



Q4 2026 Outlook—Executive Summary

- **Expectations, rates, and tensions all keep rising:** In the wake of stunning earnings, the outlook for Q4 is constructive but more demanding, with economic gains spurred by the global AI buildout offset by geopolitical risk, inflation pressure, and a structurally higher cost of capital.
- **Interest rates are “raising the bar”:** With the 10-year U.S. Treasury yield above 5%, stocks must compete with meaningful risk-free income; for many stocks, revenue growth alone is insufficient unless it produces cash flow and returns on invested capital above the cost of capital.
- **Resilience amid global crosscurrents:** Clear Harbor’s base case is continued global expansion but with continued country dispersion shaped by relative energy exposure and AI-linked capital investment. Consensus estimates suggest real GDP growth of 3.0% in 2026 and 3.1% in 2027.
- **Economic drivers vary by region:** Capex is largely taking the baton from a bifurcated U.S. consumer. Europe is benefiting from a multi-year defense, infrastructure, and energy-security cycle; Japan, from governance reform and advanced-manufacturing strengths.
- **All roads lead to—and from—AI:** AI-related investment is broadening earnings across a wide range of sectors and regions. But much of this apparent “diversification” still depends heavily on one capital cycle: AI.
- **Monetary policy is focused on inflation’s “last mile”:** Renewed central-bank hawkishness reflects persistent supply-driven inflation and fiscal deficits—but also high nominal growth paced by defense and energy spending, supply-chain redundancy, and competition for labor, materials, and financing between housing and the AI capital cycle.
- **Fixed income is again a “return asset”:** Higher nominal and attractive real (inflation-adjusted) sovereign yields have restored meaningful opportunity to capture income in portfolios, supporting a gradual extension of duration in high-quality bonds.
- **Today’s signals:** We are keeping close watch on headline versus core inflation, sovereign yields and their causes, earnings breadth, AI monetization and financing, the U.S. dollar, and credit spreads.
- **History’s lessons:** Powerful trends do not guarantee investment success; leadership can change quickly and catch investors by surprise. Our approach is to remain vigilant, nimble, and humble.
- **Clients come first.** Fall is an excellent time to level-set with your financial advisor. Call to schedule a meeting, call, or Zoom session.



Aaron J. Kennon
Chief Executive Officer & Chief Investment Officer

September 30, 2026

Q4 Outlook: Expectations, Rates, and Tensions All Keep Rising

Friend of Clear Harbor,

In the third quarter, investors again looked past geopolitical tensions to focus on the generational opportunity of Artificial Intelligence and its broader effects across the economy, even as rising costs of capital pressured margins and price-to-earnings multiples for many companies. Enthusiasm for the overall path of earnings has pushed the S&P 500 Index higher by 13.0% year-to-date and the global equity benchmark, the MSCI All-World Index, higher by 13.5%. Both indices continue to set records.¹

We enter the fourth quarter with much of this investment rationale intact. Corporate earnings remain robust, capital spending is exceptionally strong, productivity is improving, and the global AI buildout is creating a powerful investment cycle across semiconductors, networking, power generation, utilities, electrical equipment, heating and cooling, construction, and select software. All this has generated rates of earnings growth typically seen only when economies are accelerating out of deep recessions.

Headwinds remain. Energy markets remain vulnerable to the disruptions of war; central banks are again confronting inflation pressures driven chiefly by supply constraints, rather than by the excessive consumption that their tools are designed to combat. At the same time, an economy and stock market predicated increasingly on the acceleration of AI appear vulnerable to any perceived retrenchment in that technology, just as public concerns mount and political resistance to AI hardens. These crosscurrents and complexities have been central to our thinking throughout the summer and early fall.

Interest Rates: Raising the Bar

The rise in long-term interest rates adds an important new dimension to the economic and investment landscape. The 10-year U.S. Treasury yield recently notched 5.25%, a level not sustained in nearly two decades. The leading fixed income benchmark, the Bloomberg Aggregate Bond Index, is off -2.8% so far this year, reflecting the drawdown in bond prices that accompanies higher rates.

