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Third Quarter 2026 Commentary

Dear Clients,

Please find enclosed your Third Quarter 2026 Investment Reports. U.S. Large Cap Stocks finished up +3.5% for the quarter. Developed International Stocks were also positive for the quarter at +0.8%. All other major asset classes in our summary table produced negative quarterly performance, with U.S. Mid Cap Stocks down -2.3%, U.S. Small Cap Stocks down -5.8%, and Emerging Market Stocks down -0.4%. U.S. Bonds and Global Bonds also suffered, down -3.5% and -2.5% respectively.

Benchmark Returns

	Last Quarter	Last Twelve Months	Last Five Years (annualized)
U.S. Large Cap Stocks	3.5%	16.9%	14.6%
U.S. Mid Cap Stocks	-2.3%	8.4%	7.5%
U.S. Small Cap Stocks	-5.8%	13.4%	6.9%
Developed International Stocks	0.8%	15.7%	9.3%
Emerging Market Stocks	-0.4%	29.2%	8.9%
U.S. Bonds	-3.5%	-1.8%	-0.6%
Global Bonds	-2.5%	-2.4%	-1.9%

Data source: YCharts (get.ycharts.com/disclosure/). Past performance does not guarantee future results. It is not possible to invest directly in an index. Last five years data is annualized. Indexes in table are:
US Large Cap Stocks: CRSP US Mega Cap TR
US Mid Cap Stocks: CRSP US Mid Cap TR
US Small Cap Stocks: CRSP US Small Cap TR
Developed International Stocks: MSCI EAFE NTR
Emerging Market Stocks: MSCI Emerging Markets NTR
US Bonds: Bloomberg US Aggregate TR
Global Bonds: Bloomberg Global Aggregate TR

A significant financial news story from this past quarter was the rise in global interest rates. In the U.S., the benchmark 10-year treasury yield saw its fastest quarter-end to quarter-end rise in over 30 years. As for short-term rates, the U.S. Federal Reserve raised its benchmark interest rate by a quarter-point to a range of 3.75% – 4.00%. (The Federal Reserve targets a tolerance range rather than an exact interest rate for practical reasons. Because banks lend money back and forth to each other thousands of times a day, the Federal Reserve does not want to intervene in every single transaction. The tolerance band lets natural flexibility exist in the marketplace.) Other major global economies saw interest rates rise to new levels as well. For example, at its September meeting, the Bank of Japan raised its key short-term interest rate to 1.25%, the highest level since 1995. And these globally higher government rates have rippled into other parts of the economy. For example, in the closing days of the quarter, the benchmark U.S. 30-year fixed mortgage rate moved firmly above the 7% threshold, a far cry from the ultra-low 3% era seen only five years ago during the pandemic (2020-2021). Higher interest rates usually mean that homes are less affordable. To illustrate this, consider that the National Association of Realtors' pending home sales index dropped to 71.2 at the end of August, a reading that indicates the national transaction volume in housing currently sits below the lowest transaction volume readings that were measured even during the great financial crisis (2008-2009). Housing is a key driver of economic activity in the United States, and lower transaction volumes impact many industries (e.g. banks see fewer mortgage originations, lawyers and real estate agents see fewer closings, moving companies have less work, etc.).

Amidst this economic headwind from rising interest rates, on the stock side of the ledger, you will notice that U.S. Large Cap Stocks are up almost 15% *annualized* (meaning each year, on average, by that amount) over the past five years, and consensus analysts forecast project that calendar year 2027 earnings growth for U.S. Large Cap Stocks will still be up another 15%.

As usual, rather than trying to deconstruct all the details behind these financial news datapoints, let us use these stories as a launching point to discuss broad and helpful investing principles.

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In the case of the news this quarter, we might ask the more general question: why do interest rates change in the first place?

To answer this question, let us consider a constraint we all face: time. Every individual, regardless of wealth, receives an identical, non-negotiable allocation of 24 hours per day. Money can be stored in a bank account, but time must be spent continuously at a burn rate of exactly one second per second.

This reality, combined with our common human anxieties about an unknown future, explains the existence of interest rates. You see, interest is not merely a monetary phenomenon or a fee for liquidity; interest is the market price of time — society's aggregate willingness to trade between the future and the present. The financial markets allow us to exchange a shrinking asset (our life's time) with a storable asset (our money).

A shift in interest rates thus signals a shift in society's collective view of the value of time. So, instead of asking why did interest rates change, the more fundamental question is why do society's time preferences change?

If the future is perceived as increasingly unpredictable, interest rates will rise as investor anxiety grows. An anxious society would rather consume today than save for an uncertain tomorrow. The price of time becomes more expensive.

If great investment opportunities are perceived on the horizon, interest rates will also rise as entrepreneurs pursue investors, inducing them with great rewards to fund a brighter tomorrow. Again, the price of time becomes more expensive.

So, when a society becomes anxious *or* excited about the future, its time preferences spike, and society demands higher restitution for every moment it is asked to wait. The price of time becomes more expensive.

The inverse of this also holds true. When a society believes it sees the future clearly, its time preferences shrink, people are willing to wait, and the price of time becomes cheaper.

In short, interest rates, viewed philosophically, are the barometer of a society's clarity about the future.

With this framework established we can ask: have recent interest rate increases come about because society has become increasingly anxious or is it because society has become increasingly excited about an improved pace of future technological change?

Wherever you come down on that answer, society is clearly demonstrating a change in how it values time. A natural follow-on question to ask yourself might be then: should *you* be changing how you value time?

This past quarter, the well-known mathematician Stephen Wolfram wrote a poignant essay about his wife of 32 years who passed away suddenly from an unexpected cardiac event. He wrote near the conclusion of his tribute to her:

Elise had no idea the end was near. And even though she expected more, she had already had many chapters in her life, and many achievements of which she was proud. Elise had a beautiful life, full of things she valued greatly, especially her children. That she is gone is a tragedy for us all; she will be deeply missed.

Such stories are poignant, whether we know the person or not, because we recognize our shared constraint of time. We have all known someone whose time ran out, expectedly or not, and we all know time will run out for us.

What are the things you "value greatly?" What do you believe makes for "a beautiful life?" In short, how do you want to spend your time?

You see, interest rates will always be moving because society will always be changing how it chooses between time and money. But with thoughtful reflection, you can anchor the value of time on your own terms. You need not be troubled by the movement of interest rates if you know what is beautiful and what you value greatly and then spend your time and money accordingly.

As always, we thank you for your continued trust in us.

Leavell Investment Management, Inc.

Please advise us if you would like copies of our annual Securities & Exchange Commission Disclosure Brochure (Form ADV), a Prospectus for The Government Street Funds or a record of how your proxy statements were voted.