

2026

Q4

INVESTMENT OUTLOOK



Bank Anywhere, Anytime.

ALBANY

132 State St., Albany
65 Wolf Rd., Albany
581 Loudon Rd., Latham
1365 New Scotland Rd., Slingerlands

BRADFORD

5 W. Main St., Canton
159 Canton St., Troy

BROOME

127 Court St., Binghamton
100 Rano Blvd., Vestal

CAYUGA

110 Genesee St., Auburn
185 Grant Ave., Auburn

CHEMUNG

One Chemung Canal Plaza, Elmira
628 W. Church St., Elmira
100 W. McCann's Blvd., Elmira Heights
29 Arnot Rd., Horseheads
602 S. Main St., Horseheads
951 Pennsylvania Ave., Southport

CORTLAND

1094 Highway 222, Cortland

ERIE

5529 Main Street, Williamsville

SARATOGA

25 Park Ave., Clifton Park
3057 Route 50, Saratoga Springs

SCHENECTADY

2 Rush St., Schenectady

SCHUYLER

303 W. Main St., Montour Falls
318 N. Franklin St., Watkins Glen

SENECA

54 Fall St., Seneca Falls

STEBEN

201 Bath Plaza, Bath
149 W. Market St., Corning

TIOGA

203 Main St., Owego
405 Chemung St., Waverly

TOMPKINS

909 Hanshaw Rd., Ithaca
304 Elmira Rd., Ithaca

2026 Fourth Quarter
Investment Outlook

Executive Summary

- The U.S. economy continues to remain on solid footing. Labor market data has proven to be resilient, with the unemployment rate ending the quarter at 4.2%.
- The unemployment rate is sometimes criticized because it excludes a number of individuals from its calculation. Even when using a broader definition of unemployment, the U-6 rate, the unemployment rate is around 7.6%. This is well below the long-term average rate of approximately 10%.
- As has been the case for a number of months, the pace of inflation has continued to exceed the Federal Reserve's target. Based on the latest report, core PCE inflation has increased by 3.0% over the previous 12-month period. While there has been marginal improvement, this is still not a level that policymakers believe is appropriate.
- Given the healthy employment data and stubborn inflation, the Federal Reserve raised their policy rate by 0.25% in an attempt to cool demand and lower inflation. This was the first upward rate adjustment since the middle of 2023.
- In an unusual move that followed long-term yields rising, it appears that the U.S. Treasury Department may have used their quarterly buyback program in an attempt to put downward pressure on interest rates.
- Domestic large-cap equity indices generally finished the quarter with positive results, despite periods of volatility. The S&P 500 gained 2.3%, while the S&P 500 Equal Weight Index declined by about 2.0%. The Nasdaq 100 Index, dominated by technology stocks, experienced a correction during the quarter, declining by 10%, but ended up recovering to end with a positive 0.5% return.
- Fixed income indices sharply declined in the face of rising interest rates. The Bloomberg U.S. Aggregate Bond Index declined by 3.5% over the three-month period. Long-term U.S. Treasury Bonds fared worse, given their higher interest rate sensitivity and fell by almost 9%.
- Stock market valuations continue to decline due to impressive earnings growth. While a significant portion of the earnings momentum has been concentrated within companies that have AI exposure, even an equal-weight index of the S&P 500 companies is expected to grow their earnings by 20% this year.
- Although numerous headwinds continue to exist, no concrete data exists that would indicate a near-term change in the economic or market cycle. Turbulence should always be expected in financial markets, which reinforces responsible portfolio construction, but there doesn't appear to be a looming storm on the horizon at this juncture.

