FISHER INVESTMENTS™ INSTITUTIONAL GROUP



MARKET PERSPECTIVES
REVIEW & OUTLOOK

THIRD
QUARTER
2026

THIRD QUARTER 2026 REVIEW & OUTLOOK

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THIRD QUARTER 2026 REVIEW & OUTLOOK
EXECUTIVE SUMMARY

October 12, 2026

PORTFOLIO THEMES

- While further volatility is possible, we believe the market's underappreciated positives outweigh potential headwinds, supporting a continuation of the global bull market.
- We expect non-US and Value equities to lead global performance from here, while US equities and Technology should also fare well on an absolute basis but trail headline indices.
- A positively-sloped global yield curve continues fueling strong loan growth, especially outside the US. This trend should remain a relative tailwind for non-US economies and cyclical equities, even as the US Fed begins a rate hike cycle that looks likely to be gradual.

MARKET OUTLOOK

- **Geopolitical Conflict Has Proven Less Impactful than Feared:** While renewed Iran hostilities fueled volatility in Q3, underlying fundamentals remain in good shape. Global economic data continue to exceed expectations, supporting strong corporate earnings. Inflation measures outside of energy are improving, suggesting higher oil prices have had limited spillover effect.
- **US Midterms Should Strengthen Political Tailwinds:** The historically favorable Midterm Miracle period is now underway. We expect the midterm elections to bring greater legislative gridlock, reducing the risk of sweeping policy changes and providing a supportive backdrop for equities.
- **Sentiment Is Elevated, Not Euphoric:** While optimism has grown, particularly within US Tech and AI, sentiment remains muted elsewhere. Persistent fears of an AI bubble, rate hikes, inflation, and high-oil prices keep the wall of worry intact.

Global markets' rise continued in Q3, ending the quarter with the MSCI ACWI gaining 1.7%, bringing returns to 13.4% year to date.[i] Summer volatility frustrated many, exemplifying this year's fits and starts. Yet patience paid off, and we expect it continue doing so. The Midterm Miracle is here—historically bringing a period of solid gains with the potential to transform a good year to great.

Market returns unfolded much as we expected. Global markets are up nicely, with US midterm years' typical early volatility. While Tech and AI-related industries continue dominating headlines, this bull market is big and broad. Gaps between various equity categories were generally small after trading leadership off and on all year. Overall, big cap US and non-US stocks are performing similarly, as are growth and value. Among MSCI ACWI countries, US returns are middling, with Japan and parts of Europe leading. Sentiment remains elevated but not euphoric toward US stocks and outright dour abroad.

i Source: FactSet, as of 10/06/2026. MSCI ACWI Index return with net dividends, 06/30/2026-09/30/2026 and 12/31/2025 – 09/30/2026.

Emerging Markets (EM) ended lower in Q3, with the MSCI EM index down -0.4% .[ii] Geopolitics roiled oil prices and spurred volatility throughout the quarter, weighing on sentiment. However, underlying fundamentals appear strong. Renewed Iran war hostilities sent Brent crude from under $70 per barrel in early July to as high as $131 in September. Yet growth has held up, with Q2 GDPs indicating broad-based EM expansion. August manufacturing purchasing managers' indexes (PMIs) further demonstrate broad EM strength, topping 50 in India, Taiwan, South Korea, Malaysia, and Thailand. Inflation readings also undercut oil-driven fears, with headline rates decelerating in South Korea, Taiwan, Brazil, and Mexico, while global supply workarounds restored Persian Gulf shipments to roughly 80% of pre-war levels.

Even with sentiment elevated in the US, many deem this bull market fragile. Those who don't view it as an AI-fueled bubble instead fear central bank rate hikes, inflation, high oil or spiraling debt as major downside risks. We think all are false fears, as the full Review will detail.

Meanwhile, the bull market has firm footing. Economic data are up worldwide, beating expectations and powering corporate earnings globally, particularly overseas. Some write this off as accounting trickery, but the gains go beyond footnotes and stock buybacks. Topline sales are delivering robust growth, and firms are expanding profit margins. Owning stocks means owning earnings growth 3 – 30 months out, fueled by robust capital expenditures. It may be hard to envision amid the stream of dreary political headlines, but the fundamental backdrop is brighter than commonly believed.

US midterms' headlines are noisy, masking stocks' real political drivers. While the world continues to focus on personalities and contentious campaigns, midterms bring relief via the Midterm Miracle. The Midterm Miracle is historically the most consistently positive three-quarter stretch for stocks since reliable data became available. This period has never once been negative since the Great Depression, with the S&P 500 averaging 19.8% in this nine-month period.[iii] This stems from increased gridlock, which midterms regularly deliver as the president's party loses relative power.

As past Reviews have detailed, the president's party lost House seats in 89% of midterms and Senate seats in 71% since 1914, when the 17th Amendment mandated direct election of senators.[iv] This year looks little different, with Democrats likely to take the House, Senate or both, bringing traditional partisan gridlock. When Congress can't pass anything consequential, stocks have less to fear from major policy shifts. Investors, domestic and foreign, relax and buy without worrying about sweeping new laws creating winners and losers.

While routine market phenomena usually get priced in, the Miracle retains its power. This is in part because political bias keeps investors from seeing it, instead thinking their party is good for everything, stocks included, and the other party disastrous.

Long rates' 2026 rise is somewhat surprising, but it isn't bearish for stocks. For almost 15 years after the global financial crisis, rates were abnormally low as central banks kept policy rates near zero and bought up long-term bonds, suppressing long rates. Now central banks are undoing that misguided approach, letting normal market forces reign—returning long rates to normal. Headlines erupted when 10-year US Treasury yields hit 5% in late September.[v] However, this rise simply returns yields to levels considered normal, healthy and bullish throughout the 20th century.

ii Source: FactSet, as of 10/07/2026. MSCI EM Index return with net dividends, 06/30/2026 – 09/30/2026.

iii Source: Finaeon, Inc., as of 09/28/2026. S&P 500 total return index frequency of positivity and average return in the nine months from midterm year September 30 to the following June 30. 1926 – 2022.

iv Source: US House of Representatives and US Senate, as of 09/28/2026.

v Source: FactSet, as of 09/30/2026. Statement based on US 10-year Treasury yields' movement, 09/16/2026 – 09/30/2026.

Rising long yields help bail central banks out from errant rate hikes. People worry rate hikes from the Fed, ECB, Bank of Japan and Reserve Bank of Australia are "tightening," as if a credit crunch nears. US Fed officials further claim higher long rates "tighten" policy for them. Yet because long rates (10-year) rose more than the short rates that drive bank funding costs (3-month), yield curves steepened as central banks hiked. We've covered this a lot over past decades. It actually makes policy more accommodative, not less, fostering healthier bank lending and money supply growth. US money supply grows quickly, leading some to fret "overheating" while fearing a liquidity crunch. However, you can't have it both ways. Instead, look globally to see that tamer money supply growth abroad counterbalances hotter US money supply growth, fostering modest overall economic growth while keeping hot inflation at bay.

Yes, inflation is benign. Headlines and policymakers sweat high oil prices but, as few have noticed, inflation measures excluding energy prices are improving. High oil isn't bleeding into other categories, echoing history. As past Reviews showed, higher energy prices prompt substitution. Consumers cut back elsewhere, primarily in luxury goods, leaving those firms without pricing power. Stocks see this, even if headlines don't. We think inflation's modesty will become more apparent.

GLOBAL UPDATE AND MARKET OUTLOOK

October 29, 2026

MARKET RECAP

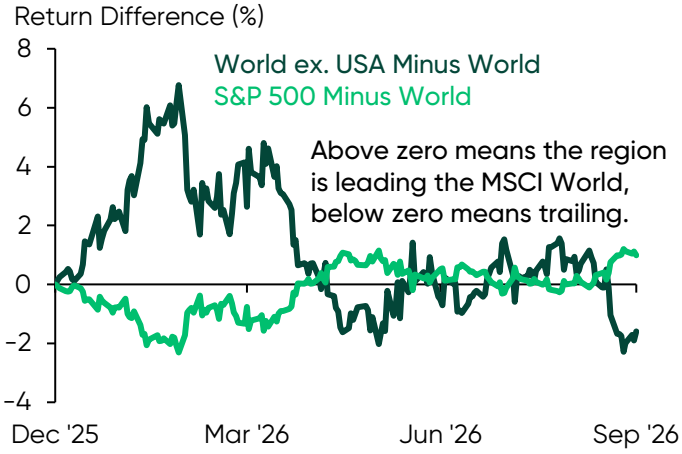
A BETTER-THAN-BELIEVED BACKDROP

The good to great year we forecast is shaping up. Three quarters in, the MSCI ACWI is up 13.4%.[vi] After a choppy, grinding start, the Midterm Miracle is here. Combined with underappreciated economic health, this should turn a good start into an overall great run.

THE GRIND

At first glance, it may seem odd to call this year a grind. Following Q1's war-driven mini-correction, stocks largely climbed with brief pauses. However, surface-level calm hides churn beneath. All year, category leadership rotated, with some industries and countries swinging sharply. Geographic trends are one example. Non-US stocks led big early amid talk of non-US investors "selling America." This later cooled, with non-US equities shifting between leading and lagging for months. At Q3's end, Europe sold off on French debt and political fears, flipping non-US leadership to lag (Exhibit 1).

EXHIBIT 1: GEOGRAPHIC LEADERSHIP CHURN

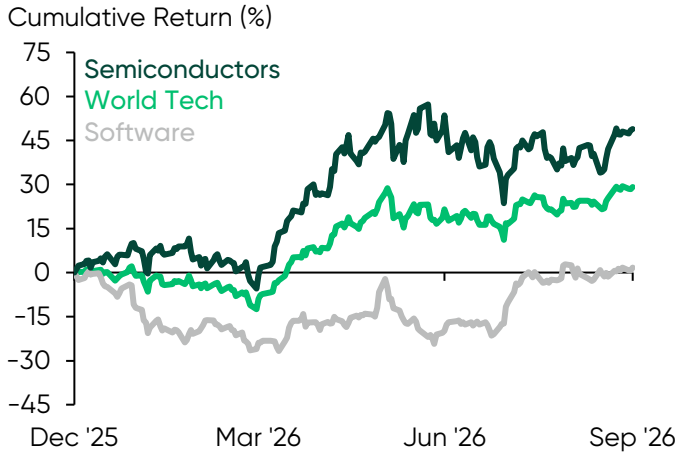


Source: FactSet, as of 10/6/2026. MSCI World Ex. USA Index return minus MSCI World Index return, both with net dividends. S&P 500 total return minus MSCI World Index return with net dividends. 12/31/2025 – 9/30/2026.

Industry trends within sectors are another example of leadership rotation throughout the year. The Information Technology sector has broadly outperformed this year. However, industry performance has varied. Early on, Software stocks plunged on AI mass disruption fears—the "SaaS-pocalypse." (SaaS stands for *software as a service*.) Semiconductor stocks boomed, perceived as winners from AI data-center spending. However, Software bottomed in April and bounced big in the months that followed, while Semiconductors plateaued (Exhibit 2 on the next page). Grinding rotation persisted, even though gaps in major categories (US vs. non-US, value vs. growth) were never large.

vi Source: FactSet, as of 10/1/2026. MSCI ACWI Index return with net dividends, 12/31/2025 – 9/30/2026.

EXHIBIT 2: TECH, SOFTWARE AND SEMICONDUCTORS CHURN



Source: FactSet, as of 10/7/2026. MSCI World Information Technology sector, MSCI World Software and Services Industry Group, MSCI World Semiconductor and Semiconductor Equipment Industry Group, returns with net dividends, 12/31/2025 – 9/30/2026.

Leadership churn highlights the futility of heat-chasing. Investors are often drawn to sharp bursts of outperformance and assume recent trends will persist. This year has shown the flaw in that assumption.

LOOKING BEYOND THE GRIND

The Midterm Miracle is here. Q4's start launches an extraordinary nine-month stretch as the midterms are expected to bring bullish gridlock. Any president's party almost always loses Congressional seats in midterms. While voters hate gridlock, it blocks divisive legislation that creates winners and losers, stoking uncertainty. Midterms put a hold on Washington while benefiting stocks. The S&P 500 hasn't fallen over the full nine-month Miracle stretch since the Great Depression—before World War II. It has averaged a robust 19.8% gain since 1926.[vii] Pre-Miracle market moves don't matter. The party gaining or losing doesn't matter. The dampening effect of midterms on legislation serves as fuel for the bull market.

While we don't expect big shifts, the Democrats likely take one or both chambers of Congress. Even if they don't, Republicans' edge should fall. With President Donald Trump entering his lame-duck stretch, factions around potential 2028 presidential candidates should further fray Republican party unity. This Congress is already do-little. Expect do-less after midterms. While our bullishness isn't entirely about the Midterm Miracle, it is a key, repeat, positive trend.

THE WAR AND OIL

The Iran war continues garnering attention and speculation. Some fear it will intensify after midterms. While there is a chance tensions could flare, no one can know what will happen. However, there is little that suggests escalation or spreading conflict is likely today.

