



2026 THIRD QUARTER REVIEW & OUTLOOK

*Resilient Growth Meets Higher Rates and Narrower
Leadership*

As of September 30, 2026

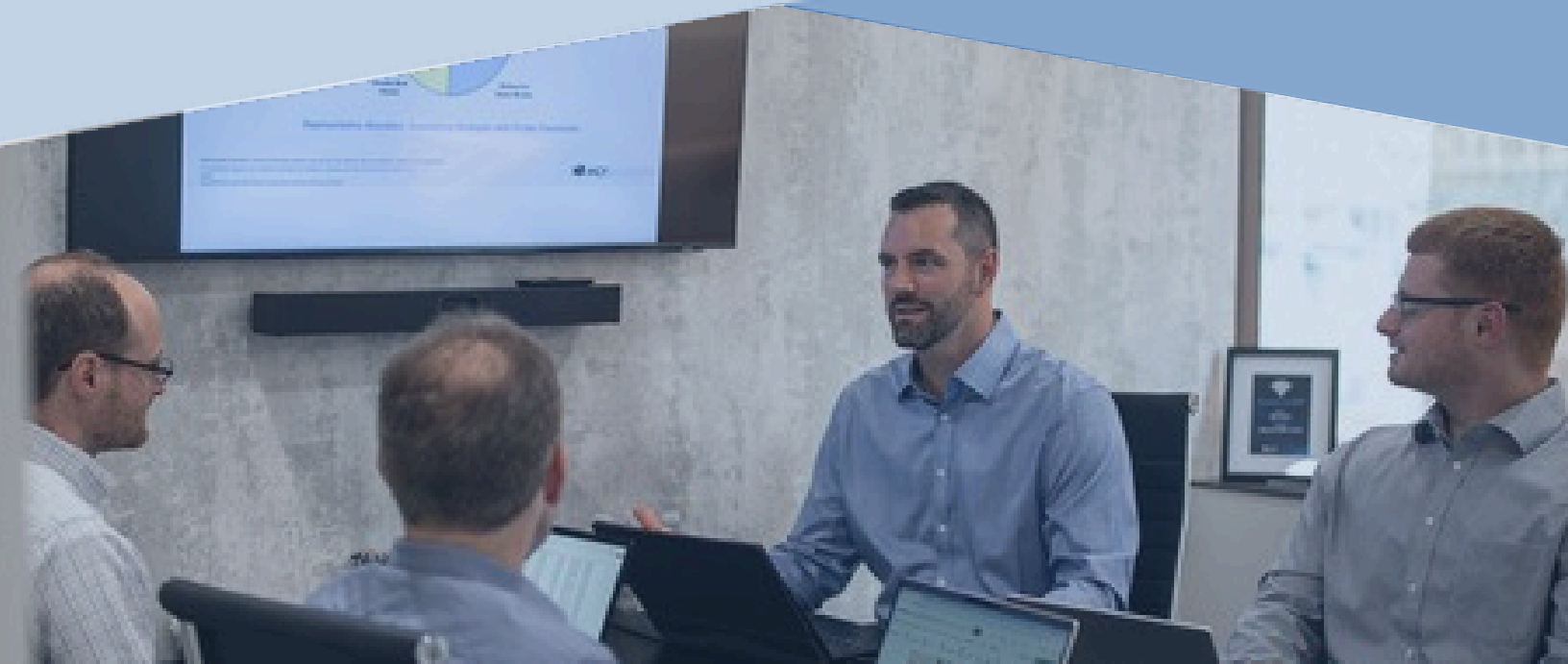


Table of Contents

Letter from the Chief Investment Officer	3
Executive Summary	4
Part I: Market Review	5
Part II: Economic Review	6
Part III: Where We are Today	8
Part IV: The Path Ahead	10
Closing Thoughts from the Chief Investment Officer	11
MCF Investment Philosophy	11
Important Disclosures	12

Letter from the Chief Investment Officer

Resilient Growth Meets Higher Rates and Narrower Leadership

The third quarter reinforced a central lesson of 2026: resilient growth and healthy corporate earnings can support markets even when inflation, geopolitical risk, and higher interest rates create meaningful headwinds. The S&P 500 gained 2.3% during the quarter and remained up 12.7% for the year. However, other asset classes experienced a much wider range of outcomes (see returns table on page 5).

