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# MARKET OUTLOOK

## FOURTH QUARTER 2026

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# MARKET AND ECONOMIC OVERVIEW

- The third quarter of 2026 was characterized by resilient economic growth, solid corporate earnings, and generally positive equity markets, even as persistent inflation and higher interest rates created a more challenging backdrop. The labor market remained resilient, capital investment was robust, and enthusiasm surrounding artificial intelligence continued to support investment and market sentiment. At the same time, renewed inflation pressures pushed the Federal Reserve back toward tighter monetary policy, while rising Treasury yields and geopolitical uncertainty contributed to greater dispersion across markets. The result was an environment where economic fundamentals remained constructive, but the path forward for both monetary policy and financial markets became increasingly complex.

- U.S. equities posted mixed results during the quarter as strong earnings growth helped offset pressure from rising interest rates. The S&P 500 gained 2.3%, supported by continued strength in large-cap technology and AI-related companies, although increased volatility surrounding the AI theme in August served as a reminder of the risks associated with elevated expectations. Meanwhile, the Russell 2000 fell 7.2%, as higher borrowing costs and rising interest rates weighed more heavily on smaller companies. Strong corporate earnings continued to be the primary driver of equity returns with earnings power overwhelming the impact of valuation pressure from rising interest rates. International developed markets posted modest gains and emerging markets were slightly negative during the quarter, but strong year-to-date returns across international equities have reinforced the benefits of maintaining global diversification alongside U.S. equities.

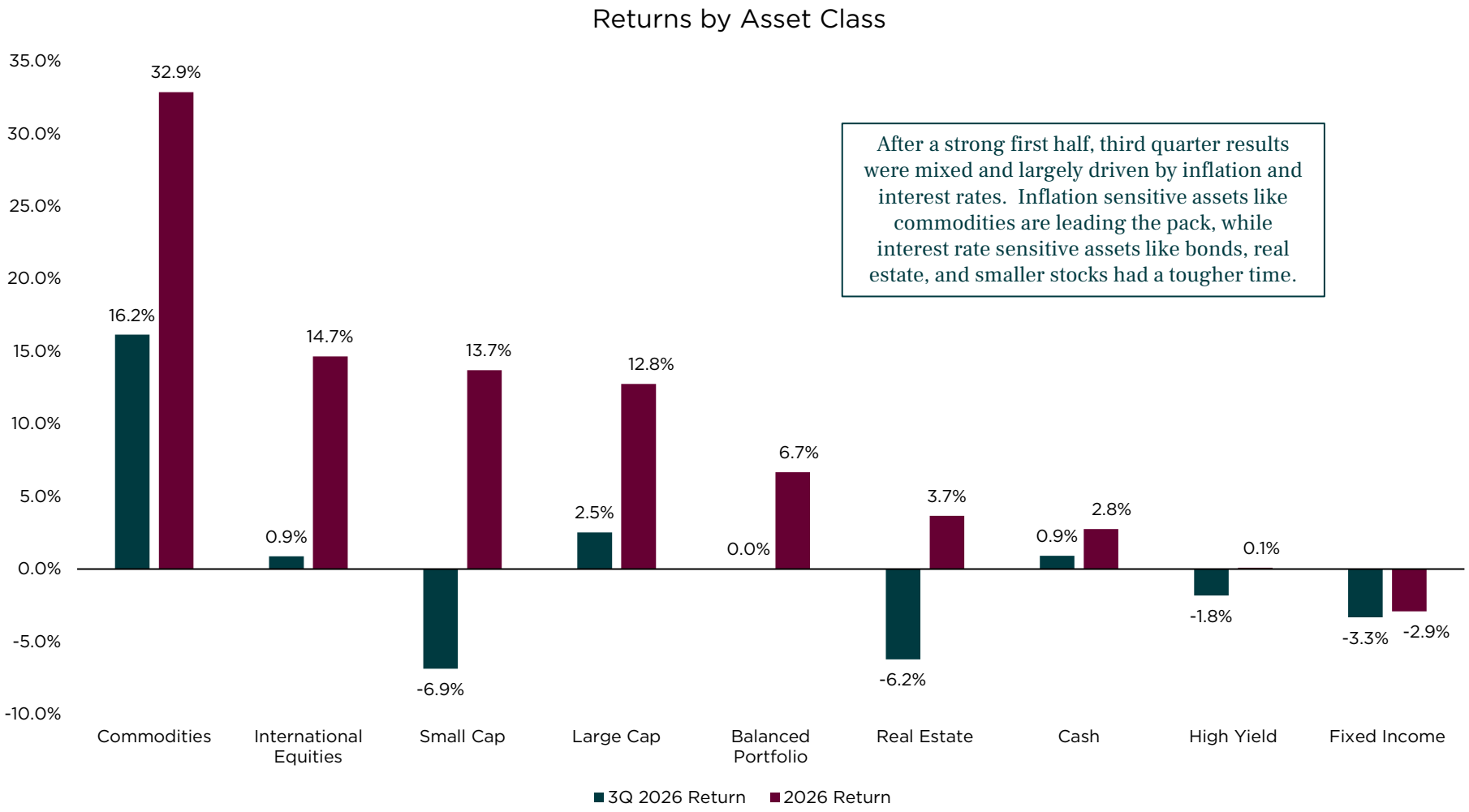
- The economy continued to outperform expectations during the quarter. Consumer spending remained resilient, productivity growth was strong, and capital investment remained robust. The Federal Reserve's September projections reflected that strength, raising expected 2026 real GDP growth to 2.3% while lowering its projected year-end unemployment rate to 4.1%. Despite tighter financial conditions, the underlying economy continued to demonstrate an ability to absorb higher interest rates without a meaningful deterioration in activity.

- That economic resilience complicated the inflation and interest-rate outlook. Inflation remained above the Federal Reserve's target, while higher oil prices added to concerns that price pressures could remain persistent. The Fed projected 2026 PCE inflation of 3.7% and core PCE inflation of 3.4%, and in September raised the federal funds target range by 25 basis points to 3.75%-4.00%. Higher Treasury yields weighed on bond prices during the quarter, although the increase in yields also improved the income and long-term return potential available to fixed income investors.

- As we enter the final quarter of 2026, the economic backdrop remains stronger than many investors expected, but the investment environment has become more complicated. Resilient growth and continued earnings growth provide fundamental support for equities, while higher yields have improved opportunities in fixed income. At the same time, persistent inflation, tighter monetary policy, elevated long-term rates, and narrower equity leadership warrant some caution. We believe these crosscurrents reinforce the benefits of diversification and a disciplined focus on quality investing.

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# THIRD QUARTER RETURNS MIXED, BUT A STRONG YEAR FOR STOCKS



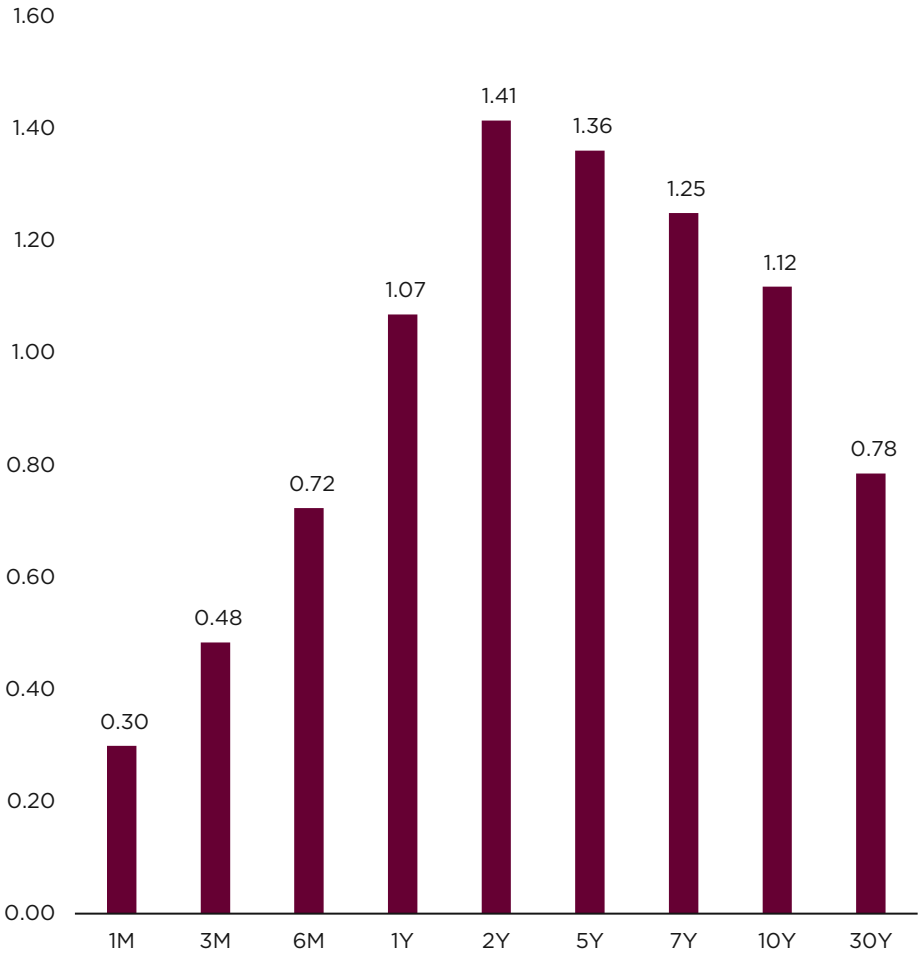

NOTE: LARGE CAP = S&P 500; SMALL CAP = RUSSELL 2000; INTERNATIONAL EQUITIES = MSCI ACWI EX US; HIGH YIELD = BLOOMBERG US HIGH YIELD; FIXED INCOME = BLOOMBERG US AGGREGATE; REAL ESTATE = DOW JONES US REAL ESTATE; CASH = BLOOMBERG 1-3 MO. T-BILL; COMMODITIES = BLOOMBERG COMMODITIES INDEX; BALANCED PORTFOLIO = 50% S&P 500, 10% MSCI ACWI EX US, 40% BLOOMBERG US AGGREGATE; COMMODITIES = BLOOMBERG COMMODITY INDEX.

SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

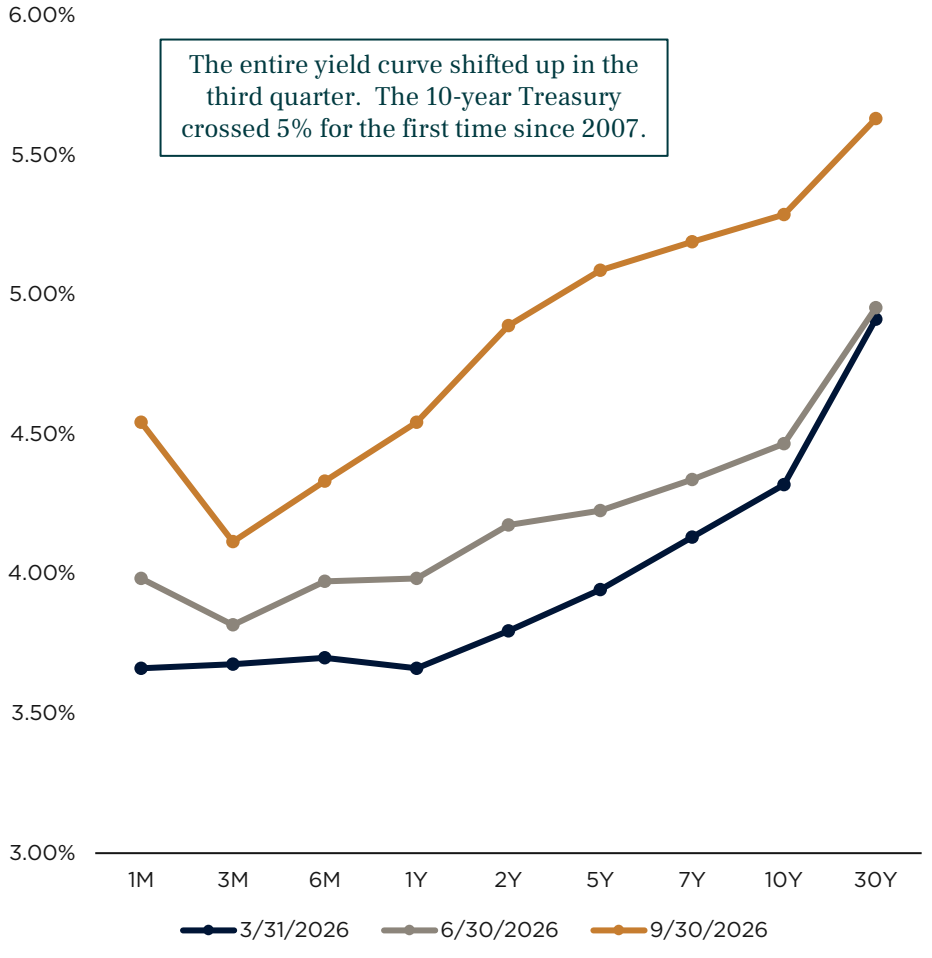
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# INTEREST RATES WERE THE STORY OF THE THIRD QUARTER

