SMB Trust Services

September 2026

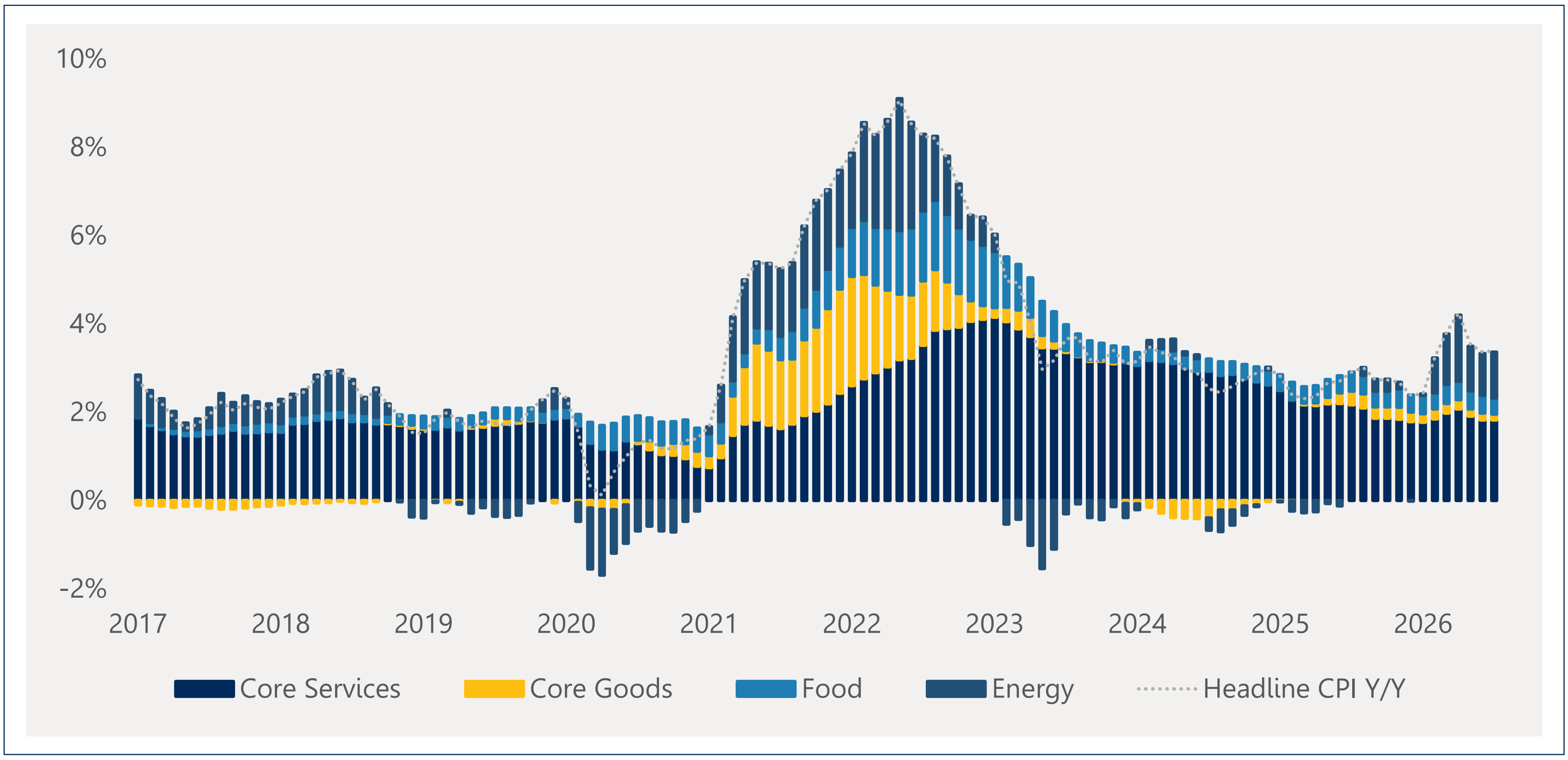
Market Review

SEPTEMBER 2026

Economy

Recent Pickup in Headline Inflation has been mostly Energy-Driven

Contribution to Year-over-Year Change in Consumer Price



Source: Federal Reserve Bank of St. Louis. Past Performance does not guarantee future results.