Leadership became more selective. U.S. large-cap growth (S&P 500 Growth) advanced 3.4% during the quarter, while large-cap value (S&P 500 Value) gained 0.9%, mid-cap equities (S&P Midcap 400) declined 6.4%, and small-cap equities (S&P SmallCap 600) fell 7.9%. International developed markets posted a modest gain, while emerging markets were approximately flat. Commodities (Bloomberg Commodities) were the clear leader, rising 16.2% during the quarter and 32.9% year to date as intensifying geopolitical risks boosted energy prices.

The economy also presented a mixed but generally constructive picture. Second-quarter real GDP growth was revised higher to a 2.2% annual rate, August consumer spending strengthened, manufacturing remained in expansion, and unemployment held at 4.1% (see economic data table on page 6). At the same time, consumer confidence weakened, housing activity slowed, inflation remained above target, and the Federal Reserve raised its policy rate by 25 basis points in September.

As we enter the final quarter of 2026, the outlook remains constructive but more dependent on earnings delivery, inflation progress, and the path of interest rates. We remain focused on disciplined planning, strategic asset allocation, thoughtful diversification, and a long-term perspective rather than reacting to short-term market movements.

Investment Committee Perspective

Through changing market environments, our philosophy remains constant: successful investing is built on disciplined investing, strategic asset allocation, thoughtful diversification, and maintaining a long-term perspective. Q3 demonstrated why that framework matters. Large-cap growth and commodities advanced, while smaller companies and core bonds declined. We believe maintaining multiple return drivers will provide smoother and more successful investor outcomes than relying on any single market narrative.

Executive Summary

Five Observations That Defined the Third Quarter of 2026

- U.S. large-cap equities advanced, but market leadership narrowed toward growth and AI-related companies.
- Commodities led major asset classes as energy and geopolitical risks rebuilt an inflation premium.
- Longer-term yields rose and core fixed income declined as markets adjusted to persistent inflation and tighter policy.
- Economic growth remained resilient, supported by consumer spending, manufacturing, and business investment.
- Labor and consumer indicators became more uneven, yet unemployment remained low.

Five Things Consistent with our Outlook

- Resilient economic growth continued to support corporate earnings.
- Artificial-intelligence investment remained a major driver of capital spending and profit expectations.
- Inflation remained above the Federal Reserve's objective, supporting a higher-for-longer rate environment.
- Higher starting yields continued to improve long-term income potential despite weak quarterly bond returns.
- Market leadership rotated quickly from Q2 to Q3, underscoring the case for broad diversification.

Five Things That Changed During the Third Quarter

- The Federal Reserve moved from patience to action, raising rates by 25 basis points in September.
- Market breadth narrowed as large-cap growth outperformed value, mid caps, and small caps.
- Commodities accelerated, producing the strongest quarterly return among the major asset classes shown.
- Core bonds sold off as higher yields overwhelmed coupon income.
- Consumer confidence and sentiment weakened more than the broader activity data.

Updates to 2026 Outlook/Themes

The higher-for-longer theme has become more firmly established. The Federal Reserve's September rate increase confirmed that policymakers remain focused on inflation even as labor and consumer indicators soften. The key question for the fourth quarter is whether energy costs, fiscal borrowing, and AI-related demand for capital keep inflation and long-term yields elevated, or whether slower hiring and weaker confidence begin to cool demand.

Looking Ahead

The final quarter of 2026 is likely to be shaped by the interaction of strong earnings, sustained AI investment, persistent inflation, elevated bond yields, and a more selective equity market. We continue to emphasize a disciplined and diversified approach designed to participate in long-term growth while remaining resilient across different economic outcomes.

