

Quarterly Market Insights

Financial Market ViewPoints October 2026



Resilient Markets Amid Shifting Conditions

The third quarter and especially the final month of the quarter presented investors with a remarkably complex backdrop. From geopolitical tensions resulting in higher energy prices, to changes to monetary policy, and of course a remarkably strong corporate earnings season, there have been plenty of topics competing for investors' attention. Despite this deluge of events and information to monitor, the U.S. economy has continued to grow, while stock markets oscillated between up days and down days, largely weathering these uncertainties amid a notable dose of market rotation. As the Federal Reserve navigates the difficult balance between supporting economic growth and containing inflation, investors are balancing seasonal trends when looking ahead to mid-term elections and the potential volatility that may be associated with either. Throughout this publication, we will examine the forces shaping the current macro environment and explore how financial markets have responded to the culmination of uncertainties that continue to evolve.

Selected Market Returns: September 2026 & Year to Date

		End of 2025	Ending Value	Total Returns							
Asset Class	Index	12/31/2025	9/30/2026	1Q	2Q	July	Aug	Sep	3Q	YTD	
		Value/Yield	Value/Yield								
Stock Markets											
U.S. Large Cap Stocks	S&P 500	6,845.50	7,651.54	-4.3%	15.2%	-0.1%	2.7%	-0.3%	2.3%	12.7%	
U.S. Large Cap Stocks	Dow Jones Industrial Average	48,063.29	50,906.05	-3.2%	13.4%	0.4%	1.5%	-4.1%	-2.3%	7.2%	
U.S. Large Cap Stocks (Tech. Focused)	NASDAQ Composite	23,241.99	26,861.06	-7.0%	21.6%	-3.2%	4.0%	1.9%	2.6%	16.1%	
U.S. Small Cap Stocks	Russell 2000	2,481.91	2,796.86	0.9%	21.5%	-3.0%	1.0%	-5.3%	-7.2%	13.7%	
Int'l. Developed Markets Stocks	MSCI EAFE	2,892.71	3,125.70	-1.2%	10.8%	2.0%	2.0%	-3.1%	0.8%	10.3%	
European Stocks	MSCI Europe	197.64	212.18	-2.8%	10.9%	1.6%	1.4%	-4.6%	-1.6%	6.0%	
Japanese Stocks	MSCI Japan	2,090.05	2,528.49	1.4%	14.2%	1.0%	3.3%	1.5%	6.0%	22.7%	
Emerging Markets Stocks	MSCI Emerging Markets	1,404.37	1,704.87	-0.2%	24.1%	-3.1%	3.4%	-0.6%	-0.4%	23.4%	
Chinese Stocks	MSCI China	83.03	72.45	-8.9%	-6.6%	9.0%	-0.3%	-4.6%	3.7%	-11.9%	
Bond Markets											
Broad Bond Market	Bloomberg U.S. Aggregate Bond	4.32%	5.56%	0.0%	0.7%	-1.3%	0.4%	-2.6%	-3.5%	-2.9%	
Government Bonds	Bloomberg U.S. Government Bond	3.89%	5.13%	0.0%	0.3%	-1.1%	0.3%	-2.2%	-3.0%	-2.7%	
Corporate Bonds	Bloomberg U.S. Corporate Bond	4.81%	6.04%	-0.5%	1.4%	-1.7%	0.4%	-2.7%	-3.9%	-3.1%	
High Yield Bonds	Bloomberg U.S. Corporate High Yield Bond	6.53%	8.35%	-0.5%	2.5%	-0.2%	1.0%	-2.5%	-1.8%	0.1%	
Highlighted Commodities											
Oil	Crude Oil (West Texas Intermediate/WTI)	57.42	90.42	76.6%	-31.4%	21.8%	1.3%	5.4%	30.1%	57.5%	
Gold	Gold Spot Price (\$/oz)	4,319.37	4,157.41	8.1%	-14.1%	1.0%	9.7%	-6.3%	3.7%	-3.7%	

Source: Bloomberg.

Economic Update: Focusing on Trends Rather Than Datapoints

Starting with arguably the most notable economic event of September, in a widely expected decision, the Federal Reserve raised their target rate by a quarter percentage point. This rate decision moves the central bank's target range to 3.75% - 4.00%, and policy makers unanimously voted 12-0 in favor of the increase. During the press conference that followed the Fed's two-day policy meeting, Chairman Warsh emphasized that inflation is still the Fed's number one priority with regards to their dual mandate of stable prices and full employment. He noted that

GDP growth and the labor market both have been resilient. Chairman Warsh also noted that “inflation is too high and has been so for too long”¹.

Although Chairman Warsh himself typically does not comment on forward guidance, he conveyed that policymakers at the Fed are penciling in another quarter point rate hike before the end of the year, according to the updated Summary of Economic Projections (SEP) released alongside the interest rate decision. That marks an increase from the single 0.25% hike that was expected in June, when the FOMC last released its quarterly projections. Markets, however, are currently pricing in an increased likelihood of two quarter point rate hikes as the CME Group FedWatch tool currently highlights. Although the Fed’s favorite tool to help bring inflation under control is their ability to adjust interest rates, there are naturally pros and cons associated with any interest rate adjustment. The current environment makes this especially difficult because much of the recent inflationary pressure has stemmed from one area: energy. Therefore, while an interest rate hike should put pressure on the economy and help to slow inflation, it would not necessarily make energy prices, the main culprit of higher prices, any lower in the short term.