August headline CPI rose 0.4% month-over-month and 3.4% year-over-year, matching expectations. Core services continue to comprise the bulk of overall inflation despite a recent pick up in the contribution from higher energy prices. Housing costs, a major subcomponent of core services, remain contained due to rising rental vacancy rates and a subdued labor market.

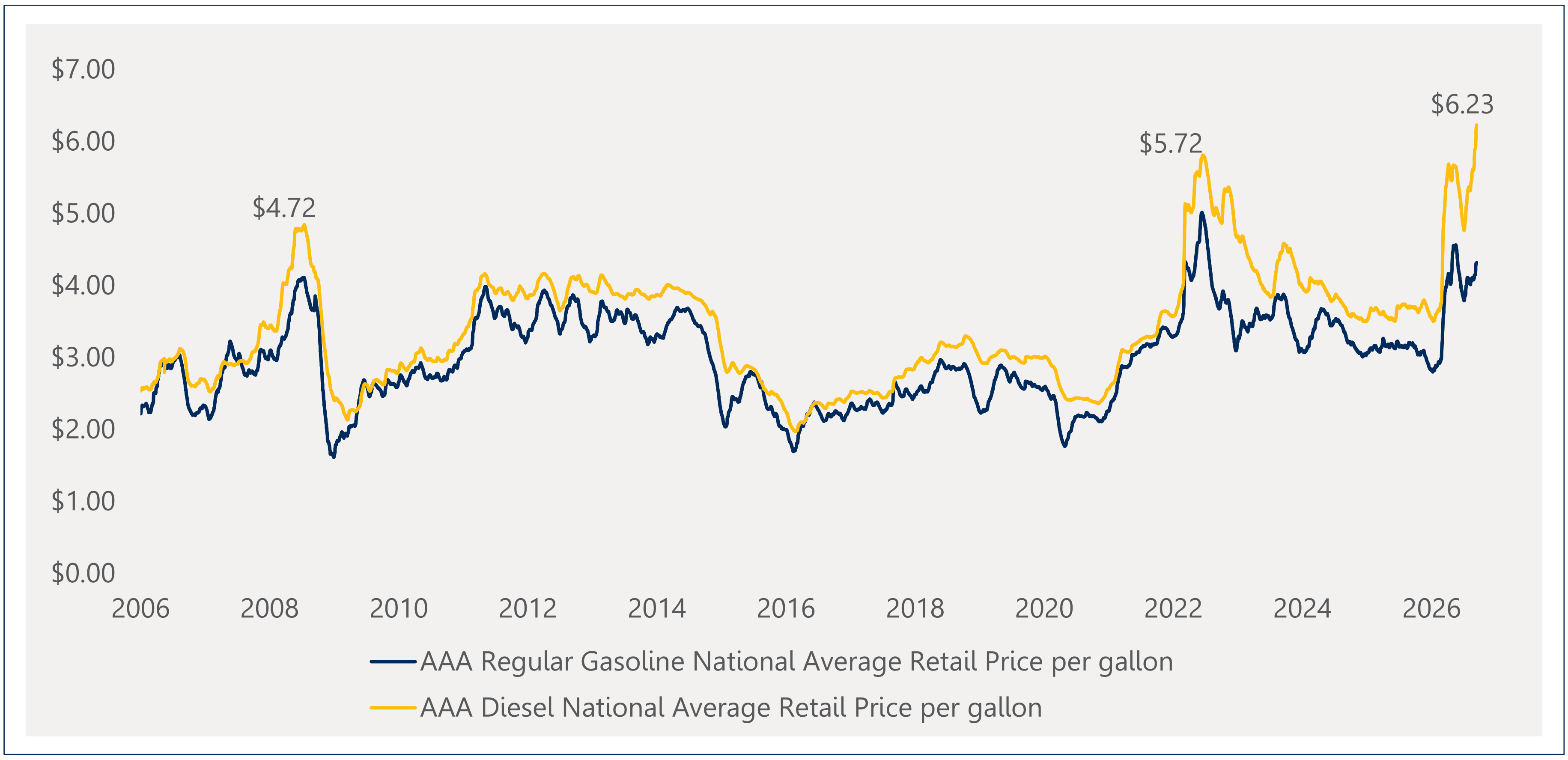
Headline inflation last month was bumped higher by rising gasoline and diesel costs. The primary upside risk remains the indirect passthrough of higher energy prices into transportation services, such as airfares and vehicle maintenance, which accelerated during the month and could keep non-housing core services sticky.

