

MONTHLY BRIEFING

Natural consequences: Higher for longer

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Market participants are caught in a bind. On one hand, the Atlanta Fed GDPNow print is approaching 5%, implying a robust economy. On the other hand, though, inflation is heating up and interest rates are rising. The macro reality is a structural collision: a capital expenditure boom is occurring precisely as the globalized mechanisms that historically suppressed inflation reverse. It is a classic battle between growth and inflation.

THE GROWTH STORY: UNPRECEDENTED GLOBAL CAPEX

Unlike typical credit-fueled consumption cycles, this economic expansion is driven by a synchronized global CapEx boom. This cycle is anchored in three structural themes:

- **AI & hyperscaler buildout:** A massive demand spike is driving unprecedented physical investment in power-hungry data centers and semiconductor supply lines.
- **Grid pressure:** Upgrading electricity grids to handle computational demands and integrate energy sources requires massive industrial infrastructure.
- **Onshoring:** Corporations are duplicating manufacturing footprints domestically to insure against geopolitical vulnerabilities.

HERE'S WHAT'S UP!

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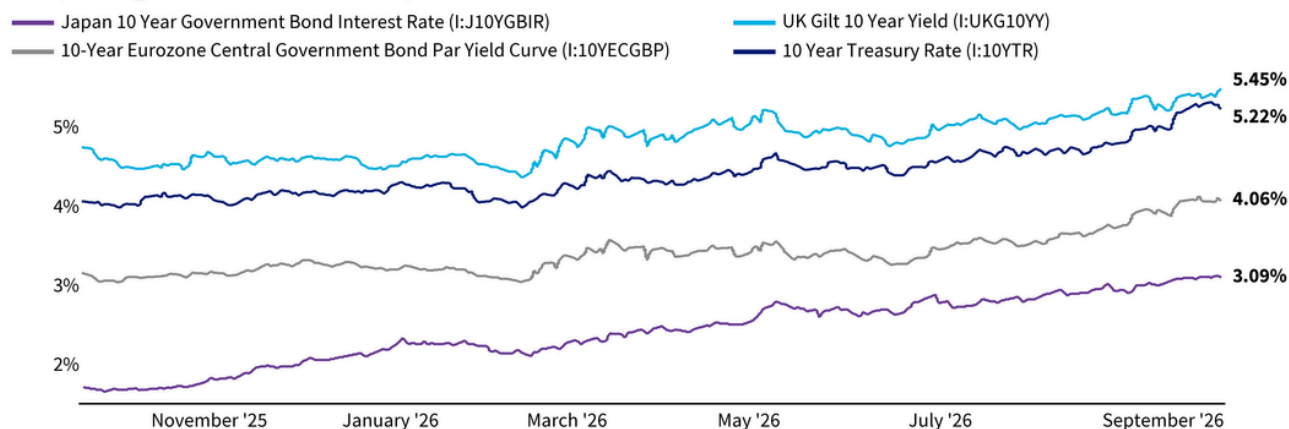
THE INFLATION BACKLASH

The natural enemy of a strong economy is inflation. For the past twenty years, globalization has acted as a deflationary force by sourcing from the lowest-cost producers, regardless of where they were located. Today's global pivot towards protectionism removes some of those efficiency buffers, adding to inflationary pressures:

- **Duplicated infrastructure:** Hoarding resources and building local redundancy reduce global efficiency.
- **Resource & labor demand:** The physical CapEx cycle places a structural floor under wages and commodity prices.
- **Tariffs & deficits:** Sweeping tariffs act as a direct consumption tax, while exploding fiscal deficits collide with massive corporate borrowing needs.
- **Conflicts:** Historically, this type of environment is more susceptible to military conflicts.

LONGER AND HIGHER — GLOBAL 10-YEAR GOVERNMENT YIELDS | SEPTEMBER 30, 2026

10-year government bond yields



Source: YCharts. Data as of September 30, 2026.

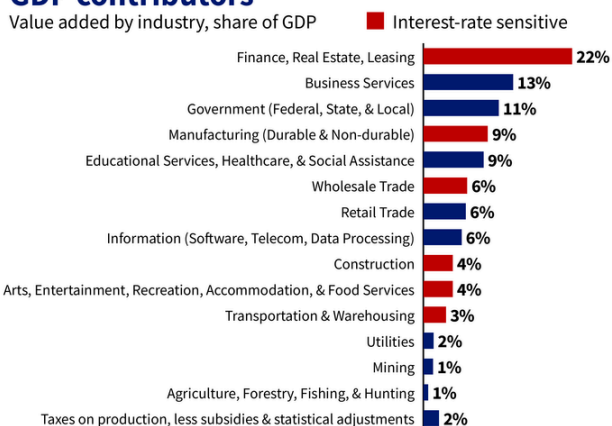
THE NEW ANXIETY: BONDS ARE THE PORTFOLIO RISK

The common market anxiety is that AI will underdeliver. The reality is the opposite: the capital expenditure boom is already locked in by multi-year infrastructure budgets.

