

QUARTERLY COMMENTARY

October 2026



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THE SILICON STRAIT

Geopolitics and conflict in the Middle East defined the first half of the year and in the third quarter, artificial intelligence (AI) joined them as a major driver of markets. S&P 500 companies are expected to report roughly 29% earnings growth in Q3¹, the third straight quarter above 25%, and several major companies in the technology sector suggested they continue to be limited by supply rather than demand. In other words, barrels of oil were no longer the only bottleneck that mattered for markets, as the supply of silicon and semiconductors became just as important. Large cap tech returned to the top of the leaderboard after a sharp July selloff in semiconductors, and both the S&P 500 and Nasdaq reached new all-time highs during the quarter.

That strength came despite a collapse in the Iran ceasefire – the original framework agreed to in mid-June lasted less than three weeks before Iran resumed attacks on commercial shipping and the U.S. reinstated its naval blockade of the Strait of Hormuz. That resumption of hostilities ultimately sent Brent crude back above \$100/barrel, well above the mid-\$60s level prior to the conflict. Unlike the first half of the year, however, the disruption didn't stick – both the U.S. and its Gulf allies have become adept at defending the strait, and oil flows out of the region have recovered to nearly 80% of prewar levels. While market sensitivity to the conflict has waned, the potential for Iranian escalation has quietly grown from the economic yoke of sanctions and plummeting oil revenues.

The S&P 500 is now up 12.75% year-to-date. International stocks, as represented by the MSCI ACWI ex-U.S. index gained 14.66% year-to-date, with AI driving the bulk of those gains through Taiwan and South Korea, while the U.S. dollar strengthened notably as Treasury yields climbed. U.S. small caps, which were the standout of the first half of the year, gave back meaningful ground in Q3 but continue to lead the S&P 500 year-to-date. That lead has narrowed, however, as both the Federal Reserve's rate hike during the quarter and soaring U.S. bond yields weighed heavily on smaller and more rate-sensitive companies.

The net takeaway is that, at least for now, the market's attention has shifted away from Hormuz and toward both the supply of chips and the bond market. Earnings growth has been strong enough thus far to carry the major indices through renewed fighting and a more hawkish Fed, but higher yields are now beginning to test some of the themes that developed earlier in the year.

Abandon Chip?

Despite the strength in technology at the end of the quarter, for a couple of weeks in July it looked like investors were jumping overboard on chip stocks. The Philadelphia Semiconductor Index (SOX) fell more than 20% during the month, its sharpest decline since the Great Recession, even though its gains still hovered around 50% year-to-date at the trough. There wasn't a single

explanation for the decline, but the common thread largely came down to concerns around the sustainability of AI spending.

The four largest hyperscalers (Microsoft, Alphabet, Amazon, Meta) had announced plans to increase their AI capital spending by more than 80% from last year², and the market began to question the return on that investment as customers started to cap AI budgets and cheaper open-source models became substantially more capable. Valuations likely made the declines worse – by some measures, market concentration and breadth hadn't reached such extreme levels since 2000 – and market drawdowns, once triggered, are typically accelerated by crowded positioning.

These moves briefly gave the market the look of the rotation we described last quarter, with value and small caps leading through July and into August. That changed in late August, however, when Nvidia announced revenues that more than doubled and guided to above-expectation growth moving forward and limited only by the ability to supply more. The rebound faltered once in September when the CEOs of several major frontier AI labs suggested model development should be slowed, citing safety risks, but the market largely shrugged that off and marched higher.

So, while the market has become more volatile and certain aspects of the AI trade have come under more scrutiny, we don't believe now is the time to turn away. The fundamentals remain strong, and the earnings are real, even when accounting for the removal of non-recurring items like gains on privately-held investments. But the volatility is a stark reminder that this is a crowded trade, and sentiment can turn quickly when pieces of the story are questioned. That's precisely why we've both limited our direct AI exposure and focused more on the picks and shovels rather than the more speculative names that tend to grab the headlines and have the potential to swing the hardest.

Bond. Global Bond.

While we often focus on equities in these pieces, the most important move in markets this quarter may not have been in stocks at all. Government bond yields have climbed around the world, with German 10-year yields hitting 15-year highs, U.S. 10-year yields crossing 5% in mid-September, and the U.S. 30-year yield reaching its highest level since 2002. It's notable when borrowing costs around the world rise in unison, and it usually signals that something bigger than any one country's policy is at work.

