

From the Desk

Sentry Point Private Wealth

Q3 2026: Economic Resilience Amid Rising Rates and Policy Uncertainty

Throughout the third quarter of 2026, competing forces continued to shape the U.S. economic landscape. Fiscal spending and a widening trade deficit provided support for economic activity, while robust private-sector investment remained an important driver of growth. The U.S. consumer continued to demonstrate resilience, with spending on services leading overall consumption trends. Globally, economic growth faced headwinds from elevated energy costs and ongoing geopolitical tensions, particularly in Iran and Ukraine. Despite these challenges, corporate earnings across developed markets remained strong, supporting equity valuations throughout the quarter. At the same time, longer-term Treasury yields moved higher as investors increasingly priced in the Federal Reserve's eventual decision to raise its policy rate to a target range of 3.75% to 4.00%.

Economic Pulse

Economic conditions remained constructive throughout the third quarter as private-sector activity continued to support U.S. growth. This strength was reflected in the Atlanta Federal Reserve's GDPNow estimate, which as of September 10 projected third-quarter real GDP growth of 4.4% on an annualized basis. While this estimate sits near the upper end of consensus forecasts, the underlying drivers are notable. Consumer spending remained resilient, while business fixed investment continued to accelerate, providing important support for economic activity. Capital expenditures tied to infrastructure supporting artificial intelligence development, particularly data center construction, remained a meaningful contributor to investment growth during the quarter.

The labor market also demonstrated continued strength. August nonfarm payrolls increased by 162,000 jobs, well ahead of expectations, while the unemployment rate remained at 4.1%. Importantly, hiring activity was concentrated in areas of the economy benefiting from elevated capital investment. Construction and manufacturing represented a significant share of new job creation, reinforcing the connection between increased business spending and continued labor market resilience.

While growth fundamentals remained favorable, inflation continued to represent the primary challenge facing policymakers. Headline Consumer Price Index (CPI) inflation was unchanged at 3.4% year over year in August, while core inflation increased 0.3% month over month. The persistence of core inflation suggests that higher input costs, particularly energy-related expenses, may be filtering through to broader categories of goods and services. These

underlying inflation measures remain a focal point for Federal Reserve officials, as entrenched price pressures can erode purchasing power and reduce the real pace of economic growth.

Against this backdrop, the Federal Open Market Committee raised its policy rate by 25 basis points during its September meeting. Financial markets had largely anticipated the move, reflecting expectations that inflation remained elevated relative to the Federal Reserve's long-term objective. In his first meeting as Chair, Kevin Warsh emphasized that inflation remains the Committee's primary concern, noting that price pressures have remained above desired levels for an extended period. While providing limited forward guidance, his comments suggested confidence in the underlying strength of the U.S. economy, supported by solid growth and a relatively stable labor market.

Outside the United States, economic conditions remained constructive, albeit uneven, throughout the third quarter. The euro area continued to expand at a modest pace, supported by improving business sentiment and resilient domestic demand, while Germany and other manufacturing-oriented economies experienced comparatively subdued growth. Broader global activity showed signs of improvement, with purchasing managers' surveys indicating strengthening manufacturing conditions across Europe and China alongside continued expansion in service-oriented economies such as the United Kingdom and Japan.

Despite these encouraging developments, several headwinds remained in place. Elevated energy costs, ongoing trade-policy uncertainty, and persistent inflationary pressures continued to weigh on household purchasing power and corporate margins across many developed economies. Nevertheless, global growth remained positive and broadly resilient, supported by stable labor markets and improving business activity. While economic momentum continued to favor the United States and select Asian economies, the overall picture suggests that the global expansion remained intact as the quarter progressed.

How Markets Moved

Market performance during the third quarter reflected a more modest return environment as investors balanced resilient economic growth against higher interest rates and persistent inflationary pressures.

Within U.S. equities, the S&P 500 generated modest gains of 2.03%, although leadership broadened, performance returned to large cap names in relative terms. Energy sector led returns within the index following a significant increase in oil prices. Utilities were among the weakest-performing sectors, as higher Treasury yields reduced the relative appeal of traditionally defensive and income-oriented investments.

