

3rd Quarter 2026 Market Review

The 3rd quarter presented a striking divergence across global financial markets. While headline equity indices managed to post modest gains, the internal mechanics revealed an aggressive tug-of-war between durable

mega-cap technology momentum and severe macroeconomic pressures stemming from energy shocks and a sharp bond market sell-off.

Large-cap benchmark indices masked widespread underlying weakness.

The S&P 500 rose 2.0% and the NASDAQ Composite added 2.5%, anchored by resilience in the largest market-cap names. **Microsoft**, **Meta**, **Apple**, and **Nvidia** each posted double-digit gains for the quarter.

Leadership within technology underwent a notable rotation: the

initial hardware and semiconductor infrastructure trade cooled under supply and valuation concerns, while enterprise software staged a powerful rebound. Countering previous fears of an AI-induced “SaaS-pocalypse,” software providers rallied as steady corporate demand and recurring cash flows reinforced balance-sheet confidence.

Beyond mega-cap technology, market breadth deteriorated significantly. The equal-weighted S&P 500 dropped 2.3%, ending a five-quarter winning streak, while the Dow Jones Industrial Average slid 2.7% (down 1,413 points). Smaller-cap equities bore the brunt of tightening financial conditions, with the Russell 2000 falling 7.5% and small-cap growth funds sliding roughly 10%. High-borrowing-cost exposure and sensitivity to slowing consumer demand left small-cap balance sheets particularly vulnerable. Outside the tech complex, only energy and healthcare held firm—the former buoyed by commodity spikes and the latter by stable defensive earnings.

The catalyst for this divergence sat squarely in the fixed-income and commodities areas. Escalating geopolitical conflict in the Middle East drove Brent crude futures up 42% past \$103 per barrel. Persistently high oil

2026	Q1	Q2	Q3	Year-to-Date
Dow Jones Industrial Index	(3.6)%	12.9 %	(2.7)%	5.9 %
Nasdaq Composite Index	(7.1)%	21.4 %	2.5 %	15.6 %
S&P 500 Index	(4.6)%	14.9 %	2.0 %	11.8 %
Russell 2000 Index	0.6 %	21.2 %	(7.5)%	12.7 %
Shares Core US Aggregate Bond ETF	0.0 %	0.7 %	(3.5)%	(2.3)%
Brent Crude Oil	94.5 %	(38.4)%	42.0 %	70.1 %

Price Return, As of 9/30/26

S&P 500 Sectors	S&P Weight	Q1	Q2	Q3	Year-to-Date
S&P 500 Index	100.0 %	(4.6)%	14.9 %	2.0 %	11.8 %
Technology	32.9 %	(7.7)%	43.3 %	2.7 %	36.0 %
Financials	12.6 %	(9.8)%	8.6 %	(0.4)%	(2.5)%
Communication Services	10.3 %	(5.8)%	(3.4)%	3.6 %	(5.7)%
Consumer Discretionary	9.9 %	(8.8)%	7.6 %	(7.2)%	(8.9)%
Health Care	9.5 %	(5.3)%	8.2 %	6.2 %	8.8 %
Industrials	9.0 %	4.3 %	14.5 %	(9.9)%	7.6 %
Staples	5.3 %	5.5 %	1.4 %	(3.0)%	3.8 %
Energy	4.0 %	37.0 %	(13.3)%	15.8 %	37.6 %
Utilities	2.5 %	7.5 %	(1.2)%	(13.0)%	(7.6)%
Materials	2.1 %	10.2 %	1.7 %	(4.2)%	7.4 %
Real Estate	2.0 %	1.2 %	7.8 %	(7.1)%	1.4 %

Price Return, As of 9/30/26

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prices compounded sticky inflation data, prompting the Federal Reserve to deliver a 25-basis-point rate hike into a 3.75%–4.00% target range.

In response, Treasury yields posted their sharpest quarterly surge in decades. The 10-year Treasury yield advanced roughly 90 basis points, touching a multi-decade peak above 5.2%. Bond indices broadly finished deep in the red as investors reassessed the cost of capital.

