Q3 2026 Investment Letter

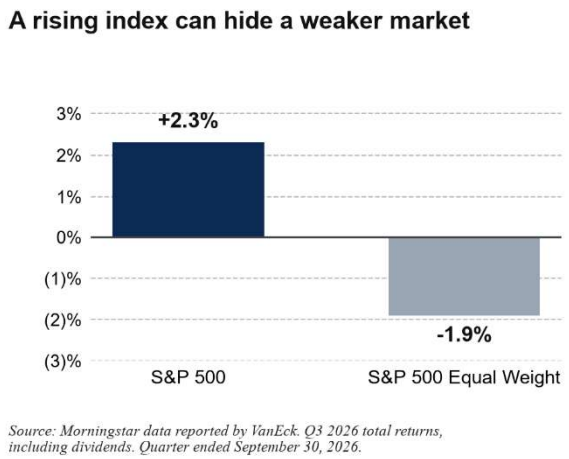
AI dominance and the risks beneath the market

Dear Clients and Partners,

Watch a duck glide across a pond and the movement looks effortless. Beneath the surface, its feet are working constantly, adjusting to currents you cannot see. Watching only from above tells you very little about what it takes to keep moving forward.

The stock market has looked much the same. Major indexes continued to advance during the third quarter, but beneath the surface, gains were concentrated in a relatively small group of companies. The experience of the average stock was considerably less encouraging.

Artificial intelligence sits at the center of this divide. It dominates news headlines and attracts enormous amounts of investment and financing. Companies tied to AI development have driven much of the market's strength, while many businesses outside that investment boom have struggled to keep pace.[1]



Source: Morningstar data reported by VanEck. Q3 2026 total returns, including dividends. Quarter ended September 30, 2026.

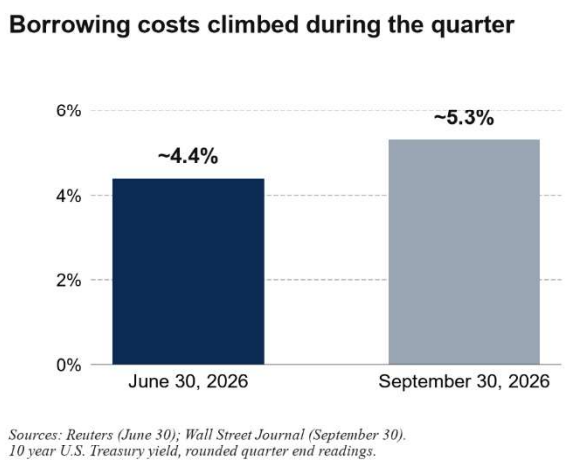
Market leadership remains narrow. The S&P 500 gained 2.3% during the third quarter, including dividends, while the same companies weighted equally declined approximately 1.9%. In September alone, roughly three out of four S&P 500 stocks fell. That weakness continued into early October: through October 2, the S&P 500 Equal Weight Index had declined for seven consecutive weeks, a rare streak previously seen in 2002 and 2022.[2] The headline index has looked considerably stronger than much of the market beneath it.

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[1] Capital Group, "The AI Debt Boom," September 23, 2026; Federal Reserve Bank of Dallas, "How AI Debt Financing Impacts Duration Supply and Interest Rates," February 10, 2026. AI's dominance and crowding out effects are our interpretation of concentrated attention, returns, and capital demand.

[2] VanEck, "Moat Stocks Retreat as Market Breadth Narrows," October 5, 2026: Q3 total returns of 2.30% for the S&P 500 and a decline of 1.87% for the equal weight index. The Motley Fool, October 2, 2026: around three quarters of S&P 500 stocks fell in September. First Merchants Bank, "Weekly Investment Perspective," October 6, 2026: seven consecutive weekly declines through October 2. Barron's, October 3, 2026, identifies comparable streaks in 2002 and 2022. This observation extends beyond the quarter end. Index performance includes dividends and does not reflect fees or expenses. Indexes are unmanaged and cannot be invested in directly.

