



3rd Quarter Review

Despite the war with Iran continuing through the 3rd quarter, equities posted respectable gains. The S&P 500 Index rose 2.30%, and the NASDAQ Composite Index jumped 2.61%. About 50% of the time, September is a negative month for equities, and in 2026 we saw a stock selloff. In September, the S&P 500 Index fell a meager 0.35% while the Dow Jones Industrial Average dropped 4.12%. The NASDAQ 100 Index (not to be confused with the broader NASDAQ Composite Index) advanced 3.30% for the month. The NASDAQ 100 Index is heavily concentrated in technology stocks.

In the quarter, both value and growth stocks posted positive returns, with value stocks outperforming growth stocks by a wide margin. However, in the month of September, value stocks sold off and growth stocks climbed. In September, large capitalization value stocks were down 3.13% while large capitalization growth stocks advanced 2.16%.

Interest rates rose in the 3rd quarter, which had a negative impact on small capitalization stocks. Many of these companies rely on borrowing to operate their businesses. The small-cap Russell 2000 Index declined by 7.23% for the quarter, with most of the loss coming in September. Mid-cap stocks were not invulnerable to the selling and dropped by 3.00% as measured by the Russell Mid-cap Index.

Indicies Performance

Category	Representative Index	3rd Qtr 2026	Year-to Date	12 Months	3 yr*	5 Yr*	10 Yr*
Mature US Large Companies	DJ Industrial Average	-2.34	7.19	11.50	17.01	10.58	13.10
Broad US Large Companies	S&P 500 Index	2.30	12.75	15.74	22.89	13.79	15.33
US Small Cap Companies	Russell 2000 Index	-7.23	13.71	16.20	17.72	6.34	9.84
US Mid Cap Companies	Russell MidCap Index	-3.00	11.84	12.02	17.20	8.04	11.17
Largest 100 NASDAQ Companies	NASDAQ 100 Index	0.58	21.01	24.00	28.31	16.56	21.16
Broader NASDAQ Companies	NASDAQ Composite Index	2.61	16.09	19.25	27.52	14.03	18.61
Large Cap "Value" Stocks	Russell 1000 Value Index	2.61	19.27	23.81	20.07	11.92	11.43
Large Cap "Growth" Stocks	Russell 1000 Growth Index	0.92	6.30	7.50	24.26	13.66	18.16
Large Cap Stocks	Russell 1000 Index	1.80	12.30	15.01	22.48	13.01	15.04
Developed International	MSCI EAFE Index	0.88	10.81	16.24	18.99	9.87	9.60
Emerging Markets	MSCI Emerging Markets Index	-0.24	23.73	29.65	24.69	9.44	9.53
Broad US Bonds	Bloomberg Barclays US Aggregate Bond	-3.51	-2.91	-1.84	4.06	-0.64	1.14
High Yield Bonds	Bloomberg Barclays US Corporate High Yld	-1.82	0.10	1.41	8.03	3.60	5.05
Commodities	Bloomberg Commodity	16.19	32.87	40.64	15.63	11.27	7.85
Total US Market (all cap stocks)	Russell 3000 Index	1.41	12.42	15.13	22.26	12.64	14.73
Real Estate Investment Trusts	Wilshire US REIT Index	-6.22	10.36	8.50	12.88	4.26	5.61
Cash	UST-Bill 90 Day	0.91	2.72	3.79	4.68	3.76	2.43
International Europe	MSCI Europe Index	-1.60	6.60	13.28	18.24	10.16	9.82
International Asia Pacific	MSCI Pacific Index	5.65	19.47	22.07	20.10	9.23	9.19
Japan	Nikkei 225 Index (Yen)	-0.81	34.25	41.91	28.04	12.13	12.23

*3 year, 5 year and 10 year returns are annualized. All periods ending September 30, 2026.

All returns include the reinvestment of dividends.

Source: MorningStar Direct.

