INFLECTION
WEALTH MANAGEMENT

November 6, 2026

Beyond the Midterms

Navigating Volatility, Capturing Opportunity

Dear Clients and Partners,

Building Portfolios to Navigate Market Adversity

At Inflection, we believe successful investing is not simply about maximizing returns when markets are rising. It is equally important to construct portfolios that can withstand periods of adversity, manage downside risk, and help clients remain invested through challenging market environments.

That philosophy has been on display over the past several weeks as equity markets have declined and volatility has increased. While major equity benchmarks have fallen quarter to date through November 6, our Intermediate, Long and Ultra-Long Term models declined approximately 67%, 59% and 76% as much as their blended benchmarks, respectively, while our shorter-term models posted gains.

We believe these results reflect deliberate portfolio construction and proactive risk management rather than a reaction to recent market events. Our approach has included selectively hedging against market volatility, limiting exposure to crowded and highly valued areas of the equity market, and increasing allocations to high-quality fixed income as opportunities have emerged.

We recognize that market declines and periods of uncertainty are inevitable. Our objective is not to predict or avoid every downturn, but to build resilient portfolios that balance long-term growth opportunities with thoughtful downside protection. By helping limit losses during difficult markets, we seek to provide clients with greater confidence, reduce the temptation to make emotional investment decisions, and keep them focused on achieving their long-term financial goals.

The recent market environment provides an opportunity to highlight the importance of a disciplined approach and reinforces why disciplined portfolio construction matters throughout the market cycle.

1. A Blue Wave in Washington. What Comes Next for Markets?

The November 3 midterm elections delivered a decisive Democratic sweep, with Democrats reclaiming control of both chambers of Congress. The result is expected to shape Washington’s

political landscape, potentially ushering in divided government and a more constrained White House for the next two years.

For investors, political gridlock is not necessarily bad news. Divided government may limit the scope of legislative changes and contribute to greater policy continuity, while congressional oversight and political disagreements may increase.

History offers some perspective. The incumbent party typically loses seats during midterm elections, yet equity markets have historically performed well in the following 12 months, often delivering stronger returns than during the preceding election-year period. While historical patterns offer no guarantees, the lesson can provide useful context: markets may respond not only to policy changes, but also to greater clarity around the potential direction of policy.

2. From Election Relief to a Market Reality Check

The market initially followed the historical playbook. On Wednesday, November 4, equities rallied as election uncertainty faded, while the Cboe Volatility Index (VIX) declined approximately 20% to 16.61.

The celebration did not last long.

On Thursday, November 5, equities reversed sharply, with AI-related companies and other crowded growth positions leading the decline. The VIX surged nearly 70% to 28.18, reflecting a dramatic repricing of near-term market risk.

In our assessment, the sell-off was not driven solely by a deterioration in economic fundamentals. Crowded positioning, systematic selling, and potential deleveraging among leveraged investors likely contributed to the intensity of the decline. When investors rush for the same exit, even fundamentally sound investments can experience outsized price movements.

The election may have removed one source of uncertainty, but it did not eliminate the vulnerabilities beneath an increasingly concentrated equity market.

3. How the Inflection Investment Team Positioned Portfolios

At Inflection, we believe effective portfolio management requires more than identifying opportunities. It also requires recognizing risks before they become widely apparent and maintaining the flexibility to respond when conditions change.

Beginning in August, we focused on two primary risks: elevated market valuations and concentrated AI-related exposure, as well as political and geopolitical uncertainty surrounding the midterm elections and global developments.

Our response centered on three areas.

I. Tactical Hedging: Turning Volatility Into Opportunity

In August, we established volatility-linked hedges in applicable model portfolios to help protect against potential market disruptions.

On Friday, October 30, renewed selling in AI-related equities coincided with a volatility spike, pushing the VIX to an intraday high of 23.93. We reduced approximately half of our hedging exposure, realizing gains while retaining protection ahead of the election. When volatility declined following the November 3 election, the move was consistent with our expectations. On Thursday, November 5, the VIX surged nearly 70%, benefiting our remaining hedges. We used the opportunity to close those positions and realize additional gains.