The true risk to capital markets is the natural byproduct of this boom: structurally higher interest rates. In an environment of underestimated inflation, bonds—not stocks—become the primary portfolio risk.

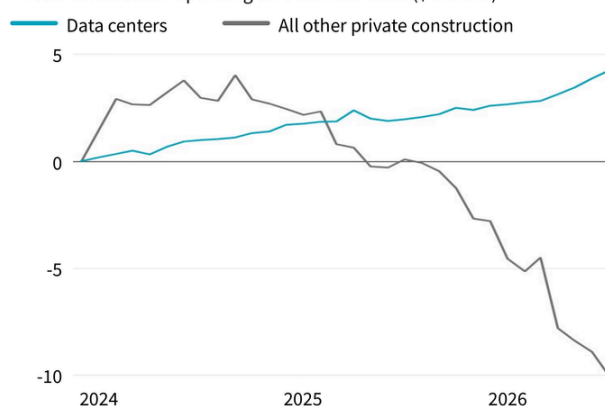
A NEW ECONOMIC STRUGGLE: INTEREST RATE SENSITIVITY VS. AI SPENDING

GDP contributors



Construction spending

Private construction spending vs. December 2023 (\$ billions)



Source: GDP = Federal Reserve Bank of St. Louis “Value Added by Industry”, Construction = The Wall Street Journal “The AI Build is Becoming the Biggest Economic Bet in US History,” September 23, 2026.

ENDGAME: RISING RATES IMPACT ON THE STOCK MARKET

Traditionally, during rising rate environment, there have been two outcomes:

1. Interest rates level off at a higher rate, and then the stock markets and economy are strong enough to absorb the higher rates, but economic growth slows.
2. Interest rates continue their trajectory to a point when stock markets take notice and begin to fall. Falling asset prices lead to economic declines and often recessions. It is only then that interest rates start to decline.

IN THE MEANTIME: WHAT IS FRONTIER DOING ABOUT IT?

Traditional passive fixed-income benchmarks are fundamentally flawed in this regime; they expose investors to severe duration risk exactly when interest rate sensitivity is penalized. "Closet indexing" in fixed income merely captures downside risk while forfeiting the security-selection alpha necessary to navigate volatile bond markets.

At Frontier, we believe navigating this reality requires a shift toward active, multi-manager bond positioning. Blending specialized third-party investment managers with distinct performance patterns can help reduce a portfolio's reliance on a single macroeconomic outcome—like declining interest rates—to succeed.

Themes of the quarter



FED ON THE MOVE

In an about-face in policy, the Federal Reserve raised the Fed Funds Rate by 25 basis points in September. Further, indications point to two to three more rate hikes as the CapEx cycle continues to exceed expectations, commodity prices continue to rise, and the bond market demands tightening.

THE BOND MARKET DECIDES INTEREST RATES

Bond investors know that while the Federal Reserve controls the short-term interest rates, the rates that borrowers pay are influenced by the bond market, and the bond market has the last say. If investors believe that the Fed is behind the curve on rate hikes, they can sell longer-term bonds, which, in turn, raises longer-term interest rates, the benchmark for borrowing rates. This month, the yield curve remained relatively steep, with the yield on the benchmark 10-year Treasury bond skating through the 5% barrier and approaching its highest levels in 20 years.

BONDS WERE THE RISK ASSET FOR THE QUARTER

The Morningstar Global Markets Index achieved a 1.2% return for the quarter, which was relatively remarkable considering the damage in the bond market. Bonds were the risk asset for the quarter as interest rates rose universally across the yield spectrum, around the world, and among bond sectors. The Bloomberg U.S. Aggregate Bond Index lost 3.5%, and the Bloomberg Municipal Bond Index lost a whopping 6% for the quarter.

COMMODITIES STOLE THE SHOW

Commodity prices remain an existential threat to inflation and interest rates. The Bloomberg Commodity Index rose a whopping 16% this quarter, and overall commodity prices have now risen 40% over the past 12-months. Commodities are the inputs of the economy, and they are a leading indicator of future inflation, as higher prices are sooner or later passed on to consumers.