## Year-To-Date Yield Curve Change (%)



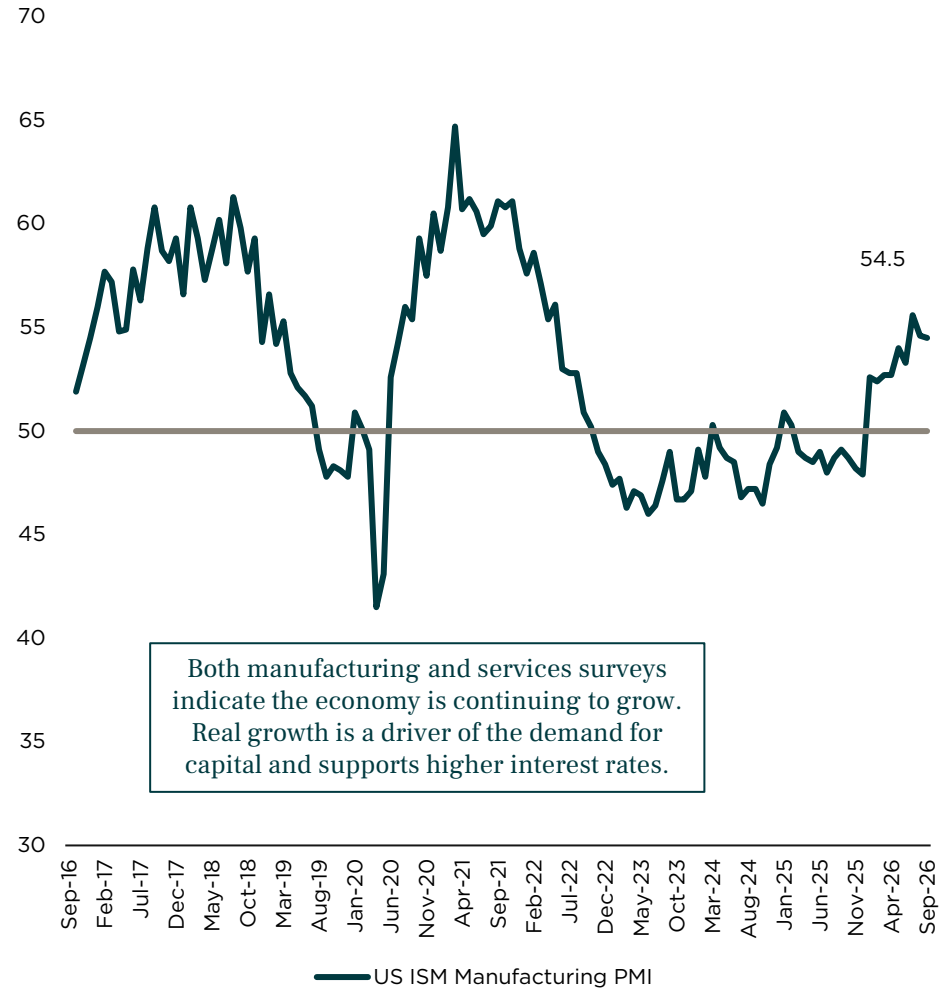

## U.S. Treasury Yield Curve




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

# ECONOMIC GROWTH REMAINS STRONG

## US Manufacturing PMI




Both manufacturing and services surveys indicate the economy is continuing to grow. Real growth is a driver of the demand for capital and supports higher interest rates.