International equities generally lagged their U.S. counterparts. European markets faced headwinds from elevated energy costs and slower economic momentum, while many Asian markets contended with softer external demand and rising input costs. As a result, major international equity indices posted mixed to slightly negative returns during the quarter.

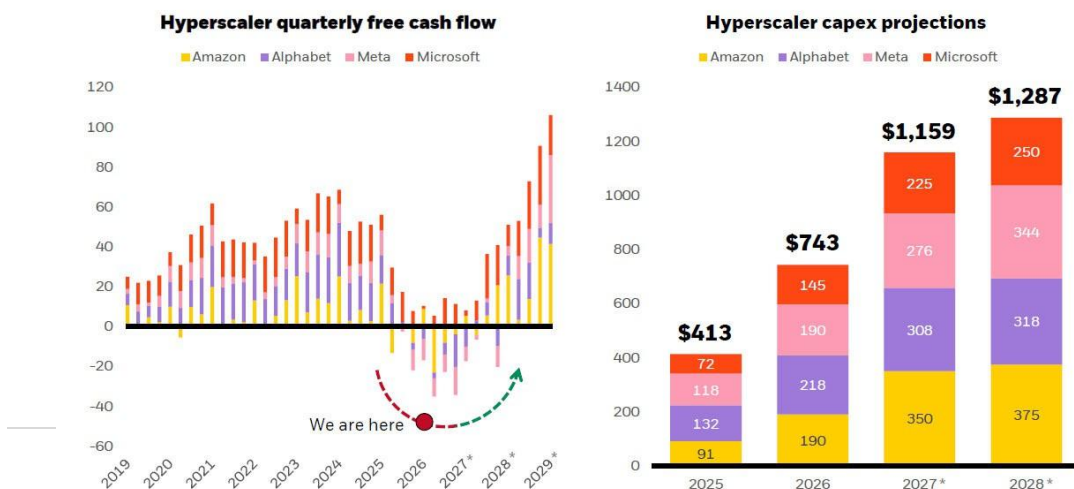
Fixed-income markets remained challenged by rising interest rates. Treasury yields moved higher across much of the yield curve as investors increasingly priced in additional monetary tightening from the Federal Reserve. Despite this backdrop, corporate credit markets held up relatively well, with high-yield bonds outperforming investment-grade credit due to continued economic resilience and relatively tight credit spreads. Senior secured loans were among the strongest-performing fixed-income sectors, benefiting from their floating-rate structure and limited duration exposure.

Commodity markets produced positive returns during the quarter, driven primarily by strength in energy prices. Crude oil was the largest contributor to gains within the broader commodity complex, reflecting both supply concerns and geopolitical developments. Precious metals also advanced, with gold benefitting from continued policy uncertainty and investor demand for portfolio diversification.

Investment Lens

As we move through the second half of 2026, our investment outlook remains constructive, although several themes have become increasingly important from a portfolio positioning perspective. Among the most significant has been the continued acceleration of private-sector investment, particularly in technologies designed to improve productivity and enhance economic efficiency. While public investment can serve as an important catalyst for growth, private capital allocation has historically been an important contributor of long-term innovation, productivity gains, and wealth creation. Today, that investment cycle is increasingly centered around artificial intelligence and the infrastructure required to support it.

Artificial intelligence has rapidly evolved from a largely theoretical concept into a transformational business tool with real-world economic applications. While the long-term implications continue to generate debate, one trend remains undeniable: investment spending continues to accelerate. The world's largest technology companies are allocating substantial amounts of capital toward building the infrastructure necessary to support next-generation computing capabilities. This investment is occurring at a scale rarely observed outside of previous technological revolutions and reflects a growing belief that artificial intelligence will play an increasingly important role in future economic growth and corporate profitability.



Historically, many of these technology leaders generated substantial free cash flow and returned excess capital to shareholders through dividends and share repurchase programs. While those remain important components of shareholder return, companies are increasingly choosing to reinvest a greater portion of their cash flows back into their businesses. Investments in data centers, semiconductor infrastructure, cloud computing capabilities, and artificial intelligence platforms represent an effort to expand future revenue opportunities and strengthen long-term competitive advantages. From our perspective, this shift reflects management teams identifying attractive opportunities to deploy capital at potentially favorable future rates of return.