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Part I: Market Review

A Constructive Quarter Beneath the Surface

The third quarter produced a positive headline return for U.S. large-cap equities, but the details were more complicated. Growth outperformed value, smaller companies declined, international results were mixed, commodities surged, and bonds faced renewed pressure. The quarter rewarded selectivity and reinforced the value of maintaining multiple return drivers.

Third Quarter Capital Market Performance (as of 09/30/2026)

DESCRIPTION	PERFORMANCE (TOTAL RETURN)						
Asset Class	1-mo	QTD	YTD	1-yr	5-Yr	10-Yr	20-Yr
US Large Cap (S&P 500)	(0.3)	2.3	12.7	15.7	13.8	15.3	11.2
US Large Cap Value (S&P 500 Value)	(3.1)	0.9	9.0	12.5	11.7	11.7	8.6
US Large Cap Growth (S&P 500 Growth)	2.0	3.4	15.8	18.4	14.9	18.0	13.3
US Mid Cap (S&P 400)	(4.2)	(6.4)	9.9	11.7	8.0	10.4	9.8
US Small Cap (S&P 600)	(5.6)	(7.9)	14.2	16.1	6.2	9.8	9.2
International Developed (MSCI World xUS IMI)	(3.2)	1.2	10.2	15.7	9.2	9.1	5.6
Emerging Markets (MSCI EM IMI)	(0.7)	(0.3)	22.0	27.3	8.8	9.0	6.6
US High Yield Bonds (Bloomberg US High Yield)	(2.5)	(1.8)	0.1	1.4	3.6	5.0	6.4
Commodities (Bloomberg Commodities)	0.6	16.2	32.9	40.6	11.3	7.8	1.0
US Investment Grade Bonds (Bloomberg US Agg Bond)	(2.6)	(3.5)	(2.9)	(1.8)	(0.6)	1.1	2.9
US Short-Term IG Bonds (Bloomberg US Govt/Credit 1-3 Year)	(0.6)	(0.2)	0.6	1.8	2.1	2.0	2.3
Cash (Bloomberg US Trsy Bellwethers 3m)	0.3	0.9	2.7	3.7	3.8	2.5	1.7

Source: MCF Market Returns, Morningstar Direct, and Bloomberg; data as of September 30, 2026. Index returns are total returns.

Key Takeaways

- The S&P 500 gained 2.3% during Q3 and 12.7% year to date.
- Large-cap growth led while mid-cap and small-cap equities declined during the quarter.
- International developed equities gained 1.2%, while emerging markets were approximately flat.
- Commodities rose 16.2% during Q3 and 32.9% year to date, leading the major asset classes shown.
- Core bonds declined 3.5% during the quarter, while cash remained positive.

Leadership Became More Selective

The first half of 2026 featured broad participation across regions and market capitalizations. During the third quarter, that breadth narrowed. U.S. large-cap growth gained 3.4%, compared with 0.9% for large-cap value, while mid caps and small caps declined. Strong earnings and AI-related capital spending supported the largest growth companies, but elevated financing costs weighed on more rate-sensitive segments.

Equity Markets

Corporate earnings and AI investment remained the primary supports for equities. The S&P 500 advanced despite a difficult September, but results varied widely beneath the index. International developed markets produced a modest quarterly gain, while emerging markets finished slightly lower after strong year-to-date performance. Valuation discipline and earnings quality remain increasingly important.

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Fixed Income

Fixed income faced a difficult quarter as Treasury yields rose, the Federal Reserve increased its policy rate, and investors demanded greater compensation for inflation and fiscal risk. The Bloomberg U.S. Aggregate Bond Index declined 3.5% during Q3 and 2.9% year to date. Short-term bonds were more resilient, while cash continued to generate positive returns.

Diversifying Strategies

Commodities were the quarter's strongest major asset class, gaining 16.2% and extending their year-to-date return to 32.9%. Energy risk, supply uncertainty, and precious-metals demand supported the advance. High-yield bonds declined less than investment-grade bonds, reflecting higher income and shorter duration, although tight spreads left less cushion against weaker growth or renewed risk aversion.