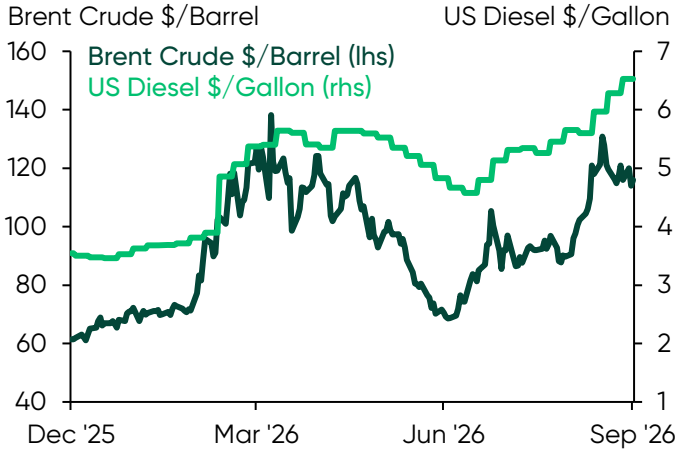
Yes, attacks by Houthi rebels at the Red Sea's southern exit, combined with drone attacks on Saudi infrastructure, drove oil prices back above $100. This fast rise recalls the spring's, when oil hit $138 on April 7. However, prices retreated fast, hitting prewar prices by July 2 (Exhibit 3 on the next page).[viii] As we wrote then, regional wars can sway prices short term, but it largely proves fleeting. Markets price oil-centric regional war in three steps: Oil rises before conflicts erupt as tensions rise. It leaps when bombs first fall and war fears spread. Then it tumbles *before* peace arrives, as traders realize fear overshot.

While the war clearly hasn't gone as the US administration projected, this process occurred once already—and we think it will again soon. Fighting remains regional. Iran, Israel and America are in essentially the same position as earlier in the conflict. The only small difference? Drone attacks from Iraq. Even the Houthis were a known quantity. For his part, Trump chose not to intervene with greater force, opting for a blockade. That shows signs of stressing the Iranian regime. Will it work? Will Trump use more force after midterms? All of that is unknowable. Before long, however, markets will look beyond the war and oil should fall.

vii Source: Finaeon, Inc., as of 9/28/2026. S&P 500 total return index frequency of positivity and average return in the nine months from midterm year September 30 to the following June 30. 1926 – 2022.

viii Ibid.

EXHIBIT 3: OIL AND DIESEL'S EBB AND FLOW



Source: FactSet, as of 10/7/2026. 12/31/2025 – 9/30/2026.

Regardless, even today's prices won't wreak havoc. While war adds a fear premium to oil now, today's oil prices aren't high in real terms. Crude first breached $100 per barrel in 2008—and several times since. Adjusting for inflation, today's $100 oil is more like $65 in 2008—which few would fear.[ix]

Today, crude supply is fine. Disruptions are more about refining and distribution. Globally, non-Gulf producers in America, Argentina, Brazil, Canada and Guyana raised output by 1.4 million barrels per day (mbpd) through August.[x] Add previously sanctioned Venezuela's 1.2 mbpd—a seven-year high—and supplies rose by 2.5 – 2.6 mbpd already.[xi] The International Energy Agency (IEA) projects another 1 mbpd next year—excluding Venezuela. Even this may understate the production response, given rising North American rig counts.

Middle Eastern output isn't so impaired. Producers adapted. Some 80% to 90% of Middle Eastern crude exports are flowing.[xii] Pipelines to ports like Saudi Arabia's Yanbu or the UAE's Fujairah pump millions of barrels daily around the Strait of Hormuz. Truck caravans cross the deserts. Smaller ships sail the Strait silently, transferring oil and gas ship-to-ship outside the Strait. Today, some 40% of Middle Eastern crude exports transit the Strait. Expect that share to fall. In time, Iran's efforts to close Hormuz will neutralize it.

Now, this is crude, not refined products. Those are more complex, hinging on refineries with spare capacity. It is far easier to put in a well than a refinery. Hence, gasoline and diesel prices remain elevated. In Q3, diesel prices' rise spurred fear of high shipping costs and household strain in Europe, where diesel cars are common. Yet these fears aren't new or surprising. They arose when the war began, echoing US gasoline price worries. Yet inflation data show oil isn't driving prices up broadly. The shock power over stocks is limited.

A WORD ON LONG-TERM BOND YIELDS

Beyond the war and oil, rising long-term bond yields spurred fearful Q3 headlines. Bears cast every uptick as hitting generational highs, saying it threatens growth and stocks. As we have previously mentioned, rising long-term yields aren't inherently bearish. They can be just the opposite, steepening the yield curve.

If you call rates in the 2010s "normal," the recent rise probably seems alarming. This is recency bias. Exhibit 4 on the next page shows 40 years of 10-year yields from America, Germany, France and Britain. You will see *many* points when yields topped today's before 2007. There is nothing abnormal or "new normal" about 10-year Treasurys paying 5% or slightly more. It is the old normal, which was paired with big bull markets in the 1980s and 1990s and roaring economic growth.

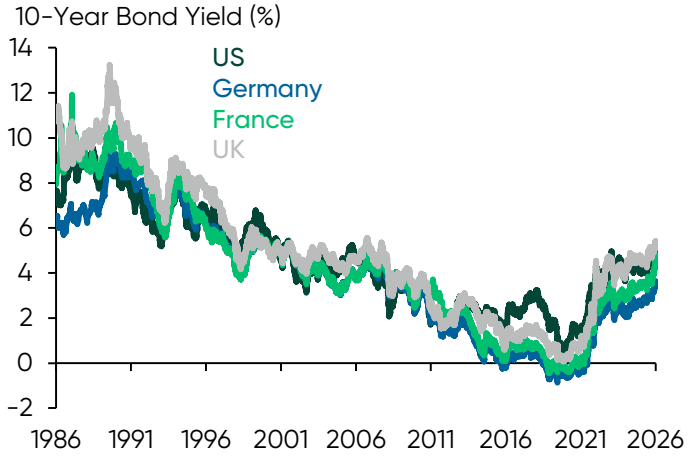
ix Source: FactSet, as of 10/1/2026.

x Source: IEA, as of 10/7/2026. September Oil Market Report.

xi "Venezuela Oil Production Holds at Seven-Year High as Trump Makes Growth the Goal," Carlos Silva, The Rio Times, 9/11/2026.

xii "Middle East Oil Exports Rebound to Prewar Levels as Producers Bypass Strait of Hormuz," Giulia Petroni, The Wall Street Journal, 9/30/2026.

EXHIBIT 4: A 40-YEAR PERSPECTIVE ON LONG-BOND RATES



Source: FactSet, as of 10/7/2026. German, French, US and UK 10-year sovereign bond yields, 9/30/1986 – 9/30/2026.

Rising rates have driven modestly negative bond returns this year. Any time rates rise, bond prices fall (and vice-versa). With that said, we think some of rates' recent rise is likely to cool as fears of rising inflation ebb.

INFLATION WORRIES

Accelerating US money supply growth sparks concerns of an overheating economy. August US M4, the broadest measure of money, grew 7.4% y/y, the 9th straight month above the 5.9% historical average.[xiii]

However, you can't have overheating and a liquidity crunch simultaneously. Overheating happens when money supply grows faster than the economy can absorb it. Consumption booms without corresponding production growth. Too much money chasing too few goods and services leads to inflation, as Milton Friedman taught.

That isn't happening now. New money isn't chasing consumer goods and services in circles. Instead, it fuels production. In America, over 62% of S&P companies reported rising Q2 capital expenditures.[xiv] Some of that is AI-related but not all. Manufacturing output rose in seven of eight months through August.[xv] Meanwhile, manufacturing and services business surveys reported expansion all year.[xvi]

THINK GLOBALLY

Since money crosses borders easily, global money supply matters most. Developed nations' money supply is growing, but not as swiftly as America's (Exhibit 5).

EXHIBIT 5: MONEY SUPPLY GROWTH IN SELECT DEVELOPED ECONOMIES

Money Measure	Y/Y Growth (Dec. 2025)	Y/Y Growth (Aug. 2026)	Long-Term Average
UK M4	5.0%	4.4%	4.3%
UK M3	4.7%	5.6%	6.8%
Eurozone M3	2.8%	3.5%	6.0%
Japan M3	1.1%	1.2%	3.8%

Source: Bank of England, ECB and St. Louis Fed, as of 9/29/2026. UK M4 (excluding intermediate OFCs), June 2010 – August 2026 and UK M3 (excluding intermediate OFCs), October 1987 – August 2026. Eurozone M3, July 1981 – August 2026. Japan M3, January 1981 – August 2026. We reference UK M3 as well as M4 here for its longer history.

Non-US production is also expanding. UK and eurozone Q2 business investment grew.[xvii] Their composite purchasing managers' indexes (PMIs) expanded the past three months.[xviii] Japan's growthy composite PMI streak extends to early 2025.[xix] Like America's, British and Japanese industrial output largely rose this year.[xx] Healthy productive capacity means the global economy can handle rising money supply.

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xiii Source: Center for Financial Stability, as of 9/29/2026. Year-over-year change in M4 including Treasuries, January 1968 – August 2026.

xiv Source: FactSet, as of 9/29/2026. Year-over-year total capital expenditure growth by S&P 500 constituent, Q2 2026.

xv Source: FactSet, as of 10/6/2026.

xvi Ibid.

xvii Source: FactSet, as of 9/29/2026. Statement based on Q2 2026 quarterly GDP reports for the UK and eurozone.

xviii Source: FactSet, as of 10/6/2026.

xix Source: FactSet, as of 10/6/2026.

xx Source: FactSet, as of 9/29/2026.

GLOBAL DEBT FEARS

Debt is the other big interest rate fear. Some say it grows too fast at too-expensive rates, creating an imminent crisis. France, Japan and UK are hot spots. The global debt load also sparks fear.

However, the facts don't match the worry. According to the Bank for International Settlements, global total debt (public plus private) as a percentage of GDP was 243% as of Q1 2026—paralleling pre-pandemic norms and way off COVID-era spikes (Exhibit 6).[xxi] Unnoticed, it is flat to where it was a decade ago.

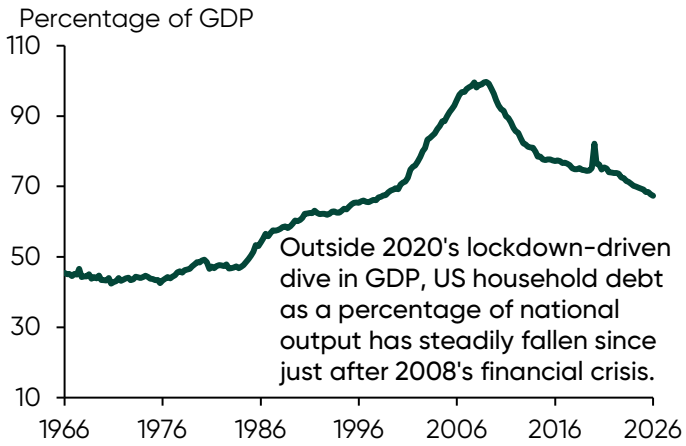
EXHIBIT 6: GLOBAL DEBT AS A PERCENTAGE OF GLOBAL GDP



Source: Macrobond and Bank for International Settlements, as of 10/6/2026. Total global debt owed as a percentage of global GDP, quarterly, Q4 2001 – Q1 2026.

The composition diverges between public and private borrowers. Sovereign debt is up in America and Europe. However, consumers, businesses and municipalities are leaner. In the US, consumer debt peaked at around 100% of GDP in 2010. It is 67% now (Exhibit 7). Corporate debt is little changed, from 43% to 48%.[xxii] Between public and private borrowers, the former is safer. Governments can tax and inflate their way out of debt if needed—private entities can't. They default more often. Even municipal debt, riskier than federal, is down from 21% of GDP to 11%.[xxiii] Total debt shrank in more beneficial ways.

EXHIBIT 7: US HOUSEHOLD DEBT AS A PERCENTAGE OF GDP



Source: Federal Reserve Bank of St. Louis, as of 10/16/2026. Q2 1966 – Q2 2026.

INFLATION'S SNEAKY SILVER LINING: DEBT REDUCTION

Public debt also isn't a punishing financial burden. The total amount matters less than a government's ability to service it. Take the US. America had a high debt service ratio (interest payments' share of tax take) in the late 1980s and early 1990s—a period with both recession *and* rapid expansion. While America's debt service ratio today is at the high end historically, tax revenues cover interest obligations five times over.[xxiv] This isn't a problem over the next 3 – 30 months. Moreover, the eurozone went through a far worse debt situation 15 years ago with only Greece defaulting. America is nowhere near where Greece was then.

xxi Source: Bank for International Settlements, as of 10/6/2026.

xxii Source: Federal Reserve Bank of St. Louis, as of 10/16/2026.

xxiii Source: Federal Reserve Bank of St. Louis, as of 10/16/2026.

xxiv Source: Federal Reserve Bank of St. Louis and FactSet, as of 8/20/2026.