In addition, rising interest rates ravaged the bond market. High-quality bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, were down 3.51% in the quarter, with most of that loss coming in September. Lower-quality junk bonds were down 1.82% for the quarter. Lower-quality high-yield bonds are less impacted by, but not immune to, rising interest rates. Default risk has a more direct impact on lower-quality bonds than interest rates do.

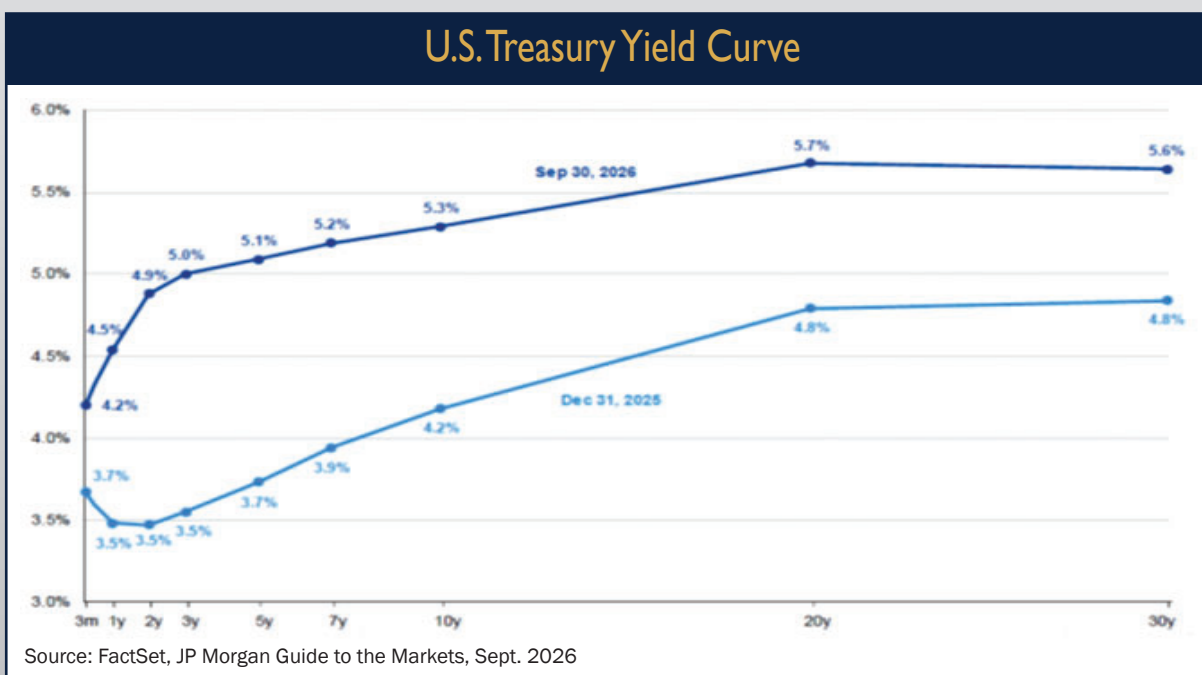
Lastly, commodities jumped in the 3rd quarter by 16.19%. Rising oil prices are a contributing factor, but other commodities also rose. High inflation and global growth help fuel commodity prices.

As we move into the last quarter of 2026, what can we expect from the equity markets, the economy, interest rates, and the bond market? We will address these issues and others in the pages that follow.

The Federal Reserve: More Interest Rate Hikes to Come?

At the conclusion of the September meeting of the Federal Reserve's Federal Open Market Committee (FOMC), its board members agreed to raise the Fed Funds rate by 0.25%. The Fed Funds futures market had largely predicted such a move, so there really were no surprises with the decision. The next meeting is at the end of October, just days before the Midterm elections. Recent encouraging inflation data as well as a somewhat weak jobs report for September may eliminate the need for the Fed to raise rates at the October meeting. Also, the Fed does not want to be seen as political. The Fed Funds futures market is predicting a low chance of the Fed raising rates in October. It is our belief that the Fed will hold steady at its October meeting and will not raise the Fed Funds rate.