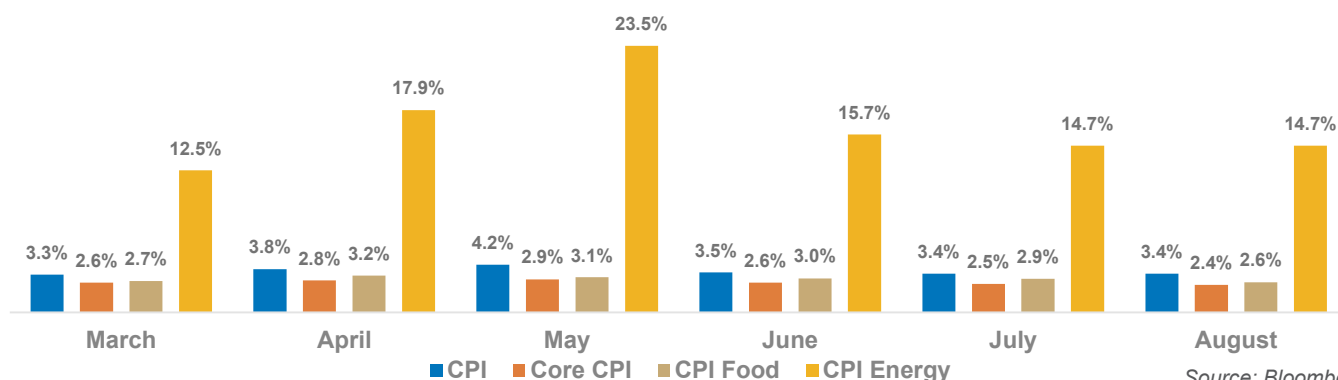
How an Adjustment to The Federal Funds Target Rate Can Affect Different Parts of The Economy

Positive Consequences of a Rate Hike		Negative Consequences of a Rate Hike	
Can help contain inflation:	Higher borrowing costs can reduce demand and help prevent persistent inflation.	May have a limited impact on supply-driven inflation:	If inflation is driven by higher energy prices, higher rates may have limited ability to directly address the issue.
Can reinforce Fed credibility:	Acting while inflation remains above 2% target shows the Fed’s commitment to price stability.	Can slow economic growth:	Higher financing costs can discourage consumer spending and business investment.
May help stabilize longer-term rates:	Rate hikes could reduce concerns of persistent inflation and help longer-term Treasury yields.	Can put pressure on stock valuations:	Higher rates can weigh on stock valuations, particularly for companies with high leverage.
Can support the dollar:	Higher U.S. rates can make dollar-denominated assets more attractive relative to foreign alternatives.	Higher borrowing costs:	Higher borrowing costs put additional and direct pressure on households and businesses.

Overall, the Fed’s updated statement unsurprisingly pointed to geopolitical risk as a main source of uncertainty, as spiking oil prices have nudged inflation higher since the beginning of the Iran war. The most recent CPI report for August showed that headline prices rose 0.4% on a monthly basis and 3.4% on an annual basis, which were in line with economists’ expectations and slightly hotter than July’s reading. Core CPI, which excludes the more volatile components like food and energy, have increased more modestly, indicating that pressures outside of energy remain fairly subdued. Meanwhile, the Fed’s preferred inflation gauge, Core PCE, rose 3% year-over-year in August, beating expectations for a rise of 3.3% and marking a drop from 3.3% in July.

¹ Source: FOMC Press Conference – September 16, 2026

CPI Year-Over-Year Change



Despite persistent inflation, the broader economy appears to have navigated the second half of the year, so far, with a healthy dose of momentum. Second quarter real GDP was revised up to 2.2% from a 1.5% annualized growth rate, but breaking down the composition of that growth shed light on some encouraging details beneath the headline figure. This upward revision reflected higher readings for private investment, consumer spending, and government spending, according to the Bureau of Economic Analysis (BEA). Looking ahead, the widely used Atlanta Federal Reserve's GDPNow model estimates third quarter real GDP growth at 3.7% as of September 30th. It is important to note that the GDPNow model can move significantly as additional data arrives, but the recent trajectory points toward a meaningful acceleration from the first half of the year. Meanwhile, consumer spending, making up nearly 70% of GDP by weight, has also been resilient with retail sales increasing 1.2% in August, the strongest monthly increase in five months, and was 6.0% higher than this time a year earlier².

Overall, September's economic picture remains largely defined by uncertainty over energy inflation and the monetary policy decisions that are working to curtail this energy inflation from materially spilling into other corners of the economy. All in all, consumers continue to spend, businesses continue to invest, and the economy continues to grow, all the while the labor market remains relatively stable.

Financial Markets: Unpacking Historical Tendencies & Current Headwinds

September gave investors no shortage of reasons to feel uncertain. Despite another record-breaking corporate earnings season in the second quarter, many investors were left searching for the next catalyst that could sustain the market's upward momentum. Technology companies struggled early in the month as uncertainty surrounding the pace of artificial intelligence development and the prospect of additional regulation weighed on sentiment. The sector subsequently rebounded as industry leaders and policymakers provided greater context around these developments, allowing technology stocks to reemerge as market leaders during the latter half of September. Small-cap companies, as measured by the Russell 2000 Index, faced greater pressure, as higher interest rates tend to disproportionately affect smaller businesses. More broadly, investors also navigated heightened volatility in oil prices and Treasury yields. Major indices traded essentially flat through the middle of the month before gaining greater clarity following the September Federal Reserve meeting.

² Source: United States Census.

Historically speaking, the month of September tends to be the worst performing month of the year³. There is no single explanation for this effect, but factors such as changes in liquidity, investor positioning, earnings expectations and macroeconomic developments can all influence the month's performance. As illustrated by the table on the right, September's average monthly performance using data going back to 1950 is not only the worst performing month of the year, historically speaking, but also the only month that has negative average monthly performance. Not surprisingly throughout the course of the month, there have been plenty of headwinds pushing against financial markets.

Given these headwinds, September of 2026 wrapped up in a way that did not necessarily buck this trend, with the S&P 500 Index having declined 0.3% over the course of the month. Despite flirting with all-time highs for the index in the final full week of the month, the S&P 500 retreated from these highs as rising bond yields put pressure on stock market sentiment. Although September did not fully conform to its historically weak tendencies, broad market performance shifted as the third quarter came to a close and market leadership once again became more concentrated.

Average S&P 500 Return & Rank by Month

Month	Average Monthly Return	Rank
January	1.22%	6
February	0.19%	11
March	1.32%	5
April	1.69%	3
May	0.64%	9
June	0.65%	8
July	1.42%	4
August	0.28%	10
September	-0.21%	12
October	1.06%	7
November	2.06%	1
December	1.90%	2

Source: Bloomberg.

To build on this, many investors are concerned about market performance, specifically around rate hiking cycles. What might come as a surprise to some, markets have responded positively overall following the Fed's interest rate decision at their September Federal Open Market Committee (FOMC) meeting. When we look at the data, however, market performance as measured by total return of the S&P 500 has been positive across all interest rate hiking regimes since 1990. For context, the average monthly total return of the S&P 500 since 1990 is 0.98%. As illustrated in the chart below, stock market performance has actually persevered through these rate hiking regimes. This may come as a surprise as many of these cycles spanned years, with some taking place during periods of instability and uncertainty similar to what we are experiencing today.