¹ Unless otherwise specified, all data is per Bloomberg LP as of the close of trading on September 29, 2026.

US 10-Year Treasury Yield—2020 to Present



Yields are not rising simply in anticipation of what the Federal Reserve might do at its meetings in October and December. They reflect widespread investor recognition of stronger nominal growth, persistent inflation risk, heavy Treasury supply amid chronic deficit spending, a higher term premium, energy uncertainty, and a massively capital-intensive technology cycle.

Higher rates raise the bar for all kinds of investments. Some “equity dollars” must compete with a safe return from high-quality bonds. As rates rise, valuations attract more scrutiny: a market trading at a forward price-to-earnings multiple near 20 might find ready support when profits are compounding rapidly, but the margin for disappointment narrows when investors can earn 5% in risk-free Treasuries. In such an environment, the relevant question is not simply whether a company is growing: it is whether its revenue momentum translates into enough cash-flow generation and return on invested capital to justify its cost of capital.

This is hardly an argument for abandoning risk assets. For long-term investors, we remain constructive on equities whose earnings growth, free cash flow, balance-sheet strength and structural investment trends can overcome a higher discount rate. In fact, I see the opportunity set continuing to broaden far beyond the largest U.S. technology companies. Energy and power, industrial automation, financials and high-quality fixed income all warrant attention. Outside the U.S., there exist compelling opportunities in Japan, select emerging markets, and European defense and infrastructure firms (see below).

With that said, interest-rate volatility has become a key variable in its own right. The challenge is not only a higher cost of capital, but also greater uncertainty about its path. For corporations, sharp moves in Treasury yields affect equity discount rates, borrowing costs, and project economics; they complicate refinancing, acquisitions, and investment decisions. For investors, rate volatility can quickly shift the relative appeal of equities, fixed income, and cash—and increase the premium on valuation discipline.

Global Outlook: *Resilience Amid Crosscurrents*

The global economy has absorbed a remarkable series of shocks without falling into recession. Consensus estimates indicate global growth of 3.0% in 2026 and 3.1% in 2027. On a regional basis, this year the U.S. is expected to grow approximately 2.2%, the euro area 0.9%, China 4.6%, and Japan 0.8%.

Underneath the aggregate figures is a widening divergence in economic drivers, and therefore investment opportunities, among the world's economies. Energy exporters and economies closely integrated into the technology supply chain and AI revolution have generally fared better, while energy importers with limited exposure to the AI investment cycle have faced a more difficult combination of slower growth and higher inflation. While I share the expectation for economic expansion to continue, I also see a regime increasingly characterized by greater capital intensity, geopolitical uncertainty, and a structurally higher cost of capital than investors have been accustomed to since the global financial crisis and Covid-19 pandemic. I also expect country-by-country dispersion to continue.

- **United States: Capex Takes the Lead**

In the United States, overall economic activity remains firmer than many expected given the cumulative rise in interest rates since the spring. However, the mix has shifted, with business investment providing an increasingly important offset to an evolving consumer story. Capital spending is robust, productivity growth has incrementally improved, and manufacturing activity has shown signs of stabilization. The labor market has cooled from the extraordinary tightness of 2021–2023, but not enough to suggest a risk of imminent recession. In fact, August payrolls increased by 162,000—a meaningful rebound from July, even as the longer-run average pace of job creation has slowed.

The consumer, who still accounts for the lion's share of U.S. GDP, remains bifurcated. Many middle-income and most higher-income households continue to benefit from accumulated wealth, rising financial asset values and, in many cases, locked-in low mortgage rates. Yet a meaningful portion of working-age Americans—nearly one out of every six, according to the Federal Reserve—owns neither a home nor financial assets, leaving them far less insulated from inflation. Lower-income and younger households are exposed to high housing and rising revolving-credit costs, and to the cumulative post-pandemic increase in prices for goods and services of all kinds. The U.S. thus remains a tale of two consumers, even as topline spending retains significant momentum.

