2026

THIRD QUARTER

GKV CAPITAL

MARKET REVIEW AND OUTLOOK

Finding Opportunity

3Q26 DATA POINTS

S&P 500	+11.77%
GLOBAL EX. US	+14.22%
REAL ESTATE	+3.67%
US BOND INDEX	-2.91%
10-YEAR TREASURY YIELD	5.29%
S&P 500 LTM DIVIDEND YIELD	1.11%
S&P 500 12-MONTH EPS	$398.70
S&P Forward P/E	19.2x

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Opening Thoughts

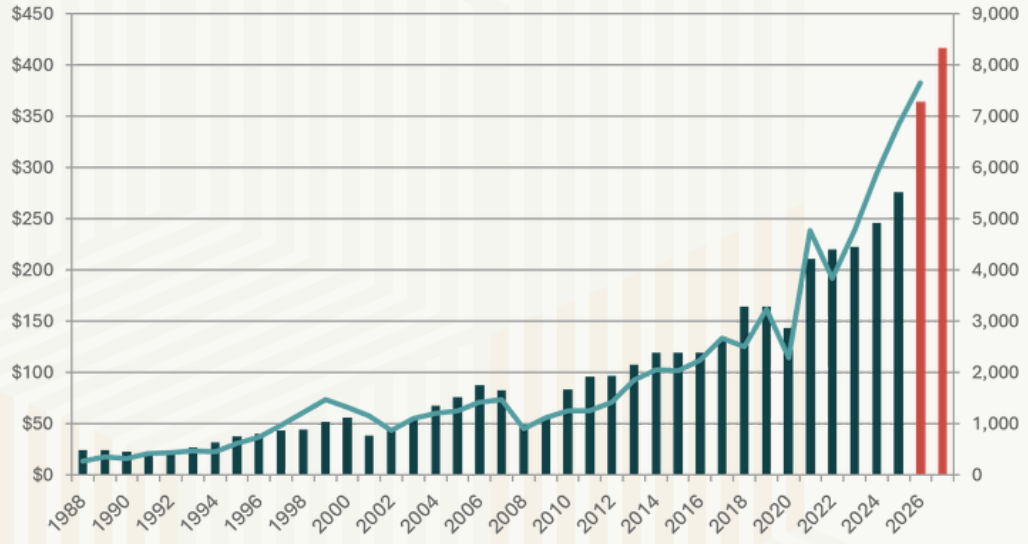
Exactly four years ago, the S&P 500 index closed the third quarter of 2022 at 3,586. In forty-eight months, the index has more than doubled, hitting 7,652 on September 30th. Back in 2022, we were trying to move past a painful pandemic that came with significant economic disruption. Stocks bounced back in 2023 in anticipation of better corporate earnings. That growth was slow to materialize, but by 2024, real earnings growth was apparent - 10.4% in 2024, increasing to 12.4% in 2025. Forecasts now peg 2026 earnings growth to exceed 30%. Corporate earnings have nearly doubled since 2022. It should not be a surprise that the market has doubled in response. We still expect growth to remain strong into 2027.

Any investment comes with an expectation of a return. Companies invest to grow their business. We invest in those companies to grow client assets. While growth will not always materialize in a predictable straight line, the human drive for innovation will continue. The opportunity to be a student of economics and business has been the best part of this job.

The other great part of the job is getting to spend time talking through financial situations with our clients. We started off in this profession for lots of reasons but all of us take great satisfaction in being able to be helpful. We try to proactively reach out to everyone reguarly, but please don't ever hesitate to reach out for anything. The beauty of being a small boutique is the close interaction with our clients. If you ever want to discuss your investments, or our view of the world, or refine your financial plan, we would love to see you.

And if you are in Northern California, come by the newly completed office in Walnut Creek. The address is the same- we haven't moved buildings but we took over new space. Stay tuned for an open house event.

»S&P 500 TOTAL EARNINGS AND INDEX PRICE



3Q26 Review

The third quarter began with the war in Iran in a ceasefire, but that truce did not last. On July 8, after attacks on commercial vessels in the Strait of Hormuz, the ceasefire was declared over, the Strait was closed again, and oil surged back above $100 a barrel. After a July swoon, the stock market looked past the renewed conflict once again. Strong earnings from AI-related companies carried the major indices to new highs, but the gains were narrow, and a sharp rise in interest rates in September weighed on the rest of the market.