Part II: Economic Review

Third Quarter Economic Dashboard

Economic Data Point	Date	Level	PREVIOUS 4 QUARTERS (Quarter-End Date)				Trend
Description	9/30/2026		6/30/2026	3/31/2026	12/31/2025	9/30/2025	
Inflation							
CPI (NSA, YoY%)	9/30/2026	3.70	3.50	3.30	2.70	3.00	
Core CPI (ex food & fuel, NSA, YoY%)	9/30/2026	2.60	2.60	2.60	2.60	3.00	
U.S. Employment							
Initial Jobless Claims (4-wk MA, 1000's)	10/10/2026	200.50	222.50	208.00	219.25	234.00	
Unemployment Rate (SA, %)	9/30/2026	4.20	4.20	4.30	4.40	4.40	
Nonfarm Payroll (SA, 1,000's)	9/30/2026	159,044	158,892	158,650	158,432	158,548	
Production							
Industrial Production (SA, YoY%)	9/30/2026	2.25	1.46	0.69	1.16	1.86	
Durable Goods Orders (NSA, YoY%)	8/31/2026	8.40	9.20	2.80	12.80	9.70	
Conf. Board US Leading Econ. Indicators	8/31/2026	99.50	99.40	99.00	99.40	100.10	
U.S. Housing & Construction							
Building Permits (SA, MoM%)	8/31/2026	(2.10)	(2.60)	(11.50)	4.80	7.20	
Housing Starts (Monthly, 1,000's)	8/31/2026	1,275	1,439	1,522	1,378	1,319	
New Home Sales (Monthly, 1,000's)	8/31/2026	684	672	659	723	714	
U.S. Retail Sales							
Retail Sales (SA, YoY%)	9/30/2026	6.30	5.90	3.60	2.10	3.70	
Auto Sales (SAAR, Millions)	9/30/2026	15.98	16.52	16.34	16.02	16.39	
U.S. Survey Data							
Conf. Board Consumer Confidence (SA)	9/30/2026	81.90	92.20	92.20	94.20	95.60	
UofM Consumer Sentiment (NSA)	10/31/2026	48.10	49.50	53.30	52.90	55.10	
ISM Manufacturing PMI (SA)	9/30/2026	54.50	53.30	52.70	47.90	48.90	

Source: Bloomberg

The Economy Remained Resilient but More Uneven

Economic data confirmed that the U.S. economy continues to expand, but the sources of strength are increasingly uneven. Second-quarter (most recent data available) GDP growth was revised higher to 2.2%, August real consumer spending increased 0.6%, and manufacturing remained in expansion. At the same time, housing activity slowed and consumer confidence fell sharply, suggesting that higher prices and borrowing costs are creating pressure beneath the headline data.

Key Takeaways

Economic growth remained positive and business activity stayed firm. Unemployment held at 4.1%, initial jobless claims remained low, and manufacturing expanded for a ninth consecutive month. Inflation improved only gradually, with headline CPI at 3.7% and core CPI at 2.6% in September. Consumer confidence and sentiment weakened, while the Federal Reserve raised rates to a 3.75%-4.00% target range in September.

Inflation Improved Slowly

Headline CPI rose to 3.7% year-over-year in September, while core CPI rose to 2.6%. The Federal Reserve's preferred PCE measure was 3.4% headline and 3.0% core. These readings represent progress from earlier peaks, but they remain above the Fed's 2% objective. Energy costs, tariffs, and rising input prices continue to complicate the final stage of disinflation.

Manufacturing Remained in Expansion

The ISM Manufacturing PMI registered 54.5 in September, its ninth consecutive month above 50. New orders and employment remained in expansion, although the prices-paid index increased sharply. The data support a constructive view of industrial activity while also highlighting renewed cost pressure.

Labor Markets and Consumer Spending Diverged

The unemployment rate held at 4.1% and initial claims remained low, indicating limited layoffs. Consumer spending strengthened in August, but confidence measures weakened and housing starts remained below the second-quarter level. The combination suggests that households are still spending, although sentiment and interest-sensitive activity are under pressure.