- **Europe: Defense and Industrials to the Rescue**

Europe faces a complicated near-term mix. Growth has held up better than feared, and fiscal spending on defense, infrastructure and energy security provides meaningful medium-term support. Indeed, even a ceasefire in the Russia-Ukraine war would be unlikely to reverse government commitments in these areas; I view them as a multi-year capital cycle rather than a short-term trade on battlefield developments. Yet the region will remain more exposed than the U.S. to imported energy costs for the foreseeable future. In September, the European Central Bank raised its policy rates by 25 basis points despite projected euro-area growth of only 0.9% for full-year 2026. (Unlike the Fed, the ECB has only one mandate: price stability.)

Although Europe remains less exposed to high-growth technology than the U.S., the AI buildout is increasingly visible as data-center development, grid modernization, and power investment spread from the Nordics through continental Europe. Valuation differentials in these sectors have narrowed versus the U.S., but they remain viable long-term exposures for investors seeking a globally balanced approach to growth. While elevated industrial lubricant and diesel prices pose noteworthy headwinds, on balance I maintain a preference for defense, industrials, electrical infrastructure, select financials, and globally competitive companies over broad exposure to European domestic demand.

- Japan: Continued Promise from Structural Change

While Japan is a major energy importer and still faces slow growth and aging demographics, the structural story I have written about often in recent years remains compelling. Corporate-governance reform, improving capital allocation, rising wages, a more durable inflation regime, and strong exposure to semiconductors, automation and advanced manufacturing continue to support the long-term case.

In addition, the Bank of Japan raised its policy rate to approximately 1.25% in September, further distancing the country from the deflationary equilibrium that constrained the country's nominal growth for decades. Higher rates can introduce currency and valuation volatility, but this normalization is also evidence that Japan's economic regime has shifted.

While it may be unrealistic to expect the Japanese TOPIX Index to sustain the pace of its 21% year-to-date return in the quarters ahead, I still believe Japanese equities represent good value over the medium and longer term. I am particularly attracted to market segments marked by a convergence of relevant structural reforms, improving returns on capital, and high-demand export products essential to both the global AI revolution and broader industrial modernization. I also see a more prolonged series of rate hikes in Japan in the quarters ahead, which would increase prospects that the yen could strengthen. This would tend to boost returns for U.S. dollar-denominated investors in the island nation.

- China: Part of the Conversation (even if not the Portfolio)

China is more complicated. The MSCI China Index is down -11.5% year-to-date, and property, demographics and subdued domestic consumption all pose significant structural constraints. At the same time, Chinese progress in AI models, advanced manufacturing, robotics and selected areas of the semiconductor ecosystem makes the country integral to the global technology discussion. Indeed, tech manufacturing, exports and various forms of policy support continue to support economic growth in China, while providing crucial inputs as well as finished goods on a global basis.

The Chinese policy reaction function can be difficult to anticipate, but the world's second-largest economy remains too important to global trade, commodities and technology to ignore. While poor transparency and regulatory uncertainty leave many global allocators rightly underweight China, it is important to monitor supply and demand trends there. Even when the communist nation's decisions are profoundly uneconomic, they can impact commercial activity and investment opportunities in freer markets all over the world.

- Emerging Markets: The Evolution Continues

We continue to see opportunities in Emerging Markets. India has been on its heels of late given its dependence on imported energy, but remains a potential long-term juggernaut. Elsewhere, we are mindful that much of the EM universe has shifted dramatically in recent decades, with tech rather than energy and mining sectors driving returns and rising domestic wealth providing growing tailwinds. Several such themes merit a carefully sized allocation in many portfolios.

U.S. Equities: *All Roads Lead to—and from—AI*

The U.S. equity market has shown unusual resilience to higher oil prices, competition from bond yields, and a new Fed tightening cycle. This is fundamentally because Corporate America continues to generate strong profit growth. While eight of the 11 sectors in the S&P 500 are in the green—topped by Energy, driven by continued conflict in major energy-producing regions—technology and AI-related investment are still leading the long-term charge.

