

# MARKET OUTLOOK

## AT A GLANCE

Markets remain resilient, but beneath the surface the backdrop is shifting. Higher Treasury yields are tightening financing conditions and exposing weaker credit, while equity gains remain concentrated among a narrow group of AI-linked leaders. At the same time, higher rates are improving opportunities in fixed income and insurance-based strategies, broadening the toolkit for diversification and income across portfolios.

## EQUITY

### Mixed Q3:

|                      |        |
|----------------------|--------|
| S&P 500              | +2.30% |
| S&P 500 Equal Weight | -1.87% |
| S&P 600 (Small Cap)  | -7.93% |

## FIXED INCOME

### Treasury Yields:

|                         |
|-------------------------|
| 2-year: 4.90% (↑1.30%)  |
| 10-year: 5.29% (↑1.14%) |
| 30-year: 5.63% (↑0.90%) |

Yields as of 9/30/2026;  
change shown vs. 9/30/2025

## PRIVATE MARKETS

Higher rates are improving the economics of insurance-based strategies, creating differentiated return sources and broader diversification opportunities



AS MARKET LEADERSHIP NARROWS AND THE COST OF CAPITAL RISES, UNDERSTANDING WHAT DRIVES RISK AND RETURN ACROSS A PORTFOLIO BECOMES INCREASINGLY IMPORTANT. THOUGHTFUL DIVERSIFICATION MAY HELP INVESTORS PARTICIPATE IN OPPORTUNITIES WITHOUT RELYING TOO HEAVILY ON ANY ONE MARKET OUTCOME.

Ryan Lange, CFA, CAIA  
Chief Investment Officer

## A MARKET OUT OF BREADTH

### SUMMARY:

The S&P 500 remains near-record, but recent gains have not been evenly distributed. The S&P 500 Equal Weight Index and the median S&P constituent performance show a weaker broad market beneath the headline index. This divergence helps explain the resilience of the S&P 500 index in the face of multiple headwinds.

### OUR PERSPECTIVE:

Despite narrowing breadth and macroeconomic headwinds, we remain constructive on equities as earnings continue to grow. A highly concentrated index, however, requires greater attention to what drives returns and the extent to which portfolio risk depends on a small number of companies.

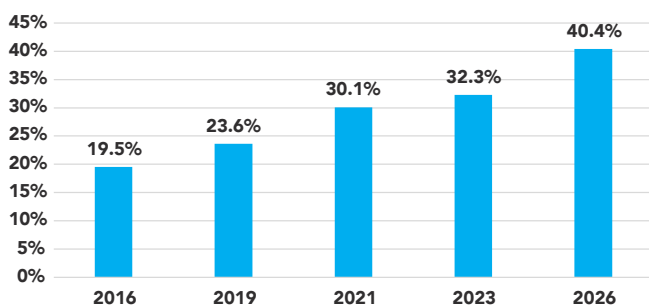
### THE INDEX IS NOT THE AVERAGE STOCK

At the September 30 close, the S&P 500 was only 2.4% below its all-time high, which it would hit six days later. Looking at the index level, the market appears strong. Yet when we look at the companies that comprise the S&P 500, the divergence between the index and companies driving returns is striking.

It is important to understand how the S&P 500 is constructed. Like many indexes, the S&P 500 is weighted by market capitalization. The larger the company's total market value, the greater its influence on the index. Market capitalization-weighted indexes are common because they represent the investable market and naturally adjust as companies grow or decline in value. The trade-off is that a small number of large companies can outweigh hundreds of smaller ones.

Over the past ten years, the S&P 500 has been increasingly influenced by the top ten companies. At quarter-end, the ten largest S&P 500 companies accounted for approximately 40.4% of the index, up from 19.5% ten years ago. When these companies perform well, they can drive the benchmark higher even as larger parts of the market struggle.

