

UNITED
ASSET STRATEGIES, INC.
Planning for a Lifetime®

Quarterly Letter
October 2026

Comments as of October 21st, 2026

EXECUTIVE SUMMARY

Dear Clients and Friends,

The S&P 500 continued higher in the 3rd quarter, as highlighted by the 2% return in Exhibit 1, with year-to-date gains nearing 13%. For many, a stock market hovering near all-time highs has been puzzling given concerns about the sustainability of AI-driven growth, weak consumer sentiment from rising mortgage rates and gas prices, geopolitical tensions in Iran and Ukraine, and the uncertainty surrounding the upcoming midterm elections. Beneath the surface, however, we do not view the market as complacent, with negative 3rd quarter returns for the average stock and major bond indices reflecting such concerns. To that end, Exhibit 2 shows most stocks have not participated this year. We also see a year-to-date decline in the multiple investors are willing to pay for market earnings, reflecting risks they see.

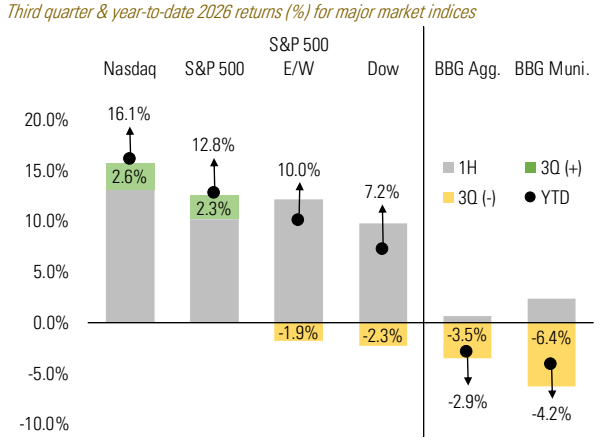
Higher stock and lower bond markets were a result of the macro backdrop. While much attention has been on AI, strength extends beyond it, with consumer spending resilient to higher mortgage rates and gas prices owing to a healthy job market and growing household wealth. Further, strong earnings have offset lower multiples to leave the stock market near all-time highs. And while much of that outsized earnings growth is AI-driven, growth outside the AI complex has also accelerated above historical levels, an indication of a supportive macro backdrop. The disconnect between narrow stock gains and broad earnings strength is notable, however, with reversion toward fundamentals a potential tailwind to our more diversified portfolios. Looking ahead, we acknowledge the policy uncertainty around the midterms but note seasonal strength in the months after as a reason to stay invested.

We point to historical links between the economy and Treasury yields, with accelerating GDP growth contributing to higher rates and lower bond prices. Looking ahead, bonds offer an attractive risk-reward, with yields providing a healthy return above inflation and a cushion against adverse rate changes. From a planning standpoint, balancing debt repayments and liquidity is key to financial flexibility in a higher-rate world. Contact your advisor to discuss.

For more details, find supporting comments & analysis in pages that follow.

Exhibit 1: 3Q returns concentrated in mega cap, as higher rates pressure the avg. stock & bond market.

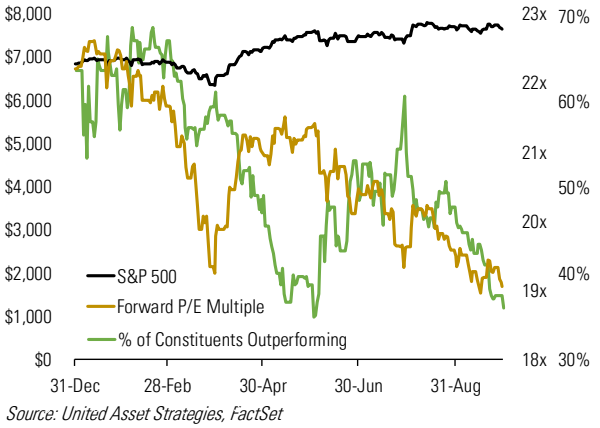
Third quarter & year-to-date 2026 returns (%) for major market indices



Source: United Asset Strategies, FactSet

Exhibit 2: Market not complacent despite sitting near all-time highs, as seen in lower valuations & poor breadth.