Outside of services, core goods prices decelerated slightly in August, aided by weakness in apparel, recreational goods, and tech software. While new vehicle prices posted their largest monthly gain in 18 months, automakers have largely absorbed tariff costs through lower margins, capping the direct inflationary impact.

Oxford Economics estimates that tariff effects are currently contributing roughly 0.3% to core year-over-year CPI, but expects this drag to diminish over time, allowing underlying price pressures to gradually cool as supply chain dynamics remain stable.

The Diesel Dilemma

AAA National Average Retail Diesel and Gasoline Prices: 2006-2026



Source: Bloomberg. Past Performance does not guarantee future results.

The AAA national average retail diesel price in the U.S. reached a record $6.23 per gallon on September 13, surpassing previous multi-decade highs of $5.72 in 2022 and $4.72 in 2008. This surge reflects compounding geopolitical friction in both the Middle East and Eastern Europe, where drone and missile strikes on Russian refining infrastructure have squeezed global distillate supplies.

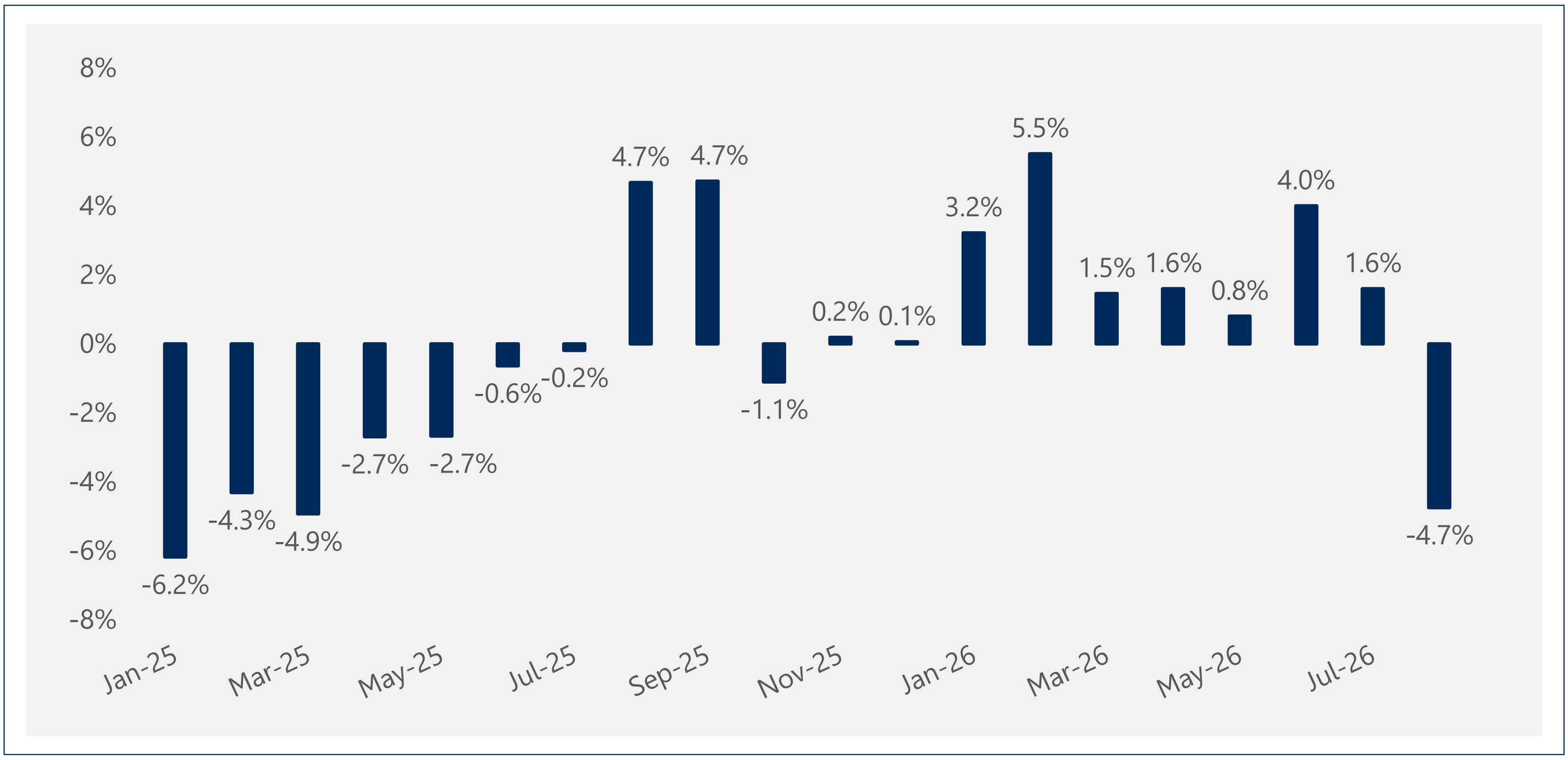
