



**Tower Trust &
Investment Company**

Your Local Fiduciary Experts

QUARTERLY REPORT

3Q26

RESILIENCE AT A HIGHER PRICE

The third quarter was shaped by the return of energy-driven inflation and a sharp rise in global interest rates. Middle East tensions returned to the foreground, pushing Brent crude oil above \$100 per barrel and renewing concerns around inflation and energy supply. The rise in oil occurred against a backdrop of resilient economic activity and generally constructive corporate earnings. This combination proved important. Growth remained firm enough that central banks had less scope to look through the inflationary effects of the shock, even as uneven labor data and continued housing weakness pointed to greater pressure in some areas of the economy. After holding rates in July, the Federal Reserve raised its policy rate by 25 basis points in September. The European Central Bank and Bank of Japan also adjusted policy rates higher during the month, while the Bank of England remained on hold with a divided vote.

Interest rate markets absorbed the greatest adjustment. The 10-year Treasury yield rose more than 80 basis points to 5.29%, while sovereign yields also moved materially higher in Europe, the U.K. and Japan. Most of the increase in the U.S. 10-year yield came through higher real yields rather than longer term inflation expectations. The adjustment therefore extended beyond higher near-term inflation concerns. Rising real yields increased discount rates across markets, placing greater pressure on longer duration and financing sensitive assets.

Equities were comparatively resilient, although headline returns concealed a more difficult market beneath the surface. The S&P 500 Index gained approximately 2%, supported by solid underlying earnings growth and continued investment in artificial intelligence infrastructure. Energy benefited directly from higher oil prices, healthcare provided defensive leadership and selected large technology companies continued to deliver strong results. Yet the advance was far from broad. Smaller companies and more rate sensitive areas of the market fared considerably worse, leaving the advance dependent on a narrower group of large-cap leaders.

Credit markets and real assets showed a similar divide. Investment grade credit spreads widened only modestly, while high yield spreads moved more noticeably higher as all-in borrowing costs increased. Natural resource equities benefited from the commodity backdrop, but global real estate and listed infrastructure declined as the rise in yields outweighed the support from inflation-linked revenues. The U.S. dollar finished little changed, masking more notable moves in individual currencies, while gold ended modestly higher despite the sharp increase in real yields.

By quarter-end, the main question had shifted. Investors were no longer asking only whether the energy shock would fade, but whether earnings and economic growth could remain resilient as the cost of capital moved higher.

THIRD QUARTER 2026 TOTAL RETURNS (%)

Higher yields weighed on fixed income and rate-sensitive real assets, while equity returns remained positive but uneven.

	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
	0.9	-6.3	-3.5	-3.2	-1.8	0.3	1.4	1.2	-0.2	10.4	-5.1	-7.4
YTD	2.8	-4.2	-2.9	-2.1	0.1	0.1	12.7	10.7	22.4	21.1	3.8	1.9

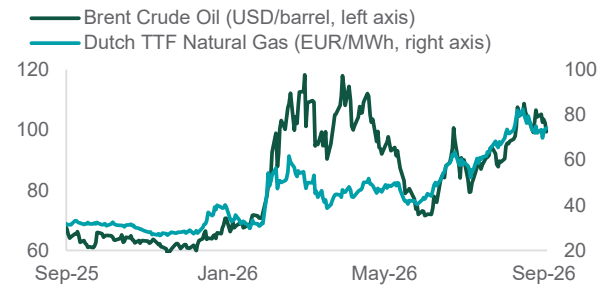
Source: Northern Trust Asset Management, Bloomberg. Data as of 9/30/2026. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

KEY DEVELOPMENTS

Energy Pressure Rebuilds

Energy markets became a central macro force once again. Brent crude oil rose roughly 42%, moving from the low \$70s to above \$100 per barrel as Middle East tensions and concerns around supply routes intensified. The pressure extended into refined products, with U.S. diesel and European gasoil prices rising relatively more than crude and U.S. distillate inventories remaining below seasonal norms. Higher energy costs added to near-term inflation pressure, complicating the outlook for consumers, companies and central banks.