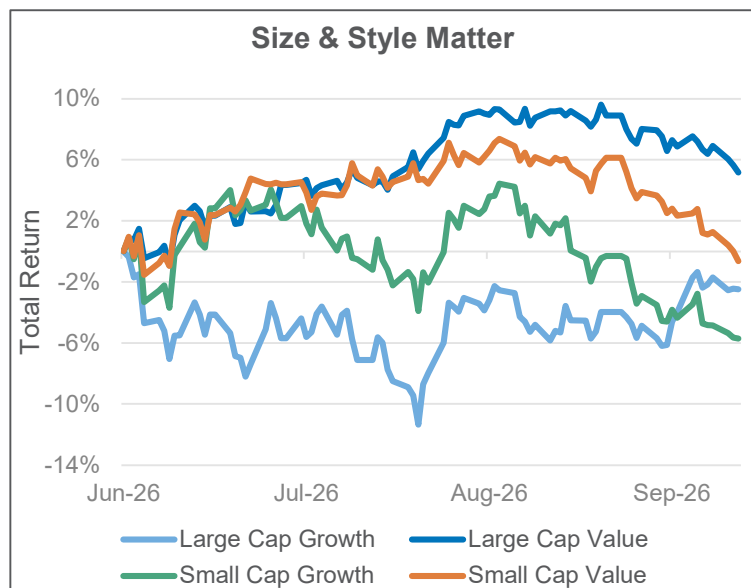
S&P 500 Performance Has Persevered Through Rate Hiking Cycles

Start of Hiking Cycle	End of Hiking Cycle	Duration (Months)	Rate Increase	S&P 500 TR Through Cycle	Avg. S&P 500 Monthly TR
December-93	March-95	16	3.00%	11.19%	0.78%
March-99	September-00	19	1.75%	13.70%	0.98%
March-04	September-06	31	4.25%	24.14%	0.67%
September-15	March-19	43	2.25%	58.66%	1.08%
December-21	December-23	25	5.25%	3.42%	0.47%

Source: Bloomberg.

³ Source: Bloomberg. S&P 500 monthly total return data going back to 1950.

Looking beyond the S&P 500 as a broad proxy for U.S. stocks, performance across the market's four major size and style sub-asset classes varied over the course of the quarter. Large cap value delivered the strongest performance, while large cap growth came under pressure midway through the quarter as concerns surrounding the artificial intelligence buildout weighed on investor sentiment. Nevertheless, large cap growth rebounded sharply toward the end of September, supported by renewed strength among major technology companies. Meanwhile, small cap growth and small cap value held relatively steady through the early part of the quarter before coming under pressure as interest rates rose and expectations for additional rate hikes took hold. By mid-September, market leadership began to shift once again. Rather than broadening, returns became increasingly concentrated among the largest technology companies, with their strength propelling the technology-heavy Nasdaq 100 Index to multiple new highs through month-end. This renewed dominance brought market concentration concerns back into focus, as several major large cap indices showed signs of becoming increasingly top heavy.



Source: Bloomberg.

Assessing the Current State of The U.S. Treasury Market

Looking back to the third week of August, the market's attention shifted away from an otherwise stellar corporate earnings season and toward an area that typically generates less excitement: the U.S. Treasury market. On August 18th, the 30-year U.S. Treasury yield briefly reached 5.34%, its highest level since 2007. Although the front end of the yield curve had experienced some healing earlier in the year, yields across maturities moved higher and reached levels that attracted increased market attention. The selloff was particularly acute at the long end of the curve, where investors appeared to be demanding greater compensation for persistent inflation, mounting fiscal pressures, and uncertainty surrounding the government's longer-term borrowing needs.

Against this backdrop, Treasury Secretary Bessent announced an expansion of the U.S. Treasury's bond-buyback program on August 19th. Under the revised schedule, the maximum size of liquidity-support buybacks targeting 10- to 20-year and 20- to 30-year securities would increase from \$2 billion to at least \$4 billion per operation. The larger operations began on September 9th and are scheduled to remain in place through November 4th, when additional guidance is expected as part of the next quarterly refunding announcement⁴. According to the Treasury, the expansion is intended to provide greater liquidity support in longer-dated securities, rather than to target a specific level of interest rates.

The announcement initially produced a meaningful rally in Treasury prices. The 10-year yield declined to 4.65%, while the 30-year yield fell to 5.20%. The market appeared to interpret the decision as a signal that the Treasury was

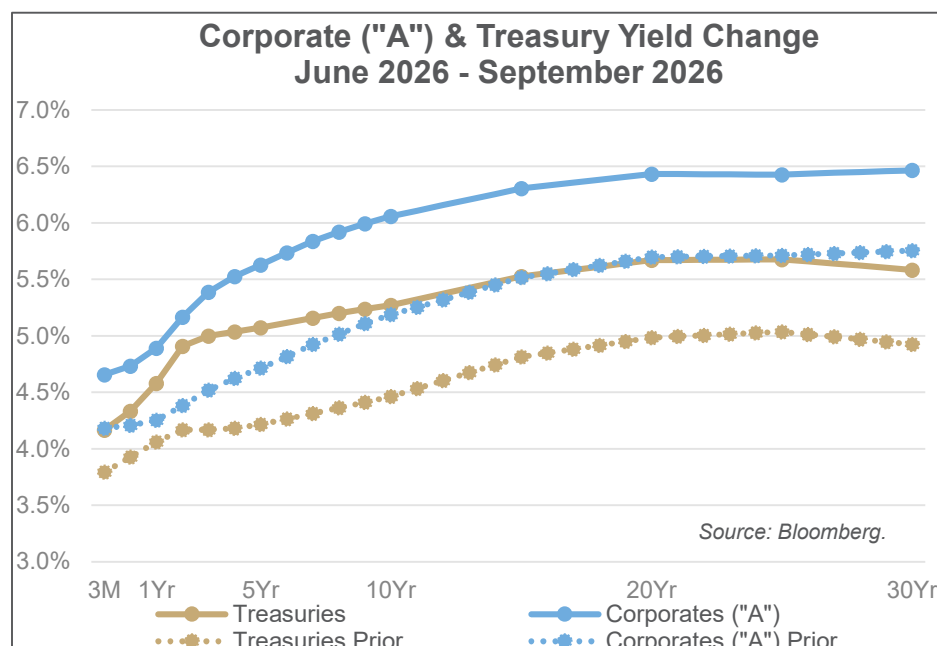
⁴ Source: U.S. Treasury Department, Press Releases: "Treasury Announces Increased Sizes of Nominal Long-End Liquidity Support Buybacks Beginning September 9th"

prepared to act more forcefully to support liquidity and stabilize markets, particularly in the portion of the yield curve facing the greatest selling pressure.

