

Equity Overview

MARKETS CLIMB HIGHER ON A WINDING NARROW TRAIL

U.S. equities extended their winning streak in Q3, with the S&P 500 rising 2.3% despite sharply higher interest rates and continued geopolitical uncertainty. Beneath the surface, however, market breadth weakened considerably with tech doing most of the heavy lifting. The equal-weight S&P 500 fell 1.9% while the Russell 2000 dropped 7.3%, highlighting how heavily index performance depended on the largest technology companies.

RISING RATES TIP THE BALANCE AGAINST BROADER MARKETS

Interest rates emerged as one of the quarter's biggest challenges as persistent inflation, stronger economic data and fiscal concerns pushed Treasury yields sharply higher. The 10-year yield rose to its highest level since 2002, while the Federal Reserve delivered its first rate hike since 2023. Markets ended the quarter expecting another potential hike in December, creating a significant headwind for rate-sensitive areas of the market.

AI ENTHUSIASM MEETS A DOSE OF REALITY

The AI trade took a breather as topics such as monetization, open-source competition, circular financing and political resistance to datacenter construction raised questions about the sustainability of AI spending. Enthusiasm remained intact in other areas, with software rebounding sharply and companies such as Microsoft and Meta delivering strong gains as investors increasingly focused on agentic AI and broader applications beyond frontier-model training.

EARNINGS PROVIDE A STRONG COUNTERWEIGHT TO CONCERNS

Corporate fundamentals remained a bright spot despite rising macro risks. S&P 500 earnings increased nearly 53% year-over-year in Q2, with 86% of companies beating earnings expectations—the highest percentage since 2021. Q3 earnings are expected to rise more than 29%, potentially marking the third consecutive quarter of earnings growth above 25%. A resilient labor market and continued consumer spending provided additional support for corporate results but mega cap tech companies will still be responsible for the largest share of earnings.

Market Outlook

RISING EXPECTATIONS SET HIGHER BAR FOR RISING MARKETS

The third quarter highlighted an increasingly important tension in the market: **strong corporate fundamentals continue to support stocks, but higher interest rates and weaker breadth are making investors less willing to overlook elevated valuations.** AI investment remains a powerful source of earnings growth, but the market is becoming more discerning about who will ultimately translate that spending into sustainable profits. At the same time, the Fed's renewed tightening cycle and Treasury yields at their highest levels in more than two decades create a less forgiving backdrop for companies dependent on distant future growth. **If S&P earnings continue to grow at the current pace, investors will likely bid stocks higher but in a volatile manner** as they reallocate between companies with sustainable fundamentals and those benefiting primarily from enthusiasm.

3rd Quarter Scorecard		Table 1
Index	Quarter	1 Year
S&P 500	2.3%	15.7%
Russell 1000 Growth	0.9%	7.5%
Russell 2000 Growth	-9.4%	12.1%
Russell 3000 Growth	0.5%	7.6%
Russell 3000 Value	2.3%	23.7%
Barclays Capital US Aggregate	-3.5%	-1.8%
ICE BofA U.S. Corporate Index	-3.8%	-2.0%

Fixed Income Overview

Persistent and elevated inflation, a resilient economy, and increased government borrowing were some of the factors that led to a substantial increase in U.S. Treasury yields during the third quarter. The uptick in yields was a driving force behind the poor performance of the Bloomberg Aggregate, down -3.5% for the quarter.

The 2-year, 10-year and 30-year were up 72bps, 82bps and 68bps respectively. Citing concerns about insistent inflation, the Federal Reserve implemented a 25bp hike on September 16th (Graph 1). The move was accompanied by a hawkish tone from the Fed Governors, and the market is pricing in at least one more rate hike in 2026. Several mitigating factors, including higher energy prices (Graph 2) from the Iran War, lingering tariff impacts, and AI-related investments, all played a part in forcing the Fed’s hand in making a move.

Despite Treasury yields rising, corporate bonds held in relatively well with investment grade spreads widening out by only 8bps. A resilient economy and demand for higher yields have kept spreads in line even in the face of interest rate volatility. While AI-related supply has continued to surge and influence related issuers, the overall impact on corporate bonds has been contained.

