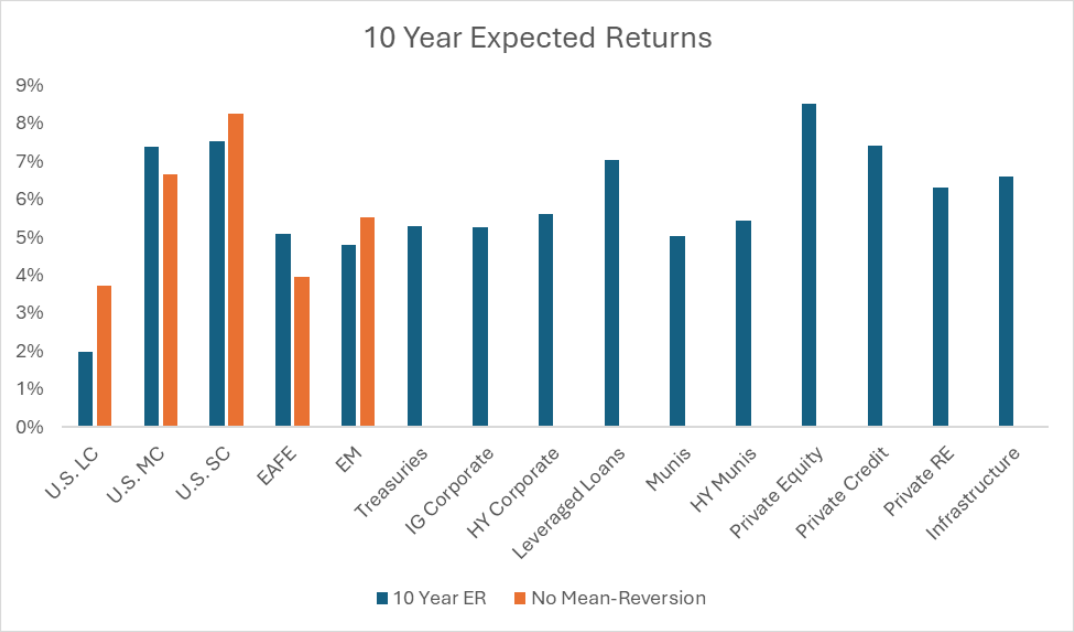
CAMBRIDGE

Quarterly Investment Update Q3 2026

Overall Market Review and Economics

After another eventful quarter, markets enter the fourth quarter with a combination that would have seemed unlikely earlier in the year: Economic growth remains solid, corporate earnings are unusually strong, and monetary policy is becoming more restrictive. The Dallas Fed's Weekly Economic Index recently pointed to growth near 3%, while second-quarter earnings produced some of the strongest results in recent memory. These fundamentals continue to underpin our constructive view of risk assets. At the same time, higher Treasury yields, a renewed Federal Reserve tightening cycle, geopolitical disruptions, and signs of strain in lower-quality credit call for greater selectivity. We share our 10-year capital market assumptions (CMAs) below and formally present our asset-class views later in this piece.



Our CMAs are directionally similar to our views in prior quarters. We expect U.S. large-cap equities to perform the worst among the major equity asset classes available to investors over the coming decade. Smaller-capitalization U.S. equity indexes should outperform, while developed and emerging international indexes should offer solid positive returns and diversify investors' portfolios. These long-term return expectations are intended to ground strategic allocations and may not be reflected in our tactical views.

Fixed income, on the other hand, is a different story. Given the sharp rise in yields during the third quarter, our CMAs for each major fixed-income asset class rose this past quarter. Fixed-income

CMAs have far more predictive power than equity CMAs, making us more likely to incorporate those strategic views into tactical allocations. We are less enthusiastic about corporate credit investments today and discuss that view later in the letter.