S&P 500 Index *P/E Multiples & % Outperforming*



Source: United Asset Strategies, FactSet

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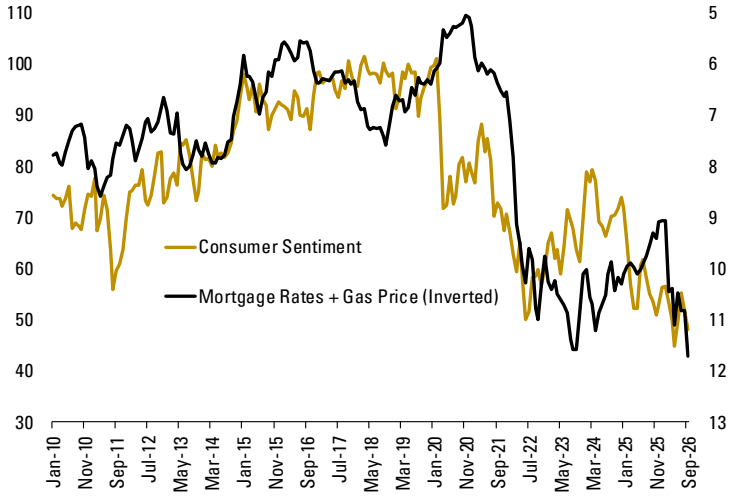
Resilient U.S. Consumer. While higher energy prices have added to inflation concerns and pushed interest rates higher, the Federal Reserve (Fed) cited ongoing macro strength as a key factor in its recent decision to increase rates. Most notably, the Fed pointed to the continued resilience of the U.S. consumer, which accounts for 2/3rds of gross domestic product (GDP).

As highlighted in Exhibit 3, rising gas prices and mortgage rates have caused consumer sentiment to fall sharply. Surprisingly, consumer spending has remained resilient despite these headwinds. Consensus estimates for 3rd quarter GDP growth are now 2.5%. The Atlanta Fed's GDPNow model calls for consumer spending to contribute 2.55 percentage points—above its 2.1 long-run mean. So, while AI is in the spotlight, a resilient consumer has also been a key engine of growth.

Consumers may not feel great about the prices they pay, but they have the means to pay them. A key driver of this resilience has been a stable labor market, with a 4.2% unemployment rate consistent with full employment. Weekly jobless claims also remain low, pointing to limited firing even as hiring has slowed. Further, household wealth has grown on rising 401(k) and home values, providing added spending capacity among higher-end consumers. To that end, Exhibit 4 highlights that as net worth increases relative to disposable income, the share of that income consumers are willing to spend also increases.

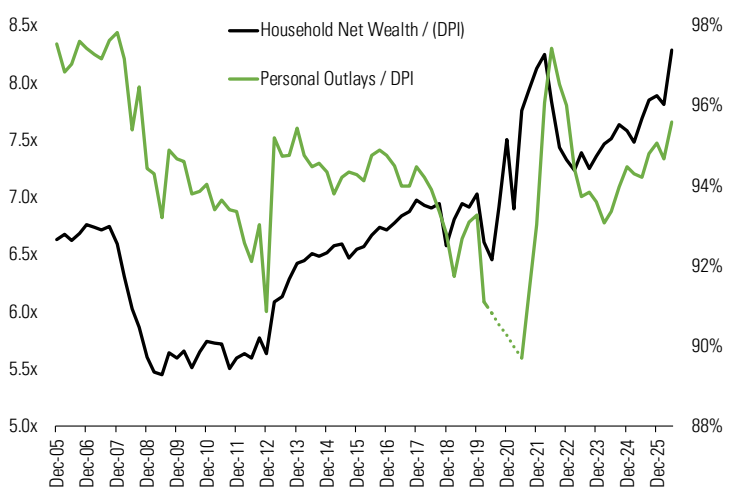
Stable jobs and growing wealth have so far buoyed consumer spending despite weak sentiment, higher gas prices, and rising mortgage rates. With the consumer key to the economy, we will continue tracking these factors in assessing their spending.

Exhibit 3: The U.S. Consumer does not feel great, with the recent increase in mortgage rates and gas prices pressuring sentiment.



Source: United Asset Strategies, FactSet

Exhibit 4: Despite how they feel, a healthy jobs market and increased wealth have given consumers the capacity to spend.