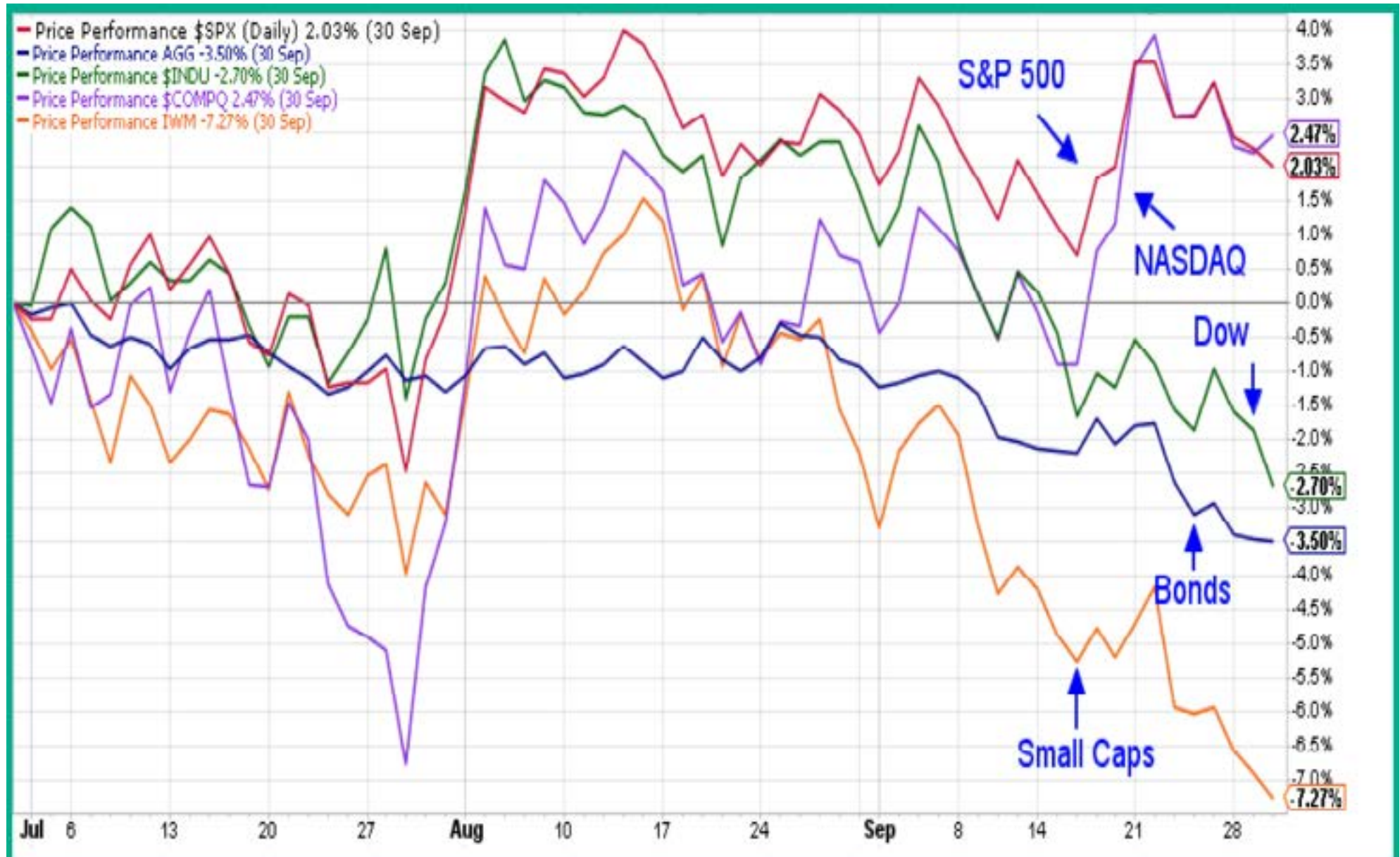
10-Year Treasury Yields year-to-date



Large Caps Led the Pack Among US Equity Funds in Q3



Q3 2026 Price Performance for Major Indexes



2026 4th Quarter Market Outlook

As we head into the final quarter of this complex year, U.S. investors face a barrage of headwinds: political drama in Washington, oil shocks from a Middle East conflict - which includes the U.S., and the upcoming mid-term elections—which could reshape policy until at least 2028.

Amid this uncertainty, the investing environment has been relatively modest. The S&P 500 is up just under 12% year-to-date, a far cry from the robust 16%, 23%, and 24% returns of recent years. Adding to the tension, AI hyperscalers are taking on dramatic amounts of debt, interest rates have reached 20-year highs, and private AI companies are eyeing public debuts at astronomical, potentially trillion-dollar valuations. Given this noise and turmoil, a long-term observer might expect a much more volatile, downward-trending market. However, impressive and growing corporate earnings—the primary driver of equity prices—have kept the market resilient. The average year-over-year earnings growth for S&P 500 companies is tracking near 30%, which is remarkable by any measure.