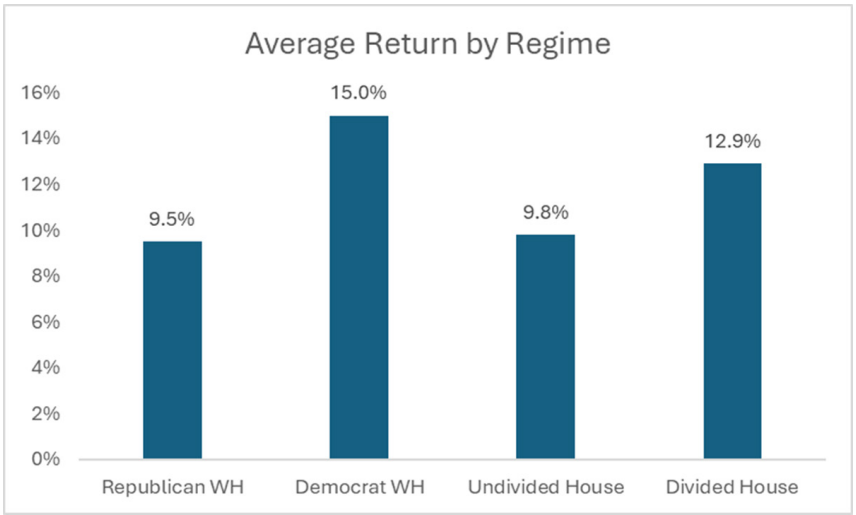
Finally, we continue to expect private markets of all types to offer investors a meaningful return premium relative to liquid markets. We also introduced a CMA for infrastructure investments. We expect these investments and their underlying projects to deliver returns that solidly outpace inflation, an important feature of the asset class. We will periodically add asset classes to our CMA lineup when we believe we can understand and accurately estimate their drivers of long-term returns.

Continued Strength of Growth and Earnings

The economy remains the most important support for markets. Growth has been broader and more durable than many forecasts anticipated, supported by resilient consumer spending, strong investment, particularly in artificial intelligence (AI)-related infrastructure, and improving labor productivity. Corporate results tell a similar story. Revenue growth has held up, margins have expanded, and the largest companies continue to invest from positions of considerable financial strength. Earnings breadth is not ideal. The strongest gains remain concentrated in large-cap technology and other beneficiaries of the AI build-out, but the aggregate picture is difficult to characterize as weak. We have written extensively about economic resilience and earnings strength because they matter more to long-term returns than most short-lived headlines. As long as profits continue to compound and the economy avoids a contraction, risk assets should continue to reward investors.