Finally, don't forget inflation reduces debt's actual cost, which stays constant as prices rise. This doesn't mean high inflation is desirable *for consumers and businesses*. Rising prices reduce households' purchasing power, especially for those on low or fixed incomes. Inflation also erodes debt payments, stinging bondholders but not debtors. Inflation and public debt fears aren't compatible. The former defangs the latter, propelling stocks up the wall of worry.

GLOBAL TRADE UPDATE

Trade-war talk resurged in August when a seemingly imminent US-Canada trade deal fell through, triggering higher tariffs instead. But like earlier disputes, the tit-for-tat lacks the size or surprise power to knock stocks materially. Meanwhile, non-US trade continues growing and dealmaking abounds. World trade is proving more resilient than expected and proliferating overall.

On August 18, US President Donald Trump announced a three-day pause to additional 50% tariffs on $20 billion in Canadian goods set to start the next day. The reason: A deal between him and Canadian Prime Minister Mark Carney was close. After this breath of optimism, however, talks collapsed August 21. Disagreements on heavy-truck duties, restrictions on Canada's non-US trade relations and removing its French-language protections undercut progress. The paused tariffs took effect. Carney responded with "dollar-for-dollar" retaliatory tariffs effective September 8. Trump then threatened to raise tariffs on Canadian autos and parts from 25% to 50%, effective January 1, 2027.

While additional tariffs hinder trade and are a market headwind, the economic hit here isn't huge. $20 billion is just 5.2% of the US's 2025 Canadian imports.[xxv] US consumes' total average tariff rate barely budged.

Canada also took more steps to try to diversify trade away from America. For example, Carney pre-approved a second oil pipeline from Alberta to British Columbia, facilitating more energy trade with Asia, once completed. To expedite the process, he is also pursuing legislation to fast-track permitting and associated studies for building infrastructure. While passage isn't guaranteed, it shows how Canada is trying to reduce its reliance on American trade.

Carney is also exploring EU "Associate Membership." It is unclear what this exactly means economically. Or if it will ever happen, presuming it would likely require a vote by all EU member states. The EU and Canada already have a free-trade deal. How would Associate Membership differ? Furthermore, that free-trade deal took *provisional* effect in 2017 but still hasn't been fully ratified nine years later. Several EU member states would like to see full ratification before embarking on closer ties, so it could be years before they consummate any deeper association. Longer term, though, *if* North American trade relations thaw *and* Canada's trade relationship building efforts elsewhere bear fruit, the Great White North's economic outlook could become considerably brighter than currently perceived—a development worth watching.

Meanwhile, for Europe's part, the EU struck a free-trade agreement with the Philippines September 22. Although small, it follows EU deals with Vietnam and Indonesia. Talks with Malaysia and Thailand also look close to conclusion. EU goods trade with Southeast Asia hit a record €275 billion in 2025, up 55% from 2016.[xxvi] In time, the agreements it is entering and negotiating should aid future growth. Especially since these deals include services and investment, not just goods.

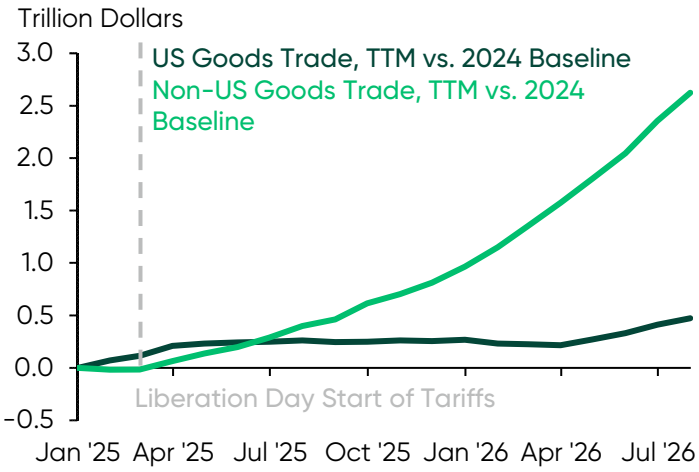
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xxv Source: FactSet, as of 8/24/226. "Trump Says US Will Hike Canada Auto Tariffs to 50% as Trade War Escalates," Kevin Breuninger and Michael Wayland, CNBC, 8/24/2026.

xxvi "EU Finally Clinching Trade Deals With Southeast Asian States," David Hutt, Deutsche Welle, 9/24/2026. "EU Trade Relations with Association of South East Asian Nations (ASEAN)," Staff, European Commission, 5/22/2026.

This speaks to a reality past Reviews have covered: In response to America's tariffs, non-US world trade expanded. Since 2024, before the second Trump administration's tariffs, global non-US trade has grown over $2.6 trillion, much more than America's $473 billion in trade growth, driving world export volumes to all-time highs (Exhibit 8).

EXHIBIT 8: GOODS TRADE GROWTH VS. 2024 TOTAL



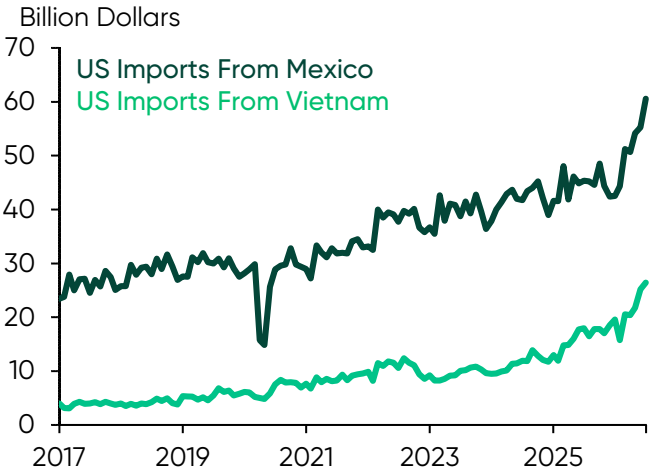
Source: Macrobond, as of 9/28/2026.

Two other reasons US tariffs have hardly hurt showed in Q3: Dealmaking and evidence of tariff workarounds. On the former, Vietnam is also reportedly close to a US trade deal. Vietnamese President To Lam pledged to buy more US aircraft, transportation infrastructure and nuclear power, as he seeks lower export barriers to America. This could yield a 0% reciprocal rate for at least some of the US's Vietnamese imports (from 20% currently).[xxvii] Vietnam in turn would provide preferential access for US exports, "removing tariffs on almost all goods," including agricultural, industrial and pharmaceutical products.[xxviii] This would also open Vietnam to US investment, particularly for energy (like liquefied natural gas) and power generation.

If that deal comes into force, it may build upon booming trade between the US and Vietnam—a sign of tariff workarounds like transshipping. America's imports from the Southeast Asian nation have more than doubled over the past two years (Exhibit 9). This coincides with Chinese exports to Vietnam booming (Exhibit 10 on the next page). We don't think that is coincidental. Vietnam faces a lower statutory tariff rate than China. So Chinese firms export goods or components to Vietnam for assembly and onward shipping to America under lower rates.

Vietnam isn't alone. The same likely applies to Mexico. Chinese exports to Mexico are also booming. So are US imports from Mexico. There is a key reason for this: Around 80% of US imports from Mexico are tariff-free under the US-Mexico-Canada Agreement (USMCA) in 2025, up from under 50% in 2024.[xxix] It seems more global goods are entering America tariff-free. While the USMCA does mandate stricter rules of origin to qualify for such treatment, such rules are often loosely applied in practice and difficult to enforce.

EXHIBIT 9: AMERICA'S IMPORTS ARE SOARING FROM VIETNAM AND MEXICO



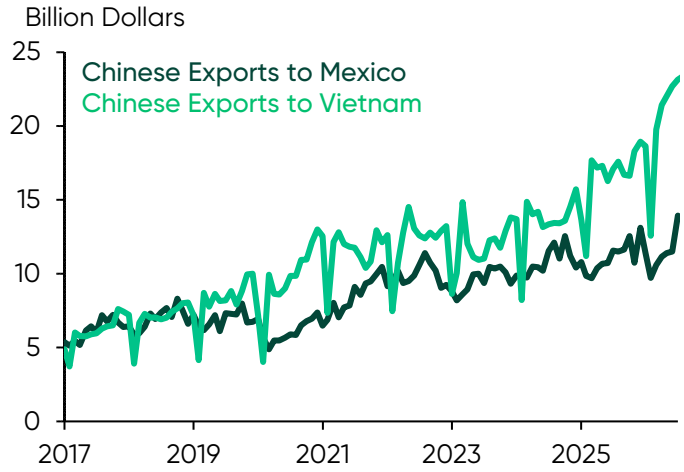
Source: FactSet, as of 9/28/2026. Note: Series aren't seasonally adjusted.

xxvii "Vietnam Leader Says US Trade Deal Close, Denies Re-Routing China Goods," Francesca Stevens, Nguyen Dieu Tu Uyen, Nguyen Xuan Quynh and Haslinda Amin, Bloomberg, 9/22/2026.

xxviii "Fact Sheet: The United States and Viet Nam Reach a Framework for an Agreement on Reciprocal, Fair, and Balanced Trade," Staff, Office of the United States Trade Representative, October 2025.

xxix "USMCA Has Strengthened Economic Integration in North America," Brendan Kelly, Jesus Cañas and Luis Bernardo Torres Ruiz, Brookings, 3/4/2026. "How USMCA Compliance Cushioned the 2025 Tariff Shock," Enrique Martínez García and Ron Mau, Federal Reserve Bank of Dallas, 8/4/2026.

EXHIBIT 10: CHINA'S EXPORTS ARE SOARING TO VIETNAM AND MEXICO



Source: FactSet, as of 9/28/2026. Note: Series aren't seasonally adjusted.

Trade disputes may draw headlines, but bigger picture, world trade is proving more resilient than many expect.

GLOBAL ECONOMIC UPDATE

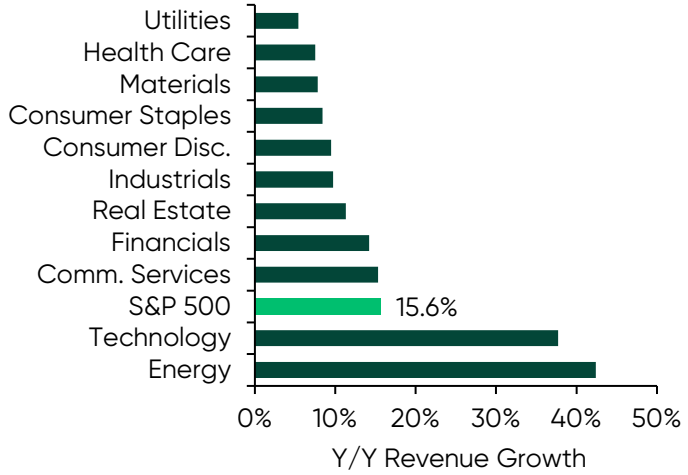
Worldwide, economic activity persists and tops expectations—fueling sales and profit growth.

Real Q2 GDP grew in every major developed economy. While many hyped America's 2.2% annualized, this trailed the eurozone's 2.6%, Canada's 3.3%, Spain's 2.8% and nearly matched Britain's 2.1%.[xxx] Moreover, America's growth rate resembles pre-pandemic trends. Driving growth is both consumer spending *and* business investment—the key economic swing factor. All of this is healthy, albeit not special or booming.

In real terms, the expansion isn't striking. Nominal GDP—which doesn't remove inflation—is. US nominal Q2 GDP grew 8.5% annualized. We aren't arguing this is a better or more accurate way to view economic fundamentals, but it helps put Corporate America's fundamentals in proper context.

Pundits dismiss rapid earnings growth, attributing it to stock buybacks or accounting tricks. Meanwhile, S&P 500 revenues—which *aren't* inflation-adjusted—rose 15.6% y/y in Q2 2026. This isn't subject to accounting quirks. It wasn't limited to Technology, either. As shown in Exhibit 11, all 11 sectors' revenues rose, ranging from 5.4% (Utilities) to 42.4% (Energy). Fast nominal economic growth fueled higher topline corporate results. Analysts project another 12.3% revenue growth in Q3. In the past, early estimates like this often undershot reality.

EXHIBIT 11: S&P 500 REVENUE GROWTH



Source: FactSet Earnings Insight, as of 10/2/2026.

Profit margins are also healthy—and aren't inflation-swollen, considering rising input costs detract. Of the 11 equity sectors, only Health Care profits fell.[xxxi] The four sectors commonly considered defensive (Utilities, Consumer Staples, Real Estate and Health Care) saw the slowest profit growth. This speaks to a big, broad bull market with a solid fundamental foundation.

xxx Source: US Bureau of Economic Analysis, Eurostat and FactSet, as of 10/7/2026.

xxxi Source: FactSet Earnings Insight, as of 10/2/2026.

SENTIMENT UPDATE

Our Q1 and Q2 Reviews noted sentiment was more optimistic, with investors clamoring for initial public offerings (IPOs) and leveraged exchange-traded funds. Risk appetite appeared to be rising. We saw this as seriously elevated optimism and watched for euphoria.