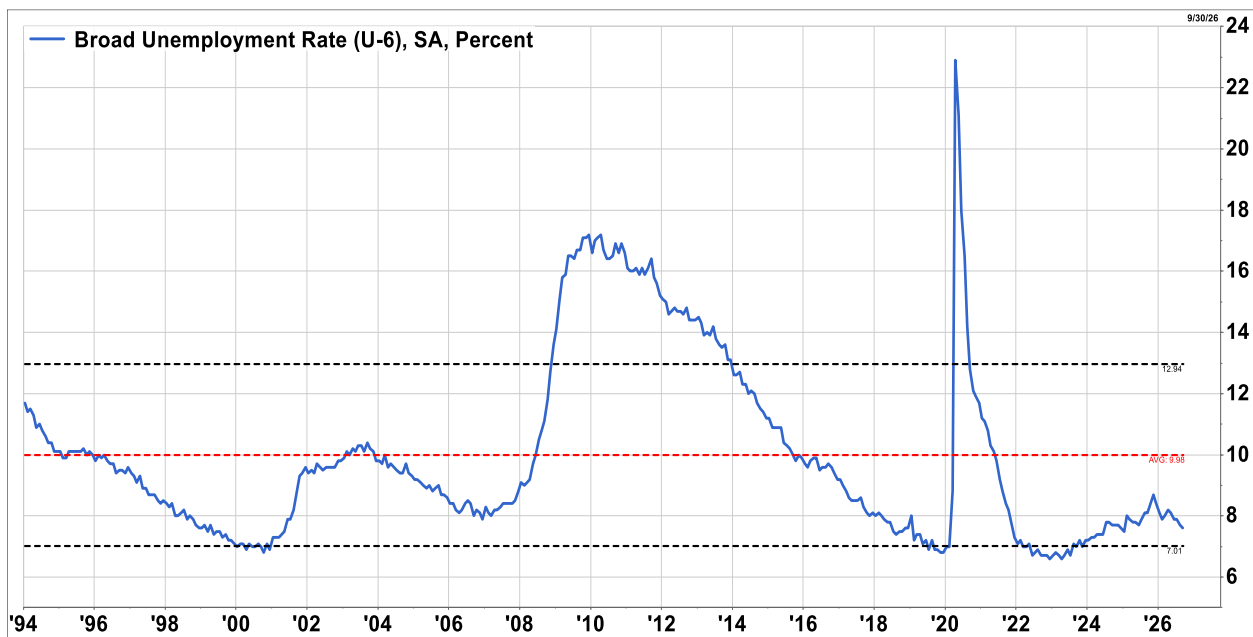
2026 Fourth Quarter
Investment Outlook

Third Quarter Economic Review

As tumultuous as the recent market and economic commentary may have seemed, it is important to not lose sight of the fact that the American economy is still performing remarkably well. As is the case in most time periods, there is no shortage of data to support either a positive or negative narrative of the economy.

The labor market remained particularly resilient during the quarter, with the latest unemployment rate hovering around 4.2%. Unemployment has trended lower since it reached a near-term peak of 4.5% in November of 2025. Over the last 30 years, the average unemployment rate for the United States is around 5.5%, so the labor market is in a reasonably strong position relative to historical norms.

Even with the encouraging downward trend, there are still a few criticisms that can be levied at the traditional unemployment rate. The calculation of this rate is often viewed as somewhat restrictive, and excludes many individuals who truly do not have a job if they fail to meet certain criteria. Discouraged workers, those who are not actively seeking a job but desire employment, are not included in the “standard” unemployment definition. The other major group that is not accounted for in the unemployment rate are those who seek full-time employment, but are only working part-time due to poor economic conditions. When the unemployment rate is adjusted for these other groups, we arrive at the broadest government measure of unemployment, officially referred to as the U-6 unemployment rate. The U-6 rate currently stands at 7.6% and is also well below the long-term average of almost 10%.



The U-6 rate is now almost one standard deviation below the long-term average, which is a statistical measure that indicates that the rate is meaningfully low. Even when the employment situation is presented in the most negative light, there are still positive signals regarding the strength of the labor market.

Coupled with the low unemployment rate, job growth has continued, albeit at a slower pace. In the last three months, the economy has added roughly 152,000 jobs in total. While nonfarm payrolls figures are notoriously volatile and sometimes inaccurate, it is still encouraging to see job growth in the economy. In tandem with the payrolls growth, continuing unemployment insurance claims have steadily declined over the past year, resulting in approximately 300,000 fewer claims. This is a welcome development as it provides additional evidence that those who were unemployed for a longer period of time are finding new jobs. There is now almost one available job per unemployed person in the United States, and this figure has been trending higher over recent months. This is a reflection of *both* slightly higher job openings, about half a million more job openings compared to the start of the year, and a lower number of unemployed individuals, also lower by about half a million since the beginning of the year.