While diesel prices have faced acute upward pressure, regular gasoline retail prices have also been pushing higher, climbing above $4.20 per gallon in the second week of September. Unlike diesel, gasoline remains below its peak 2022 levels above $5.00 per gallon. The widening spread between diesel and gasoline highlights the unique tightness in distillate markets compared to motor gasoline blending stocks.

Because diesel serves as the primary workhorse fuel for freight trucking, agricultural equipment, freight rail, and maritime shipping, its price surge poses immediate inflationary risks across the supply chain. Elevated transport and operational overhead directly increase wholesale delivery expenses, threatening to pass higher retail prices onto consumers for groceries, manufactured goods, and home heating. This dynamic could persist until refining capacity normalizes and regional geopolitical conflicts ease.

Equity

Small Caps Underperform Amid Higher Rates

Two Month Return: Russell 2000 Minus S&P 500



Source: Bloomberg. Past Performance does not guarantee future results.

U.S. equities snapped a two-month losing streak in August, with the S&P 500 gaining 2.7% and closing the month near a record high. The advance came despite mid-month volatility, as rising long-term Treasury yields and worries over AI-related spending pressured semiconductor names before the group recovered most of its losses following Nvidia's earnings report. Strong second quarter corporate earnings gave investors reason to look past the rate-driven jitters.

