Independence | Asset Advisors

MONTHLY MARKET REVIEW – October 2026

	Oct 2026	YTD	1-Year	3-Years	5-Years	10-Years
U.S. Large Cap Equities S&P 500	-0.87%	11.76%	12.11%	23.40%	12.06%	15.44%
U.S. Small Cap Equities Russell 2000	0.58%	14.37%	14.80%	20.76%	5.58%	10.44%
Energy Infrastructure Equities Alerian U.S. Midstream	11.22%	38.10%	45.78%	30.79%	25.72%	14.15%
U.S. Real Estate Equities Dow Jones U.S. Select REIT	3.13%	14.32%	14.95%	16.01%	3.22%	5.88%
Global Equities MSCI All Country World	-1.64%	11.18%	12.33%	22.30%	10.10%	12.39%
Int'l Developed Equities MSCI EAFE	-0.74%	9.52%	13.50%	19.75%	8.63%	9.21%
Emerging Market Equities MSCI Emerging Markets	-8.05%	13.45%	14.05%	22.28%	6.92%	8.15%
U.S. Taxable Fixed Income Bloomberg U.S. Aggregate	2.44%	-0.54%	-0.07%	5.45%	-0.15%	1.46%
U.S. Tax-Exempt Fixed Income Bloomberg Municipal Aggregate	3.85%	-0.48%	-0.16%	4.49%	0.61%	2.00%
High Yield Fixed Income Bloomberg U.S. Corp High Yield	0.30%	0.40%	1.56%	8.56%	3.70%	5.04%
Floating Rate Loans Morningstar LSTA U.S. Loan	-0.22%	3.06%	4.09%	6.96%	6.09%	5.27%

- Market returns were mixed in October as investors considered the implications of the upcoming U.S. Midterm elections, resilient corporate earnings, shifting central bank expectations and concerns surrounding valuations and investment spending among artificial intelligence (AI)-related technology companies.
- Global equities declined 1.6% last month, with emerging markets equities falling over 8% as investors rotated away from technology-heavy Asian markets, such as Korea.
- In the U.S., value stocks significantly outperformed growth stocks, with the Russell 1000 Value Index gaining 4.4% compared with a 6.1% decline in the Russell 1000 Growth Index—a difference of approximately 10.5%.
    - Despite this divergence, growth stocks continued to trade at a meaningful valuation premium to value stocks, reflecting higher expectations for future earnings growth. This premium also leaves growth stocks potentially more vulnerable to changes in earnings expectations and investor sentiment.
    - Notably, market performance broadened beyond the largest technology companies, with the equal-weighted S&P 500 Index gaining 5.0% despite a 0.9% decline in the capitalization-weighted index.

Sources: eVestment, JP Morgan, xe.com, MarketWatch, StatisticsCanada, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Yahoo Finance, Bureau of Economic Analysis Report

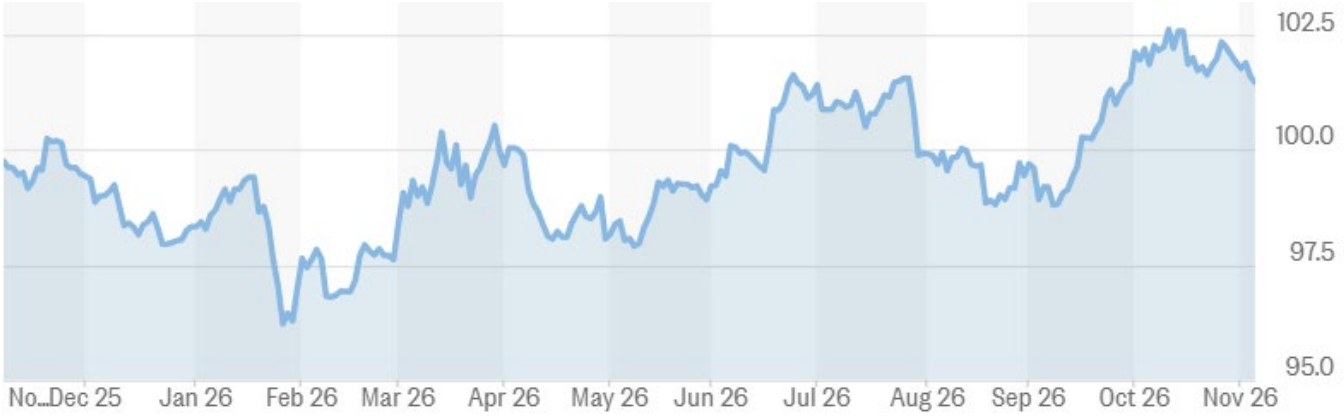
- Energy infrastructure equities performed particularly well in October, gaining 11.2%. The strong results reflected strong natural gas infrastructure demand, growing LNG exports, AI-related electricity demand and improving investor confidence in pipeline companies.
- October marked a significant reversal in global bond markets following months of selling pressure:
    - Government bonds recovered as investors moved towards higher-quality assets amid volatility in equity markets.
    - The U.S. 10-year Treasury yield declined by approximately 0.35% to 4.91%.
    - Investment-grade corporate bonds outperformed high-yield bonds, supported by their greater sensitivity to declining Treasury yields. Credit spreads widened as investors became more selective, particularly toward companies with significant borrowing and capital expenditure requirements, including those financing AI-related infrastructure investments.