In conjunction with the labor market, economic growth has remained resilient. The final report for the second quarter measure of real Gross Domestic Product (GDP), a measure of inflation-adjusted economic activity, came in at 2.2% growth on a year-over-year basis. This is a healthy figure for a large, developed economy. Interestingly, since the start of the century, the average GDP growth over that time has been 2.2%, so economic activity is effectively right in-line with the long-term average.

No third quarter economic review would be complete without revisiting energy-based commodity prices in response to the on-again, off-again, war in Iran. Brent Crude oil, the global oil benchmark, entered the quarter at approximately \$70 per barrel, essentially back to the pre-war price level.

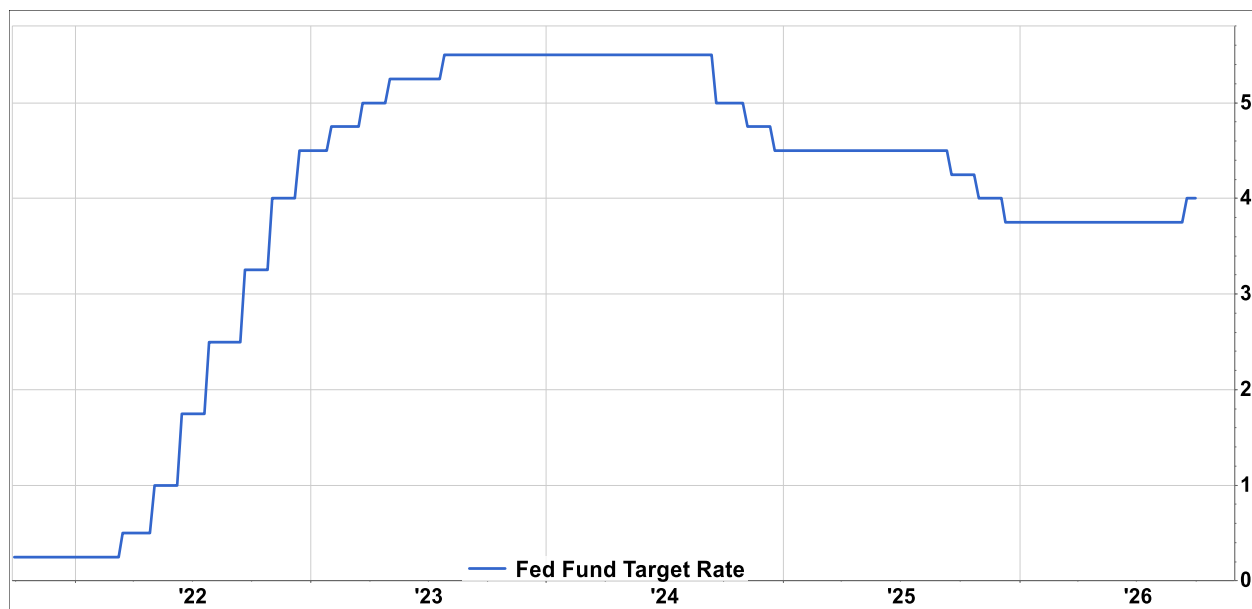


Almost immediately after entering July, the price of oil started to climb and almost reclaimed the peak prices that were experienced during April. The breakdown of diplomatic discussions and resumption of attacks fueled the resurgence in crude oil prices. A key pipeline in the Middle East, the East-West Pipeline in Saudi Arabia, was also shut down on September 11th following drone attacks on two pump stations. Based on Reuters estimates, the East-West pipeline transported roughly 4-5% of the global oil supply when operating at full capacity. While the pipeline is active again at a reduced capacity, introducing additional supply constraints in an already disrupted global energy market is certainly not helping any end consumer's budgets.

Closely related to the resurgence in energy prices, inflation continued to run at a pace well above policymakers expectations. The August headline Consumer Price Index (CPI), which includes the more volatile food and energy components, increased by 3.4% over the last twelve months. This was a slower increase than the May peak of 4.2% but is still almost 1% higher than the 30-year average rate. However, the Federal Reserve does not explicitly focus on the headline CPI inflation series when making policy decisions. Their preferred inflation gauge is the Personal Consumption Expenditures (PCE) Index. Based on the August report, core PCE, which excludes food and energy prices, rose 3.0% on an annual basis. This remains firmly above the Federal Reserve's 2% inflation target. Given the strong labor market data, and persistent inflation, the economic data presented a clear case for the Fed to raise interest rates. Their focus will likely remain squarely centered on inflation, as long as the labor market strength continues.