What could that be? We think a few forces have converged to push yields higher. First, the U.S. economy in aggregate continues to grow quite strongly – the most recent national employment report came in more than twice the expected level, the unemployment rate has fallen from 4.4% to 4.2% this year so far³, and the Atlanta Fed's GDPNow metric (which tracks real-time expectations of GDP growth) suggests that real GDP growth in Q3 is close to 4%, which is a remarkably strong pace for an economy this far into an expansion. All of this has shifted the conversation from how long the Fed would keep rates on hold to how many rate hikes would be needed, which is biasing short-term rate expectations higher.

Second, and perhaps most important, is a global factor—AI and data centers are now competing with governments around the world for capital. Companies around the technology and energy sectors have been borrowing heavily to fund data center construction, and that corporate issuance, which is up 30% so far this year⁴, is drawing potential investor dollars away from government bonds at the same time governments are leaning into deficits. So, the same AI buildout that's driving record earnings in the S&P 500 is also part of the reason borrowing costs are heading higher for everyone else.

That helps to explain short and intermediate-term yields, while the long end is more confounding. Some industry commentators have suggested that those reasons don't fully explain the rise in rates at the long end, which are usually linked to credit and inflation costs, but which have declined and barely budged, respectively although concerns around longer-term U.S. government spending are likely a factor. One possible argument is that price-sensitive buyers have been replaced by rule-based passive vehicles like ETFs, which now make up a substantial portion of new bond buying and which weight bonds by market value, meaning falling prices cause lower demand. That idea, combined with the heavier issuance from corporates and governments, may help to explain why longer-term rates are moving higher globally and not just in those countries with higher levels of debt.

Charting the Course

As we head into the holiday quarter, our outlook remains constructive, although the forces under the surface have evolved. Earnings growth has become a much larger portion of returns, and the AI buildout continues to drive demand for the physical infrastructure that supports it. Higher yields have tested some of the themes that developed earlier in the year, but with markets pricing in additional Fed hikes, some of that pressure may already be baked into asset prices. A silver lining to higher rates is the fact that fixed income is once again a genuine source of income, and we have been able to take advantage of that dynamic in our portfolios.

We wrote last quarter that the risks hadn't gone away; they'd simply changed shape, and that remains true today as well. The conflict in the Middle East has somewhat faded into the background without being resolved; the Fed has shifted from holding rates to hiking them, and longer-term bond yields are pushing multi-decade highs. The good news is that this quarter, many of the potential sources of volatility have defined dates, the largest of which are likely to be the midterm elections on November 3rd and the Fed's October and December meetings where further rate hikes could be on the table.

U.S. stocks have historically been weak during the fall in midterm years before strengthening in the months following the election⁵, and while we don't adjust portfolios for political outcomes, that's a useful reminder that pre-election volatility is normal. Our focus remains the same – investing in high-quality companies with durable earnings growth, because as we saw this quarter, it is earnings, not headlines, that ultimately power markets forward.

¹FactSet Earnings Insight, September 25, 2026

²Statista, July 31, 2026

³YCharts, October 2, 2026

⁴SIFMA, US Corporate Bonds Statistics

⁵TIAA, "Midterms: What's at Stake for Markets"

WHAT'S YOUR MONEY PERSONALITY?

Money is rarely just about numbers. It can represent security, freedom, success, independence, or generosity, and sometimes, something we'd rather not think about at all. While financial decisions often come down to the numbers, the beliefs we hold about money can be just as influential.

Financial psychologist Dr. Brad Klontz has spent his career studying the psychology of money, developing the concept of money scripts. These are often-unconscious beliefs, typically learned early in life, that shape how we earn, spend, save, invest, and plan. Inspired by his research, we explore four common money personalities: Money Avoidance, Money Worship, Money Status, and Money Vigilance. These aren't rigid categories, and there's no "right" one to have, most people will recognize a little of themselves in more than one.

Money Avoidance

Characterized by the belief that money is uncomfortable, complicated, or somehow at odds with one's values. Someone with this mindset may put off financial decisions, avoid investing because it feels overwhelming, or feel uncomfortable spending on themselves. In some cases, wealth itself may be viewed negatively or associated with greed.

The strength is often a genuine emphasis on relationships, experiences, and values over material possessions. The blind spot is that avoiding money can also mean avoiding important decisions, opportunities, or conversations that would otherwise build financial confidence.

Consider Daniel, who receives a significant raise at work but feels uneasy about "caring too much" about money. Rather than increasing his retirement contributions or investing the additional income, he leaves his financial plan unchanged. His challenge isn't a lack of resources, it's the beliefs that make engaging with those resources uncomfortable.