Top 10 Companies % of S&P 500 Over Time



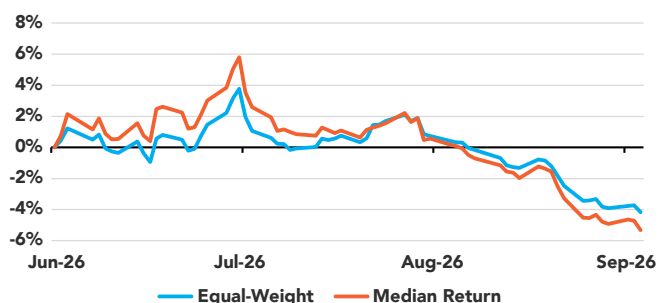
Source: Bloomberg L.P.

### EQUAL-WEIGHT AND THE MEDIAN RETURN TELL A DIFFERENT STORY

The equal-weight S&P 500 provides a useful comparison. It owns the same companies as the traditional index but assigns each company an approximate 0.2% weight at every quarterly rebalance, making it a good gauge of breadth. Year to date through September 30, including reinvested dividends, the S&P 500 returned 12.7%, compared with 10.0% for equal-weight. Over the latest quarter, the S&P 500 gained 2.3%, while the equal-weight declined 4.2%.

The median constituent tells a similar story. Because the median cannot be pulled higher by a few exceptionally strong companies, it provides a more direct view of the typical stock. Over the latest quarter, the median S&P 500 company declined 5.3%, and only 25% of constituents generated a positive return in September.

Q3 Returns Relative to S&P 500



Source: Bloomberg L.P.

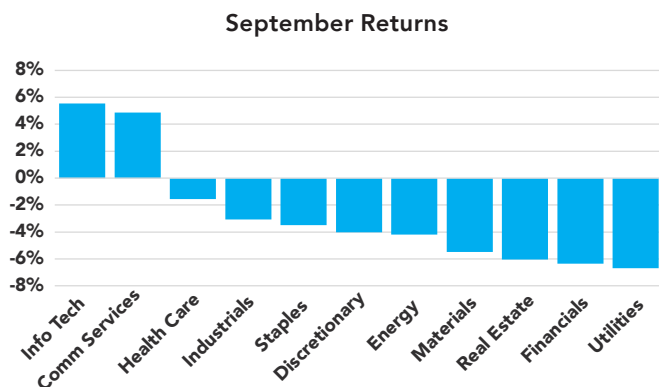
Equal-weight and the median return are not perfect measures of market health. Equal-weight places more emphasis on smaller companies and changes the index's sector composition; median is a measure of central tendency designed to remove the emphasis of outliers. Still, when both trail the capitalization-weighted index by a wide margin, the conclusion is clear—recent gains have been heavily concentrated in the S&P 500.

### A MARKET OUT OF BREADTH

Market breadth measures how widely gains and losses are distributed across the companies and sectors that make up an index. The equal-weight and median return data show that participation narrowed during the quarter. The sector picture helps explain why.

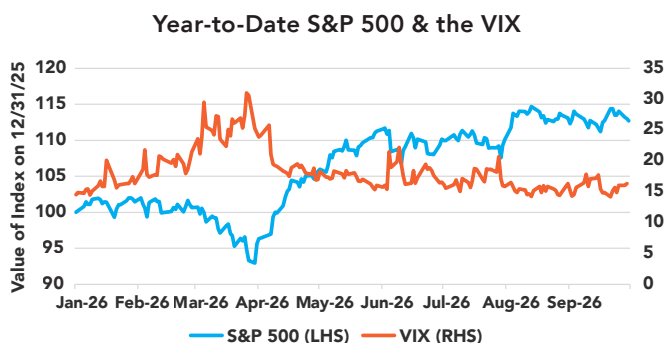
The Artificial Intelligence (AI) infrastructure buildout remains the market's most powerful return driver. The theme is not limited to large technology platforms but extends to semiconductor manufacturers, memory providers, networking companies, electrical equipment, power generation, cooling systems, and data-center operators.

While the AI buildout has broadened across industries, it has not, however, produced equally broad strength across the market. Many of the companies and sectors leading the S&P 500 remain connected to the investment in AI infrastructure.



Source: Bloomberg L.P.

That fundamental support from the AI theme, which elevates the largest constituents in the index, helps explain why volatility has remained low and why investors have continued to look through the macroeconomic headwinds of rising rates, higher energy costs, and geopolitical uncertainty. We can visualize this using the VIX index, a measure of expected volatility for the S&P 500. Low index volatility, coupled with strong returns and low breadth, can give the appearance of market stability.



