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ADVISORY Notes

SEPTEMBER 2026

Third Quarter Reflection



The third quarter of 2026 has been characterized by a U.S. economy that continues to demonstrate considerable underlying strength, although the path forward has become somewhat more complicated. Economic activity has remained firm, supported by consumer spending, business investment and continued productivity gains associated with technology and artificial intelligence. Recent business surveys indicate that private-sector activity accelerated during September, while the Atlanta Federal Reserve's GDP tracking estimate has pointed to a strong rate of economic growth during the third quarter. At the same time, inflation remains above the Federal Reserve's 2% objective, creating a difficult balance between maintaining economic growth and preventing renewed inflationary pressures. The Federal Reserve's September projections call for approximately 2.3% real GDP growth for 2026, with unemployment remaining near 4.1%, but core inflation is projected at 3.4% for the year.

The stock market continued to benefit from solid corporate earnings, strong technology spending and investor enthusiasm surrounding artificial intelligence. Through late September, the major equity averages remained near record levels, with technology and semiconductor companies again providing much of the leadership. As has been the case for much of this year, however, the headline market averages do not tell the entire story. Market leadership has remained relatively concentrated, and periods of rising interest rates, higher energy prices and concerns regarding elevated valuations have produced increased volatility beneath the surface. As September comes to a close, the S&P 500 remains more than 12% above its year-end 2025 level, while the Nasdaq has generated an even stronger advance. The ability of corporate earnings to continue growing at a pace sufficient to justify current valuations will therefore remain an important consideration as we move into the final quarter of the year. (See Market Table below.)

The bond market has presented a more challenging environment. Treasury yields moved higher during the quarter as investors adjusted to a Federal Reserve that is now placing greater emphasis on persistent inflation. In September, the Federal Reserve raised the federal funds rate by one-quarter percentage point to a range of 3.75% to 4.00%, its first rate increase in more than three years. The 10-year Treasury yield moved above 5% during September, while longer-term Treasury yields also came under pressure. Higher yields have created a headwind for bond prices, but they have also substantially improved the income available to investors com-

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MARKET TABLE

VALICENTI ADVISORY SERVICES, INC.
Comparative Index Period Returns From 06-30-26 THROUGH 09-30-26

	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	ICE B of A US Treasury Bill Index (0-3)
06-30-26 to 07-31-26	0.38	1.01	-0.06	-3.20	-3.08	-1.30	-1.99	-1.61	-0.03
07-31-26 to 08-31-26	1.47	2.06	2.72	3.93	0.86	0.39	-0.25	0.43	-0.01
08-31-26 to 09-30-26	-4.12	-4.81	-0.35	1.86	-5.40	-2.61	-4.70	-2.75	-0.08
Cumulative Returns	-2.34	-1.87	2.30	2.47	-7.52	-3.51	-6.83.	-3.91	-0.12
YTD Returns 12-31-25 to 09-30-26	7.19	10.03	12.75	15.57	12.69	-2.91	-4.50	-3.00	-0.13

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Director's Chair



"My life fades. The vision dims. All that remains are memories. I remember a time of chaos... ruined dreams... this wasted land." Wow that is a dark start from your investment advisor. Actually, it is the opening line to the Australian movie *The Road Warrior* starring Mel Gibson where in a post-apocalyptic world factions battle over fuel, a.k.a. gasoline, hydrocarbons. This piece is not about the stock market since the economy is growing and the GDP is strong and is rather diversified from oil inputs particularly when compared to how dependent the United States was to energy supplies when the first two movies of this series were written in 1978-1981. Instead, we are going to focus on a subset of the economy that will likely feel pain this winter.