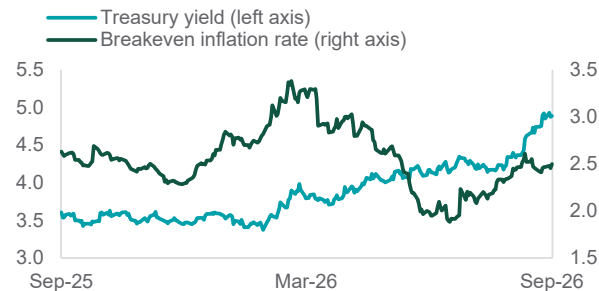
Price of Brent crude oil and European natural gas



Policy Rates Recalibrated

Policy expectations followed a round trip during the quarter. Softer labor data and subdued July core inflation initially raised the prospect of a more accommodative Federal Reserve path. That move reversed as energy prices remained elevated, August inflation strengthened and economic activity continued to hold up. The Federal Reserve, European Central Bank and Bank of Japan adjusted their policy rates higher. The Bank of England remained on hold, although three policymakers supported an increase.

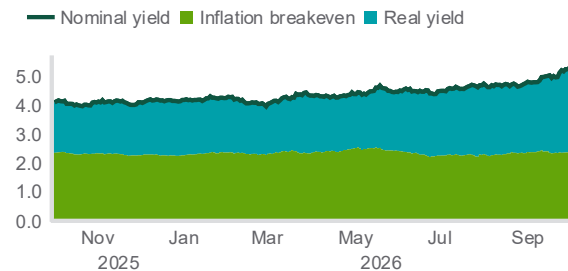
2-year Treasury yield and breakeven inflation rate (%)



A Real Yield Reset

The rise in Treasury yields was not simply an inflation story. The 10-year Treasury yield rose more than 80 basis points during the quarter, with the matching real yield accounting for approximately 82% of the increase. The result was a broader increase in the real hurdle rate across markets, placing pressure on government bonds and rate sensitive assets even as economic activity remained resilient. Treasury volatility also increased as expectations for near-term rate relief faded.

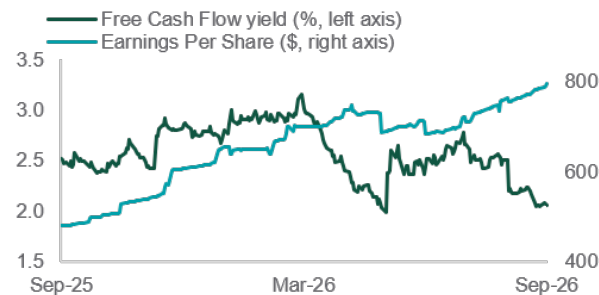
10-year Treasury yield decomposition (%)



Financing the Buildout

Artificial intelligence investment remained an important source of economic and earnings support. Cloud demand and large technology backlogs supported continued expansion in data center capacity, even as borrowing costs increased. However, the investment cycle remained highly capital intensive. Across the technology sector, earnings continued to rise while free cash flow yield declined, increasing the importance of future cash generation in validating the scale of investment and supporting valuations.

Nasdaq technology index EPS and free cashflow yield



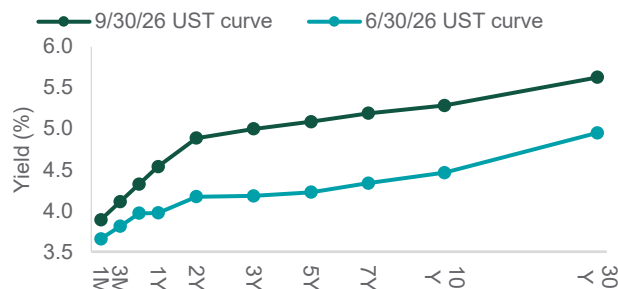
Source: Northern Trust Asset Management, Bloomberg, Macrobond. Data as of 9/30/2026. Note: EPS = earnings per share. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

MARKET REVIEW

Interest Rates

Treasury yields rose sharply across the curve as resilient economic activity, higher energy prices and a recalibration of policy expectations reduced the prospect of near-term rate relief. The 2-year yield increased 71 basis points (bps) to 4.89%, while the 10-year yield rose 82 bps to 5.29%. Higher real yields accounted for most of the 10-year move, while breakeven inflation increased more modestly. This left the 2- to 10-year curve modestly steeper, while the curve flattened beyond the 5-year maturity.