The Federal Reserve has a dual mandate to promote stable prices and maximum employment. Inflationary readings recently have shown some improvement, but inflation is still above the Fed's target inflation rate of 2%. The economy has been showing strength, but the last jobs report came in below expectations. All of these factors weigh in on the Fed's decision to raise rates or not. After the October meeting, the next FOMC meeting is December 8-9. In December, we will be past the Midterm elections. With the target inflation rate still elusive, it is our belief that the Fed will resume raising rates in December. As we move into 2027, if inflation is still a problem, the war continues, and oil prices remain elevated, we could expect further rate hikes.



Bond Selloff

In the 3rd quarter, bonds continued their selloff, pushing yields higher. The 10-year U.S. Treasury Note yield ended 2025 at 4.16% and closed the 3rd quarter of 2026 at 5.29%. The 30-year U.S. Treasury Bond yield ended 2025 at 4.84% and closed the 3rd quarter of 2026 at 5.64%. Long-term interest rates have moved significantly higher in 2026. These long-term rates have a substantial impact on mortgage rates and other long-term borrowing debt. They also have an impact on equity valuations; as the risk-free discount rate increases, it puts downward pressure on equity prices as future cash flow becomes less valuable. Higher borrowing costs for corporations impact their bottom-line earnings adversely. More expensive credit can impact borrowers' spending, which ultimately translates into lower sales by businesses. Small capitalization companies can be impacted more because, as a group, these companies tend to rely more on borrowing.

What is causing interest rates to increase? The war is causing oil prices to remain elevated, and that is having an adverse impact on inflation. The tariffs may be impacting inflation as well. The inflationary pressures negatively affect bond prices. Heavy government borrowing due to persistently high deficits is pressuring bond yields. There is also a lot of corporate borrowing, largely to fund artificial intelligence growth, which is also fueling pressure on yields.

Is it time to buy bonds? Bonds are becoming more interesting at this point. However, yields may still have a way to go. Some analysts believe the 10-year U.S. Treasury yield may rise as high as 6%. If yields move to 6%, then we will see a further decline in bond prices. Nevertheless, we are consciously following the bond market and looking for opportunities to buy bonds while the bond market is on sale.

Finally, we do not expect any Federal Reserve intervention through a round of quantitative easing to help alleviate the upward pressure on bond prices.

France's Bond Woes

Beginning in 2009, Greece experienced a sovereign debt crisis as the debt-to-Gross Domestic Product (GDP) ratio climbed as high as 179%. This led to a long and protracted recession in Greece, and the country was downgraded to emerging-market status. In 2015, Greece defaulted temporarily on an International Monetary Fund loan. Are we about to see a similar crisis in France, and could it lead to a bond contagion?

France is the third biggest economy in Europe. At present, it is on the brink of a debt crisis. At the end of September, yields on French government debt had spiked, resulting in a selloff in European bonds, with French bonds absorbing most of the selloff. French yields on government bonds have climbed to their highest level since 2002.

France recently announced its 2027 budget, and as a result, the debt-to-GDP ratio is expected to rise to as high as 119%. Not to the same extreme as the Greek crisis last decade, but still a crisis number. France is expected to issue a record amount of bonds next year, which concerns fixed-income investors. Inflation is still higher than the government wants, and bondholders do not like inflation. The persistently high inflation makes bond investors reluctant to hold debt. There is also political instability in Europe, giving investors added reasons to sell bonds.

Can the bond woes in France spread across Europe and the globe? Just five years ago, France's bond yields were near 0% and are now approaching 5%. The situation becomes even more bleak as the nearly 0% debt rolls off and must be replaced with debt paying close to 5%. The French budget situation is in bad shape. Global bonds have sold off not just because of France, but it is a contributing factor. (Source: Jennifer Sor, Business Insider, October 5, 2026)

The U.S. Economy

Real GDP for the 2nd quarter of 2026 grew by 2.2%. In the 1st quarter of 2026, real GDP grew by 2.5%. The GDP readings this year depict an economy that is growing steadily and solidly. The 2nd quarter GDP was driven by consumer spending, investment and exports.

