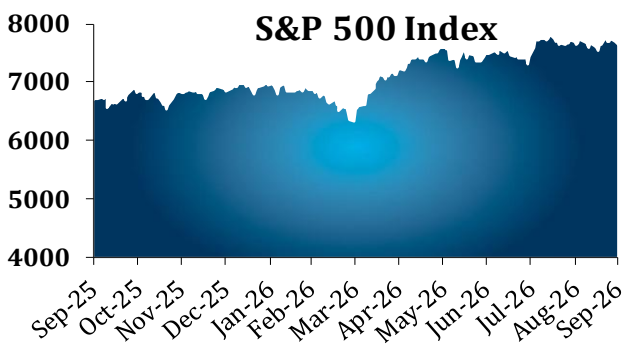
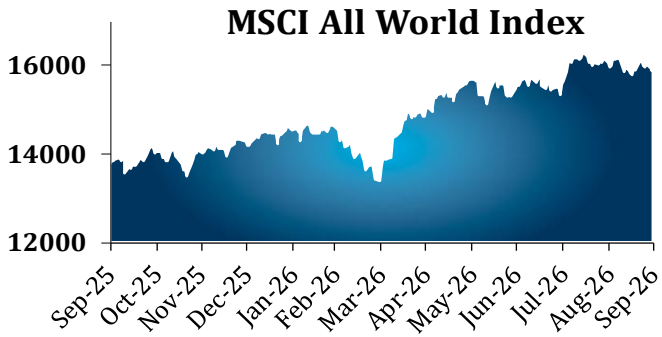
Public

Stock Market Analysis

Hype Versus Reality





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Investment Management

A narrow group of technology companies continued to drive stock market indices higher in the third quarter. The average S&P 500 company fell 2.3%, trailing the primary index by 4.3%. This weak market breadth has persisted throughout the year, making stock selection more challenging for active managers with diversified equity portfolios. The same pattern appeared globally: the MSCI AC World Equal Weight Index declined 0.9% during the quarter, underperforming the primary index by 2.5%. The trend briefly reversed in July, when artificial intelligence shares corrected sharply, but leading AI stocks rebounded in August and September. The market continues to distinguish hype from reality.

Concerns are mounting that higher energy prices and interest rates will pressure corporate profits and raise the cost of capital. However, U.S. nominal GDP growth remains strong, and earnings revisions are still positive. AI infrastructure companies should be insulated from near-term economic challenges by tremendous demand for their products over the next five years, supported by robust orders and backlogs. Transformative innovation can generate lasting productivity gains, but it can also lead markets to misprice risk. Drawing on lessons from the internet bubble, we remain disciplined in managing both new technology holdings and the rest of the equity portfolio. We also see substantial value in individual stocks that have not participated in the AI rally.

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Stock Market Analysis

Portfolio Performance

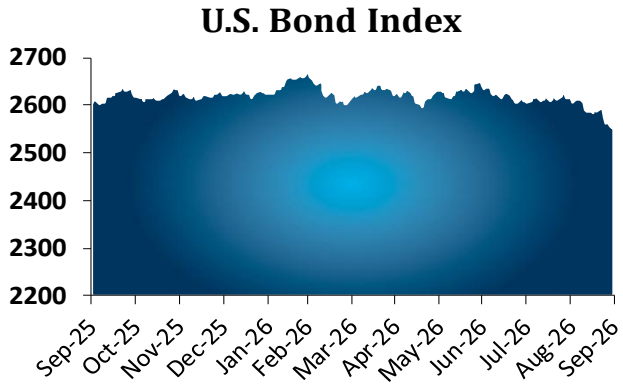
In the third quarter, the MSCI ACWI Net Total Return benchmark rose 1.6%. International and high-quality income indices trailed technology-driven U.S. equity benchmarks. The S&P 500 Index returned 2.2%, while the Bloomberg Europe Index fell 1.5% in U.S. dollar terms, the MSCI Emerging Markets Index declined 2.4%, and the SG Global Quality Income benchmark returned -2.9%. Anchor's equity portfolio declined 1.1%, in line with the MSCI AC World Equal Weight Index. A market led by a small group of speculative growth and AI-related companies can create short-term headwinds for a disciplined, quality-focused process, even when that approach remains well suited to protecting capital and compounding returns over a full cycle. Anchor manages volatile periods with discipline and conservatism. Although we are disappointed with the equity portfolio's relative performance this year, we have underperformed before during periods of intense speculation and narrow market breadth. We remain confident that our quantitative approach can deliver strong long-term results. The Anchor High Quality Income Portfolio returned 2.1% in the third quarter, outperforming the SG Global Quality Income benchmark's -2.9% return. *

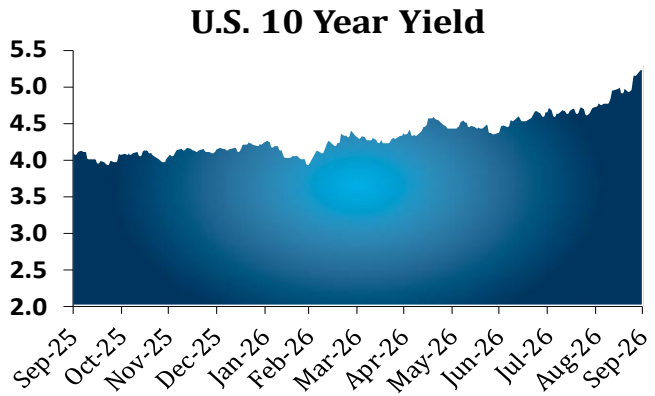
*Performance is based on Anchor equity composite portfolios. Returns include changes in unit value, reinvestment of all distributions, investment management fees, execution, custodial and other charges. Investment results are best judged over the long term. Performance should be evaluated with consideration of the client's specific goals and investment objectives. Past performance is not necessarily indicative of future results. Returns for indices or benchmarks are provided in U.S. dollar terms and solely for informational purposes. These indices or benchmarks are non-managed indices that do not accrue advisory or transactional expenses. Benchmarks are based on the client's selected asset allocation and are calculated in U.S. dollar terms. The Anchor Equity Portfolio benchmark uses the MSCI AC World Total Return Index. The Anchor High Quality Income Portfolio benchmark uses the SG Global Quality Income (USD) Index.