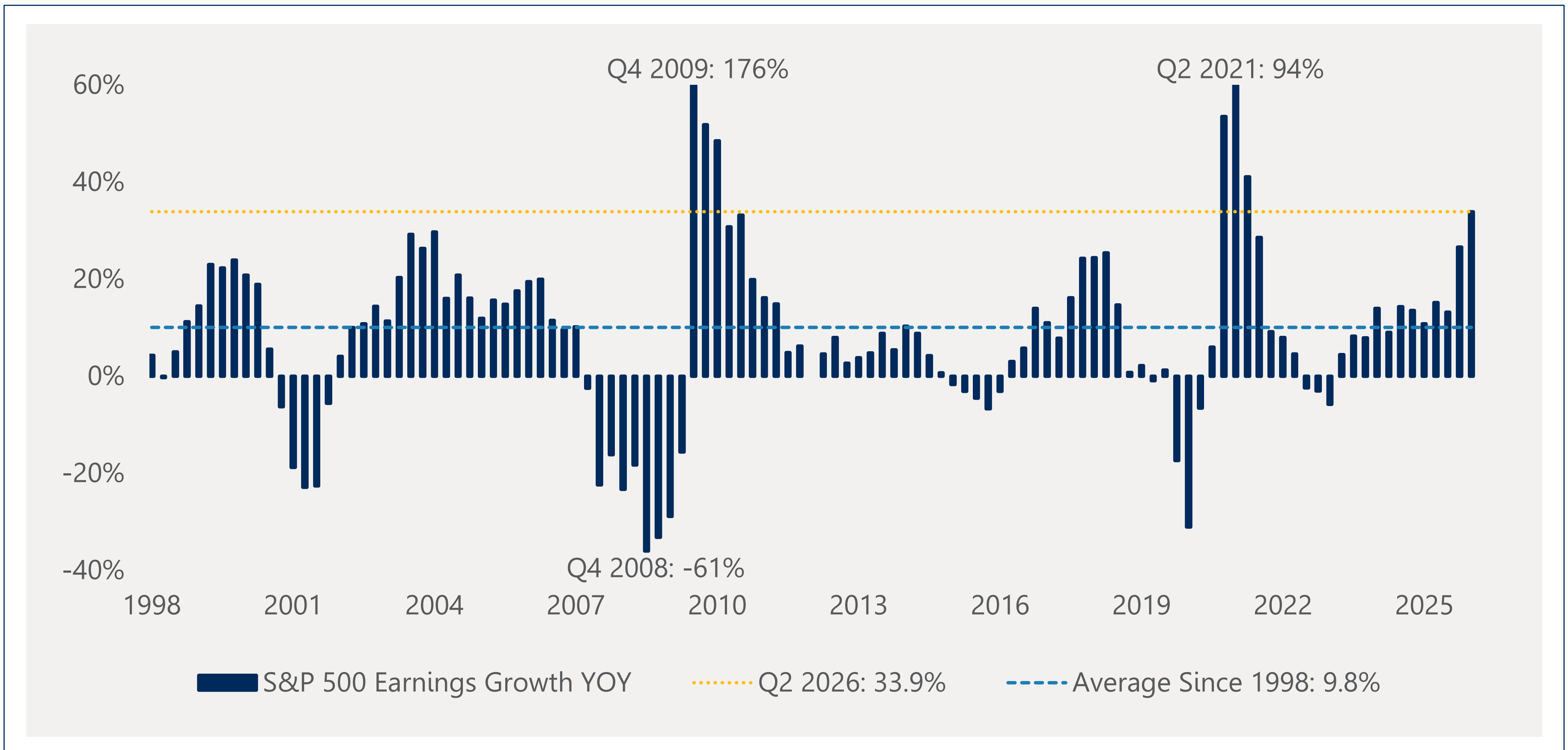
Sector performance was more selective than the headline number suggests. Only five of eleven S&P 500 sectors finished positive in the month. Energy led with a 7.0% gain, helped by oil prices climbing to their highest level since spring amid Middle East supply disruptions. Higher interest rates drove a decline in rate sensitive sectors including utilities and real estate, and weighed on small caps given their heavier debt load. The Russell 2000 still gained 1.0%, but trailed large caps by the widest two-month margin since March 2025.