I still believe that once the immediate noise dissipates, the market will respond positively. We are less than two weeks away from the mid-term elections, which will soon resolve that piece of the puzzle. The conflict with Iran will undoubtedly take longer, but once it is resolved, an untethered market should react favorably. For many reasons, I hope for a swift resolution to the conflict—and once we finally get there, our market should be an excellent place to be invested.

Those are my thoughts. Read on for a more detailed discussion of BlackRock's views on the market, as well as the latest re-positioning made to their models that KMR follows.

As I always say—Stay Tuned!!!

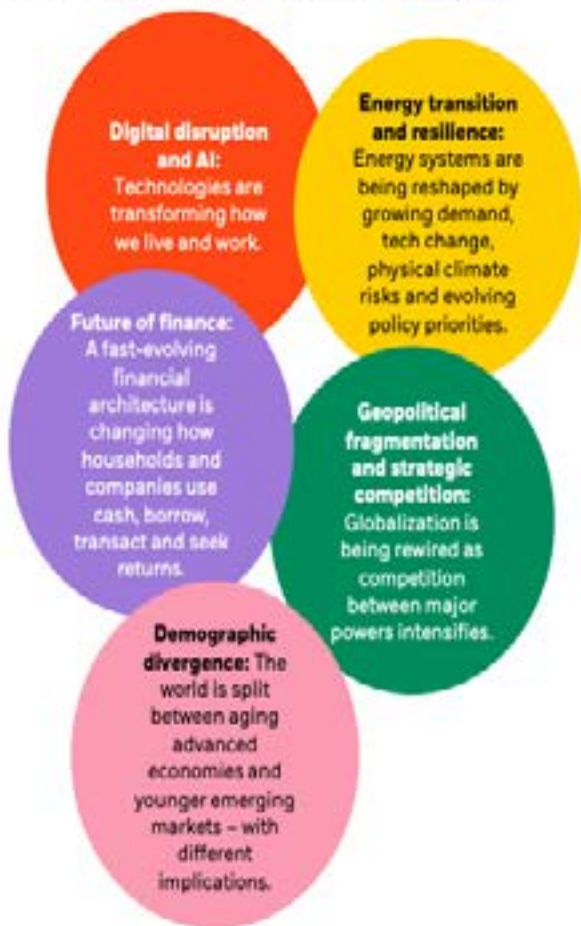
Frank Brannon, CFP®
October 22, 2026

Market Outlook from Blackrock

Blackrock, the world's largest money manager, is the firm KMR uses to design its model portfolios. Below is their key investment views from their 2026 Global Outlook Q4 Update (Scarcity vs. abundance):

From drivers to portfolio expressions

Our highest conviction views, October 2026



Driver	What we think	Portfolio expression
Growth and AI scarcity	AI fundamentals are strong, but we eye near-term volatility.	Neutral U.S. equities and overweight EM equities; favor AI- and tech-related opportunities.
Duration and diversification	Higher starting yields improve prospective returns and income.	Overweight short-term U.S. Treasuries for solid income and a cushion against higher rates; neutral long-term Treasuries.
Credit spreads and liquidity	Selectivity is crucial amid tight spreads and uneven fundamentals.	Credit with clear cash flows, lender protections and recovery value; higher-rated high yield.
Inflation and scarcity	Scarcity, secure supply and power demand carry inflation risks.	Infrastructure, energy bottlenecks, EM local debt and real-asset-linked exposures.
Alpha opportunity	Macro outcomes matter again in the new regime.	Macro hedge funds, venture capital, market-neutral strategies, and selected private credit and non-U.S. alpha.

Latest Model Portfolio - Target Allocation ETF Models

Most applicable for retirement portfolios

Blackrock's commentary on their changes made to their models on 9/22/2026:

Key Takeaways:

- **Maintain our 1% equity overweight and highest-conviction directional views**, but with tempered magnitude, harvesting gains across this year's winners and reining in risk concentrations
- **Reshape the mix of thematic tilts**, exiting standalone momentum, trimming core AI and global defense, and adding to actively managed US large caps benefiting from AI adoption
- **Reset regional equity positioning to neutral while placing greater emphasis on our in-house country rotation strategy** giving us a more targeted way to exploit opportunities as dispersion widens and market leadership shifts between portfolio re-balances
- **Keep a modest duration underweight and broaden the bond sleeve's return sources**, adding to core bonds and global sovereigns, funding from index mortgages, with selective additions to more actively managed mortgages, convertibles, and liquid alternatives in bond-heavy portfolios

Trade Rationale:

Earnings expectations have risen faster than share prices this year, compressing valuation multiples even as markets flirt with record highs. We believe that leaves the rally better supported by fundamentals. The Fed is harder to read, with less guidance and an inflation picture complicated by volatile energy costs. But we believe the strength of the earnings backdrop gives equities room to absorb one or more rate hikes. The pace and total magnitude of policy rate adjustments are what matters, with big moves having the potential to unsettle investor nerves and valuations well before they materially affect economic activity. In our view, that tension supports staying invested while being more disciplined about position sizes.

