Our Thoughts...

3rd Quarter 2026



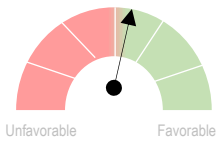
Doug Leeson
Principal

Markets (quarter)

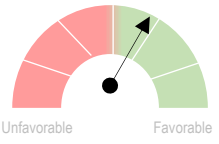
U.S. Stocks	2.3%
U.S. Bonds	-3.5%
Commodities	25.1%
Real Estate	-5.9%

Past performance does not predict future returns. Data as of 09/30/26.

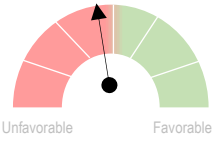
US Growth



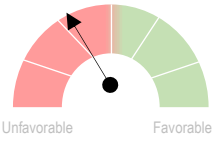
US Equity Valuation



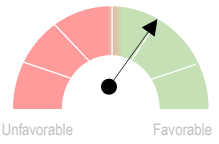
Inflation



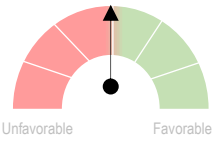
Interest Rates



Fiscal Policy



Monetary Policy



IRA Group's view on select economic factors

The Big Picture

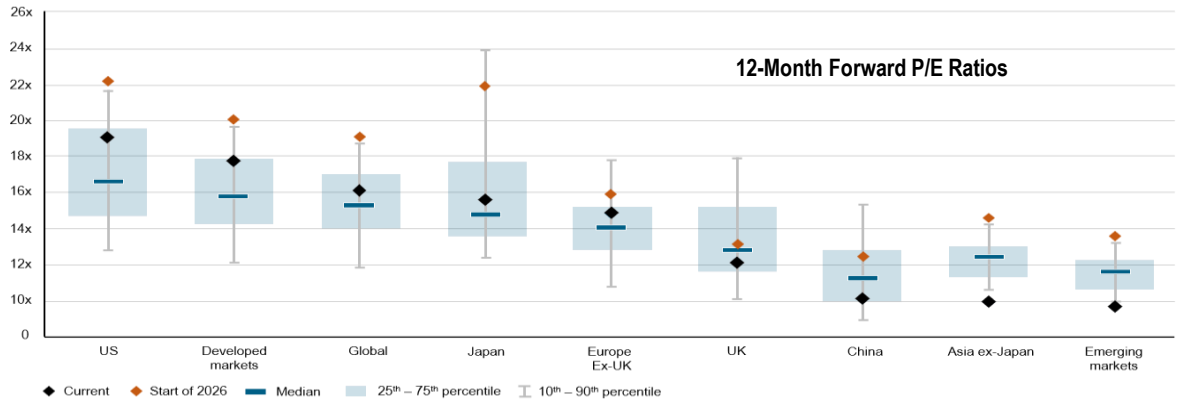
Economic growth has remained resilient for most of 2026, supported by consumer spending and business investment. However, renewed tensions in the Middle East, higher energy prices and a more restrictive Federal Reserve are likely to weigh on activity in the months ahead. Combined with a potentially less supportive fiscal backdrop, these forces point to slower, though still positive, economic growth through the remainder of 2026 and into 2027.

Stock Valuations are Improving on the Heels of Strong Earnings Growth

While our price-to-fair value methodology attempts to quantify overall market valuation using longer-term cash flow projections, the market price/earnings ratio is a point in time approach that measures the multiple of earnings that investors are currently paying to own stocks. It can be useful when performing historical comparisons.

Since the beginning of the year, the composite P/E ratio for US stocks has declined from 22.2x to 19.0x at the end of the third quarter despite continued market appreciation. This is a function of corporate earnings growing faster than stock prices. All else being equal, stock prices would be expected to track earnings growth rates over the long-term. If earnings grow at a quicker rate than prices, this results in a declining P/E ratio and more attractive valuations. Currently, the market P/E is within the 25th-75th percentile historical range.

Regional Equity Valuations



Source: FTSE, IBES, LSEG Datastream, MSCI, S&P Global, Tokyo Stock Exchange, JP Morgan Asset Management.