International markets were mixed but generally positive. Japanese equities gained 3.4%, while European stocks rose a more modest 1.4%, held back by limited AI exposure. Emerging markets advanced 3.4%, driven by the technology-heavy South Korean and Taiwan markets, while Chinese equities slipped on continued signs of economic challenges.

Equity

Earnings Growth At Two Decade High Outside Recession Recoveries

S&P 500 Earnings Growth Year Over Year



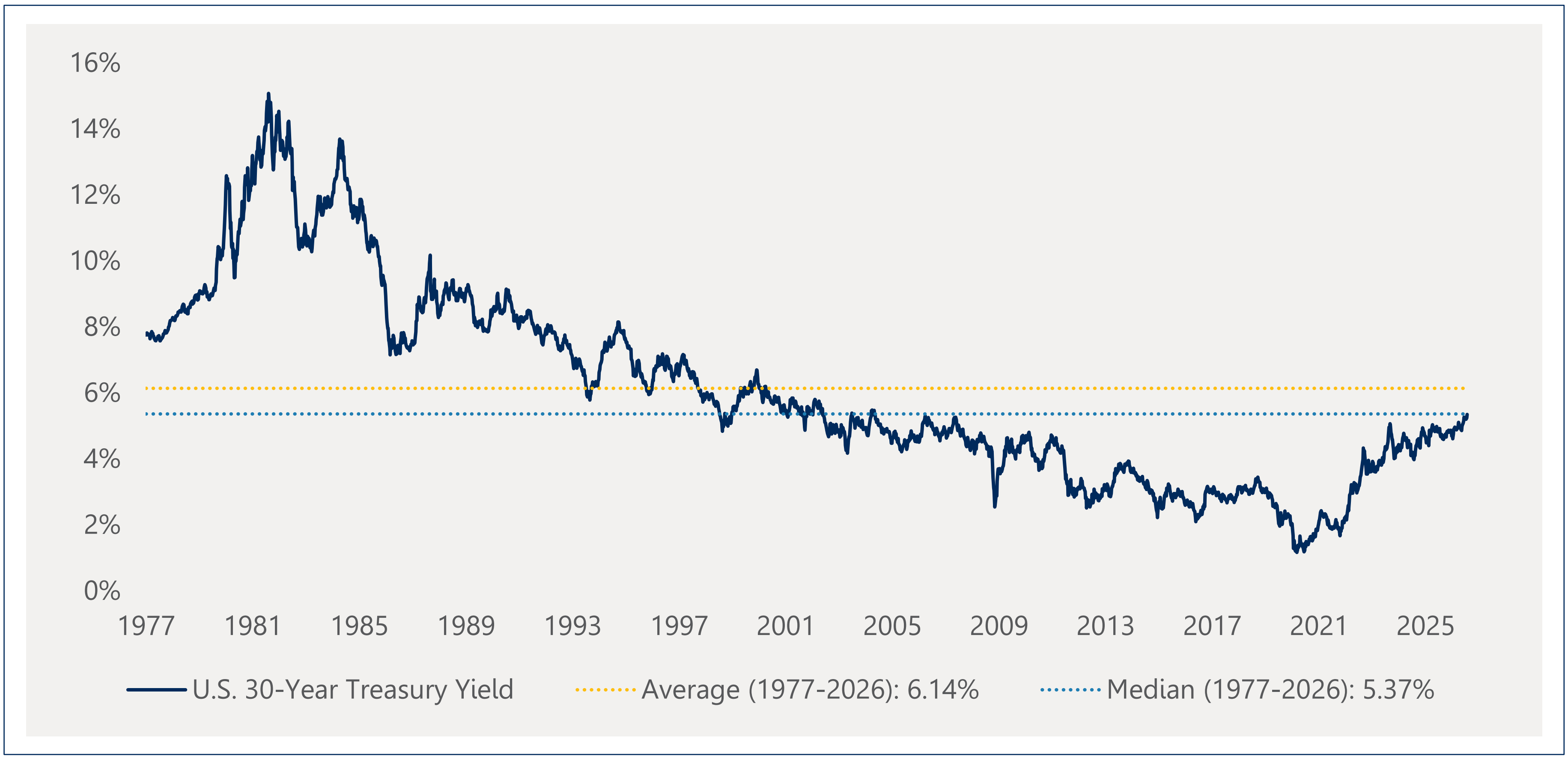
Source: Bloomberg. Past Performance does not guarantee future results.

