

BOND FORECAST: CLOUDY, WITH A STREAM OF INCOME



MARKET INSIGHTS

The third quarter offered another reminder that broad market averages can conceal very different experiences for investors. The S&P 500 gained 2.30%¹, while international equities, as measured by the MSCI ACWI ex-USA Index, advanced a more modest 0.48%¹. U.S. markets benefited from resilient economic growth, strong corporate earnings expectations, and continued investment in artificial intelligence. Strength in several large technology companies, including Microsoft, Nvidia, Apple, and Meta Platforms, helped support the S&P 500, while European markets faced weaker earnings momentum and concerns about rising interest rates. These differences helped U.S. equities withstand the quarter's headwinds more effectively.

However, those gains in domestic equities were far from uniform. Familiar companies such as Home Depot and Nike saw their share prices decline -18.67%¹ and

-12.76%¹, respectively, during the quarter. The Russell 2000 Index, which tracks smaller U.S. companies, fell -7.23%¹, a sharp contrast to the S&P 500's advance.

The contrast extended beyond equities. The Bloomberg U.S. Aggregate Bond Index fell -3.51%¹, while the Bloomberg Commodity Index rose 15.11%¹. For investors accustomed to thinking of bonds as the steady part of a portfolio, another quarter of falling prices can understandably raise questions about their role.

Of course, diversification does not mean every investment will contribute positively in every quarter. It means owning assets whose different sources of risk and return can help a portfolio navigate a range of conditions over time. This quarter's bond losses deserve attention, but so do the opportunities that lower prices and higher yields may create.



“If you want the rainbow, you gotta put up with the rain.”

GAINING PERSPECTIVE

For much of the last decade, bond investors faced an uncomfortable tradeoff. Bonds could help steady a portfolio, but their low yields offered little income. If interest rates rose, even a modest drop in bond prices could wipe out that income. With yields now around 5% in parts of the bond market, the tradeoff looks different.

But haven't rates risen because the risks are greater? That is a fair question. Recent headlines warning about persistent inflation and higher interest rates make bonds seem riskier than they did when yields were low, but as the old market saying goes, “If it's in the papers, it's in the price.”

Those concerns help explain why bond prices are lower and yields are higher today. That does not mean every risk has been fully accounted for or that visibility has improved. Rates could still rise more than investors expect, and bonds could still lose more value.

The difference is how much income investors receive while taking that risk. When bonds yielded very little, there was almost no income to offset a decline in price. At higher yields, there is more of a cushion. A sharp increase in rates would still hurt, especially for longer-term bonds with greater sensitivity to interest-rate changes. Higher yields improve the starting point, but they do not guarantee a good outcome.

Nonetheless, this distinction matters because recent performance can influence our expectations in unhelpful ways. Often after prices fall, an investment may feel less

attractive precisely when the terms of owning it have improved. A disappointing quarter does not, by itself, make bonds a bargain, but evaluating them only through recent losses overlooks the income now available at lower prices.

Rather than betting on the next move in interest rates, we consider what bonds might contribute under different conditions. Their income can help absorb a modest rise in rates, while high-quality bonds may gain value if growth weakens and rates fall. Persistent inflation could produce a less favorable outcome, including periods when stocks and bonds decline together. We believe these possibilities support a thoughtful allocation to bonds alongside equities, with attention to credit quality, interest-rate sensitivity, and each investor's needs. Think of it like carrying an umbrella. You do not bring one because you know it will rain. You bring one because the cost of being prepared is reasonable relative to the inconvenience of getting soaked. When bond yields were very low, that umbrella came at a higher cost because investors accepted little income for the protection it might provide. At higher yields, carrying it may make more sense, even though the forecast remains uncertain. Investing asks us to accept uncertainty, but it does not ask us to face it unprepared. Bonds cannot stop the rain, but at today's yields, they may make it easier to stay invested through it. We believe staying invested means accepting some difficult weather along the way.

As Dolly Parton once said, “If you want the rainbow, you gotta put up with the rain.”



PORTFOLIO IMPLICATIONS

We are making one modest adjustment to our Core Model Portfolios this quarter, moving a small portion of cash into a core bond fund. We believe current yields offer a reasonable opportunity to earn income while adding exposure to bonds that may benefit if economic growth weakens and interest rates fall.

The adjustment is intentionally incremental. Cash remains useful for liquidity and stability, while core bonds introduce price fluctuations in exchange for

their potential contribution to income and longer-term returns. We believe a small shift appropriately balances those tradeoffs.

This decision reflects the broader perspective discussed above. We do not need to know when it will rain to see value in being prepared. Our goal remains to maintain broadly diversified portfolios, make measured adjustments as opportunities change, and allow discipline and compounding to work over time.

**Our portfolios are designed to meet our clients' needs and help them achieve their long-term goals.
Please contact your advisor to discuss how we balance risk and reward in your personalized plan.**

- NorthLanding's Investment Direction Committee

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¹ Investment performance data through 9/30/2026 was provided by Morningstar, Inc. and believed to be accurate as of the date of this publication, gross of any advisory fees. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed. All investment strategies including diversified asset allocation have risk. Past performance of the markets or any investment approach, as well as component holdings, does not guarantee future results.