

Dear xxxx;

The stock market has a remarkably short memory. On February 28, 2026, the attack on Iran sent oil prices soaring, pushed global equities into a correction, and made a global recession seem increasingly likely. Six months later, the Nasdaq set a record high, artificial intelligence is once again dominating investor attention, and most of the economic damage caused by the war seems to have been forgotten. This ability to look past today's problems and focus on tomorrow's opportunities is one of the primary reasons global equity markets have remained so resilient in 2026.

During the third quarter, the performance of US equities (Q: +1.10%) and international equities (Q: -0.09%) was muted, US fixed income (Q: -3.51%) fell sharply, and commodities (Q: +25.10%) soared. This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the third quarter and our thoughts on the remainder of 2026 and beyond.

Artificial Intelligence & Corporate Earnings

Artificial intelligence continues to be the primary driver of global equity markets. Alphabet, Amazon, Meta, Microsoft, Oracle and other hyperscaler technology companies are spending hundreds of billions of dollars on data centers, microchips, power infrastructure and other AI-related investments. So far, this massive spending has translated into exceptional revenue and earnings growth.

[Nvidia](#) remains the clearest example of this phenomenon. During the third quarter, the company announced that demand for its chips continues to outpace its roughly 70% annual growth forecast. While there will undoubtedly be companies that spend too much on AI and fail to earn an acceptable return, this does not appear to be the case for today's hyperscalers. For now, the AI trade is supported by rapidly growing earnings, enormous capital expenditures, increasing adoption, and a growing ability to turn AI into revenue. Thus, even though stock prices remain at or near all-time highs, we do not believe AI represents a traditional speculative bubble.

Inflation & The Federal Reserve

Earlier this year it appeared the Federal Reserve was finally winning its multi-year fight against inflation. Unfortunately, higher energy prices, tariffs, and continued strength in the US economy have slowed that progress. In September, the Federal Reserve [increased](#) the federal funds rate by 0.25% to **3.75%-4.00%**, its first rate hike in three years.

The problem facing the Fed is that the economy remains strong. Consumers are spending, unemployment remains low, businesses are investing heavily, and corporate earnings continue to rise. These are all positive developments, but they also make it more difficult to push inflation back toward 2%. Unless inflation begins declining again, we believe the Federal Reserve will raise rates at least one more time in 2026.

Real Estate

The current US housing market is one of the clearest examples of how higher interest rates affect the broader economy. According to [Mortgage News Daily](#), the average 30-year mortgage increased from 6.65% at the beginning of the quarter to 7.58% at the end. This equates to a 14% increase in the mortgage rate in less than three months. As borrowing costs increased, existing-home sales declined, and housing inventory continued to rise.

The US residential real estate market remains stuck between buyers who cannot afford current mortgage rates and sellers who do not want to give up existing mortgages between 2% and 4%. New-home builders have been more successful because they can offer rate buydowns and other financing incentives. However, until mortgage rates decline materially or home prices adjust, we expect existing-home transactions to remain depressed.

Precious Metals

Precious metals have behaved unusually in 2026. Gold is traditionally viewed as both an inflation hedge and [a safe haven](#) during periods of geopolitical instability; however, despite the ongoing war in the Middle East and elevated inflation, gold is down more than 20% from its January all-time high. Silver, platinum and palladium have also retreated from their earlier highs. The primary culprit appears to be interest rates. As rates rise, investors can earn increasingly attractive yields from bonds and money market funds, making non-yielding assets like gold less desirable.

This does not change our long-term view that precious metals belong in a diversified portfolio. Instead, it demonstrates that no hedge works perfectly in every environment. If inflation begins to decline and the Federal Reserve is eventually able to lower rates, yields should fall and the US dollar could weaken, both of which would improve the relative attractiveness of precious metals. Until then, we expect gold and silver to remain volatile as investors balance geopolitical uncertainty against the benefits of higher yielding assets.

Oil & Ongoing Wars

In our first quarter 2026 [newsletter](#), we discussed the importance of both the Strait of Hormuz and the Bab el-Mandeb Strait. When access to Hormuz became restricted, Saudi Arabia increasingly relied on its [East-West Pipeline](#) to transport oil across the country to the Red Sea. Oil headed to Asia and Australia will normally travel through Bab el-Mandeb, meaning Saudi Arabia was simply exchanging one geographic chokepoint for another. While oil can pass through the Suez Canal, this [adds](#) an extra month of travel and millions to the shipping cost.

This risk materialized during the third quarter when drones damaged Saudi Arabia's East-West Pipeline, temporarily disrupting roughly four million barrels of oil per day. At the same time, Iran-backed Houthi forces continued threatening shipping near Bab el-Mandeb. Public reporting does not establish that Iran directly coordinated both events, but the result was essentially the scenario we discussed in our first-quarter newsletter: the alternative route designed to bypass Hormuz became vulnerable itself.

The ramifications extend well beyond Saudi Arabia. Oil and petrochemicals are used throughout the global economy, so transportation disruptions increase the price of everything from gasoline to manufactured goods. Higher energy prices increase inflation, which in turn makes it more difficult for the Federal Reserve to lower interest rates.

Conclusion

2026 continues to demonstrate how quickly financial markets can shift their attention. Earlier this year, investors were focused on war, rising oil prices and the possibility of recession. Today, AI spending and corporate earnings have once again pushed global equity markets toward record highs.

We remain bullish on global equities but increasingly cautious about AI-related companies that have not figured out how to turn massive capital expenditures into earnings growth. We expect interest rates to remain elevated, the residential real estate market to remain sluggish, and geopolitical events in the Middle East to continue creating volatility in energy markets. As always, our goal is not to predict every market move, but to use the volatility created by those moves to actively rebalance your portfolios and improve their long-term performance.

PORTFOLIO UPDATES

Diversification

As you know, GA Pincus Funds uses a proprietary algorithm embedded within custom software to deliver tax-adjusted returns that aim to outperform your blended benchmark. We aim to use a broad set of asset classes so that each of your portfolios represents the global stock, bond, and commodity markets. Each year there will always be a best performing asset class and a worst performing asset class. Diversification ensures stability since your portfolios own a blend of the global market. Part of our investment strategy involves shifting portfolio weightings to minimize the exposure to the underperforming asset classes while maximizing exposure to the stronger asset classes. We will continue to monitor the changing ETF landscape to further diversify each of your portfolios when it is applicable.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our clients' businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception

returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation $((\text{end date value} - \text{start date value}) / \text{start date value})$. Please note, the performance figures in your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns on the statements we deliver may be slightly lower than the statements you receive from Schwab due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a security's relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. We are always available to answer any questions you may have.

Best regards,

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