

Good afternoon,

I recently attended our annual advisor conference in Savannah via a connector flight out of the Denver International airport. Shortly after takeoff, the plane started to bump around quite a bit. No one panicked. A big reason was the captain, who calmly assured us that turbulence on take-off was normal for this time of year, and that “as soon as we’ve reached cruising altitude, I’ll turn the seatbelt sign off as we expect a smooth flight for the rest of the trip.”

Just like that flight out of Denver, your portfolio is built to withstand a little turbulence (i.e. volatility) on the way to a smoother trajectory.

Let’s address some of the big topics of the moment:

1. Why are interest rates rising and should we be concerned?
2. What is the outlook for stocks now?
3. Should I hold more cash in my portfolios?
4. What are some specific investment actions you’ve taken in the accounts you manage?

Rising Interest Rates

Over the last few months, interest rates have risen considerably. The yield on 10 Year Treasury Notes is currently around 5.25%, an increase of over 25% from the start of the year and the highest interest rate since 2007.

A big reason for the surge in interest rates is the large U.S. fiscal deficit. U.S. debt is over \$40 trillion dollars, and the cost to service this debt is the second largest outlay of the federal budget, trailing only Social Security.

Not all is negative, however. At current yields, bondholders are getting paid the highest rate of interest in almost 20 years. Should inflation cool, and interest rates decline in the future, bond prices will reappreciate, offering the potential for additional positive returns.

Outlook for stocks remains positive

Stock returns continue to be positive, driven primarily by consistent high levels of year over year earnings growth. As of the 2nd quarter of 2026, 12 month earnings growth for the S&P 500 was over 30%, and this number is expected to be close to 25% for the 3rd quarter.

Given that 2026 marks the fourth year in a row of double digit stock returns it is natural to wonder if the market is getting too expensive. As the chart below illustrates, the S&P 500 is almost exactly where we'd expect it to be given the sustained rise in earnings.

Earnings and Prices Have Risen by About the Same Percentage Since 1999

S&P 500 Price Index Leading Expected Earnings



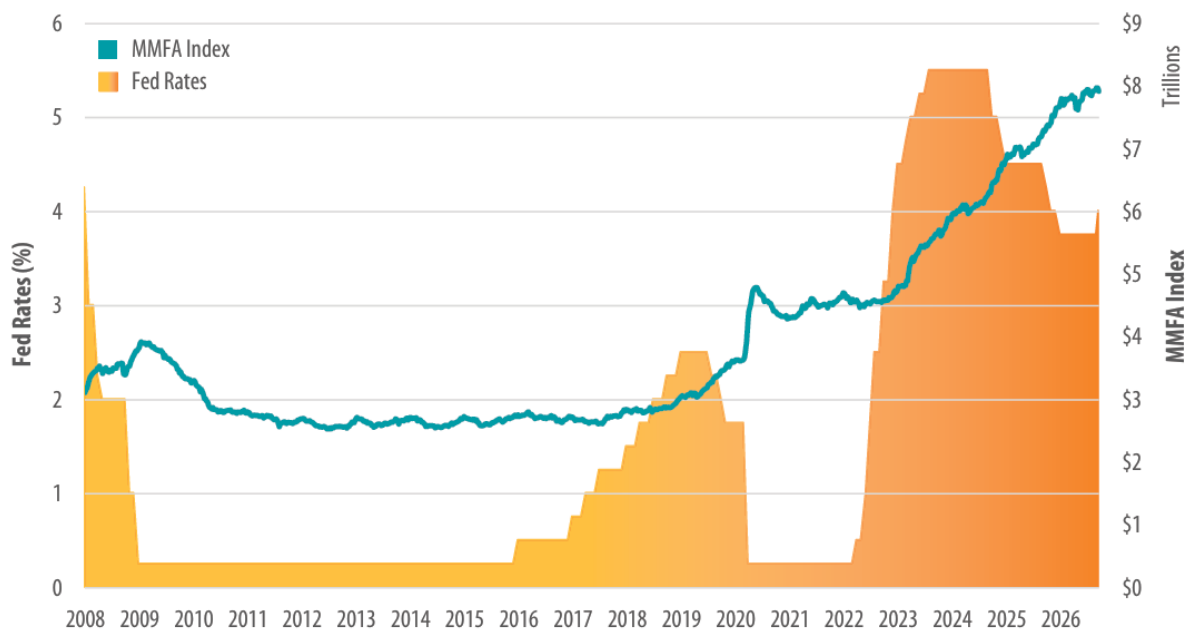
Source: NewEdge Wealth, Macrobond, Bloomberg S&P Global

To be sure, near-term risks remain. In particular, the Federal Reserve recently raised short-term rates 0.25%. Higher rates put pressure on stock valuations. In fact, the price/earnings (P/E) multiple on the S&P 500 has declined to 19.3 from 22.2 at the start of the year. In addition, concentration remains a risk for the index with just seven stocks accounting for close to 40% on the index's value.