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Fixed Income Analysis

Rise of the Rates





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Global interest rates rose to multi-decade highs with the US 30-year Treasury yield rising to 5.63%, the highest level since 2002. The rise was driven primarily by real rates, indicating that bond markets still regard inflation as a near-term concern rather than a medium- or long-term one. Rates also climbed alongside energy prices as the prolonged Iran conflict threatened oil supply. The longer the disruption persists, the greater the risk that energy inflation passes through to the consumer price index and elicits a more hawkish response from central banks—particularly while inflation remains above their 2% targets and the 2022 inflation spike remains fresh in policymakers' minds. Developed-market interest rates rose broadly in the third quarter, led by increases in 10-year yields in France (+1.21%), Germany (+0.69%), the UK (+0.67%), the US (+0.62%), Canada (+0.61%), and Japan (+0.38%).

Chair Warsh offered little guidance on the federal funds rate at his first FOMC press conference in mid-June, instead criticizing forward guidance and launching a broad review of the FOMC's operations. By Jackson Hole in August, his message was clear: inflation remained too high and was falling too slowly. Ahead of the Fed's 16 September meeting, fed fund futures had priced in nearly four hikes by September 2027 and a 91% chance of a hike in the September 2026 meeting- the message to the market was that monetary policy was too loose. The Fed's credibility has been under scrutiny since Warsh's appointment as Fed Chair. Considering the markets' messaging, with inflation above target, and Warsh's hawkish rhetoric in Jackson Hole, he had somewhat painted himself into a corner of needing to hike. Holding (and not raising) would likely have pushed long-term yields sharply higher on Fed credibility concerns.

The ECB lifted its policy rate by 0.25% to 2.50%, its second increase of 2026. With euro-area inflation at 3.2% year over year, the Governing Council remains focused on persistent price pressures. The region is particularly exposed to the Iran conflict, which the ECB's analysis suggests could materially raise its inflation forecasts. Markets price in nearly four additional hikes by September 2027. The BOJ also lifted its rate by 0.25% to 1.25%, its second increase of 2026, and signaled that further tightening could proceed faster than anticipated; markets expect three additional hikes by September 2027. Norges Bank raised its rate by 0.25% to 4.50% after markets assigned roughly a two-thirds probability to a move. It indicated that further tightening may be needed, and markets price in one more hike by the end of January 2027. Lastly, the RBA unanimously lifted its rate by 0.25% to 4.60%; markets expect a further hike over the next 12 months.

Public

Fixed Income Analysis

Rise of the Rates

Monetary tightening is not the only force pushing yields higher. AI-related borrowing has added to bond supply: hyperscalers issued $180 billion in the first three quarters of 2026, twice the total for the entirety of 2025. CreditSights projects record investment-grade issuance of $2–$2.2 trillion in both 2026 and 2027. This AI infrastructure spending coincides with heavy US Treasury issuance to fund the budget deficit. Treasuries outstanding totaled approximately $40.1 trillion at the end of September, up from $37.6 trillion a year earlier. The federal government has not recorded a budget surplus in more than 20 years, and a near-term reversal appears unlikely. Annual US interest expense has surpassed $1 trillion and, according to TD Securities, could reach $1.4 trillion in 2027. It now accounts for approximately 16% of total outlays, up from about 6% in 2010. The US's fiscal situation has been well documented for some time; however, given the rise in rates—and the resulting increase in interest expense—it has become a constant headline.

The dollar's quarter was divided into two distinct phases. The Bloomberg Dollar Spot Index declined 2.14% over July and August, then rallied 1.97% in September to finish the quarter only slightly lower. The September rebound coincided with the sharp rise in Treasury yields, which improved the dollar's relative interest rate differential. Only three G10 currencies gained against the dollar in Q3: the JPY (+3.27%), NOK (+2.96%), and AUD (+0.40%).

US growth has been robust. US purchasing managers indices (PMIs)—both the manufacturing and services components—remain well into expansionary territory. The Atlanta Fed Real GDP Nowcast is projecting growth of 3.74% for Q3. This, in addition to the higher fed funds rate path and AI productivity gains, has driven the march higher in real yields. The 2Y treasury rose 0.71% to 4.88%, while the 10Y ended the quarter at 5.28% (+0.62%); the 30Y ended Q3 at a 24-year high. This has been a large rate move in a short amount of time. The market is pricing in 3.5 0.25% Fed rate hikes over the next 12 months at quarter end. This seems too hawkish to us. With core inflation at just 2.4% YoY and shelter inflation likely to continue falling, there is ample scope for the rate path to be repriced if higher energy prices don't filter into core inflation. Additionally, higher rates will further pressure the ailing housing market and could start to bite weaker companies—indeed, we are already seeing evidence of this. While investment-grade credit spreads remain near historic tights, high-yield credit spreads widened in September. This is especially notable in the CCCs (the weakest ratings cohort of the high-yield index), which widened 2.06% to 10.07%. CCC credit spreads are now one standard deviation wide on a 10-year basis, while B-rated and BB-rated are approximately one standard deviation tight. As we enter Q4 we have a backdrop of notably higher real rates, strong economic growth driven by AI investment, and some budding signs of corporate stress among the weaker companies.

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