NEW REPUBLIC PARTNERS

MARKET COMMENTARY

Q3 2026

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Market Commentary

Market Monitor 2026	Q3	YTD
MSCI All-Country World Index	1.6%	13.0%
S&P 500 Index	2.3%	12.8%
Bloomberg U.S. Agg. Index	-3.5%	-2.9%
Bloomberg Commodity Index	16.2%	32.9%

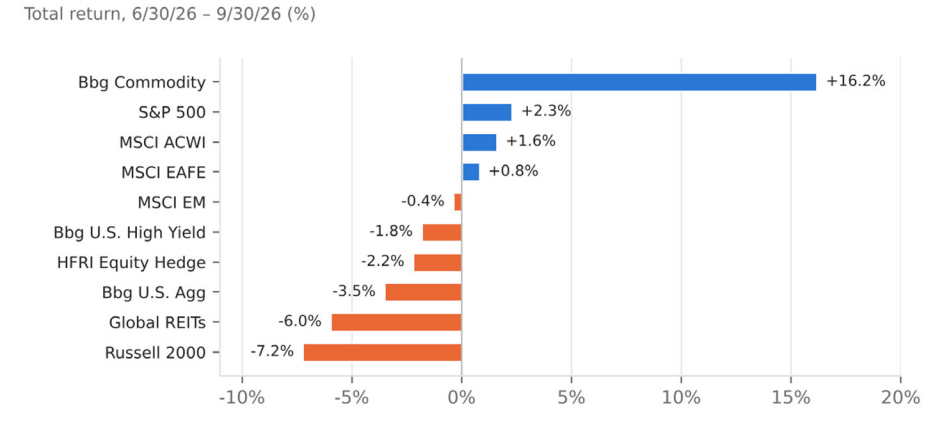
The Price of Capital

If Q2 was a rising tide, Q3 was the quarter the market was reminded that capital has a price. The headline numbers look calm: the S&P 500 gained +2.3% and set a new all-time high, and global equities finished modestly higher. But the path was anything but smooth, and the forces that shaped the quarter were very different from the ones that carried markets through spring. Oil traded back above $100 per barrel, the 30-year Treasury yield climbed to its highest level since 2004, and in September the Federal Reserve raised interest rates for the first time since 2023 — a 180° turn from the two or three rate cuts the market expected when the year began.

Three ideas defined the quarter:

- First, the market broadening that characterized the first half of the year took a pause: large caps beat small caps, the market-cap-weighted S&P 500 beat its equal-weighted counterpart, and U.S. equities outpaced international markets.
- Second, rates moved meaningfully higher, pushed by three forces at once: inflation, deficit spending, and the AI buildout.
- Third, corporate earnings remained remarkably strong, and that strength, set against higher rates and a July reversal in the market's most crowded trades, produced multiple compression across a number of the market's leading names (Exhibit 1). Stocks went up because earnings went up, not because investors were willing to pay more for them. And in our view, that is a healthier foundation than the alternative.

EXHIBIT 1: Q3 TOTAL RETURNS ACROSS ASSET CLASSES



Source: Morningstar; index total returns in USD. Data as of 9/30/26.

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The Broadening Pauses: Leadership Narrows Again

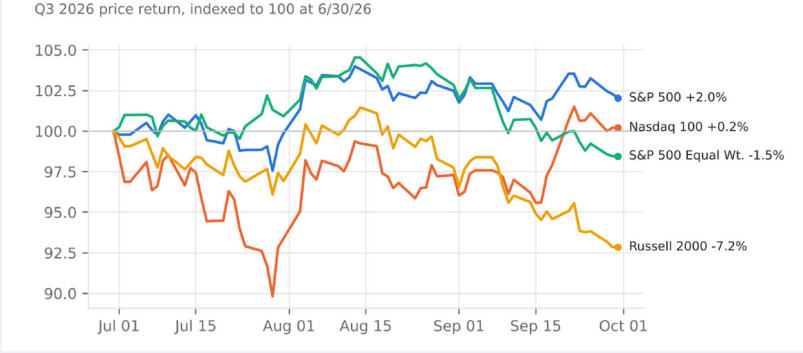
The quarter began with a reset in the winning parts of the market. In July, the AI and semiconductor names that had powered the Q2 rally reversed sharply as investors who had piled into them with leverage — both abroad, notably in South Korea, and here at home — were forced to reduce positions. The Nasdaq 100 fell roughly -10% from the end of June to its late-July low, while the broader S&P 500 dipped only about -2.5%. The selling was about positioning rather than fundamentals, and the AI and semi names recovered through August and September as earnings continued to come in strongly.