A New Rate Hiking Cycle?

On September 16th, the Federal Open Market Committee (FOMC) announced their unanimous decision to increase the Federal Funds Rate by 0.25%. This decision raised the policy rate range to 3.75% - 4.00%. This interest rate hike was the first rate adjustment that has been made by the Federal Reserve since Chairman Kevin Warsh was appointed earlier this year and it was the first rate hike since 2023.



Prior to the FOMC meeting, Chair Warsh had ample opportunity to set the stage for the potential impending policy decision. At the annual Jackson Hole Economic Policy Symposium, just weeks before the Fed's rate decision, Warsh spent a significant amount of time reiterating that persistently high inflation could not be tolerated. During his keynote speech, he stressed that inflation has been running above the 2% PCE inflation target for 65 consecutive months. Warsh also took time to dispel the notion that the Federal Reserve would change their inflation target level, or to adopt a different inflation index. In addition to the tough rhetoric on the inflation picture, it was also noted that the Fed's dual mandate, full employment and price stability, were not at odds with one another. This comment, in particular, suggested that the Federal Reserve was on a path towards an interest rate increase. In typical fashion, Warsh steered clear from offering any true forward guidance, but the trajectory of interest rates could certainly be inferred.

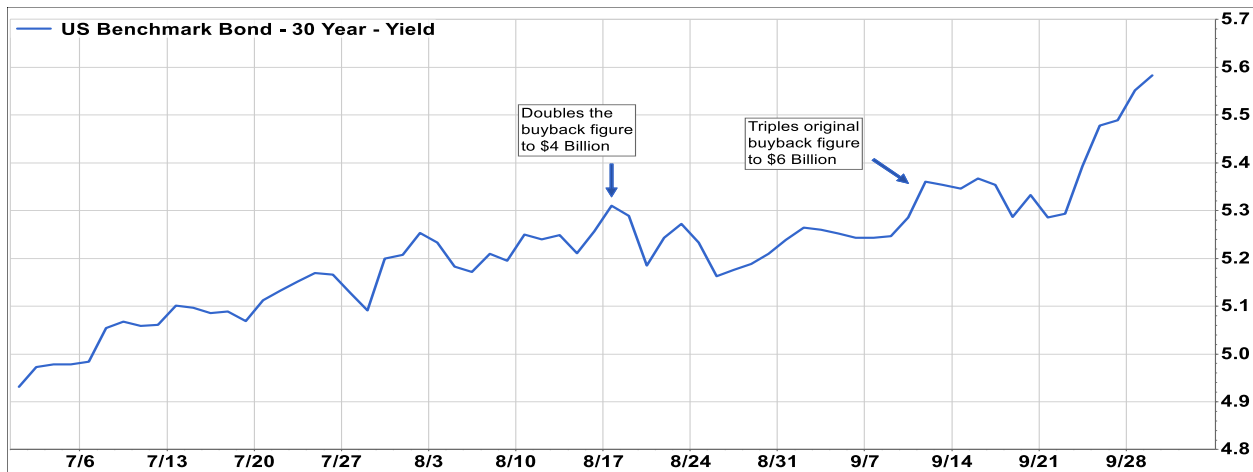
Even though this rate hike was widely expected, there was still lingering angst within the financial markets that Chairman Warsh would yield to President Trump's interest rate preferences. It is no secret that the President has been outspokenly in favor of lowering interest rates, and there were still remaining concerns that Warsh would not behave in an independent manner. Hopefully, with this decision, the fear over Warsh's objectivity will dissipate.

U.S. Treasury Department Intervention in the Bond Market

In an unusual turn of events, it appeared that the U.S. Treasury Department potentially used its quarterly buyback program in an attempt to lower interest rates in longer-dated U.S. Treasury Bonds. While there has been no definitive statement by Treasury Secretary Scott Bessent, the optics and commentary surrounding the actions suggest an attempt to control yields.

For context, the Treasury Department purchasing long-dated bonds is a normal occurrence. On a quarterly basis, the Treasury publishes a schedule that details the amount of the upcoming purchases. Historically, once a repurchase amount has been published, it has never been changed. From a broad standpoint, these operations typically serve two purposes: liquidity support and cash management. The Treasury acts as somewhat of a market-maker in the longer maturities and provides liquidity to areas of the treasury market that are less frequently traded. The cash management function of the operation serves to smooth out the Treasury's cash balances around significant tax dates or other events.