Source: Bloomberg L.P.

## PORTFOLIO CONSTRUCTION IN A NARROW MARKET

Narrow breadth does not tell us to divest from the market's leaders. Many of the largest companies remain among the market's strongest businesses and are central to the AI infrastructure buildout. Being underexposed can create its own risk if those companies continue to drive earnings and index returns.

At the same time, allowing them to dominate a portfolio can leave investors overly dependent on a narrow group

of companies and a single underlying investment theme, thereby increasing overall portfolio risk.

**NARROW BREADTH  
DOES NOT TELL US TO  
DIVEST FROM THE  
MARKET'S LEADERS.**

Our objective is to balance those two risks by maintaining enough exposure to participate if today's leaders continue to perform, but not so much that portfolio outcomes depend on them continuing to lead indefinitely. Position sizing and rebalancing help maintain that balance as market weights and valuations change.

We begin that process by understanding what we actually own. We review the underlying holdings of our strategies to identify overlap among companies and the economic forces driving returns. Therefore, rather than evaluating each investment in isolation, we consider its role in the portfolio as a whole.

Some investments provide exposure to current market leadership, others add income, liquidity, downside resilience, or different return drivers. Our goal is not to own every category, but to participate in market growth without depending too heavily on any one company, theme, or economic outcome. Breadth does not predict where markets go next, but it helps us balance exposure to today's leaders with preparation for what may follow.

By Nicholas Hinkebein, CFA, CFP®

Senior Portfolio Manager

Data as of September 30, 2026. This material is provided by Midland Wealth Management for informational and educational purposes only. Information has been obtained from third-party sources believed to be reliable; however, Midland Wealth Management does not guarantee its accuracy, completeness, or timeliness. The information and opinions presented reflect market conditions as of the date indicated and are subject to change without notice. This material does not constitute individualized investment advice, a recommendation to purchase or sell any security or investment product, or an offer to engage in any investment strategy. Investors should consider their investment objectives, financial circumstances and risk tolerance and consult their wealth advisor before making investment decisions.

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# REPRICING RISK ACROSS FIXED INCOME

## SUMMARY:

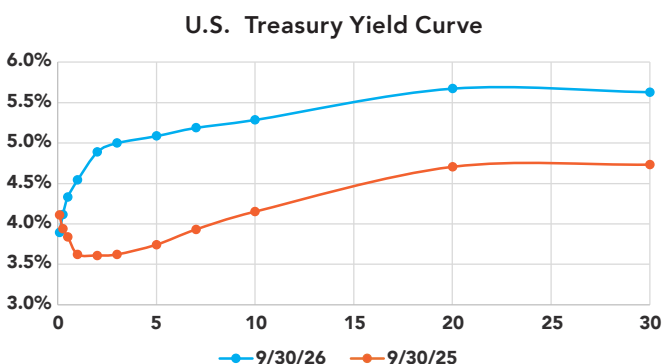
Treasury yields have risen sharply across the curve, pressuring equities, credit, and financing conditions while reshaping investor expectations around inflation, growth, AI investment, fiscal risk, and global markets today.

## OUR PERSPECTIVE:

Higher rates pose an increasingly important headwind for companies seeking to raise or refinance debt, particularly financially strained issuers facing materially higher borrowing costs and tighter credit conditions ahead.

### THE YIELD CURVE: A THREE-PART STORY

The Treasury curve has evolved meaningfully over the past year. What began as a story about when the Fed would cut rates has become a broader repricing of inflation, growth, capital demand, and fiscal risk. Over the last quarter, yields moved 0.90% to 1.36% (90 to 136 basis points), with different forces driving different maturities.



At the front end of the curve, yields remain tied to inflation and the Fed's reaction function. The 2-year Treasury yield fell to a low of 3.38% in February as the Fed cut rates three times, before reversing course and surging to 4.90% by quarter-end as policymakers raised rates to combat renewed inflation pressures.

The challenge is that today's shock is largely supply-driven. Higher rates can slow demand, but they cannot create more oil. If the Strait of Hormuz remains effectively closed, elevated energy prices can continue filtering through the economy, keeping the Fed restrictive and the front end elevated.

