



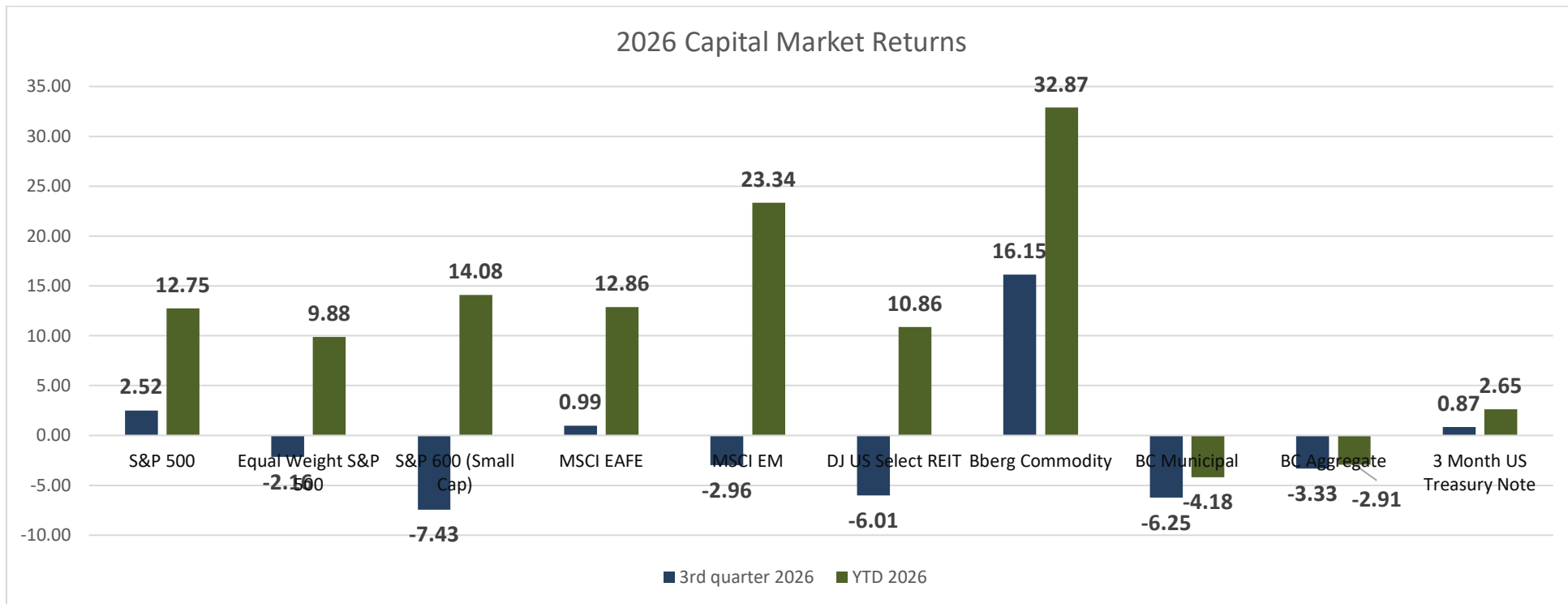
SCHNEIDER DOWNS

Wealth Management



A Market That Now Has Something for Everyone:
Rise in Yields Provides An Alternative