Source: United Asset Strategies, U.S. Bureau of Economic Analysis, Federal Reserve

The Midterms' Market Implications. The November 3rd midterm elections are fast approaching, with a backdrop reminiscent of 2006. Then, President Bush's 38% approval rating (driven by an unpopular Middle East war and higher oil prices) and a 7.5% Democratic advantage in the Generic Ballot led to Democrats gaining 31 House seats and 6 Senate seats.

Today, President Trump's approval sits at a similar 38.3%, weighed down by the war in Iran and rising energy prices, while Democrats hold an 8.6% Generic Ballot edge. This suggests Democrats are poised to take the House, where Republicans have a slim majority. The Senate is harder to call. Republicans hold a more favorable map and a three-seat edge, with Vice President Vance as tiebreaker in a 50/50 outcome.

Midterm elections have historically been a referendum on the incumbent party. Power has changed hands in almost every election over the last three decades. Betting-market odds can be volatile, but they currently line up with that history. For example, Polymarket gives Democrats a 90%+ chance of taking the House and a 65% chance of taking the Senate. It gives less than a 10% chance that Republicans retain both chambers.

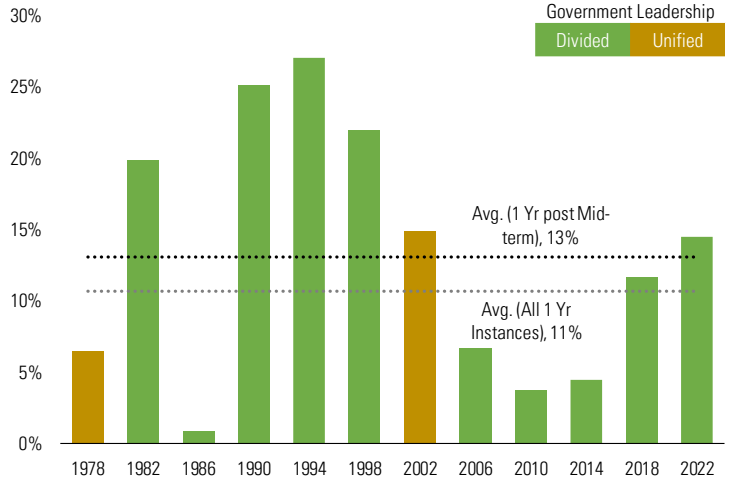
Divided government, the current odds-on outcome, is likely to produce the most gridlock and the least fiscal change. Tariffs, export controls, immigration, deregulation, and much of foreign policy remain executive-led. A divided government likely adds legislative friction, but Trump's veto probably limits Democrats' ability to substantially reverse the administration's agenda.

While midterms matter to the country, history suggests their results matter less to markets overall. Political uncertainty often drives volatility into the midterms, but as Exhibit 5 shows, the months after are seasonally strong as uncertainty fades, irrespective of the outcome. In fact, one must go back to 1938 to find negative returns in the 12 months following midterms.

That is not to say midterm results do not matter. Our focus remains on policy, not politics, as resulting legislation can create winners and losers at the sector or security level.

Exhibit 5: Lifting of political uncertainty supports healthy seasonals after the midterm elections, regardless of the outcome.

S&P 500 total returns post-midterm elections (12-months), vs. historical average (1978-2026)



Source: United Asset Strategies, FactSet

Macro Growth Boosts Yields. Since the onset of the war in Iran, oil prices have been widely cited as the primary driver of inflation concerns, and thus higher yields. We do not believe that is the full picture. Oil has stabilized since its initial spike as Middle East exports return to pre-war levels, yet inflation remains a focus. The Fed's preferred inflation measure, Core PCE, moderated slightly to 3% but remains above its 2% target.