## US Services PMI

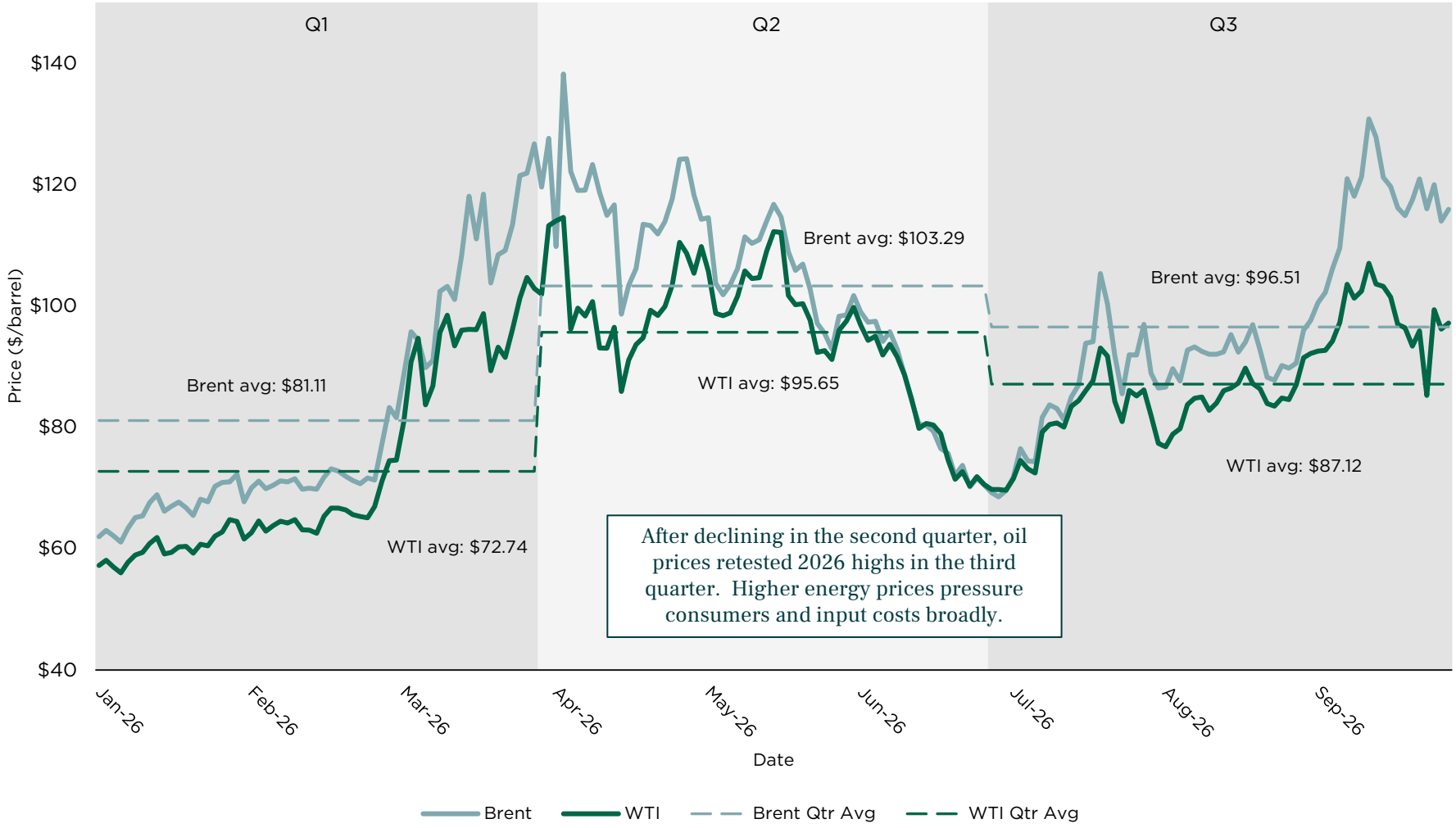



SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

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# OIL PRICES REINFLATED AS GEOPOLITICAL CONCERNS CONTINUED

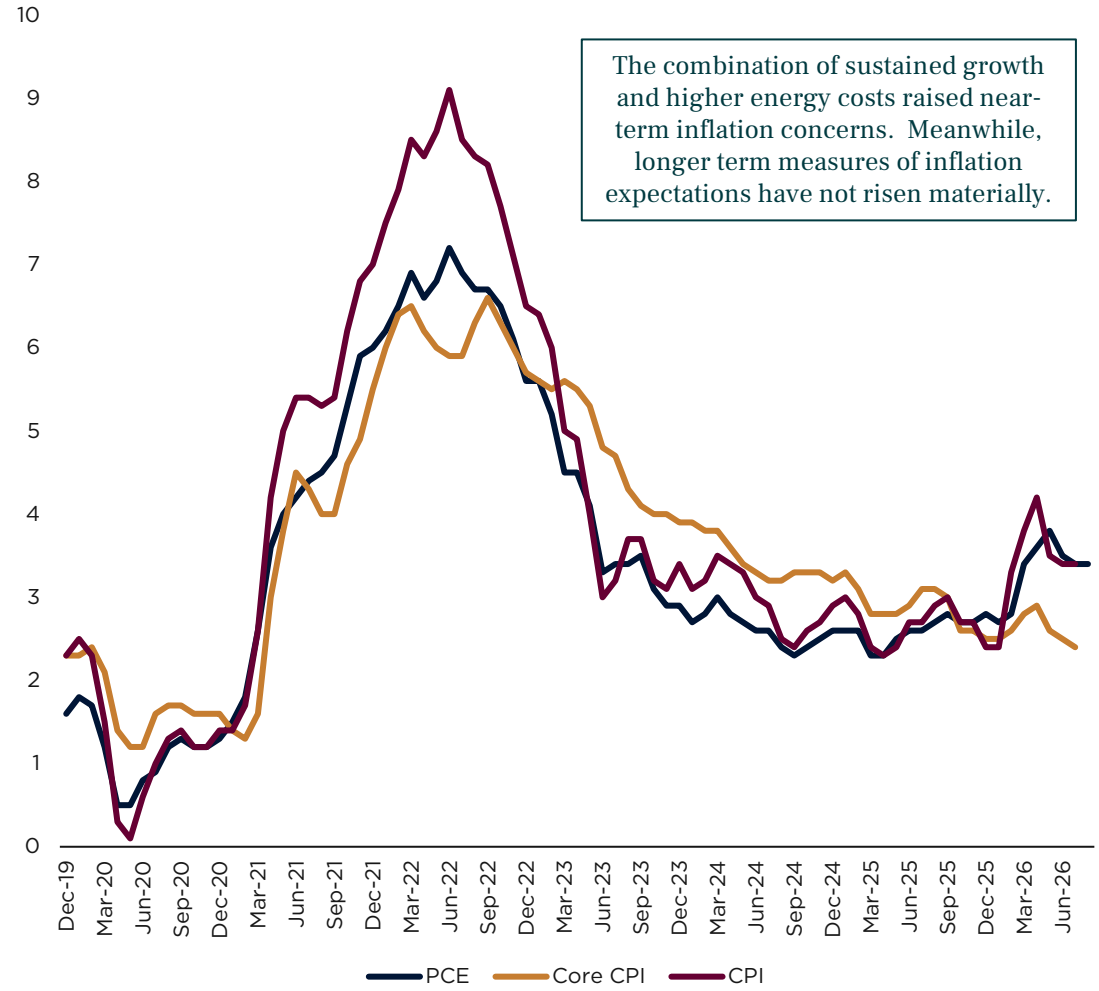
Oil Prices by Quarter: Brent vs. WTI




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

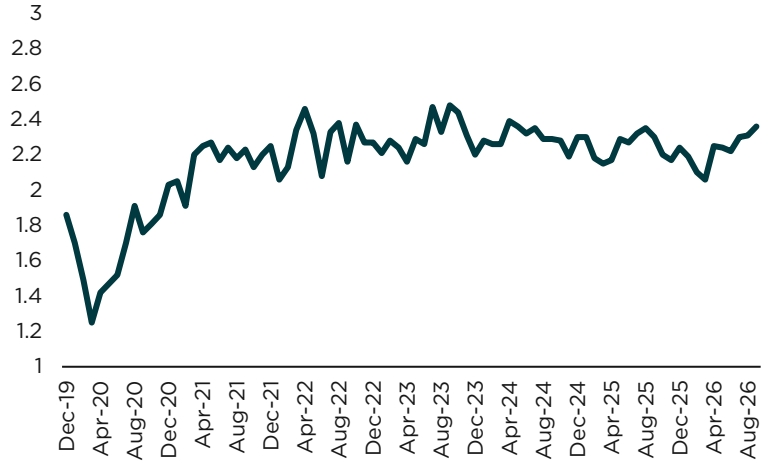
# INFLATION EXPECTATIONS MOVED HIGHER

## Inflation Year-Over-Year (%)

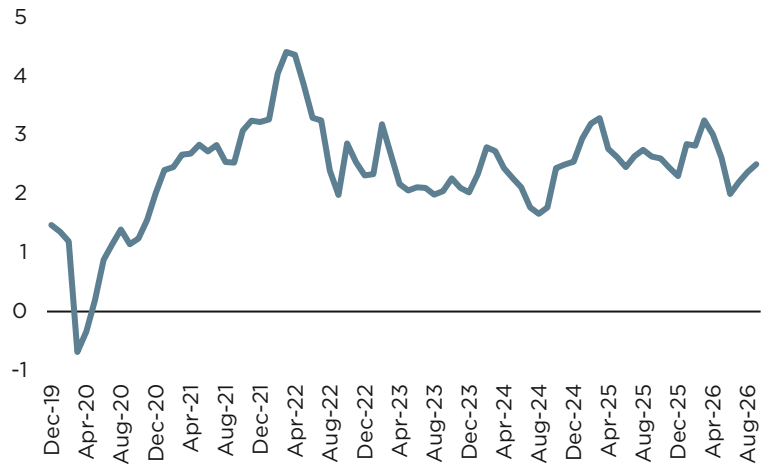



The combination of sustained growth and higher energy costs raised near-term inflation concerns. Meanwhile, longer term measures of inflation expectations have not risen materially.

## 5-Year, 5-Year Forward Inflation Estimate (%)

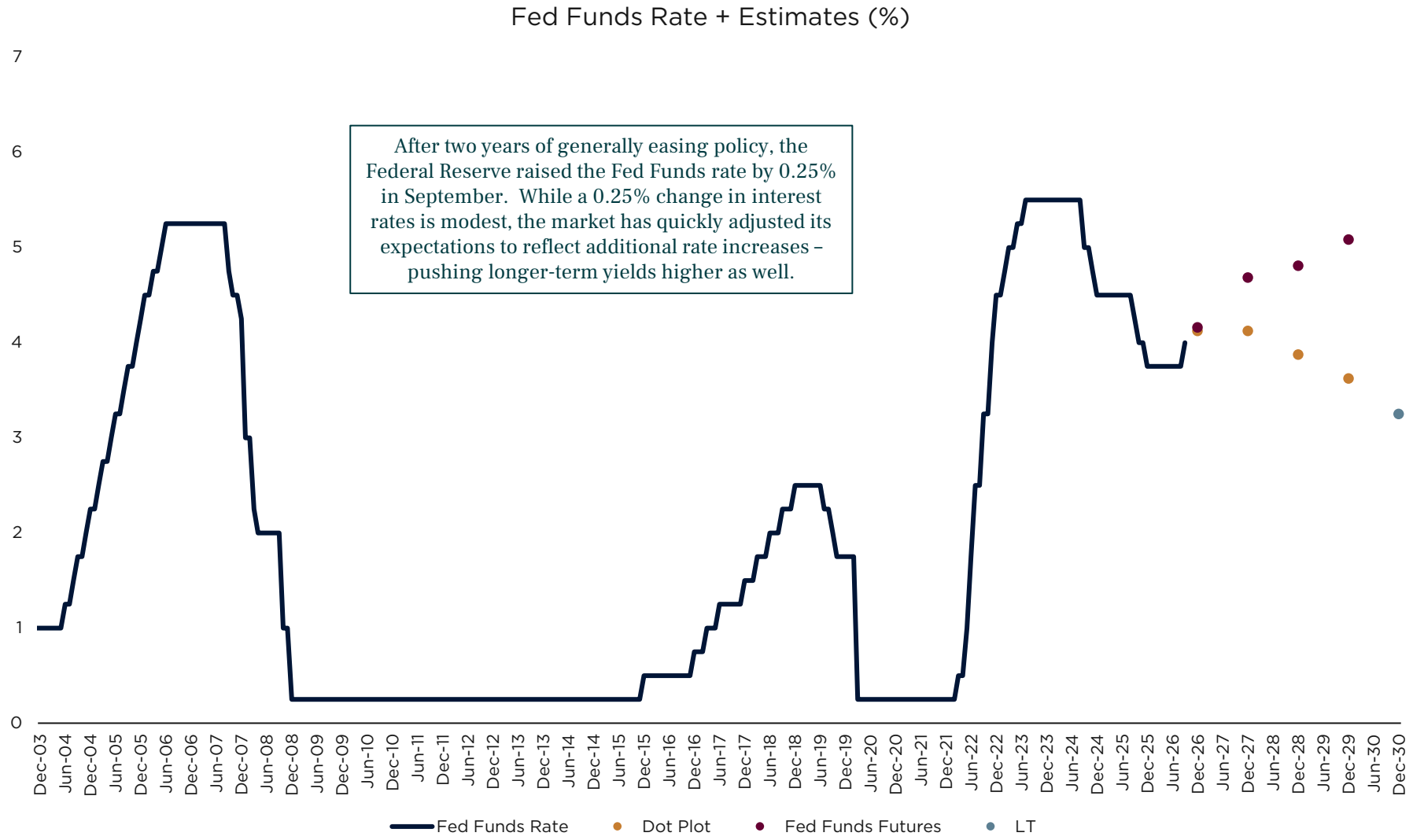



## 2-Year Inflation Breakeven Measure (%)




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

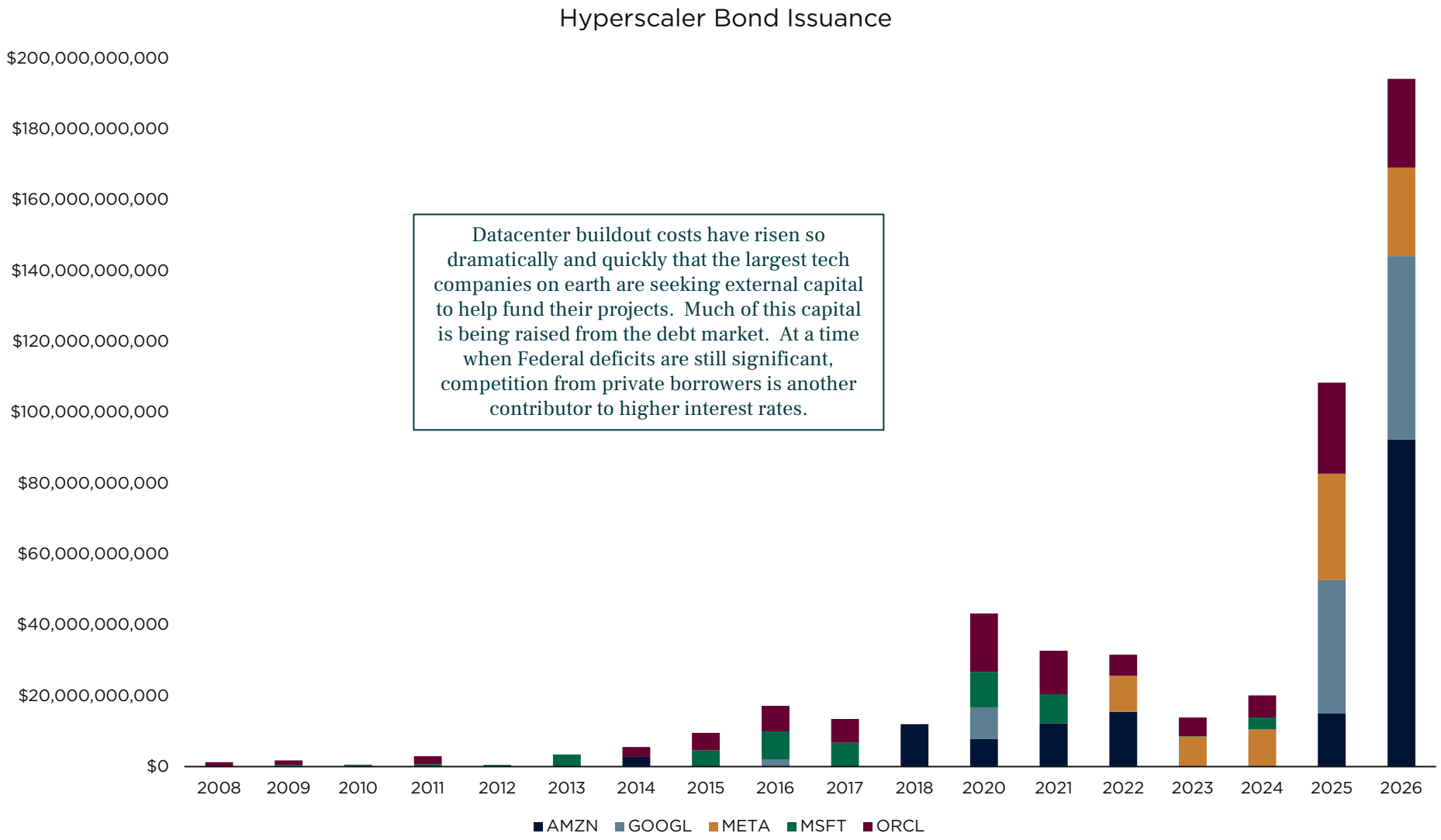
# THE FEDERAL RESERVE PIVOTED




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

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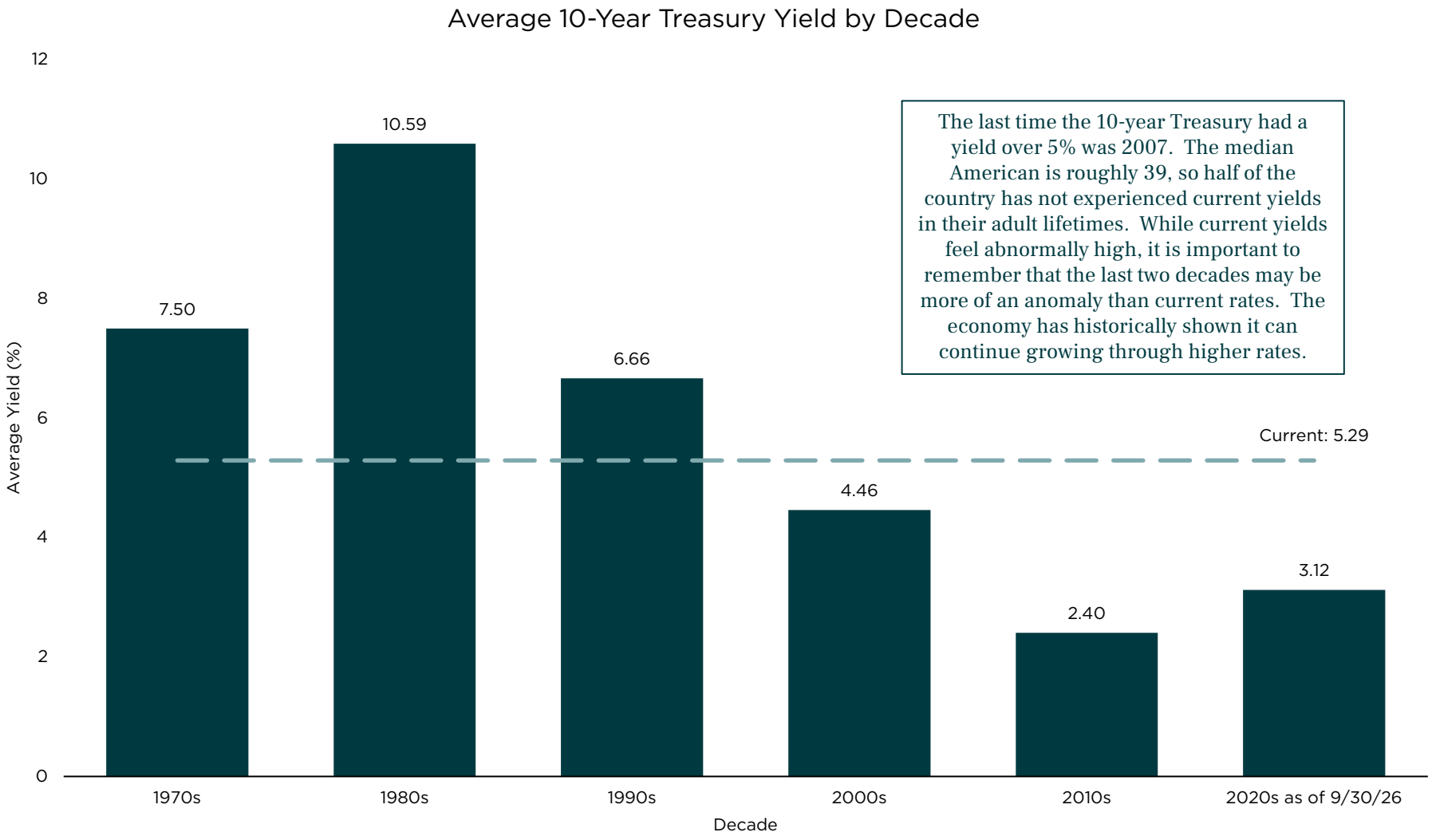
# AI SPENDING: THE NEED FOR CAPITAL IS INCREASING




Datacenter buildout costs have risen so dramatically and quickly that the largest tech companies on earth are seeking external capital to help fund their projects. Much of this capital is being raised from the debt market. At a time when Federal deficits are still significant, competition from private borrowers is another contributor to higher interest rates.

SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG, DATA AS OF 6/30/2026

# THE MARKETS HAVE GROWN ACCUSTOMED TO LOWER RATES

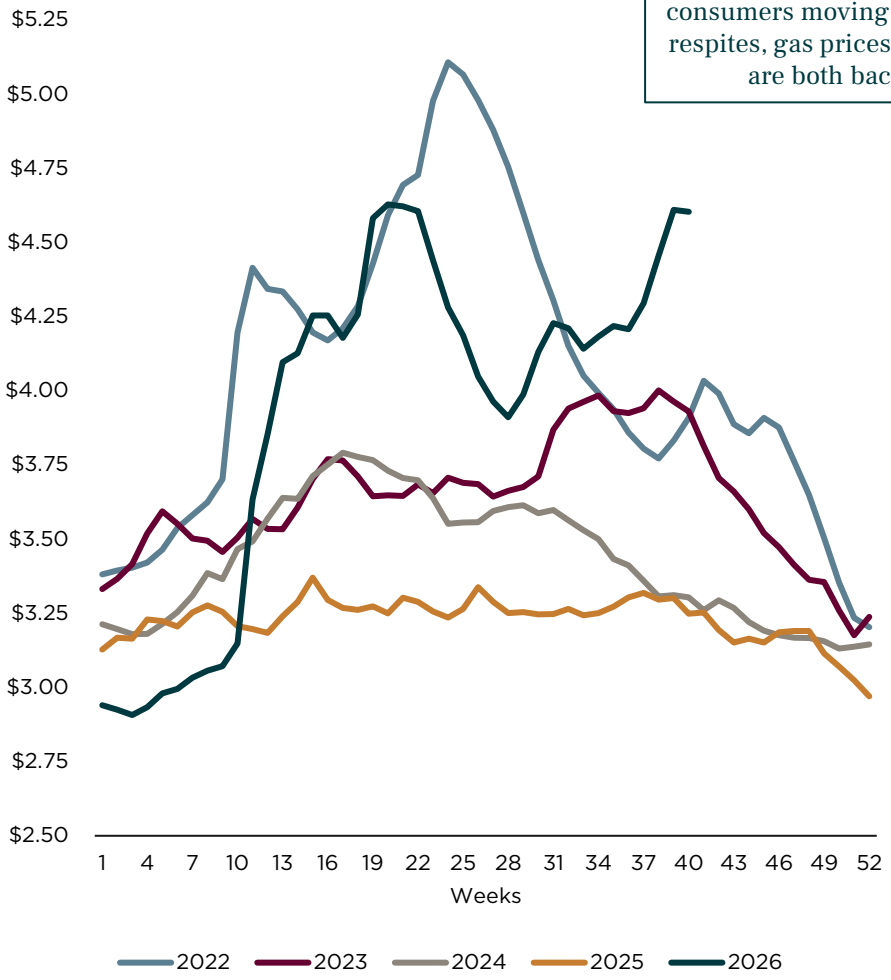



SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

# HIGHER PRICES AND RATES ARE A HEADWIND FOR CONSUMERS

The combination of higher prices and higher rates are likely to weigh on consumers moving forward. After brief respites, gas prices and mortgage rates are both back near highs.

## Retail Gas Prices



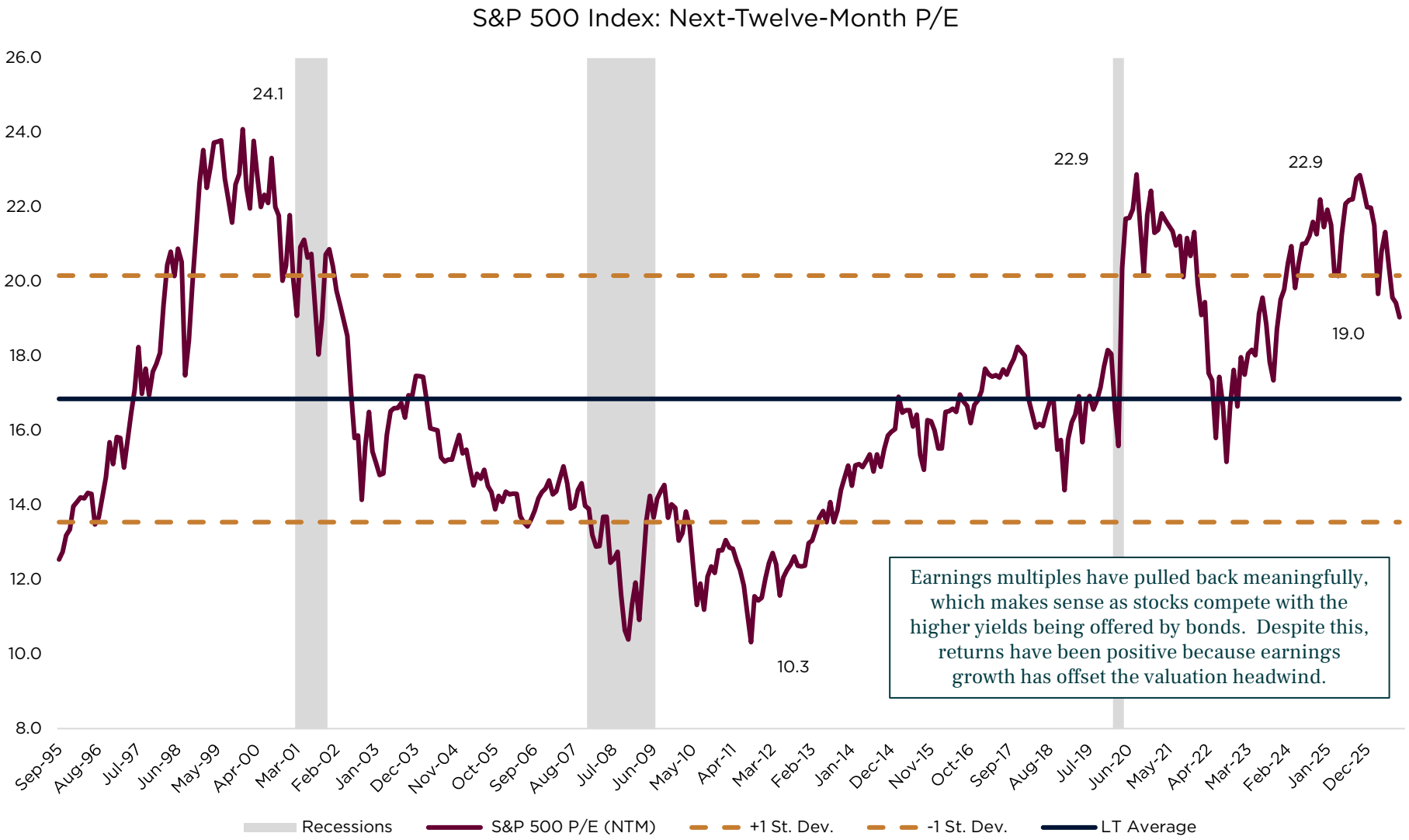

## 30 Year Mortgage Rate




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

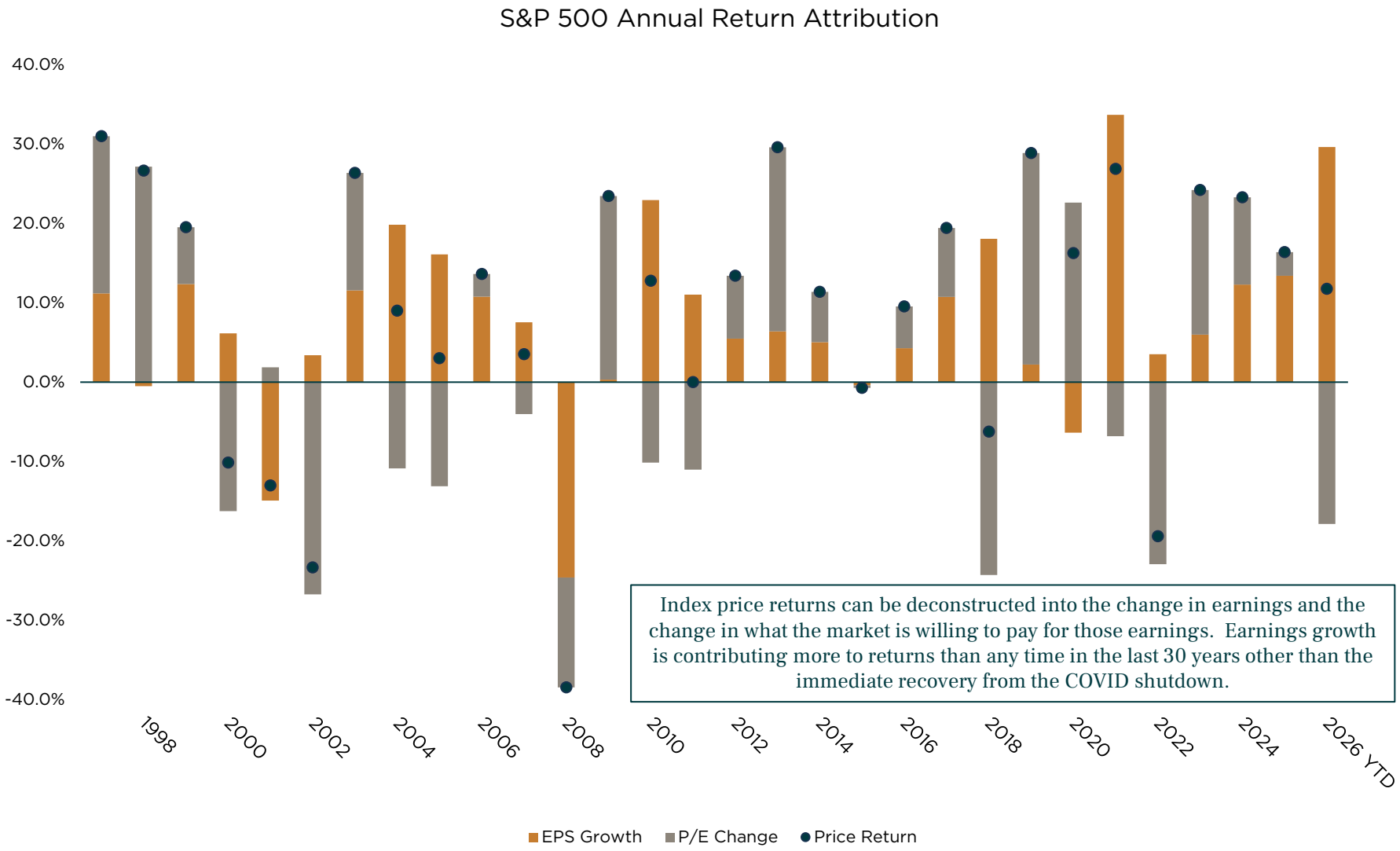
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# LARGE CAP VALUATIONS CHEAPER DESPITE POSITIVE RETURNS