That relief, however, proved short-lived. By the following day, the 10-year yield had moved back toward 4.70%, while the 30-year yield retraced much of its initial decline and returned to approximately 5.24%. Secretary Bessent subsequently indicated that future buybacks could exceed \$4 billion per operation, depending on market conditions, while reiterating that the program was focused on liquidity rather than yield control. He also characterized liquidity in the 30-year Treasury market as unusually weak. Despite those comments, the quick reversal suggested that the program had not materially changed investors' underlying assessment of inflation, fiscal risk, or the appropriate level of longer-term interest rates.

As of September 30th, the 2-year U.S. Treasury yield was approximately 4.88%, up nearly 60 basis points (0.60%) from its level one month earlier as investors repriced the expected path of Federal Reserve policy. The 10-year yield was approximately 5.28%, roughly 50 basis points (0.50%) higher over the same period and crossing the psychologically important 5.00% threshold around the September policy meeting. The 30-year yield meanwhile was approximately 5.64%, well surpassing the elevated level that initially prompted concern in August. The curve therefore remained positively sloped between the 2-year and 10-year maturities, but the spread narrowed slightly as shorter-term yields rose more sharply in response to evolving monetary-policy expectations.

The market's response over the past month highlights the distinction between improving Treasury-market liquidity and changing the fundamental forces that determine yields. Expanded buybacks may support trading conditions and create an additional source of demand for older, less-liquid securities, but they do not directly address inflation, federal deficits, debt issuance, or expectations for monetary policy. The persistence of elevated long-term yields suggests that investors continue to require additional compensation for those risks. Meanwhile, the more pronounced rise in the 2-year yield indicates that the market is also adjusting to the possibility that monetary policy could remain restrictive for longer than previously anticipated.



In contrast to Chairman Warsh's narrative around "allowing markets to work through things without interference", the messaging surrounding Secretary Bessent's recent decision is more nuanced to interpret. Most notably due to the fact that this announcement came off-cycle and immediately after the Treasury yield reached a meaningfully high level. Surprisingly, the ensuing market reaction more or less nullified the yield movement in the better part of a day. This ultimately suggests that market participants aren't (at least for now) willing to change their fundamental view of the appropriate level of longer-term yields. Overall, Secretary Bessent's actions came as a surprise to investors and

is set to reshape the current buyback schedule. Time will tell as to what degree this updated schedule will have on both yields, the balance sheet, and of course, investor sentiment.

Looking Ahead

Putting this all together, there is undoubtedly still plenty of uncertainty that exists in the marketplace. Outside of geopolitical uncertainty, our team continues to monitor the U.S. economy and financial markets noting that several market and economic fundamentals remain intact.



Jason Orlosky

Global Managing Director,
Investments

Jason.Orlosky@ajg.com

(609) 532-3909



Pete Drewienkiewicz*

Global Chief Investment Officer,
Investments

Pete.Drewienkiewicz@ajg.com

+44(0) 20 3326 7138



Jeffrey Covell, CFA*

U.S. Chief Investment Officer,
Investments

Jeffrey.Covell@ajg.com

(202) 898-2270



Jim McCarriston*

Client Investment Analyst,
Investments

Jim.McCarriston@ajg.com

(781) 404-5208



Ryan Gallagher*

Client Investment Analyst,
Investments

Ryan.Gallagher1@ajg.com

(781) 404-5202

** Pete Drewienkiewicz, Jeffrey Covell, Jim McCarriston and Ryan Gallagher are not acting in the capacity of an investment advisor representative*

Beyond the Headlines

The second quarter earnings season provided further evidence of the resilience of corporate America as the vast majority of companies in the S&P 500 reported results that exceeded expectations. This was an encouraging sign for both investors and the market in general because it marked the strongest earnings season since 2021. However, the details beneath the headline results are just as important, as some of the largest reported gains came from less traditional sources, including private company investments and tariff refunds. Therefore, while quarterly earnings were exceptional by historical standards, investors should look beyond the headline growth rate to understand what drove the quarter's results and how much of that strength can be sustained.

The Headline Drivers

Headline earnings growth climbed to 53.1% in the second quarter, led primarily by the Energy and Communication Services sectors. This was nearly double the already strong 28.7% growth reported in the first quarter and marked the strongest quarterly earnings growth in more than 30 years outside of a recovery period following an earnings recession.⁵ This level of growth was especially notable given the complicated macroeconomic backdrop that exists, which includes rising interest rates, lingering inflation uncertainty, and ongoing geopolitical conflict. In this environment, the second quarter results reinforced the resilience of corporate earnings but also suggested that recent strength may have been more concentrated than initially anticipated.

Sector	Q1	Q2
	Earnings Growth	Earnings Growth
Materials	43.7%	42.7%
Industrials	5.5%	17.1%
Consumer Staples	8.0%	12.0%
Energy	0.8%	148.4%
Technology	55.0%	77.4%
Consumer Discretionary	39.9%	90.3%
Communication Services	50.5%	120.1%
Financials	23.0%	20.4%
Health Care	-2.9%	-6.4%
Utilities	18.4%	14.6%
Real Estate	13.6%	9.7%
Total S&P 500 Index	28.7%	53.1%

Source: Bloomberg

Artificial intelligence remained one of the most visible themes of the second quarter's earnings season. Continued spending on data centers, cloud infrastructure and semiconductors supported earnings across the technology ecosystem, while also benefiting digital advertising and communications companies. As a result, the Technology and Communication Services sectors were two of the strongest areas of the market with earnings growth of 77.4% and 120.1%, respectively. This helps illustrate the continued

Earnings growth reached its strongest pace in more than three decades outside of an earnings recession recovery

⁵ An earnings recession recovery period is defined as the eight quarters (2 years) from the end of an earnings recession. During these periods, the aggregate earnings growth figures tend to be significantly above the long-term average

importance of AI-related investment and infrastructure in supporting overall earnings growth.