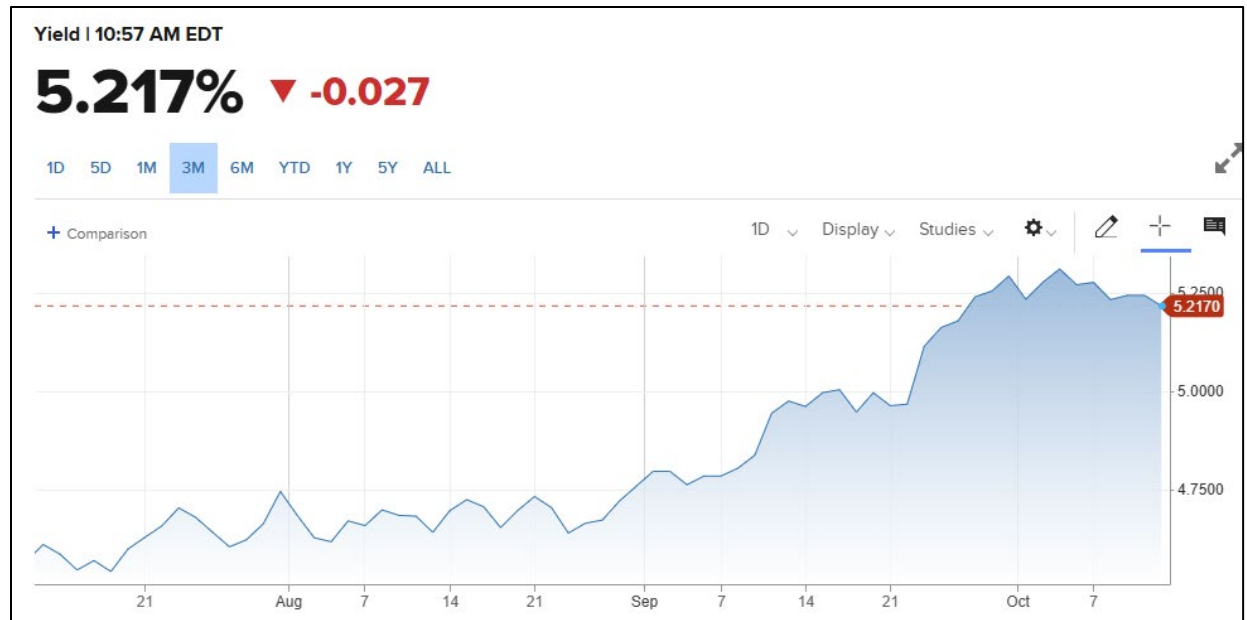
Q3 2026 Market Commentary



My newly minted middle schooler, Caroline, and her friends will come home after school and say a colloquial term to describe something that happened at school that leaves me baffled. Not wanting to out myself as being totally out of touch, I will nod my head and pretend that I know what they are saying; it's a cute game, that leaves me feeling older than I want to admit. While I was being socially reminded in the third quarter that I am getting old, the same happened to me professionally. The third quarter of this year gave me flashbacks to my studies as a young Chartered Financial Analyst® (CFA) candidate. The first two levels (of a three-level program) of the CFA program hammer candidates on fixed income math; while you get a calculator, there is Macaulay, Modified, Dollar, and Effective duration formulas and calculations to memorize and practice problems to work. As yields on bonds climbed rapidly during August and September, it brought me back to the young CFA candidate grinding out practice problems at the local library in the neighborhood I lived in on the northside of Chicago; just me, my trusted HP-12c calculator, and Itzhak Pearlman playing on my iPod. While the third quarter reminded me that I am not as young as I once was, there is something to be said for wisdom that comes with age, and while there was some volatility in markets in the third quarter, it has left investors with an interesting set up as we enter a pivotal fourth quarter in 2026!

As I mentioned in the opening salvo of this letter, there is a lot of math that goes into bond movements. However, in general, it can be distilled into the following: price and yield are like a seesaw, when prices go up yields go down, and vice versa. For a forty-year period that ended in late 2021/early 2022, prices on most bonds went up and we saw yields go down. For diversified investors that meant good returns from the bond portion

of their portfolio, but it was coming from price appreciation rather than yield. From the vantage point of a conservative investor looking for yield, it was more difficult; yes, you were getting returns, but if you needed to generate income from your investments to meet cash flow needs, the period was challenging. Fast forward to today and while bond investors have felt pain (it is important to note that a bad year in the bond market is like a bad day or week in the stock market), the yield investors are able to earn from bonds is the most they have been able to earn in 25 years.¹ The chart to the right, pulled from CNBC², shows the rapid rise in the ten year over a three month period in the summer and early fall. There are many reasons for the rise in yield: strong economic data (spurred by significant spending around AI), geopolitical conflicts in Ukraine and Iran, and investors demanding more compensation from all issuers of debt. The low yields coming out of the Great Financial Crisis (2007-2009) forced investors to get riskier to earn a reasonable rate of return; the acronym TINA was born during that time period, which stood for “There Is No Alternative” to stocks given the paltry yields investors received from bonds. That dynamic has now changed, with investors earning the most from bonds in almost a quarter century at the same time the dividend yield on the S&P 500 hit an all-time low of 1%.³ Outside of 2022, this was one of the worst quarters for bonds in the last forty years; moving forward it could be the beginning of a revival of an asset class left for dead by many.



Outside of US large cap stocks and international developed stocks, most capital markets took a breather after a particular strong second quarter. The stocks that were most sensitive to a move in interest rates, US small and mid-cap stocks, as well as emerging markets, were negative for the quarter. Small cap stocks took the brunt of the pain but are still having a strong year and are seeing earnings growth continue to climb. Similarly, emerging markets are the best performing asset class (of the broad stock market) as they continue to benefit from being the home of most of the large semiconductor chip manufacturers in the world. As the large AI hyperscalers⁴ continue to spend on an annualized rate that is pushing a trillion dollars a year,⁵ most of those dollars are going to international companies, and that in turn is pushing non-US stock markets higher. SDWMA began adding to international markets back at the end of 2024, and our portfolios have benefited from the move to diversify additional equity exposure into non-US markets. Moving forward, we will look to add exposure to parts of the market that are not as expensive, believing that, over time, buying quality

¹ <https://www.nbcnews.com/business/markets/treasury-yields-hit-24-year-highs-global-sell-accelerates-rcna602045>

² <https://www.cnbc.com/quotes/US10Y>

³ <https://finance.yahoo.com/news/the-dividend-yield-on-the-sp-500-is-now-at-50-year-lows-heres-the-biggest-problem-153809624.html>

⁴ Google, Meta (Facebook), Amazon, Microsoft, Oracle, and Nvidia

⁵ <https://finance.yahoo.com/markets/article/magnificent-7-earnings-rush-reveals-ai-spending-surge-with-hyperscaler-capex-set-to-reach-725-billion-in-2026-224901707.html>

companies at a discount will be rewarded. We are not abandoning the S&P 500 or our growth exposures but are instead looking to take some chips off the table over the next several months and add additional levers to pull on when the AI theme takes a breather.

As we enter a pivotal fourth quarter, with midterm elections in the US (and a few global elections as well) and ongoing conflicts in Ukraine and Iran, we are getting a lot of questions from clients about the impact it could have on portfolios. There have been few, if any, investors that can trade around short-term events and come out ahead; as I remind people, the buildings in Vegas aren't big because the Wynn, Bellagio, and MGM are losing money (and Ken Griffin at Citadel isn't able to give a \$3 billion gift to Carnegie Mellon because short term traders are beating Citadel). Instead, with all major equity asset classes positive and with fixed income yields at 25-year highs, the best way to navigate any short-term volatility is through a diversified portfolio and an up to date financial and estate plan. It sounds old and familiar and that's because it is – old and familiar. Like I said in the opening paragraph, this fall made me feel old, and that is more than okay; with age comes wisdom. For those wondering, “rizz” is short for charisma, my daughter Caroline finally let me in on it – I look forward to saying it in front of her friends in a cringe worthy way that makes me look even older to her friends!

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