The collapse of the ceasefire reversed much of the progress that markets had priced in during the second quarter. Shipments through the Strait of Hormuz, which had only just resumed at a fraction of pre-war levels, were halted, and sanctions waivers that had allowed Iran to sell oil were revoked. Gasoline prices climbed back to nearly $4.50 a gallon nationwide and record-high diesel added to the cost of nearly everything. Unlike the first quarter, however, equity investors showed little concern for the headlines, and the consensus shifted to a longer, more drawn-out conflict rather than a quick resolution.

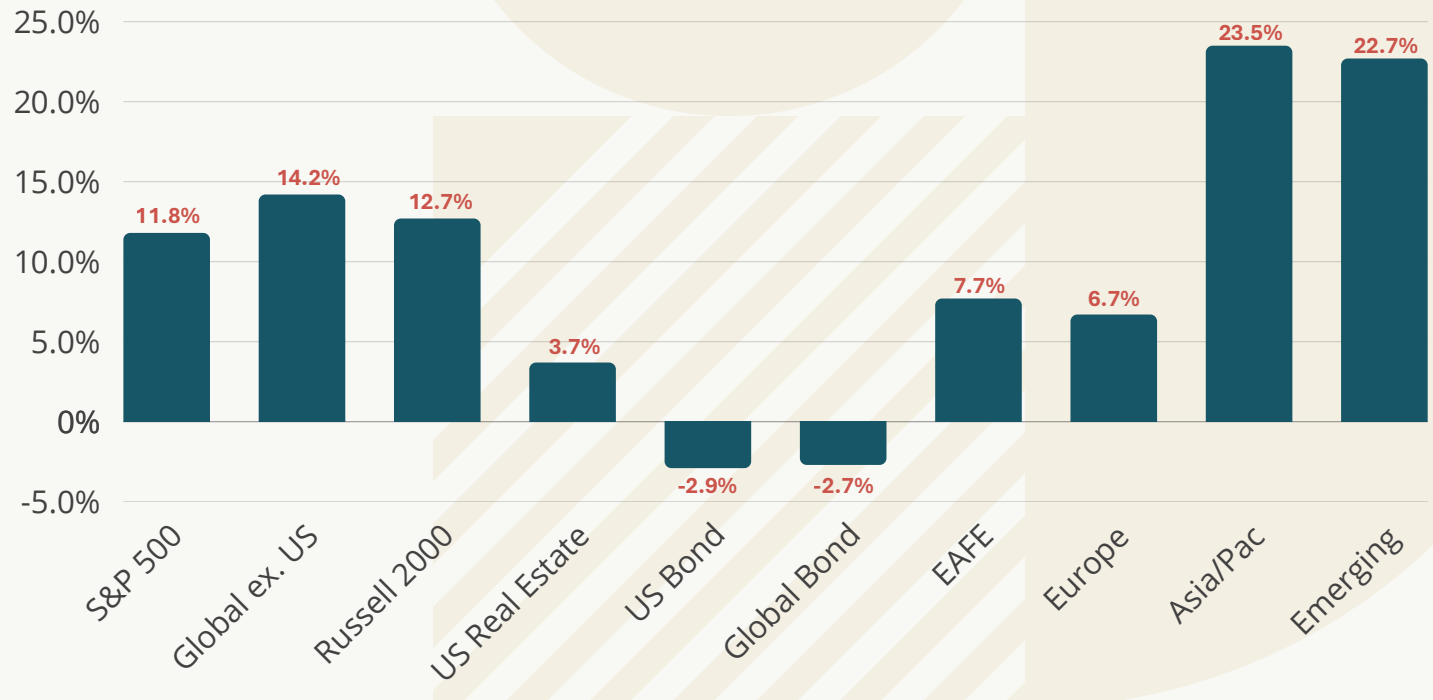
Coming off strong gains in the second quarter, the broad S&P 500 index added another 3.2% in the third quarter, and is now up 11.8% for the year. The tech-heavy Nasdaq gained 2.5% in Q3, and is up 15.7% year to date. Small caps reversed course, with the Russell 2000 falling 7.5% in the quarter, though it remains up 12.7% for the year.