Category	Comments
Growth	The U.S. economy grew at a 3.4% rate (annualized) in the third quarter: • Consumer spending rose 3.8%, contributing approx. 2.5% to GDP growth. • Government spending and investment contributed approx. 0.9% to growth. • Residential investment declined 3.3% due to higher mortgage rates. • Business investment remained a meaningful contributor to economic growth, particularly investment in equipment and technology.
Profits	The 3Q 2026 earnings season is underway with 82% of companies reporting as of this writing: • Approximately 80% of S&P 500 companies have exceeded expectations. • EPS growth is projected at roughly 30% year-over-year. • The U.S. is on track for the eighth consecutive quarter of double-digit growth.
Jobs	The October jobs report was strong: • The U.S. added 165k new jobs, far exceeding expectations. • August and September payrolls were positively adjusted by 84k jobs. • Hiring was driven by professional and business services. • The unemployment rate decreased to 4.1%; wage growth increased to 3.1% y/y.
Inflation	Fed Gauge: Personal Consumption Expenditures Index (PCE - Core): • Core PCE rose 0.3% m/m in September, or an annual increase of 3.1%. • Core inflation remains above the Fed's 2.0% long-term inflation target.
Interest Rates	The FOMC voted to keep the benchmark federal funds rate steady in October: • Range of 3.75%-4.00% • The Committee acknowledged strong economic activity and resilient consumer spending and capital investments, along with elevated Core inflation. • The decision reflected the Fed's continued focus on balancing economic and labor-market conditions with its commitment to restoring price stability.

Sources: eVestment, JP Morgan, xe.com, MarketWatch, StatisticsCanada, U.S. Dept of Labor/Bureau of Labor Statistics, Bank of Canada, Reuters, Yahoo Finance, Bureau of Economic Analysis Report

CANADA:

- The U.S. dollar index (DXY) ***strengthened*** 0.4% in October and ***strengthened*** 2.1% over the past 12 months (see chart below). The U.S. dollar ***weakened*** 1.7% against the Canadian dollar in October to end the month at an exchange rate of approximately C$1.40 per US$1.



- The Bank of Canada's elected to raise its policy interest rate by 0.25% on October 28th.
    - This represented the first interest rate increase since July 2023.
    - This hike was primarily done to prevent rising oil and energy process from causing broader inflation.
- ***Core CPI***, referred to as "CPI-trim," ***decreased*** from 1.9% in August to 1.8% in September. CPI-trim rose approximately 0.2%, month-over-month in September, even as its annual inflation rate eased.
- Canada's real Gross Domestic Product (GDP) grew by 0.8% in the second quarter, to an annualized rate of 3.3%, rebounding from 0.1% growth in the first quarter. Economists estimate annualized growth of roughly 1.3% in the third quarter, resulting in annual growth between 1.1% and 1.5%.
- The Bank of Canada estimates annualized third-quarter growth of approximately 2%, supported by consumer spending, business investment and exports.