The market rally has pushed several of our strongest performing positions to larger weights, increasing concentration in exposures that have already delivered meaningful gains. At the same time, sharp summer rotations and reversals have raised the amount of risk carried by some of those positions, particularly momentum-oriented exposures. Upcoming index reconstitutions could further alter the underlying mix of companies and themes we own. We are therefore harvesting gains, exiting standalone momentum, and trimming select thematic positions to aim to bring portfolio risk and concentration back in line with their intended roles. Our bull thesis on AI increasingly centers on the economics of adoption. Businesses that turn the technology into stronger margins and competitive advantages have good reason to keep investing, reinforcing demand for the infrastructure behind it. The opportunity spans suppliers and users, with considerable variation in who ultimately captures the profits. That favors a selective approach as adoption spreads across the economy. Defense stocks retain a separate, durable growth case as governments confront broader security needs and commit to modernizing their capabilities.

Recent earnings reporting and analyst estimate revisions have made the regional picture less one-sided. Relative signal improvements overseas have narrowed the advantages that supported our US tilt, even as US firms continue to deliver strong results. At the same time, widening dispersion in cross-country financial results and stock returns has created more opportunities within every region. Expanding our country rotation strategy lets us pursue those opportunities with greater precision and react more quickly to relevant shifts in company fundamentals, macroeconomic conditions, and sentiment, rather than relying on broad regional bets until the next portfolio rebalance.

A conflict-ridden geopolitical backdrop, an unending game of whack-a-mole inflation irritants, and perhaps the trickiest set of Fed tea leaves to read in a generation produces significant headwinds for bonds. Rather than rely on duration or headline income alone as downside buffers, we are continuing to broaden the bond sleeve toward strategies that source returns from different drivers. Selective active exposures in bonds and alternatives can add diversification rather than layering into more of the equity risks we already own, particularly in bond-heavy portfolios.

For the moment, we could be called bashful bulls, but don't call us bearish. We remain invested in what we believe are some of the most powerful forces driving this cycle and continue to let our convictions guide what we own, just with a tighter grip on the risks around them.

Target Allocation ETF Models - Latest Allocations as of 9/22/2026

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
US Equities		-	10.0	15.5	22.0	28.5	35.0	42.0	49.0	55.5	62.5	67.5
BLCR	iShares Large Cap Core Active ETF	-	-	1.0	2.0	2.0	2.5	4.0	4.5	4.5	5.0	5.0
DYNF	iShares U.S. Equity Factor Rotation Active ETF	-	2.0	2.0	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.0
IVE	iShares S&P 500 Value ETF	-	-	1.5	2.5	3.0	4.5	6.5	6.5	7.5	8.5	9.0
IVV	iShares Core S&P 500 ETF	-	6.5	8.5	10.0	13.0	15.5	16.0	20.5	23.5	26.5	29.5
IVW	iShares S&P 500 Growth ETF	-	1.5	2.5	4.0	4.5	5.5	7.0	8.0	9.0	10.0	11.0
THRD	iShares U.S. Thematic Rotation Active ETF	-	-	-	-	1.5	1.5	2.0	2.0	2.5	3.0	3.0
International/Global Equities		-	1.0	4.5	7.5	9.5	12.0	14.5	17.0	19.0	21.5	23.5
ACWX	iShares MSCI ACWI ex U.S. ETF	-	-	2.0	2.0	2.0	3.0	3.0	4.5	4.5	4.5	5.5
CORO	iShares International Country Rotation Active ETF	-	1.0	1.5	3.0	3.0	3.5	5.0	5.0	5.5	7.0	7.0
EFG	iShares MSCI EAFE Growth ETF	-	-	1.0	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5
EFV	iShares MSCI EAFE Value ETF	-	-	-	-	1.5	1.5	2.0	2.0	2.5	3.0	3.0
IEMG	iShares Core MSCI Emerging Markets ETF	-	-	0.0	1.5	1.5	2.0	2.0	2.5	3.0	3.0	3.5
Sector Equities		-	-	1.0	1.5	3.0	4.0	4.5	5.0	6.5	7.0	7.0
BAI	iShares A.I. Innovation and Tech Active ETF	-	-	1.0	1.5	1.5	2.5	3.0	3.0	3.5	4.0	4.0
IDEF	iShares Defense Industrials and Tech Active ETF	-	-	0.0	0.0	1.5	1.5	1.5	2.0	3.0	3.0	3.0
US Fixed Income		85.5	75.5	67.0	57.0	48.5	38.5	29.0	22.0	13.0	4.0	-