Energy also played a much larger role than it had earlier in the year, with sector earnings growth rising from 0.8% in the first quarter to 148.4% in the second quarter, primarily due to higher oil and diesel prices. Although Energy represents a smaller share of the S&P 500 than Technology, large swings in sector profitability can still meaningfully affect headline index earnings. At the same time, the earnings surge was not evenly distributed. Growth slowed from the first quarter in Financials, Utilities, and Real Estate, while Health Care earnings declined. Company-level results were also mixed, with 27.4% of S&P 500 constituents reporting earnings growth above 50%, while 26.4% reported negative earnings growth. Therefore, while the quarter was strong in aggregate, much of the improvement was driven by a narrower group of sectors and companies rather than broad-based strength across the market.

The Lesser Known Drivers

A more complete assessment of the quarter requires looking beyond the size of the earnings beats and evaluating the quality and repeatability of the drivers behind it. For investors, this distinction is important as earnings generated through stronger demand, improved efficiency, or operating leverage are typically viewed differently than gains tied to items that may not recur in future quarters. This does not mean the less repeatable items should be dismissed, but it does affect how much weight investors should place on them when assessing the outlook for future earnings growth.

While much of the quarter's earnings growth reflected solid business performance, several large non-operating items⁶ also helped amplify the overall results. In August, one analysis from Goldman Sachs showed that S&P 500 EPS growth was tracking at 45% year-over-year, but 19 percentage points of that growth came from Alphabet and Amazon's combined \$151 billion of "other income" related to equity investments.⁷ Amazon's investment in Anthropic, an artificial intelligence company, is one example of how gains tied to private company valuations can flow through reported results. Excluding these types of gains, the same analysis estimated that S&P 500 EPS growth was closer to 26%, which still represents an acceleration from the first quarter. Put differently, these gains boosted reported earnings but also offered less evidence of ongoing operating strength.

Tariff refunds were another less repeatable contributor, and their impact may differ across companies. The Atlanta Fed estimated that tariff refunds could total approximately \$166 billion, equal to roughly 63% of 2025 customs-duty receipts⁸, although the economic impact may be less direct than the headline figure suggests. Walmart, for example, was reportedly eligible for roughly \$2.9 billion in tariff refunds and said it would use much of the benefit to support lower prices for consumers. Other companies, however, used them as a more direct benefit to earnings or cash flow. Unlike improvements in core business

The Energy sector benefited from a substantial increase in oil and diesel prices

Gains from private company investments helped to amplify an already strong earnings season

Tariff refunds provided an additional boost to earnings, but are unlikely to be a recurring driver

⁶ Non-operating items refer to gains, losses, income, or expenses that are not directly tied to a company's core business operations and may not recur in future periods.

⁷ Goldman Sachs & Co. LLC, John Flood, "This is why the S&P 500 will make several more all-time highs this year...", FICC & Equities, August 3, 2026.

⁸ Federal Reserve Bank of Atlanta, "The Impact of Tariff Refunds on Business Activity," July 8, 2026.

operations, these benefits stemmed from a specific policy outcome rather than ongoing business activity. That makes them helpful for this quarter's results, but less useful when evaluating the path of future earnings.

Overall, these additional items helped amplify an already strong earnings season. Even after adjusting for investment-related gains and other one-time benefits, earnings growth remained healthy and generally reflected a resilient corporate sector. However, the difference between the headline growth rate and the growth generated through more traditional business activities highlights an important consideration for investors. As attention turns to future quarters, the more important question is how much of that strength can be carried forward once these temporary supports fade.

Looking at Sustainability

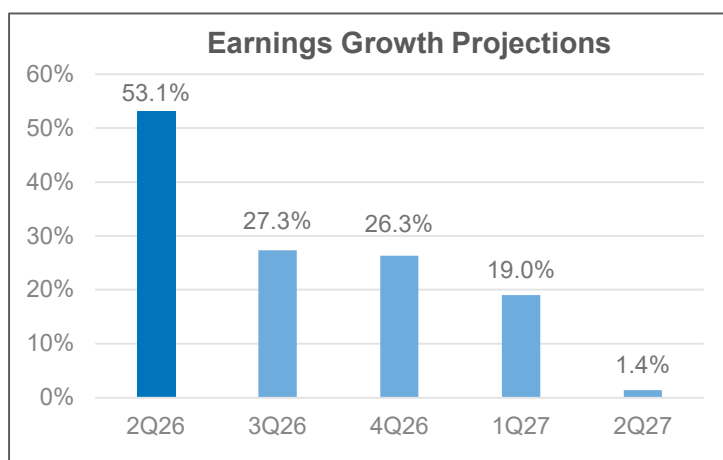
After such a strong second quarter, the natural question for investors is whether the next several quarters can build on two consecutive quarters of 25%+ earnings growth. While the general outlook has remained encouraging, future growth is expected to moderate from second quarter levels, even as corporate guidance has remained relatively positive. As of the first week of September, 63% of S&P 500 companies that had issued Q3 2026 EPS guidance provided positive guidance, above the five-year average of 41%.⁹ That guidance points to continued confidence among management teams, even as the pace of earnings growth begins to normalize.

The sustainability question is especially important because current projections call for S&P 500 earnings growth to slow in each of the next four quarters, reaching just 1.4% by the second quarter of 2027.

Although these estimates will likely change (as has historically been the case), they suggest that maintaining the recent

pace of growth will become increasingly difficult. Rather than pointing to weakness, the forecast reflects tougher comparisons against unusually strong results and a reduced contribution from one-time tailwinds.

Margins are also central to the sustainability discussion because they show how effectively companies are converting revenue into operating profit. The S&P 500 operating margin rose from 15.2% in the first quarter to 15.7% in the second quarter before reaching a record 16.5% in the third quarter, the highest reading in the data going back to 1991. This suggests that corporate profitability remains exceptionally strong, but it also raises the bar



Source: Bloomberg

Corporate earnings are projected to continue growing, but at a more moderate pace over the next year

⁹ FactSet, Earnings Insight: S&P 500, September 4, 2026.