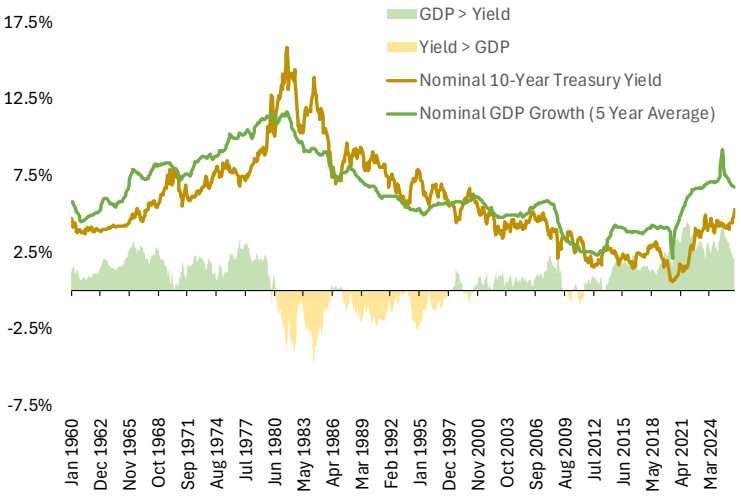
Persistently high inflation led three Fed officials to dissent in the July meeting, favoring a quarter-point hike. Subsequent data reinforced that view, setting the stage for Fed Chair Warsh's hawkish Jackson Hole speech in August. His remarks stressed the need for a timelier return to 2%, noting inflation has been above target for over five years, and foreshadowed the Fed's unanimous quarter-point hike in the September meeting. The Fed now projects one more hike, while markets expect one in 2026 and two to three more in 2027. This is consistent with a broader global shift toward higher rates, but well below the 21 hikes seen during the 2022 rate hiking cycle.

Inflation helps explain the Fed's move toward rate hikes and higher short-term yields. The effect on longer-term yields is less clear. 10-year inflation breakeven rates (a market-based measure of long-term inflation expectations) remain anchored in the 2% range this year, while 10-year real yields (the spread above inflation expectations) have risen from 2% to nearly 3%.

We believe this move in real yields at least partially reflects a strong economy supported by resilient consumer spending and significant AI investment. Exhibit 6 highlights the strong historical relationship between nominal GDP growth and long-term Treasury yields. Ultimately, higher yields reflect more than just inflation. Stronger economic growth, more AI-related debt issuance, and fiscal uncertainty are also playing a role.

Exhibit 6: Rates are higher year-to-date for a variety of reasons, with accelerating economic growth one of the key drivers.

10 Year nominal treasury yield vs 5 year average nominal GDP growth



Source: United Asset Strategies, FactSet

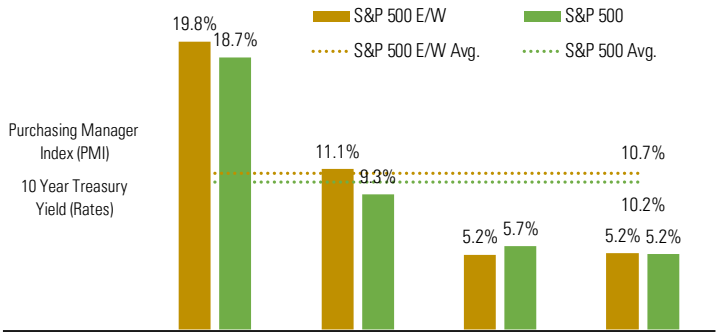
Rising Stocks Despite Higher Rates. While the recent rise in rates has been notable, implications for stocks are not as straightforward. All else equal, higher rates can pressure stocks in two ways. They raise financing costs and soften the economy (hurting earnings), and they make bond returns more competitive (weighing on stock valuations). Still, higher rates can be less impactful if they do not rise enough to meaningfully slow the economy. In fact, as seen in Exhibit 7, the best backdrop for stocks has been a strengthening economy (as seen in a rising Purchasing Managers Index, PMI) alongside rising rates.

While the recent rate increase has contributed to lower market multiples (19x earnings per share, or EPS, vs 22x to start 2026), returns remain positive thanks to strong fundamentals. At 55, the PMI is in expansionary territory (above 50) and up year-on-year (from 49). Further, S&P 500 EPS is expected to grow over 30% in 2026. This would be the third time in the last couple of decades that EPS has grown that fast (the others were 2010 and 2021), and the first time outside a post-recession recovery. Today's growth is strong and helps explain why the market has held near highs despite higher rates and lower multiples.

Looking ahead, rate changes impact the economy with long and variable lags, so we will continue monitoring earnings for signs of potential weakness in the months and quarters to come.

Exhibit 7: The stock market performs best in strong economic environments—even when rates are rising alongside GDP growth.