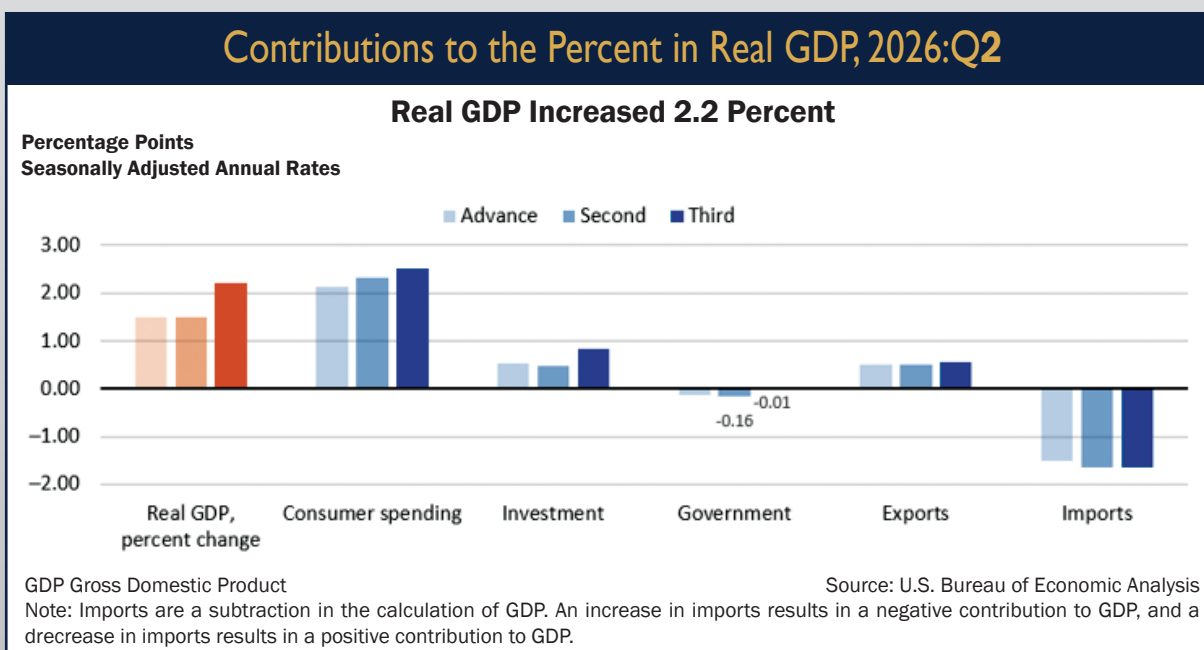
Other statistics also paint a bright picture of the U.S. economy. The Institute for Supply Management Purchasing Managers' Index (ISM PMI) provides a good read of the economy. There are two reports we focus on: the ISM Manufacturing PMI Report and the ISM Services PMI Report.

For the month of September, the ISM Manufacturing PMI report showed a reading of 54.5%. This report shows the ninth consecutive month of expansion in the manufacturing sector. Prior to the nine consecutive months of expansion were 10 months of contraction. The report showed new orders, production, and employment growth. A reading over 47.5 over a protracted period indicates an expansionary economy. For the month of September, the ISM Services PMI report showed a reading of 54.9%. This reading reflected 76 straight months of a growing economy. A Services PMI reading, over a period of time, of at least 48.1% suggests that the economy is expanding. A single reading of 50% or higher indicates an economy that is expanding, and below 50% it indicates one that is contracting in both surveys.

The Conference Board's Consumer Confidence Index fell by 6.7 points to 81.9 in September. This was the lowest reading in the Consumer Confidence Index since 2014. A reading below 100 indicates consumer pessimism, while above 100 indicates consumer optimism. The Present Situation Index dropped by 7.9 points to 109.3 in September, while the Expectations Index fell 5.9 points to 63.6. The Present Situations Index measures consumers' current sentiment toward business and the labor market. The Expectations Index measures consumers' six-month outlook for business, labor, and personal income.