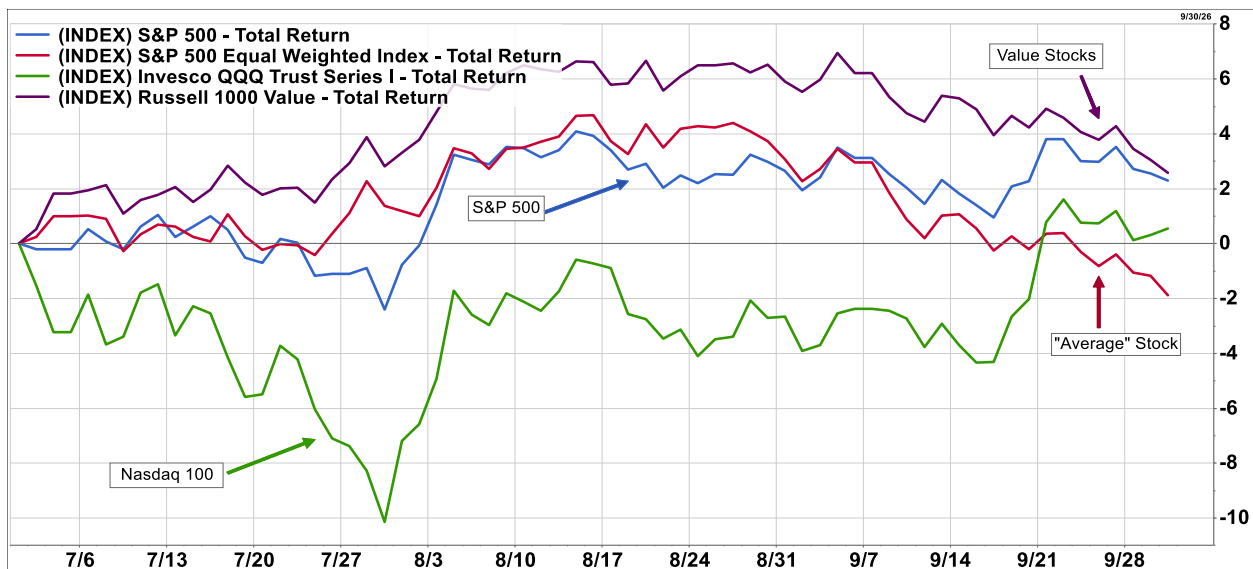
On August 19th, just two weeks after releasing the initial \$2 billion buyback schedule, Secretary Bessent announced that the Treasury Department would be doubling their planned purchases of long-dated U.S. Treasury Bonds. At the time, it was claimed that this action was specifically undertaken to support market liquidity. Leading up to this announcement, long-term yields had steadily risen. On top of the yield increase, August 19th also happened to be the day that the U.S. government debt level crossed the \$40 trillion threshold, which renewed the focus on the sustainability of deficit spending.



After a brief decline, yields reversed course and continued higher causing the Treasury to increase their buyback amount yet again to \$6 billion. During the course of these events, the Treasury Department maintained their stance that these actions were solely to support market liquidity. However, at a subsequent meeting with the House Financial Services Committee, Bessent commented that the intervention was “successful” and that yields would have been higher had the Treasury not acted. While not an outright admission of yield control measures, the language that was used raised suspicions about the Treasury’s motives.