Money Worship

Reflects the belief that having more money will make life better. Money may represent freedom, security, or the ability to create a desired lifestyle. People with this mindset are often motivated by career advancement, entrepreneurship, or building wealth.

The strength of this mindset is ambition, optimism, and a willingness to work toward financial goals. The challenge is that "enough" can become a moving target, a higher income can lead to a larger home, then the next vacation, then the next milestone. More money provides greater choices, but it can't necessarily resolve challenges that aren't financial in nature.

Consider Sophie, who grew up in a financially successful family and was taught the importance of saving and responsible financial behavior. As an adult, she comes to believe that greater wealth will lead to greater happiness. She works hard, pursues opportunities to earn more, and is comfortable spending on the experiences and things she values.

Money Status

Money and possessions become a way of communicating success, identity, or social standing. Comparison often plays a role, how a home, car, or vacation measures up against everyone else's.

The strength of Money Status is a strong drive to achieve and build a high quality of life. The blind spot is letting comparison steer financial decisions — spending to maintain an image or keep pace with others, rather than spending in a way that reflects personal priorities.

Consider Claire, Sophie's sister, who grew up in the same financially successful household with parents who modeled responsible financial behavior. Claire remembers the admiration their family received and develops a strong association between financial success and outward markers of achievement. As an adult, she's drawn to the nicest home, the most desirable purchases, and a lifestyle that visibly communicates success.

Money Vigilance

Characterized by carefulness, preparation, and a strong desire for financial security. People with this mindset closely monitor their accounts, maintain substantial emergency savings, and think carefully before making purchases.

The strength of Money Vigilance is discipline and intentionality. The blind spot is becoming so focused on protecting wealth that it becomes difficult to enjoy or use it. Six months of living expenses can quietly become twelve. A portfolio can be more than sufficient, yet spending \$100 can still feel uncomfortable — and over time, the instinct to protect wealth can overshadow the purpose it was built for.

Consider Mark, who tracks his accounts and retirement savings closely and may hesitate to spend \$5 on a latte. Yet when his friends plan a \$5,000 trip, he's comfortable participating because he's already planned for it and knows the expense fits within his resources.

Bringing Awareness to Your Financial Life

Our money personalities are shaped by many things: family experiences, cultural messages, personal successes and setbacks, and the financial environments we grew up in. Two people can experience nearly identical circumstances and develop entirely different beliefs about money, as Claire and Sophie illustrate. The goal isn't to label ourselves or decide which personality is "best." It's to become more aware of the beliefs quietly operating beneath our financial decisions.

Consider asking:

- Where did my beliefs about money come from?
- When do those beliefs serve me well?
- When might they be limiting my choices?
- Are my financial decisions aligned with what I actually value?

Scan to Discover Your Own Money Script



PORTFOLIO ACTIVITY

In the third quarter, we refocused our core exposures, rotating out of older positions and into new, high-conviction themes. We were net sellers of equities, meaning we sold slightly more than we bought, and narrow net sellers of fixed income. Consistent with the portfolio actions described below, trading activity was concentrated in equities, which accounted for the majority of dollars moved.

Within equities, we executed several trades to build out our thematic portfolio, exit lower-conviction holdings, and take advantage of market volatility in taxable accounts. We initiated one new position, Uber Technologies (UBER), as part of our physical AI theme. We added to existing positions in Coherent (COHR) and Qnity (Q) to expand our datacenter and semiconductor exposure. We exited Adobe (ADBE) and Zoetis (ZTS) as their thematic opportunities weakened. Finally, we used price volatility in Intuitive Surgical (ISRG) to harvest tax losses in taxable accounts while maintaining our exposure to the company.

Our newest addition to the RWA portfolio is Uber, the technology platform offering rideshare, delivery, and a small freight business across international markets. We see several avenues for growth: the development of autonomous vehicles, the expansion of delivery beyond food, and the growing value and profitability of the Uber One membership. Uber has a loyal and growing customer base across both its mobility and delivery businesses, each with distinct opportunities. We view the long-term upside from robotaxi development as a core pillar of our thesis.