We believe our philosophy is straightforward. Protection is most valuable when established before a storm, but knowing when to put away the umbrella matters just as much. We seek to use volatility-linked instruments selectively, balancing the cost of protection against potential downside risks while remaining positioned to participate in market recoveries.

II. Equity Positioning: Believing in AI Without Chasing the Trade

We remain constructive on AI's transformative potential, but technological breakthroughs do not automatically translate into attractive investment returns. The extraordinary pace of investment in data centers, semiconductors, and related infrastructure raises legitimate questions about overcapacity, valuations, and future returns on capital.

Throughout the year, we have intentionally moderated exposure to some of the most crowded AI-related segments. This has occasionally limited participation in the strongest phases of the rally, but it has also reduced exposure to areas facing significant selling pressure. We believe AI will transform the economy. That does not mean every investment supporting the transformation will be a winner.

III. Fixed Income: Bringing Duration Back Into the Defensive Playbook

For much of the past several years, we maintained a substantial duration underweight as inflation uncertainty and interest-rate volatility diminished the effectiveness of bonds as portfolio hedges. This partly motivated our use of volatility-linked instruments for tactical protection.

Following the Treasury market sell-off in September, we selectively increased duration exposure as higher yields improved the risk-reward balance. With more room for potential policy easing should economic conditions weaken, we believe high-quality fixed income can once again serve as a meaningful portfolio diversifier. Although bonds are not immune to losses, particularly during inflation-driven shocks, they may now offer a more compelling combination of income and potential downside protection.

4. Looking Ahead: Discipline Over Prediction

The midterm elections have changed Washington's political landscape, but not the principles that guide our investment decisions.

A crisis is sometimes described as containing both danger and opportunity. History supports that broader perspective. Over the past century, American businesses have navigated wars, recessions, financial crises, political upheavals, and technological revolutions. Through each cycle, adaptability and innovation have continued to create opportunities for long-term investors.

The challenge is not to avoid every market storm, but to navigate it without losing sight of the destination.

At Inflection, we believe time in the market is essential, but thoughtful positioning throughout the market cycle matters too. Our strategic allocations seek to capture long-term growth, while tactical decisions involving hedging, equity exposure, and duration aim to manage downside risk and take advantage of market dislocations.

Patience and discipline remain among the most valuable assets in investing. Our objective is to capture long-term upside while limiting downside participation, helping clients navigate market volatility with greater confidence and stay on track toward their financial goals.

Thank you for your continued trust.

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Model Performance. Model portfolio returns cited in this commentary are quarter-to-date returns from September 30, 2026 through November 6, 2026 for the Intermediate Term, Long Term and Ultra-Long Term model portfolios, compared with each model's blended benchmark: 40% iShares Core U.S. Aggregate Bond ETF (AGG) and 60% iShares MSCI ACWI ETF (ACWI) for the Intermediate Term model, and 15% AGG and 85% ACWI for the Long Term and Ultra-Long Term models. Model returns are based on target model weights and do not represent the results of actual client accounts. They do not reflect advisory fees or other account-level expenses, which would reduce returns. Target allocations are subject to change, and actual client accounts may differ from the model due to cash flows, tax considerations, market movement, trading, substitute holdings, and other account-specific circumstances; therefore, accounts should not be expected to replicate the model's allocation or performance. Past performance is not indicative of future results.

Volatility-Linked Investments. Certain model portfolios discussed in this commentary have held exposure to a VIX futures-linked product. Such products are complex and may experience significant volatility and losses due to changes in volatility expectations, futures pricing, roll costs, issuer credit risk, and other factors. Their performance may differ substantially from changes in the spot VIX Index and they may decline in value over extended holding periods. Any use of a volatility-linked product should be evaluated based on its investment purpose, expected holding period, risks, and role in the overall portfolio.