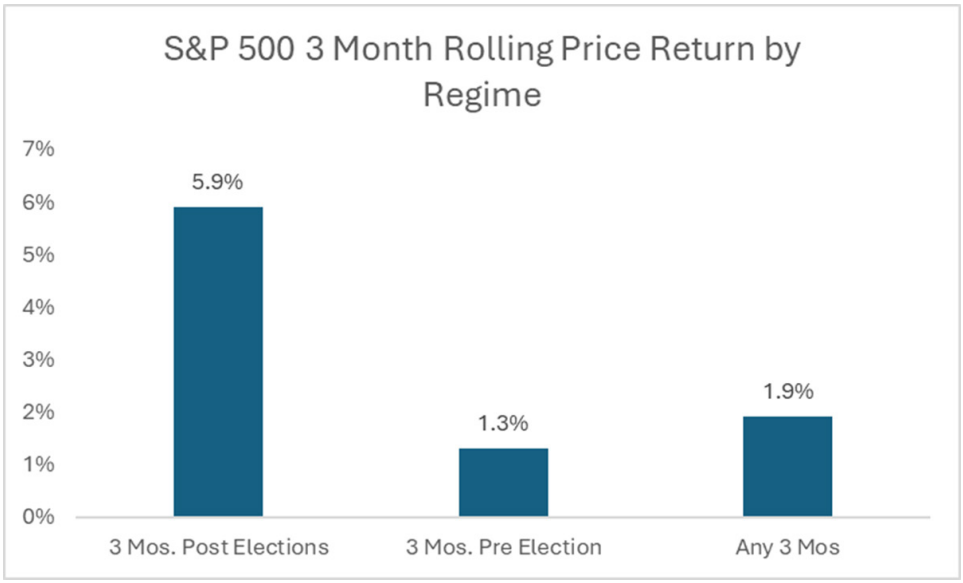
Midterm Elections

Political attention is turning to the November midterm elections and their potential effects on markets. Prediction markets and polling currently favor Democratic control of the House and show a closer contest for the Senate, although those probabilities can move quickly and may be biased. Investors may be tempted to translate an expected election outcome directly into a market position. We caution against doing so. Our review of returns over the past 100 years under various combinations of White House and congressional control found differences across periods but no sufficiently consistent pattern to make party control a reliable trading signal on its own. The charts below show annual S&P 500 returns under different political regimes. Although the return patterns appear intriguing, none of the differences are statistically significant and therefore should not be considered tradable events.



Source: S&P Dow Jones Indices, U.S. House of Representatives, data as of 2025

Markets have historically performed well in the three months after midterm elections, with the S&P 500 advancing more than 5% in the three months after results are known. Those relationships are statistically significant, with the S&P 500 delivering positive returns in 19 of the past 24 cycles in our analysis. This may reflect traders gaining confidence after election-related uncertainty is resolved.

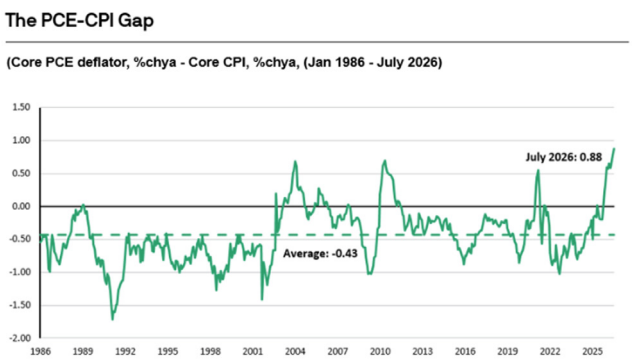


Source: S&P Dow Jones Indices, U.S. House of Representatives, data as of 2025

We therefore remain modestly tilted toward cyclical assets, but our rationale has more to do with the economy than with political outcomes. A firm growth backdrop, strong profits, and continued capital spending are more durable reasons to hold that exposure than a forecast of which party will control Congress.

Federal Reserve Tightening

We were surprised by the Federal Reserve's September decision to raise the federal funds rate by 0.25 percentage points to a range of 3.75% to 4.00%, its first increase since 2023. As of this writing, data from the Chicago Mercantile Exchange shows that traders believe there is a nearly 90% chance of additional rate increases before year-end. The Fed's decision followed elevated readings of its preferred inflation measure, core personal consumption expenditures (PCE). However, the inflation picture is less straightforward than the headline suggests. After benchmark revisions, core PCE inflation was 3.0% year over year in July and August, while August's monthly increase was cooler than economists expected. Other measures of underlying inflation have also been more contained. The chart below shows the difference between core PCE and core Consumer Price Index (CPI), another widely followed inflation measure, over time.