The belly of the curve—roughly 3- to 7-year maturities—reflects expectations for growth, capital investment, and where policy rates may settle. Today, the dominant investment story is the AI infrastructure buildout.

Hyperscalers\* are increasingly financing that spending through 5- to 10-year debt. As more corporate issuance competes for investor capital, yields must adjust, including Treasury yields competing for those same dollars.

AI could also influence the economy's longer-run growth rate. If it delivers on part of its productivity promise, businesses may produce more with the same labor and capital. A more

productive economy can sustain stronger growth without overheating, potentially supporting a higher neutral, or "normal," rate of interest. Markets may therefore be repricing not just the current cycle, but where rates ultimately settle.

At the long end, the focus shifts to fiscal risk. Growing Treasury supply, deficits, debt service, and future borrowing needs are pushing investors to demand a higher term premium for lending to the government over longer periods.

Real yields, or those adjusted for the effects of inflation, have also moved higher, creating opportunity. Treasury Inflation Protected Securities (TIPS) have become increasingly attractive, with investors able to lock in a 3.3%+ real yield on a 30-year Treasury while retaining inflation protection if the Middle East conflict prolongs the oil shock.

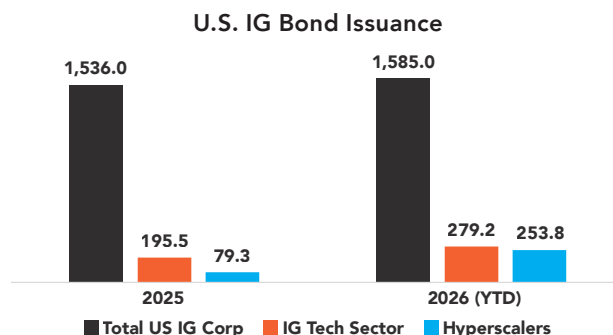
The rise in real yields has improved the relative attractiveness of TIPS within our fixed income portfolios. In response, we allocated to the asset class, seeking stronger inflation-adjusted yields with protection should inflation prove more persistent.

MARKETS MAY THEREFORE  
BE REPRICING NOT JUST THE  
CURRENT CYCLE, BUT WHERE  
RATES ULTIMATELY SETTLE.

### THE AI DEBT MACHINE

AI-related capital expenditures among Hyperscalers have grown from about \$400 billion in 2025 to estimates approaching \$1 trillion by 2027. What was once funded primarily through internal cash flow is increasingly moving into debt markets.

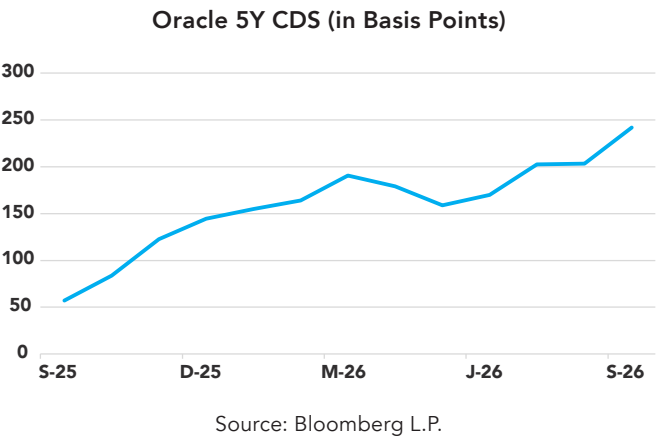
In 2025, investment-grade (IG) debt issuance totaled about \$1.6 trillion, with Amazon, Google, Nvidia, Oracle, and Meta accounting for approximately \$79 billion. This year, overall IG issuance is roughly flat, yet those three companies alone have issued more than \$250 billion, nearly 150% increase.



Markets are beginning to question how sustainable that pace may be. Nearly 42% of investors identify AI Hyperscaler spending as the most likely source of a systemic credit event. That concern is appearing in pricing, with traditional IG credit offering roughly 0.80% over Treasuries versus approximately 1.37% for Hyperscaler debt.