S&P 500 Returns by Sector—YTD

S&P 500 ENERGY INDEX	37.45%
S&P 500 INFO TECH INDEX	27.08%
S&P 500 HEALTH CARE IDX	10.28%
S&P 500 INDUSTRIALS IDX	9.04%
S&P 500 MATERIALS INDEX	8.43%
S&P 500 CONS STAPLES IDX	5.90%
S&P 500 REAL ESTATE IDX	4.07%
S&P 500 COMM SVC	3.98%
S&P 500 FINANCIALS INDEX	-1.35%
S&P 500 CONS DISCRET IDX	-6.41%
S&P 500 UTILITIES INDEX	-6.97%

Source: Bloomberg LP

Index weightings capture some of tech's overall leadership. The Information Technology sector now represents close to 40% of the S&P 500; this is higher than the roughly 35% share reached around the peak of the dot-com boom, when high concentrations in tech were far less supported by earnings and cash flow than they are today. (This is much higher than Energy's 3.4% weighting, making Technology's total profit contribution more significant despite its lower YTD nominal return.)

However, sector classifications mask technology's true share of earnings. Meta and Alphabet count as "Communication Services," while Amazon sits in "Consumer Discretionary"—two lagging sectors. If just those three megacap businesses were grouped with Information Technology, both the earnings and the broader economic footprint of the sector would be even larger, and by a considerable amount.

But even that would not fully capture AI's contribution to economic and earnings growth. Enormous capex is flowing not only through semiconductor companies and hyperscalers, but also utilities, industrials, construction, networking, power equipment and other sectors. All told, Goldman Sachs

recently estimated that AI-related investment is now driving nearly half of S&P 500 earnings growth. And that's before the consumer spending supported in part by the "wealth effect" of booming AI stocks.

From both an economic and an investing standpoint, this means that what at first blush appears to be a healthy broadening trend is nevertheless correlated to, and largely dependent on, AI-related capex. This is both an impressive reflection of the broad lift that technology is giving to the economy, and a reason for allocators to stay disciplined and manage risk. If ostensibly different sectors all rely on the same underlying capital cycle, they are all vulnerable to any slowing or reversal of its underlying momentum.

For investors who prize diversification, this is an important moment to take stock. Demand for AI is no longer in question, but the financing, monetization, and eventual return on invested capital all are. Meanwhile, political backlash is growing to data center construction and other aspects of AI transformation in the workplace and society. The possible impacts on profits warrant consideration.

Nevertheless, the increasingly clear commercial promise and projected productivity gains from AI make it an economic imperative for AI investment and adoption to continue. As I parse the ever-broadening opportunity set, several themes remain salient:

- *AI model differentiation versus commoditization.* As model performance converges in some areas, proprietary distribution, data, user ecosystems and the ability to monetize inference may become increasingly important sources of differentiation.
- *Data infrastructure.* Agentic AI should dramatically increase the creation, movement and use of data. Companies that can store, secure, govern and distribute that data efficiently may occupy increasingly valuable positions in the AI stack.
- *Cybersecurity.* AI expands the scale and sophistication of both legitimate digital activity and cyber threats, increasing the strategic importance of security spending.
- *Power and electrical infrastructure.* Data centers and advanced manufacturing require reliable electricity. Power producers, utilities, dispatchable generation, grid modernization, transmission, electrical equipment, natural-gas infrastructure and select renewable technologies should remain important beneficiaries.
- *Businesses supplying the physical buildout.* Cooling, networking, industrial automation, engineering and construction, and select materials are all essential to data center construction.
- *Healthcare productivity.* AI can improve drug discovery, diagnostics, surgical robotics, workflow automation and data analysis, creating opportunities beyond traditional technology.
- *Select software.* We remain interested in companies that can embed AI into enterprise workflows and transition from traditional license-based models toward usage- and consumption-based economics without sacrificing margins or customer value.
- *Financials.* Banks and other financial services companies are benefiting from healthy nominal growth, strong mergers and acquisitions activity, active capital markets, and a more conventionally shaped yield curve as hyperscalers demand longer-dated capital to fund capex.
- *Reshoring and reindustrialization.* More resilient supply chains require redundant capacity and additional capital. Like AI itself, this trend can be inflationary in the near term but creates durable demand for automation, engineering, construction and industrial equipment.