Target Allocation ETF Models - Latest Allocations as of 9/22/2026 *(continued)*

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
BINC	iShares Flexible Income Active ETF	5.0	4.5	4.0	3.5	3.5	2.0	-	-	-	-	-
GOVT	iShares U.S. Treasury Bond ETF	18.0	17.0	15.0	13.0	9.5	7.0	4.0	2.0	1.5	-	-
ICVT	iShares Convertible Bond ETF	2.5	2.0	2.0	1.5	-	-	-	-	-	-	-
IUSB	iShares Core Universal USD Bond ETF	40.0	33.5	28.0	24.5	24.5	24.5	22.0	17.0	9.0	2.0	-
MBBA	iShares Mortgage-Backed Securities Active ETF	7.0	6.0	5.5	3.5	3.0	-	-	-	-	-	-
STIP	iShares 0-5 Year TIPS Bond ETF	3.0	2.5	2.5	1.5	1.5	-	-	-	-	-	-
SYSB	iShares Systematic Bond ETF	5.0	5.0	5.0	4.5	2.0	1.5	-	-	-	-	-
TLH	iShares 10-20 Year Treasury Bond ETF	5.0	5.0	5.0	5.0	4.5	3.5	3.0	3.0	2.5	2.0	-
International/Global Fixed Income		6.0	5.5	4.5	4.5	4.0	4.0	4.0	1.5	1.0	1.0	-
GGOV	iShares Global Government Bond USD Hedged Active ETF	6.0	5.5	4.5	4.5	4.0	4.0	4.0	1.5	1.0	1.0	-
Alternatives		6.5	6.0	5.5	5.5	4.5	4.5	4.0	3.5	3.0	2.0	-
IALT	iShares Systematic Alternatives Active ETF	5.5	5.0	4.5	4.5	3.5	3.5	3.0	2.5	2.0	1.0	-
IAU	iShares Gold Trust	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-
Cash & Cash Alternatives		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CASH-USD	UNITED STATES DOLLAR (USD) - Cash	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Allocations for the model portfolios are targets and subject to change. If a ratio is used in the model name, the ratio corresponds to the target percentage of equity and fixed income exposure within the model. For example, "60/40" means the model targets 60% in equity exposure and 40% in fixed income exposure. The target fixed income exposure may include an allocation to cash.

Latest Model Portfolio - Target Allocation Tax-Aware ETF Models

Most applicable for
taxable portfolios

Blackrock's commentary on their changes made to their models on 9/22/2026:

Key Takeaways:

- **Trim equity overweight from 3% to 2%**, staying tilted toward stocks over bonds and leaning into high conviction positions while reducing broad market risk
- **Increase precision in international positioning**, introducing an actively managed country rotation strategy to better target opportunities in cross-country markets
- **Maintain our preference for shorter duration**, aligning our positioning to the changing tone from the Fed
- **Add convertible bonds within the bond-heavy risk profiles**, adding potentially unique return streams while credit risk and duration are relatively unattractive

Trade Rationale:

Earnings expectations have risen faster than share prices this year, compressing valuation multiples even as markets flirt with record highs. That leaves the rally better supported by fundamentals. The Fed is harder to read, with less guidance and an inflation picture complicated by volatile energy costs. But we believe the strength of the earnings backdrop gives equities room to absorb one or more rate hikes. The pace and total magnitude of policy rate adjustments are what matters, with big moves having the potential to unsettle investor nerves and valuations well before they materially affect economic activity.

Prudent portfolio management means knowing when to manage risks. Amidst a blistering AI investment boom, resilient economic growth, and eye-watering earnings, we are also taking measures to navigate monetary policy uncertainty, the growing fog around midterm elections, and the volatility that comes with a high momentum market. While we consider the balance of opportunities vs risks attractive, we are taking disciplined moves to fine tune our positioning while reaffirming what is working in the portfolio.