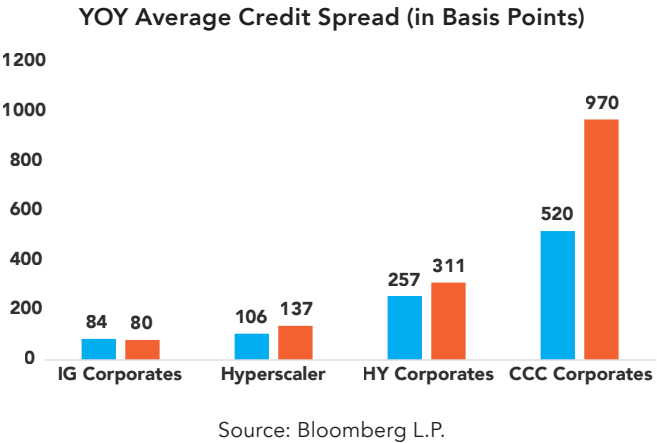
Credit default swaps (CDS) tell a similar story. Think of a CDS as insurance on company debt: the higher the cost, the greater the perceived credit risk. Oracle provides a useful example, with the cost of insuring its debt rising alongside its AI commitments.

That does not mean Oracle is approaching default. Investors are instead questioning whether today’s leverage and spending will be supported by future AI-related cash flows. For now, Hyperscalers can support significant investment, but persistently high financing costs may eventually constrain the pace of the AI buildout.



### CRACKS IN THE CREDIT FACADE

Stress is also emerging at the opposite end of the credit spectrum. CCC-rated spreads recently approached 1,000 basis points over Treasuries, while investment-grade, BB-, and B-rated spreads remain relatively contained. Investors are not broadly abandoning corporate credit; they are becoming more selective about lending to the weakest borrowers.



The larger concern is the refinancing wall. Many lower-quality companies built their capital structures when benchmark rates were near zero. As that debt matures, borrowers must refinance while Treasury yields and credit spreads are materially higher.

For CCC-rated bonds maturing in 2027 and 2028, PIMCO estimates coupons could potentially double if refinanced at current yields. For highly leveraged companies with limited free cash flow, that increase in interest expense can quickly turn a manageable debt load into a balance-sheet problem.

For now, stress remains concentrated at the weakest end of the market. The key signal will be whether it begins migrating into B-, BB-, or eventually investment-grade credit. If it does, higher rates would move beyond isolated weak borrowers and begin to weigh more broadly on corporate profitability.

*\* Hyperscalers include Amazon, Google, Nvidia, Oracle, and Meta*

By Jake Stapleton, MBA  
Team Lead - Research

### MEET OUR INVESTMENT TEAM

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Team Lead – Portfolio Implementation

**Hunter Bukowy**  
Portfolio Implementation Analyst

# THE OTHER SIDE OF HIGHER RATES

## SUMMARY:

Higher rates have challenged long-maturity assets, but they have improved the economics of insurance. Premiums and collateral can earn more, supporting more competitive annuity terms and stronger starting economics for disciplined insurance strategies.

## OUR PERSPECTIVE:

The same rate backdrop that challenges long-maturity assets can improve the economics of insurance. Select annuities may strengthen a financial plan, while insurance-linked and underwriting-led strategies can offer differentiated return sources. Each serves a different role, but together they may broaden the opportunity set and reduce reliance on the narrow outcomes driving public markets.

## THE OTHER SIDE OF HIGHER RATES

Most market discussions focus on what higher rates make harder; borrowing costs rise, bond prices fall, and the equities of companies that have a longer runway toward profitability reprice, often lower. Insurance sees the same environment from the other side of the balance sheet.

Policyholders pay premiums before claims are settled. The premiums held and invested during that period are referred to as insurance float. A reinsurer (a firm that provides insurance coverage to an insurance company) can earn profits from underwriting (when premiums exceed claims and expenses) and from investing this float. The combined ratio measures the first cashflow stream. When the combined ratio is less than 100%, the underwriting process is profitable; when it is greater than 100%, the opposite is true.