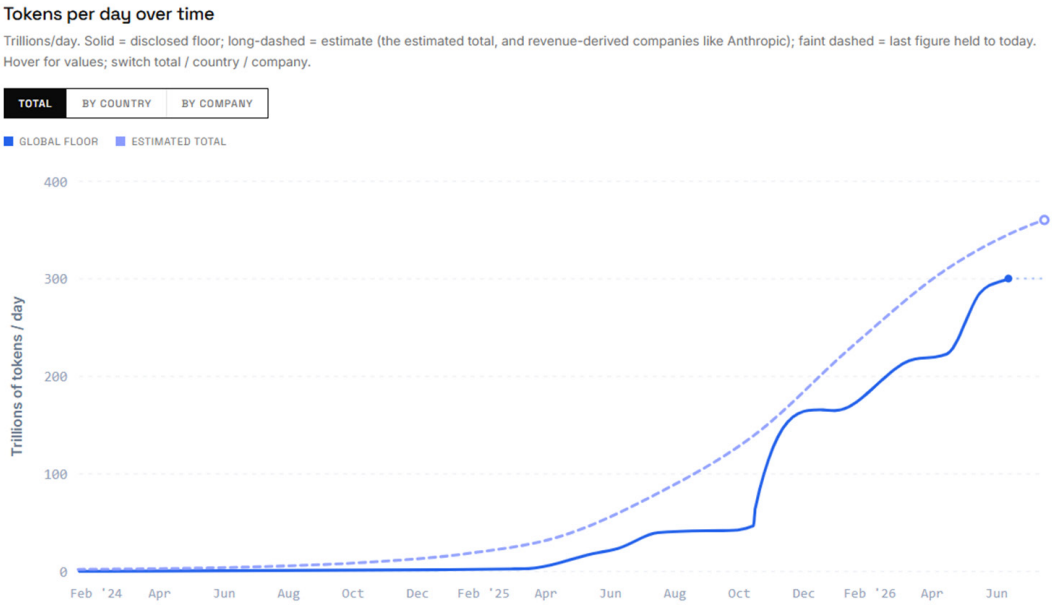
Although core PCE has meaningfully deviated from core CPI in recent months, the difference is most likely due to index-construction methodologies rather than PCE being a superior inflation measure or economic signal. Much of the difference between the two series is likely to reverse in the coming months and quarters. As noted previously, August's core PCE reading was cooler than expected.

Much of the recent inflation pulse appears connected to supply constraints and geopolitical disruptions, including the wars in Iran and Ukraine and their effects on energy markets. Diesel prices, in particular, have risen sharply, affecting the prices of goods and services that use diesel as a production input. Interest-rate policy is a blunt tool for addressing that kind of inflation. Higher borrowing costs may cool demand, but they cannot create additional oil supply, repair disrupted trade routes, or restock energy reserves. Meanwhile, the economic costs of tighter policy are increasingly visible in interest-rate-sensitive credit and real estate markets. Market-based inflation expectations remain comparatively well anchored, and longer-term forces such as demographics and increasing labor productivity should help moderate inflation pressure over time. We are concerned that the Fed may be applying additional restraint just as temporary inflation pressures begin to fade. We hope the Fed will remain flexible and change course if our view unfolds, because we believe this is the largest risk investors face today.

The AI Build-Out Continues

The build-out of artificial intelligence-related infrastructure remains one of the most important drivers of current economic growth, particularly in the U.S. This is real industrial investment: Data centers and the infrastructure needed to support them are being built at an extraordinary pace. Alphabet and Amazon each raised their 2026 capital-spending plans again during the most recent earnings season, to roughly $195 billion to $205 billion and $220 billion, respectively. Microsoft announced plans to increase data center capacity from 12 gigawatts to 38 gigawatts by 2032. Those figures will evolve, but the direction is unmistakable. AI infrastructure providers are seeing returns on their investments as demand for services continues to increase.