The economy created 29,000 jobs in September, according to the non-farm payroll report, giving the U.S. an average of 45,000 new jobs per month over the last 12 months. The report also showed that the unemployment rate was 4.2%. The unemployment rate has been in a very narrow range since March (4.1% to 4.3%). The employment report does not display an economy that is very robust, contrary to other indicators shown.

On balance, the economy is not in bad shape right now.



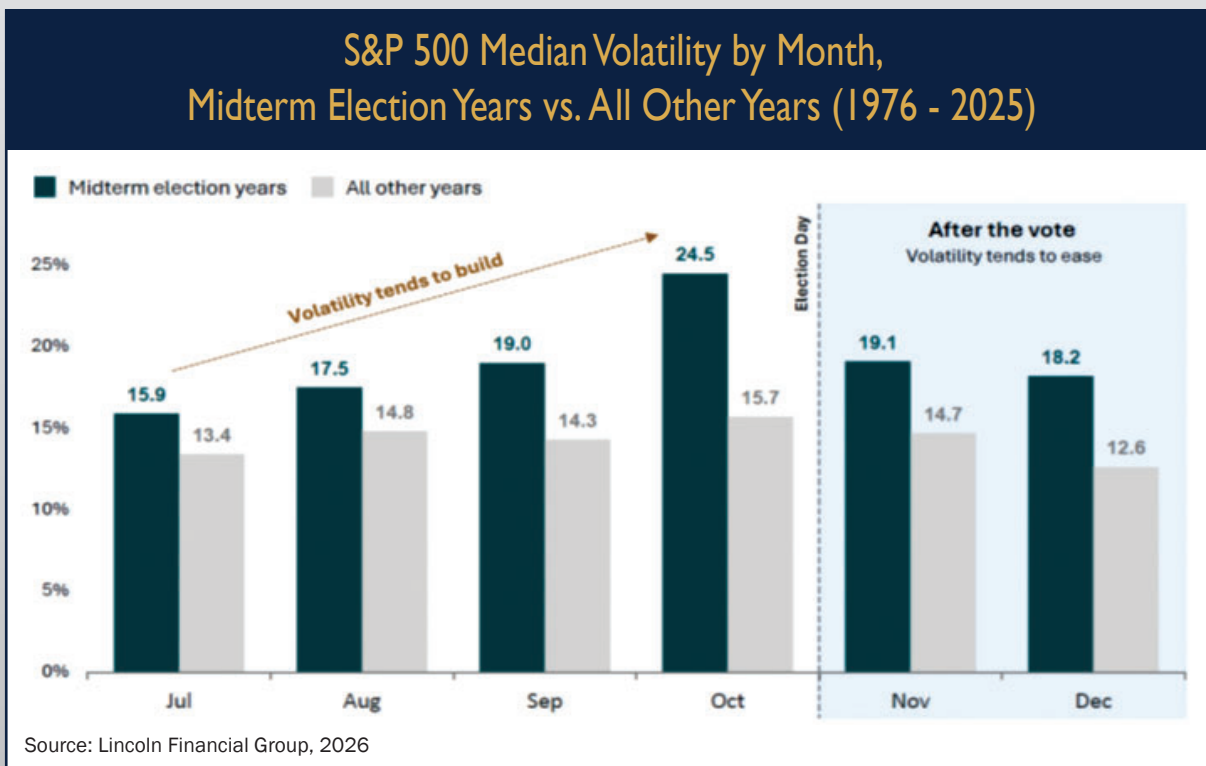
The Midterm Elections

According to the RealClear Politics 2026 Generic Congressional Vote average of polls taken 9/8/26 to 9/28/26, the Democrats have a lead of 8.3%. The individual Senate races paint an even bleaker picture for the Republicans as they trail in key traditionally Republican states such as Texas, Ohio, and Iowa. Republicans also trail in states that include Maine, Michigan, North Carolina, and New Hampshire. Americans are apparently dissatisfied with inflation, the war with Iran, and high gas prices. We don't take sides in the election, and our only concern is what a Democratic Congress means for the markets with Republican control of the White House. With the extreme polarization in politics, can anything get done, or will we just see two years of constant no-win arguing and non-stop impeachment hearings that go nowhere?