Whether potential investments are tied directly to AI or not, we continue to favor high-quality secular growth companies with strong balance sheets, pricing power and demonstrable returns on investment.

A Global AI Supply Chain—and a Global Opportunity

The United States currently dominates AI capital formation, hyperscale computing, frontier-model development, and many of the highest-value software platforms. Yet the physical infrastructure required to support AI is inherently global, and so are the investment opportunities.

The advanced semiconductor supply chain runs through Taiwan, South Korea, Japan, Europe and the United States; it has become a significant driver of returns in some emerging markets. Memory production, semiconductor fabrication, lithography, specialty materials, precision equipment and electronic components are distributed even more broadly across Europe and Asia, as is the power and industrial infrastructure required to support data centers. Constraints on supplies of electricity, transformers, switchgear, cooling systems, construction capacity, natural gas, copper and skilled labor are similarly global, not uniquely American.

At the same time, open-source Chinese models are already impressive, and their low cost makes for appealing alternatives to American platforms such as those offered by OpenAI and Anthropic for users worldwide. This type of “good enough” intelligence needs far less “compute” and associated data center capacity. If open-source models continue to capture market share, investors may reassess valuations across key segments of this ecosystem, creating new winners and perhaps some surprising losers.

For these reasons among others, the extension of “great power” competition between the U.S. and China to the AI realm warrants the attention it is receiving from a national security perspective. But as an allocator of client capital, I prefer to view AI as a global technological transformation rather than a winner-take-all race. There is room for multiple models and ecosystems to achieve enormous scale, and the eventual investment opportunity should extend well beyond the companies that currently command the most attention—let alone the borders in which they happen to reside.

One thing is clear: the pace of change. A recent *Journal of Economic Perspectives* paper examining the commercial LLM market found that the price of AI intelligence fell roughly 1,000-fold between 2023 and 2025, and that today’s open-source models can cost 90% less than comparable closed models. We will continue to see AI evolve in ways both tantalizingly foreseeable and wholly unpredictable.

Monetary Policy: Projecting Conviction on the “Last Mile” of Inflation

In September, the Fed unanimously agreed to raise its target range by 25 basis points to 3.75-4.00%. It was the first hike from the U.S. central bank in more than three years. In announcing the decision, Chairman Kevin Warsh cited solid economic activity, resilient domestic spending, strong productivity and robust capital investment. Yet despite the Fed’s success in bringing key measures down from 9% to around 3% under Warsh’s predecessor, it was the chronic failure to wrestle inflation the “last mile” down to its longstanding 2% target that loomed as the largest factor in the Fed’s pivot to higher rates.

Other major central banks are also showing a newly hawkish bias. The European Central Bank raised its key rates by 25 basis points as higher energy costs threatened to keep inflation above target. The Bank of Japan increased its policy rate to approximately 1.25%. The Bank of England held steady at 3.75%, but three of nine policymakers favored a hike and none voted for a cut. The common thread is clear: the global inflation problem has not disappeared, and central banks are again confronting the risk that narrow but deep supply shocks could spread inflation to broader consumer expectations and wages.

This is an important reversal from the monetary regime that has largely dominated since the Great Financial Crisis of 2008-2009. Instead of assuming that weak growth and low inflation will generally pull policy rates and long-term bond yields toward zero, central bankers are now confronting the realities of large fiscal deficits and higher spending on defense, energy infrastructure and supply-chain redundancy. All these trends would likely continue even if the wars in Iran and Ukraine were to end tomorrow.

Still other factors are contributing to a structurally higher interest rate environment. Despite an urgent need to address housing shortages, homebuyers and builders must now compete with the unprecedented AI capital cycle for labor, materials and financing. This horse race may help support nominal GDP, but it can also keep real and nominal interest rates above the levels that prevailed during the 2010s—and stymie important economic priorities not connected with deep-pocketed hyperscalers.