Third Quarter Market Review

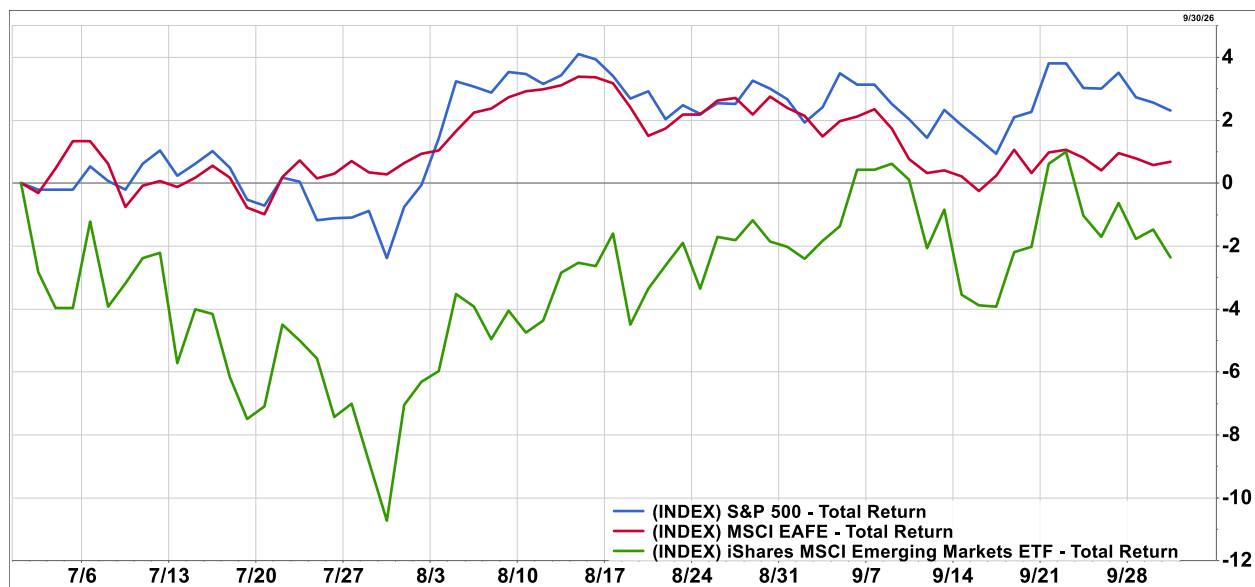
The U.S. equity market had an interesting quarter, to say the least. However, many of the major indices ended the quarter with positive results. The Nasdaq 100 Index, as is typical, experienced the most volatility. This index is primarily weighted toward technology stocks, and companies that can be characterized as having a “growth” style. This means that the Nasdaq 100 Index should typically experience higher rates of earnings growth, but these underlying companies often trade at a valuation premium. The Nasdaq 100 briefly entered into a correction, declining by more than 10%, to start the quarter.



Following the decline, the index recovered most of the losses and finished the quarter with a modest positive return. It is somewhat uncommon that growth stocks would fare so well in the face of higher interest rates. In a fashion similar to bonds, although with not nearly so direct of a relationship, growth stocks tend to falter when interest rates rise. The S&P 500 and Russell 1000 Value indices were the best performing during the quarter, with both segments generating returns in excess of 2%. The worst performing index during the quarter was the S&P 500 Equal-Weight Index. Since the “regular” S&P 500 is dominated by the mega-capitalization technology stocks, the equal-weighted version of the index serves as a proxy for how the average stock performs. The S&P 500 Equal-Weight Index posted a negative return for the quarter, declining by almost 2%. This provides evidence that the rally evident in many indices is not always reflective of how the underlying stocks are performing.

Outside the domestic large-cap space, small and mid-cap stocks fared much worse. The S&P Mid-Cap 400 Index declined by 6.4% during the quarter. The Russell 2000 Index, which measures the performance of small-cap stocks, ended the quarter 7.2% lower. Smaller companies tend to exhibit more interest rate sensitivity compared to large-cap stocks, so rising bond market yields did no favors for the prices of these companies.