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

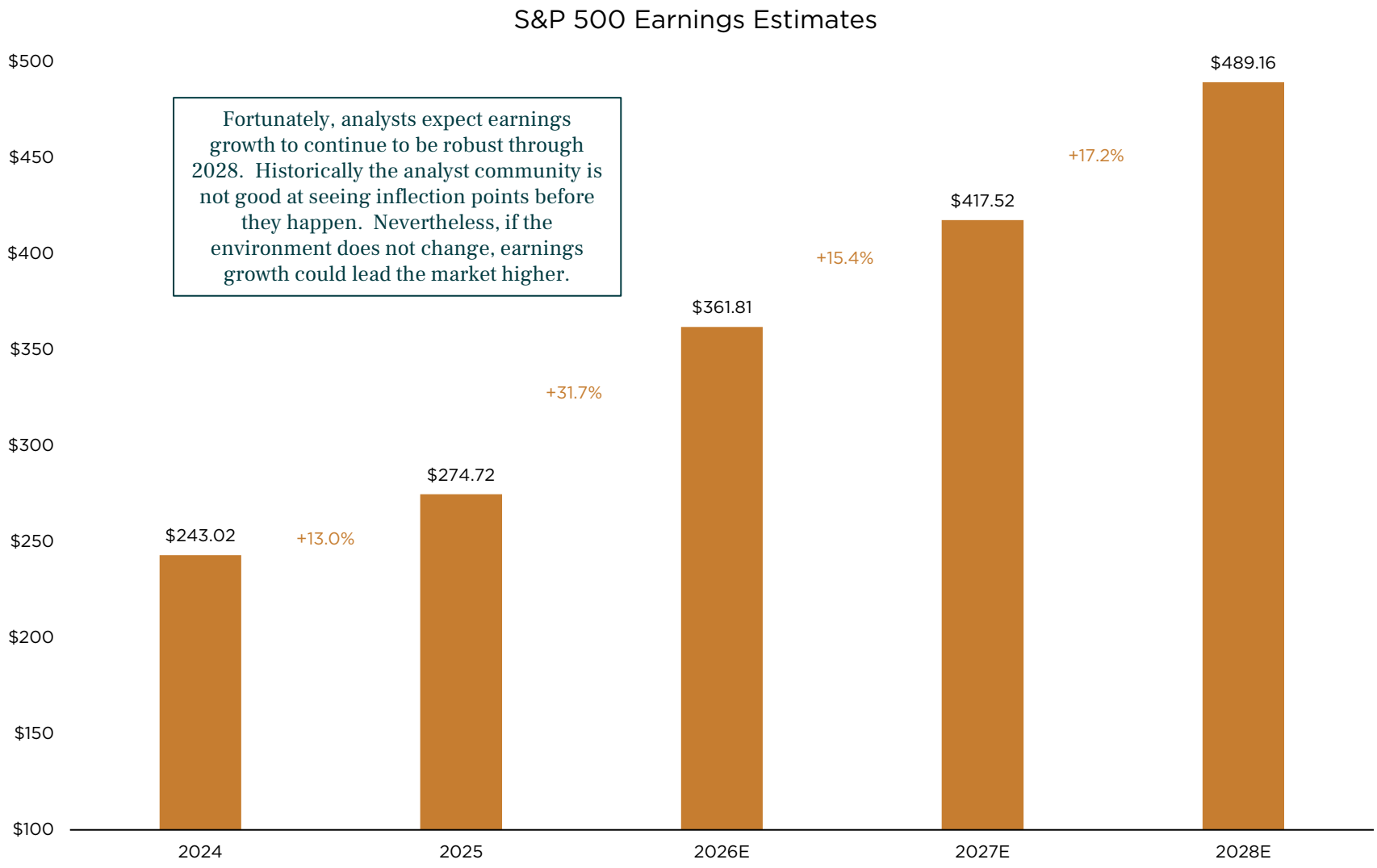
# EARNINGS CONTRIBUTION TO RETURNS HISTORICALLY HIGH




SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

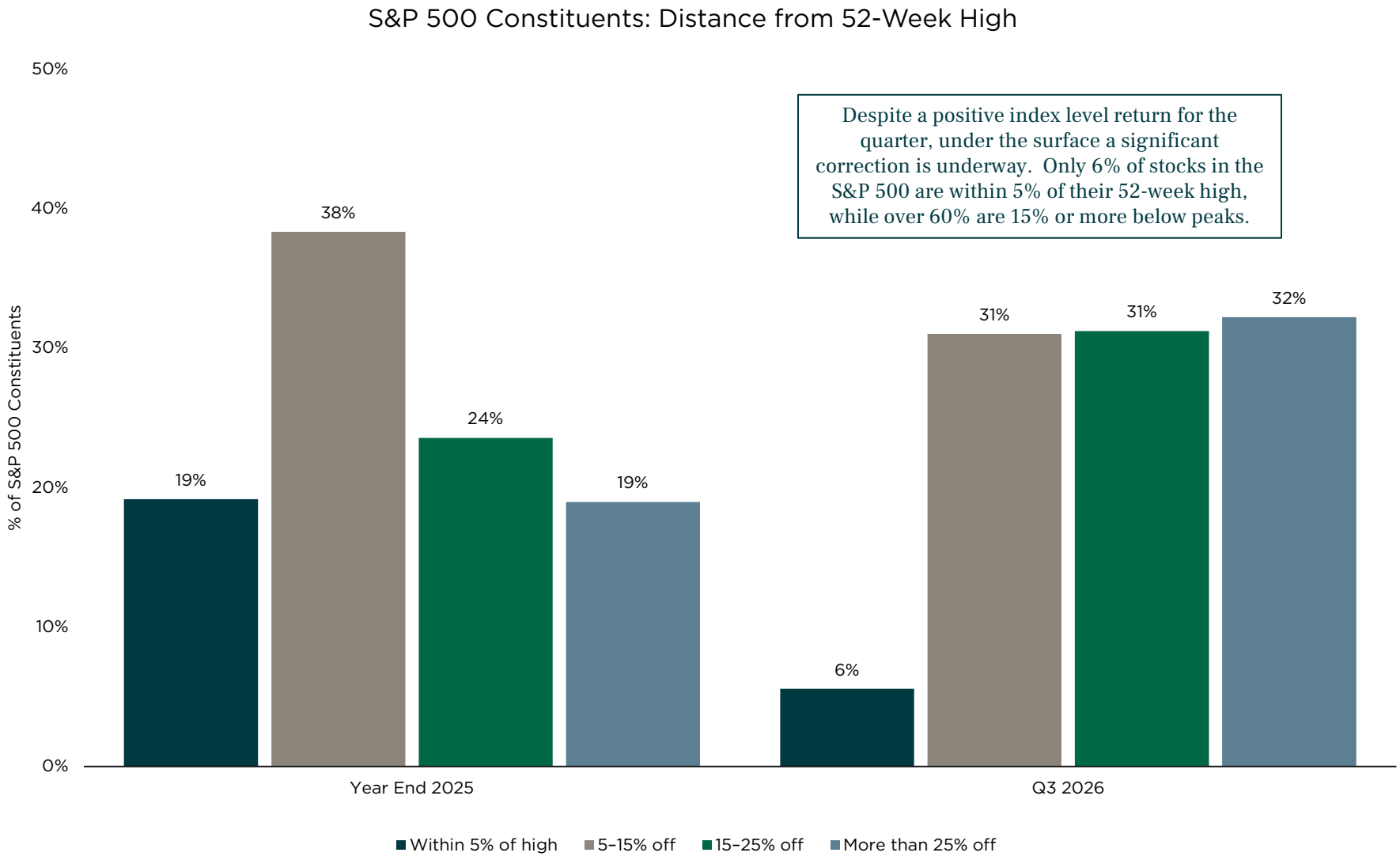
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# CONSENSUS ESTIMATES ANTICIPATE CONTINUED EARNINGS GROWTH