Further earnings growth may increasingly depend on factors beyond higher operating margins as they are already at historical highs

for further improvement. With margins already at historical highs, sustaining earnings growth may increasingly depend on factors beyond further margin expansion.

As a result, the composition of future earnings growth will become increasingly important. With less support likely to come from rising margins, revenue growth, customer demand, and productivity improvements may need to drive a larger share of earnings gains. Those factors will likely offer the clearest indication of whether profitability can remain durable as headline growth slows.

Conclusion

Overall, the second quarter earnings season was strong by several measures as earnings growth accelerated sharply from the first quarter and forward guidance remained above its recent historical average. At the same time, gains from private company investments and tariff refunds made some headline figures appear stronger than core operating performance alone would indicate. With operating margins already near historical highs and earnings growth expected to moderate, maintaining this momentum may increasingly depend on sustained revenue growth, healthy demand, and continued productivity improvements. These recurring drivers should provide a clearer indication of underlying earnings strength as the impact of recent one-time benefits becomes less influential. For investors, the takeaway is not to discount the quarter's strength, but to understand where that strength came from and whether its underlying drivers can provide a durable foundation for future growth.

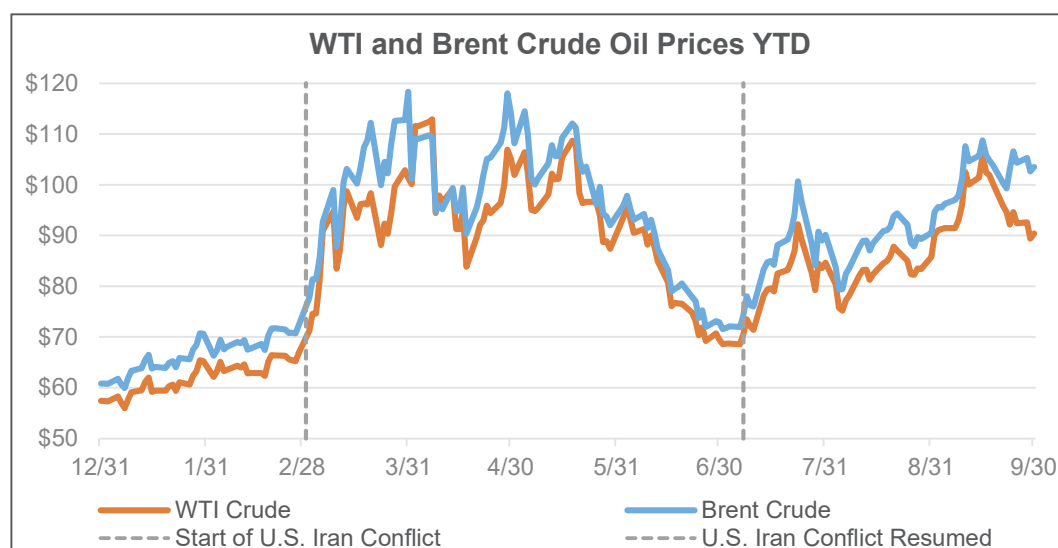
Two Forces Reshaping the Energy Market

Energy returned to the spotlight late in the quarter as renewed supply disruptions and longer-term demand growth created two distinct pressures across the market. Renewed geopolitical conflict disrupted global fuel markets and pushed oil and refined product prices higher, while data center growth added to expectations for rising U.S. electricity demand. The oil price shock may fade if global supply conditions improve, but meeting the increase in power demand could require years of investment in supporting infrastructure. Together, these developments created a split backdrop of stronger results for many producers, but higher costs for consumers and fuel-sensitive businesses.

Geopolitical Tensions Reignite Oil Prices

The most visible development was the rebound in crude oil prices as renewed conflict altered expectations for global supply. After the ceasefire ended in early July, attacks near the Strait of Hormuz raised concerns about the flow of oil through one of the world's most important energy transit routes. Disruptions to transportation capabilities, combined with damage to refining capacity, placed additional pressure on fuel markets. By September, Brent crude, the main global benchmark for oil prices, had approached \$110 per barrel for the first time since May, reflecting concerns that supply conditions could remain tight. The International Energy Agency reinforced that outlook, estimating that global oil supply would decline by 5.7 million barrels per day in 2026 and that the recovery in Gulf production would be delayed until 2027.¹⁰

Renewed geopolitical conflict raised supply concerns and pushed oil prices higher



Source: Bloomberg.

Energy markets often respond to supply risks before shortages emerge

In general, oil prices can rise well before an outright shortage develops because markets respond to expectations for future supply. When traders see growing risks to the availability or transportation of oil, prices often move in anticipation of tighter conditions. This dynamic remains important for the United States. Domestic production and the

¹⁰ International Energy Agency, Oil Market Report – September 2026, September 2026.

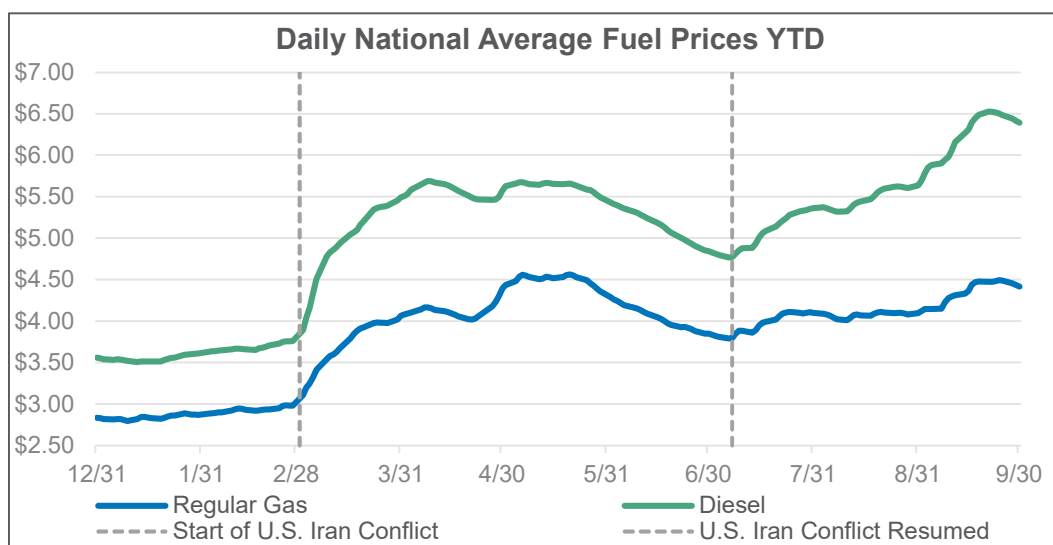
Strategic Petroleum Reserve, the federal government's emergency supply of crude oil, provide some protection against disruptions, although the reserve held only about 283.8 million barrels as of late September.¹¹ That was its lowest level since 1982 and represented roughly 40% of authorized capacity. Even with these resources available, the United States remains exposed to global price movements because crude oil is traded internationally. In other words, domestic safeguards can help cushion a shock, but they cannot fully insulate the economy from a global oil repricing.

