

A new Fed rate cycle

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The Big Picture:

- It's not 2022, but bonds are taking up all of investors' headspace as US Treasury yields spike.
- The oil market is coming to grips with an extended Iranian conflict.
- We're watching for any domino effect from higher Treasury yields into credit.
- We've reallocated to our beaten-down industrials exposure within equities.
- With rates above 5%, we shifted from floating-rate securities into inflation-protected securities in our fixed income positions.

The bond market remained the headline in September as the 10-year US Treasury yield rose by more than 50 basis points. The US Federal Reserve (Fed) also hiked short-term interest rates for the first time in three years. **Market action brought back memories of 2022**, but today's backdrop is far different. Back then, the Fed was raising interest rates from zero, and had several rate hikes ahead of them. Today, markets are forecasting about three additional quarter-point interest rate hikes, though many experts think that's an overshoot. History suggests the experts could be wrong – **usually the first Fed rate hike kicks off a cycle of coming rate hikes.**

Our September Macroeconomic Scenario Analysis (MES) spotlights an engaged Fed, with **Inflation** and **Chaos** shaping up as our focus for the next 12 months. The Middle East impacts both scenarios, given the unpredictability of the situation (**Chaos**), paired with structurally higher energy prices (**Inflation**). **The oil futures curve suggests West Texas Intermediate (WTI) crude oil prices are likely to remain above $80 per barrel into next summer**, after months of pricing a quicker return to near $70 per barrel. Meanwhile, the midterm elections may free the US administration to attack Iran again, assuming Iran doesn't strike first. Finally, one of the most interesting questions **we're debating as an economic indicator is whether the sharp move higher in US Treasury yields kicks off a new credit cycle.** A segment of large-cap artificial intelligence (AI) companies have seemingly insatiable needs for capital and appear largely insensitive to interest rates. However, that's likely not the case for other industries, and more levered companies eventually will need to refinance their own debt.

Looking at the big picture in portfolio positioning, **we have added to our overall industrial exposure within equities and added to inflation-protected securities within fixed income**. Given our reasonably low odds of **Recession**, with admittedly high odds of **Chaos**, **we believe some of the more cyclical sectors have been unfairly punished**. Market breadth has been challenging, with a handful of mega-cap technology stocks keeping the headline S&P 500 Index near all-time highs. The market is still sussing out the ceiling on yields, which is a headwind, but we think we're close to settling into a new normal for interest rates. **The reality is that the risk/reward for bonds, especially shorter-term bonds, is the most attractive it's been in 20 years**. Unlike in 2022, today's higher starting coupon payments could over time help offset a decline in bonds' value if market yields continue to rise.

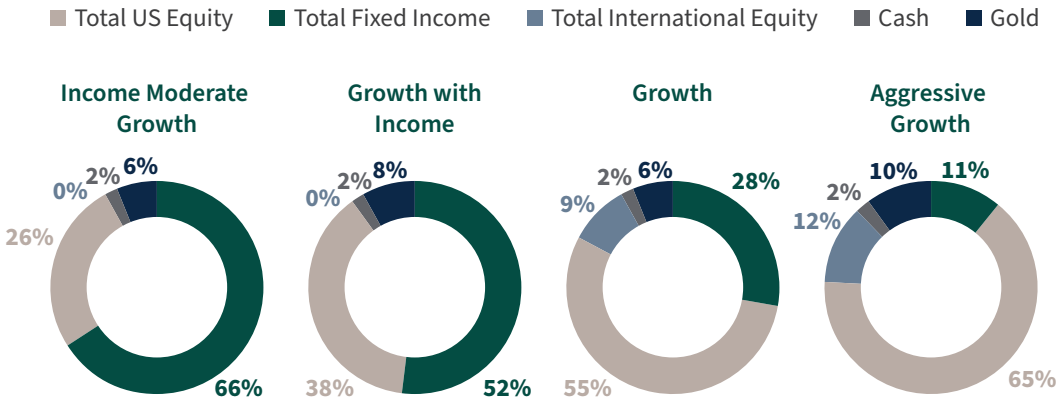
In total, **the US 10-year Treasury yield moved higher by more than 80 basis points in the third quarter**, its largest quarterly gain since 1994. At the same time, we've entered the seasonally strongest part of the year for equity markets. **Right now, the path of yields and interest rates is central to market action**. Higher

yields usually translate into higher borrowing costs for consumers and businesses. Still, **investors are looking past higher yields at the moment** and are banking on continued skyrocketing demand for AI tools. Given a host of crosscurrents, the **path of equity markets could boil down to a simple heuristic** over the next 6 to 12 months. One or two additional rate hikes by the Fed could be labeled an "adjustment" and might keep stocks moving higher, while three or four additional rate hikes could create a more challenging investing environment.