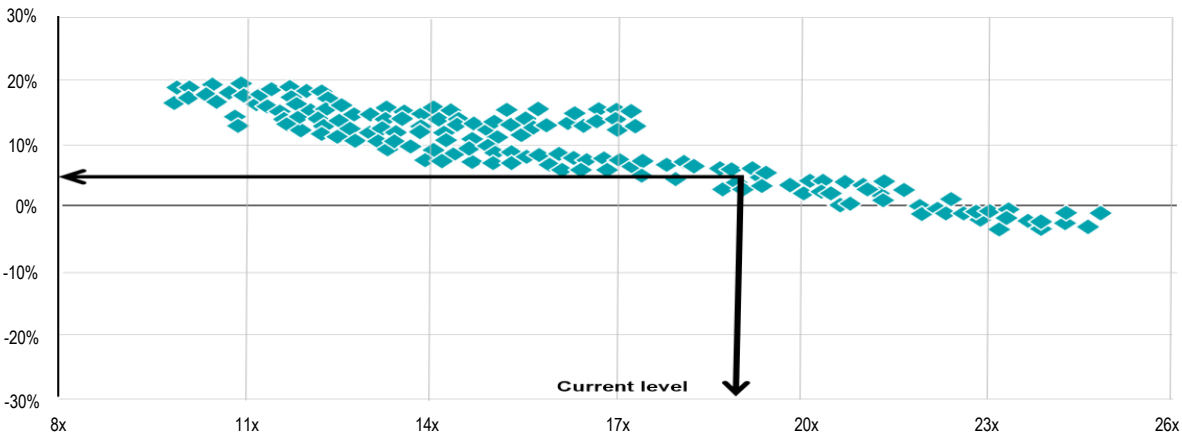
Valuations are Important

The reason that we focus on market valuation is that it is a key determinant of future performance. An investor can purchase a well-run company with increasing earnings in a growing industry but it doesn't perform well because the purchase price was too high. The chart below illustrates the historical correlation between P/E ratios and subsequent market returns. The higher the P/E ratio, the lower the future return, and vice versa.

The current above-average market P/E of 19.0x implies an approximate 5% annualized return over the next 10 years. Based on historical correlations, higher returns in the future would be predicated on a decline in the P/E ratio which would be driven by either: 1) Accelerating earnings growth, or 2) Price declines.