Second-quarter earnings season delivered another upside surprise for the S&P 500. Earnings grew 33.9% year over year, well above analysts' 23.2% preseason forecast and the strongest growth rate since 2021. All sectors beat expectations, led by energy, technology and materials, growing 149.4%, 76.8% and 42.1%, respectively. Analysts project growth will cool from this quarter's pace but remain in solid double digits, with estimates ranging from 16% to 27% across the next several quarters.

S&P 500 sales grew 15.7% year over year, exceeding the preseason forecast by over 3% and marking a fifth consecutive quarter of accelerating top-line growth. Technology's 37.6% growth was the standout as it surpassed the sector's previous post-2009 growth record. Revenue strength was broad as 68% of companies beat analyst estimates, above the post-Covid average of 62%, while energy, healthcare, and technology all posted beat rates above 80%. Small caps joined in too, with 11.3% sales growth for the Russell 2000, more than double its average pace since early 2023.

S&P 500 net income margin of 15.6% was more than 2% above year-ago levels and just shy of the all-time high. Cost discipline and record profitability, particularly among large technology companies, continue to drive much of the margin improvement.

The Great Normalization?
U.S. 30-Year Treasury Bond Yield: 1977 Through 2016



Source: Federal Reserve Bank of St. Louis. Past Performance does not guarantee future results.

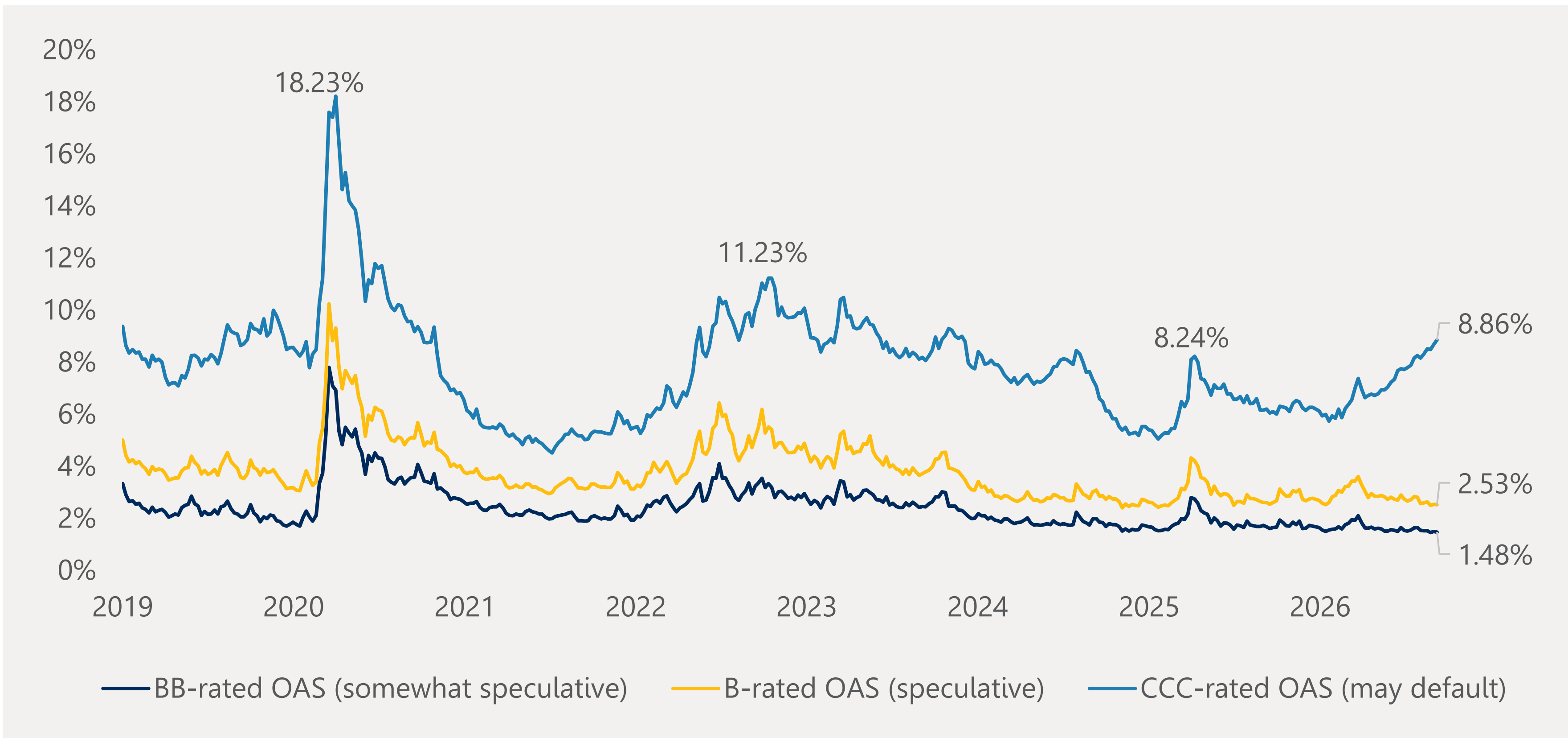
As of September 14, the 30-year U.S. Treasury yield stands near 5.35%, very close to its highest level since June 2007. Rather than an inflationary warning sign, this upward adjustment could represent a structural normalization back toward historical baselines, aligning almost exactly with the data series' 50-year median weekly reading of 5.37%.