But sentiment cooled, evident in tepid reactions to IPOs like SpaceX's. This led others including wearable health-tech firm Oura and other smaller firms to shelve debuts. AI giants Anthropic and OpenAI delayed their offerings, citing market conditions. These firms wouldn't hesitate to try cashing in if euphoria turbocharged earlier IPOs. That didn't happen, taking froth off the market.

AI, center of the earlier ebullience, remains both a source of fear and optimism. While little fundamentally changed about AI offerings and opportunities in the last two quarters, more people fathom the slowdown from political movements against data centers. Oracle's widely publicized declaration of "force majeure" to delay payments on a New Mexico data center is just a dramatic example of the long-running trend.

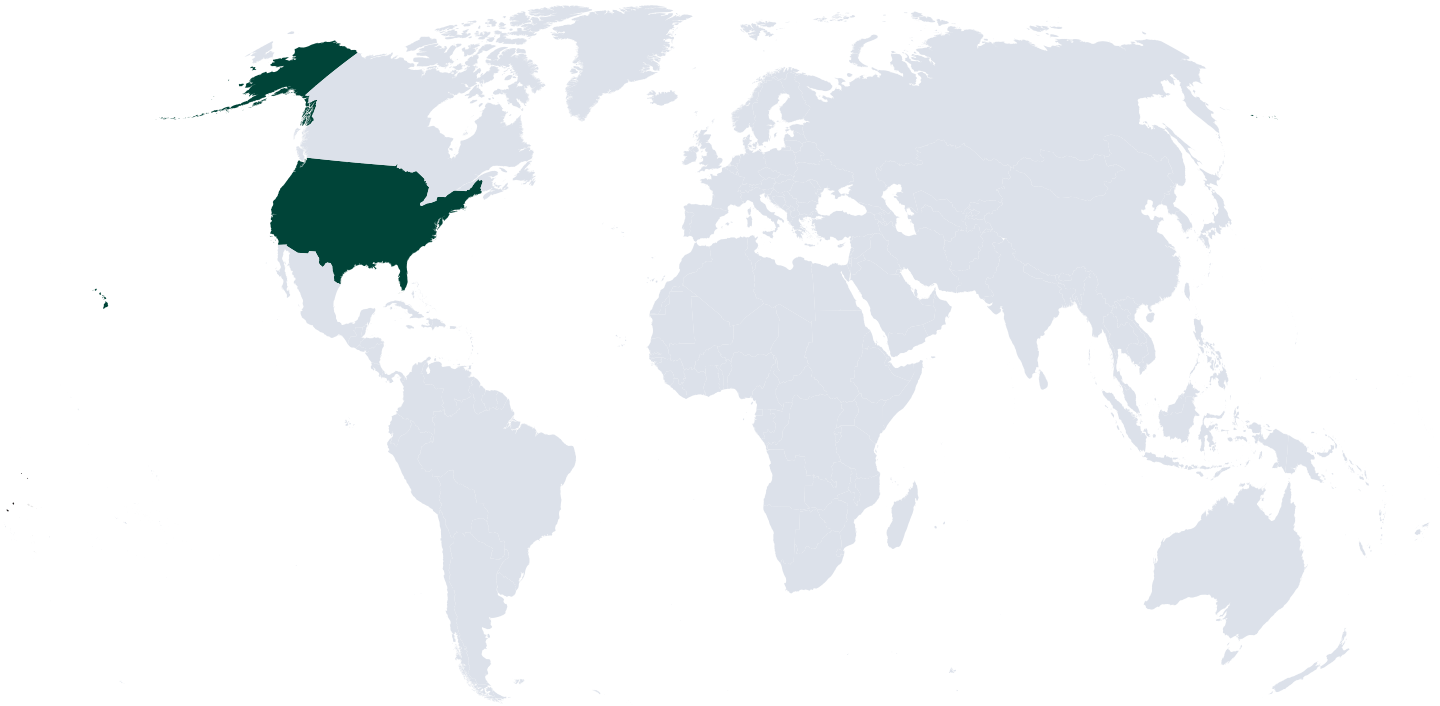
Yes, some AI insiders claim AI threatens humanity, calling for government regulation to "pace" development. This is likely overrated and calculated. Government regulation, while potentially beneficial in some cases, often impedes competition. Regulation lets AI firms raise the drawbridge behind themselves, while also letting them cool investment with little potential lost ground to upstarts. Existential risk claims are likely a business strategy, at least partly. Even when they aren't, those making the call are likely too close to AI to be objective.

Beyond this, it isn't clear "pacing" is even needed to slow AI's advance. Last quarter, we showed local regulation, permitting and not-in-my-backyard attitudes were natural brakes. That continues, with midterm politics turbocharging anti-data center pushes.

Sentiment remains more dour outside America, tied to everything from inflation to European diesel prices and natural gas storage worries ahead of winter. Europe's fringe parties like Germany's Alternative für Deutschland winning local elections—and France's far-right and left polling well for next year's presidential election—stir fear. Four years after the Ukraine invasion, worries over Russia's potential moves still weigh on sentiment. Fear haunts Europe.

Lower sentiment means the euphoria characterizing many bull market tops isn't here. Capitalism is proving its adaptability and resilience, as growth overall remains firm despite perceived threats from the Iran war and higher interest rates.

UNITED STATES COMMENTARY



MIDTERMS BRING THE MIRACLE

With midterms days away, the Midterm Miracle is here. For nine months from the midterm year's September 30, stocks regularly move higher on gridlock. The stage looks set for a repeat.

INSIDE THE MIRACLE

Stocks don't approach politics like people. People prefer parties and candidates. They think their choice is markets' favorite and the other disaster. This political bias obscures reality: Stocks care about policies, not people. They hate big change that creates winners and losers. They love gridlock, which eliminates the threat. When Congress is unable to pass major legislation, uncertainty drops. Businesses can take risk without worrying new legislation will upend future returns. Stocks thrive on this clarity and investment.

Midterms increase gridlock. The president's party, whichever party, almost always loses seats. Since the 17th Amendment mandated direct election of senators in 1914, the president's party lost Senate seats in 71% of midterms and House seats in 89%.[xxxii] Presidents know this, so they pack signature bills in their first two years. Trump had his One Big Beautiful Bill. President Joe Biden pushed the Inflation Reduction Act. In Trump's first term, it was tax reform. President Barack Obama's healthcare reform and Dodd-Frank financial reforms predated midterms. Other examples abound. This legislative flurry makes returns more variable in presidents' first two years. Midterm campaigning adds a year-two wrinkle, as the noise raises uncertainty. Volatility escalates and returns grind before the vote.

xxxii Source: US House of Representatives and US Senate, as of 9/28/2026.

The midterm vote eliminates this uncertainty, enabling the Miracle. Sometimes it starts shortly before the vote, sometimes shortly after. This isn't a precise timing tool. However, across the midterm year's Q4 and the following Q1 and Q2, stocks haven't fallen since the Great Depression, averaging 19.8% returns since 1926 (Exhibit 12).[xxxiii]

EXHIBIT 12: THE MIDTERM MIRACLE

Midterm	President's Second Year				President's Third Year				Midterm
Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Miracle
1926	-9.1%	8.8%	10.1%	2.0%	4.5%	7.3%	16.1%	5.4%	14.4%
1930	18.4%	-17.8%	-8.2%	-16.4%	10.2%	-9.9%	-33.6%	-14.8%	-17.0%
1934	7.4%	-8.0%	-6.2%	5.4%	-9.9%	22.1%	14.4%	17.0%	15.9%
1938	-17.8%	38.5%	7.3%	9.0%	-16.0%	0.0%	21.4%	-2.9%	-8.4%
1942	-5.9%	5.8%	8.5%	12.1%	20.1%	8.0%	-0.9%	-2.1%	45.4%
1946	5.1%	2.9%	-18.0%	3.5%	0.3%	1.5%	0.5%	2.7%	5.5%
1950	4.9%	4.0%	11.9%	6.9%	6.7%	-0.3%	12.8%	3.8%	13.7%
1954	10.1%	9.8%	11.9%	12.6%	2.8%	13.3%	7.5%	5.1%	31.1%
1958	6.4%	8.5%	11.6%	11.2%	1.2%	6.3%	-2.0%	6.1%	19.6%
1962	-2.1%	-20.6%	3.7%	13.1%	6.4%	5.0%	4.2%	5.4%	26.4%
1966	-2.7%	-4.3%	-8.8%	5.9%	13.2%	1.3%	7.5%	0.5%	21.4%
1970	-1.8%	-18.0%	17.1%	10.3%	9.7%	0.2%	-0.6%	4.6%	21.2%
1974	-2.8%	-7.6%	-25.2%	9.3%	23.0%	15.4%	-10.9%	8.6%	55.0%
1978	-4.9%	8.5%	8.7%	-5.0%	7.1%	2.6%	7.6%	0.1%	4.4%
1982	-7.3%	-0.6%	11.5%	18.3%	10.0%	11.1%	-0.2%	0.4%	44.5%
1986	14.1%	5.9%	-7.0%	5.6%	21.3%	5.0%	6.6%	-22.5%	34.5%
1990	-3.0%	6.3%	-13.7%	9.0%	14.5%	-0.2%	5.3%	8.4%	24.5%
1994	-3.8%	0.4%	4.9%	0.0%	9.7%	9.5%	7.9%	6.0%	20.2%
1998	13.9%	3.3%	-9.9%	21.3%	5.0%	7.0%	-6.2%	14.9%	36.3%
2002	0.3%	-13.4%	-17.3%	8.4%	-3.1%	15.4%	2.6%	12.2%	21.2%
2006	4.2%	-1.4%	5.7%	6.7%	0.6%	6.3%	2.0%	-3.3%	14.1%
2010	5.4%	-11.4%	11.3%	10.8%	5.9%	0.1%	-13.9%	11.8%	17.4%
2014	1.8%	5.2%	1.1%	4.9%	1.0%	0.3%	-6.4%	7.0%	6.2%
2018	-0.8%	3.4%	7.7%	-13.5%	13.6%	4.3%	1.7%	9.1%	2.5%
2022	-4.6%	-16.1%	-4.9%	7.6%	7.5%	8.7%	-3.3%	11.7%	25.7%
2026	-4.3%	15.2%	2.3%	?	?	?	?	?	?
Average	0.8%	0.3%	0.6%	6.4%	6.6%	5.6%	1.6%	3.8%	19.8%
% Positive	46.2%	57.7%	60.0%	84.0%	88.0%	88.0%	60.0%	80.0%	92.0%

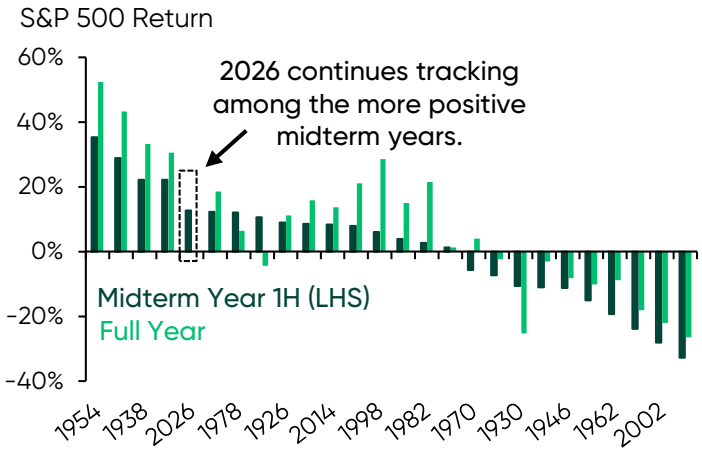
Source: FactSet and Finaeon, Inc., as of 10/6/2026. S&P 500 total returns.

xxxiii Source: Finaeon, Inc., as of 9/28/2026. S&P 500 total return index frequency of positivity and average return in the nine months from midterm year September 30 to the following June 30. 1926 – 2022.

A MIRACULOUS MIRACLE IS ON TRACK

2026 continues tracking among the strongest midterm years (Exhibit 13). Returns through September rank fifth. Historically, returns during good midterm years moved even higher in the months that followed.

EXHIBIT 13: OFF AND RUNNING

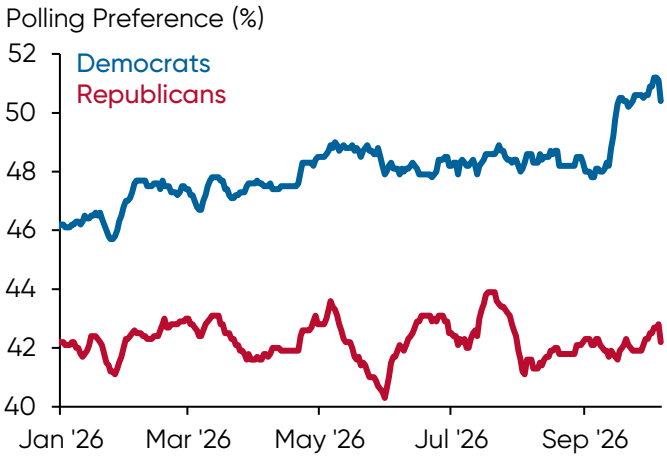


Source: Finaeon, Inc., as of 10/7/2026. S&P 500 total returns in midterm years, 1926 – 2026.