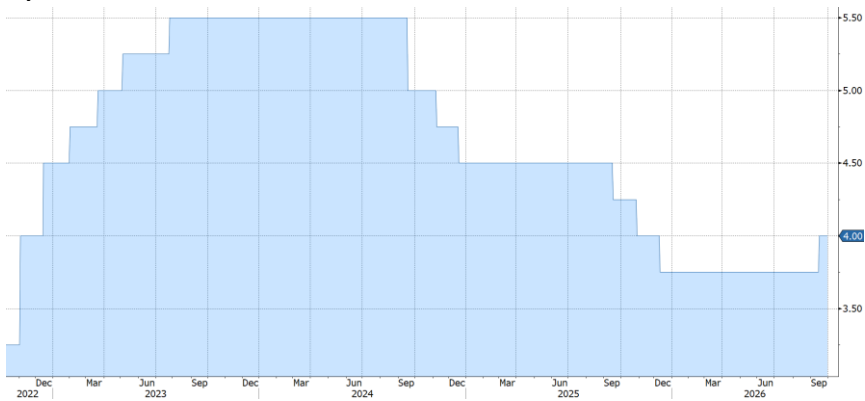
The sharp increase in yields, and overall spike in rate volatility, resulted in further uncertainty in duration and prepayment expectations within the mortgage space. These factors resulted in Mortgage-backed securities underperforming during the quarter.

Adding to the difficulties of the bond market is that the inflation forecast is difficult to forecast with many of the lingering effects tied to geopolitical events. Higher rates can slow down the demand side of inflation growth, but supply shocks caused by an ongoing war and isolated AI-related spending may prove to be fairly resistant to those changes.

With further rate hikes now expected, the economy may no longer be as resilient as it has been, and leading indicators are showing signs that a slowdown may be coming. Amidst the uncertainty, higher yields provide a more attractive opportunity set within the investment-grade bond market. It is that type of environment where high-quality assets tend to outperform, and Sawgrass will continue to focus on locating opportunities and serving as a stabilizing force in client portfolios.

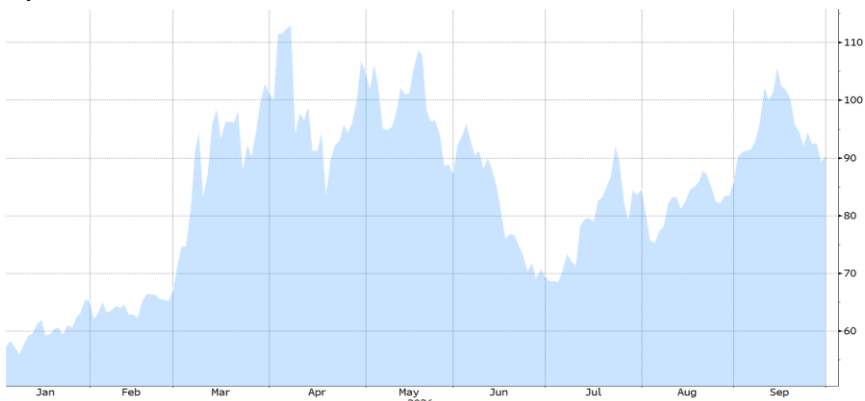
The opinions expressed herein are subject to change. No content published here constitutes a recommendation of any particular investment, security, a portfolio of securities, transaction, or investment strategy. To the extent any of the content published may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person. Consult your advisor about what is best for you.

Graph 1 Fed Funds Rate



Source: Bloomberg

Graph 2 WTI Oil Price



Source: Bloomberg

Interest Rate Summary	Table 2				
	9/30/2026	6/30/2026	9/30/2025	Qtr Change	12-month change
3 month t-bills	4.1	3.8	3.9	0.3	0.2
5 yr treasury	5.1	4.2	3.7	0.9	1.4
10 yr treasury	5.3	4.5	4.2	0.8	1.1
30 yr treasury	5.6	5.0	4.7	0.6	0.9
5 yr corporate (A)	5.6	4.7	4.2	0.9	1.4
10 yr corporate (A)	6.1	5.2	4.9	0.9	1.2
30 year fixed rate mortgage	7.2	6.6	6.4	0.7	0.8

Source: Bloomberg