There are nevertheless constructive aspects to higher yields. One of course is the return of meaningful levels of income generation. Six years ago, investors rushed to lock in yields around 0.5%; today the 10-year Treasury sits comfortably above 5%, compared with long-term inflation expectations of just 2.35%. That means high-quality sovereign bonds are once again contributors to total portfolio return, and can improve the overall prospective return profile of balanced portfolios across developed markets.

Second, today's message from higher yields is driven more by economic growth and productive investment than by inflation expectations or deteriorating fiscal credibility. U.S. nominal growth remains healthy, and the scale of technology-related capital spending is driving demand for capital. We therefore resist explanations that attribute the entire increase in yields to federal deficits alone. Deficits matter, but so do growth, inflation, term premium, and an extraordinary private-sector investment cycle.

Finally, higher borrowing costs can help impose discipline. The federal government can finance large deficits more easily when the cost of money is close to zero than when long-term yields exceed 5%. I do not presume that “bond vigilantes” will force an immediate fiscal reckoning in Washington (or London, Paris or Tokyo for that matter). But higher interest expense makes the tradeoffs between spending and taxation harder to ignore. As both an investor and a citizen, I can only hope that borrowing costs near 20-year highs will help leaders hear the alarm bell that has already been ringing for at least a generation.

Fixed Income: *The Return of a “Return Asset”*

While fixed income is back as a meaningful source of anticipated portfolio return, spreads remain extremely tight. Treasury notes alone offer yields of 4.88% to 5.61% depending on duration; mortgage-backed securities and investment-grade corporate bonds can add another 40 to 100 basis points with

modest risk. For less credit-sensitive components of fixed income, I see incremental value in gradually extending duration toward, though generally not beyond, that of the Bloomberg Aggregate Bond Index.

High-yield bonds are historically more correlated to equities, a fact that tends to become clear when the economy hits a soft patch. With that said, broad high-yield bond indices have posted some of the best year-to-date returns in the entire asset class, supported by low default rates, naturally shorter average duration, and attractive nominal yields across the maturity curve. We see incremental value in a modest allocation where appropriate to client mandates and risk tolerances.

Commodities: *Energy, Gold and Industrial Metals*

The Middle East conflict remains the leading global macroeconomic risk. Disruptions in the Strait of Hormuz affect not only crude oil but also LNG, refined products, petrochemicals and fertilizer. The economic impacts therefore extend well beyond the price of gasoline. Europe and Asia are particularly exposed to imported energy costs; while the U.S. is better insulated as a major producer, it faces its own domestic refining bottlenecks and remains subject to global pricing dynamics. Prolonged disruptions threaten to push headline inflation higher through increased shipping, industrial production and construction costs; any escalation impacting additional export routes would increase these risks.

In this environment, gold continues to play several roles as a non-fiat based currency: geopolitical hedge; hedge against loss of buying power by major fiat currencies such as the dollar, euro and yen; and reserve-diversifier for central banks. Its relative resilience in the face of higher bond yields is particularly notable: many investors are actively choosing gold over real cash income. In fact, gold is off just -3% year-to-date in the face of a 106 basis point rise in the 10-year Treasury yield. This suggests that fiscal, geopolitical and reserve-management concerns are supporting demand.

Gold's positive returns over the last several years have also occurred while maintaining relatively low correlations to both equities and fixed income. As such, we continue to view gold as a strategic diversifier rather than a substitute for productive assets.

Copper and other industrial metals sit at the intersection of electrification, grid expansion, data centers, defense and infrastructure. Supply responses are slow because new mines require long lead times, significant capital and permitting. The long-term demand case is compelling, but commodities remain cyclical and sensitive to the slope and duration of the AI buildout. On balance, I am generally constructive given the picks and shovels buildout of AI and related industrial demand. Copper is the poster child for this thesis: its supply is significantly constrained relative to highly visible demand.

Alternatives: *The Advantage of Uncorrelated Returns*

The team at Clear Harbor has access to a panoply of alternative investment products. Whether such exposures are advisable can depend on individual liquidity needs as well as perceived correlations to equities, fixed income and real assets. We certainly refrain from exposures that can be replicated in a less expensive manner in public markets.

