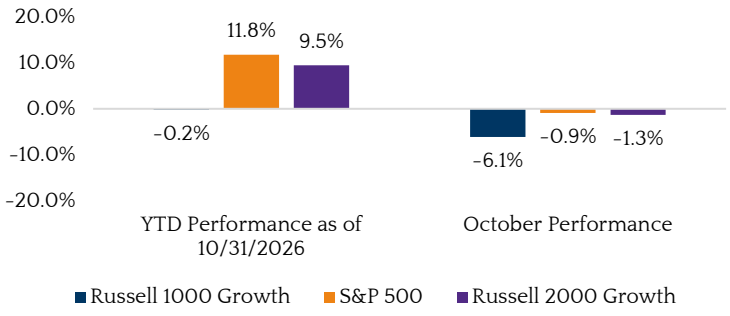
CONGRESS ASSET MANAGEMENT COMPANY

Scary Markets in October 2026

- While the month of October has largely seen positive market returns in midterm election years, this October offered some Halloween fright. Election uncertainty is one proximate cause, but it appears that on the margin investor concern about the duration of the AI infrastructure build is rising. At the same time, more are asking about the returns on the capital being dedicated to the build.
- The S&P 500 was down about 1% in the month, though it remains up 11.8% for the year. However, more Technology heavy indices have struggled to remain positive. The Russell 1000 Growth, fell 6.1%, its worst month since the height of tariff concerns in March 2025, turning YTD returns negative. Small cap stocks, in contrast, performed more in line with the S&P 500.

Tech Struggled in October 2026

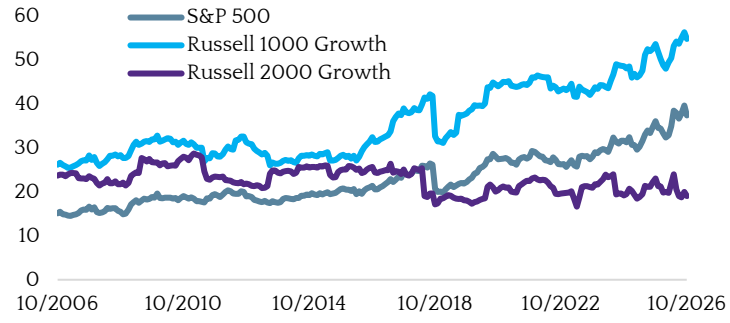


Sources: Congress Asset Management and Bloomberg

- The dispersion is larger than we've seen in recent years and can be attributed to Technology weight and selection in the respective benchmarks. The Technology sector has become an increasingly dominant position in Russell 1000 Growth Index at 55% vs 38% in the S&P 500. Tech weight in the Russell 2000 Growth is about 20%.

The Tech Sector Dominates the Russell 1000 Growth

Tech Sector Weighings 2006 - 2026

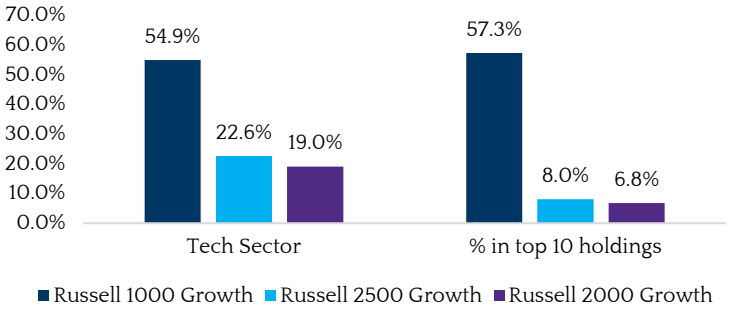


Sources: Congress Asset Management and Bloomberg

- The concentration in the Russell 1000 Growth is even starker if one includes the Communication Services sectors, with the likes of Alphabet and Meta, with Technology. Combined, these two sectors make up 70% of the benchmark. This concentration helped drive strong returns over the last 3 years; however, this concentration cut the other way in October being the primary contributor to the recent downdraft.
- Despite the recent market turbulence, we believe stocks remain attractive. Economic growth is robust, with real GDP growing 3.4% in the third quarter and consumers continuing to exhibit resilience. Corporate earnings are expected to grow ~30% in the third quarter. Interest rates have stabilized at reasonable rates and do not appear to be having significant impact outside of interest-sensitive sectors such as housing. Finally, the resolution of the mid-term elections should bring some clarity to Washington, though it will have little intermediate economic impact.
- We expect market leadership to broaden as the AI investment cycle matures. Mega-cap technology companies continue to spend aggressively on AI infrastructure, benefiting suppliers across the ecosystem while prompting greater scrutiny of future growth and investment returns. Many of those suppliers are already seeing stronger earnings growth
- Recent market performance highlights the value of diversification. We continue to view diversified large-cap strategies as a portfolio cornerstone, with smaller-cap allocations providing additional diversification through broader sector exposure and lower stock concentration.

Diversification in Down-Caps

Tech Sector Weighting and % in Top 10 Holdings as of 10/31/2026



Sources: Congress Asset Management and Bloomberg

Important Disclosures

The materials are being provided for illustrative and informational use only. Performance returns of less than one year are not annualized. Prior performance results are based on accounts that do not participate in a model delivery program with investment and operational differences such as account size and/or level of customization. There may be other reasons why the performance results differ from those of an individual account managed in the same or a substantially similar investment strategy. For example, individual accounts may differ from the strategy when applying client-requested restrictions.

There is no guarantee that the model portfolio will continue to hold any particular security and securities are held in varying percentages. Holdings are subject to change since the portfolio is actively managed. Holdings are intended to illustrate the composition and characteristics. Across client portfolios, there may be variations in holdings, characteristics and performance information as dictated by reasons such as diversification needs, specific client guidelines, account size, cash flows, the timing and terms of execution of trades, and differing tax situations.

This strategy involves risk, may not be profitable, may not achieve its objective, and may not be suitable or appropriate for all investors. Investors should consider the investment objectives, risks, and fees of this strategy carefully with their financial professional before investing. Principal loss is possible. Past strategy returns are dependent on the market and economic conditions that existed during the period. Future market or economic conditions can adversely affect the returns. **Past performance does not guarantee future results.**

Not an Offer, Recommendation or Professional Advice: This document does not constitute advice or a recommendation or offer to sell or a solicitation to deal in any security or financial product. It is provided for information purposes only and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluation of the proposals and services described herein, any risks associated therewith and any related legal, tax, accounting or other material considerations. To the extent that the reader has any questions regarding the applicability of any specific issue discussed above to their specific portfolio or situation, prospective investors are encouraged to contact Congress Asset Management or consult with the professional advisor of their choosing.

Forward-Looking Statements: Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Definitions:

The Russell 2000 Growth Index measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. Indices are unmanaged, do not reflect fees and expenses and are not available for direct investment. The Russell 2500 Growth Index measures the performance of those Russell 2500® Index companies with higher price-to-book ratios and higher forecasted growth values. Indices are unmanaged. It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes. The Russell 1000 Growth Index measures the performance of the Large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-value ratios and higher forecasted growth values. It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes. S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes.

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.