Our largest additions to existing core holdings were in Coherent and Qnity. Coherent remains a market leader in fiber optics and lasers, a rapidly growing space serving both datacenter and telecommunications applications. Our strong conviction led us to

Index Performance	YTD	Q3
Dow Jones Industrial	7.19%	-2.34%
Standard & Poor's 500	12.75%	2.30%
Nasdaq Composite	16.09%	2.61%
MSCI EAFE (Europe, Australasia, Far East)	10.33%	0.81%
Russell 2000 (Small Company)	13.71%	-7.23%
MSCI ACWI (All Country World Index)	13.03%	1.60%
Bloomberg Intermediate Term Bond	-2.91%	-3.51%
Bloomberg Municipal Bond	-4.18%	-6.35%
Bloomberg Short Term Bond	-0.40%	-0.92%

bring the position to its maximum weight in Q3. Qnity, a specialty materials provider, is directly leveraged to rising volume and complexity across the semiconductor supply chain. We increased our position given ongoing tailwinds in the memory and GPU markets, though we will remain selective about further additions across the technology sector. We also used a tax-loss harvesting strategy in Intuitive Surgical. Early in the quarter, we doubled our position in taxable accounts by purchasing new shares at lower prices. Near quarter end, after the required holding period to avoid wash-sale rules, we sold the original higher-cost shares. This allowed us to realize losses that can offset gains elsewhere in client portfolios, while keeping our ISRG position at its target weight.

Finally, we sold our positions in Adobe and Zoetis during the quarter. Our original thesis on Adobe centered on the growth of the creative market, particularly its AI-enabled tools, along with a broader shift toward larger enterprise customers and new sales strategies. We saw few signs of progress, and with several changes in the company's executive leadership, we decided to exit. Zoetis was originally a pandemic-era investment based on the rapid growth of the pet industry. However, the company now faces competition from several new entrants in its core pet pharmaceutical products. Combined with a more cost-sensitive consumer, this makes it difficult to see Zoetis outperforming amid ongoing cyclicity in its subindustry.

TOP 10 U.S. HOLDINGS

Apple

Alphabet

Microsoft

Amazon

Coherent

Merck & Co

Trane Technologies

JPMorgan Chase

Cisco Systems

Williams-Sonoma



REMINDER: 2025 TAX RETURN REQUEST



If you haven't already sent us a copy of your 2025 tax return, you can expect an email soon from us requesting it. Your return contains useful information that helps us make tax-efficient investment and planning decisions on your behalf, both this year and beyond. Even small improvements in tax efficiency can add up meaningfully over time. When you're ready, you can securely upload it to the Vault in your RWA Client Portal.

We look forward to connecting with many of you before the end of the year, whether virtually or in one of our two offices.

FEATURED STOCK: SYNOPSYS (SNPS)

Synopsys is the world's largest provider of Electronic Design Automation (EDA) software, the specialized tools engineers use to design, test, and verify modern semiconductors. The company sells subscription and usage-based licenses, semiconductor IP (pre-built chip "building blocks"), and advanced simulation tools to chipmakers, leading-edge foundries, and hyperscalers. We see Synopsys as a unique way to invest in semiconductor innovation for three reasons: its leadership in AI-enabled design, a broader offering following the Ansys acquisition, and opportunities for margin expansion.

Synopsys was the first EDA provider to invest in machine learning, releasing the industry's first AI-driven design tool in 2020. Today, customers can take a chip from high-level concept to manufacturing-ready blueprint using AI-enabled tools at every step, all within the Synopsys platform. Clients report faster turnaround times along with better energy and thermal efficiency. In 2025, the company launched AgentEngineer, an agentic AI platform built directly into its existing tools, and we believe this deep integration will drive higher usage and pricing power.

Synopsys has also expanded beyond the chip with its \$35B acquisition of Ansys, the leading provider of engineering simulation software. Ansys tools let engineers test how a product performs under real-world conditions such as heat, airflow, and electromagnetic interference, which is increasingly critical for cutting-edge chips. Integration has been gradual, but early combined products are showing meaningful productivity gains in trials with partners like AMD and Nvidia. We believe this "silicon-to-systems" platform is one no competitor can currently match.

Finally, Synopsys has several paths to higher profitability. We expect the company to remove overlapping costs from the merger without affecting sales, while growing AI usage and a revamped contracting process should shift its mix toward higher-margin revenue. Partnerships with industry leaders, including Nvidia, offer further support. Margin expansion remains the "show me" part of the story, but we have confidence in management's ability to execute.

From smartphones to datacenters, semiconductors are the backbone of the modern economy. Whether chips come from Nvidia, hyperscalers, or smaller custom designers, Synopsys provides the picks and shovels of chip innovation. With a durable, recurring business model and leading simulation and agentic AI capabilities, we believe Synopsys is well positioned to grow alongside the accelerating pace of semiconductor design.