The prolonged conflict with Iran has added to the pressure on the broader economy by disrupting energy supplies and supporting higher oil prices. Higher prices have benefited energy producers, but they also raise costs for households and businesses and make inflation harder to bring under control.[3]



Inflation and the demand for capital to finance AI development are contributing to pressure on interest rates, alongside government borrowing and expectations for Federal Reserve policy. Yields rose across Treasury maturities during the quarter. The 10 year Treasury yield reached about 5.3%, rising nearly 0.9 percentage points. This was its largest quarterly increase since 1994.[4]

So far, higher financing costs have done little to slow the AI investment boom. Elsewhere, the economy appears to be feeling the heat. Consumer sentiment weakened in September, while starts of single family homes were down 4.7% year to date through August, despite a rebound that month.[5] Higher everyday costs and mortgage rates are putting pressure on household budgets and housing affordability.

Against this backdrop, the market's dependence on AI creates hidden risks within the major stock indexes. A portfolio can own hundreds of companies yet still depend heavily on one theme. Chipmakers, equipment suppliers, data center developers, and power providers may operate in different industries, but many benefit from the same source of demand: continued spending on AI development.

Rapid earnings growth can make those risks easy to overlook. Investors comparing stock prices with today's profits may conclude that some companies look inexpensive. Our concern is that unusually strong earnings can make a stock appear cheap precisely when its profits are above a sustainable level.

In parts of the AI equipment, power, and oil and gas markets, demand is running ahead of available supply. That imbalance can support unusually high prices and profits.[6] We believe a portion of today's earnings reflects these shortages rather than a permanent improvement in

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[3] OECD Economic Outlook Interim Report, September 2026. Discusses Middle East energy supply disruptions, a renewed September energy shock, and pressure on household purchasing power.

[4] Wall Street Journal, September 30, 2026 market coverage: nearly 0.9 percentage point quarterly rise in the 10 year yield, the largest since 1994. Janus Henderson, September 2026 market review: energy prices, fiscal deficits, AI debt issuance, and economic data contributed to rising yields. The yield chart uses rounded June 30 and September 30 readings; it does not show a daily path.

[5] University of Michigan, September 2026 final consumer sentiment results. NAHB, September 17, 2026: single family starts down 4.7% year to date through August, despite a monthly rebound. Census Bureau, August 2026 residential construction release.

[6] Micron fiscal 2026 results and investment plans illustrate exceptionally strong equipment supplier profits and capacity expansion. OECD discusses semiconductor earnings expectations and energy supply constraints. EIA's September 2026 Short Term Energy Outlook discusses growing data center electricity demand and regional capacity constraints. The assessment that some profits are above sustainable levels, and the expected normalization of earnings, are our investment views rather than established forecasts.

earning power. The risk is that investors treat temporary strength as a lasting foundation for valuation.

Over time, we expect new capacity, competition, and changes in demand to bring these markets into better balance. The timing will differ by industry, and shortages may persist for years. But as conditions normalize, pricing power and profit margins can ease. Even if AI continues to grow, some companies may earn less than today's expectations imply. A stock that looks inexpensive on peak earnings can look much less attractive on more normal profits.

We are positioning portfolios to participate in continued growth while preparing for a time when shortages ease and unusually strong profits return to more normal levels. We favor companies with durable earnings and strong balance sheets, different sources of earnings, and prices that make sense beyond today's investment boom.

We continue to see prudent ways to participate in AI, including businesses that can benefit from its adoption without depending entirely on an uninterrupted infrastructure spending boom. Higher bond yields also provide opportunities to earn attractive income. Our focus is on balancing those opportunities with the risks clients are taking to pursue them.

Returning to the duck on the pond, steady progress requires responding to the currents beneath the surface. Our responsibility is to understand those currents and adjust portfolios as conditions change, while keeping our clients' destinations in sight.

That destination is personal: achieving financial objectives and living into a financial plan over the long term. Keeping clients on course will always be our goal.

Thank you for your continued trust.

Sincerely,

Austin Graff, CFA | Chief Investment Officer

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