Surging interest rates pressured the Barclays U.S. Aggregate Bond Index, which fell 4.5% as the 10-year Treasury yield jumped to 5.29%, the highest level in two decades.

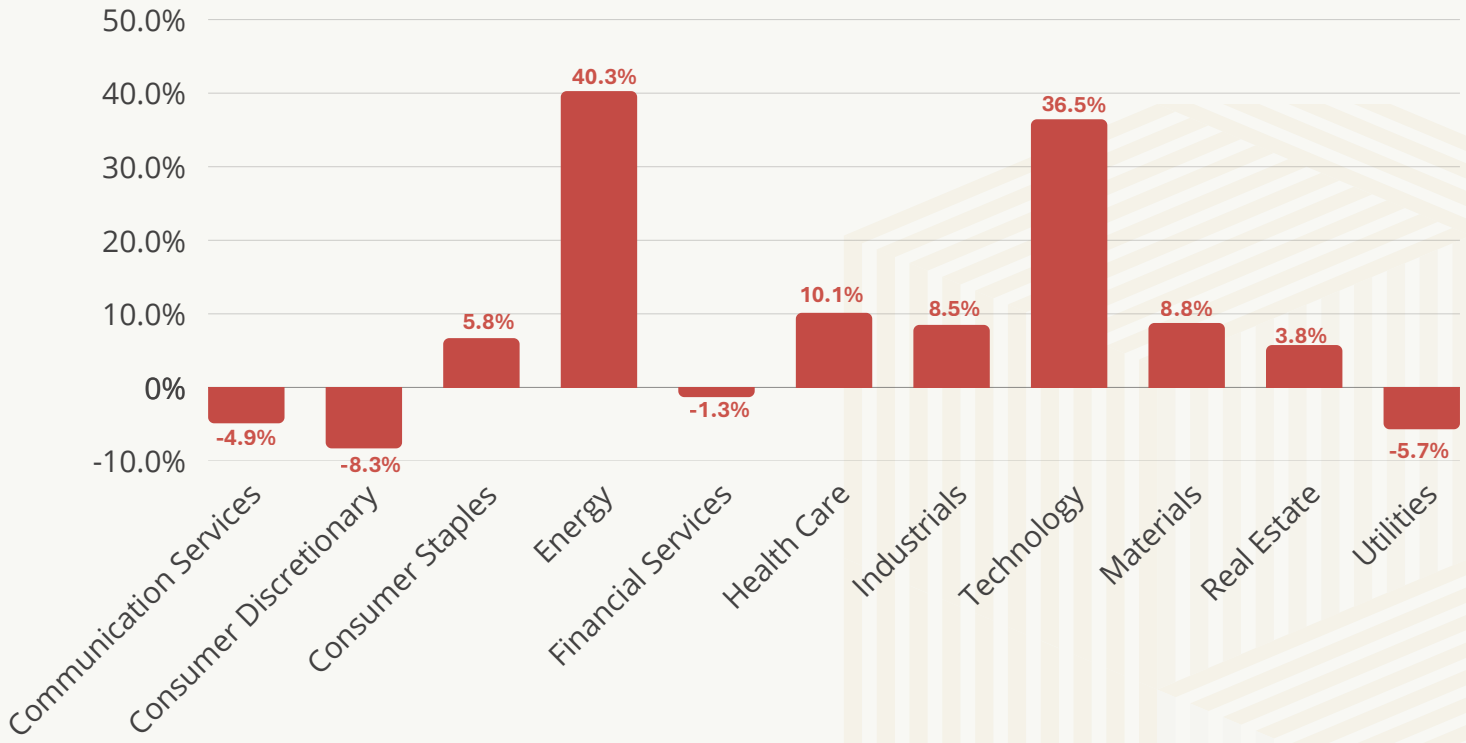
Energy was once again the top performing sector, gaining 18.6% as oil moved back above $100. Technology followed, up 12.7% in Q3 and 36.5% year to date as AI infrastructure spending continued to accelerate, with semiconductor and hardware companies still leading. Health care was essentially flat in the quarter but up 10.1% year-to-date while materials declined 5.0% but still up 8.8% for the year. Communication services ended the quarter down 4.9% for the year so far.