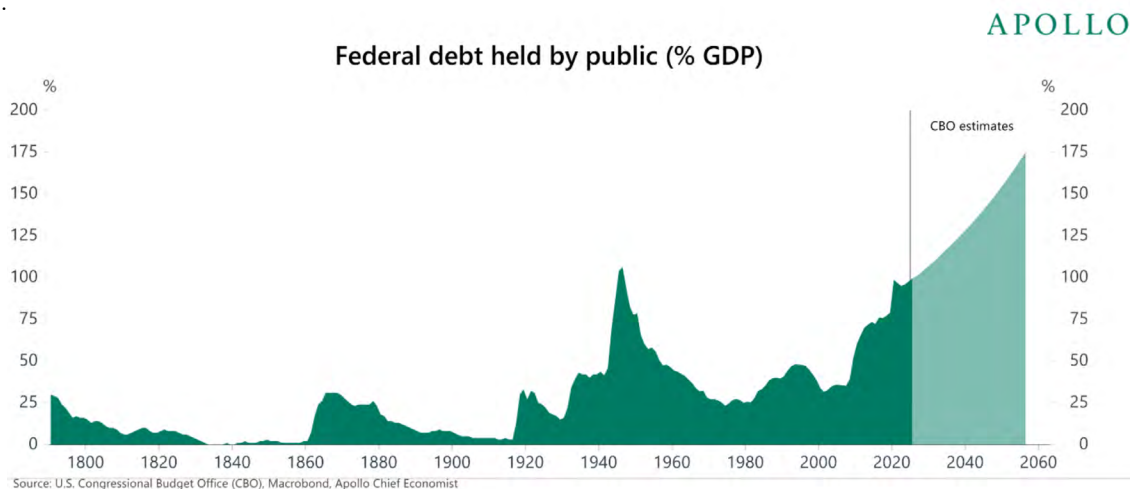


Source: Ycharts

Interest rates are in the headlines, which is rarely good news for fixed income market returns. The U.S. fixed income markets have responded to a myriad of economic pressures with higher rates and the associated negative movement in prices. The benchmark 10-year Treasury yield ended the quarter at 5.24%, an upward shift of over 1.0 percentage point from the beginning of 2026. To quantify that, an investor in a 10-year bond at the beginning of 2026 has experienced a price decline of over 9.0%, while earning 3.14% of interest income. Importantly, movements in Treasury yields result in a corresponding shift in borrowing costs for corporations and individuals. Notably, the 30-year fixed-rate mortgage rate jumped to 7.28% by the end of the 3rd quarter, pressuring the housing market.

Interest rates have moved in response to two main developments, each impacting a separate part of the U.S. Treasury Yield Curve. Shorter maturities are reacting to inflationary pressures attributed to the conflict in the Strait of Hormuz and oil supply constraints. These concerns resulted in FOMC Chairman Kevin Warsh raising the overnight bank rate by a quarter percentage point at the September meeting. Entering 2026, many economists anticipated that the FOMC would be lowering the benchmark Fed Funds rate. The price of oil has been a primary culprit to the increasing rate of inflation, however, continued economic growth also puts upward pressures on the prices of consumer goods.

The longer end of the U.S. Treasury maturity curve has shifted upward in response to the escalating size of total U.S. debt. The U.S. deficit is on target to exceed a trillion U.S. dollars for the 7th consecutive year with the total amount of debt now exceeding \$40 trillion. U.S. bond investors are signaling a loss of confidence that elected politicians are thoughtful stewards of the government balance sheet.



Fixed Income Primer

Fixed Income (also known as bonds) is an important part of client portfolios, generating interest income while providing a source of near-term liquidity. The return on a fixed income investment is largely in the form of the interest payments made by the bond issuer (the borrower) to the bondholder (the investor). Interest is paid for the duration of contracted time with the principal of the loan paid back at the maturity date. For most bonds, interest payments are a fixed percentage of the principal value of the amount borrowed. If a bond is held to maturity, the bondholder will receive the payment stream contracted when the bond was purchased. The calculation of the stream of payments relative to the principal amount of the loan is called bond yield. The primary risk associated with a bond investment is that the borrower defaults on payments. The probability of a payment default increases with time to maturity and as the borrower's credit quality declines.

Like stocks, bonds trade in active markets where prevailing interest rates determine their prices. Because a bond's payments are fixed, its price must adjust to reflect how those payments compare with current market rates. Bond prices fall when interest rates rise and conversely increase when rates fall. The longer the time to maturity the more sensitive a bond's price is to a change in interest rates; the calculation of that sensitivity is called duration.

Strategic Takeaway

For our client portfolios, our objective is not merely chasing headline yields, but structuring portfolios that are resilient to rate volatility. Having emphasized high-credit-quality and shorter maturities, we see the current environment as an opportunity to selectively extend maturities and lock in higher income, while remaining mindful of further rate changes.

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