Global Tactical Strategies

Asset Allocation Shifts

As of September 2026



Asset Class	Symbol	Prior Month	Current Month	Change	Prior Month	Current Month	Change	Prior Month	Current Month	Change	Prior Month	Current Month	Change
S&P 500	IVV	9	**5**	-4	11	**8**	-3	23	**18**	-5	25	**19**	-6
S&P 400	IJH	3	**3**	0	4	**4**	0	4	**4**	0	7	**7**	0
S&P 600	IJR	0	**0**	0	4	**4**	0	5	**5**	0	5	**5**	0
S&P Quality	SPHQ	0	**2**	2	0	**2**	2	0	**4**	4	0	**4**	4
MSCI IEFA	IEFA	2	**0**	-2	2	**0**	-2	6	**6**	0	12	**12**	0
US Healthcare	XLV	5	**5**	0	6	**6**	0	6	**6**	0	8	**8**	0
Nasdaq 100	QQQ	0	**0**	0	0	**0**	0	2	**2**	0	2	**2**	0
S&P Aerospace & Defense	XAR	3	**5**	2	4	**6**	2	7	**8**	1	7	**8**	1
Financial Select Sector	XLF	2	**2**	0	4	**4**	0	5	**4**	-1	7	**6**	-1
U.S. Infrastructure Dev.	PAVE	2	**4**	2	2	**4**	2	3	**4**	1	4	**6**	2
TOTAL EQUITIES		26	**26**	0	37	**38**	1	61	**61**	0	77	**77**	0
Short-Term TIPS	STIP	16	**21**	5	13	**16**	3	10	**13**	3	5	**5**	0
US Aggregate Bonds	AGG	26	**26**	0	20	**20**	0	13	**10**	-3	6	**6**	0
US 1–3 Year Treasury Bonds	SHY	8	**6**	-2	5	**5**	0	0	**0**	0	0	**0**	0
Treasury Floating	TFLO	4	**9**	-2	3	**8**	-4	0	**5**	0	0	**0**	0
0–3 Month Treasury Bond	SGOV	11	**4**	0	12	**3**	0	5	**0**	0	0	**0**	0
TOTAL FIXED INCOME		65	**66**	1	53	**52**	-1	28	**28**	0	11	**11**	0
Gold	IAU	6	**6**	0	8	**8**	0	9	**9**	0	10	**10**	0
Cash	CASH	3	**2**	-1	2	**2**	0	2	**2**	0	2	**2**	0

The portfolios reflect the inherent risks of fluctuating prices and uncertainty of rates of returns. The cash portion of this portfolio is represented by money market instruments.

Macroeconomic Scenario Analysis

On a monthly basis, the Cougar Global investment team establishes the probabilities of the future path of the US economy over the next year and quantifies its independent global research into the following five scenarios:



GROWTH

4%

Last month 4%
Change 0%



INFLATION

50%

Last month 49%
Change +1% ▵



STAGNATION

19%

Last month 20%
Change -1% ▿



CHAOS

17%

Last month 17%
Change 0%



RECESSION

10%

Last month 10%
Change 0%

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Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

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Health Care Select Sector Index (the "Index"). The S&P Aerospace & Defense Select Industry® Index (XAR) represents the aerospace & defense segment of the S&P Total Stock Market IndexTM. The Financials Sector Index (XLF) seeks to provide an effective representation of the financial sector of the S&P 500 Index. The Index includes companies from the following industries: financial services; insurance; banks; capital markets; mortgage real estate investment trusts ("REITs"); and consumer finance. The Nasdaq-100 (QQQ) is a globally recognized index that tracks the performance of 100 of the largest non-financial companies listed on the Nasdaq Stock Market® encompassing a diverse range of industries and sectors. The Global X U.S. Infrastructure Development ETF (PAVE) seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Indxx U.S. Infrastructure Development Index. The iShares MSCI Emerging Markets ex China ETF (EMXC) seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities, excluding China. The iShares 0-3 Month Treasury Bond ETF (SGOV) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities less than or equal to three months. The iShares 0-5 Year TIPS Bond ETF (STIP) seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds with remaining maturities of less than five years. The iShares Core U.S. Aggregate Bond ETF (AGG) seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The SPDR® Bloomberg 1-10 Year TIPS ETF (TIPX) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Bloomberg 1-10 Year U.S Government Inflation-Linked Bond Index. The iShares 1-3 Year Treasury Bond ETF (SHY) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years. The iShares Treasury Floating Rate Bond ETF (TFLO) seeks to track the investment results of an index composed of U.S. Treasury floating rate bonds. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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