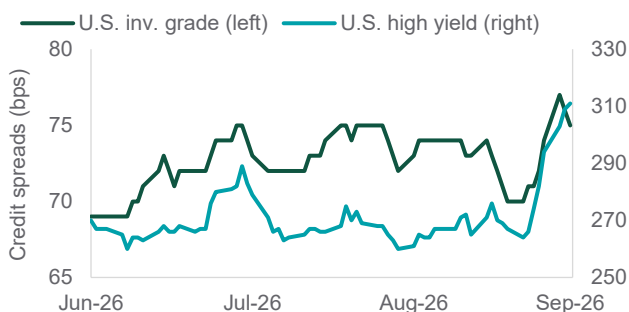
U.S. TREASURY YIELD CURVE



Credit Markets

Investment grade (IG) credit spreads widened 6 bps to 0.75%, while high yield (HY) spreads increased 41 bps to 3.11%. Higher Treasury yields were the primary headwind for longer duration and higher quality bonds. HY faced additional pressure from wider spreads, although its higher starting income and shorter duration provided some cushion. Credit markets remained orderly overall, but the greater weakness in lower-quality segments reflected increasing differentiation as all-in borrowing costs moved higher.

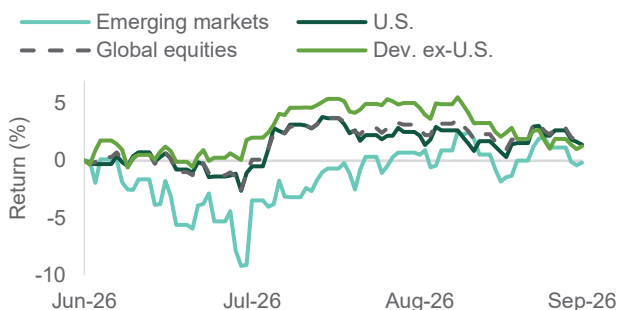
CREDIT SPREADS



Equities

Global equities finished modestly higher, led by the U.S. Developed ex-U.S. equities posted a smaller gain, while emerging markets declined modestly amid considerable country level dispersion. Within the U.S., large-cap equities remained positive, supported by energy, healthcare and select technology companies, while smaller companies declined. With fewer than 40% of S&P 500 Index constituents posting positive quarterly returns, headline performance remained increasingly dependent on a narrower group of market leaders.

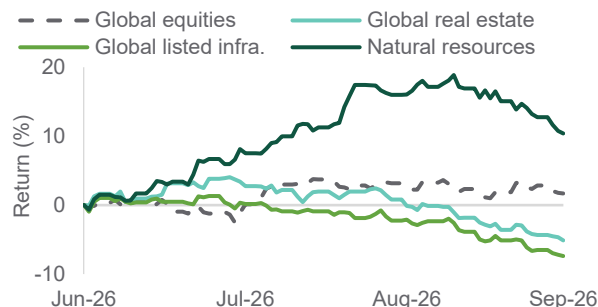
REGIONAL EQUITY INDICES



Real Assets

Real assets displayed significant dispersion. Natural resource equities benefited from higher energy and industrial metal prices, while global real estate and listed infrastructure declined. Higher commodity prices supported natural resource equities but also added to inflation pressure, while rising yields weighed on real assets with greater financing needs and longer duration cash flows. Gold finished modestly higher as geopolitical uncertainty and inflation concerns were partly offset by the rise in real yields.

