Inflection Point – Higher Interest Rates – Impacts and Opportunities

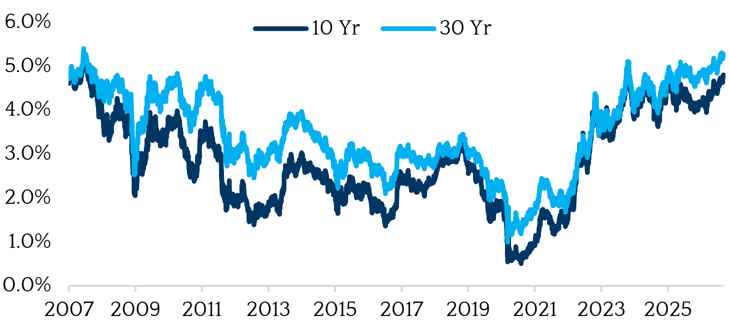
| September 2026

KEY TAKEAWAYS:

1. The US economy remains solid, buoyed by a massive AI-driven data center construction cycle, unusually strong corporate earnings, and resilient consumer spending. However, rising interest rates are a risk to continued investment and stock valuations.
2. The increase in long-end rates is driven by significant Treasury issuance, elevated corporate borrowing, persistent inflation concerns, and greater uncertainty about the long-term deficit outlook.
3. The return to pre-Great Financial Crisis era yields presents risks but also creates opportunity across stocks and bonds.

Long-Term Rates Rising – While shorter term rates have been anchored by the Federal Reserve, long-term US Treasury yields have climbed to levels not seen since before the Global Financial Crisis.

10 & 30 Year US Treasury Yields
2007 - 2026

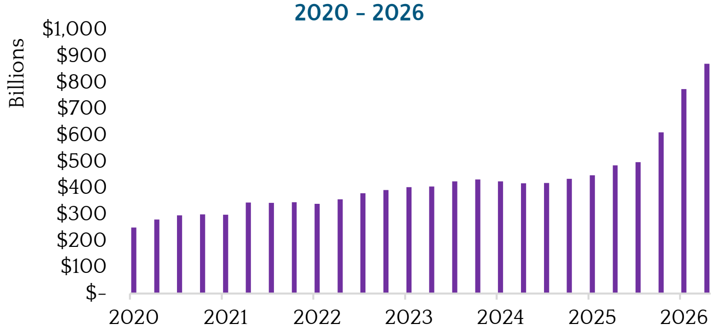


Sources: Congress Asset Management, Bloomberg

Several factors are contributing to higher long-term yields:

- **Massive new issuance by large Tech companies** – hyperscalers and related companies have tripled their debt outstanding since 2020 to $1 trillion and represent about 20% of US investment grade debt issued this year.

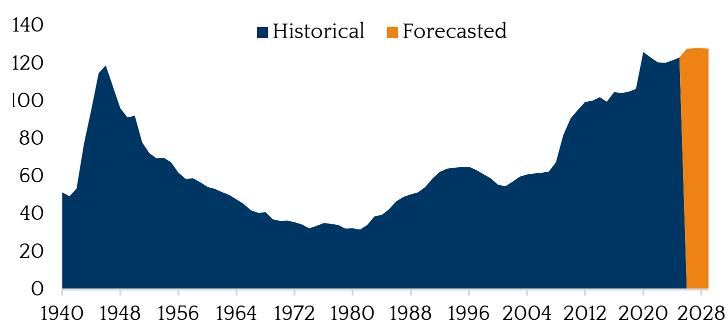
Large Tech Company Debt Issuance
2020 - 2026



Sources: Congress Asset Management, Bloomberg, Large Tech Companies (Oracle, CoreWeave, NVIDIA, Spacex, Amazon, Microsoft, Alphabet, Meta)

- **Fiscal Pressure** – Continued expansionary US fiscal policy, fueled by higher treasury issuance, has pushed US debt-to-GDP to levels not seen since COVID and is projected to hit a record 130% by 2030. This growing deficit spending is not just a US phenomenon as several other developed countries have debt to GDP ratios well in excess of 100%.

US Gross Federal Debt to GDP
1940 - 2029



Sources: Congress Asset Management, Bloomberg, Office of Management and Budget

- **Inflation** – Inflation has remained elevated since the pandemic recovery. Its persistence is a persnickety reminder of elevated costs facing consumers. The Iran war is not helpful in this regard and could drive a sustained increase in oil prices, adding uncertainty and causing dislocations in the energy supply chain. While oil has traded in a fairly tight range since the initial price spike after hostilities commenced, pockets of stress, notably in the diesel fuel which is important for airline fuel and transportation, are evident.
- **Federal Reserve Communication** – The new Federal Reserve Chairman Warsh has insisted on less forward guidance from Fed officials. While Fed officials' prognostications have proven to be very fallible, this adds further uncertainty.

Implications for Equity Investors

- The stock market reaction to higher yields has been largely subdued, as corporate earnings have been stellar, exhibiting the strongest growth, ex the Covid recovery, in at least a decade.
- However, higher bond yields can pressure valuations as they make future company profits less valuable in today's dollars, particularly impactful for high-growth, lower margin companies whose earnings are expected further in the future.
- If the move in yields reflects economic strength, earnings growth should remain solid with more cyclical business picking up steam. If, in contrast, the yield move reflects fiscal risk and inflation uncertainty, equities face greater risk of multiple compression.

Implications for Fixed Income Investors

- Fixed income ultimately benefits from higher rates as it allows for greater reinvestment opportunities.
- While interest rates have risen, the carry, or income derived from exiting investments, have softened the blow, unlike 2022.
- Investors can benefit from the diversification benefits of fixed income and earn attractive yields from high-quality bonds, markedly different than it was for much of the past decade.

A Broader Opportunity Set

- While higher yields create challenges for some companies and place greater scrutiny on valuations, they also offer investors more choice, more income, and greater diversification opportunities than they have enjoyed in years.
- Bond issuance by the hyperscalers creates risk for their balance sheet but also opportunities for their suppliers, the recipients of their largess.
- Stock investors are also recognizing established, profitable nontechnology companies with durable free cash flows and prudent debt levels are good portfolio diversifiers.
- We believe pricing power and market leadership can protect margins as capital becomes more expensive, distinguishing companies that fund capex internally from those relying on leverage.

Daniel A. Lagan, CFA® | Chief Investment Officer

Past performance is not indicative of future results. There is no guarantee the observations and trends described herein will continue.