KINGSVIEW
INVESTMENT MANAGEMENT

CORE

Q3 | 2026 Commentary

The third quarter of 2026 was marked by increased market volatility driven by rising bond yields and ongoing concerns around persistent inflation. While major equity indices spent much of the quarter range-bound, confidence in large-cap U.S. equities strengthened as the quarter progressed, helping several major indices close out the quarter near all-time highs. Performance across both equities and fixed income was mixed.

The quarter reflected several competing underlying themes: stronger than expected global growth, persistent inflation, and the continued improvement in corporate earnings. In response to rising yields and persistent inflation, the Federal Reserve's first rate hike in three years also took place during the quarter. As market conditions developed, investors became increasingly reactive to changes in economic and policy expectations, especially in the bond market. Higher volatility across asset classes also created more opportunities for diversified portfolios to potentially benefit from rebalancing by holding a variety of less correlated assets. Looking ahead, markets appear positioned to build on recent momentum, particularly if the inflation picture, corporate earnings growth, or the geopolitical backdrop remain supportive.

Equity Performance

Equity markets remained responsive and resilient during the quarter as concerns surrounding higher than expected real yields arose, as these concerns in part have been offset by higher-than-expected growth and corporate earnings for some areas of the market. Performance leadership remained concentrated in large-cap companies, with momentum resurging as the cap-weighted S&P 500 once again outperformed its equal-weight counterpart. Strong momentum, improving earnings expectations and investor preference for larger, more established businesses were key drivers of this trend.

Large-cap growth was the strongest-performing equity segment during the quarter, while small-cap growth and mid-cap growth performance lagged. The return to large-cap leadership marked a continuation of the longer-term market trend, with investors favoring companies viewed as better positioned to navigate the current rising real-rate environment. Rising real yields and the potential for higher financing costs likely contributed to weaker performance among smaller, growth-oriented companies, and flat-to-weaker performance overall within the international equity space. There is some potential for international developed and emerging market equities to benefit in the current paradigm if U.S. dollar strength pauses and continued strength in technology and AI-related investment abroad continues to flow to those markets.

As market leadership thinned out during the quarter, capital generally flowed away from smaller and mid-cap growth equities and back toward large-cap and other favored ongoing momentum areas of the equity market.

Fixed Income Performance

Fixed income faced headwinds throughout the quarter as bond yields moved higher across the curve, with the largest yield increases occurring in shorter maturities. Two-year treasury yields experienced the most significant rise in absolute terms. As yields increased over the quarter and spreads remained tight, bond prices generally declined, leaving coupon income as the only remaining source of return for many fixed income investors. Overall, fixed income performance was slightly negative on a total return basis, even after accounting for any income.

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Relative performance across the fixed income space was closely tied to duration. Short-duration treasuries and short-duration corporate bonds held up relatively well, while long-duration treasuries were among the weakest performers. Although bonds have given up some recent returns after a strong period of performance last year, they continue to provide potential diversification benefits, and we believe they may continue to stabilize portfolios during periods of equity market stress.

Despite recent weakness, the outlook for fixed income remains constructive, and increasingly attractive at current yields. Credit spreads ended the quarter near multi-decade lows, reflecting continued confidence in economic fundamentals and strong demand for credit across both public and private markets. Current yields remain historically attractive near current levels, and the combination of elevated rates and rising yields bring the potential for a more favorable intermediate and long-term outlook for bonds.

Summary

The third quarter highlighted the value of diversification in an environment characterized by rising yields, persistent inflation and shifting market leadership. Large-cap equities largely drove equity market gains, while fixed income faced pressure from higher rates. Even while under a bit of pressure, diversified portfolios benefited from broader opportunities across asset classes and continued rebalancing discipline.

Within the CORE Portfolio Series, our approach remains unchanged. We strive to maintain diversified exposure across a variety of asset classes, emphasizing areas we believe offer the strongest forward-looking return opportunities within the portfolio construction process. This process also includes conditional portfolio rebalancing into assets that may be temporarily out of favor rather than concentrating solely in recent top performers. Over time, we believe this disciplined approach may position portfolios to potentially benefit from changing market leadership and mean reversion across asset classes.

We at Kingsview Investment Management appreciate your continued support of the CORE Portfolio Series. Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.

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