The benefit of a higher rate environment also reaches annuity policyholders. A multi-year guaranteed annuity (MYGA) locks in a stated rate for a set term, while a fixed index annuity (FIA) provides market-linked interest credits. FIA terms may include a cap (the maximum return credited) or a participation rate (the share of an index's gains credited to the contract). A 75% participation rate, for example, would credit 7.5% if the index rose 10%, before other provisions. Higher yields can support stronger caps and participation rates. Higher long-term yields can also support more attractive lifetime income payments because insurers match long-dated payment obligations with longer-maturity bonds, a form of liability-driven management. Paired with the right plan and liquid investment portfolio, an annuity can transfer some reinvestment or market risk to an insurer and reduce the return burden on remaining assets. Guarantees depend on the carrier's claims-paying ability and the contract's liquidity and surrender terms.

Higher rates do not automatically rescue poor underwriting or make every contract attractive. They do, however, make disciplined insurance more valuable because the investment portfolio does not need to reach as far for return.

## Two Return Engines, One Balance Sheet

### EQUITY CAPITAL

Supports the premium base and invested float.

### NATURAL LEVERAGE

Amplifies gains and losses

### UNDERWRITING

**Premiums - claims - expenses**

### RETURN SOURCE

**Underwriting margin**

### KEY RISK

Claims and expenses exceed pricing.

### FLOAT

**Premiums held before claims are paid**

### RETURN SOURCE

**Investment income**

### WHY NOW

Higher short-term rates lift starting yield.

### COMPANY-LEVEL RETURN

**Underwriting margin + Float income**

### TWO RETURN STREAMS

Two sources of risk

Source: Midland Wealth Advisors, LLC

## WHY A FEW POINTS MATTER

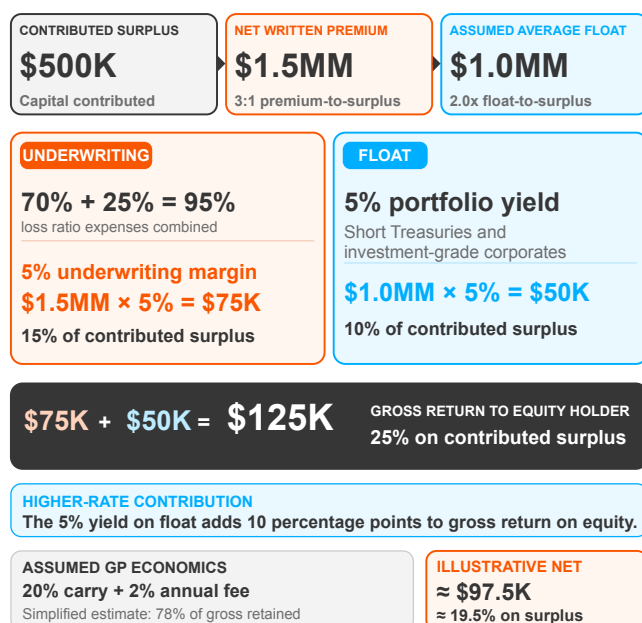
Regulatory capital requirements can support multiple dollars of premium, and a meaningful portion may remain invested before claims are paid. This is the natural leverage built into the insurance business model. No borrowing is required, but the pool of capital earning income can be larger than the equity stake supporting it.

A modest change in float yield can therefore have an outsized effect on company-level returns. The reverse is also true; a weaker combined ratio can quickly absorb the benefit of higher investment income.

Many reinsurance contracts renew annually, allowing underwriters to adjust price and terms as claims data changes. The opportunity depends on finding books with a reasonable margin for error and keeping the assets backing claims conservative and liquid.

**HIGHER RATES ... MAKE  
DISCIPLINED INSURANCE  
MORE VALUABLE BECAUSE  
THE INVESTMENT PORTFOLIO  
DOES NOT NEED TO REACH  
AS FAR FOR RETURN.**

## Embedded Leverage Enhances Returns



Hypothetical company-level illustration; not an actual investor return.  
 Net estimate uses the simplified 78% retention factor; actual terms and results may differ.

Source: Midland Wealth Advisors, LLC

## SAME THEME, DIFFERENT ROLES

We have written about and extolled the benefits of select insurance-linked strategies, including the use of catastrophe bonds (cat bonds) as diversifiers. The current strategy the team uses in the core lineup primarily invests in cat bonds, which pay income in exchange for the risk of principal loss if a defined catastrophe occurs.

