KREITLER
FINANCIAL

Q4 2026

KREITLER FINANCIAL

INSIGHTS

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Charlie's Corner

We're now into the fourth year of a bull market and markets keep powering upward. For US companies, rising corporate profits riding a boom in AI investment have driven the major indices higher. Even more impressive, this continues despite a long list of worries: the ongoing conflict in the Middle East and resultant energy price spike, continued high inflation, rising interest rates, growing contention over AI and data centers. Oh, and has anyone missed that there's an election coming?

Still, I can't remember a time when there has been a disconnect between the data and the mood. Economic growth was 2.2% (BEA, second quarter 2026). Unemployment was stable at 4.2% (BLS, September 2026). The S&P 500 returned 12.7% through September 30 (S&P Dow Jones Indices). These lights are all green right now.

I don't know how to measure mood. Maybe it's economic sentiment, or a president's favorability rating. Still, what I sense is unease and worry. There's a lot of it out there. Change is unsettling (see our section about managing change). There's an old saying that "Wall Street climbs a wall of worry," and maybe that pattern can continue to hold. Alan Greenspan gave his famous "irrational exuberance" speech in 1996 – the markets more than doubled, rising another 105% until March 24, 2000 (S&P Dow Jones Indices). When everyone is feeling optimistic and bought into the idea that markets can only go up, human behavior takes over and people pile into the markets. When people are cautious, there's still cash on the side to invest and drive markets higher.

The appointment of Kevin Warsh to chair the Federal Reserve may be the most consequential market development this year. This may be the beginning of a generational shift in thinking at the Fed, which is signaling its willingness to tolerate higher rates and a shrinking balance sheet to accomplish its goal of controlling inflation.

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Plan wisely.
Play accordingly.

A unanimous Federal Open Market Committee (a rarity) approved a rate increase in September (FOMC, September 16, 2026). Maybe more importantly is his communication style, which by giving less guidance is pushing risk management back onto investors.

Rising interest rates matter. There has been huge monetary expansion since the mid-2000s and huge increases in government spending that created distortions, drove markets higher, and caused higher inflation and monetary debasement. Warsh may be signaling a shift, and this would have consequences. For individuals, rising borrowing costs may cause pain, but potentially falling inflation would be helpful. For companies, rising interest rates expose bad business ideas that may be papered over by cheap money. Investors carrying too much leverage may find that strategies that worked with cheap rates are no longer viable. For governments, they constrain the ability to spend without addressing long term fiscal imbalances.

The 10-year treasury hit 5.29% on 9/30 (US Treasury), which is the highest in more than twenty years. Contrast this to 1.63% at the beginning of 2022, and even an all-time low of 0.52% in August 2020 (US Treasury). Rising rates in 2022 caused the bond market to drop a shocking 13% (Bloomberg US Aggregate Bond Index). What to make of rising rates now?

The Bloomberg US Aggregate Bond Index was down 2.9% for the year through September 30 (Bloomberg). When bonds lose money, people pay attention. We have a few thoughts on this.

First, bonds are moving inversely to stocks again. In 2022, the potential benefit of diversification failed to protect investors when both bonds and stocks dropped. We would prefer bonds to go up when stocks fall, and that requires them to move opposite. Diversification remains important.

Second, a key difference that makes today different than 2022 is the starting point of interest rates. When a 10-year bond pays 1.6%, you'll get 16% of the face value in interest over the full time period. A rise in interest rates makes that bond worth less than new bonds which pay more interest, so the 1.6% bonds price drops. When rates were 1.6%, future returns were so low that the risk was asymmetrically bad, and we reduced our portfolio's interest rate sensitivity as a result. Today, our interest rate starting point is much higher. A purchaser of 10-year bonds getting 5% would make 50% in interest over the life of the bond instead of 16% before. This creates a margin of safety that didn't exist in 2022.

Third, higher interest rates set bonds up for a higher future return if and when rates fall again. When rates fall, bond prices go up. This price increase is in addition to the interest received. As rates go up, owning bonds is more attractive going forward.

A higher rate regime could be healthy in the longer run if it tames inflation and encourages wiser spending. However, it can trigger accidents and surprises in the short run if along the way we discover businesses or investments that are no longer sustainable with higher interest rates. While we remain long-term optimists for markets, nearer term people would be wise to think of rate's impacts on their investments.

Managing Change

We're currently living in an era of accelerating change. Whether it's technology and the rise of AI, unpredictable foreign events such as the war in Iran and on-again, off-again tariffs, unexpected weather, wildfire smoke from Canada, or what feels like constant disruption, how is someone supposed to deal with this?

As someone observed, change is the only constant. The world has been changing since the beginning, and it will continue to change whether we like it or not. Looking at the long arc of human history, the general trajectory has been positive. However, it's not always comfortable or positive.

How should we be thinking about this so that we are not overwhelmed by the change, but instead can take advantage of those things that are good?

Here are some of our top rules for managing change:

- Always Be Growing. This is one of our team's stated values. Use change to improve our own capabilities and help improve the lives of those around us.
- Keep investing in yourself because you want to make sure that you maintain relevance.
- When it comes to investing and finances, don't trust forecasts, which may be wrong. Instead, use a strategy that implicitly accepts that the future is unknowable.
- Put yourself on a media diet to curate the information that feeds your mind. Try to vary what's on your plate like you would a healthy food diet.

"Everywhere is within walking distance if you have the time."

— Steven Wright

Market Summary

This quarter, the Federal Reserve delivered its first rate hike in three years, with another expected before year-end.