Source: Bloomberg. Data through September 30, 2026.

Federal Reserve Outlook

The Federal Reserve raised the federal funds target range by 25 basis points to 3.75%-4.00% in September. Policymakers cited solid economic activity, resilient spending, strong productivity, robust capital investment, and elevated inflation. Further decisions will depend on whether inflation and energy pressures persist or softer labor and confidence data provide evidence that demand is cooling.

Investor Considerations

Resilient growth and healthy earnings remain supportive, but higher rates and rising dispersion increase the importance of valuation, balance-sheet quality, income, and diversification. The quarter demonstrated that no single asset class consistently leads and that strategic allocations can provide multiple sources of return across changing conditions.

Investment Committee Perspective

We believe today's environment is best described as resilient but less forgiving. Strong earnings and business investment support the expansion, while inflation, geopolitical risk, and elevated borrowing costs reduce the margin for error. This balance favors a disciplined long-term framework over large tactical changes based on short-term forecasts.

Part III: Where We are Today

Resilience with Greater Dispersion

The investment landscape entering the fourth quarter offers meaningful opportunities, but returns are becoming more differentiated. In stark contrast to the first half of 2026, large-cap growth and commodities led during Q3, while small caps and core bonds declined. The contrast underscores the importance of evaluating earnings durability, financing sensitivity, valuations, and the role each asset class plays within a diversified portfolio.

Equity Markets

U.S. Large-Cap Equities

Large-cap U.S. equities continued to benefit from healthy earnings, strong balance sheets, and AI-related investment. Growth outperformed value during the quarter, and the S&P 500 remained positive. Elevated valuations and concentrated leadership, however, leave the index more sensitive to earnings disappointments and changes in long-term interest rates.

U.S. Small-Cap Equities

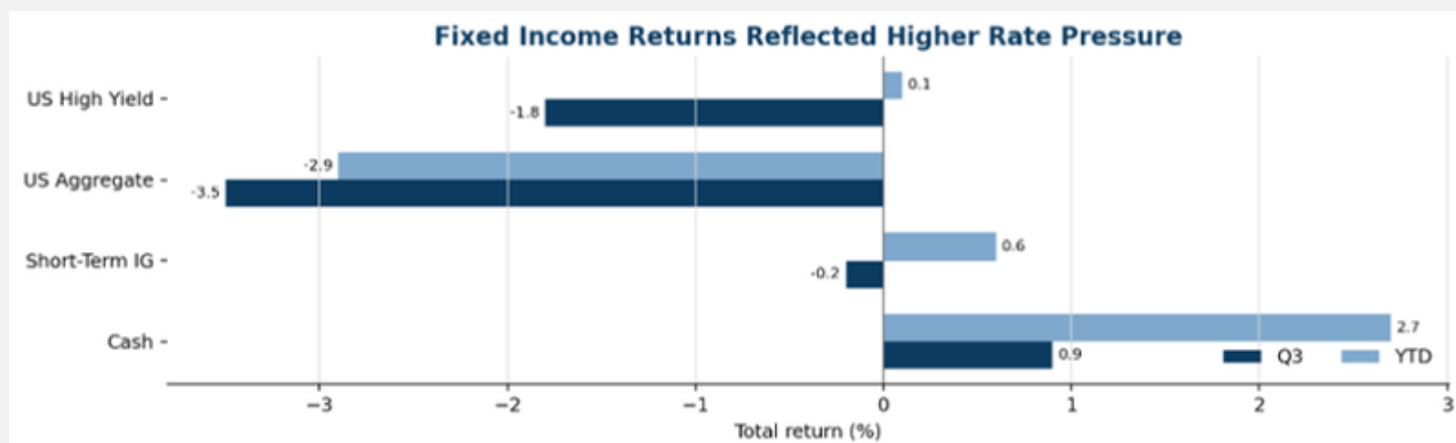
Small-cap equities remained strong for the year but declined 7.9% during Q3. The quarter highlighted their greater sensitivity to borrowing costs, refinancing conditions, and shifts in domestic growth expectations. Improving manufacturing activity is constructive, but financing conditions and earnings delivery remain important variables.