Because returns are more closely tied to insured events than to corporate earnings or to credit spreads more broadly, cat bonds can provide a return stream distinct from that of traditional public markets. Their floating coupons and short-term collateral also benefit from higher rates.

That existing exposure is one expression of a broader opportunity set. Underwriting-led reinsurance can focus on many smaller claims across casualty, health, or specialty lines. Returns come from underwriting and float; the key questions are whether premiums, reserves, and claims development are sound.

Annuities serve a different purpose. They sit on a client's personal balance sheet as planning tools; insurance-linked securities and reinsurance are portfolio investments. None replaces another. Each option pools or transfers risk, but with different objectives and liquidity constraints.

## A DIFFERENT RETURN ENGINE

Public markets remain the foundation of most client portfolios. But as the equity section notes, index returns increasingly depend on a small group of companies. That makes the source of diversification more important.

Insurance is not a hedge against every market decline or broad market volatility. Still, claims experience does not move in lockstep with equity multiples or credit spreads. Insurance-linked securities add event risk, reinsurance adds underwriting and reserve risk, and annuities can shift a

portion of market or reinvestment risk away from the liquidity sleeve (often fixed income) of client portfolios.

Higher rates make collateral and float more productive, improve contract economics, and increase the value of returns tied to a different process.

## Same Theme, Different Roles

|                                                             |                                                                                                                                                                                 |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PLAN-LEVEL TOOL</b><br><b>ANNUITIES</b>                  | <b>PORTFOLIO ROLE</b><br><b>Transfer part of reinvestment or market risk.</b><br><b>RETURN PATH / WHY NOW</b><br>Higher yields can improve guaranteed or index-crediting terms. |
| <b>BROADLY USED</b><br><b>INSURANCE-LINKED SECURITIES</b>   | <b>PORTFOLIO ROLE</b><br><b>Diversify equity and credit risk.</b><br><b>RETURN PATH / WHY NOW</b><br>Collateral yield plus an insurance risk spread.                            |
| <b>SELECTIVE USE</b><br><b>UNDERWRITING-LED REINSURANCE</b> | <b>PORTFOLIO ROLE</b><br><b>Broaden the portfolio's return drivers.</b><br><b>RETURN PATH / WHY NOW</b><br>Underwriting margin plus income on float.                            |

Source: Midland Wealth Advisors, LLC

## PORTFOLIO IMPLICATIONS

Higher rates have widened the range of insurance-based tools worth considering. Over time, there may be room to complement core public markets exposures with different claims profiles and return engines.

At the individual level, select annuities may improve the fit between a plan and investment portfolio. Locking in a rate or exchanging some upside for contractual protection can reduce the market risk required to meet a goal, provided the contract's liquidity terms and carrier strength are appropriate.

Insurance is not immune to loss. The point is that higher rates have improved the terms on both sides of the balance sheet. In a portfolio dependent on narrow public market outcomes, using insurance to transfer some risks and earn compensation for bearing others has become more valuable.

By Emil Suqi, CFA  
 Portfolio Manager - Team Lead

## WELCOME TO MIDLAND!

Please join us in welcoming:

**Michael J. Pass** – Senior Wealth Advisor

**Heidi Wade, QKA®, TGPC, CPFA®** – Senior Retirement Plan Officer

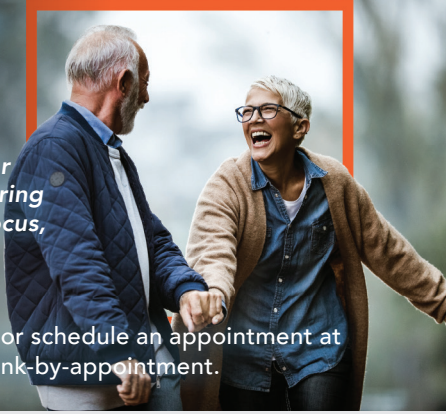
**Juney Bai** – Associate Wealth Advisor

**Julie Enloe, JD** – Senior Financial Planner

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QUARTER 4

# MARKET OUTLOOK

## INSIDE THIS ISSUE:

### EQUITY

A Market Out of Breadth

### FIXED INCOME

Repricing Risk Across  
Fixed Income

### PRIVATE MARKETS

The Other Side of Higher Rates