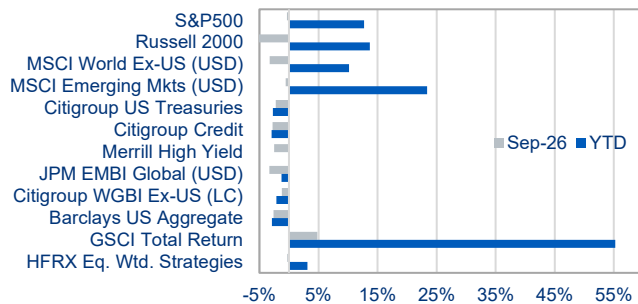


Global Market Review

Government bond yields rose further in September approaching and, in many cases, breaching quarter century highs. Countries with the heaviest debt burdens saw the largest yield increases. The main catalyst for the increase in yields remains that expectations of continued inflationary pressure will result in a sustained tightening cycle. The Fed, the ECB, and the Bank of Japan were among the major central banks raising rates by 25 basis points in September. Markets so far judge that the tightening cycle will largely contain inflation notwithstanding strong growth, rising fuel prices, and persistent government deficits. But the term premium on bonds has risen modestly, pointing to the heightened perceived risk of locking in longer term yields. Global equity markets declined – marginally in the case of the U.S. and emerging markets, and more substantially in advanced economy non-U.S. markets. AI-related stocks bucked the broad downward trend. Crude oil prices soared. The U.S. dollar index posted a strong gain.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



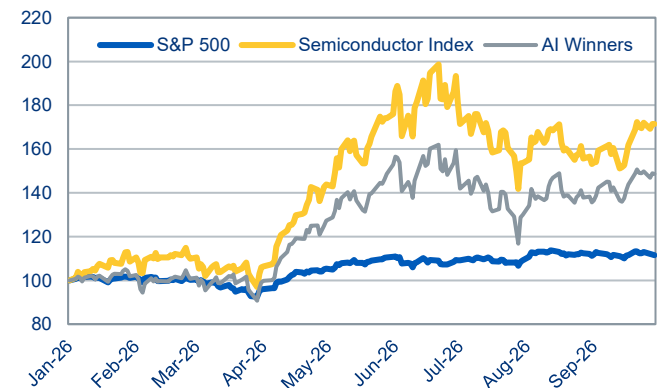
Bond yields rise further across major markets.

Broad-Based U.S. Equity Market Fall Cushioned by AI

The U.S. equity market fell 0.4% in September in the face of high energy costs, rising bond yields, a Fed rate hike, and the prospect of further tightening to come. The limited magnitude of the decline reflected the strong performance of AI-related mega cap stocks. The Philadelphia Semiconductor Index of Chip Producers and the UBS AI Winners basket were up 9.5% and 7.5%, respectively (Exhibit 1). Besides these stocks, the market's decline was broad based, with the equal-weighted S&P 500 losing 4.8% in September. Across sectors, communication services and information technology enjoyed solid gains, while all other sectors fell. Despite September's decline, the S&P 500 gained 12.8% through the first three quarters of the year. Value stocks (+19.2%) outperformed growth (+6.4%), while small cap stocks (+13.7%) outpaced large (+12.3%).

Exhibit 1. AI-Related Firms Rise, Broad Market Falls

Source: Bloomberg. Index January 1, 2026 = 100.



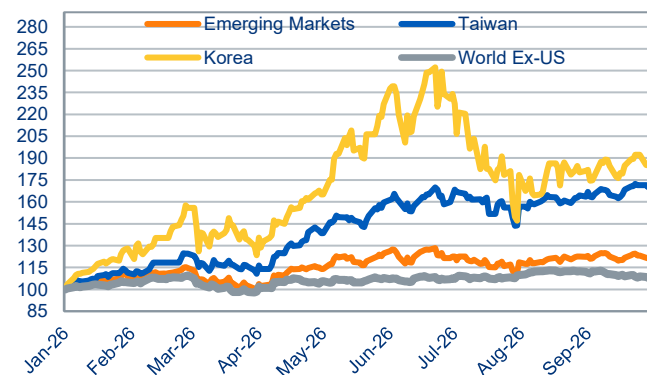
Strong earnings growth and the prospect of personal AI agents were the drivers behind AI-related stock resiliency in the face of macroeconomic headwinds. The bullish sentiment around AI is perhaps best illustrated by Anthropic's recently leaked IPO prospectus, which values the company at a record \$2 trillion, some 435 times 2025 revenue, notwithstanding an operating loss of \$8 billion last year. Putting these prosaic financial risks in proper perspective, Anthropic's prospectus highlights "existential risks to humanity" among the disclosed risks of the IPO.

Non-U.S. Equity Markets Also Decline in September

The MSCI World ex-U.S. index of advanced economy equity markets lost 3.3% in September but remains up 10.2% so far in 2026 (Exhibit 2). European equity markets were weighed down by high energy costs, tightening monetary policy, and rapidly rising government bond yields. Japanese equities, in contrast, rose in September and have outperformed most other advanced economy equity markets so far this year, notwithstanding rising yields.