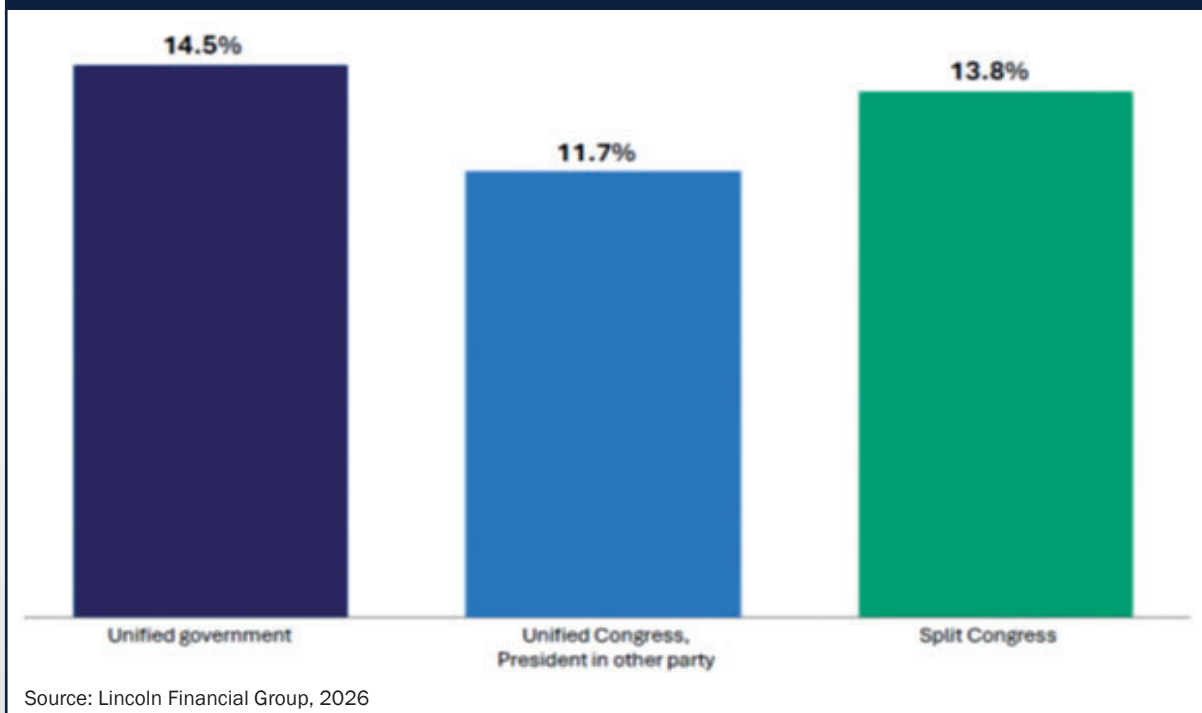
Historically (data from 1976 through 2025), the months leading up to the Midterm Elections tend to be much more volatile than all other months for the S&P 500 Index. Even the months following the election also show increased volatility. Investors don't like uncertainty, and potential changes of control in government can mean uncertain times.

Since we are looking at the potential for divided government, how have the markets done in the past? Between 1933 and 2025, when there has been a president in one party and Congress in the other party, the S&P 500 Index has an average annual return of 11.7%. When there is a split Congress, the return is 13.8%. When there is a unified government, the president and Congress are of one party, the annualized return is 14.5% (as calculated by Lincoln Financial Group, 2026).

What stands out is that regardless of which party controls the government, the returns are positive and rather attractive in any case. We don't expect things to be different this time.



S&P 500 Index Average Annual Total Return, 1933 - 2025



Corporate Earnings

Earnings for the S&P 500 Index are growing rapidly. At the beginning of this year, we stated that the S&P 500 Index earnings for full year 2026 would be \$310.84 per share. As of June 2026, the cumulative 12-month earnings were \$321.24 per share. The consensus estimate for the next 12 months is now \$406.45 per share as of the end of September 2026. The strength of earnings cannot be ignored. Stock prices are driven by earnings, and estimates continue to be increased.

