

Economic & Market Review Third Quarter 2026

Shashi Mehrotra, CFA®, Chief Investment Officer
Chris Surrichio, CFA®, Deputy Chief Investment Officer

LINCOLN INVESTMENT | **IM&R**
Investment Management & Research Team

ECONOMIC REVIEW

The U.S. economy continued to expand in Q3 despite persistent inflation, geopolitical uncertainty and changing monetary-policy expectations. Real GDP grew at a 1.5% annual rate in Q2 after 2.1% in Q1. Consumer spending, exports and investment contributed positively, while government spending declined. Real final sales to private domestic purchasers rose 4.2%, pointing to firmer underlying demand than headline GDP suggested.

The labor market remained relatively healthy: August unemployment was 4.1% and non-farm payrolls increased 162,000. Hiring has moderated, but employment conditions remain consistent with continued growth. Inflation remained a challenge; August CPI rose 0.4% and 3.4% year over year, while core CPI increased 0.3% and 2.4%, respectively. Energy and supply pressures complicated the disinflation trend.

The Fed held rates at 3.50%-3.75% in July, with three members favoring a 25-bp increase, then raised the target range to 3.75%-4.00% in September. The September projections showed median year-end estimates of 4.1% unemployment, 3.7% PCE inflation and a 4.1% federal funds rate. Policy remains highly data-dependent.

Overall, resilient consumption, corporate profitability and investment tied to AI, technology infrastructure and productivity remain supportive. Key risks are persistent inflation, elevated rates, geopolitical tensions, fiscal deficits and higher energy cost.

U.S. & INTERNATIONAL EQUITIES

U.S. equities advanced despite volatility as resilient earnings and AI enthusiasm competed with higher energy prices, geopolitical uncertainty and a more restrictive policy outlook. The S&P 500 returned 2.30%, the NASDAQ Composite 2.47%, while the Dow Jones Industrial Average lost 2.70%. Russell 1000 Value gained 2.61% versus 0.92% for Russell 1000 Growth.

Technology and AI-related companies remained important drivers, although investors increasingly weighed the substantial capital required for data centers, semiconductor capacity and infrastructure. The NASDAQ recovered from a July correction to a new intraday record in September; the S&P 500 and Dow reached records in August. Corporate earnings, margins and investment

This report is incomplete without the important disclosures at the end.

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IM&R PERSPECTIVE

We believe the U.S. economy remains in a productivity-driven expansion supported by innovation, technological advancement and private-sector investment. While much of the recent productivity acceleration has been concentrated within technology-related industries, we expect these benefits to broaden across a wider range of sectors over time. Looking ahead we expect:

- » Corporate earnings growth, innovation and productivity improvements to remain the primary drivers of long-term equity returns.
- » The ongoing evolution of artificial intelligence, automation, digital infrastructure and advanced manufacturing as potentially transformative forces that could support economic growth, corporate profitability and productivity for years to come.
- » Labor market conditions to continue normalizing following the post-pandemic recovery.
- » Fixed income to once again offer meaningful income generation and portfolio diversification benefits, following the normalization of interest rates from historically low levels.
- » Geopolitical competition, fiscal policy challenges and shifting global supply chains to remain important features of the investment landscape.

While each of these developments may contribute to periods of volatility, we believe well-diversified portfolios remain best positioned to navigate an increasingly complex global environment.



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remained supportive, but elevated valuations increase sensitivity to earnings disappointments and rate changes. Broader market participation would provide a healthier foundation for continued gains.

International results were mixed. MSCI EAFE returned 0.81% and MSCI Emerging Markets lost 0.37%. European markets faced fiscal concerns, manufacturing pressure and growing Chinese competition in higher-value industries. Japanese equities lost 4.72% as the Bank of Japan continued moving away from ultra-accommodative policy. Chinese equities fell 6.2% amid domestic-growth, industrial-policy and U.S. trade concerns.

The U.S. Dollar Index gained 0.63%, with the dollar appreciating against the euro and yen as policy paths diverged among the Fed, ECB and BOJ.

FIXED INCOME & COMMODITIES

Fixed income was volatile as renewed inflation pressures changed global policy expectations. The 3-month Treasury bill ended near

4.08%, the 2-year at 4.79% and the 10-year at 5.24%. The Bloomberg U.S. Aggregate Bond Index returned -3.50%, the Bloomberg Municipal Bond Index -5.77% and TIPS -3.29%. Credit remained supported by healthy fundamentals, although heavy AI/data-center borrowing increased the importance of issuer quality, leverage and compensation for credit risk.

Global bond markets also adjusted to persistent inflation and divergent growth, fiscal and central-bank conditions. Higher yields improve prospective fixed-income returns relative to much of the post-financial-crisis era, while bonds continue to provide income and diversification despite rate volatility.

Commodities were heavily influenced by Middle East developments and energy-supply risk. WTI traded near \$95 and Brent near \$100 late in September; crude finished the quarter up about 16% at roughly \$92.91. Higher energy prices renewed inflation concerns and contributed to a more restrictive central-bank stance. Gold returned 3.38%, finishing near \$4,207.

¹Source: FactSet

Source Indexes: U.S. Large, S&P 500 TR USD, U.S. Small, Russell 2000 TR USD, Intl Dev, MSCI EAFE NR, Intl Emerg, MSCI Emerging Markets NR, 1-3 Yr Treas, Bloomberg 1-3 Yr U.S. Treasury TR USD, Agg Bond, Bloomberg U.S. Agg Bond, High Yield, Bloomberg Corporate High Yield, Municipal, Bloomberg Municipal 1-15 Yr, Commodities, DJ Commodity Index, Gold, LBMA Gold Price

IMPORTANT DISCLOSURES:

These views are as of October 2, 2026 and are subject to change based on subsequent developments. The material presented is provided for informational purposes only. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Nothing contained herein should be construed as a recommendation to buy or sell any securities. As with all investments, past performance is no guarantee of future results. No person or system can predict the market. All investments are subject to risk, including the risk of principal loss. Diversification does not guarantee a profit or protect against a loss. International investing involves special risks, including, but not limited to, currency fluctuations, economic instability, and social and political uncertainties, not typically present with domestic investments. Emerging market investments can see enhanced volatility due to these risks. The return and principal value of bonds fluctuate with changes in market conditions. In general, bond prices rise when interest rates fall, and vice versa.

Gross Domestic Product (GDP) is a measure of output from U.S. factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. The Consumer Price Index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year percentage change in the CPI index as of last month-end. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

INDEX DEFINITIONS:

The S&P 500 index is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The Dow Jones Industrial Average is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The NASDAQ Composite is an index of securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The Russell 1000 Growth Index measures the performance of the broad large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index measures the performance of the broad large-cap value segment of U.S. equity value universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. MSCI EAFE Index is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. The MSCI Emerging Markets Index captures large- and mid-cap representation across 24 Emerging Markets countries. The Nikkei Index is a stock market index for the Tokyo Stock Exchange (TSE). The Shanghai Composite Index is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The U.S. dollar index (DXY) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies. The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The Bloomberg Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The Barclays Capital U.S. Government Inflation-Linked Bond Index (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. It is not possible to invest directly in an index.