Beyond equities, we continue to monitor the evolving relationship between stocks and bonds. Traditionally, fixed income has served as a stabilizing force within diversified portfolios, helping offset periods of equity market volatility. However, recent years have demonstrated that fixed income can experience meaningful price fluctuations when inflation remains elevated and interest rates trend higher. As a result, duration management has become increasingly important. In the current environment, shorter-duration fixed income securities may offer an attractive balance between income generation and reduced sensitivity to interest-rate movements.

We also continue to see a growing role for alternative investments within a diversified portfolio. Many alternative strategies seek to provide returns that are less dependent on the direction of traditional stock and bond markets, potentially improving diversification benefits while reducing overall portfolio volatility. Strategies emphasizing lower market beta, flexible risk management, and differentiated sources of return may prove particularly valuable in an environment characterized by elevated macroeconomic uncertainty and shifting market correlations. It is important to recognize that alternative investments carry unique risks. Many alternative strategies employ leverage, may experience periods of reduced liquidity during times of market stress, and often involve higher fees than traditional investments. As with any investment, there is also the potential for loss of principal.

What We Are Watching

Several themes will remain central to our outlook as we enter the final quarter of 2026.

Artificial intelligence continues to sit at the forefront of both economic growth and investment activity. The scale of capital being allocated toward AI infrastructure, data centers, cloud computing, and next-generation software platforms remains significant. While the long-term implications of the technology continue to evolve, its influence on productivity, corporate profitability, and capital investment has already become an important driver of economic activity. Monitoring how businesses adopt and monetize these investments will remain a key focus moving forward.

Political developments are also likely to attract increased attention as the U.S. midterm elections approach. Republicans currently maintain control of both the House and Senate, although polling data and prediction markets suggest the possibility of a more closely divided Congress following the election. A change in control of either chamber could affect the pace and scope of

legislation. The market implications would depend on the resulting policy agenda, economic conditions, and other factors, and cannot be predicted with certainty.

Monetary policy remains another important area of focus. Following the Federal Reserve's most recent rate increase, markets continue to evaluate the path of future policy decisions and the Committee's commitment to returning inflation toward its long-term objective. While futures markets currently imply a meaningful probability of an additional rate increase at the October meeting, these expectations remain highly dependent on incoming economic data. We continue to monitor inflation, labor-market conditions, and broader growth trends, as each will play an important role in shaping the trajectory of monetary policy and financial markets in the months ahead.

Final Word

As we move into the final quarter of 2026, the overall investment backdrop remains constructive. Economic growth continues to be supported by a resilient consumer, healthy labor markets, and a sustained cycle of private-sector investment. While inflation remains above policymakers' long-term objectives and interest rates have continued to move higher, underlying economic activity has thus far demonstrated a degree of resilience that many investors did not anticipate entering the year.

At the same time, markets are navigating a period of transition. Monetary policy remains restrictive, geopolitical tensions continue to influence energy markets, and political uncertainty is likely to increase as the U.S. midterm elections approach. These factors may contribute to periods of heightened volatility and shifting market leadership in the months ahead. However, volatility should not be confused with deterioration. Periods of uncertainty have historically created opportunities for disciplined investors willing to maintain a long-term perspective.

From an investment standpoint, we remain focused on the fundamental drivers of wealth creation: innovation, productivity growth, prudent capital allocation, and broadly diversified portfolio construction. The acceleration of investment in artificial intelligence and related infrastructure remains one of the most significant long-term developments shaping the economic and market landscape, while opportunities within fixed income and alternative investments continue to enhance portfolio diversification.

Although near-term market outcomes remain inherently uncertain, we believe the combination of resilient economic fundamentals, improving productivity trends, and thoughtful portfolio positioning provides a favorable foundation for long-term investors. As always, we remain committed to monitoring developments closely and maintaining a disciplined approach to managing risk and pursuing opportunities on behalf of our clients.

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