Those of you who drive diesel powered pickup trucks and cars have felt a certain sting at the fuel station since March. The military conflict in the Mideast has reduced supplies of crude oil to the world, but more importantly for the United States, it has curtailed supplies of refined products such as diesel and gasoline. Or as the movie said, "For reasons long forgotten, two mighty warrior tribes went to war, and touched off a blaze which engulfed them all. Without fuel they were nothing. They'd built a house of straw. The thundering machines sputtered and stopped. Their leaders talked and talked and talked. But nothing could stem the avalanche." This can be seen in the near collapse of the Iranian economy as the regime is close to being unable to pay its military and Americans who own multiple vehicles are keeping their diesel truck in the garage in favor of driving their electric or fuel-efficient sedan.

The nominal price for diesel, or as it is known under its futures contract name Heating Oil, hit a nominal (non-inflation adjusted) all-time high of $5.30 per gallon recently while WTI oil rose above $100 for the first time since the pandemic supply disruption era of 2022. Few will be comforted by the fact that heating oil was more expensive on an inflation adjusted basis in 2022 than today, particularly when heating oil season begins for the northeast come October 1st. It appears relief is unlikely to arrive soon. It has been over 50 years since a new refinery has been built in this country and makes the U.S. partially dependent on imported diesel from Canada, which sells at a higher price because it's a global export product from the land of maple leaves. Since the rest of the world is willing to pay a higher price, so does the U.S., which is short of production. Global supply has further been constrained by the war in the Ukraine as the Ukraine military has successfully drone attacked Russian diesel refineries. Russia has halted diesel exports until October with possible extensions into January to hoard supply for their domestic economy.

Where does that leave diesel drivers including over-the-road truckers who haul goods for the American economy and those who heat their homes with heating oil? As the character known as Toady introduces the movie's villain known as The Humungus, "Greetings from The Humungus! The Lord Humungus! The Warrior of the Wasteland! The Ayatollah of Rock and Rolla!" It doesn't matter which Ayatollah one wishes to refer to, your energy bill this winter will be "humongous" (U.S. spelling). Heating oil futures show the price declining to $4.66 per gallon in December and $4.52 for January, which would be $1 above where they were last year. There are fears of further supply disruptions with some saying $6 per gallon heating oil is very possible. By the way, when we say heating oil (diesel) is currently trading at $5.30, that is the wholesale price. Retail diesel at the pump is going for $6.50-$7.25 per gallon currently. Talk has surfaced about a U.S. export ban for diesel; however since we lack the pipeline capacity in the Gulf of America to ship product to the northeast, this could actually backfire. A domestic export ban may lead Canada and Europe from banning exports themselves, which would further raise prices in the capacity constrained northeastern United States.

This is occurring as the Navy is escorting ships filled with hydrocarbons through the Straight of Hormuz much like Mel Gibson's character Max escorts a gasoline convoy to save a band of survivors. Where will this end up? In the movie, you do get a happy ending as the survivors escape with the fuel needed to get to sanctuary. The movie is also full of characters who have wild hair styles that are reminiscent of a certain real life political leader who will go unnamed. In the long run, it would be unwise to bet against the U.S. due to its economic and military strength thereby creating a solution via a combination of those attributes. It's the short run where consumers will feel a pinch in the pocketbook at the pump and heating oil bill. Make no mistake, the U.S. economy is not in the Australian wasteland as in the movie. It is actually the strongest GDP grower of large economies in spite of higher energy inputs and is expected to be through the next year. So much so, that the Federal Reserve just hiked interest rates to stem the growth impulse. Owning energy stocks in the portfolio acts as a hedge, in effect portfolio protection from energy spikes, and we at Valicenti have appropriate exposure to aid accounts.

By the way, if you want to know how old you are, Gen-Xers and older refer to this movie as *The Road Warrior* while younger generations call it *MadMax 2*.