Looking ahead, the Bank of Canada projects real GDP growth of approximately 1% for the full-year 2026, accelerating to 2% in 2027, although uncertainty surrounding trade policy remains a key risk.

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MARKET UPDATE

October 31, 2026

By Thomas Grugan, Director & Senior Investment Strategist

Financial markets have had a generally positive year, though performance has been uneven across asset classes. While equity markets have posted positive returns, the broad U.S. bond market has been essentially flat to slightly negative, with rising yields and declining bond prices weighing on returns. As we approach year-end, it may be prudent for investors to opportunistically realize losses on certain fixed income holdings or funds, while repositioning portfolios towards more tax-efficient investments. In particular, municipal bonds may offer a combination of tax-exempt income, compelling after-tax yields, and potential long-term returns. In this letter we consider the benefits of tax-loss harvesting and the potential advantages of reallocating a portion of taxable fixed income to municipal bonds.

Tax-Loss Harvesting

Tax-loss harvesting is a strategy that allows taxable investors to realize capital losses by selling investments that are trading below their cost basis. Capital losses can offset capital gains and potentially some ordinary income.

Under current federal tax rules:

- Short-term capital losses first offset short-term capital gains.
- Long-term capital losses first offset long-term capital gains.
- Remaining losses can offset gains of the opposite character.
- Up to $3,000 of net capital loss can generally offset ordinary income annually.
- Unused losses carry forward indefinitely under current law.

Investors must also consider the *Wash Sale* rule before and after selling at a loss. Buying substantially identical securities during the 61-day window (30 days before and after the sale) can disallow the loss.

Tax-loss harvesting can offer benefits beyond offsetting current capital gains. By deferring taxes, it may allow investors to keep more money invested, creating an opportunity for additional growth and compounding over time. It can also provide an opportunity to replace a loss position with a more diversified or otherwise more suitable investment, improving portfolio composition while realizing a tax loss. However, these benefits must be weighed against potential trade-offs: replacement investments may have a lower cost basis, which could result in larger taxable gains when eventually sold. Ultimately, the strategy's value depends on the investor's current and expected future tax circumstances, investment horizon, and broader portfolio objectives.

Portfolio Rebalancing

Recent bond market declines may give investors an opportunity to harvest tax losses harvesting and rebalance their portfolios (see table below). Fixed income markets in 2026 have been defined by elevated yields, persistent inflation pressures and heavy corporate and government bond issuance. As yields have

risen, bond prices have fallen, leaving many sectors, particularly taxable corporate and government bonds, with negative year-to-date returns.

Investors may be able to realize tax losses by selling taxable bond funds or individual bonds that have declined in value and reinvesting the proceeds in municipal bond funds or tax-exempt municipal bonds, where appropriate for their tax situation and investment goals. Replacement investments should be selected carefully to avoid wash sales.

While lowering taxes through tax-loss harvesting may benefit taxable investors, realizing a loss and reinvesting capital into municipal bonds are two separate investment decisions. The tax benefit should not be the sole reason to sell an otherwise appropriate investment.