The High Cost of Money Market Fund Assets

It might be tempting, with short-term rates on the rise again and the market having appreciated 14% for the year, to move more assets into money market funds. As the chart below shows, investors have steadily done just that, even while short term rates were declining. The opportunity cost of doing so can be tremendous, however. Since the low on April 8, 2025, the S&P 500 has risen by over 58%, dwarfing money market fund returns of 4% over that same time span.

ICI All Money Market Funds (Total Net Assets)



Bloomberg and Investment Company Institute. Weekly data points from 1/8/08 through 9/16/26.

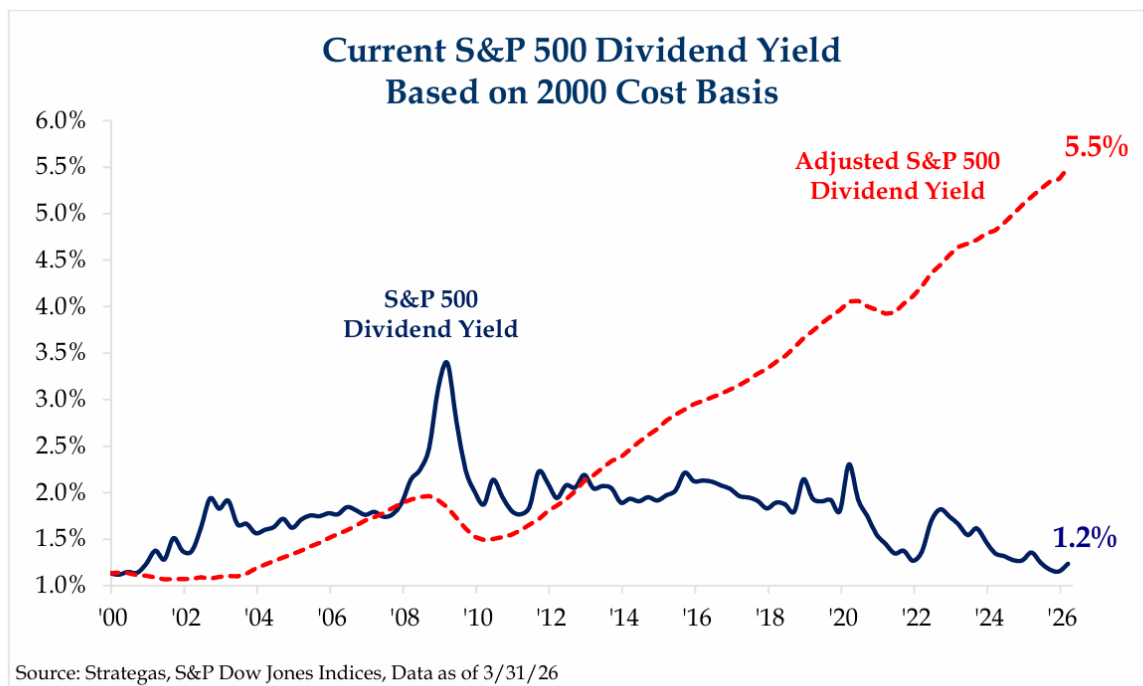
Weekly observations for total money market assets. Monthly observations for federal funds target rate (upper bound) and 9/16/26.

Portfolio Updates

1. Reduce concentration risk and hold alternate sources of stock returns.

One of the best ways to achieve consistent and rising returns over time continues to be holding companies with long-term track records of stable and rising dividends. Our investment in the iShares Core Dividend Growth ETF (DGRO) has grown its dividend by 9.5%/ year over the last decade, more than doubling the income it generates.

Looking below at the chart also shows the power of dividend growth over time. Today's dividend yield of 1.2% may seem paltry, but that represents a 5.5% yield on funds invested since 2000.



2. Add additional alternative equity income

In addition to the JP Morgan Equity Premium Income ETF (JEPI), we added the Invesco S&P 500 Equal Weight Income ETF (RSPA) to the Large U.S. Core equity allocation. Combined, these two holdings yield an average of 8.5% and further buffer downside risk should the market correct again.

3. Capture higher yields in tax-free Municipal Bonds while tax-loss harvesting.

With bond yields at their highest level in decades, we're taking the opportunity to lock -in attractive tax-free income, while selectively tax-loss harvesting as prices remain down. It is important to note that the credit rating of these portfolios has not declined, and we will continue to invest primarily in higher credit quality securities.

As always, please let me know if you have any questions or comments on the markets or economy, or your investments in particular.

Very truly yours,

Jim



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