Rising interest rates hit rate-sensitive areas of the market the hardest. Utilities fell 13.0% as higher yields made their dividends less attractive and are now down 5.7% year to date while industrials, a Q2 leader, gave back 7.6% but remain up 8.5% year to date. Real estate declined 7.9% after a strong first half of the year. Consumers continue to bear the brunt of inflation and the consumer discretionary sector is down 8.3% for the year. Financials were a

YTD MAJOR INDEX PERFORMANCE



YTD SECTOR PERFORMANCE



relative bright spot for much of the quarter but began to sell off in the last few weeks.

International equities were largely unchanged in the third quarter after a strong first half. The MSCI EAFE (Europe, Australia, Far East) index was flat in the quarter and is up 7.7% year to date, while emerging markets slipped 1.0% but remain up 22.7% for the year. European stocks lagged the U.S. as government bond yields in France, Germany, and the U.K. rose to multi-year highs. In Japan, inflation and currency volatility pushed bond yields to decade highs. South Korea, a big beneficiary of AI semiconductor demand in the first half, had its worst quarter since the pandemic as investors questioned valuations.

Core economic data in the U.S. remained resilient in the third quarter, despite consumer sentiment staying near record lows. Over two-thirds of the U.S. economy is driven by consumer spending. We track employment data, income, debt, interest rates, and inflation to gauge the health of households and by extension, the health of the U.S. economy. Unemployment remains low, recorded at 4.1% in September. Disposable income is up 4.3% over the year ago period and retail sales increased 5.8%. Many macro-economic indicators have marginal value relative to the stock market. They reflect recent historical information but are important for gauging the health of the consumer or the direction of interest rates.

The OECD's September forecast lifted the outlook for the global economy modestly, reflecting the resilience of the AI investment boom despite renewed energy disruptions. Prior to the war, global GDP forecasts were for 3.3% growth; the most recent OECD forecast in September pegs growth at 2.9%. This global outlook reflects a mid-4% growth forecast for China, 2.2% for the U.S., 1.0% growth in Europe, and 0.8% growth in Japan.

Combined earnings for all companies making up the S&P 500 are forecast to reach $364.19 per share in 2026, a 32% increase compared to full year 2025, with third quarter earnings expected to grow nearly 30% over the prior year. While the earnings growth is impressive, interest rates, energy costs and a weaker consumer are affecting certain sectors more than others and we expect this trend to continue.

The 10-year Treasury yield ended the quarter at 5.29%, its highest level in roughly two decades, after rising 0.85% from 4.44% at the start of the quarter. On September 16, the Federal Reserve raised the federal funds rate by 0.25% to a range of 3.75%–4.00%, the first increase since 2023, and signaled that further hikes are possible if inflation does not cool. Inflation remains stubbornly above the Federal Reserve's 2% target, with consumer prices up 3.4% from a year ago.

Heavy government and corporate debt issuance added to the upward pressure on longer-term yields and helped push mortgage rates uncomfortably above 7%. The higher rates continue to squeeze affordability and purchasing power in an already challenged housing market.

Gold rebounded in the third quarter, gaining 3.7% as the renewed conflict in the Middle East revived demand for safe havens, but it remains down about 3% for the year. Rising yields and a Federal Reserve that is now raising rates continue to limit gains, as higher interest rates increase the opportunity cost of holding gold, which doesn't pay any interest or dividends.