Increased gridlock is on track, too. Republicans are likely to lose the House, Senate or both. While polling doesn't predict individual races, it shows trends. Even if the methodology is flawed, biased or wrong, it doesn't change over time, so the general trend shows which way the winds are blowing. Unlike presidential elections, which often feature an October surprise based on candidate gaffes, trends usually hold in midterms. Across Senate, Governors' and generic House races, whatever polling trend persists through Labor Day generally continues through Election Day.

There, we see a sharp break toward Democrats (Exhibit 14). Not in every race, but overall trends are telling. Perhaps the GOP's themes aren't landing with Independents. Maybe their advertising is worse. Maybe many voters treat the race as a referendum on Trump. Polls imply things he did in September, like pledging $5,000 stimulus checks and restarting attacks in Iran, didn't help.

EXHIBIT 14: THE DEMOCRATS BREAK LATE



Source: RealClearPolitics, as of 10/7/2026. Generic Congressional Poll, 1/27/2025 – 10/7/2026.

Midterms are also about individual candidates and structure, especially in the Senate. This year, the GOP's field is weak. This year represents a reversal of 2018, when Democrats had a huge funding advantage but Republicans gained Senate seats while losing the House. They had the structural advantage: fewer toss-up seats to defend. This time, Republicans have money but lack structural advantages. They enter with a 53 – 47 majority. There are 35 seats up for grabs, but only 7 true tossups. Republicans have 5 tough seats to defend and little chance of gaining.

In the House, incumbency helps. However, gerrymandering on both sides leaves about 25 tossup seats to decide the balance. Republicans enter with a tiny, 219 – 214 edge. Coattails matter. Few voters split their ticket. If the GOP loses those tossup Senate seats, they will likely lose the House. Even retaining a few probably means losing the House.

The Senate tossups look likely to favor the Democrats. Consider the trends, race-by-race.

The Republicans hoped to pick up Michigan. The GOP cheered when Democrats nominated "socialist" Abdul El Sayed. Party leadership figured he would be too extreme for Independents. Their nominee, former Rep. Mike Rogers, lost narrowly to a moderate candidate in 2024. The race against El Sayed looked like a slam dunk. Yet El Sayed is breaking away. He and Rogers were even in August. By early October, he was 3.6 points ahead.[xxxiv] Rogers' support slipped, while El Sayed's jumped. He is apparently winning undecided voters.

New Hampshire is also on the GOP's wish list. Republican candidate Chris Sununu is a popular former governor from a famous political family. While Sununu led early, he now trails Democratic Rep. Chris Pappas. Their margin was tight through Labor Day, but Pappas is now up nearly six points.[xxxv]

Meanwhile, Republicans' defensive efforts are floundering. In Ohio's special election for Vice President JD Vance's old Senate seat, incumbent Jon Husted faces former Democratic Senator Sherrod Brown, who lost his seat to Republican Bernie Moreno in 2024. While Husted and Brown both lost support since Labor Day, Husted lost more. Brown is now more than 3 points ahead.[xxxvi]

Texas, where Republican Attorney General Ken Paxton faces Democratic Rep. James Talarico, is too close to call. However, the trend doesn't help Paxton. That said, the race is a wildcard. Texas Governor Greg Abbott also seeks a fourth term. State Rep. Gina Hinojosa, a relative unknown, is challenging him. Abbott led all year with polling hovering around 48%. He is a strong campaigner in any race's final weeks and controls America's best get-out-the-vote ground game. It is likely worth several percentage points for him alone. Few voters will split their ballots, so it will benefit almost all Republicans up for election, including Paxton. If Abbott's lead widens further, Talarico is likely in serious trouble.

In Alaska, Democratic challenger Mary Peltola has led incumbent Senator Dan Sullivan for months. The trend since Labor Day has been volatile, however, suggesting a tightening in the race. Curiously, there are two Republican Dan Sullivans running. How this affects a race using ranked-choice voting is unclear. Tossup Iowa shows the reverse: Ahead in polls for months, Republican Rep. Ashley Hinson has seen her edge fade. Now Democratic state Rep. Josh Turek is narrowly ahead.

Maine Republican incumbent Senator Susan Collins bucks the trend—an anomaly in American politics. She usually wins by outvoting her final polling numbers. She trails Democrat Troy Jackson presently, but it is tight. If her vote tops polls, she will win.

The Republican strategy has been poor this year. Normally, in a midterm, when natural forces are antagonistic to the president's party, prevailing materially requires the president's party to make promises to voters. "Elect us and we will do these things in the next two years. So, if you want them vote for us." Multiple things to appeal to a varied, non-ideological voter base. Arguments like "promises made; promises kept" never fly well in midterms because non-ideological voters want to know what you will do ahead. Voters are less concerned about anything you did in the past, even if they liked it. This cycle the Republicans as a block failed to nationalize the election in any real way in terms of promises at either the House or Senate level. That opened them to criticisms without future hopes to offset.

xxxiv Source: RealClearPolitics, as of 10/7/2026.

xxxv Ibid.

xxxvi Ibid.

In 2016 and 2024, when President Trump won, he made abundant promises. In 2016, "build a wall," "cut taxes," repeal and replace the Affordable Care Act. In 2024, he pledged to make the tax cuts permanent, "deport illegal aliens and control the border," "end the Ukraine war on Day 1," eliminate taxes on tips and Social Security while cutting prices overall. Regardless of the success in accomplishing those, promises are easier to make in a presidential year. Trump realized that when he wasn't president and was seeking his second term. Somehow, neither he nor national GOP leaders see this now, leaving them devoid of their most powerful tool as incumbents in this midterm—the power of incumbency to make promises believable.

The Democrats merely had to focus on things voters are upset about, an easier strategy. Prices, Iran, an unpopular president—there is a long list. The Republican anti-socialist argument against Democrats hasn't been received well, as so many younger voters now embrace the word "socialism"—whether they understand it or not. Said otherwise, the Republican message, devoid of explicit promises, hasn't landed well. That, by itself, has driven trends in the Democrats' favor since Labor Day.

Democrats have a good chance of Senate victory. Maybe they seize many seats, or maybe they gain a tiny edge. Either outcome will probably overshadow otherwise close House races, giving Democrats both chambers.

Even if Democrats don't win control, the Republicans' presently slim margin will probably narrow more. After the vote, Republicans will look beyond Trump to 2028's presidential election. Especially senators elected in 2024 or 2026, who will outlast him by 2 and 4 years, respectively. Factions will form around potential candidates, resulting in intraparty gridlock. Congress achieved little this year. Expect even less for the next two years, divided government or not.

Partisans will love or hate this, depending on their biases. But again, stocks focus on gridlock. Congress will squabble. If the Democrats take the House or Senate, maybe they will hype investigations of Trump officials. Maybe they will hold hearings on AI regulation and more. However, the high likelihood is that Congress passes next to nothing, unleashing the Midterm Miracle's magic.

THE FED, INFLATION AND DEBT DOOM

Long bond rates spiked last quarter as fear loomed large. Oil-driven inflation. Monetary policy under new Fed Chair Kevin Warsh. US debt hitting $40 trillion in August. We think all are false fears—bricks in the wall of worry.

ON THE NEW FED HEAD

New Fed Chair Kevin Warsh took office in May. During his brief tenure, we think he has done and said some sensible things—and made a minor error. Here is a look at those moves. Among his more sensible moves, Warsh curtailed forward guidance (central bankers' strategy of using words to augment policy) and promoted simpler monetary policy. He also championed returning Fed focus to money supply as a primary inflation driver—a refreshing return to basics. These efforts aren't perfect. Other Fed officials talk endlessly and offer their own forward guidance. However, he hit a snag in September, as rates were hiked on a shaky rationale.

Warsh seems to recognize oil doesn't drive inflation. He hiked anyway, defying his earlier call for low rates. Fed minutes later showed officials focused on data center buildouts as an inflation driver. That is another shift: Warsh always said the AI boom would slow inflation, arguing productivity gains from AI offset demand effects. However, it looks like he took "Martin's Little Pill" in record time. This figurative pill, named for former Fed head William McChesney Martin, symbolizes Fed heads' forgetting prior policy views upon entering office.

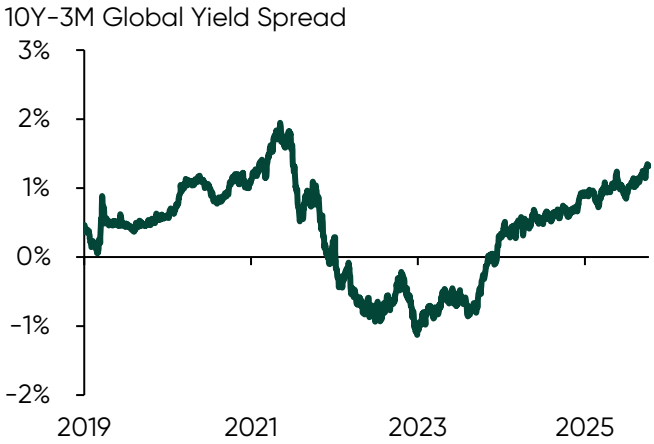
Warsh decries central bank groupthink but followed hikes from the European Central Bank, Reserve Bank of Australia and Bank of Japan. The Bank of England sensibly refrained (for now). Of these, only Japan's were wise—not because of inflation. Rather, it is a return toward normal after eons of abnormally low rates and bizarre monetary policy. Elsewhere, policymakers erred. Rate hike proponents argue CPI's energy-driven acceleration will spread. However, central banks don't control energy prices, which aren't likely to bleed to prices economywide anyway. Inflation's real drivers also aren't firing. Central bankers globally fight a nonexistent inflation specter. Going too far would be a mistake.

These early rate hikes aren't immediate problems. Pundits wrongly say they spur a liquidity crunch, potentially choking the economy and bull market. They say this because long rates are up, too. That makes mortgages, business loans and all bank lending more expensive.

However, this emphasizes loan demand. Loan supply matters more. Liquidity crunches come when banks tighten lending. Usually, that happens when the yield curve flattens or inverts (when short rates top long). Banks borrow short term to fund longer-term loans, so the gap between them indicates new loans' profitability. Flat or inverted yield curves make lending less profitable. Banks tighten their belts and lend to the most creditworthy only. This can freeze credit and stifle economic growth.

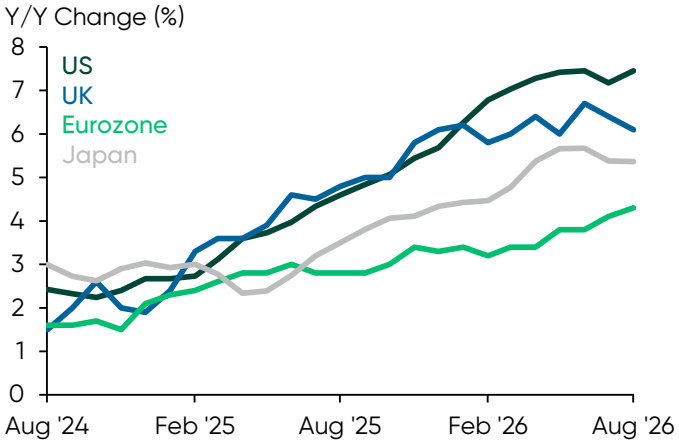
This year, the widely feared rise in major developed economies' long rates exceeds short rates' uptick. That steepened the yield curve. This means looser credit, more liquidity, and more fuel for growth (Exhibits 15 and 16).