Energy producers benefited from higher prices, while consumers faced higher costs

Higher oil prices created a mixed backdrop across the economy. For consumers and fuel-dependent businesses, these prices put greater pressure on household budgets and operating costs. For energy producers, however, they supported stronger profits and investment returns as Exxon Mobil and Chevron, for example, are up 37.9% and 37.7% year to date. The effect was also visible in corporate results, with the Energy sector reporting the strongest year-over-year earnings growth among S&P 500 sectors in the second quarter. That support could diminish if the conflict eases and global supply conditions improve, but the near-term benefit to producers has come at the expense of higher costs elsewhere in the economy.

Why Record Diesel Prices Matter

The pressure from higher oil prices was also visible at the pump and persisted even after crude prices moved closer to their pre-conflict levels. National average gasoline and diesel prices remained above their early July readings through September. Regular gasoline rose from roughly \$3.80 per gallon on July 7th to about \$4.48 by late September, while diesel increased from about \$4.77 to more than \$6.50 per gallon over the same period. Although both affect the economy, gasoline tends to be felt quickly by households, while diesel often works its way through the cost of transporting and producing goods.



Source: Bloomberg

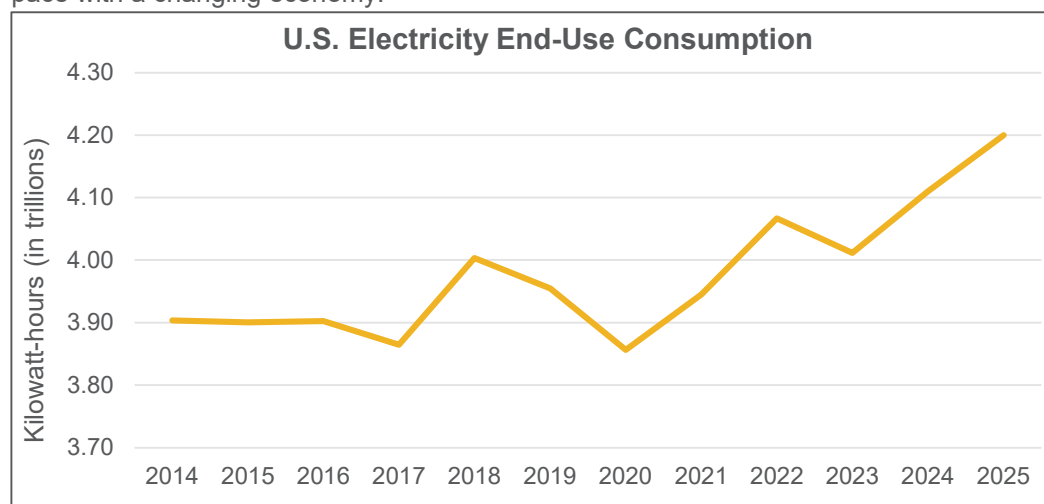
¹¹ U.S. Energy Information Administration, "Weekly U.S. Ending Stocks of Crude Oil in SPR," September 2026; U.S. Department of Energy, "Strategic Petroleum Reserve."

Diesel receives less public attention than gasoline, but its widespread commercial use can make its broader economic impact especially important. The U.S. average diesel price climbed to more than \$6.50 per gallon in September, a roughly 37% increase from early July and far outpacing the rise in gasoline prices. Diesel is commonly used in transportation, construction equipment, agricultural machinery, and other industries that help move and produce goods throughout the economy. As a result, sustained increases in diesel prices can raise costs across supply chains, even for businesses that do not purchase fuel directly. Companies must then decide whether to absorb those higher costs through lower profit margins or pass them on to consumers through higher prices. That is why diesel can remain an important inflation channel even after the initial oil-price shock begins to fade.

The effects of higher fuel costs were not limited to freight and industrial activity. Airlines faced similar pressure as jet fuel prices surged nearly 30% in July, forcing carriers to reassess fares, capacity plans, and profitability targets. United Airlines and American Airlines indicated that elevated fuel costs could necessitate additional fourth quarter capacity reductions, while Southwest pointed to the potential for higher fares. American also estimated that fuel would add roughly \$1 billion in costs during the final three months of the year. These responses show how energy price shocks can quickly influence business decisions across a wide range of industries, extending well beyond the oil and gas sector.

A Structural Shift in Power Consumption

The pressure in fuel markets represents a near-term cost shock, but a separate and potentially more lasting change is developing in electricity markets. After remaining relatively flat for years, U.S. electricity consumption has begun to rise again. Unsurprisingly, one of the major contributors is the rapid expansion of artificial intelligence and data centers, which is creating new demand not only for electricity but also for the infrastructure needed to generate, transmit, and deliver it reliably. This makes the power demand story less about a temporary price spike and more about whether supply can keep pace with a changing economy.