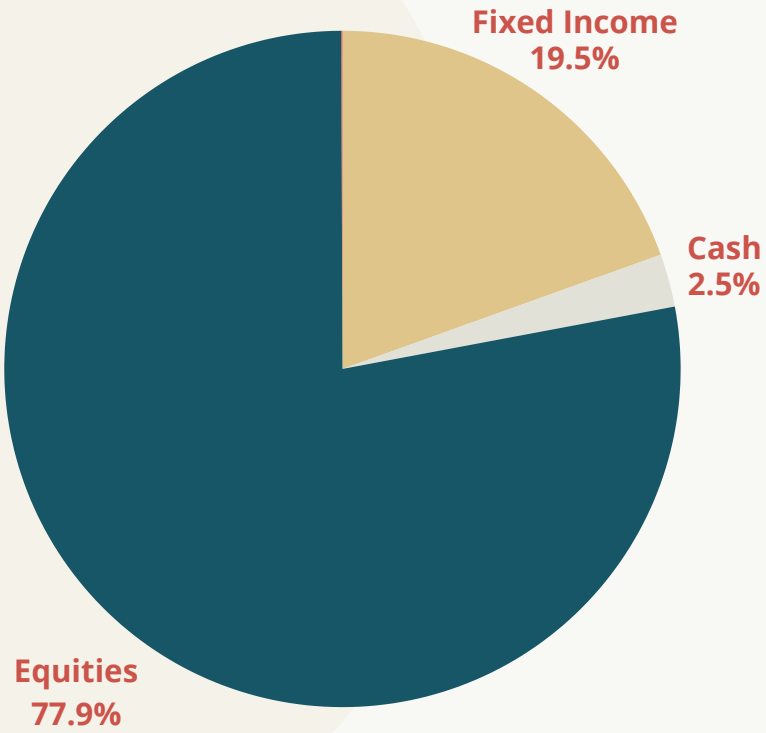
Firmwide, we ended the third quarter with 77.9% in equities, 19.5% in fixed income, and 2.5% in cash. We have largely eliminated our exposure to gold and commodities.

We continue to monitor economic and earnings data, particularly the impacts of higher interest rates and energy prices, for any signs of change in underlying trends. We do not hold illiquid assets such as private credit or private equity.

WE MANAGE SEPARATE ACCOUNTS FOR EACH OF OUR CLIENTS. EACH PORTFOLIO IS CUSTOM TAILORED FOR THE CLIENT.

GKV FIRMWIDE

Asset Allocation



Finding Investment Opportunity

By almost any measure, this has been a difficult year to be an optimist. The war with Iran sent oil above $100 a barrel. Inflation reaccelerated. Tariffs continue to work their way through supply chains. The 10-year Treasury yield has climbed from 4.2% at the start of the year to 5.3% at the end of September. Consumer sentiment remains near record lows. If you had been handed a list of these headlines in January and asked to predict the stock market, you probably would have guessed it would be down. And yet, through the first nine months of the year, the S&P 500 is up nearly 12%.

This quarter we thought it would be constructive to step back from the headlines and explain how we actually go about identifying investment opportunities. What do we look at? What do we ignore? And why does the stock market so often seem to do the opposite of what the news suggests it should?

Fundamentals Come First

If you have read our outlook over the years, you already know the answer to why stocks are higher: earnings. Stock prices are ultimately anchored by the cash flows that companies generate, and those cash flows have been extraordinary. Our forecast for S&P 500 earnings this year is $364.19 per share, a 32% increase over 2025. Looking out to 2027, we are forecasting $416.97, an additional 14.5% increase. That is an exceptional rate of growth for an economy that is several years into an expansion, and it is happening despite higher interest rates, geopolitical conflict, tariffs and inflation.

Here is why that matters. A stock's price can be thought of as two pieces multiplied together: the earnings the company produces, and the price-to-earnings multiple that investors are willing to pay for those earnings. Much of the market commentary you hear is really about the multiple, whether investors are feeling greedy or fearful. But if earnings grow 14.5% next year and the multiple stays exactly where it is, stock prices will rise roughly 14.5%. Stocks do not need investors to get more excited to move higher. They only need companies to deliver.

The reverse is also true. If earnings were to stall, no amount of enthusiasm would hold prices up for long. That is why we spend the overwhelming majority of our time on the earnings side of the equation.

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The Human Element

If fundamentals were the whole story, investing would be a lot simpler. But markets are made up of people, and people are not always rational. Understanding the behavioral side of market movements is just as important as understanding a balance sheet. One of the most common tendencies we see is the urge to connect significant events to market outcomes. A major news story breaks, and it feels like it should have a big impact on our portfolios. Sometimes it does. More often, it doesn't. People frequently draw correlations that simply don't exist.