For a brief moment in August, the broadening trend looked intact: the Russell 2000, the Dow Jones Industrial Average, and the equal-weight S&P 500 each set new highs in mid-August. From there, however, leadership narrowed into quarter-end as Treasury yields surged. By September 30, the Russell 2000 returned -7.2% for the quarter and the equal-weight S&P 500 had declined -1.5%, compared with the +2.3% gain for the market-cap-weighted index (Exhibit 2). Beneath the record, breadth was remarkably thin: in late September, with the S&P 500 within 1% of its all-time high, roughly 60% of its constituents sat 20% or more below their own highs, and the ten largest companies made up a record 40.6% of the index (JPM Asset Management). Only four of the eleven S&P 500 sectors outperformed the broad index. After outperforming large caps by more than +5% in each of the first two quarters of the year, small caps gave back more than 6% of relative performance in Q3, a reminder of how sensitive smaller companies remain to borrowing costs.

The pause extended overseas. After leading in the first half, developed international markets (MSCI EAFE +0.8%) and emerging markets (MSCI EM -0.4%) finished the quarter roughly flat, trailing the S&P 500. International equities remain ahead of the U.S. year-to-date: emerging markets are up more than +23%.

We do not read the pause as the end of the broadening story, but we are adjusting to it. Historically, sharp rises in the 10-year Treasury yield have been followed by small-cap underperformance relative to the S&P 500, and small-cap returns have tended to weaken when inflation runs above 4%. With the rate environment having changed so meaningfully,

EXHIBIT 2: BROADENING TAKES A PAUSE IN Q3



Source: MarketDesk, S&P Dow Jones Indices, Nasdaq, FTSE Russell. Data as of 9/30/26.

"We do not read the pause as the end of the broadening story, but we are adjusting to it."

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The Broadening Pauses: Leadership Narrows Again continued

NRP has trimmed back the small-cap tilt it established at the start of the year, while maintaining a full, diversified equity allocation. The long-term case for smaller companies remains intact — they still trade at historically wide discounts to large caps, and their earnings have been improving — but what changed in Q3 was the rate backdrop, and sustained small-cap leadership will likely require inflation and interest rates to stabilize.

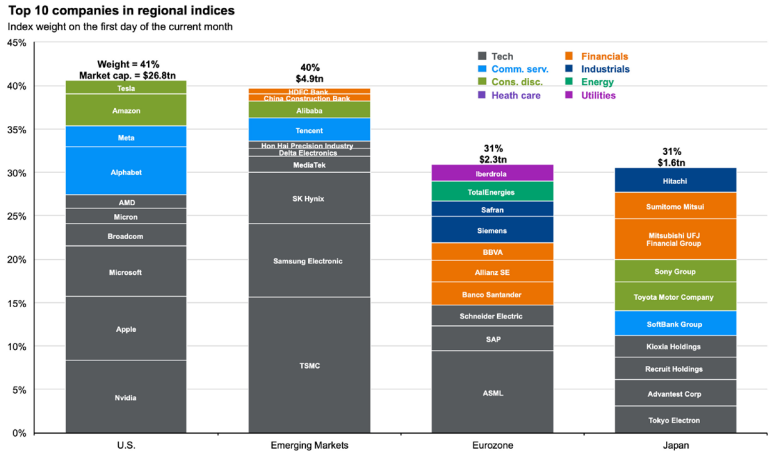
Narrower leadership also brings concentration risk back into focus. Technology now accounts for nearly 40% of the S&P 500, up from about 34% at the end of 2025, and Neuberger Berman estimates that AI-related companies represent roughly 25–28% of U.S. equity market capitalization yet account for roughly half of the market's marginal risk. This is not just a U.S. phenomenon. The ten largest companies make up roughly 40% of the emerging markets index, nearly matching the U.S., and the same semiconductor-driven concentration runs through markets such as Taiwan, South Korea, and Japan (Exhibit 3). In the current environment, investors need to be vigilant in seeking genuine diversification across asset classes — not merely the appearance of it. A portfolio can hold dozens of funds and still be making one large bet.