International Developed & Emerging Markets

International developed equities gained modestly during Q3, while emerging markets were approximately flat after a strong first half. Relative valuations remain lower than in the U.S., but currency movements, energy costs, regional policy, and country-specific fundamentals continue to create meaningful dispersion.

Fixed Income

Higher yields improved the income available from fixed income, but Q3 demonstrated that attractive starting yields do not eliminate interest rate (duration) risk. Longer-duration bonds remained sensitive to inflation, policy expectations, fiscal issuance, and competition for capital. Short-term bonds and cash were more resilient during the quarter.



Source: Bloomberg. Data through September 30, 2026.

Diversifying Strategies

Diversifying strategies again responded differently to the macroeconomic environment. Commodities benefited from energy and geopolitical risk, while high yield was more resilient than core bonds. Alternative investments may provide differentiated exposures where appropriate, but manager selection, underwriting, valuation, and liquidity remain important considerations.

Investor Considerations

The quarter reinforced the value of combining global equity exposure, high-quality fixed income, cash, and diversifying strategies according to each investor's objectives and circumstances. The purpose is not to chase the latest leader, but to maintain a coherent long-term allocation capable of navigating different growth and inflation outcomes.

Investment Committee Perspective

Q3 reinforced our conviction that portfolio construction, not market prediction, drives long-term investment outcomes. Sharp differences among large-cap growth, small caps, commodities, and bonds demonstrate why disciplined diversification remains central to our investment process.

Part IV: The Path Ahead

Looking Toward the Fourth Quarter

The final months of 2026 will test whether strong earnings and business investment can continue to offset persistent inflation, higher borrowing costs, and weaker confidence. We believe investors should remain focused on the fundamental drivers of long-term returns and avoid overreacting to short-term market volatility.

Five Investment Themes for the Fourth Quarter of 2026

1. Earnings and AI Investment Remain the Market's Anchor - Profit growth and capital spending continue to support equities, but high expectations raise the cost of disappointment.
2. Inflation and Energy Keep Rates Higher - Above-target inflation and commodity pressure limit the Federal Reserve's flexibility.
3. Consumer and Labor Resilience Will Be Tested - Spending remains positive, but confidence, housing, and hiring trends warrant attention.
4. Higher Yields Provide Another Source of Return - The outlook for bonds is even more attractive now, after yields rose in Q3; this increases return potential, but also increases the buffer if rates creep higher.
5. Diversification Remains Essential - Wider dispersion across equities, bonds, commodities, and cash increases the potential benefits of exposure to multiple return drivers in a portfolio.

Key Market Risks We Are Watching

1. A renewed energy shock or broader acceleration in inflation.
2. Additional Federal Reserve tightening or a further rise in long-term yields.
3. Narrow market leadership and elevated valuations in the largest growth companies.
4. Geopolitical escalation and disruption to global supply chains.
5. A sharper slowdown in consumer spending, hiring, or corporate earnings.

Scenario Analysis

The scenarios below represent qualitative assessments of potential economic and market environments over the coming quarter. They are illustrative, not predictions or guarantees of future results. Actual conditions and market outcomes may differ materially from those described.

Scenario	Likelihood	Market and Economic Implications
Base Case	Most Likely	Positive but slower growth, sticky inflation, healthy earnings, and uneven returns across asset classes.
Bull Case	Less Likely	Energy prices ease, inflation improves, growth remains resilient, and market participation broadens.
Bear Case	Least Likely	Inflation and yields rise further as consumption and earnings weaken, pressuring valuations and credit.

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Fourth Quarter Outlook

Our base case remains one of slower but positive growth, above-target inflation, healthy corporate earnings, and uneven market returns. A more favorable outcome would combine easing energy prices with continued growth and broader participation. A less favorable outcome would involve persistent inflation, higher yields, weaker consumption, and valuation pressure.