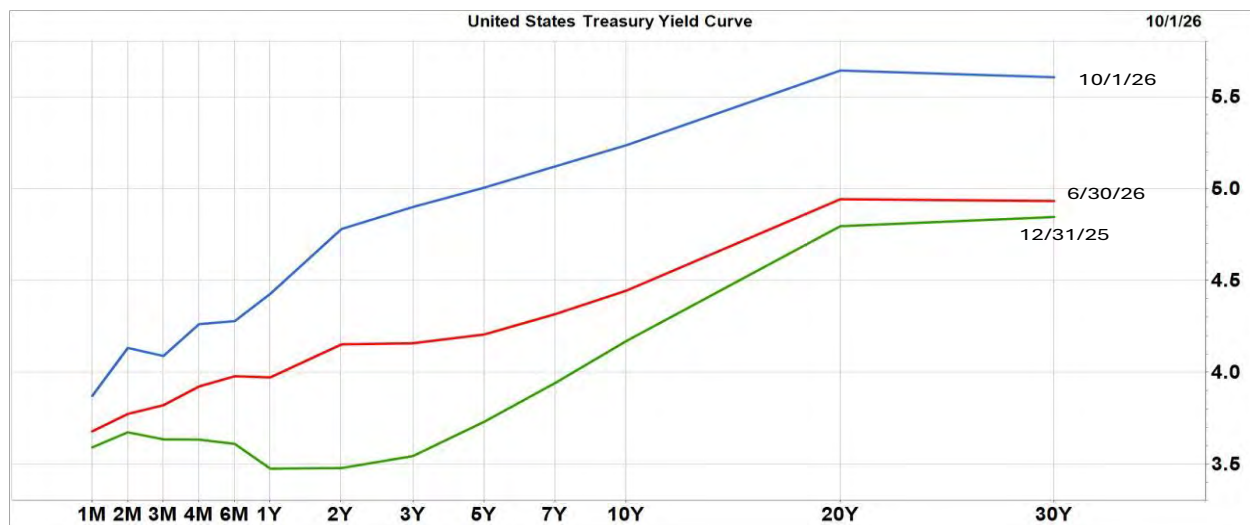
Based on the ending returns, international equities would appear to have had a relatively quiet quarter. International developed economy stocks, as measured by the MSCI EAFE Index, ended the quarter with a return of 0.8%. However, these stocks had generated comfortable gains before declining during the month of September.



Emerging market equities tended to struggle more than their developed market counterparts. These stocks, like the Nasdaq 100, entered a correction to begin the quarter and ended the three-month period with a loss of roughly 2%. As noted in previous *Outlooks*, the MSCI Emerging Markets Index has an inordinately large weighting to the technology sector, similar to the Nasdaq 100 Index. The technology sector alone makes up almost half of the emerging markets index! From an even more granular level, pure semiconductor stocks make up approximately a quarter

of the weight of the index. If Samsung is included, which is not technically classified as a semiconductor company, that weight jumps to 1/3rd of the index! In 2025, Samsung generated about 36% of their revenues from semiconductors, but they accounted for almost 60% of their operating income. So, it certainly seems logical to include Samsung in the semiconductor classification when determining index exposure. For the time being, the emerging markets index is likely to move in tandem with the artificial intelligence (AI) trade.

While equity returns were generally positive during the quarter, the same cannot be said for the fixed income market. Rising government debt, continuing fiscal deficits, and stubborn inflation sent yields higher and bond prices lower.



Across the entire curve, yields moved higher at every maturity point when compared to the end of the prior quarter and the end of last year. In particular, over the last three months, yields at the two-year maturity point and longer increased by at least 0.5%. Since the start of the year, yields in the middle of the curve, two years to ten years, have increased by more than 1%.

Since bond prices and yields have an inverse relationship, fixed income performance left much to be desired. The Bloomberg U.S. Aggregate Bond Index, the most widely followed bond index, declined by 3.5% during the quarter. Long-term U.S. Treasury Bonds, which exhibit a greater degree of interest rate sensitivity, fell by almost 9%. Lower quality bonds fared the best, only selling off by 2.2%. High yield bonds generally have less interest rate sensitivity and a higher correlation to stocks, compared to their investment-grade cohorts, which explains some of the relative outperformance during the quarter. As we have seen numerous times over the past several years, especially in 2022, bonds certainly can exhibit a significant degree of volatility. While they are the “safe” portion of a portfolio, it is important to not conflate the word safe with the notion of risk-free.