A 180° Turn: Rates Rise and the Fed Tightens

The defining macro development of the quarter was the move in interest rates. Yields rose at every maturity on the Treasury curve during Q3 (Exhibit 4). The 10-year Treasury yield climbed from 4.44% to 5.29%, its largest quarterly rise since 2009, and the 30-year yield rose to 5.64%, its highest level since 2004. The rise reached directly into household budgets, with 30-year mortgage rates moving back above 7%. Real rates rose as well, as markets began to question whether economic growth is strong enough to absorb borrowing costs at these levels.

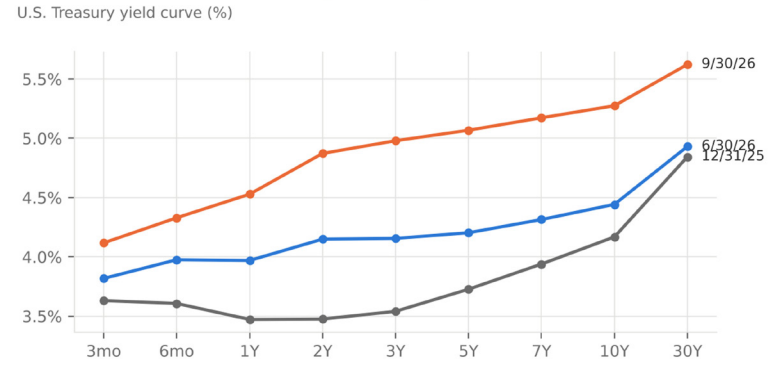
The Federal Reserve followed. After cutting rates by a cumulative -1.75% between September 2024 and late 2025 and then holding steady for nine months, the Fed raised its policy rate by +0.25% in

EXHIBIT 3: GLOBAL EQUITY MARKET CONCENTRATION — TOP 10 COMPANIES BY REGION



Source: J.P. Morgan Asset Management, Bloomberg, MSCI, Standard & Poor's. Data as of 9/30/26.

EXHIBIT 4: YIELDS ROSE AT EVERY MATURITY IN Q3



Source: MarketDesk, U.S. Treasury. Data as of 9/30/26.

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A 180° Turn: Rates Rise and the Fed Tightens

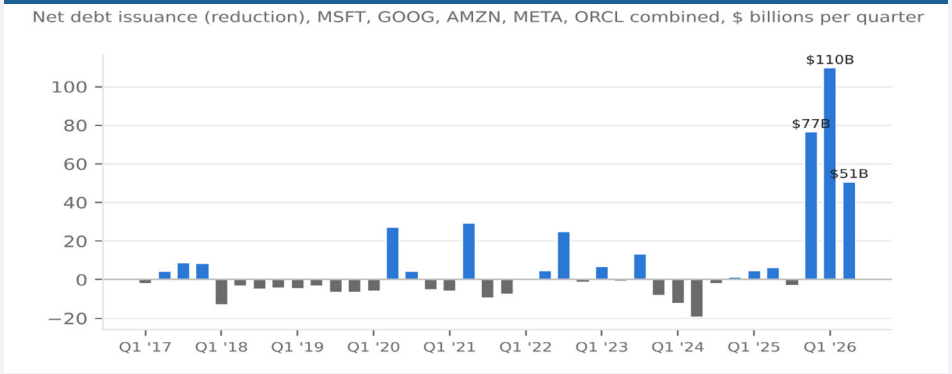
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September to a range of 3.75–4.00%, its first increase since 2023. The market now prices in roughly three additional hikes over the coming year. That is a remarkable reversal: in January, the debate was over how many times the Fed would cut. The market has moved 180° in nine months, and in our view three forces are pushing rates higher at the same time.