Growth in earnings is largely attributed to artificial intelligence (AI) spending. Over 53% of the performance of the S&P 500 Index is attributed to AI companies, whether it be hyperscalers, semiconductors, hardware, power, or software. AI is here to stay, and it will continue to drive earnings for the S&P 500 Index.

Earnings are also being driven by the growth in earnings of the so-called Magnificent 7 (Alphabet, Amazon, Tesla, Microsoft, Meta, Nvidia, and Apple). These companies are largely part of the AI space. Year-over-year earnings growth of the Magnificent 7 is expected to be 57% in fiscal 2026. The remaining 493 companies in the S&P 500 Index are expected to grow by 23% in fiscal 2026.

In addition, as of June 2026, S&P 500 profit margins were a spectacular 18%, showing the ability of companies to convert a dollar of sales into profits. As of the end of September 2026, the forward profit margin on the S&P 500 Index is 16.9%. Analysts continue to see strong margins going forward.

Lastly, 12-month forward revenue per share is projected to be \$2,400.84. The past 12-month revenue per share as of June 2026 was \$2,225.86. We can see sales are going to continue to grow, and with strong profit margins, earnings should continue to be strong.

Market Valuation

The S&P 500 Index is valued much more reasonably now as opposed to its valuation at the beginning of this year. At the beginning of this year, the forward price-to-earnings (P/E) ratio of the S&P 500 Index was 22.0 times earnings. Today, the 12-month forward P/E ratio is 19.0 times earnings. Although by historical measures, it may still be a little on the overvalued side, it is much more reasonably in line today compared to past readings. The 30-year average P/E ratio is 17.2 times. Over the past several quarters, we have seen forward P/E ratios hovering around 22.0 times. With a combination of strong earnings growth and a declining market in September, the P/E ratio has come down.

The elevated P/E ratios may be attributed to the 10 largest stocks in the Index. The top 10 stocks in the S&P 500 Index have a forward P/E ratio of 20.9 times, while the remaining 490 stocks have a P/E ratio of 17.9 times. The top 10 companies are justified in having a higher P/E ratio given their rapid growth in earnings. Further, the remaining 490 companies are closer to the 30-year average P/E ratio for the total S&P 500 Index. This suggests the broader market is not overvalued but much more fairly valued, and with expected growth in earnings, further appreciation of the market is expected.

At the end of last quarter, we stated that we expected a full year total return for the S&P 500 Index of 17.50%. As of the end of September, the year-to-date total return of the S&P 500 Index was 12.75%. For the 4th quarter, we expect a total return of at least 4.75% for our target to be achieved. We are still comfortable with a target of 17.50% for the full year of 2026. Such a return, if realized, will mean four consecutive years of double-digit returns for the S&P 500 Index, which is a rare occurrence.

Making the Case for Commodities

Oil prices have risen in 2026 due to the war with Iran. As a commodity, it has helped lift commodity prices this year. But commodities are not just about oil. Commodities are a hedge against inflation, offer little to no correlation with other asset classes (such as equities and fixed income investments), and can help to lower risk in a traditional portfolio.

Inflation is currently above the Federal Reserve's target rate of 2%. Perhaps its interest rate policy and an end to the war with Iran will cause inflation to drop to the Fed's target. Should inflation get at or below the Fed's target, we would still expect to see benefits from the inclusion of commodities in one's portfolio.

When asset classes have little or no correlation to one another, that means they are not likely to move in the same direction at the same time. For example, when stocks rise in value, commodities independently may also rise, fall, or move sideways. They are an asset class that does not move for the same reasons that a stock or bond moves. When asset classes show little or no correlation to one another, risk in the portfolio falls. Stocks and bonds also have lower correlation to one another. Over the past 35 years, the correlation between stocks and bonds has been 18%, while the correlation between commodities and stocks has been 31% and bonds to commodities has been -1%. We believe that the diversification benefits are achieved at a correlation of 80% or lower. Looking back at the year 2022, the S&P 500 Index returned -18.11% while the Bloomberg Commodities Index was up 16.09%. Last year, 2025, the S&P 500 Index was up 17.88%, and the Bloomberg Commodities Index was up 15.77%.

