3
Bonds			
U.S. Government Bonds	▼	-1.7	-0.3
Global Bonds	▼	-0.6	1.6

Key Economic Indicators*

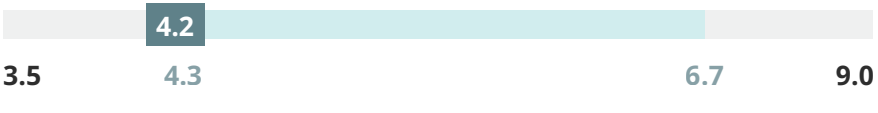
Real GDP Growth (%)

Core CPI (%)



Consumer Sentiment

Unemployment Rate (%)



Jobs Added (Thousands)

See Appendix for more information.

Investment Planning Implications

Where do markets go from here?

Stretched Valuations. U.S. large-cap stocks remain richly valued, trading at roughly 31 times earnings versus a long-term average of 17.7. By contrast, valuations for U.S. small-cap and developed ex-U.S. stocks sit much closer to their historical averages, which may present more attractive opportunities.

Mid-Term Elections. Investors naturally want to look for a connection between who wins control of Congress and how markets are expected to perform. Looking at almost a century worth of returns shows that stocks have trended upward no matter which party controls the legislature. We strongly recommend against making any portfolio changes based on election results.

Higher For Longer. In September, the Fed raised rates 25 basis points to 3.75%–4.00%, its first hike since 2023, with one more expected this year. Higher rates can weigh on equity valuations by increasing the discount rate applied to future earnings, particularly for growth stocks. Higher borrowing costs may also pressure profits, leaving markets sensitive to further hikes.

What are the investment planning implications?

Higher Yields Are an Opportunity. With yields rising to levels not seen since prior to the Great Financial Crisis (GFC), this could be an opportune time to reassess your willingness, ability, and need to take risk. Higher bond yields could allow you to dial back risk in your portfolios while still meeting your investment goals.

Bond Correlations Rising. With federal debt above 100% of GDP, fiscal concerns could keep long-term yields elevated, or even push them higher during a recession, weakening fixed income's role as an equity hedge. To address this, investors may consider diversifying that protection with market neutral alternative strategies that are uncorrelated to macroeconomic risks.

Quickly Changing Leadership. Q3 showed how quickly market leadership can shift. Semiconductors, the AI winners that powered second-quarter gains, cooled, while software stocks, earlier viewed as AI losers, rebounded. In July and August alone, software rose 25% as semiconductors fell 4%. Rather than chasing recent winners, investors are better served by staying broadly diversified across sectors, styles, and themes.

[1]St. Louis Federal Reserve FRED Database

About the Authors

Kevin Grogan, CFA, CFP®

Chief Investment Officer, Systematic Strategies

Kevin helps lead the firm's Systematic Investing strategies, portfolio management, and fixed income teams. He has co-authored three books on investment topics and enjoys educating others on concepts that will have a tangible effect on their financial lives.

Blerina Hysi

Director, Fixed Income

Blerina works with fixed income and advisory teams to help construct and maintain customized bond portfolios, with an eye toward finding the best way to implement comprehensive financial plans. Her duties include fixed income analysis, bond trading, and building tailored, client-focused portfolio solutions.

Brian Haywood, CIMA®

Senior Investment Strategist

Brian takes pride that in an industry where decisions are often driven by commissions and not conscience, he and his team spend their time customizing portfolios on behalf of clients, upholding their fiduciary responsibility by doing what's in their best interest.

Additional economic and investment resources are available at focuspartners.com/resources

Appendix

Page 1:

[1] U.S. Bureau of Economic Analysis. "GDP (Third Estimate), Industries, Corporate Profits, State GDP, and State Personal Income, 2nd Quarter 2026" September 30, 2026

[2] U.S. Bureau of Labor Statistics. "Employment Situation Summary" October 2, 2026

[3] Atlanta Fed GDPNow estimate as of September 17, 2026

Page 3:

[1] U.S. Bureau of Economic Analysis. "GDP (Third Estimate), Industries, Corporate Profits, State GDP, and State Personal Income, 2nd Quarter 2026" September 30, 2026

[2] Atlanta Fed GDPNow estimate as of October 6, 2026

[3] U.S. Bureau of Labor Statistics. "Consumer Price Index Summary" September 11, 2026

