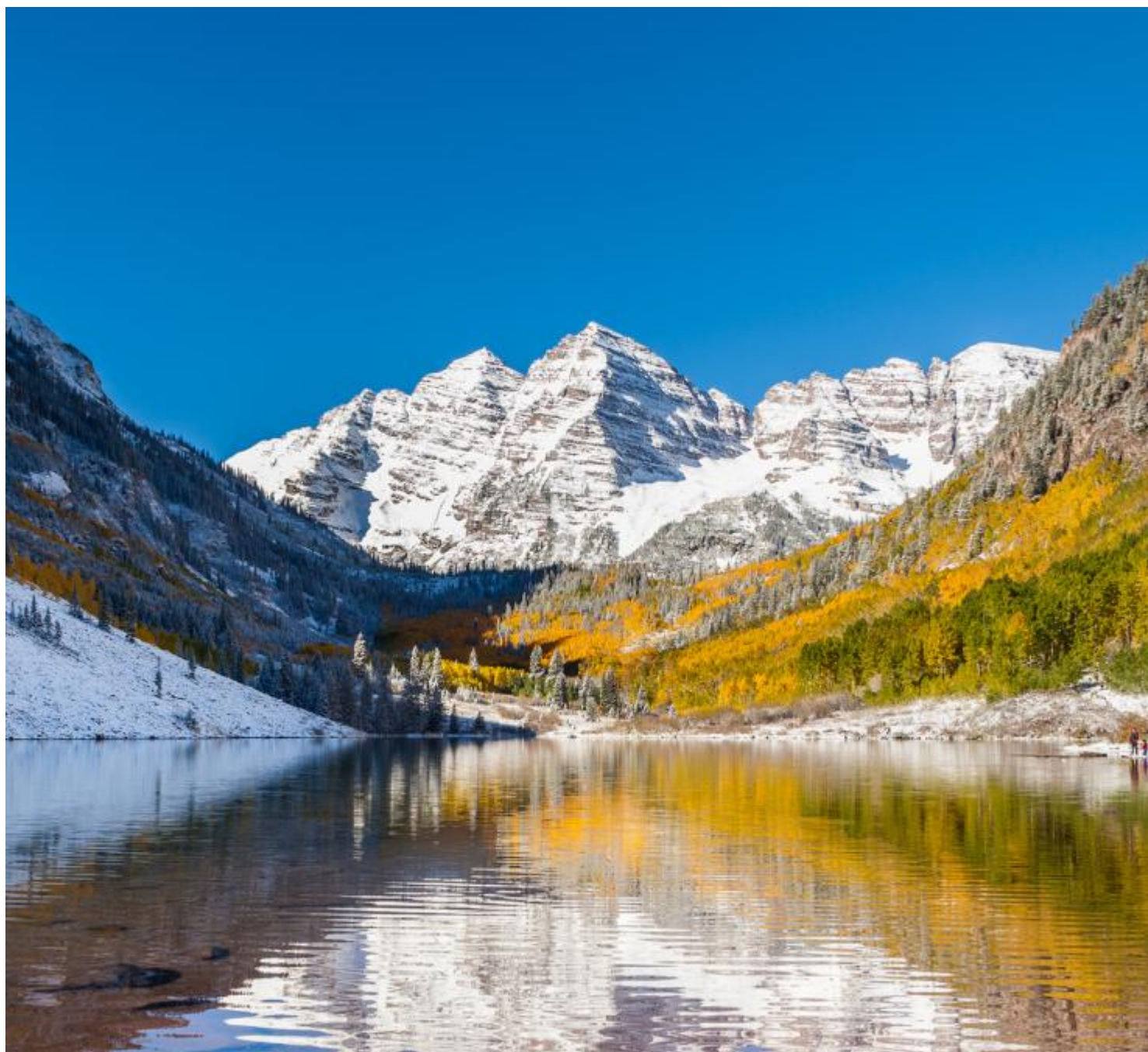




**BlackDiamond
Financial**

INVESTMENT INSIGHTS

THIRD QUARTER 2026





The S&P 500 gained 2.3% in the third quarter, bringing its year-to-date return to 12.7%. Large U.S. companies continued to rise even as interest rates moved higher. Bonds, real estate, and small-cap stocks all declined.