Politics is the best example. We are often asked whether stocks do better under Democrats or Republicans. The honest answer is that which party holds the White House or Congress has no predictable impact on equity market performance. Stocks have delivered strong returns and painful losses under administrations of both parties. The sample size is small, and the results depend far more on the business cycle, interest rates and corporate earnings than on who is in office.

With the midterm elections a few weeks away, it is worth repeating. The elections themselves are very important. They will shape policy on taxes, trade, health care and much more, and we would encourage everyone to vote. But the outcome is unlikely to have a meaningful impact on your portfolio. Unless an election changes the trajectory of corporate earnings, it is, as far as the stock market is concerned, mostly noise.

Optimism, Pessimism and Return on Investment

Investor sentiment rarely sits in a sensible middle ground. It tends to swing between too much optimism and too much pessimism, often in a matter of months. Earlier this year, investors were selling stocks on fears of an energy shock and AI-driven disruption. A few months later, record earnings had everyone talking about bubbles again.

The way we cut through those swings is by focusing on the return on investment. Nowhere is that more relevant than artificial intelligence. Hyperscalers and AI developers are spending hundreds of billions of dollars on data centers, chips and power. Is it a bubble? In our view, that question will ultimately be answered by a much more practical one: can these companies recoup their investment?

If demand for AI services keeps pace with the build-out, the massive capital spending is sustainable, and the companies supplying the picks and shovels will continue to grow into their valuations. If demand falls short, the spending will slow, earnings will fall, and with the benefit of hindsight we will call it a bubble.

The difficulty is that no one, including the companies doing the spending, knows precisely what the appropriate level of investment is. History offers plenty of examples, from railroads to fiber optic networks, of transformational technologies that created enormous wealth and still left investors who overpaid nursing losses. So we watch the evidence closely: revenue from AI services, utilization of new capacity, pricing and margins. Today those numbers support the spending. We will continue to test that conclusion every quarter.

What We Look For in a Business

When we evaluate an individual company, we start with the business, not the stock. We ask a consistent set of questions:
Is it growing? We want to see revenue and earnings moving in the right direction, and we want to understand why.

INVESTOR SENTIMENT RARELY SITS IN A SENSIBLE MIDDLE GROUND

Are margins defensible? Strong profitability attracts competitors. We look for companies with pricing power, scale, technology or customer relationships that make those margins hard to take away.

What is the competitive landscape? Who else is going after the same customers, and who is winning?

How big is the market opportunity? A great company in a small market can only grow so much.

How strong is management? We look at the track record of execution and how leadership allocates capital.

What might change? We try to identify what could slow demand, or what could accelerate it, before it shows up in the results.

And lastly, is the valuation appropriate, or has optimism gotten carried away? A wonderful business purchased at too high a price can still be a disappointing investment.

Internally we build a few model portfolios. The model is a virtual construction consisting of thirty to forty stocks that we believe are most attractive at that moment in time.

The model portfolio will have the what we think is the right representative weighting of various sectors, industries, risk and reward and geographic exposure.

We continually compare this model against existing client portfolios to make adjustments and capture opportunities.

Each client portfolio is still unique, but the model provides a framework to manage investments and capture opportunities while retaining the customization to meet the needs of each client particularly around risk profile and taxes.

Looking Beyond Stocks

Our analysis isn't limited to evaluating equities. We also look at the macroeconomic outlook to decide how much to allocate to each asset class. Rising interest rates have made bonds considerably more attractive. With the 10-year Treasury yielding above 5% and high-quality corporate bonds yielding around 6%, fixed income is offering investors real income for the first time in a long while.
As a result, we are increasingly taking a barbell approach in client portfolios. On one end, we are investing in the growth of technology, and AI in particular, where earnings growth is strongest. On the other, we are increasing allocations to fixed income to provide steadier, less volatile performance. Of course, each portfolio is tailored to the individual client, so the balance will differ from account to account.

It is worth pointing out a common rule of thumb: higher interest rates are bad for stocks. Usually, that holds up. But the reason it holds up is that higher rates tend to slow economic growth, and slower growth means lower earnings. If earnings keep growing, there is no contradiction in seeing both higher interest rates and higher stock prices. That is exactly what we have experienced this year.

