

Talbot Financial – Third Quarter 2026 Review

Please find attached your Talbot Financial Third Quarter 2026 portfolio review to supplement your monthly account statements available from Schwab. The report compares the performance of your investment portfolio with the S&P 500 Total Return Index (“Index”), Talbot Financial’s benchmark, and lists your portfolio holdings by industry sector.

Investment Review

The Index increased 2.3% in the third quarter despite headwinds from higher oil prices, renewed inflation concerns, and the first Federal Reserve interest rate increase since 2023. These pressures were offset by strong corporate earnings and solid performance returns across the Technology, Healthcare, Communication Services, and Energy sectors. Year-to-date through the end of September, the Index has gained 12.7%, with performance driven primarily by the Technology and Energy Sectors.

Federal Reserve Interest Rate Increase

The recent Federal Reserve rate increase was warranted in our view and should be beneficial to the economy. We also believe it will be short-lived as broad disinflationary forces continue to work through the economy. Energy prices are easing as crude oil flows through the Strait of Hormuz normalize and housing prices have flattened in response to higher mortgage rates. Furthermore, rent increases are modest as new supply enters the market, and leasing activity stabilizes. Finally, wage growth has moderated, reflecting a labor market that remains healthy but no longer overheated. Collectively, these trends indicate a decelerating inflation backdrop. In this environment, we do not expect a prolonged interest rate tightening cycle, nor do we see a meaningful risk for long-term equity investors.

Earnings Supercycle

Last quarter, we discussed how earnings growth is the primary driver of long-term equity returns and how a focus on sustainable growth in earnings guides our approach to selecting companies for your investment portfolio.

An extension of this theme is some compelling evidence that the companies included in the S&P 500 Index have entered an earnings Supercycle, a period when corporate profits grow faster and more broadly than the overall economy. As evidence of this Supercycle, the projected Earnings Per Share (EPS) growth rate for the Index for 2027 is 15%, followed by 17% for 2028.

Three structural forces are driving this cycle:

- an AI-led productivity boom enhancing margins across industries;
- a historic private-sector investment cycle centered on data centers; and
- operating leverage created by years of disciplined cost management.

Equally important is the breadth of this strength. Earnings are accelerating across most of the S&P 500, and margins are improving even in traditionally cyclical sectors. Together, these characteristics further substantiate a Supercycle.

This environment is particularly supportive of the high-quality companies held in your portfolio. These companies benefit from durable competitive advantages, strong balance sheets, pricing power, and disciplined capital allocation. These traits enable them to harness AI-driven productivity gains, capitalize on operating leverage, and reinvest effectively through changing market conditions. As margins expand and returns on invested capital rise across the economy, quality companies amplify these gains rather than merely participate in them. In a market where earnings strength is the primary driver of long-term equity appreciation, businesses with consistent, high-quality earnings streams are naturally positioned to lead.

We welcome the opportunity to review your portfolio in person, by phone, or via Zoom. Please contact us to schedule a review or discuss any questions you may have.

Sincerely,

Talbot Financial, LLC

www.talbotfinancial.com