The war in the Middle East kept oil prices high and added to inflation. Oil affects far more than the price of gasoline. It also raises the cost of producing and moving goods throughout the economy. Consumer prices rose 3.4% in the 12 months through August, while gasoline prices rose 27.4%. Inflation has fallen from the 4.2% we reported last quarter, but it remains above the Federal Reserve's 2.0% target.

In September, the Fed raised short-term interest rates by 0.25%, its first increase since 2023. Sixteen of eighteen Fed officials expect rates to rise again before year-end.

Corporate earnings remained strong. Analysts raised third-quarter S&P 500 earnings estimates during both July and August, which is unusual. Over the past 20 years, analysts have typically lowered estimates during this part of the quarter.

Artificial intelligence remained an important part of the market story. AI-related stocks fell sharply in July as investors questioned whether the enormous sums being spent on AI infrastructure would earn adequate returns. They later recovered, and the Nasdaq reached a record high in September. The question has not changed: will the profits justify the spending?

Higher rates hurt other parts of the market. U.S. bonds lost 3.5% for the quarter, real estate fell 5.9%, and small-cap stocks declined 7.2%. Existing bonds become less valuable when new bonds pay higher rates. Smaller companies and real estate also tend to rely more heavily on borrowed money.

Results also varied widely within the S&P 500. Energy stocks gained 16.3% as oil prices remained elevated, while utilities fell 12.4% as interest rates rose. Seven of the eleven S&P 500 sectors lost value.

That is why we do not try to guess what will lead next. We stay broadly diversified, keep costs low, and give compounding time to work.

Comparative Returns

	Annualized Performance					
	Q3 2026	YTD	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks¹	2.3%	12.7%	15.7%	22.9%	13.8%	15.3%
Small Cap U.S. Stocks²	-7.2%	13.7%	16.2%	17.7%	6.3%	9.8%
International Stocks³	0.6%	14.7%	20.5%	21.2%	10.1%	9.8%
Real Estate⁴	-5.9%	3.7%	1.3%	10.0%	1.7%	5.1%
U.S. Bonds⁵	-3.5%	-2.9%	-1.8%	4.1%	-0.6%	1.1%

(1) S&P 500 TR index (2) Russell 2000 TR index (3) MSCI ACWI ex-U.S. TR index (4) Dow Jones US Real Estate TR index (5) Bloomberg U.S. Aggregate Bond TR index

BOND YIELDS HIT 24-YEAR HIGH

What Rising Rates Mean for Bond Investors

The 10-year Treasury yield rose above 5% in September for the first time since 2007.

Several forces pushed yields higher. Inflation was 3.4% in August, still above the Fed's 2.0% target. Economic growth remained strong, helped by heavy investment in AI infrastructure. Investors increasingly expected interest rates to remain higher for longer. In September, the Federal Reserve raised rates by 0.25%.

Demand for capital also increased. The Treasury estimated it would borrow \$739 billion in the third quarter, \$68 billion more than projected in May. At the same time, companies are spending heavily to build AI infrastructure. More borrowers competing for the same capital can push yields higher.

For investors, higher yields cut both ways. They are good news for savers and new bond buyers because bonds now offer more income. But for investors who already own bonds, rising yields cause the market value of those bonds to fall. That can be surprising because bonds are generally held to provide stability.

The reason is straightforward. For a fixed-rate bond, the interest payment is set when it is issued. If newly issued bonds begin paying more, an older bond paying less becomes less attractive. Its price must fall so that a new buyer can earn a return competitive with bonds being issued at today's higher rates.