EXHIBIT 15: GLOBAL YIELD CURVE



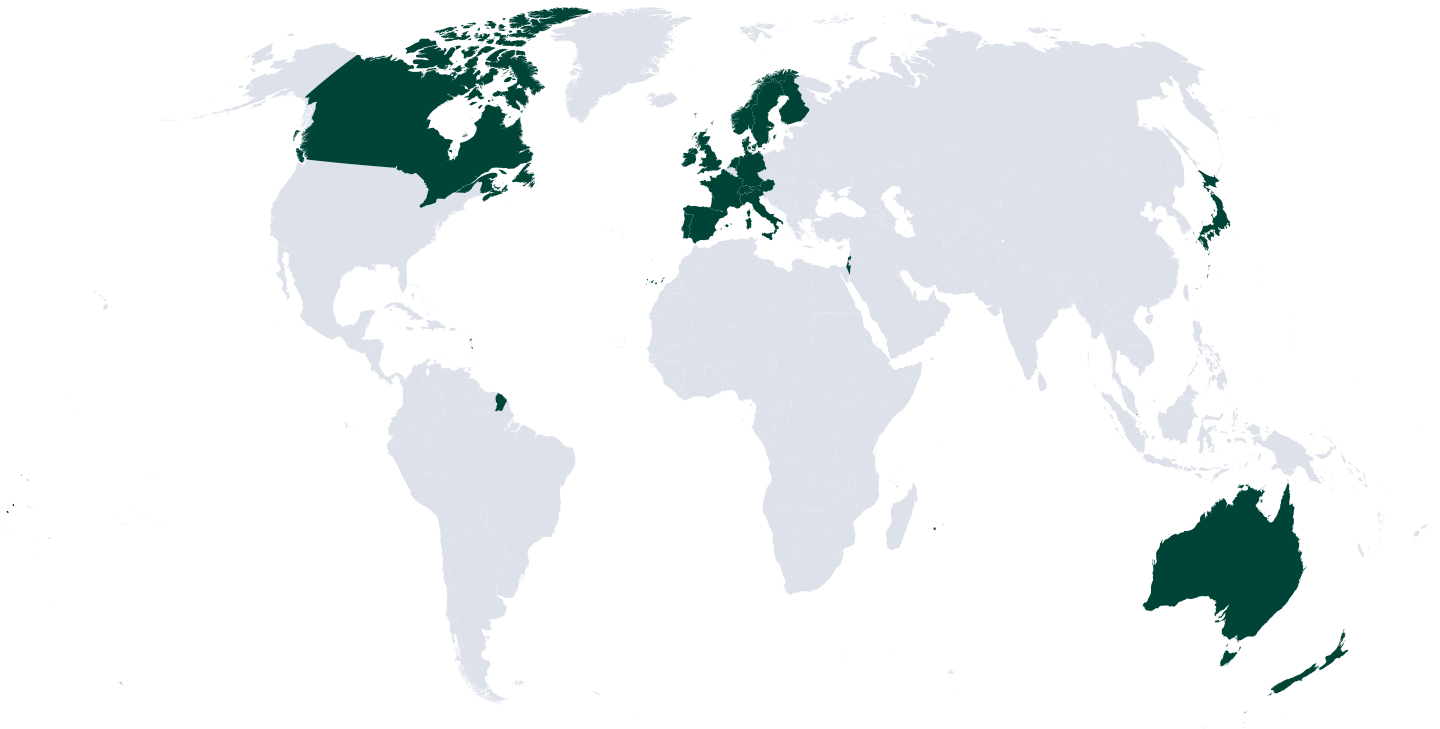
Source: Fisher Investments Research, FactSet, Macrobond, Bank of England, Reserve Federal Bank of St. Louis and European Central Bank, as of 10/6/2026.

EXHIBIT 16: LOAN GROWTH IN SELECT MAJOR ECONOMIES



Source: Fisher Investments Research, FactSet, Macrobond, Bank of England, Reserve Federal Bank of St. Louis and European Central Bank, as of 10/6/2026. Global GDP-weighted yield spread (10-year minus 3-month government yields), 1/1/2020 – 10/2/2026, and year-over-year change in loan growth in the UK, US, eurozone and Japan.

GLOBAL DEVELOPED EX-US **COMMENTARY**



DEEPER DIVE: JAPAN

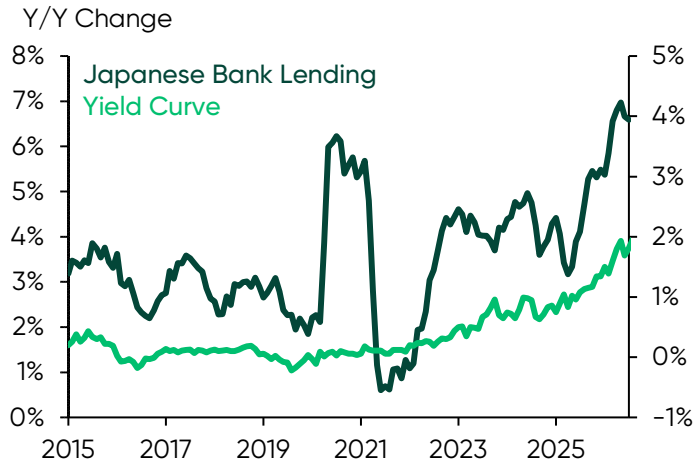
The MSCI Japan returned 22.7% through Q3, topping the ACWI's 13.4%.[xxxvii] Underlying this: After decades of wrongheaded experimenting, Japan is normalizing monetary policy, letting other reforms pay off. Yet many overlook such positives, fearing rising yields and the weak yen.

Global investing's appeal lies in its abundant opportunities to diversify. As we will show, Japan exemplifies that well today. While we are optimistic on the country, we know we can always be wrong. However, Japan's mix of healthy fundamentals and dour sentiment point positively.

Many miss a big, bullish driver for Japan: Its steepening yield curve (Exhibit 17 on the next page). As we previously noted, banks profit on the gap between short-term rates (their funding costs) and long rates (loan revenue). Wide gaps increase bank lending, a phenomenon that is now happening in Japan.

xxxvii Source: FactSet, as of 10/8/2026. MSCI Japan and ACWI returns with net dividends, 12/31/2025 – 9/30/2026.

EXHIBIT 17: JAPANESE BANK LENDING AND YIELD CURVE



Source: FactSet and Bank of Japan, as of 10/2/2026.

This improves the backdrop for Japan's value stocks, like Banks and Industrials. While the benefit for Banks is clear, Industrials rely more on bank lending than equity or bond issuance to fund investment and expansion. Ample credit boosts them. As Exhibit 18 shows, Japan's market is value-oriented, tilted toward Industrials—its largest sector. Financials are second. With credit markets healthy, these twin beneficiaries—up 19.7% and 45.9%, respectively—help power returns.[xxxviii] Looking ahead, analysts project Japanese Industrials and Financials earnings growing double digits.[xxxix]

EXHIBIT 18: JAPAN'S TOP-FOUR SECTOR COMPOSITION IN GLOBAL CONTEXT

Sector	MSCI Japan	MSCI World	Difference (ppt)
Industrials	24.1%	10.8%	13.3
Financials	19.3%	15.6%	3.7
Information Technology	18.9%	32.1%	-13.2
Consumer Discretionary	14.5%	8.4%	6.1

Source: FactSet, as of 9/30/2026.

There are opportunities in Japan's other world-class firms, too. While its Tech sector's 19% weight trails America's (and, hence, the World's), it exceeds most non-US developed markets. Further, its exposure is chiefly semiconductor component manufacturers critical to the Tech supply chain. Japan's Consumer Discretionary sector features several market-leading household brand names. Through Japan's lost decades, its multinationals turned outward. However, easing credit conditions should increase domestic demand, helping boost more growth-oriented sectors, too.

Headlines ignore this, claiming corporate governance is backsliding. New Prime Minister Sanae Takaichi aims to streamline companies' decision-making principles. She seeks to put Japan's massive corporate cash reserves to better use, focus businesses on return on equity, better engage with shareholders through timelier reports and ensure genuine board independence. To do this, the Financial Services Agency simplified the Corporate Governance Code from 83 points to 30. Yet skeptics claim it is voluntary—mere window dressing. Some even cast this as repealing former Prime Minister Shinzo Abe's reforms, which positively curtailed cross-shareholdings that limited competition and propped up zombie firms. To us, that is backwards. Her actions look like sensible steps to encourage longer-term focus on shareholder value over quarterly results.

Pundits also fixate on the weak yen, which hit 40-year lows against the dollar in Q3.[xl] This led to currency-market intervention—selling overseas holdings to buy yen. At first, Japan acted solo. From September 2022 through May 2026, Japan bought some $172 billion worth of yen-denominated assets as the yen weakened toward 160 per dollar.[xli] Then, as the yen weakened more, US Treasury Secretary Scott Bessent added around $5 – $10 billion of yen purchases alongside about $96 billion from Japan.[xlii] Many say Bessent wanted to prevent Japan from selling down its US Treasury stockpile—the largest among foreign governments. But that seems unnecessary. For every Treasury sold there is a buyer. Japanese selling wouldn't mean automatically higher rates.

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xxxviii Ibid. MSCI Japan Industrials and Financials sectors, 12/31/2025 – 9/30/2026.

xxxix Source: FactSet, as of 10/8/2026.

xl Source: FactSet, as of 10/8/2026.

xli Source: Japan Ministry of Finance, as of 10/8/2026.

xlii "Bessent's 'To Do' List: Buy $5-10 Billion Worth of Japanese Yen, Reuters Photo Shows," Daniel Heuer and David Lawder, Reuters, 8/1/2026. "Japan's April Yen Intervention Set Daily Record as Pressure Persists," Makiko Yamazaki, Reuters, 8/6/2026.

Regardless, intervention didn't work—and rarely does. The real issue: Money moves to the highest-yielding asset. Japanese overnight rates currently sit at 1.25%, below most others. They were below zero from 2016 to 2024, weakening the yen. Now they are normalizing. This should bring Japan in line with rates globally eventually. That should help stabilize the yen more than intervention.

Now, "high" rates in Japan also spark debt fears. However, Japanese interest rates (short- and long-term) aren't high historically. They were far higher during its 1970s – 1980s go-go years. And Japan's tax revenues cover interest payments more than seven times over. Like America, Japan can service its debt.

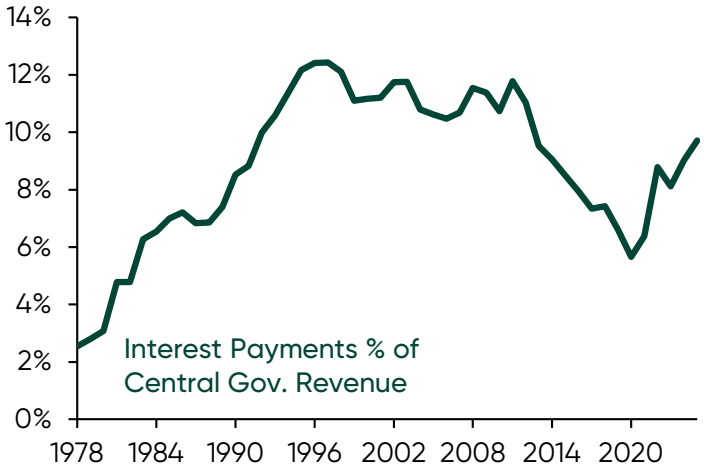
FALSE FRENCH DEBT WORRIES

Spiking French debt fears also look false. Although stocks seemingly slumped in sympathy, we doubt that lasts. Sentiment often reverses fast as false fears fade. Civil unrest, garnering headlines in October, isn't a market driver.

Investors eyeing 2027's election see right-wing nationalists and far-left socialists atop polls. The concern: Neither looks likely to chop government deficits, currently 5.4% of GDP. One candidate proposed canceling some 18% of French sovereign bonds held by the Banque de France before retreating some. The other pitched reversing austerity before committing to EU deficit targets in early October. Prime Minister Sébastien Lecornu seeks to cut 2027's deficit to 5.0% of GDP. However, skeptics claim he uses unreasonably optimistic economic projections and pundits want deeper cuts.

We can't say how budget negotiations—or 2027's election—will go, as campaigns haven't started yet. Regardless, debt fears look overstated. France's 10-year government bond yield touched 5.0% in early October, a 24-year high.[xliii] Headlines shrieked. They miss that yields' rise is global. Like American and Japan, France's were much higher in the 1980s and 1990s. Except for brief dips as yields charged to 18% early, French GDP—and stocks—grew fine throughout that period.[xliv] Stocks and the economy grew swiftly in the late 1990s, when French debt service costs peaked at 13% of government revenue. At about 10% now, fear over French debt looks false (Exhibit 19).

EXHIBIT 19: FRENCH CENTRAL GOVERNMENT INTEREST PAYMENTS RELATIVE TO REVENUE



Source: Insee, as of 10/2/2026.

UK DEBT AND BUDGET FEAR

Britain is no different. As new Prime Minister Andy Burnham prepares the Autumn Budget, headlines fret rising Gilt yields will eliminate the £23.6 billion in wiggle room left under fiscal limits. Meanwhile, the Bank of England (BoE) paused its program of selling Gilts held on its balance sheet from financial crisis and COVID-era quantitative easing bond buying. Many call this an effort to avoid heaping pressure on yields.

However, the pause is simply to give the UK Treasury time to consider a proposed change to the BoE's asset selling program. The change has been in the works for over a year, and it seeks to centralize official-sector debt sales. Under the extant program, the BoE sells Gilts to private investors on the secondary market. Meanwhile, the Debt Management Office (DMO) handles primary Gilt sales, offering various maturities based on the Treasury's funding needs, costs and market demand. Bank and Treasury officials have long seen this as a potential conflict, with the BoE adding supply at maturities the DMO might deem suboptimal.

xliii Source: FactSet, as of 10/8/2026.

xliv Source: FactSet, as of 10/8/2026.