We are slightly notching down our broad equity overweight in acknowledgment that many of our greatest performers are also higher beta plays. At the same time, we are focused on trimming around the edges for a more refined positioning in the second half. This refinement includes introducing an actively managed country rotation strategy in equities in an effort to complement the blunter regional positions already in portfolios. We are also adding to an equities strategy that focuses on AI beneficiaries outside of tech, offering us exposure to a dominant theme with an added layer of potential diversification. In fixed income, we are taking an underweight stance on duration, trimming the long end of the curve amidst sharp swings in longer-term yields and a lack of clarity from the Fed.

Target Allocation Tax-Aware ETF Models - Latest Allocations as of 9/22/2026

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
US Equities		-	10.0	15.5	22.0	30.0	36.0	43.0	49.0	56.5	62.5	66.5
BLCR	iShares Large Cap Core Active ETF	-	-	-	1.5	2.0	2.5	3.5	3.5	4.0	4.5	5.0
DYNF	iShares U.S. Equity Factor Rotation Active ETF	-	2.5	3.5	4.5	6.0	6.5	7.5	9.0	10.5	12.0	12.0
IVE	iShares S&P 500 Value ETF	-	-	-	1.5	1.5	2.0	2.0	3.0	4.0	4.5	5.0
IVV	iShares Core S&P 500 ETF	-	5.0	7.5	8.0	12.5	15.5	20.0	20.5	22.5	25.0	27.5
IWV	iShares S&P 500 Growth ETF	-	1.0	2.0	3.0	3.5	4.5	4.5	6.0	7.0	7.5	7.5
QUAL	iShares MSCI USA Quality Factor ETF	-	1.5	1.5	2.0	2.5	2.5	2.5	3.5	4.5	4.5	4.5
THRO	iShares U.S. Thematic Rotation Active ETF	-	-	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
International/Global Equities		-	1.0	4.5	8.0	10.5	13.0	15.5	18.5	20.5	23.5	25.0
CORO	iShares International Country Rotation Active ETF	-	1.0	2.0	2.5	3.0	4.5	5.0	5.0	6.0	7.0	7.0
EFG	iShares MSCI EAFE Growth ETF	-	-	1.0	2.0	3.0	3.0	4.0	5.0	5.5	6.0	6.5
EFV	iShares MSCI EAFE Value ETF	-	0.0	0.0	1.5	2.0	2.5	3.0	4.0	4.0	5.0	5.5
IEMG	iShares Core MSCI Emerging Markets ETF	-	0.0	1.5	2.0	2.5	3.0	3.5	4.5	5.0	5.5	6.0
Sector Equities		-	-	1.0	1.0	1.5	3.0	3.5	4.5	5.0	6.0	6.5
BAI	iShares A.I. Innovation and Tech Active ETF	-	-	1.0	1.0	1.5	2.0	2.5	2.5	3.0	3.5	3.5
ITA	iShares U.S. Aerospace & Defense ETF	-	-	-	-	-	1.0	1.0	2.0	2.0	2.5	3.0
US Fixed Income		97.0	86.0	76.0	66.0	55.0	45.0	35.0	25.0	15.0	6.0	-

Target Allocation Tax-Aware ETF Models - Latest Allocations as of 9/22/2026 (continued)

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
ICVT	iShares Convertible Bond ETF	2.0	1.5	1.5	1.0	-	-	-	-	-	-	-
LMUB	iShares Long-Term National Muni Bd ETF	15.0	15.0	14.0	12.0	10.0	10.0	8.0	7.0	6.0	1.0	-
MUB	iShares National Muni Bond ETF	75.0	65.5	57.0	51.0	44.0	34.0	27.0	18.0	9.0	5.0	-
STIP	iShares 0-5 Year TIPS Bond ETF	5.0	4.0	3.5	2.0	1.0	1.0	-	-	-	-	-
Alternatives		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-	-
IAU	iShares Gold Trust	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-	-
Cash & Cash Alternatives		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CASH-USD	UNITED STATES DOLLAR (USD) - Cash	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
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About KMR Financial Advisory, Inc.

KMR Financial Advisory is an independent, fee-only registered investment advisor specializing in the development of comprehensive financial plans and developing & managing investment portfolios.



Frank R. Brannon, CFP®, is the president of KMR Financial Advisory, Inc. Frank's educational background includes:

- The Lovett School
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Frank is a Certified Financial Planner™ professional and achieved his license in 1996. Frank has worked most of his career in corporate financial planning for a Fortune 200 company. He has lived his entire life in Atlanta.

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