REAL ASSET INDICES



Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

NOTABLE MARKET EVENTS DURING THE QUARTER

■ 3Q 2026 global equity total return: 1.7%



JULY	AUGUST	SEPTEMBER
1 Weaker than expected June payroll growth lowered short-term Treasury yields and reduced expectations for a near-term Federal Reserve rate increase.	6 Reported progress toward reopening the Strait of Hormuz lowered oil prices, while strong technology earnings supported a broad equity recovery.	11 August payroll growth exceeded expectations and prior months were revised higher, weakening the labor market case for leaving policy unchanged.
2 Samsung reported a sharp increase in preliminary operating profit, but semiconductor shares declined as elevated expectations continued to weigh on the sector.	7 July consumer inflation matched expectations, lowering short-term Treasury yields and reducing expectations for a September Federal Reserve rate increase.	12 The European Central Bank raised its deposit rate by 25 basis points as Brent crude moved higher, placing renewed pressure on global sovereign bonds.
3 Softer June consumer inflation lowered Treasury yields and reduced the probability of a July Federal Reserve rate increase.	8 U.S. business activity reached its fastest pace in more than four years, and technology shares recovered ahead of major semiconductor earnings.	13 The Federal Reserve raised its target range by 25 basis points and indicated that additional policy adjustment remained possible.
4 Brent crude oil crossed \$100 per barrel as energy-supply concerns intensified, while the European Central Bank left its deposit rate unchanged.	9 Strong semiconductor guidance reinforced confidence in AI investment, while European Central Bank officials indicated that policy rates may need to rise further.	14 The Bank of Japan raised its policy rate to 1.25%, while a divided vote reduced expectations for another near-term increase and weighed on the yen.
5 The Federal Reserve held rates with three members supporting an increase, while disappointing memory chip earnings added to pressure on global technology shares.	10 Federal Reserve Chair Kevin Warsh emphasized persistent inflation risks, pushing the probability of a September rate increase above 50%.	15 Strong U.S. activity data coincided with a sharp global bond selloff and renewed pressure on rate-sensitive assets.

Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

Indexes used:

Bloomberg (BBG) 1-3 Month UST (Cash): The Bloomberg U.S. Treasury Bills: 1-3 Months Index tracks the market for treasury bills issued by the U.S. government with time to maturity between 1 and 3 months. US Treasury bills are issued in fixed maturity terms of 4, 8, 13, 17, 26 and 52 weeks.

BBG Municipal (Muni): The Bloomberg Municipal Bond Index is a flagship measure of the US municipal tax-exempt investment grade bond market. Included in the index are securities from all 50 US States and four other qualifying regions (Washington DC, Puerto Rico, Guam, and the Virgin Islands). The index includes state and local general obligation bonds and revenue bonds. All bonds in the Municipal Bond Index are tax exempt and hence are not eligible for other indices that include taxable bonds, such as the Bloomberg U.S. Aggregate.

BBG Aggregate (Inv. Grade): The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index.

BBG TIPS (TIPS): The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

BBG High Yield 2% Capped (High Yield): The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices.

BBG EM Local Currency Government 10% Capped (Em. Markets Fixed Income): The Bloomberg Emerging Markets Local Currency Government 10% Capped Index tracks the performance of local-currency-denominated sovereign bonds issued by emerging-market governments. The index is measured in unhedged U.S. dollars and limits individual country weights to approximately 10% to reduce concentration.

MSCI U.S. Equities IMI (U.S. Equities): The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market. With around 2,320 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.

MSCI World ex-U.S. IMI (Dev. ex-U.S. Equities): The MSCI World ex USA Investable Market Index (IMI) captures large, mid and small cap representation across 22 of 23 Developed Markets (DM) countries--excluding the United States. With around 2,955 constituents, the index covers approximately 99% of the free float adjusted market capitalization in each country.

MSCI Emerging Market Equities IMI (Em. Markets Equities): The MSCI Emerging Markets Investable Market Index (IMI) captures large, mid and small cap representation across 24 Emerging Markets countries. With around 3,000 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

S&P Global Natural Resources (Natural Resources): The index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

MSCI ACWI IMI Core Real Estate (Global Real Estate): The MSCI ACWI IMI Core Real Estate Index is a free float-adjusted market capitalization index that consists of large, mid and small-cap stocks across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries engaged in the ownership, development and management of specific core property type real estate. The index excludes companies, such as real estate services and real estate financing companies, that do not own properties.

S&P Global Infrastructure (Global Listed Infrastructure): The S&P Global Infrastructure Index is designed to track around 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

Prepared by Northern Trust Asset Management for Tower Trust & Investment Company.

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