Louis F. Ruize
Director of Research
Portfolio Manager
Chief Investment Officer

Analyst Corner



The S&P 500 traded sideways in the early part of Q3 and by the end of the quarter returned 3.02%, resuming an uptrend. Total equity returns year to date are a respectable 13.51%. The real story, however, has been the backup in rates, against a waning disinflation trend, with core inflation persistently slightly above the 2.0% target. The 10YR US Treasury yield has climbed more than 75 basis points, and the yield settled at 5.23% by the end of the quarter. This culminated in a hike in the short-term Federal Funds rate by the Federal Reserve in September, leaving investors wondering what comes next. While the vector of rates is moving in an upward direction, there seems to be no real market fear yet that we are entering a period such as 2022, against a backdrop of rapidly accelerating inflation. Whether an insurance hike, or a smaller cycle of rate rises, for now equity markets are undeterred behind a strong corporate earnings profile.

Energy, Healthcare, Information Technology, and Communication Services led the S&P 500 index, returning 18.6%, 6.9%, 6.8%, and 3.7%, respectively. Rate sensitive sectors such as Utilities, Industrials, and Real Estate underperformed to the downside. More troubling, the pro-cyclical Consumer Discretionary sector was off 3.6% in the quarter and outside of Utilities, is one of the few sectors down in the year.

Positive Market Influences	Negative Market Influences
Corporate Earnings	Rate Hike
ISM Survey	Interest Rates
Strong Nominal & Real GDP Growth	Energy Headwinds

Bond markets are facing a backup in yields which is producing a small headwind to portfolios. The other side of this is that building higher income generation in the same portfolios is now more attractive. This will be more significant should nominal growth and rates normalize a bit lower over time. Year to date returns for the Citi Corporate Bond Total Return Index are negative in the low single digits, down 2.6%.

Given an off-year election in the final quarter in the United States, more potential for Fed action this year, and a situation in the Middle East with Iran that is seemingly in an unsustainable place, there should be significant events to wade through as 2026 completes. In the meantime, 3-Month Treasury Bills have moved from 3.7% to 4.1%, and the Buffalo Bills are 3-0 and possibly on their way to 4-0. That which goes up sometimes eventually comes down.

Positive Market Influences

- **Corporate Earnings** – S&P 500 earnings expectations for 2026 were revised higher in Q3 from 24% growth to 32% growth. This has lowered the forward earnings multiple while setting the bar high for realizing this expectation down the line.
- **ISM Survey** – The ISM Manufacturing Survey for August came in at 54.6. This is the 8th straight month of expansion.
- **Strong Nominal and Real GDP Growth** – Nominal GDP growth in the United States is presently running north of 6%. The Q3 Nowcast for real GDP in the US is in the vicinity of 5%. These are generally hotter levels of economic activity.

Negative Market Influences

- **Rate Hike** – The Federal Reserve increased the target rate from 3.625% to 3.875% at the midpoint at the September meeting with two more meetings ahead in 2026, October and December.
- **Interest Rates** – The level of interest rates across the maturity curve have all risen this year. While growth is accommodating an orderly transition through the higher rates, should energy shocks fade in the months and year ahead, the higher rates, if offsides, could stall growth quickly.
- **Energy Headwinds** – Supply shocks for energy products such as diesel, jet fuel, gasoline, and heating oil, as well as crack spreads have seen marked increases, challenging downstream environments for users in transportation, agricultural, and manufacturing areas.

Daniel P. Burchill
Director of Economic Research and Investments

Third Quarter

(Continued from Page 1)

pared with the unusually low-rate environment of several years ago. The principal question for fixed-income investors is whether inflation eventually moderates sufficiently to allow interest rates to decline, or whether stronger economic growth and persistent inflation keep rates higher for longer.

As we look toward the final quarter of 2026, the investment environment appears to be one in which discipline and diversification remain particularly important. The economy is not showing the characteristics of a traditional recession, but neither are investors operating in an environment of inexpensive money and rapidly falling interest rates. Equity investors will be watching earnings growth, the sustainability of the AI investment cycle, consumer spending and valuation levels, while fixed-income investors will continue to focus on inflation, Treasury supply and Federal Reserve policy. In our view, the fundamental objective remains unchanged: maintain a long-term perspective, avoid allowing short-term market movements to dictate investment decisions, and construct portfolios around quality, diversification and an appropriate balance between growth and income. Markets will undoubtedly experience periods of uncertainty, but a sound investment strategy should be designed to withstand those periods rather than attempt to predict them.