One-year S&P 500 total returns (%) in different interest rate & economic regimes (1989-2026)



% of Instances with (+) Returns	PMI (+), Rates (+)	PMI (+), Rates (-)	PMI (-), Rates (+)	PMI (-), Rates (-)
S&P 500	95.2%	82.2%	71.4%	69.2%
S&P 500 E/W	96.8%	78.9%	58.9%	69.9%

Source: United Asset Strategies, Bloomberg

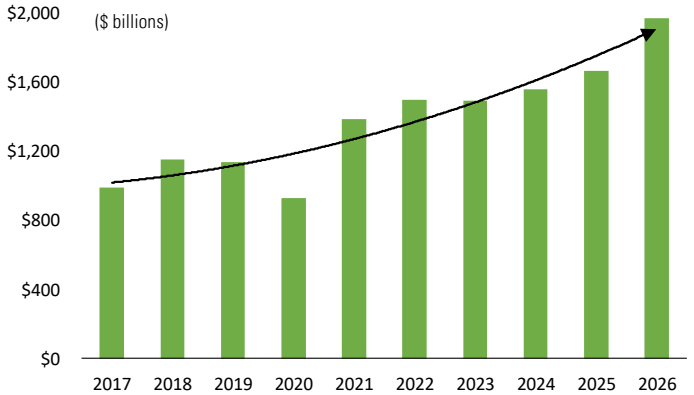
Earnings Growth Broadening. This market is increasingly a tale of two halves: the AI complex and everything else. In comparing the two, much of recent earnings growth has come from the former—hyperscale cloud companies and their tech infrastructure suppliers. Given AI's outsized growth—along with the depressed cash flow and cyclical traits outlined in our last letter—it makes sense that investors would question the sustainability of that above-run-rate growth. That helps explain why AI's multiple has fallen to 21x EPS (vs. 28x to start 2026). This AI re-rating has contributed to the recent decline in S&P 500 multiple, a sign of rational behavior not typical of bubbles.

We view AI as a transformational technology that deserves a healthy allocation in client accounts, especially with AI stocks less expensive today. Still, secular trends rarely move linearly. With the AI complex nearing 50% of the market, we favor more diversified portfolios not overly reliant on a single theme.

While the spotlight has been on AI, earnings strength is much broader. Over 80% of companies beat expectations last quarter, and about two-thirds saw forecasts revised higher. Further, Exhibit 8 shows that market earnings excluding the AI complex (i.e., everything else) have accelerated to above-average historical levels while maintaining healthy cash flows—even when excluding the Energy sector, whose profits have doubled due to the conflict in Iran. This group includes a diversified mix of large, mid, and small-cap stocks across defensive and cyclical sectors, with both value and growth characteristics. Trading at 17x EPS (down from 18x to start 2026 and near the market's long-run average), we view valuations for this half of the market as more reasonable.

Exhibit 8: While AI dominates spotlight, many stocks outside the AI-complex are delivering above-average, accelerating earnings growth.

Bloomberg 500 index, ex-AI Complex (Hyperscalers and their tech infrastructure suppliers)



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
EPS Growth	10%	17%	-1%	-19%	49%	8%	0%	4%	7%	18%
Ex-Energy [1]	7%	13%	1%	-14%	41%	-2%	4%	8%	8%	13%

(1) Earnings growth excluding Energy sector, which has recently had outsized benefits from war in Iran.

Source: United Asset Strategies, Bloomberg, FactSet

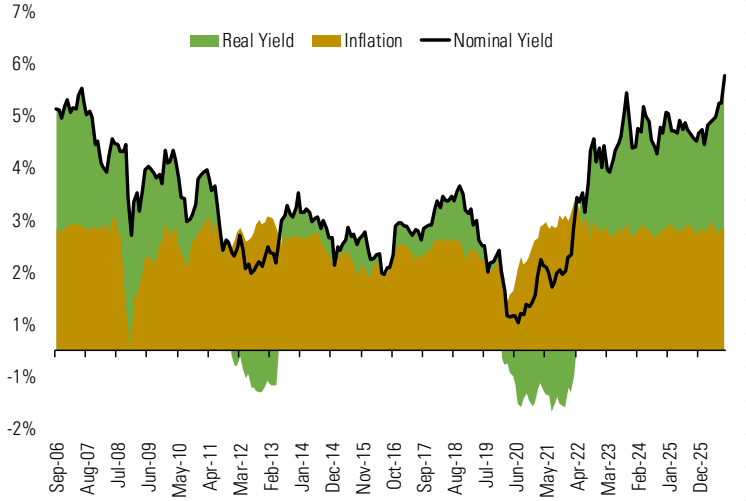
Bonds Offer Attractive Risk-Reward. For much of the past 25 years, falling rates drove a favorable backdrop for bonds, as rising prices added to income in boosting total returns. Today's substantially higher yields offer a different opportunity. Rather than rely on declining rates and rising bond prices, investors can benefit from material income above inflation, a greater cushion against higher rates, and a recession hedge for stocks.