Source: U.S. Energy Information Administration

The impact of rising energy prices extended far beyond the Energy sector

Power demand growth represents a potential longer-term energy challenge

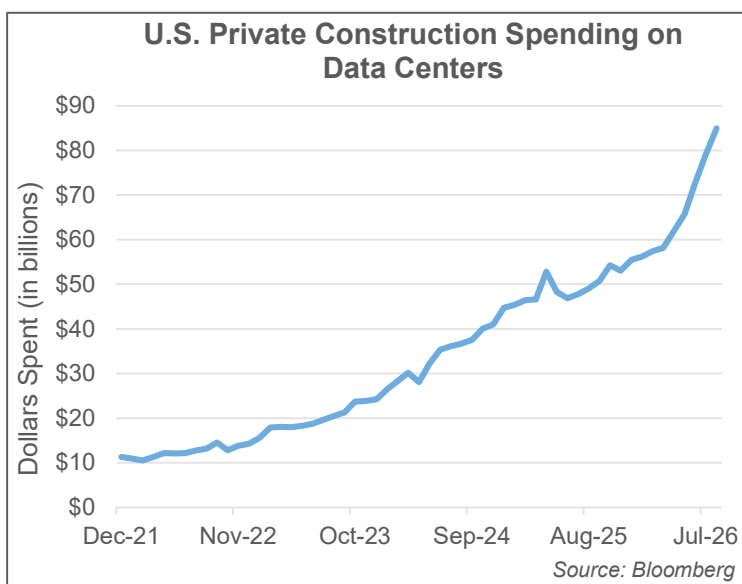
Data center growth is driving a sharp increase in electricity demand

Investment in data centers has accelerated rapidly in recent years

Data centers require large and consistent amounts of power to operate. Estimates cited by the Department of Energy show that data center electricity use increased from 58 terawatt-hours in 2014 to 176 terawatt-hours in 2023. Additionally, it was projected that consumption could reach between 325 and 580 terawatt-hours by 2028, lifting data centers' share of total U.S. electricity use from about 4.4% in 2023 to an estimated 6.7% to 12.0%.¹² The wide range provided reflects uncertainty about how quickly data-center capacity will expand and how efficiently future facilities will operate, but even the lower end of the projection would represent a substantial increase in power consumption. The challenge is therefore not simply higher demand, but the speed at which the grid can adapt to it.

Evidence of this investment cycle is already visible in construction spending. Monthly U.S. private construction spending on data centers surged from roughly \$11.3 billion in December 2021 to nearly \$85.0 billion by August 2026, an increase of more than 650% in less than five years. The rapid rise demonstrates how quickly investment has accelerated to support the expansion of AI and cloud computing. Yet building data centers is only part of the challenge. These facilities require substantial amounts of electricity, and the power projects needed to support them often takes much longer to develop. As a result, electricity availability could become an increasingly important constraint on future growth.

While companies may be prepared to invest heavily in new data centers, their expansion will ultimately depend on whether sufficient power infrastructure is available to support them. Access to electricity and the pace of grid development may increasingly influence where and how quickly new facilities can be built. Unlike the recent increase in oil prices, which could reverse if global supply conditions improve, investment in power generation, transmission, and distribution may remain a longer running theme. This suggests that the beneficiaries of AI related spending could extend well beyond technology companies to include parts of the broader energy and infrastructure sectors.



¹² Lawrence Berkeley National Laboratory, "Berkeley Lab Report Evaluates Increase in Electricity Demand from Data Centers," Berkeley Lab News Center, December 20, 2024.

*Energy markets are
being shaped by
both near-term
disruptions and long-
term demand growth*

Putting This All Together

Recent energy market developments highlight two distinct themes. The first is a near-term supply story, as geopolitical disruptions pushed oil and refined-fuel prices higher, benefiting producers while raising costs for consumers and fuel-sensitive businesses. The second is a longer-term demand story, as artificial intelligence, data centers, and other power intensive activities have increased the need for electricity and the supporting infrastructure. Meanwhile, oil and fuel prices may ease if supply conditions improve, but the expansion of power demand is likely to unfold over a longer period. Together, these trends show how the energy landscape is being shaped by both immediate disruptions in traditional fuel markets and a more structural shift in power consumption.

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Index definitions

S&P 500 Index: is a capitalization weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 500 of the leading large cap U.S. companies.

Dow Jones Industrial Average Index: is a price weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 30 blue-chip stocks that are generally regarded as the leaders in their industry.

NASDAQ Composite Index: is a capitalization weighted index that is generally considered representative of the U.S. Technology market. It consists of all three tiers of the NASDAQ: Global Select, Global Market, and Capital Market.

Russell 2000 Index: is a capitalization weighted index that is generally considered representative of the U.S. Small Cap market. It consists of 2,000 of the leading small cap U.S. companies.

MSCI EAFE Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed international markets. The EAFE region includes developed market countries in Europe, Australasia, the Far East, and Israel.

MSCI Europe Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of European developed markets.

MSCI Japan Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Japanese market.

MSCI Emerging Markets Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

MSCI China Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Chinese market.

Bloomberg U.S. Aggregate Bond Index: is a broad-based flagship benchmark that measures the investment grade U.S. dollar denominated, fixed-rate, taxable bond market. The index includes Treasuries, government-related and corporate securities, Mortgage-Backed Securities or "MBS" (agency fixed-rate pass-throughs), Asset-Backed Securities or "ABS", and Commercial Mortgage-Backed Securities or "CMBS" (agency and non-agency).

Bloomberg U.S. Government Bond Index: consists of the U.S. Treasury and U.S. Agency Indices. This index includes U.S. dollar denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued the U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government).

Bloomberg U.S. Municipal Bond Index: covers the U.S. dollar denominated long-term tax-exempt bond market. The index includes four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Bloomberg U.S. Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities that are publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

Bloomberg U.S. Corporate High Yield Bond Index: measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating from the ratings agencies (Moody's, Fitch, and S&P) are Ba1/BB+/BB+ or below. Bonds issued from an emerging market country are excluded from the index.

Crude Oil: is represented by the generic front month futures contract for West Texas Intermediate (WTI) crude oil.

Gold Spot Price: is represented by the current spot price of one Troy Ounce of gold in U.S. dollars.

Inflation: is measured by the year-over-year change for the Consumer Price Index or “CPI”. This index represents the changes in the prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer) and sales and excise taxes paid by consumers are also included.

Fed Funds Rate: is the target interest rate set by the U.S. Federal Reserve (Fed) or “Central Bank”. This index reflects the Fed’s efforts to influence short-term interest rates as part of its monetary policy strategy. The index value is calculated by using the midpoint of the Fed’s rate policy when they target a rate range (i.e., 0.25% - 0.50%).

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