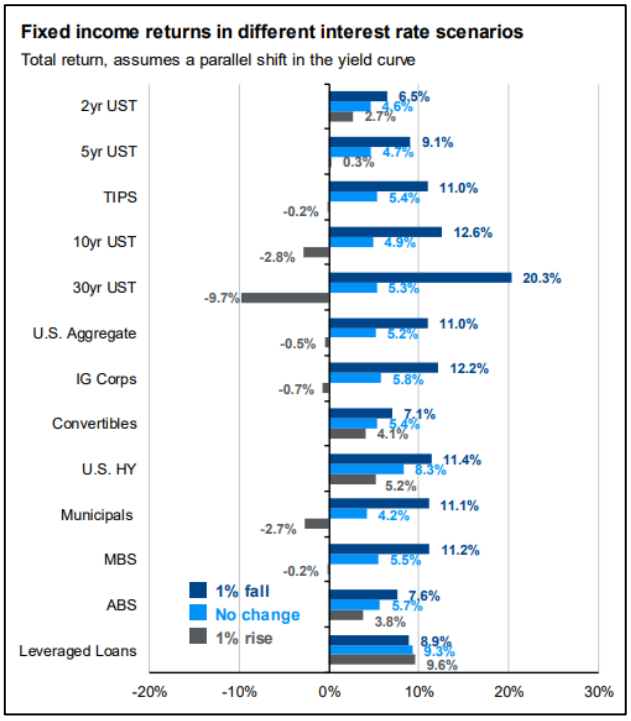
	Yield		Return			
U.S. Treasuries	10/30/2026	12/31/2025	2026	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	4.56%	3.47%	1.25%	2 years	0.77	0.04
5-Year	4.71%	3.73%	-0.93%	5	0.95	0.06
TIPS	2.42%	1.69%	0.44%	7.2	0.79	0.39
10-Year	4.94%	4.18%	-2.17%	10	1.00	0.06
30-Year	5.31%	4.84%	-2.98%	30	0.94	0.04
Sector						
U.S. Aggregate	5.24%	4.32%	-0.54%	8.2	0.92	0.32
IG Corps	5.79%	4.81%	-1.02%	10.1	0.73	0.51
Convertibles	5.36%	6.13%	9.43%	-	0.07	0.84
U.S. HY	8.31%	6.53%	0.40%	4.7	0.22	0.77
Municipals	4.21%	3.60%	-0.48%	13.3	0.74	0.35
MBS	5.52%	4.63%	-0.34%	7.7	0.85	0.31
ABS	5.72%	4.69%	2.43%	2.2	0.38	0.34
Leveraged Loans	9.26%	8.10%	3.31%	4.7	-0.15	0.59

Municipal Bonds

Tax-exempt municipal bonds may offer a compelling income opportunity for investors in higher tax brackets. The opportunity developed after a sharp September selloff that pushed yields higher and reduced prices. Although October and November brought a substantial recovery, yields and relative valuations remain historically attractive.

A growing portion of municipal bonds are trading at a discount to par value due to rising interest rates and inflation concerns. As a bond approaches maturity (and assuming the issuer meets its obligations), its price pulls back to the par value, which enhances the total return.

Yields are also attractive, and serve as the baseline component of total return. For investors in higher tax brackets, e.g., 37% federal tax bracket, the tax benefit can make municipal bonds competitive with substantially higher-yielding taxable bonds. See below.



AAA Yields – October 2026		
Maturity	**Yield**	**Tax-Equivalent Yield**
2-Year	2.79%	4.43%
10-Year	3.24%	5.14%
30-Year	4.86%	7.71%

The municipal yield curve remains relatively steep. While the longer end of the municipal bond curve offers considerably more income, with longer maturities also comes greater interest-rate sensitivity.

Another consideration to reinforce the potential benefit of tax-loss harvesting taxable fixed income securities for reinvestment into municipal securities, is the potential total return enhancement that may develop from changing U.S. interest rates. In the graph above, we show the predicted total return of municipal bonds in different interest rate environments. Rebalancing now, while bonds are trading at a discount to par and tax-equivalent yields are high, may position investors well for a shift to monetary easing in the future.

Tactical Positioning

Recent market volatility has presented taxable investors with an opportunity to harvest losses and reduce taxes. We believe a rotation from taxable fixed income into municipal fixed income, with particular emphasis on higher quality issues, makes sense considering the strong tax-equivalent yields and price discount to par.

Overall Position	UW	N	OW	Note
Equity				Quality; larger; NTM earnings up
Fixed Income & Credit				Risk/reward asymmetry favors U.S. Agency Securitized and Bank Loans
Alternatives				Mid-market and secondaries
Cash				Dry powder
U.S. Equity				Neutral-to-overweight
Value				Balanced; growth and value
Growth				
Size				
• Quality				
• Momentum				Caution on AI sustainability and profits
International Equity				Dollar weakness and fiscal stimulus; supportive
Private Equity				Mid-market and secondaries
Duration				
IG Fixed Income (AGG)				Consider rotation into municipal bonds
• USD				
• Global				
High Yield Credit				Bank loans over corporate bonds
Private Credit				Senior secure, first lien
Public Real Estate (REITs)				
Private Core Real Estate				
Infrastructure				Inflation-protected revenues
Transportation				
Hedge Funds				

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