Closing Thoughts from the Chief Investment Officer

Successful investing has never been about eliminating uncertainty. Every market cycle presents a distinct set of opportunities and challenges, yet the principles that drive long-term success remain consistent. The third quarter highlighted how quickly leadership can shift as large-cap growth and commodities advanced while small caps and core bonds declined.

As we enter the final quarter of the year, our outlook remains constructive but measured. We expect markets to remain sensitive to earnings, inflation, energy prices, fiscal borrowing, and Federal Reserve policy.

MCF Investment Philosophy

Markets evolve. Economic cycles change. Technology advances (and seems like even faster now). Investment principles endure.

At MCF Advisors, we believe successful investing begins with a thoughtfully crafted investment policy, disciplined portfolio construction, and a long-term perspective. We seek to build resilient portfolios designed to perform across a wide range of economic environments rather than attempting to predict short-term market movements.

We believe diversification should be intentional, risk should be managed rather than feared, and patience remains one of the greatest competitive advantages available to long-term investors. These principles guide our investment process and our commitment to serving clients through changing market cycles.

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US Broad Market Equities: The S&P Composite 1500® combines three leading indices, the S&P 500®, the S&P MidCap 400®, and the S&P SmallCap 600®, to cover approximately 90% of U.S. market capitalization. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks.

Large Cap Equities: The S&P 500 Composite Index is a market-capitalization-weighted index of 500 widely held U.S. stocks. The S&P 500 Value and S&P 500 Growth indexes divide S&P 500 constituents using valuation, growth, and momentum characteristics. These indexes are commonly used to evaluate large-cap U.S. equity performance and style leadership.

Mid Cap Equities: Standard and Poor's Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990.

Small Cap Equities: The Standard & Poor's Smallcap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization. The index was developed with a base value of 100 as of December 31, 1993.

International Developed Equities: The MSCI World ex-USA IMI NR USD Index measures the performance of the large, mid, and small cap segments of world, excluding US equity securities. It is free float-adjusted market-capitalization weighted. The index consists of the following 22 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The index is presented as net total return, which includes the reinvestment of dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

EM Equities: The MSCI Emerging Markets IMI NR USD Index is a free float-adjusted market capitalization index (includes large, mid, and small cap) that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates. The index is presented as net total return, which includes the reinvestment of dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Commodities: The Bloomberg Commodity TR USD Index measures the performance of future contracts on physical commodities which traded on US exchanges and London Metal Exchange. The commodity weightings are based on production and liquidity, subject to weighting restrictions applied annually.

High Yield Bonds: The Bloomberg US Corporate High-Yield TR USD Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

Global/International Bonds: The Bloomberg Global Agg ex USD TR USD Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-dominated securities.

Core/Agg Bonds: The Bloomberg US Aggregate Bond TR USD Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-through), ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index, which includes high yield and emerging markets debt.

Muni Bonds: The Bloomberg US Municipal TR USD Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

TIPS Bonds: The Bloomberg US Treasury Inflation-Protected Securities (TIPS) TR USD Index is a rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 38.5% market value weight in the index (as of December 31, 2010) but is not eligible for other nominal Treasury or Aggregate indices. To prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

Short-Term Bonds: The Bloomberg US Government/Credit 1-3 Year TR USD Index measures the performance of non-securitized component of the U.S. Aggregate Index with maturities of 1-3 years, including Treasuries, government-related issues and corporates. It is a subset of the U.S. Aggregate Index.

Cash: The prefunded Bloomberg US Treasury Bellwethers 3-Month TR USD Index measures the performance of six on-the-run U.S. Treasuries that reflect the most recently issued 3m securities. It follows Barclays Capital's index monthly rebalancing conventions.

Inflation: The Consumer Price Index for All Urban Consumers (CPI-U), calculated by BLS, provides a measure of the average change in the prices paid by urban consumers for a fixed market basket of goods and services relative to the price of that basket during the 1982-1984 period. The U.S. index is based on the prices of goods and services, including food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication, that people buy for day-to-day living in urban areas across the country. U.S. data are published in the monthly BLS news release, Consumer Price Index. The index is seasonally adjusted.