The primary drivers behind this backup in long-term yields include a combination of rising federal deficit expansion, increased Treasury issuance, expectations for Fed rate hikes and anticipation of stronger nominal GDP growth.

This shift marks a definitive exit from an era of suppressed interest rates, during which large-scale Federal Reserve quantitative easing and zero interest rate policy (ZIRP) artificially held long-term yields well below historical averages for 9 of the last 19 years (December 2008 to December 2015, and March 2020 through March 2022).

This could present a welcome regime change for fixed-income investors with long-term time horizons. Rather than serving primarily as low-yielding hedges against a deflationary economic backdrop, long-term government and corporate bonds can provide more attractive coupon income alongside their traditional role as a potential buffer against equity market volatility.

Highly Speculative Areas of Credit Markets Showing Some Stress
US High Yield Option-Adjusted Credit Spreads



Source: Bloomberg. Past Performance does not guarantee future results.

Yield premiums on highly speculative CCC-rated corporate bonds have widened to nearly 8.9% in mid-September from a low near 5.7% earlier this year. While this notable expansion reflects growing market discrimination toward the most vulnerable balance sheets, current CCC spreads remain well below the stress levels observed during prior volatility spikes in late 2022 (11.2%), and spring 2023 (10.5%), as well as the extreme highs of March 2020 (18.2%).

In contrast, higher-quality high-yield cohorts show little to no credit tightening or spread widening. Spreads for B-rated (2.5%) and BB-rated (1.5%) corporate bonds remain near historical tights, signaling that credit pressure is strictly contained to the lowest-quality issuers rather than spreading across the broader market.

More broadly, corporate issuers have continued to enjoy robust demand for new debt offerings over the last 12 months. Supported by healthy earnings trends, manageable leverage, and solid interest coverage ratios, investors remain comfortable taking on higher-grade credit risk while demanding a clear premium for CCC-rated exposure.

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Disclosure

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