Commodities can also do well because the economy is growing. Demand for many commodities picks up when the economy is expanding. Base metals, industrial metals, and energy all do well in a strong economy. We can have a strong economy with low inflation. If demand for various commodities picks up, their prices will go up as well.

We are not late to the party. Investing in commodities is not a portfolio timing decision. Commodities will tend to do better in periods of high inflation but have also done well when inflation is not so high. The benefits of risk reduction and portfolio diversification welcome them into one's asset mix.

Correlation Matrix

Investment	1	2	3	4	5
1 S&P 500 (TR)	1.00				
2 Bloomberg US Agg Bond TR USD	0.18	1.00			
3 Russell 3000 TR USD	0.99	0.17	1.00		
4 MSCI EAFE NR USD	0.80	0.19	0.80	1.00	
5 Bloomberg Commodity TR USD	0.31	-0.01	0.32	0.41	1.00

Data from the last 35 years, 10/1/1991 through 9/30/2026
Sources: Malvern Capital Management, MorningStar Direct

Conclusion

The month of September is negative for equities about 50% of the time, and this past September it was negative for the S&P 500 Index and Dow Jones Industrial Average. However, for the entire 3rd quarter, some equity prices were up. The S&P 500 Index and the NASDAQ 100 Index rose in the quarter. The Dow Jones Industrial Average and small-cap stocks fell in the quarter.

The Federal Reserve met in September and raised the Fed Funds rate by 0.25%. We do not think that the Fed will raise rates again in October, but we see a higher probability of the Fed raising rates in December. The Fed does not impact longer-term interest rates. High government debt, a growing economy, and high inflation have contributed to the sell-off of longer-term bonds. Outside of the U.S., there is growing concern that France's bond market is in trouble, and the hope is that those troubles do not spread throughout Europe or the globe (including the U.S.).

The U.S. economy continues to show strength, although the September jobs report was anemic. Other signs of a good economy are out there. There can be a disconnect between the economy and stock prices, but generally, if the economy is doing well, stocks do well. Stocks are driven by corporate earnings, and earnings have been really good this year. Even though market prices have increased this year, market valuation measures have decreased because of the growth of earnings.

Commodities offer an inflation hedge, portfolio diversification, and risk reduction benefits. Traditionally, portfolio managers have relied on a mix of stocks and bonds to lower portfolio risk. Other asset classes such as commodities can increase those benefits.

It has been a good year so far for the equity markets and not so good a year for the bond market. We foresee some challenging times ahead as we finish this year and move into 2027. As such, we are here to listen, counsel, and provide direction to all of our clients.

Olsen, CFA, CFP®
President & Chief Investment Officer

Michael P. Czajka
Chief Executive Officer

Malvern Capital Management, LLC ("MCM") is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC"). Registration does not imply that MCM or any individual providing investment advisory services on behalf of MCM possess a certain level of skill or training. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. This Market Review & Outlook Newsletter and its contents are for informational and educational purposes only and is not intended to provide specific advice or recommendations for any individual. All indices are unmanaged and may not be invested into directly. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The Russell 2000 Growth Index is composed of small-capitalization U.S. equities that exhibit growth characteristics. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Any opinions, recommendations or indications of past performance contained in this letter is subject to risks and uncertainties beyond the control of MCM and are no guarantee of future returns. MCM may discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions. While MCM makes every attempt to verify the data and sources, we do not guarantee or certify the accuracy, completeness or timeliness of the information presented in this letter. In consideration of the investment objectives of any individual client, MCM may take actions that are inconsistent with the opinions or views contained in this letter. ©2026 Malvern Capital Management, LLC. Not FDIC Insured — May Lose Value.