The reverse is also true. When market yields fall, older bonds paying higher rates become more valuable and their prices rise. Bond prices and yields move in opposite directions.

The 10-Year Treasury Yield Has Risen Above 5%

Up from 4.2% a year ago to 5.3%



Source: U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates from 9/30/2025 to 9/30/2026. Past performance does not guarantee future results.

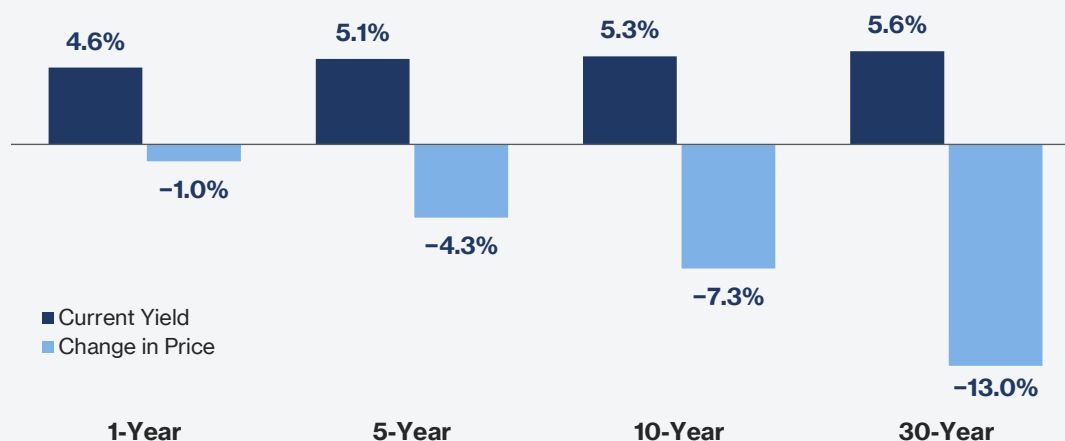
Why Maturity Matters

The longer a bond has until maturity, the more its price generally moves when rates change. Short-term bonds mature sooner and can be reinvested at new market rates. Long-term bonds may be locked into their existing rates for decades. This sensitivity is called duration.

Today's market makes the tradeoff clear. A 10-year Treasury yields 5.3%. A 30-year yields 5.6%, only 0.3% more. Yet if rates rose another 1%, we estimate the 10-year Treasury would fall about 7.3% in price and the 30-year about 13.0%.

A Little More Yield, Much More Price Risk

Current Treasury yields and estimated price change if rates rise another 1%



Source: Yields from U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates, 9/30/2026. Price change estimates an immediate 1 percentage point rise in rates for a bond priced at par with semiannual interest. Hypothetical, for illustration only; actual results will vary.

Higher Yields Help Over Time

Rising yields hurt existing bond prices, but they also create a benefit: new bonds pay more interest. As shorter-term bonds mature, the proceeds can be reinvested at higher yields. Over time, that additional income can help offset the initial decline in value.

For an individual Treasury held to maturity, a decline in market price does not change the principal due at maturity. A bond fund has no single maturity date. Its bonds pay interest, mature, and are replaced. As yields rise, those new investments earn more.

How We Think About Bond Maturities

We do not try to predict where interest rates will go next. Even professional forecasters have struggled to do so consistently.¹ A portfolio should not depend on getting that forecast right. Instead, we spread bond investments across maturities. Shorter-term bonds limit price volatility and can be reinvested quickly. Intermediate bonds allow us to lock in today's higher yields for longer. Bonds should provide income, liquidity, diversification, and stability. They should not become a bet on interest rates.

(1) Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters. From 1993-2023, one-year-ahead forecasts of the 10-year Treasury yield had an average absolute error of about 0.9 percentage point and were less accurate than simply assuming the yield would remain unchanged.



ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment adviser with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax-efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, return optimized, and tax-efficient. Where appropriate, we incorporate institutional quality private investments to capture illiquidity premiums or yield opportunities. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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