1) The first force is inflation. Oil prices rebounded +22% in July alone and traded back above $100 per barrel by mid-September as uncertainty around the Strait of Hormuz returned. Headline inflation eased from a three-year high of +4.2% in May to +3.4% in August, but it remains well above the Fed's target, and energy prices are again feeding into transportation and consumer costs.
2) The second force is deficit spending. With the federal deficit running at roughly $1.85 trillion for fiscal 2026, heavy Treasury issuance means investors must absorb a growing supply of government debt, and they are demanding a larger term premium to hold longer-maturity bonds.
3) The third force, and the newest, is competition for capital from AI. The largest technology companies remain enormously profitable, but the scale of their data-center buildout now exceeds what their cash flows alone can fund. Microsoft, Alphabet, Amazon, Meta, and Oracle collectively issued roughly $77 billion of net new debt in Q4 2025, about $110 billion in Q1 2026, and another $51 billion in Q2, after years of steadily reducing debt (Exhibit 5). Hyperscaler capital spending is expected to reach roughly $800 billion this year and approach $1.1 trillion in 2027, and hyperscaler bond issuance now accounts for roughly 30% of long-duration corporate bond supply. Every dollar of that high-quality corporate duration competes with Treasuries and every other borrower for investor capital.

The competition for capital is not limited to the bond market. Within equities, investors continue to treat AI as something closer to a zero-sum game, rewarding the companies seen as beneficiaries and selling those seen as disrupted. The market's rolling narratives — that AI eats software, that AI eats labor, and that AI erodes the customer inertia on which many services businesses depend — have created sharp winners and losers beneath a calm-looking index. That dispersion is a source of risk for passive, concentrated portfolios and a source of opportunity for selective active managers.

EXHIBIT 5: COMPETITION FOR CAPITAL — HYPERSCALERS TURN TO THE BOND MARKET



Source: MarketDesk, company SEC filings. Data as of 9/30/26 (latest reported quarter Q2 2026).

Market Commentary

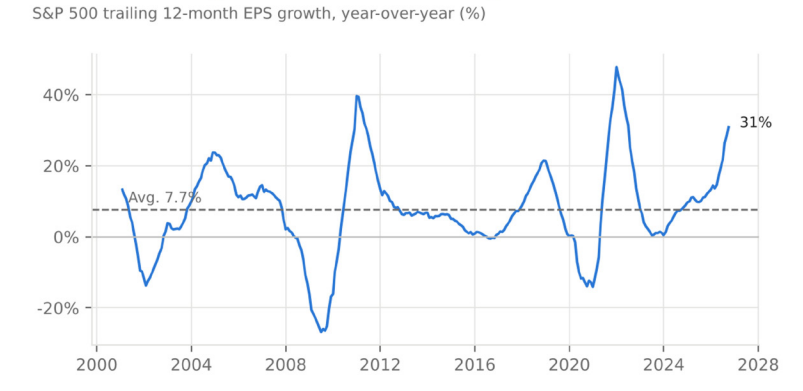
Earnings Hold Firm as Multiples Compress

Against that backdrop, the most important support for the market was corporate earnings. S&P 500 trailing 12-month earnings grew more than +30% over the past year, one of the strongest stretches of profit growth outside of the rebounds following the financial crisis and the pandemic (Exhibit 6). The broader economy has also held up: headline GDP grew at a +2.2% annualized rate in the second quarter, while final sales to private domestic purchasers — a cleaner read on consumer spending and business investment — grew +4.6%. Households are still spending and businesses are still investing.

Because earnings rose faster than prices, valuations came down. The S&P 500's forward price-to-earnings multiple fell from roughly 22x earlier this year to about 19x at quarter-end, slightly below its 10-year average of 19.5x (Exhibit 7). The compression was most pronounced among the market leaders that recovered from the July reversal: their share prices rebounded, but their earnings estimates rose even faster, so they ended the quarter cheaper than where they began. At one point during the quarter, Nvidia traded at a lower forward multiple than the market as a whole and remains at a 15x forward P/E today, a striking data point for the company most closely associated with the AI trade.