For some clients, there may be merit in allocating some capital to opportunities that are either non-correlated, less correlated, or inversely correlated to other investments in a portfolio. This is particularly true today, when important and thoughtful questions are being raised about the forward return profile of equities and whether fixed income still adequately provides the type of historical ballast that investors have traditionally expected.

The View into Q4: *Factors to Watch*

Of the many dynamics we are watching heading into year-end, several merit special attention:

1. *The interaction between headline and core inflation.* An energy shock is manageable if it does not become embedded in wages and services.
2. *The direction of U.S. Treasury and global sovereign bond yields.* The reasons for future moves will be important: yields driven higher primarily by stronger real growth carry a more constructive message than those responding to perceived inflation or fiscal risk.
3. *Corporate earnings breadth.* Continued strength outside the largest technology companies would bode well for the duration of the equity advance. Prospects for sector rotation bear watching as technology companies face intimidating comparisons to prior-year performance.
4. *AI monetization and financing.* Utilization (especially enterprise adoption), power availability, depreciation and free cash flow matter more now than headline capex announcements alone.
5. *The U.S. dollar.* A disorderly dollar rally would tighten global financial conditions and challenge emerging markets and commodities.

Finally: we are watching credit spreads closely. Equity markets can tolerate high government-bond yields when earnings are strong and credit remains orderly. But a simultaneous rise in Treasury yields and corporate spreads would be a more consequential signal that the cost of capital is beginning to impair economic activity.

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History reminds us that recognizing a powerful secular trend is not enough to guarantee investment success. Nineteenth-century railroads saw enormous growth in traffic and transformed our economy, yet many were consolidated or failed outright. The automobile similarly reshaped the twentieth century, but hundreds of early manufacturers disappeared as the industry matured, ushering in Ford and General Motors as the (in some respects unexpected) victors over Packard and Studebaker.

More recently, the Internet ultimately met and even exceeded the extraordinary expectations of the late 1990s, yet companies such as Pets.com and eToys became emblematic casualties of the era. Even once-dominant companies such as Yahoo, Sun Microsystems, and AOL ultimately lost their leadership as technology and business models evolved. Many startups that initially captured investors' imaginations failed, while others that would ultimately come to dominate the digital economy were relatively small or had yet to be formed.

I believe these lessons should inform how we approach artificial intelligence today. We can have considerable conviction that AI will transform the global economy without assuming that today's perceived winners will necessarily remain tomorrow's leaders. Technological revolutions create enormous value, but they can also invite competition, compress margins, and continually move the goalposts. Investors must stay nimble enough to notice when leadership is changing, disciplined enough to distinguish a compelling narrative from a durable competitive advantage, and humble enough to acknowledge that the greatest beneficiaries of AI may not yet be obvious—or, in some cases, even exist.

This history is also a reminder that great transformations do not occur in a vacuum. The growth of the automobile to dominance spanned the Great Depression, two world wars, and the boom-bust cycle of the postwar economy. That is why I have devoted several pages in this quarter's commentary to other core themes that also shape our market environment—monetary policy, rising yields, and global economic trends—even as I keep a primary focus on the defining trend of our era: AI.

For markets, the defining feature of 2026 so far has been resilience—in economic growth, corporate profits, and risk appetite. Inspired by the scope and scale of AI investment, global equity markets have absorbed shocks that might otherwise have risked a severe drawdown. Yet geopolitical uncertainty and rising costs of capital continue to pose high walls of worry for investors to climb. As we enter the fourth quarter of 2026, the Clear Harbor team remains constructive on AI and the rebuilding of global physical and digital infrastructure, while recognizing that markets priced for strong earnings to continue are more vulnerable as Treasury yields march higher.

We are grateful for the trust you place in Clear Harbor and for the responsibility you have entrusted to us as stewards of your capital. We remain equally committed to delivering thoughtful, objective advice as we navigate the opportunities and challenges ahead.

Best,

A handwritten signature in dark ink, appearing to read "Paul J. Han". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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