S&P 500 Forward P/E Ratios and Subsequent 10-Year Returns

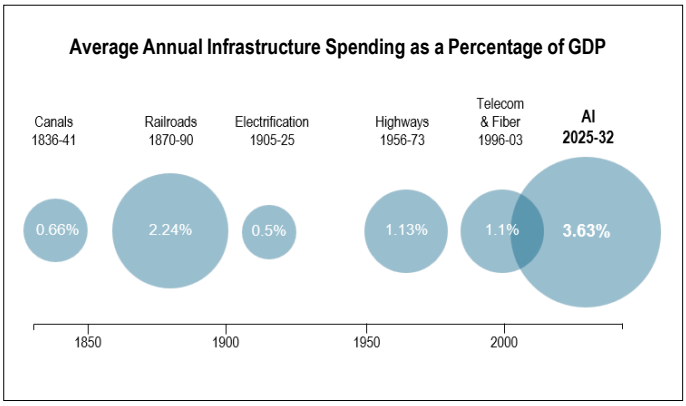
Annualized total return



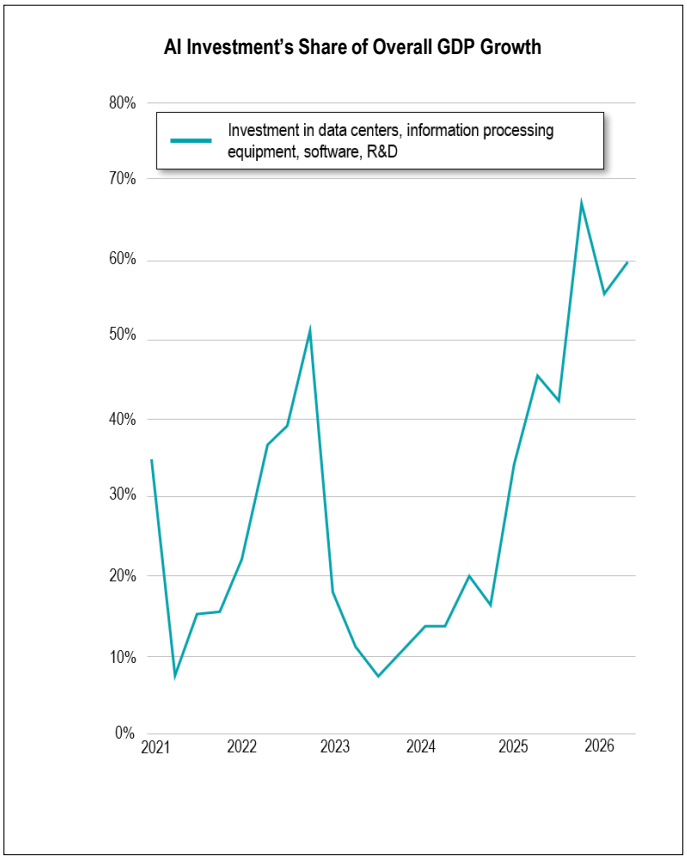
Source: IBES, LSEG Datastream, S&P Global, JP Morgan Asset Management.

AI Buildout: The Biggest Economic Bet in US History

The AI buildout is clearly the economic engine in the U.S. right now. In fact, it represents the largest infrastructure spending initiative in history (below left). While top-line economic numbers suggest reasonable growth, they mask weakness that appears to be developing in other areas of the economy. This is evidenced by AI investment now accounting for 60% of overall GDP growth (below right).



Source: Stijn van Nieuwerburgh



Source: Bureau of Economic Analysis, quarterly data 1Q21 – 2Q26

While AI touches the economy in many ways, from productivity gains and power demand to construction, manufacturing, and a growing range of downstream industries, its most direct impact on business investment can be measured in four categories, which are referred to as "AI investment" in the right chart. These categories are data centers, information processing equipment, software, and research and development. Data center construction gets much of the attention, but the majority of AI-related spending is actually on the equipment and technology inside those facilities. Graphics processing units ("GPUs"), servers, networking hardware, and other computing infrastructure are captured in information processing equipment, while software and research and development reflect much of the systems, programming, and innovation needed to put that hardware to work. Together, these four categories account for roughly 8% of GDP, yet they have contributed more than half of the growth in real GDP over the past year.

However, a significant share of the hardware fueling the AI investment boom is produced abroad. The U.S. imports key AI-related goods—including semiconductors, telecommunications equipment, and computers, peripherals, and parts. Imports now represent about 35% of "AI investment", up from roughly 20% just a few years ago. In other words, as the AI buildout has accelerated, a growing share of the spending has flowed overseas rather than into domestic production, reflecting the United States' continued reliance on manufacturing hubs such as Taiwan for advanced computing hardware.

GDP measures production that takes place within the United States, so when investment spending goes toward goods produced abroad, those imports must be subtracted from the calculation. Once the imported equipment tied to the AI buildout is factored in, the growth story looks considerably less powerful. While gross AI investment continues to look like a major tailwind for the economy, a growing share of that spending is supporting production overseas rather than adding to domestic output.

Mid-Term Elections Offer Market Optimism

Mid-term elections offer optimism that the bull market can continue. A look back at the subsequent 12-month performance of the equity markets after mid-term elections going back to 1950 reveals that returns have been distinctly positive, averaging 16.6% with no negative performance periods. This could be a function of investors' distaste for uncertainty and the notion that elections provide greater clarity.

Mid-Term	12-Months After	S&P 500
1950	1950-51	+17.5%
1954	1954-55	+33.6%
1958	1958-59	+12/1%
1962	1962-63	+30.9%
1966	1966-67	+17.1%
1970	1970-71	+13.2%
1974	1974-75	+20.5%
1978	1978-79	+9.3%
1982	1982-83	+22.3%
1986	1986-87	+3.2%



Mid-Term	12-Months After	S&P 500
1990	1990-91	+29.1%
1994	1994-95	+23.1%
1998	1998-99	+24.1%
2002	2002-03	+18.6%
2006	2006-07	+12.4%
2010	2010-11	+5.9%
2014	2014-15	+3.0%
2018	2018-19	+12.0%
2022	2022-23	+8.3%
Overall Average		**+16.6%**

Source: JP Morgan

Disclosures
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