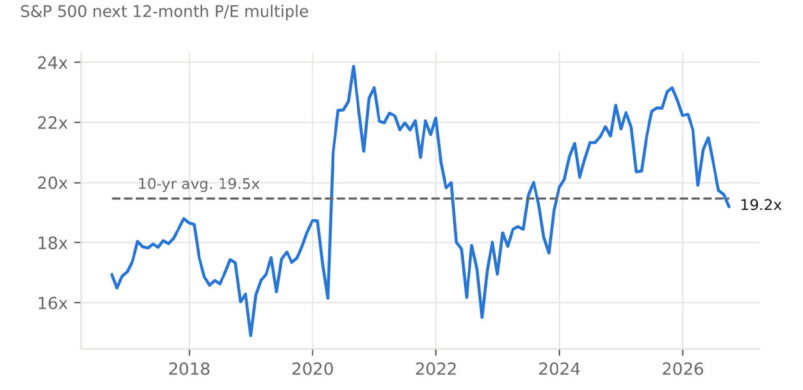
Multiple compression driven by strong earnings is a very different thing from multiple compression driven by falling prices. It suggests the market is doing its job: weighing fundamentals more heavily than momentum and that some of the excess expectations we discussed last quarter have been worked through. History is encouraging on this point: since 1950, equities have generally been able to absorb rising bond yields when earnings growth is strong per Goldman Sachs. It does not mean risk has disappeared. Higher rates raise the bar for every asset, and a meaningful share of today's profit growth rests on continued AI investment. But it does mean the market enters the fourth quarter on firmer valuation footing than it did three months ago.

EXHIBIT 6: EARNINGS GROWTH REMAINS STRONG



Source: MarketDesk, S&P Dow Jones Indices. Data as of 9/30/26.

EXHIBIT 7: EARNINGS UP, MULTIPLES DOWN



Source: MarketDesk, S&P Dow Jones Indices. Data as of 9/30/26.

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Bonds Face Their Toughest Quarter of the Year

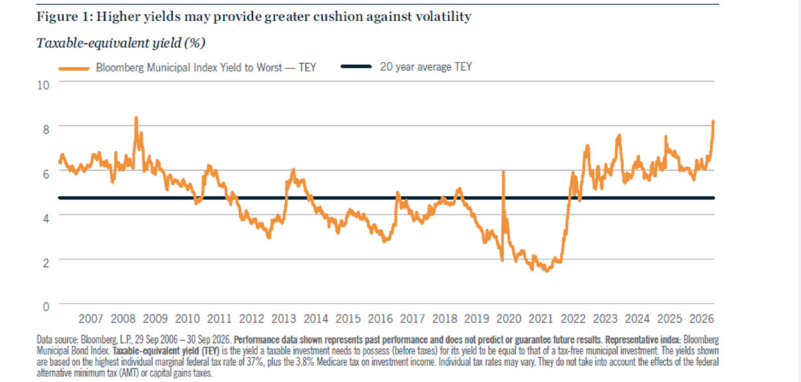
For fixed income, Q3 was the most difficult quarter of the year. With yields rising across the curve, the Bloomberg U.S. Aggregate returned -3.5% for the quarter and is now down -2.9% year-to-date. Municipal bonds fared even worse, with the Bloomberg Municipal Index declining -6.3%, its worst quarter since 1981. Corporate bonds also declined: investment-grade corporates returned -3.7%, while high yield, with its shorter maturities, held up better at -1.8%.

Importantly, the damage came from rising Treasury yields rather than a broad deterioration in corporate credit. Investment-grade spreads remain near 80 basis points in the 5th percentile of their history, and the broad high-yield spread finished the quarter near 311 basis points. The exception was the lowest-quality end of the market. Spreads on CCC-rated bonds widened by roughly +106 basis points, pushing the gap between CCC and BB-rated bonds to 921 basis points, one of the widest readings outside of periods of major credit stress in the past three decades. As we noted last quarter, investors are increasingly discriminating between stronger and weaker borrowers, and higher financing costs are showing up first among the most leveraged companies. We remain cautious on the weakest high-yield credits.

The silver lining of a painful quarter is the starting point it leaves behind. The Bloomberg U.S. Aggregate now yields about 5.5%, and municipal yields near 4.7% equate to a taxable-equivalent yield of roughly 8% for investors in the top federal bracket, around the 99th percentile of the past two decades (Exhibit 8).