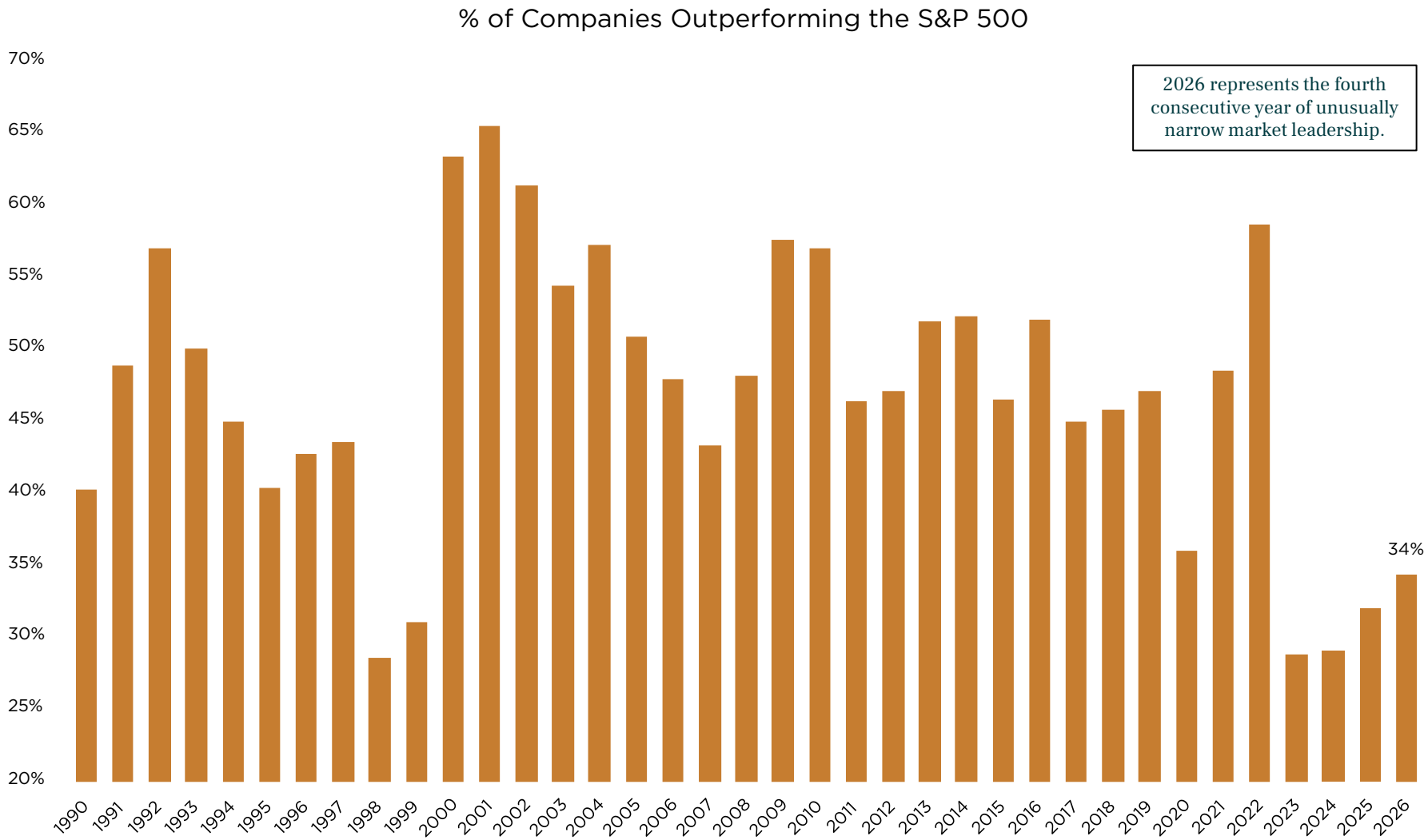

SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026

# VERY FEW STOCKS NEAR HIGHS




SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026

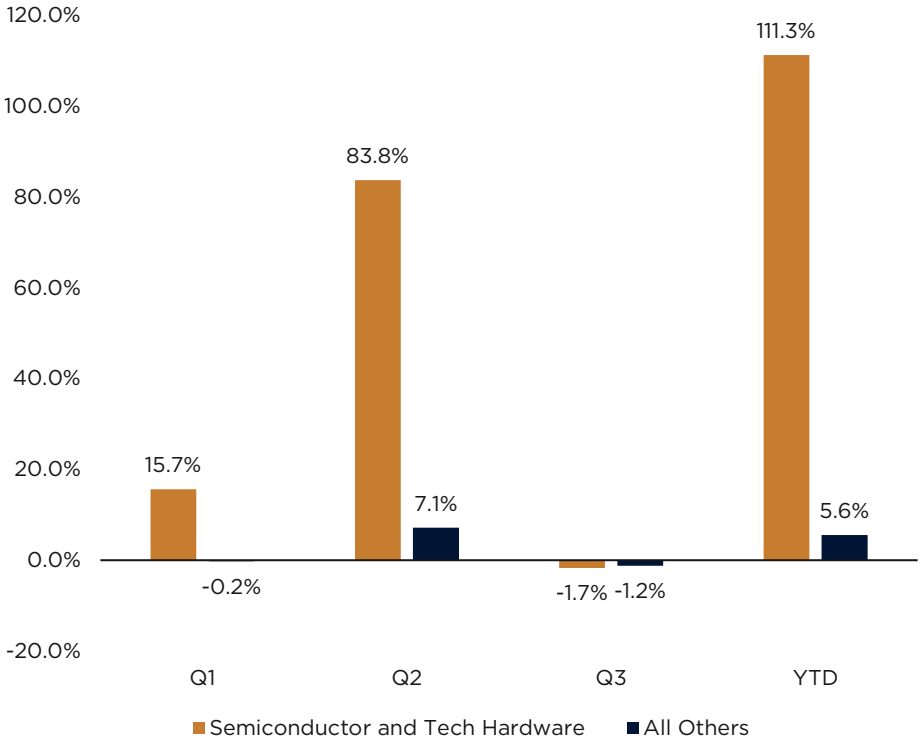
# MARKETS REMAIN HISTORICALLY NARROW



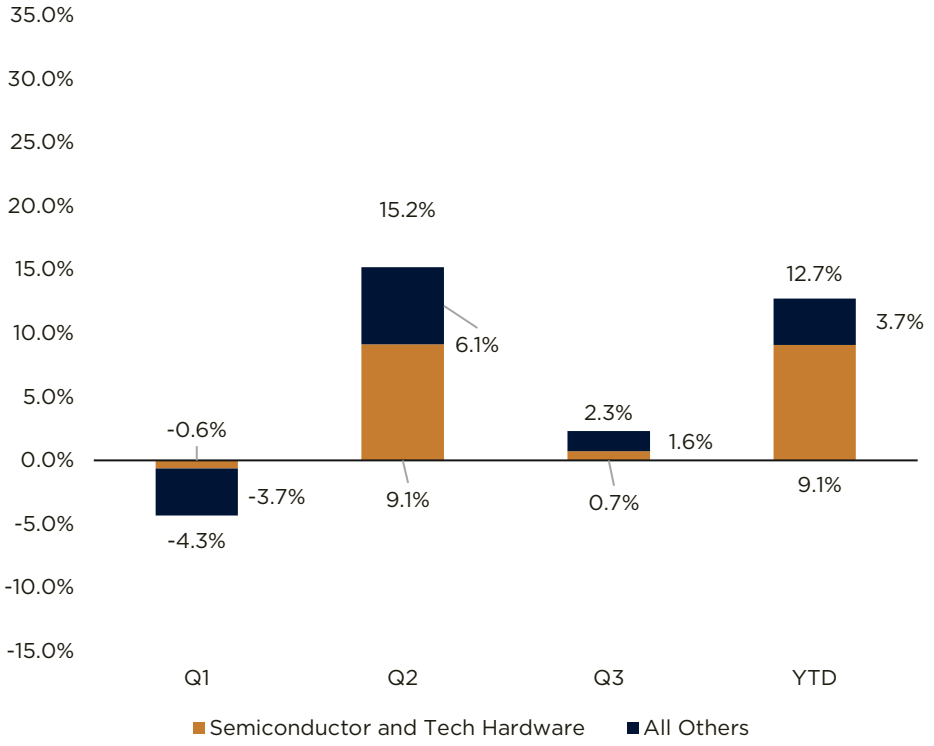

SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026

# CYCLICAL TECHNOLOGY DRIVING 2026 GAINS

## Average S&P 500 Stock Returns




## S&P 500 Return Contribution

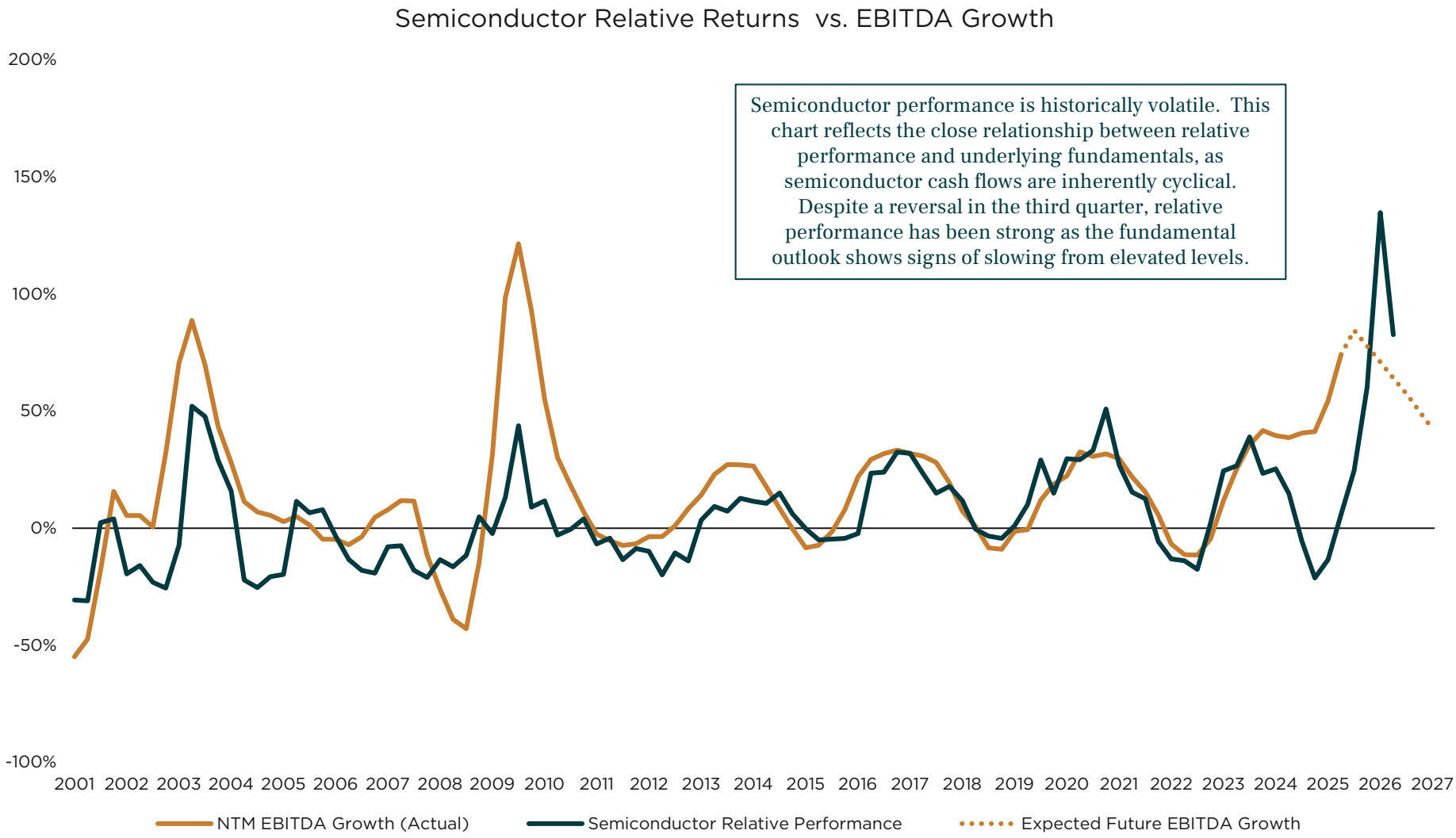



Markets have been driven primarily by semiconductor and technology hardware stocks. The average stock in these industries is up over 100% year-to-date versus roughly 6% for the rest of the market. Of the S&P 500's 12.7% return through September, 9.1% has come from semiconductors and tech hardware.

SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026

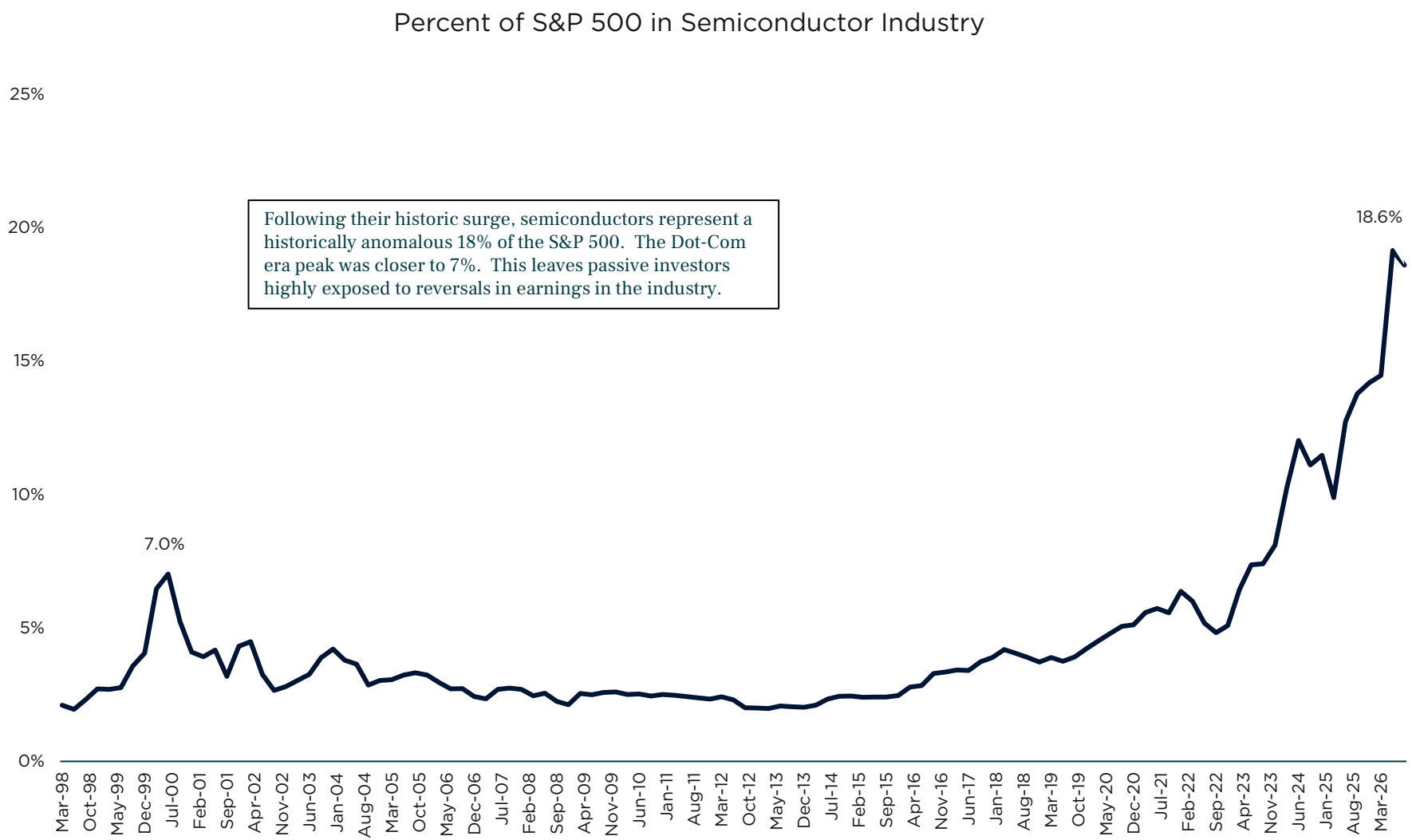
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# DESPITE TURBULENCE, SEMICONDUCTORS STILL AT HISTORIC LEVELS




SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026

# SEMICONDUCTOR VOLATILITY WOULD BE HARD ON THE MARKET

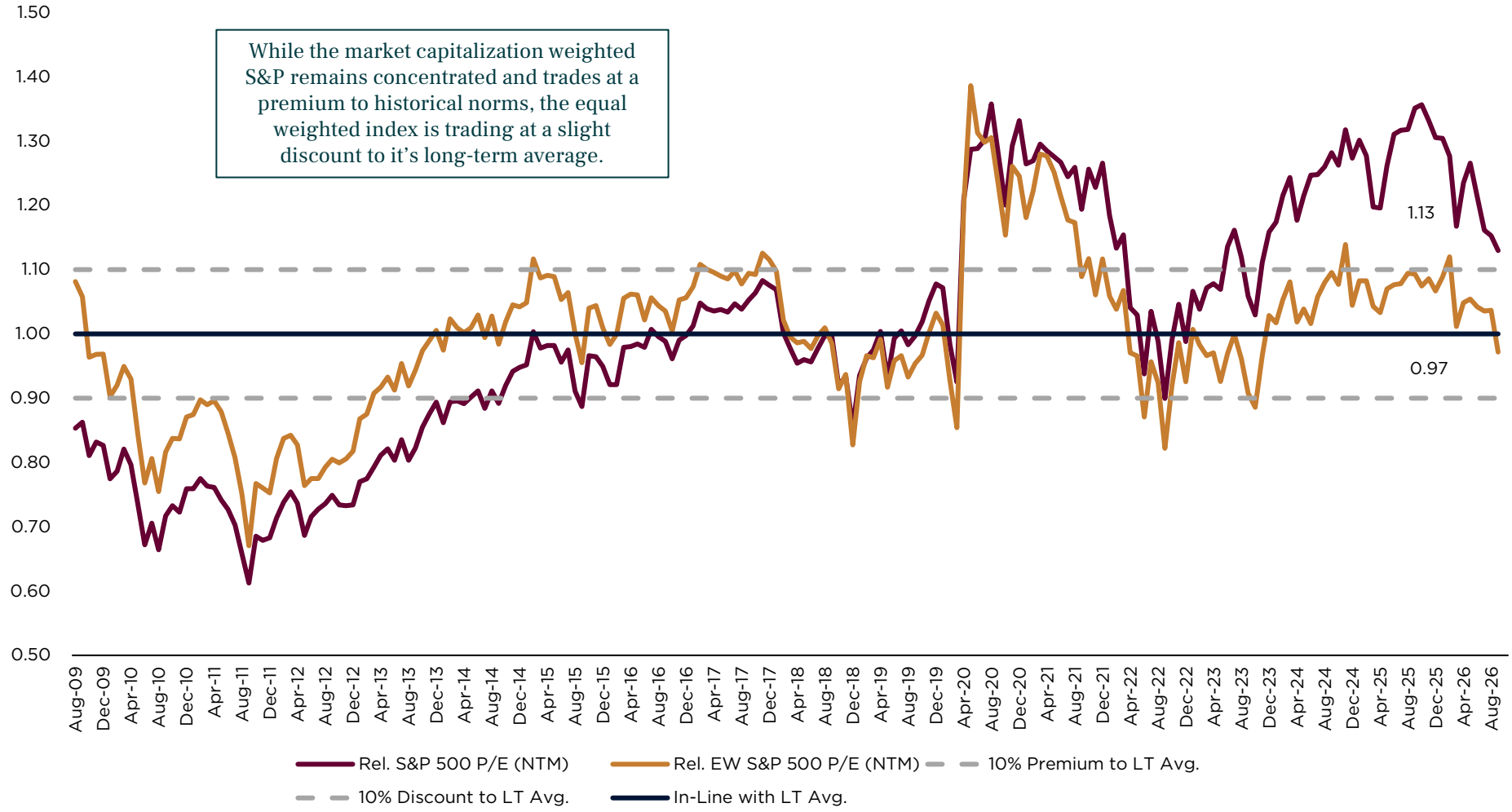



SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026

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# MULTIPLE CORRECTIONS CREATING OPPORTUNITIES

## Cap Weighted and Equal Weighted S&P 500 Index: Relative NTM P/E Ratio to Long-Term Average

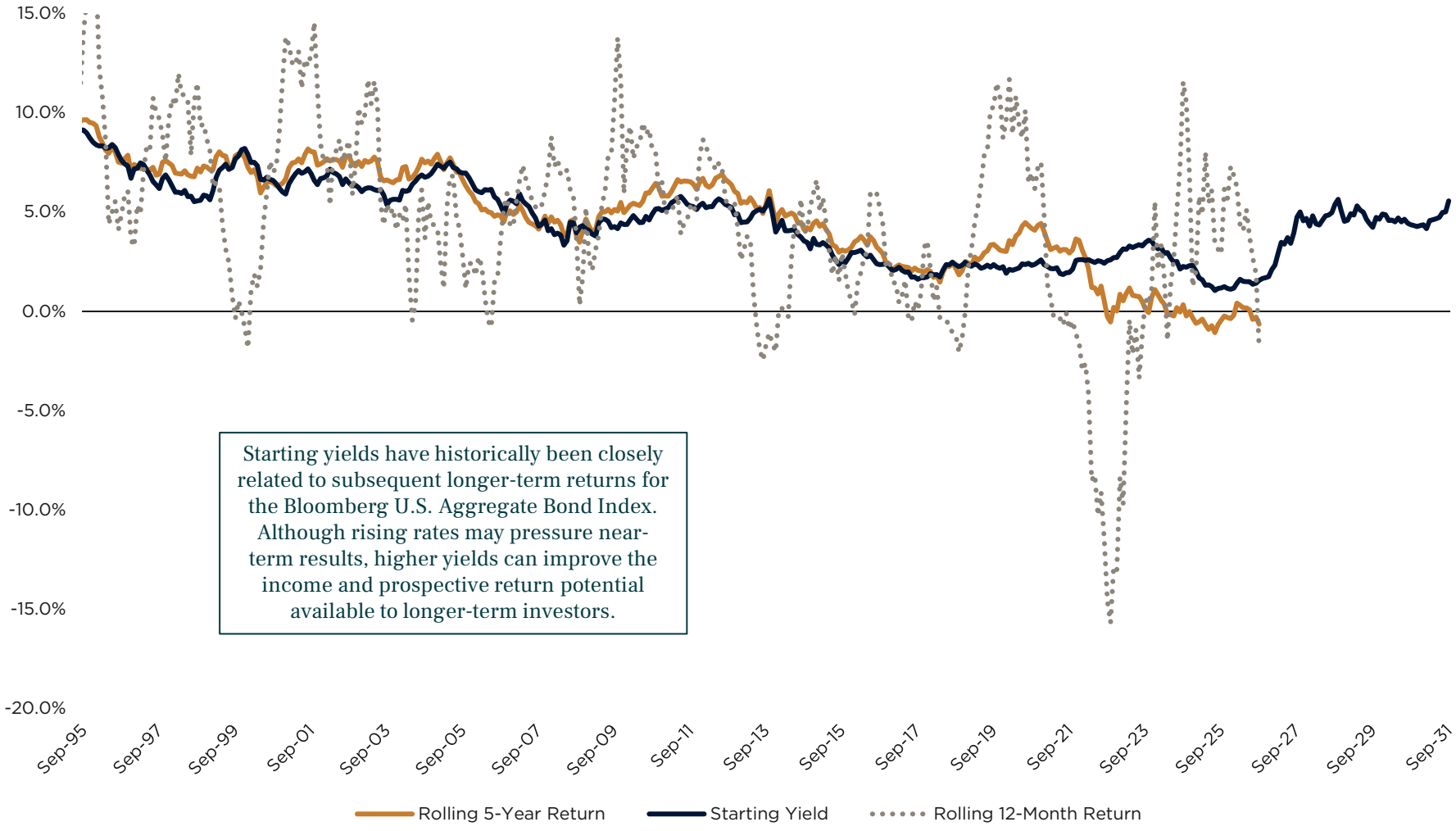



SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, FACTSET AS OF 9/30/2026

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# HIGHER YIELDS MEAN HIGHER PROSPECTIVE RETURNS FOR BONDS

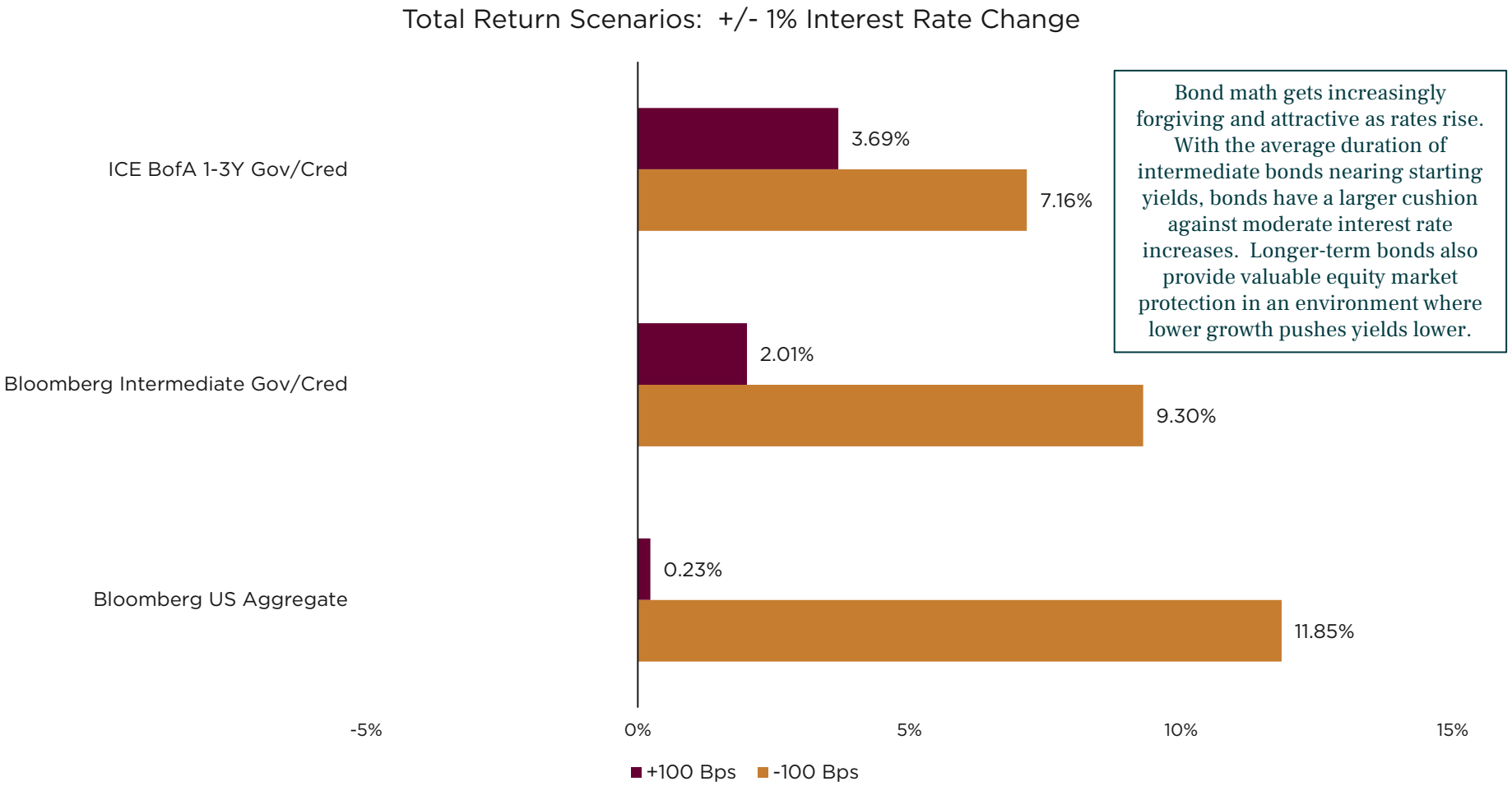
## Starting Yield & Total Returns - Bloomberg U.S. Aggregate Index




Starting yields have historically been closely related to subsequent longer-term returns for the Bloomberg U.S. Aggregate Bond Index. Although rising rates may pressure near-term results, higher yields can improve the income and prospective return potential available to longer-term investors.

SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

# HIGHER FIXED INCOME MEANS MORE RESILIENT RETURNS



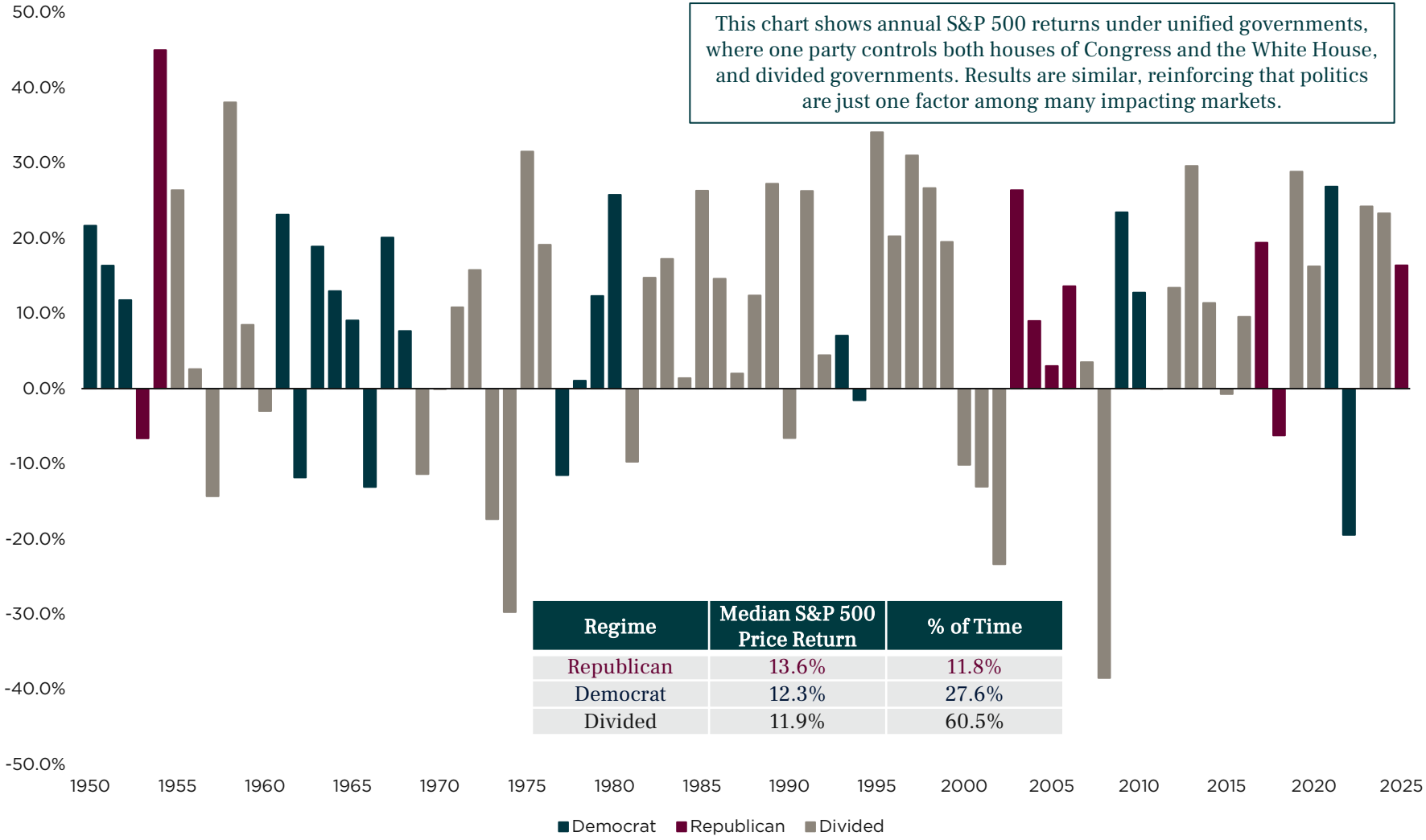

Bond math gets increasingly forgiving and attractive as rates rise. With the average duration of intermediate bonds nearing starting yields, bonds have a larger cushion against moderate interest rate increases. Longer-term bonds also provide valuable equity market protection in an environment where lower growth pushes yields lower.

NOTE: RETURN ESTIMATES ARE BASED SOLELY ON CHANGES IN THE LEVEL OF INTEREST RATES ASSUMING A PARALLEL SHIFT IN THE YIELD CURVE WITH NO ADDITIONAL ASSUMPTIONS MADE ABOUT MARKET CONDITIONS. ACTUAL RESULTS COULD DIFFER MATERIALLY BASED ON THE SIZE AND SHAPE OF THE RATE MOVE, CHANGES IN CREDIT SPREADS, THE HOLDING PERIOD, TRANSACTION COSTS, AND OTHER MARKET CONDITIONS.

SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

# MARKET RETURNS LOOK SIMILAR ACROSS ALL POLITICAL REGIMES

This chart shows annual S&P 500 returns under unified governments, where one party controls both houses of Congress and the White House, and divided governments. Results are similar, reinforcing that politics are just one factor among many impacting markets.




| Regime | Median S&P 500 Price Return | % of Time |
|---|---|---|
| Republican | 13.6% | 11.8% |
| Democrat | 12.3% | 27.6% |
| Divided | 11.9% | 60.5% |

NOTE: DEMOCRAT REFERS TO DEMOCRAT CONTROL (PRESIDENT + CONGRESS), REPUBLICAN REFERS TO REPUBLICAN CONTROL (PRESIDENT + CONGRESS).
SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

# POLITICALLY DRIVEN INVESTMENT STRATEGIES HAVE A POOR RECORD

| Hypothetical Annualized Returns of Equity + Fixed Income Portfolio | | | | |
|---|---|---|---|---|
| Party in Office | Years in Office | "Pessimistic" Party | 60/40 Portfolio | "Pessimistic" Party Excess Returns |
| Republican | 1974-1977 | 18.98% | 19.53% | -0.55% |
| Democrat | 1977-1981 | 8.60% | 8.95% | -0.35% |
| Republican | 1981-1993 | 13.52% | 13.66% | -0.13% |
| Democrat | 1993-2001 | 13.22% | 13.72% | -0.49% |
| Republican | 2001-2009 | 1.49% | 1.06% | 0.43% |
| Democrat | 2009-2017 | 10.36% | 10.87% | -0.51% |
| Republican | 2017-2021 | 11.11% | 11.69% | -0.58% |
| Democrat | 2021-2025 | 7.91% | 8.58% | -0.67% |
| Republican | 2025-Present | 11.24% | 11.96% | -0.72% |
| | | | **Average** | **-0.40%** |
| | | | **Average ex. 2001-2009** | **-0.50%** |

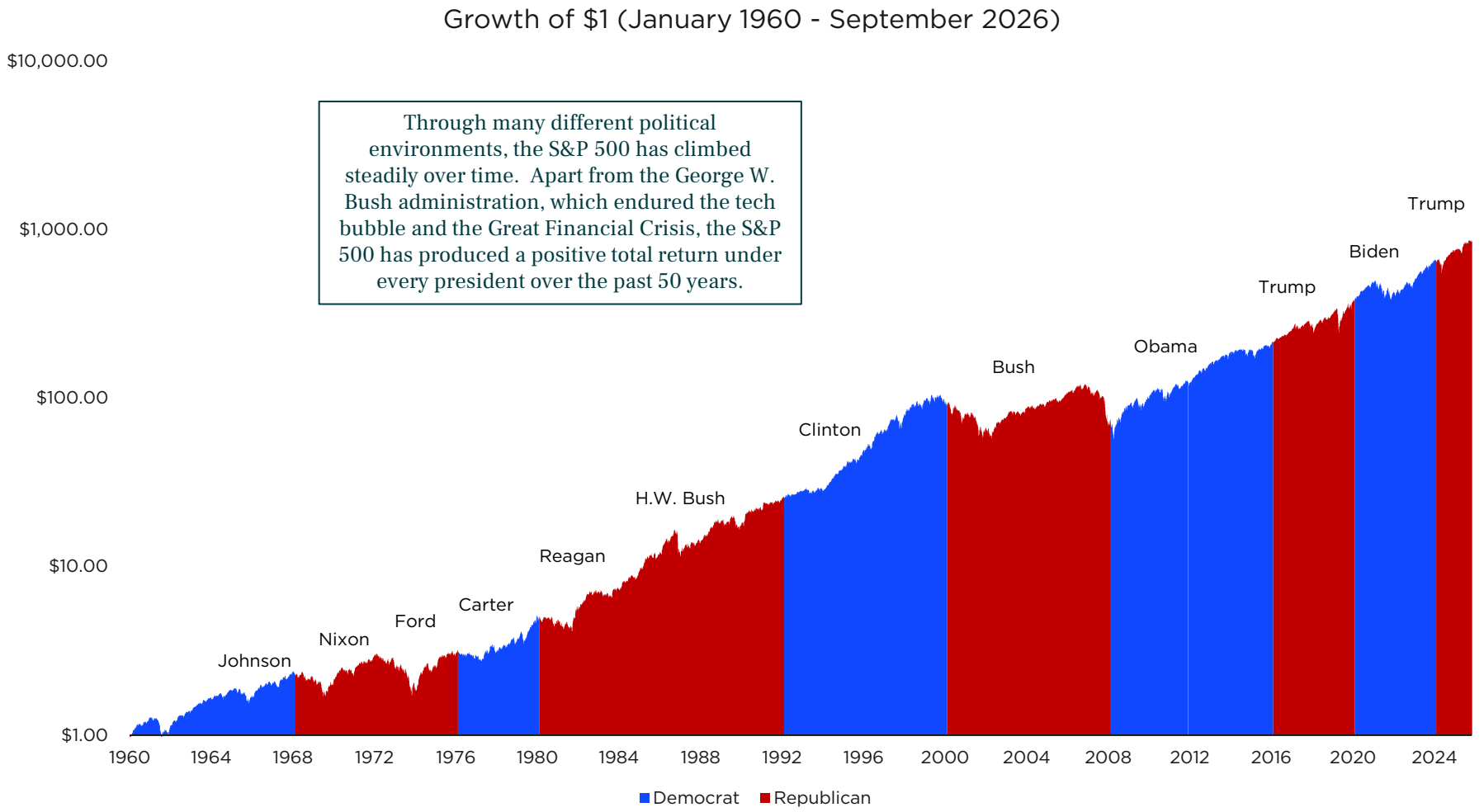
| Hypothetical Annualized Cumulative Returns | |
|---|---|
| 60/40 Portfolio | 10.45% |
| "Pessimistic" Party Portfolio | 10.17% |

This table shows hypothetical returns for an investor who avoids risk when their preferred party is not in the White House. Investors from both parties should be wary of letting their politics drive their investment strategy.

NOTE: STOCK RETURNS ARE REPRESENTED BY THE S&P 500 INDEX. BOND RETURNS ARE REPRESENTED BY THE BLOOMBERG INTERMEDIATE GOVERNMENT/CREDIT INDEX. ANALYSIS INCLUDES ALL PRESIDENTIAL TERMS SINCE THE INCEPTION OF THE BLOOMBERG INTERMEDIATE GOVERNMENT/CREDIT INDEX (1973).
SOURCE: JOHNSON INVESTMENT COUNSEL, FACTSET, DATA AS OF 9/30/2026; SEE IMPORTANT ADDITIONAL DISCLOSURES AT THE END OF THE PRESENTATION.

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# MARKETS ARE DRIVEN BY MORE THAN FEDERAL POLITICS OVER TIME




NOTE: THE CHART ABOVE SHOWS THE HYPOTHETICAL GROWTH OF $1 INVESTED IN THE S&P 500 INDEX STARTING JANUARY 4TH, 1960. JANUARY RETURNS IN INAUGURATION YEARS ARE ASSUMED TO BE UNDER THE PARTY THAT IS BEING INAUGURATED. RETURNS INCLUDE REINVESTMENT OF DIVIDENDS. THIS CHART SHOULD NOT BE INTERPRETED AS AN ENDORSEMENT OF ANY POLITICAL PARTY.

SOURCE: JOHNSON INVESTMENT COUNSEL, BLOOMBERG, DATA AS OF 9/30/2026

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