An attractive starting yield matters. For high-quality bonds, the yield you lock in at purchase is one of the biggest drivers of future returns. With inflation still a concern, Exhibit 9 shows that 10-year Treasuries now offer a roughly 3% real yield above inflation expectations. A further rise in rates remains a risk, but the higher starting yield provides a cushion. As a rule of thumb, Exhibit 10 shows that rates would need to rise about one percentage point before price declines fully offset a year's worth of income. Combining that real yield and downside cushion, the long-term risk-reward for bonds has not been this attractive since the Global Financial Crisis.

Further, four years into an equity bull market, those in balanced accounts can find comfort in bonds as a recession hedge. While not a base case, the Fed has ample room to cut rates in a weak economy, supporting bond prices just as stocks face added risk.

Exhibit 9: Nominal yields offer compensation far above inflation expectations; Real yields are the highest since the financial crisis.

10 Year Real Treasury Yield + Inflation Break Evens = Nominal Treasury Yield



Source: United Asset Strategies, Bloomberg

Exhibit 10: Rates need to increase ~100 bps to offset a year's worth of income; Cushion not offered since the financial crisis.

Bloomberg U.S. Aggregate Bond Index; Increase in rates needed to offset a year of income.



Source: United Asset Strategies, Bloomberg

Inflation Protection, Relative Value and Tax Swaps. During the third quarter, we deployed capital in bonds offering attractive yields and harvested losses in select holdings, reinvesting proceeds where appropriate. This included trading activity in Treasuries, Treasury Inflation-Protected Securities (TIPS) and municipal bonds (munis).

With inflation remaining a risk, we maintained our allocation to TIPS as a hedge, while remaining diversified across maturities from 2 through 20 years to manage interest rate exposure. In the quarter, shorter-term TIPS outperformed longer-term ones as they benefit more from stubbornly high inflation, and their shorter duration limited the impact of rising real yields. Higher yields weighed on existing holdings but also created entry points to add more inflation protection at attractive rates.

For taxable accounts, munis became more attractive during the quarter, both outright and relative to Treasuries, as increased supply and investor flows weighed on prices. We harvested losses in long-term Treasuries to offset realized gains, which is helpful given equity gains in the fourth year of a bull market. We reinvested proceeds in similar-duration munis, improving relative value without materially changing rate sensitivity.

Managing Debt in High-Rate Environments. As interest rates rise, managing debt becomes less about simply paying down balances and more about preserving financial flexibility. High borrowing costs make it important to consider not only how much debt you have, but its cost and structure as well.

For borrowers with low, fixed-rate debt, aggressively paying down principal may not be the most effective use of available cash. Homeowners with low fixed-rate mortgages, for example, may benefit from preserving liquidity rather than making extra payments. Higher cash and Treasury yields allow those funds to generate attractive returns while remaining accessible.

This approach is particularly valuable when borrowing costs are high. Sufficient liquidity for unexpected expenses can reduce the need to take on expensive new debt and allows borrowers to respond to changing circumstances without liquidating investments at potentially unfavorable times.

At the same time, not all debt should be treated equally. High-interest and variable-rate debt, such as credit cards, should remain a priority for repayment. Reducing these obligations can lower interest expenses and improve monthly cash flow.

The goal in higher-rate environments is not necessarily to pay off debt as quickly as possible. Instead, preserve liquidity where the cost of existing debt is low, while reducing expensive debt and avoiding unnecessary new borrowing. When accessing credit is more costly, maintaining financial flexibility can be just as valuable as reducing debt.

Cost of Living Adjustments (COLA). As a side note, high inflation has contributed to this higher rate environment. For social security recipients, the Social Security Administration just announced a 3.6% cost-of-living adjustment for 2027 to help benefits keep pace with inflation. This is well above the 2% median over the last 15 years.

If you have questions, please do not hesitate to reach out to your United advisor for more information.

Respectfully submitted by the staff at United Asset Strategies

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