For the first time in this cycle, the S&P 500's earnings yield is roughly equal to the yield on the 10-year Treasury — bonds are once again competitive with stocks. The back-up in rates, particularly in municipals, has made starting yields compelling enough to add. In our view, that entry point favors shifting a portion of mortgage-backed and core-plus exposure, as well as cash on the sidelines, toward high-quality municipal bonds, while keeping duration moderate. We continue to believe the greater risk to fixed income portfolios is higher long-term rates driven by inflation, deficits, and capital competition, rather than a near-term recession, and we are not reaching for the longest maturities.

EXHIBIT 8: MUNICIPAL TAXABLE-EQUIVALENT YIELDS NEAR 20-YEAR HIGHS



Source: Nuveen, Bloomberg Municipal Bond Index. Data as of 9/30/26. TEY assumes 37% top federal rate plus 3.8% Medicare tax.

"The market's rolling narratives...have created sharp winners and losers beneath a calm-looking index. That dispersion is a source of risk for passive, concentrated portfolios and a source of opportunity for selective active managers."

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Hedged Equity and Absolute Return — Diversifying for an Unknown Future

Q3 tested the alternatives sleeve. For Hedged Equity, the July reversal was exactly the kind of crowded, leverage-driven unwind that challenges long/short managers in the short run. The HFRI Equity Hedge Index declined -2.2% for the quarter while remaining up +7.1% year-to-date (Exhibit 9). And yet, the underlying opportunity set remains as rich as we have seen it for Hedged Equity managers. Market dispersion is wide, correlations between stocks are extremely low, earnings are diverging sharply between perceived AI winners and losers, and multiples are compressing even as profits grow — an environment that ultimately rewards differentiated fundamental research.

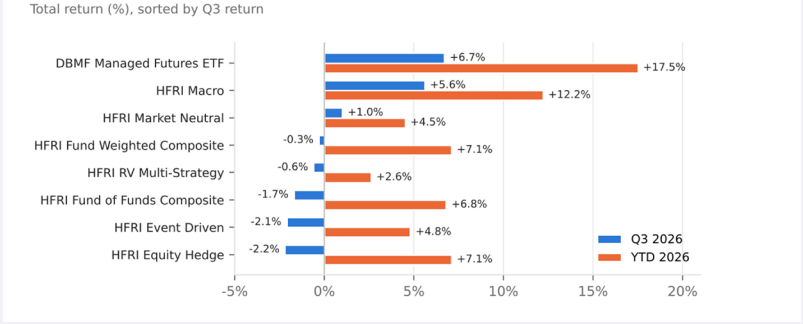
Results across Absolute Return strategies were mixed. Macro and managed futures strategies led in Q3, while credit-oriented and event-driven approaches gave back modestly (HFRI Credit Index -0.9%) in a quarter when rising rates pressured most income-oriented assets. The role of the allocation is unchanged: to provide returns that are largely independent of the direction of stocks and bonds. More broadly, the quarter was a reminder of a principle we return to often: you diversify because you don't know what the future holds. Few investors entering the year expected oil above $100, a Fed tightening cycle, and a 10-year Treasury above 5% — all within the same nine months.

Real Assets — Oil Returns to Center Stage

Real assets were the standout performers of the quarter. Oil swung back to center stage, rising from roughly $70 per barrel in early July to more than $100 by mid-September before ending the quarter near $90, the latest in a year of unusually sharp moves: oil has moved by 10% or more in five of the first nine months of 2026 (Exhibit 10). Broad commodities gained +16.2% for the quarter (and are now up nearly +33% year-to-date), and Energy was the top-performing S&P 500 sector. Historically, when inflation exceeds 2.5%, bonds often fail to diversify, while natural resources have tended to hold up in real terms.