Rules of thumb are frequently correct, but not always. Our job is to understand why they work, so we can recognize when they don't. Headlines will come and go, and sentiment will swing back and forth. We will keep our focus where it belongs: on the businesses we own, the earnings they produce, and the price we pay for them.

Planning Ahead: Retirement

Maximizing Retirement Savings for W2 Earners

We've officially entered the last quarter of the year – spurring on a season of holidays, reflection, and (at least in our industry) year-end savings. You've probably been told to maximize your 401k, but it's only one of several valuable options at your disposal. The roadmap isn't one-size-fits-all. It's important to know the options and what you can do to maximize your financial picture for today, retirement, and for the people who may inherit what remains.

Start With Your Employer Match

Let's start with the obvious: 401k plan matching. You've heard that you don't want to miss out on "free money," and there's truth to that. If you earn $150,000 and your employer matches 100% of the first 5% you defer, contributing $7,500 captures the full $7,500 match. In 2026, the employee deferral limit for most 401(k), 403(b) and governmental 457(b) plans is $24,500 (with catch up contributions on most plans between an additional $8,000 and $11,250 depending on your age). These limits are separate from your personal IRA limit. This match essentially gives you an immediate 100% return on your contributions (notwithstanding your company's vesting schedule, which may require a certain number of years of service prior to actually earning the full right to the match).

Traditional or Roth? Make It Deliberate

So, what's next? Most people with enough cash flow to contribute more than the match requirement assume the next step is just contributing more to their 401(k), but that isn't always the best answer. Yes, traditional contributions reduce current taxable income. A $24,500 pre-tax contribution reduces federal taxable wages from $150,000 to $125,500. However, many plans also offer a Roth 401(k). Roth contributions provide no current deduction, but qualified withdrawals are tax-free in the future. You should consider post-tax Roth contributions if you expect your tax rate to rise, have a long-time horizon or already hold substantial pre-tax assets. Paying tax at 24% today may be attractive if those dollars (or your heirs' distributions) could be taxed at 32% later. Often, there is a balance between traditional and post-tax contributions that make sense as you layer on additional strategies.

Layer On IRAs – For You & Your Spouse

After deciding how much to direct to your employer plan, review IRA eligibility. In 2026, the combined limit across traditional and Roth IRAs is $7,500, or $8,600 if you are 50 or older. A traditional IRA contribution is allowed with sufficient earned income, but the deduction can phase out when you or your spouse has a workplace plan and earns a certain level of income. For an active participant, it is fully phased out at $91,000 for single filers and $149,000 for joint filers. Direct Roth eligibility fully phases out at $168,000 and $252,000, respectively.

A non-working or lower-earning spouse should not be overlooked. A couple filing jointly may fund separate IRAs for both spouses when combined taxable compensation supports the contributions. A married couple under age 50 could place $15,000 into IRAs for 2026 even if only one spouse

MAXING OUT YOUR 401(K) ISN'T ALWAYS THE BEST ANSWER

earned the income. Going back to our example, a couple earning $150k could have the same tax deductions as maxing out their pre-tax 401(k) by utilizing Traditional IRAs and still funnel $15k of savings into a Roth 401(k) that will provide tax-flexibility in the future (see chart below).

Another overlooked benefit of IRA contributions vs throwing excess into a workplace plan has to do with investment selection. With workplace plans, investment selection is often limited to a menu of ETFs and mutual funds. With Traditional or Roth IRAs, you have much more flexibility to invest in individual securities, reducing hidden costs and allowing you to more-closely fine tune your exposure to certain industries and sectors.

High Income? Consider The Backdoor Roth

If income levels prevent you from making a direct Roth IRA contribution, a "backdoor Roth" may be available: make a nondeductible contribution to a traditional IRA and then convert it to a Roth IRA. There is no income limit on Roth conversions, but the transaction must be reported, and the pro rata rule is critical.

For example, let's say you earn $400k a year and are maxing out your 401(k) plan. You have an extra $15,000 to save into retirement accounts. You could allocate that across two Traditional IRAs (one for you and one for your spouse), but you would receive no tax deduction because of the phase out limits. You have no other IRAs with balances or you've previously converted them or combined them with an employer plan. You fund each Traditional IRA with $7,500 each, open two Roth IRAs and move the funds over. Since the funds contributed were already post-tax, you don't trigger a taxable event upon the conversion and you've effectively added funds into a bucket that will grow and distribute tax-free.