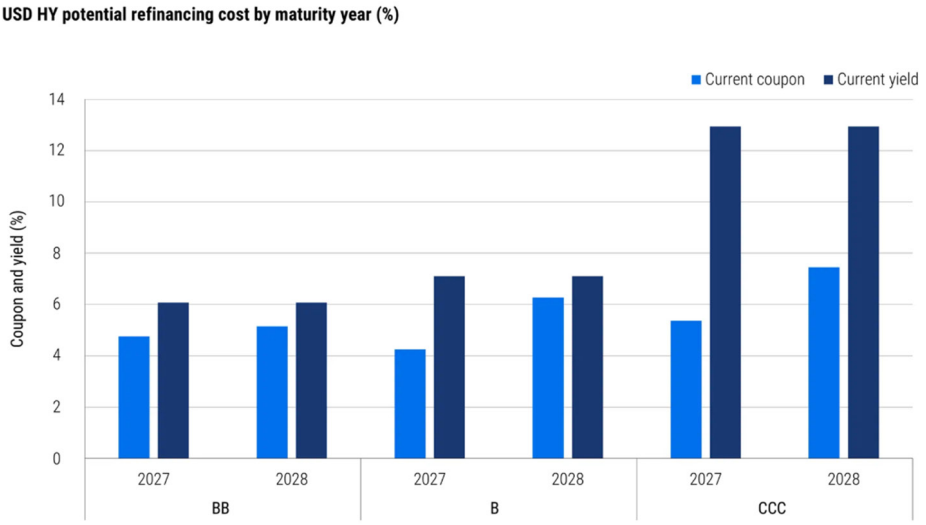
We discussed this topic in our most recent monthly spotlight, but it is worth noting again that corporate and personal demand for AI-related services is increasing rapidly. The chart below estimates global token usage. These estimates should be viewed with caution, but the direction is clear: Demand for computing capacity and AI-related services increased significantly in 2026 and appears likely to continue. This trend gives us confidence that the AI build-out is a durable investment theme that should support the economy and earnings for many quarters.



Source: Tokens Per Day, data as of July 2026

A Warning on Corporate Credit Markets

Corporate credit, particularly the high-yield market, is one area where we believe caution is warranted. Years of inexpensive financing allowed many companies to extend borrowing maturities, but a meaningful refinancing wall remains. As shown in the chart below, more than $700 billion of high-yield bonds were scheduled to mature from 2027 through 2029 as of late 2025, and issuers may have to refinance at materially higher coupons if current yields persist. At the same time, broad high-yield spreads remain relatively tight, offering limited compensation for deteriorating fundamentals. That combination of higher base rates, large refinancing needs, and modest risk premiums is not especially attractive.



Source: Bloomberg, ICE-BAML, PIMCO as of 26 August 2026. Based on Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD. Current coupon is the coupon on the existing bonds. Current yield is the current yield to worst at the index level for that rating.

AI-related borrowers illustrate the tension. As noted previously, the build-out is creating valuable productive assets, but some infrastructure providers are financing rapid expansion with substantial debt. Credit default swap spreads, or the cost of insuring against a bond default, have risen to concerning levels among certain cloud providers. These signals remind us that although the thematic backdrop for these and other companies is solid, the capital available for investment is not unlimited. We are increasingly concerned that corporate credit, from investment-grade to speculative-grade debt, is not an attractive investment opportunity today. Instead, the increase in Treasury rates this quarter allows investors to earn high base rates in safe fixed-income investments with little or no corporate credit exposure.

Closing Thoughts

The common thread across these developments is that the economy remains stronger than the policy and geopolitical backdrop might suggest. Healthy growth, record earnings, and the AI investment cycle continue to support risk assets. The midterm elections may remove one source of uncertainty, but we would not treat the result as an independent reason to reposition portfolios. The more immediate risks come from tighter monetary policy and capital structures built for a lower-rate environment.

Our resulting posture is constructive but selective. We continue to favor equities and cyclical exposures supported by earnings and economic growth while remaining attentive to valuations. Within fixed income, higher-quality bonds and Treasuries offer compelling income and a better balance of risk and reward than lower-quality corporate credit. We also believe flexibility is valuable. If inflation continues to cool and the Fed steps back from additional tightening, both duration and risk assets could benefit. As always, we will update our views as the evidence changes and welcome your feedback or comments. Our asset-class recommendations and brief explanations appear below.