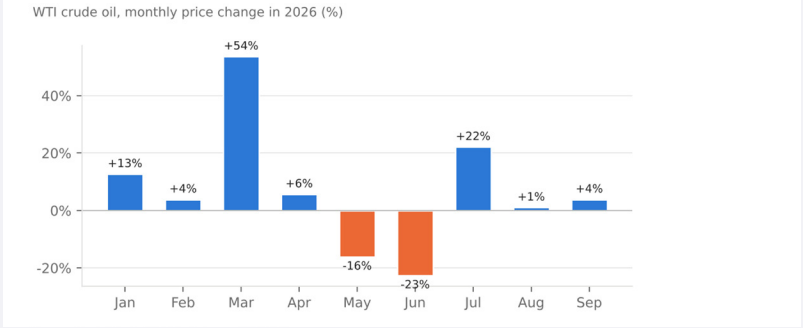
However, not every real asset benefited. Rising rates weighed on interest-rate-sensitive areas, with global REITs declining roughly -6% and utilities falling -12.4%, despite the long-term tailwind

EXHIBIT 9: HEDGE FUND STRATEGY RETURNS Q3 AND YTD



Source: HFR (HFRI indices); DBMF ETF total return. Q3 = July-September 2026; YTD through 9/30/26.

EXHIBIT 10: OIL MOVED ±10 IN FIVE OF NINE MONTHS



Source: MarketDesk, NYMEX. Data as of 9/30/26.

Market Commentary

Real Assets — Oil Returns to Center Stage continued

from AI-driven power demand. We view the quarter's divergence as a reminder of why we hold a diversified, strategic allocation to real assets as protection against inflation, fiscal spending, and exogenous shocks, rather than a concentrated bet on any one segment. We remain focused on sourcing opportunities in energy and power infrastructure, where the hyperscalers' data-center buildout is creating durable, multi-year demand for electricity and generation capacity.

Private Equity — A Disciplined Entry Point

In Private Markets, dealmaking accelerated through mid-year. Global M&A reached $1.42 trillion in the second quarter, up +55% year-over-year and the fourth consecutive quarter above $1 trillion, the most active environment since 2021. Large strategic acquirers drove the total, with transactions above $5 billion setting a single-quarter record. Private Equity was a smaller part of the story: U.S. buyout deal value declined -24% year-over-year even as deal count rose +12%, as sponsors did more deals at smaller sizes and add-on acquisitions approached three-quarters of buyout activity. Capital continued to rotate toward the physical economy: power generation, energy, defense, and the industrial supply chain.

For new commitments, the setup is the most attractive it has been in years. U.S. buyout entry multiples average roughly 11.9x EBITDA versus 14.3x at the 2021 peak, and the discount to public large-cap multiples has widened to roughly 3.5x, the largest in 15 years. That favors lower middle market managers, who can buy companies several turns below large-cap multiples and grow earnings organically rather than rely on leverage and multiple expansion, an advantage that matters more as borrowing costs rise. In venture, the competition for capital is on full display, with the leading AI companies, including Anthropic and OpenAI, continuing to absorb the majority of new investment.

Liquidity is improving as well: distributions to private equity investors matched contributions in 2025 for the first time since 2021, and a widening IPO window, anchored by SpaceX, points to further realizations ahead.

Private Credit — Higher Rates, Better Terms

The reset in Private Credit that began earlier this year has continued to work in lenders' favor. Direct lending volume fell to roughly $33 billion in the second quarter from $74 billion in the first as lenders stayed selective, and redemptions from retail-oriented funds remained elevated at roughly $15.6 billion. Reduced supply of capital has improved terms for lenders with stable capital: loans that closed carried spreads 25 to 50 basis points wider than a year ago, larger original issue discounts, and larger equity cushions beneath the debt, with equity accounting for 63% of purchase price, the highest in a year. Rising base rates, now reinforced by the Fed's September hike, further lift the floating-rate income these loans generate.

Credit quality across the asset class remains solid, with direct lending default rates near 2%, in line with the long-term average. Where stress exists, it is concentrated in large, widely syndicated transactions with loose documentation — the same pressure on weaker borrowers visible in public CCC credit. The lower middle market, looks quite different: loans yield roughly 10%, nearly all carry financial covenants, and total debt is typically limited to about a third of company value. Meanwhile, the dislocation at the weakest end of the credit market, where roughly 13% of the U.S. loan market trades below 90 cents on the dollar, is creating opportunities for stressed and distressed specialists.

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2026 Outlook — What to Watch in Q4

The economy and corporate earnings enter the final quarter of the year on solid footing, but the backdrop has become more demanding. Oil is volatile, long-term rates are near multi-decade highs, financial conditions have tightened, and the Fed is now on a hiking cycle. We believe there are three threads that will shape what comes next.