Outlook

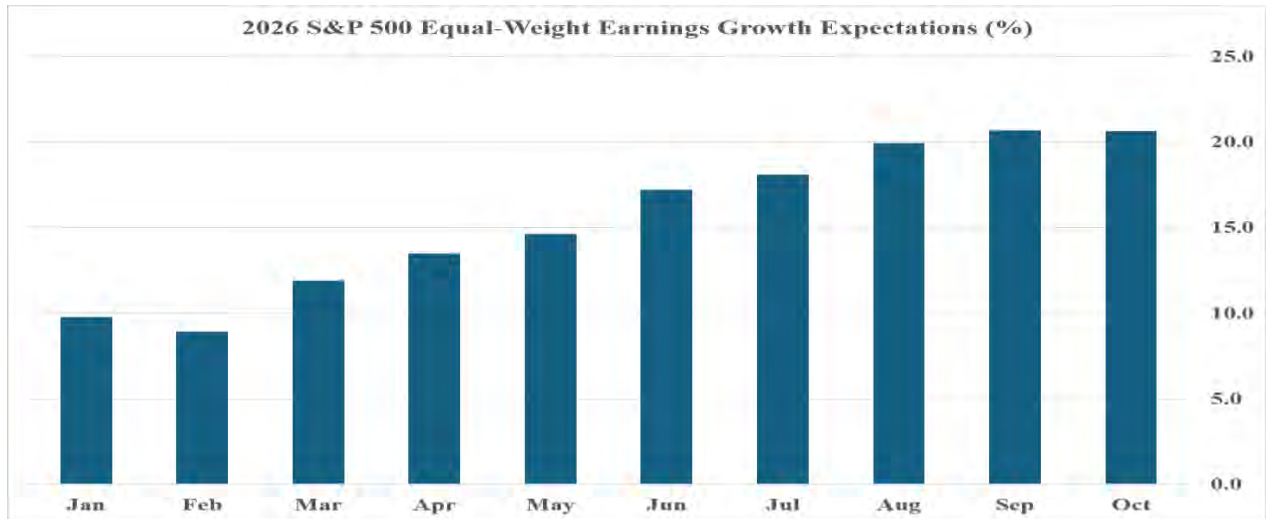
In our age of fragmented politics, frequently concerning news headlines, and rapid technological change, it is crucial that we remain focused on what matters most, fundamental data and corporate earnings. The stock market is not particularly interested in which party may have a

relative “win” in the upcoming mid-term elections. It remains squarely focused on the trajectory of the economy, the likelihood that companies will become more profitable, and if these companies represent a reasonable value. Throughout the year, the forward price-to-earnings ratio of the S&P 500 Index has continued to decline to 19-times earnings, despite the 12.8% rise in the index. This provides evidence that the expectation for future earnings growth is increasing faster than the price appreciation of the index. The combination of rising stock prices coupled with a decline in valuations is a healthy and welcome phenomenon for the equity market.



The natural concern in this condition is whether the earnings expectations are realistic and obtainable. For the calendar year, the current expectation is for the S&P 500 to grow its earnings by 34%, according to the latest FactSet estimates. For context, the average annual earnings growth over the last ten years has been 8.6%. If these numbers hold, this means that the S&P 500 is experiencing earnings growth that is four times faster than the long-term average. Analysts are currently projecting earnings growth of 15.3% for 2027, still effectively doubling the 10-year average rate. Whenever market expectations are this lofty, there is always a real possibility for disappointment. Earnings cannot continue to grow at a double-digit pace in perpetuity. However, we have yet to see a slowdown and the high expectations continue to be exceeded for the time being.

One common critique of the extraordinary earnings growth in the S&P 500 is that they are largely attributable to companies involved in the AI buildout. Just as large technology companies have accounted for a large portion of the Index’s price performance, they also have driven the significant earnings growth. This earnings concentration obviously causes some angst amongst investors. However, just as performance can be adjusted for the mega-capitalization technology companies, the same exercise can be repeated when investigating earnings by using an equal-weighted methodology. Even without the disproportionate effect of the AI-related companies, the S&P 500 Equal Weighted Index is expected to experience earnings growth in excess of 20% in 2026 and those expectations have steadily increased throughout the year.



While the expectations for the “average” stock are lower than that of the cap-weighted S&P 500, even the average stock is expected to grow their earnings at a pace that far exceeds historical norms. This is not indicative of a stock market where only a handful of companies are generating strong financial performance.

It must be acknowledged that many headwinds still exist. The Iranian conflict continues, commodity prices remain elevated, interest rates have risen sharply, the Fed is likely to continue tightening monetary policy based on FOMC dot plot, and AI capital expenditures are increasing at an unfathomable pace, to name just a few looming issues. Any of these issues present the opportunity for market disruptions. However, every market cycle has no shortage of worrying conditions, and most do not derail financial markets or the economy. It is imperative that these worries are assessed and considered, but that they do not cloud the picture of what is truly important. These headwinds reinforce that portfolios must continue to be constructed in a responsible manner, but that pessimism should not be the base case scenario. Based on the available data, there is little concrete information to suggest that we are at an economic or market turning point. This is not to say that there will not be turbulence, that is one of the few certainties in financial markets. But for now, there doesn’t appear to be a storm looming on the horizon.



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