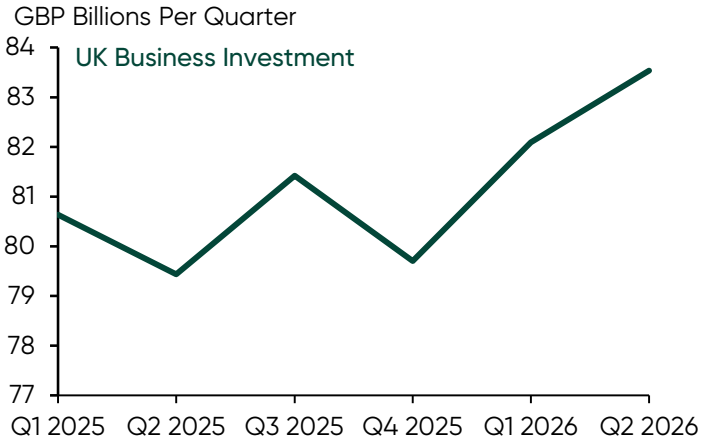
After lengthy consultations, they revealed their proposed solution: If approved in April, the BoE will sell its Gilts back to the DMO, not on the open market. The DMO would issue new debt to fund its Gilt purchases. The amount of debt outstanding wouldn't change, but the DMO would have more control over maturities in circulation. There would also be only one official sector source of debt, streamlining operations. The BoE and UK Treasury stress that this drives the proposal, not yield volatility, and that their consultations long predate the present rise in yields. Governments routinely manage maturities with an eye on mitigating interest costs. This looks little different.

As for the Budget, investors once again spent the summer navigating numerous leaks, ideas and government tax trial balloons. Garnering most attention: rumored increases to capital gains taxes, the bank levy and council tax. Other suggestions included a new social care levy, applying National Insurance Contribution to wealthy individuals' state pension payments and adopting a land tax to address council tax discrepancies between London and the rest of the country.

All the chatter raised uncertainty, weighing on sentiment. UK Financials, for instance, have trailed global Financials since bank tax rumors began in early August, falling more despite the UK's steep yield curve.[xlv] Yet UK stocks overall are roughly even with the MSCI World Index year to date, showing Budget chatter and the specter of tax hikes aren't automatically bearish.[xlvi] Stocks are also gradually gaining clarity. In Mid-October, the government ruled out equalizing capital gains and income tax rates, limiting the extent of a potential hike. Days later, they reportedly ruled out a capital gains hike entirely. Treasury sources have meanwhile briefed reporters that Burnham and Chancellor of the Exchequer John Healey will likely go through with higher bank taxes. Whilst we think this would likely crimp lending and bank earnings to some extent, having clarity would at least enable banks to plan and move forward.

The Budget itself should bring that added clarity. Even if it includes provisions investors and businesses consider suboptimal, knowing the lay of the land enables everyone to move on. Knowing taxes might change, but not knowing how discourages risk taking. We saw this last year, with UK business investment declining in the run-up to 2025's Budget. Once businesses know future tax rules and rates, they can project a new project's risks and returns and deploy capital with more certainty. Investment recovered quickly after last year's Budget (Exhibit 20), and this year's faster loan growth also speaks to a swift rebound if investment indeed fell this summer.

EXHIBIT 20: UK BUSINESS INVESTMENT RECOVERY FOLLOWING THE 2025 BUDGET



Source: Office for National Statistics, as of 9/30/2026.

Clarity also benefits markets, to the extent stocks are much bothered with Budget uncertainty. With all the tax rumors come numerous op-eds and whitepapers from lobby groups and industry leaders warning of dire consequences from even modest tax tweaks. The aim seems to be to pressure politicians into sparing their sector, but investors treat them as ironclad economic forecasts. This lowers expectations, creating ample room for stocks to rise as reality doesn't go so poorly as feared.

xlv Source: FactSet, as of 10/19/2026.

xlvi Ibid.

Surprise moves markets most. Incessant Budget rumors and doom-laden forecasts help sap the Budget's negative surprise power. When actual tax changes are watered down—as they have been in recent years—it is a positive surprise, however incremental. This relief helps markets move on quickly.

If past Budgets are a guide, debt fears won't vanish once Healey opens his red box. Yet government finances are a political problem, not an economic one. UK tax revenue covers debt service costs by 11 times—more than in France and Japan.[xlvii] Fiscal targets like the UK's are a political choice designed to portray wise stewardship. The amount of headroom under these rules is a similar political invention. Markets care more about whether the UK can service its debt, which it easily can. Perpetual fears otherwise are a long-running bull market backdrop.

SWEDEN'S NEW GOVERNMENT

Sweden will get a new government. The four-party, center-left opposition bloc—led by Social Democratic Party leader and former Prime Minister Magdalena Andersson—won a tight vote on September 13. The Social Democrats, the Green Party, the Center Party and the Left Party took 176 of the Riksdag's 349 seats against incumbent Prime Minister Ulf Kristersson's center-right bloc's 173. Andersson's victory sparked numerous sociological and political analyses, from the implications for center-left parties across Europe to whether higher taxes hang over Swedish businesses.

However, Andersson still must form a new government—potentially a challenge. While her allies campaigned as a bloc to upend the center-right government, there are myriad internal divides. The Center Party said it would not govern with the Left, which expects ministerial posts for cooperating. The Green Party seeks to block nuclear power's restarting and wants to open Sweden to more migration—which some Social Democrats oppose. The Green and Left Parties' calls for higher taxes lack broad support. In order to become prime minister, Andersson needs to avoid having more than 175 lawmakers vote against her. On October 15, however, Swedish lawmakers rejected Andersson's bid to form a minority government in a parliamentary vote.

If and when she has success, don't expect much activity. The election results and recent history suggest the next government, whatever its composition, will likely rely on multiple parties' support to survive and pass bills. That is a classic gridlock recipe. It repeats the outgoing government's travails. Kristersson's Moderates formed a minority government with the Liberals and Christian Democrats and relied on the right-wing Sweden Democrats' parliamentary support. Likewise, during Andersson's first stint as PM, the Social Democratic Party was a single-party minority government and relied on support from the Center Party, the Left Party and the Greens.

In both cases, neither government proved inherently positive or negative for stocks. During Kristersson's government, Swedish stocks rose 101.0%, trailing eurozone (132.9%) and global stocks (118.7%).[xlviii] During Andersson's term from November 2021 to October 2022, Swedish stocks fell more sharply (-31.7%) than the eurozone (-25.9%) and global markets (-19.6%).[xlix] Global trends tend to swamp domestic politics, as Swedish markets' weakness had less to do with Andersson's premiership and more with the shallow global bear market in 2022—and their lag after that was more about their relative lack of Tech.

xlvii Source: Office for National Statistics, as of 8/10/2026.

xlviii Source: FactSet, as of 9/21/2026. MSCI Sweden, MSCI EMU and MSCI World Index returns with net dividends, 10/14/2022 – 9/18/2026.

xlix Ibid. MSCI Sweden, MSCI EMU and MSCI World Index returns with net dividends, 11/30/2021 – 10/18/2022.

MERZ'S 'DISASTER'

Germany held two state elections in mid-September, and Chancellor Friedrich Merz deemed the results a "disaster" for his coalition government. In Mecklenburg-Western Pomerania—a rural state in the formerly communist East Germany—the far-right Alternative für Deutschland (AfD) won 38% of the vote, ahead of the center-left Social Democrats' 35.5%, a member of Merz's coalition.[l] Merz's Christian Democratic Union (CDU) garnered just 4.9% of the vote, missing the 5% threshold to enter the regional parliament.[li] In Berlin, the far-left Linke Party took 25.3% of the vote—the first time Linke topped polls in the state—as the governing CDU fell to second place at 19%.[lii] These two votes followed the CDU's poor electoral showing in the state of Saxony-Anhalt—also in eastern Germany— in which the AfD took a plurality followed by Linke.

Many analysts now think Merz's chancellorship is fragile, as his personal approval rating is around 10%, plumbing record lows.[liii] For his part, Merz said he plans to stay as chancellor and party leader, continuing to push controversial reforms, including raising the retirement age from 64 to 67. Now, it is impossible to predict politicians' actions. Perhaps Merz steps down, driving some short-term political uncertainty. Perhaps he sticks around, as there is no clear successor. However, for the foreseeable future, Merz's dwindling political capital suggests he won't be able to pass much of consequence.

For investors, Merz's current situation is a reminder to not overrate politicians' ability to support (or harm) the economy. Many were excited about the prospect of reform under Merz, assuming the government would revise the country's debt brake, unleash spending and pull Germany out of its "sick-man" doldrums. Yet those changes weren't as vast as advertised, and reforms often create winners and losers—which can stir uncertainty. Now that gridlock looks pretty entrenched, some worry the government won't be able to do much to help the economy. They overlook that Germany's private-sector economy never needed much government "help." Stocks recognize this, and lower expectations indicate a wider gap between expectations and reality—bullish for German markets.

SÁNCHEZ CALLS ANOTHER SPANISH SNAP ELECTION

In early October, Spanish Prime Minister Pedro Sánchez called a snap election for November 29. Sánchez's decision looks opportunistic. Spain's next vote was due by August, and Sánchez's center-left Socialist Party is polling poorly. The center-right Popular Party leads, and the right-wing Vox is gaining ground. However, elections are about issues and campaigns, not long-term poll trends, making it critical to find the right opening. Sánchez is betting he has found one in an 87-year-old Madrid resident who was evicted from her apartment after developers purchased it and passed away October 7. The saga went viral, sparking protests. In response, Sánchez tabled emergency housing measures, including a temporary eviction ban and other tenant protections. Right-wing parties shot those measures down, arguing only home construction can make housing more affordable.

While the argument against Sánchez's proposal has economic merits, it is a tough sell politically, giving him a wedge issue for a snap campaign. Whether it will be enough to overcome weak polling, time will tell.

While this could stir some uncertainty in the short term, we have seen this play out before. Three years ago, Sánchez called a snap election after his Socialists got trounced in local elections. It was a calculated risk, with the Socialists flagging in polls. However, he bet divisions among right-leaning parties would be big enough for his minority government to squeak through. It worked, extending his gridlocked administration.

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l "Merz Vows to Stay On After Record German Election Defeat," Arne Delfs, Michael Nienaber, and Kamil Kowalcze, Bloomberg, 9/20/2026.

li Ibid.

lii Ibid.

liii "Pressure Grows on Germany's Merz After Election Defeats," Staff, AFP, 9/21/2026.

Investors will probably get more gridlock following November's vote, given the next government will either be a multiparty coalition, a minority administration or both, as there are many small parties likely to divide parliament. This helps sand down or block radical proposals, keeping legislative risk low and freeing businesses to invest. Additionally, it quells common Spanish fears of extreme right or left governments, a source of relief. Headlines focus on personalities, but markets care about policies and can do great when there isn't much change. Spanish stocks show this, nearly doubling MSCI World Index returns since the last election. Granted, Spanish banks' strong 2025 deserves much of the credit, but they weren't the only reason. Whatever Spain's next government looks like, the probable gridlock should be bullish.

CANADA'S TWIN INDEPENDENCE MOVEMENTS STEAL HEADLINES

In Canada, long-simmering provincial independence movements in Quebec and Alberta returned to the headlines in 2026. As October dawned, a provincial election in Quebec temporarily raised uncertainty while mid-October's Alberta referendum reduced it. With that said, we think a look at the facts in both neutralize fears of the country fraying internally.

QUEBEC'S PARLIAMENTARY ELECTION

The francophone province has long had an independence streak that dates back to Britain's conquest of New France before the American Revolution. Since Canada's founding, Quebec separatism has frequently made waves, with two separate referendums on the province's relationship with Ottawa. On October 5, the secessionist Parti Québécois (PQ) won the largest share of votes in provincial elections as expected and independence vote talk swirled anew.

The modern Quebec independence movement started in the 1960s. As in many nations, this was a time of civil unrest in Quebec. There were many demonstrations seeking independence, with some culminating in violence and vandalism. Meanwhile, the political movement gained steam—and René Lévesque spearheaded formation of the PQ in 1968.

THE FIRST REFERENDUM

In the 1976 Quebec Provincial elections, PQ ran on a platform of holding a referendum changing the relationship between the province and Ottawa. This move proved popular and ushered PQ into government, winning 71 of 110 ridings (a 64.5% majority government). Initially, the PQ stood still. However, after Canada's 1979 federal election returned a minority government unpopular in Quebec, Lévesque pushed holding a May 20, 1980, vote that would push Quebec to negotiate the terms of a "Sovereign Association" with Canada. The wording:

> The Government of Québec has made public its proposal to negotiate a new agreement with the rest of Canada, based on the equality of nations; this agreement would enable Québec to acquire the exclusive power to make its laws, levy its taxes and establish relations abroad – in other words, sovereignty – and at the same time, to maintain with Canada an economic association including a common currency; no change in political status resulting from these negotiations will be effected without approval by the people through another referendum; on these terms, do you give the Government of Québec the mandate to negotiate the proposed agreement between Québec and Canada?[liv]

In the end, 59.6% of voters rejected the proposal.[lv] Yet this vote did little to fully resolve the matter, especially with many independence proponents blaming awkward wording for the measure's defeat.

liv Source: Elections Quebec, as of 10/12/2026. "Referendum on the 1980 Sovereignty-Association Proposal for Québec."

lv Ibid.