Joseph M. Valicenti
President
Chief Executive Officer

Investment Strategy



The third quarter of 2026 has continued to show the resilience of the U.S. economy and financial markets. Corporate earnings have remained strong, supported by healthy consumer spending, continued business investment and solid economic activity. Technology and artificial intelligence have remained important areas of growth, with companies continuing to invest heavily in data centers, semiconductors, cloud computing and related infrastructure. These investments provide an important long-term growth opportunity for both the economy and financial markets.

At the same time, markets have faced challenges from elevated oil prices, renewed geopolitical tensions, persistent inflation and uncertainty surrounding Federal Reserve policy. Higher energy costs have added to inflationary pressures and contributed to market volatility throughout the quarter. The Federal Reserve raised its target rate by 0.25% in September to 3.75%–4.00%, while noting that economic activity and domestic spending remain solid, although inflation remains elevated.

Our investment strategy remains focused on strong businesses with proven track records, solid earnings and cash flow. We continue to maintain a balanced and flexible asset allocation of approximately 45 to 60 percent in equities, 25 to 35 percent in fixed income and 5 to 10 percent in money market or short-term government securities. Our asset allocation also remains responsive to evolving market dynamics, client's individual objectives, risk tolerance and liquidity needs.

Jeffrey S. Naylor
Executive Vice President
Chief Financial Officer
Chief Compliance Officer

Retirement



Like many changes in life, one of the biggest challenges is facing retirement. While many people look forward to leaving the workforce, the reality of retirement can feel intimidating once they begin to think of the practical and financial details.

There are several aspects of retirement that deserve mention and one of them is the emotional impact of no longer working. Some people are thrilled to no longer head to the workplace and welcome the opportunity to step away. Others may feel a sense of loss and uncertainty.

Having a plan in place can make the transition easier. If you decide to fully retire, be ready to dive into hobbies, travel or any other pastime you enjoy. Others may prefer to continue working part-time and still others may turn a hobby into a business. It can be helpful to begin thinking about these possibilities several years before retirement. Your interests, abilities and priorities may change over time, and planning ahead gives you an opportunity to explore different options.

Some people are thrilled to no longer head to the workplace and welcome the opportunity to step away. Others may feel a sense of loss and uncertainty.

Healthcare costs and coverage may have a significant impact on deciding when to retire. If you are approaching age 65, it is important to understand when you need to enroll in Medicare. The initial enrollment period for Medicare is three months before the month you turn 65 and for the three months following your 65th birthday. There are lifelong penalties for not signing up during this time frame.

The premiums for Medicare Part B generally are deducted from your Social Security payment, however, if you are waiting to collect Social Security you will need to make the premium payments separately. Once you begin Social Security, those premiums will be deducted from your Social Security payments. Because the rules for Medicare and individual circumstances can vary, it is important to understand your specific enrollment requirements as you approach retirement.

Regarding retirement finances, we usually recommend looking first at your expenses. Take into consideration any regular, outgoing payments such as mortgage or rent, taxes, auto payments, utilities and other debt.

Then consider expenses for groceries, travel, entertainment, hobbies and gifts to come up with a complete picture. This monthly figure will be your baseline for continuing your current lifestyle.

Now look at your potential monthly income such as a pension, Social Security (if you are going to collect it at that time), income from 401(k)'s, IRA's and other sources. Comparing your retirement income to your expenses will provide a clearer picture of readiness. If there is a gap between them, you can begin to consider adjustments before retirement arrives.

Retirement planning involves much more than determining whether you have enough money saved. It also means thinking about how you will spend your time, how to manage healthcare and how your income and expenses work together. If you are struggling to reconcile the income and expenses, please reach out to us. We are happy to work through retirement planning questions with you and help you develop a plan for this next chapter in life.

Ann S. Nolan, FPQP™
Client Relationship Manager

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