[4] Federal Reserve. "Summary of Economic Projections" September 16, 2026

Page 4:

[1] U.S. Bureau of Labor Statistics. "Employment Situation Summary" October 2, 2026

[2] U.S. Bureau of Economic Analysis. "GDP (Third Estimate), Industries, Corporate Profits, State GDP, and State Personal Income, 2nd Quarter 2026" September 30, 2026

[3] Bank of America. "Consumer Checkpoint: Still Sizzling" September 14, 2026

[4] Atlanta Fed GDPNow estimate as of October 6, 2026

[5] Trading Economics

[6] OECD. "OECD Economic Outlook, Interim Report September 2026" September 23, 2026

[7] Cliffwater. "CDLI Update – September Featured Analysis: Fair Value/Cosy on 1st Lien Debt by Sector" September 1, 2026

Page 5:

*Major Asset Class Returns: The index representation for the Major Asset Class Returns is as follows: U.S. stocks are represented by the Russell 3000 Index, international stocks by the MSCI World ex U.S. IMI Index, emerging markets by the MSCI Emerging Markets IMI Index, U.S. government bonds by the Bloomberg Government Intermediate Total Return Index, and global bonds by the FTSE World Government Bond 1-5 Year Index. Past performance is not a guarantee of future results. Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Information from sources deemed to be reliable, but its accuracy cannot be guaranteed.

*Key Economic Indicators: Sources: Bureau of Economic Analysis (BEA) for real GDP growth. Real GDP is the annual rate of change of real gross domestic product, seasonally adjusted. Bureau of Labor Statistics (BLS) for core CPI. The core consumer price index (CPI) is the annual rate of change, seasonally adjusted, and excludes food and energy. Consumer sentiment is from the University of Michigan's consumer sentiment index. Unemployment rate is reported by the BLS, and jobs added is based on nonfarm payroll employment reported by the BLS. Retrieved from FRED, Federal Reserve Bank of St. Louis. For all indicators, the boxed number reflects the latest reading, and the line above the box shows the change since the last update. The shaded areas reflect normal readings compared to history (based on the 25th-75th percentile of historical measures), while areas outside the dark blue reflect more extreme readings compared to history. The ranges are based on the percentile values of historical readings for each economic figure. The lowest number reflects the 5th percentile value, the bottom of the blue range reflects the 25th percentile, the top of the blue range is the 75th percentile, and the highest value reflects the 95th percentile. All ranges are based on the full period available. To account for population and employment, the ranges presented for jobs added are based on the percent change in employment numbers, using December 2022 as the base year.

The information provided is educational and general in nature and is not intended to be, nor should it be construed as, specific investment, tax, or legal advice. Individuals should seek advice from their wealth advisor or other advisors before undertaking actions in response to the matters discussed. No client or prospective should assume the above information serves as the receipt of, or substitute for, personalized individual advice.

This reflects our opinions, may contain forward-looking statements, and presents information that may change. Nothing contained in this communication may be relied upon as a guarantee, promise, assurance, or representation as to the future. Past performance does not guarantee future results. Market conditions can vary widely over time, and certain market and economic events having a positive impact on performance may not repeat themselves. The charts and accompanying analysis are provided for illustrative purposes only. Investing involves risk, including, but not limited to, loss of principal. Our opinions may change over time due to market conditions and other factors. Numerous representatives may provide investment philosophies, strategies, or market opinions that vary. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Any index or benchmark shown or discussed is for comparative purposes to establish market conditions. Index returns are unmanaged and do not reflect the deduction of any fees or expenses and assumes the reinvestment of dividends and other income. You cannot invest directly in an index.

This is prepared using third party sources considered to be reliable; however, accuracy or completeness cannot be guaranteed. The information provided will not be updated any time after the date of publication.

This document was prepared by Focus Advisor Solutions, LLC ("Focus"), an SEC registered investment adviser. Registration with the SEC does not imply a certain level of skill or training and does not imply that the SEC has endorsed or approved the qualifications of Focus or its representatives. Focus has been part of the Focus Financial Partners partnership since 2007. Prior to July 2026, Focus Advisor Solutions was named Focus Partners Advisor Solutions.

©2026 Focus Financial Partners, LLC. All rights reserved. RO-26-6007729