Equities	Current Weighting	Outlook
U.S. Large Cap	Neutral	Excellent fundamental and earnings growth. High concentration of largest names and high starting valuations keep us neutral on this asset class. IPO activity and share sales also concern us. We are not recommending any active positioning among sectors or styles today given lack of identifiable catalysts.
U.S. Mid and Small Cap	Neutral	Modest valuations and broadening earnings growth make us modestly positive on the asset class. We currently recommend a neutral weight but might look to change to overweight if we start to see evidence of earnings growth inflecting higher.
EAFE	Neutral	Diversifying into international equities still make sense in our view given the potential for modest U.S. equity returns from these levels. Worrisome trends in sovereign debt yields and potential negative growth shocks keep us neutral relative to benchmark.
EM	Neutral	Extraordinary returns in certain countries, high retail investor participation, and rapid earnings growth have defined returns in emerging markets this year. While not extreme, valuations are high relative to long-term averages and there is some evidence of froth. We maintain our neutral view given solid diversification properties of this asset class.

Duration	Current Weighting	Outlook
Treasuries	Neutral	Real interest rates are solidly positive across the yield curve, finally compensating investors for huge potential net new treasury supply. We have moved from a neutral to overweight rating on duration, but we have other preferred asset classes for duration exposure. Treasury market volatility has increased in recent weeks, and we are monitoring correlations with equities. These developments keep us from recommending an overweight there.
IG Corporates	Underweight	Narrow spreads combined with significant upcoming issuance keep us underweight this segment despite our economic outlook. If spreads normalize we will look to upgrade our outlook.
Agency Mortgages	Overweight	Solid spreads relative to both treasuries and high quality corporate bonds still make this a preferred way to obtain duration exposure. Normalizing treasury volatility would be a positive for mortgages.
Munis	Overweight	After-tax yields of high quality municipal bonds are solid today, and look attractive relative to treasuries. Term premiums, or the pickup in yield earned from increasing duration remains solid among municipal bonds. We also think there is opportunity to boost income levels in higher yielding municipal bonds as well.

Credit	Current Weighting	Outlook
High Yield	Underweight	Fundamental changes to the index with respect to quality composition and duration, along with our economic outlook means we expect defaults to remain subdued in the near-term. With that said, this market faces large refinancing needs in the coming years and this combined with large amounts of corproate issuance cause us to recommend an underweight.
Leveraged Loans	Neutral	While underwriting standards were admittedly poor in recent years, we maintain a neutral rating for the asset class. This is informed by our view that the default cycle in this sector is easing, and there is value in the short end of the treasury yield curve in our view.
Structured Credit	Overweight	Structured credit remains our favored way to gain credit exposure, as this segment offers solid yields with modest credit and duration risk. Our favorite segments within this asset class includes Non-Agency RMBS and certain CMBS segments, as the collateral values for both asset classes are likely to remain solid in 2026.

Alternatives	Current Weighting	Outlook
Private Equity	Overweight	Reinvigorated equity markets and IPO demand should promote portfolio realizations and returns. Our economic outlook leads us to believe the asset class should produce solid liquidity premiums over public markets, but we are watching the effect of higher interest rates. Manager selection is key here.
Private Debt	Neutral	While we have seen evidence of poor underwriting standards and concerning defaults, particularly within the direct loan segment of the market. We still expect private debt investors to earn solid returns over the medium and long-term. We remain neutral on the asset class overall.
Private Real Estate	Neutral	Transaction activity remains subdued as elevated financing costs continue to pressure real estate valuations and limit deal flow. We expect cap rates to continue expanding gradually, though high replacement costs should provide support for property values. Given the challenging environment, we favor high-quality assets with durable demand drivers and believe manager selection remains critical.
Infrastructure	Overweight	We favor private infrastructure due to its combination of durable cash flows, inflation-linked revenue streams, and attractive long-term growth opportunities. Increasing demand for power, grid modernization, digital infrastructure, and transportation assets should support investment activity and earnings growth. Manager selection remains critical given the broad opportunity set and asset-specific risks.



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