Think Beyond Your Lifetime

So far, you've made some great decisions around tax deductions and savings for your lifetime; let's review some of the recent law changes that make this decision not just about your retirement planning, but planning for your heirs as well. One of the largest benefits of retirement contributions is the deferral or even avoidance of taxes (for Roth IRAs) on the growth and income generated within the account. The IRS realized that an indefinite deferral of taxes was not ideal (from their perspective) and enacted the Employee Retirement Income Security Act of 1974 requiring an annual distribution from certain retirement accounts based on a life expectancy formula. Before 2020, many non-spouse beneficiaries could "stretch" these required minimum distributions (RMDs) over their life expectancies. However, the SECURE Act eliminated that option for many heirs. Now, most must deplete an inherited IRA account within ten years of the account owner's death. This could mean large sums of taxable income hitting a beneficiary's tax bill and largely reducing the net benefit of all your savings. So, this begs the question – is there a better way to save that supports you and maximizes your legacy?

A Roth does not avoid the SECURE Act's 10-year rule: most non-spouse heirs still must empty an inherited Roth IRA within that period. However, qualified Roth distributions are income-tax-free. That can give heirs flexibility to choose when to withdraw without adding taxable income during what may be their highest-earning years. Roth assets also have no lifetime RMDs for the original owner, which can preserve more of the account for later use or inheritance.

Your Year-End Order of Operations

So, what does this all boil down to? Start by capturing the full employer match. Then choose an intentional traditional-versus-Roth mix, use available catch-up contributions, and review IRA and spousal IRA eligibility. If direct Roth contributions are unavailable, determine whether a backdoor Roth makes sense after applying the pro rata rule. Finally, consider additional after-tax plan contributions if your plan permits them, or taxable investing when flexibility is more important.

The "best" bucket is not simply the one with the largest limit or deduction today. It is the combination that supports current cash flow, future tax flexibility and your intended legacy. A year-end review gives you time to adjust payroll, coordinate with your tax professional and put excess cash to work before the calendar year closes.

$150k Earner (Married Filing Jointly), $39,500 of Savings		
	Simply Max Out 401k, Save Excess in Taxable Account	Intentional Retirement Savings
Gross Income	$150,000	$150,000
Traditional 401(k)	$24,500	$9,500
Employer Match	$7,500	$7,500
Roth 401(k)	$0	$15,000
Traditional IRA	$0	$7,500
Spousal IRA	$0	$7,500
Taxable Brokerage Account	$15,000	$0
Tax deductible contributions	$24,500	$24,500
Net Taxable Income (Prior to other deductions)	$125,500	$125,500
25 Year Growth at 7%		
Traditional 401(k)	$173,678	$92,266
Roth 401(k)	$0	$81,411
Traditional IRA	$0	$40,706
Spousal IRA	$0	$40,706
Taxable Brokerage Account	$81,411	$0
Balance at Year 25	$255,089	$255,089
Taxable Balance	$255,089	$173,678
Non-Taxable Balance		$81,411
Net Balance (Assuming 32% Tax Rate, 20% Gains Rate)	$186,230	$199,512
Over $13k difference!		

2026

BUILD YOUR WEALTH

To Fund Your Passions

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Client accounts are separately managed and tailored to meet the specific needs, including risk tolerance, investment objectives, and tax consequences of each client. Client assets are held at an unaffiliated brokerage firm.

With extensive expertise in security analysis, we make direct investments on behalf of our clients buying individual securities. This eliminates costly mutual fund fees and increases the flexibility to manage volatility. We actively allocate capital to take advantage of investment opportunities altering exposure to individual companies, industry sectors, and asset classes in anticipation of the changing investment and economic environment.

We are transparent in all facets of our asset management practice and believe it is important for our clients to know what they own, why, what their performance is, and what they are paying in fees. We build comprehensive portfolios for our clients with a goal of reducing volatility and producing prudent growth.

We protect and build wealth at GKV Capital.

GKV CAPITAL

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