Even as policy turns more restrictive, U.S. equities have been supported by resilient corporate earnings, AI-driven investment, and solid corporate fundamentals. However, tensions in the Middle East, inflation concerns, and rising interest rates continue to create volatility across both stock and bond markets.

The AI investment cycle and corporate earnings growth continue to be a tailwind for the U.S. stock market. The S&P 500 finished the third quarter up 2.3% and 12.7% for the year as of September 30th (YCharts). Although the Q3 return was positive, only four of the eleven sectors in the S&P 500 ended the quarter with positive returns. U.S. small caps stocks declined in Q3 after a very strong first half of 2026. The Russell 2000 small cap index fell 7.2% for the quarter but still leads large caps stocks for the year with a 13.7% return as of September 30th (YCharts).

Emerging market stocks declined for the quarter but remained the leader among global markets with a year-to-date return of 23.7% as of September 30th (YCharts). Developed international markets, as measured by the MSCI EAFE Index, returned 0.8% for the quarter and 10.8% year-to-date (YCharts).

Segments of the global stock market continue to outperform the U.S. market this year and provide diversification benefits outside of the concentrated AI theme in the U.S. stock market.

Bonds had their most difficult quarter in several years. Following Fed Chair Kevin Warsh's inflation-fighting message at Jackson Hole, the Fed raised rates by 0.25% on September 16th, its first increase since 2023. Treasury yields increased and the 10-year yield increased to 5.29%, its highest level in roughly two decades. As a result, the Bloomberg U.S. Aggregate Bond Index fell 3.5% in Q3 and is down 2.9% for the year (YCharts).

Elevated U.S. stock valuations, energy inflation, and further Fed action could keep market volatility high in the near-term. The dispersion of returns across global stocks, sectors, and bonds show the value of a diversified portfolio. Navigating this environment requires a disciplined focus. Maintaining a diversified, long-term-oriented portfolio aligned with your specific goals and risk profile remains the foundation of sound investment practice.

As always, we welcome your questions and comments.

Market Return as of September 30, 2026

ASSET CLASS	INDEX	YEAR TO DATE TOTAL RETURNS
US Stocks	S&P 500 Total Return Russell 2000	12.7% 13.7%
Foreign Stocks	MSCI Emerging Markets MSCI EAFE	23.7% 10.8%
US Bonds	Bloomberg US Aggregate	-2.9%

**Source YCharts Returns as of September 30, 2026*

Jake Ness wrote about the new Trump accounts for children on our blog in July, and it is worth reading if you have children or grandchildren under 18. You can read it on the blog section of our website, or just ask us for a copy. A change effective October 1 is that these accounts are now being automatically opened for eligible children, and parents need to claim them.

Meet Our Team

MARGIE BERVILLER

EXECUTIVE ASSISTANT TO CHARLIE KREITLER

YEAR JOINED: 2025

What inspired you to join Kreitler Financial, and what do you enjoy most about your role?

I was drawn to Kreitler Financial's commitment to its clients and the opportunity to work with a caring, collaborative team. As Charlie's assistant, I enjoy building relationships with our clients and helping them feel welcomed and supported.

How do you stay updated with the latest trends and changes in the financial industry?

I stay informed by regularly following financial news, market trends, and broader economic developments. My family also shares an interest in finance and politics, so we often discuss market trends, economic fundamentals, and world affairs including how they may impact the economy and financial markets.

What are you most excited about in the upcoming months for our company and our clients?

I am looking forward to opportunities to connect with our clients, including our upcoming client social. These gatherings allow us to show our appreciation to our clients while also spending time together in a relaxed social setting.

What hobbies or activities do you enjoy outside of work?

Outside of work, I enjoy practicing yoga, gardening, and taking walks and hikes with my husband. These activities help me unwind, stay active, and enjoy time outdoors.

What is your favorite book, movie, or podcast, and why?

I recently read Greenlights by Matthew McConaughey. I enjoyed his candid storytelling and reflections on life, especially the idea of finding opportunities to learn and grow through both successes and challenges.

Where is your favorite travel destination? What is a must-see when someone visits there?

For me, it's less about a particular destination and more about spending time with family. Some of our favorite trips have been beach vacations with our two boys, enjoying the warm sun, sand between your toes and the sound of ocean waves. My recommendation is simple: find a beautiful beach, slow down, and enjoy the time together.

We want to remind everyone to make sure to RSVP to our Fall Client Social being held at Union League here in New Haven on Wednesday, November 4th. Be on the lookout for your mailed invitation. We hope to see you there!

After our lunch & learn on charitable giving strategies in June, we were able to host an additional session virtually in September that was well attended. If you have any questions on charitable giving strategies, please connect with your Kreitler Financial team.

At Kreitler Financial, we help change people's lives by helping them dream a future they can't yet imagine, then outline the path to make it a reality.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Kreitler Financial, LLC ("Kreitler Financial"), or any non-investment related content, made reference to directly or indirectly in this article will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this content serves as the receipt of, or as a substitute for, personalized investment advice from Kreitler Financial. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Kreitler Financial is neither a law firm, nor a certified public accounting firm, and no portion of the article content should be construed as legal or accounting advice. A copy of Kreitler Financial's current written disclosure Brochure discussing our advisory services and fees is available upon request. Please Note: If you are a Kreitler Financial client, please remember to contact Kreitler Financial, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Kreitler Financial shall continue to rely on the accuracy of information that you have provided.

POSSIBILISTS & PATHFINDERS

There is no assurance that any investment strategy will be successful or that your objectives will be met. Investing involves risk and investors may incur a profit or a loss. Asset allocation and diversification do not ensure a profit or protect against a loss. Past performance is not indicative of future results. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment decision.

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