Exhibit 2. Advanced and EM Equities Fall in September

Source: Bloomberg. Index January 1, 2026 = 100



Emerging equity markets also lost ground in September, falling 0.6%. Despite September's slight decline, they remain up 22.4% so far this year. Asian emerging equity markets have performed especially well this year, largely reflecting the massive gains of a handful of Korean and Taiwanese semiconductor stocks. The changing fortunes of these chip producers have played a prominent role in influencing the direction of emerging equity markets so far this year. Their increase in September helped cushion a broad-based fall in emerging equity markets across Asia, Europe, and Latin America.

Relentless Rise in Government Bond Yields

Government bond yields across advanced economies have risen to quarter century highs. The rapid increase in yields since 2022 marks a major shift from the ultra-low yield environment that dominated markets after the 2007-09 Great Financial Crisis when central banks were taking extraordinary measures to combat disinflationary forces and boost economic growth.

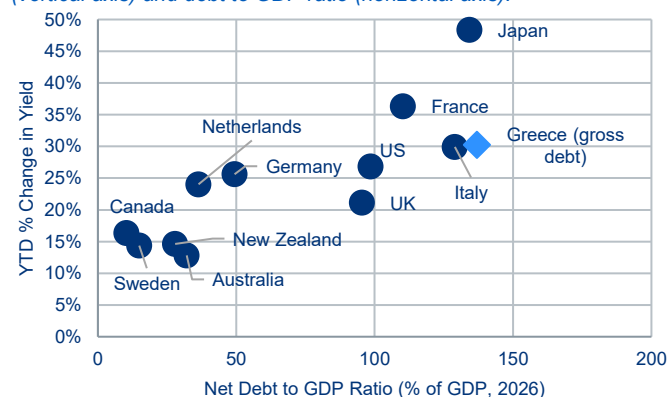
The shift to a higher interest environment will place further pressure on already stretched government finances, undermine high equity valuations, and raise mortgage rates and other borrowing costs across the economy. In the case of the U.S., for example, the average rate of a 30-year mortgage loan has increased from a low of 2.7% at end-2020 to 7.3%, pricing many prospective homebuyers out of the market and making holders of low-rate mortgages reluctant to move.

While all major government bond markets have experienced large increases in long-term yields so far this year, the magnitude of the yield increase has been greatest for those

with especially heavy public debt service burdens (Exhibit 3). French and Japanese government bond yields, for example, have been under particular pressure in light of concerns over high debt levels and unsustainable debt dynamics.

Exhibit 3. Yield Increases Tied to Size of Debt Burden

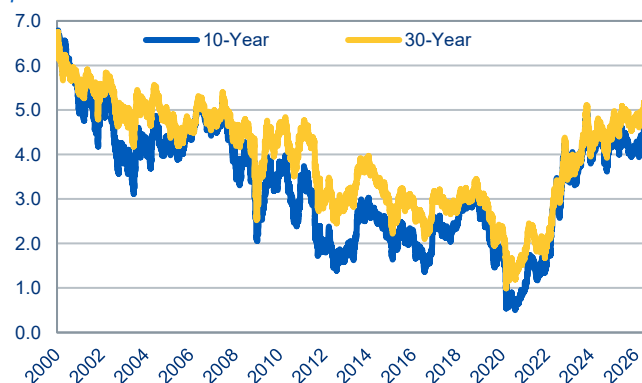
Sources: Bloomberg and IMF. Year-to-date percent change in yields (vertical axis) and debt to GDP ratio (horizontal axis).



In the U.S., the sharp increase in long-term government bond yields largely reflects expectations for a sustained tightening cycle that keep short-term yields higher for longer (Exhibit 4). Long-term inflation expectations, as measured by the spread between the nominal yield on conventional Treasuries and the real yield on TIPS, have remained stable at 2.5%. Real yields, however, have risen, reflecting persistently large fiscal deficits as well as increasing credit demand for AI capital expenditures.

Exhibit 4. U.S. Treasury Yields Approach 25 Year Highs

Source: Bloomberg. 10-year and 30-year U.S. Treasury yields in percent.



Performance of Major Market Indices through 09-30-2026

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-0.3%	2.3%	12.7%	15.7%	22.9%	13.8%
Russell 2000	-5.3%	-7.2%	13.7%	16.2%	17.7%	6.3%
MSCI World Ex-US (USD)	-3.3%	0.9%	10.2%	15.9%	18.9%	9.7%
MSCI Emerging Mkts (USD)	-0.6%	-0.4%	23.4%	29.2%	24.1%	8.9%
Citigroup US Treasuries	-2.2%	-3.0%	-2.7%	-1.8%	3.2%	-1.0%
Citigroup Credit	-2.8%	-3.9%	-2.9%	-2.1%	5.0%	-0.4%
Merrill High Yield	-2.5%	-1.8%	0.0%	1.4%	7.9%	3.5%
JPM EMBI Global (USD)	-3.3%	-4.0%	-1.2%	1.8%	9.0%	1.8%
Citigroup WGBI Ex-US (LC)	-1.2%	-2.6%	-2.1%	-2.1%	1.3%	-2.4%
Barclays US Aggregate	-2.6%	-3.5%	-2.9%	-1.8%	4.1%	-0.6%
GSCI Total Return	4.8%	25.1%	55.2%	56.7%	17.5%	17.3%
HFRX Eq. Wtd. Strategies	-0.3%	-0.5%	3.1%	4.7%	6.0%	3.1%