A CLOSE CALL

In 1994, another Quebec election returned the PQ to government with 77 of 125 ridings (a 61.6% majority). And key to winning was talk of holding another, clearer independence referendum. The party, led by Jacques Parizeau, was factionalized. One side sought a clean secession from Canada. The other worried over potential economic consequences and sought a softer separation that would maintain most economic links and give the province sovereignty over things like taxation and legislation. Parizeau favored a clean break, but his plan polled poorly. Ultimately, the party's commission aimed at sovereignty struck an agreement to seek a post-secession economic relationship with Ottawa and Parizeau backed down, a deal called the "June 12, 1995, agreement."

With that agreed upon, the referendum was slated for October 30, 1995, with the following text:

> Do you agree that Quebec should become sovereign after having made a formal offer to Canada for a new economic and political partnership within the scope of the bill respecting the future of Quebec and of the agreement signed on June 12, 1995?[lvi]

When the votes were tallied, a record 93.5% of registered voters turned out. And by a slim 50.6%, the voters rejected the measure.[lvii]

Since then, Quebecois independence has simmered but not come to a head. Perhaps this is partly because the PQ has sat atop only one provincial government in the 2000s, when it took a plurality of the vote in 2012. But this was a minority government with just 43% of the seats.[lviii]

THE BACKDROP NOW

Like the 2012 government, PQ's victory comes with a caveat: It holds 59 of 127 seats—46.5%.[lix] This minority government looks far from a mandate for independence. That is doubly true when one considers PQ has promised not to hold any referendum on independence until after US President Donald Trump is out of office in January 2029, tied to (in our view, overwrought) fears he would use it to influence both Canadian and Quebecois politics. The upshot: This government faces hurdles even holding a vote on independence.

ALBERTA

Alberta's independence streak is more recent but centers chiefly on economic terms. The province is home to the country's energy industry. Those in favor of independence have long chafed at environmental regulation and tax policy they consider biased against the province's output engine. Many in the province note that, given its small population and high output, it tends to send more revenue per capita to Ottawa than it receives in benefits. The early 1980s' energy price spike tied to the Iranian Revolution was a key moment: Like many nations, Canada employed misguided oil price caps. On their surface, this looked like Canada's government picking winners (oil consumers) and losers (Alberta's oil industry).

These gripes have long led about a third of Albertans to support separation from Canada. But the matter has never come to a vote before. In recent years, an environmental push under former Prime Minster Justin Trudeau seemingly motivated a petition to hold a referendum on independence. However, when Elections Alberta confirmed it had more than enough to hold a vote, a court ruled the petition was invalid—any independence move had to have the assent of First Nations groups.

lvi Ibid.
lvii Ibid.
lviii Ibid.
lix Ibid.

Alberta Premier Danielle Smith, in a move she sees as undercutting the independence movement, then pushed to add a question to a pre-scheduled October 19 vote. That question:

> Should Alberta remain a province of Canada or should the Government of Alberta commence the legal process required under the Canadian Constitution to hold a binding provincial referendum on whether or not Alberta should separate from Canada?[lx]

This wasn't truly a vote on independence, it was a vote on whether to begin the process of holding an official vote. And, when the tallies came in, "remain in Canada" trounced those seeking an independence push, taking 75.2% of the vote with high turnout.[lxi]

History tells us these movements are highly likely to persist, even when referendums vote them down. See Scottish nationalists' unending push for a second independence referendum. However, practical problems have a strong tendency to arise when push comes to shove. While many headlines lazily compare these moves to Brexit, there are huge differences to note—and one similarity. The differences: These are provinces, not national governments. They have no history of sovereignty, no currency, no historical currency and no central bank. They have not had to make their own economic policy or trade agreements. The similarity is that, like Brexit, 2000's Clarity Act requires negotiations between Ottawa and any province with a clear majority voting for independence. A vote would kick off talks that could be lengthy, punting the issue beyond the 3 – 30 month window markets weigh. This doesn't make independence moves in Quebec or Alberta impossible, but it makes the concept rather daunting and slow-moving; and one that isn't likely to deliver a clean break from Canada in the first place.

For markets, the concepts of such votes can raise uncertainty in the near term. However, in the long run, we think they should soon fade into the background — where they have lived for decades.

lx "Premier's Address to the Province," Premier Danielle Smith, 5/21/2026.

lxi Source: Elections Alberta, as of 10/20/2026.

EMERGING MARKETS **COMMENTARY**



CHINESE SANCTIONS

On August 24, US Treasury Secretary Scott Bessent announced Operation Economic Outcast, threatening expanded sanctions on those doing business with Iran. The aim: Isolating Iran economically, further imperiling the country's economy. Pundits fear this could implicate China, the biggest buyer of Iranian oil by far, and open another trade-war front—hurting stocks. But we think this overstates the likelihood and magnitude of such actions.

Treasury hasn't undertaken any direct action yet. But countries with Iranian commercial ties seem on notice. As Bessent warned: "We are giving everyone the opportunity to remedy bad behavior."[lxii] Some speculate this could lead Treasury to cut Chinese banks' access to the global US-dollar-based financial system and sever China's American trade ties. While we are monitoring the situation, these severe outcomes don't look probable to us.

lxii "US Warns of Expanded Sanctions Against Iran and Its Partners—as It Happened," Vanessa Balintec, Howard Goller, Zoe Law and Isabella Lapadula, Reuters, 8/24/2026.

First, China already conducts business with North Korea and Russia, two of the most heavily sanctioned regimes on earth. There have been few notable consequences. Why? There is little political appetite for waging economic war with China. Take the Lindsey O. Graham Sanctioning Russia Act of 2026, which Congress passed with bipartisan support and the White House signed into law September 18. It would allow the president to impose 100% duties on the five largest importers of Russian energy and countries facilitating sanctions evasion. China is the largest importer of Russian energy.[lxiii] And it allegedly facilitates Russian sanctions evasion. However, Trump struck a deal with President Vladimir Putin October 9 for Russia to supply diesel to American and world markets—waiving the Graham bill's sanctions. Sanctions can't bite if they aren't used.

Then, too, consider the last time America confronted China directly with April 2025's Liberation Day tariffs. Washington warned Beijing not to retaliate, but it did anyway. The tit-for-tat escalated rapidly past 100% tariffs. At their apex, China restricted American access to critical mineral exports US industries rely on. This threatened global economic havoc—and US politicians' reelections. America soon backed down and most tariffs were diluted, although rates remain above pre-Liberation Day levels. More than a year later, there aren't any meaningful alternatives to Chinese critical mineral supplies (though several are under development). We doubt more forceful sanctions now—inviting Chinese retaliation—would result much differently.

This outcome isn't an anomaly: Sanctions have a poor record historically. Our research shows 58% of high-profile sanctions regimes since 1935 failed to adjust the target's policy.[lxiv] 30% drove minor policy responses by the targeted nation. Only 12% succeeded outright. Notably, sanctions alone never stopped a war. This includes sanctions on Russia since 2022—and Iran since 1979. The reason: Like tariffs, sanctions often reroute trade flows. Since economic activity isn't eliminated in those cases, this diminishes sanctions' leverage over impacted regimes. And it mutes their market effects.

China is currently shipping more than ever post-Liberation Day.[lxv] It commands a quarter of the global car market.[lxvi] This is as it exports record amounts to Vietnam and Mexico, whose American exports in turn are also hitting all-time highs. Meanwhile, China is also striking major non-US free-trade deals, most recently with Switzerland, including for financial services.[lxvii] All this preemptively weakens sanctions' efficacy if implemented.

Potential financial and trade friction between the world's two largest economies is worth watching. No doubt the widespread attention weighs on sentiment. But anticipation is also mitigation. This isn't sneaking up on stocks.

TURKEY

Emerging Market Turkey is embroiled in a stock market scandal after some high-profile investment funds crashed—leading to a panic as investors rushed to cash out. The episode has political implications domestically: Turkish authorities have arrested investment firm executives, and a politician from the ruling Justice and Development Party (AKP) resigned. But the likelihood of contagion to Turkey's financial system or broader Emerging Market returns is low.

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lxiii "August 2026 – Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," Luke Wickenden, Centre for Research on Energy and Clean Air, 9/10/2026.

lxiv "The Limits of Economic Sanctions," Charles Dornbush, Fisher Investments' The Top Down, September 2026.

lxv Source: FactSet, as of 10/16/2026.

lxvi "What's Driving China's Global Dominance in Autos," Joann Muller, Axios, 8/26/2026.

lxvii "Modernization of the Switzerland-China Free Trade Agreement," Markus Schott and Oliver M. Brupbacher, Bär & Karrer, 10/14/2026.

Some background: Prior to September, a handful of Turkish funds boasted their assets under management had grown more than 20-fold since the start of 2025.[lxviii] One even claimed a 66,000%+ gain in the three years leading up to September 16. The lofty advertised returns enticed retail investors.[lxix] However, those eye-popping numbers stirred suspicion of price manipulation. Turkish regulators started reviewing in late 2025, and index providers like MSCI noted in June that international investors were complaining of "recurring instances of possible coordinated trading" by some Turkish funds.[lxx]

The funds appeared to concentrate in tiny, illiquid stocks, making it easy to inflate prices. According to some observers, they then used inflated stock as collateral to borrow short-term, which they reinvested into the same stocks. As returns garnered attention, more investors flocked to these funds. It seems great when returns are soaring, but this is a classic red flag of something amiss.

In August, Turkey's market regulator SPK released new guidelines aimed at easing investor concerns, prompting some investors to pull their money. That had a cascading effect, causing one fund to crash and default—which spilled over to similar funds. Eventually, panic spread to broader Turkish markets.[lxxi] Regulators then stepped to stem the damage, as SPK ordered the liquidation of the troubled funds and arrested several top finance executives.

The broader implications are limited, with most trouble centered on the relevant firms and smaller Turkish stocks. For perspective, the MSCI Turkey comprises just 0.4% ($48.8 billion) of the MSCI Emerging Markets Index.[lxxii] If Turkey were part of the global developed MSCI World, its weighting would be similar to Portugal's at 0.05% of the index.[lxxiii] Even within Turkey, it doesn't seem like this story is leading people to move funds out of the financial system. One research outfit reported affected Turkish investors parked most of their savings in lira deposits.[lxxiv] This, versus holding hard cash, US dollars or gold, suggests the financial system isn't seeing a run.

Borsa Istanbul, Turkey's stock exchange, has removed stocks involved in the crisis from its benchmark BIST-100 index and established new criteria for companies to be included in flagship indexes in the future. As authorities seek to bolster market stability, some analysts think the scandal will weigh on 2026 GDP growth. Perhaps. But to us, the primary implications appear to be political: Over 50 individuals have been arrested, from finance executives to a former central banker. It is worth monitoring the government's response, especially as Turkish President Recep Tayyip Erdogan appears to be positioning to run in an early election in order to sidestep constitutional term limits.[lxxv] This is all notable and stirs uncertainty somewhat. However, markets are very used to Erdogan's machinations by now. They lack surprise power.

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lxviii "How Turkey's Investment Fund Bubble Burst," Mirac Dereli and Canan Sevgili, Reuters, 10/2/2026.

lxix "How Turkey's High-Flying Investment Funds Came Crashing Down," Beril Akman, Tugce Ozsoy and Inci Ozbek, Bloomberg, 9/18/2026.

lxx "Multibillion-Dollar Stock-Market Scandal Roils Erdogan's Turkey," Jared Malsin and Chelsey Dulaney, The Wall Street Journal, 9/18/2026.

lxxi See note lxviii.

lxxii Source: FactSet, as of 9/21/2026.

lxxiii Ibid.

lxxiv "Turkish Fund Exodus Flowing Into Lira Deposits, Goldman Says," Beril Akman, Bloomberg, 9/22/2026.

lxxv "Erdogan to Sidestep Turkey's Constitutional Term Limits in Early 2028 Vote, Adviser Says," Staff, France24, 9/17/2026.

INDEX DESCRIPTIONS

MSCI ALL COUNTRY WORLD

MSCI All Country World Index is a free float-adjusted market cap-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 47 country indices comprising 23 developed and 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

MSCI WORLD

The MSCI World Index is a free float-adjusted, market cap-weighted index designed to measure the equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indexes. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

MSCI EMERGING MARKETS

MSCI Emerging Markets Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

S&P 500

The S&P 500 Index measures performance of 500 primarily large cap US stocks and includes a representative sample of leading companies in leading industries as determined by Standard and Poor's. Returns are presented inclusive of dividends.

MSCI WORLD EX USA

The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries, excluding the United States. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.

MSCI JAPAN

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 167 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

Should you have any questions about any of the information in the Third Quarter 2026 Review and Outlook, please contact us at +1 (800) 851-8845 or FisherInstitutional@fi.com.

Investing in securities involves a risk of loss. Past performance is never a guarantee of future returns. Investing in foreign stock markets involves additional risks, such as the risk of currency fluctuations. Nothing herein is intended to be a recommendation or a forecast of market conditions. Rather it is intended to illustrate a point. Current and future markets may differ significantly from those illustrated herein. Not all past forecasts were, nor future forecasts may be, as accurate as those predicted herein.

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