The first thread is whether oil and interest rates stabilize. The path of inflation will determine how far the Fed's new tightening cycle goes, and whether the forces behind higher rates — inflation, deficits, and capital competition — ease or compound. Stabilization would relieve pressure on bonds, small caps, and rate-sensitive sectors, and would likely allow the broadening trend to resume.

The second thread is whether earnings can keep carrying the market. Profit growth has been the market's foundation this year and the reason valuations have compressed rather than expanded. The Q3 earnings season, now underway, will show how companies are managing higher borrowing and input costs. The lagged effects of higher rates and oil prices are the key risks to watch.

The third thread is how the AI buildout is financed. The question is shifting from whether AI spending can continue to how it will be paid for and what return that capital will generate. As the largest technology companies lean more on the bond market, the AI cycle is becoming more tightly linked to interest rates, and the market's tendency to treat AI as a zero-sum game is likely to keep dispersion and concentration risk elevated.

A year ago, few would have predicted a war in the Middle East, oil above $100, a Federal Reserve hiking rates, and a 10-year Treasury above 5%, all while stocks traded to new highs on the back of near-record earnings growth. We cannot know how these threads resolve, which is why we rely on disciplined rebalancing, genuine diversification, careful manager selection, and investing in themes we believe will drive performance beyond any one quarter. Diversification provides both offense and defense against an unknowable future.

"More broadly, the quarter was a reminder of a principle we return to often: you diversify because you don't know what the future holds."

—NRP Investment Committee
October 30, 2026

Disclosure

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Asset Class Positioning Summary

The following summarizes how the themes discussed in this letter inform our current positioning across the major asset classes.

ASSET CLASS	OUR VIEW	
Global Equities	Maintaining a full, diversified equity allocation, but trimming back the small-cap overweight established at the start of the year given the change in rate environment. Strong earnings drove multiple compression rather than expansion in Q3, leaving valuations on firmer footing, while concentration risk in AI-related names is elevated in both the U.S. and Asia. Favor disciplined rebalancing back to long-term targets and genuine diversification across size, style, and geography.	
Fixed Income	The back-up in rates, particularly in municipals, has made starting yields compelling enough to add. Re-allocate within fixed income, shifting MBS/core-plus exposure and cash on the sidelines into high-quality municipal bonds given the entry point (taxable-equivalent yields near 8% for top-bracket investors), while keeping duration moderate. Inflation, deficit spending, and competition for capital from AI could keep long-term rates elevated; with broad spreads tight and CCC spreads widening, there is limited compensation for moving down in quality.	
Public Alternatives	**Hedged Equity** — The July reversal in crowded AI trades and the compression of multiples amid strong earnings highlight a market that is set up to reward fundamental research. Elevated stock dispersion between perceived AI winners and losers continues to make for an ideal stock picking environment.	**Absolute Return** — Results were mixed in Q3 with macro and managed futures leading while credit-oriented strategies gave back modestly. With the Fed now tightening and rate volatility elevated, the allocation's role is unchanged: returns largely independent.
Private Investments	**Private Equity** — Entry multiples are well below the 2021 peak and the discount to public markets is the widest in 15 years. Lower middle market managers with sector expertise in power, energy, defense, healthcare, and AI are well-positioned to grow earnings organically rather than rely on leverage, an advantage as borrowing costs rise.	**Private Credit** — The market reset continues to favor lenders, with wider spreads, stronger terms, and larger equity cushions. Rising base rates lift floating-rate income, and dislocation at the weakest end of the credit market creates opportunities for stressed, distressed, and asset-based specialists.
Real Assets	Real Assets demonstrated their value in Q3 as oil returned above $100 and commodities rallied. Maintain a strategic allocation as protection against inflation, fiscal spending, and exogenous shocks, and favor real assets tied to the AI infrastructure cycle, including power and energy infrastructure. Following the Q3 rally, rebalance Real Assets back toward long-term strategic weight rather than chase recent gains. Views reflect our current outlook as of the date of this letter and are subject to change. This summary is for informational purposes and is not a recommendation to buy or sell any security or to adopt any particular investment strategy.	



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