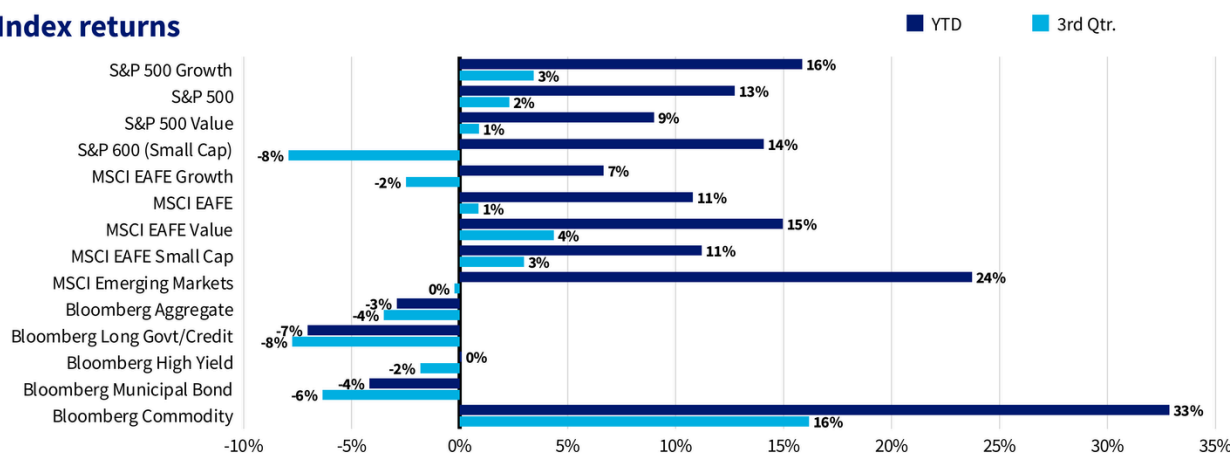
Macro headlines

KEY THEME	MARKET COMMENTARY
STUNNING EARNINGS	S&P 500® Index YOY earnings growth is running at approximately 50%!
STRONG ECONOMY	Atlanta Fed GDPNow is expecting the economy to remain exceptionally strong, with GDP estimates running close to 5%.
MASSIVE CAPEX	AI-related capital expenditures continue to exceed expectations and are now projected to be about 6% of GDP by 2030 – or about \$2T in the U.S. in 2030 alone.
COMMODITY PRICE PRESSURE	As highlighted over the past year, commodity prices gained a stunning 16% for the quarter and 40% for the 1 year.
RISING RATE REALITY	In an about-face in policy, the Fed raised rates in the third quarter and added that more rate hikes are coming. Subsequently, the 10 year U.S. Treasury yield eclipsed 5% during the quarter.
HOUSING STAGNATION	Mortgage rates approached 7.5% during the quarter, compounding housing stagnation and affordability issues. About 20% of the economy is related to housing and construction.
DEFICITS TO MARS	In the last two years alone, the total federal debt has risen by 44%, and with interest rates rising, the U.S. now has the second-highest interest cost relative to government spending of any OECD nation.
IRAN STALEMATE	The “market” seems to have come to terms that what was hoped to be a fleeting conflict with Iran is settling into an ongoing stalemate.
TREASURY TWIST	This quarter, the U.S. Treasury experimented with buying long-term bonds in an effort to lower pivotal 10 year. interest rates. Since then, the U.S. Treasury 10-year yield has risen about 0.5 percentage points. Face palm emoji.

Capital markets overview

EQUITIES: SURPRISINGLY RESILIENT | ENDING SEPTEMBER 30, 2026

Index returns



Source: YCharts. Data as of September 30, 2026.

The third quarter of 2026 put global equity markets through a macroeconomic stress test. While a sudden spike in global bond yields pressured valuations across smaller, debt-sensitive corporations, global large-cap stock markets demonstrated remarkable strength.

Driven by strong nominal economic growth and a structural corporate capital expenditure (CapEx) boom, equity markets managed to remain flat or post positive returns rather than buckle under restrictive interest rate pressures.

SMALL-CAP STOCKS: ACTING NORMAL, DESPITE LOSSES

Small-cap equities responded to this quarter's macroeconomic pressures, because stocks typically fall in the face of rising interest rates. However, the Magnificent 7* Stocks supported large cap indexes (see later section), while the rest of the market struggled. Small-cap stocks indexes do not include large-cap tech stocks, and therefore the indexes represent how interest rates affect the average stock.

- **Perception vs. reality:** Smaller businesses are thought to be largely locked out of the cap-ex cycle. However, that means that they are under less pressure to spend on giant expansion projects, and are also beneficiaries of CapEx. Further, the strong economy can have a magnified impact on small businesses' bottom lines.
- **Knee-jerk response vs. long-term growth:** In the short run, flows of capital rule pricing, and market participants can shoot first and ask questions later. During the quarter, something had to take the brunt of interest rates rising.
- **Bigger picture:** Despite the sharp quarterly sell-off, small caps are still performing in line with the venerable S&P 500 Index this year, as small-cap stocks are significant beneficiaries of the strong economy, maintain attractive valuations, and are performing at the corporate level.

*Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Meta Platforms (META), Nvidia (NVDA), and Tesla (TSLA).

Capital markets overview (cont'd)

LARGE-CAP STOCKS: DRIVEN BY STRONG ECONOMY & EARNINGS

Typically, a rate shock of this magnitude triggers a broad equity liquidation. Instead, core large-cap indexes demonstrated resilience during the quarter, absorbing the rate spike through strong underlying corporate fundamentals and earnings. But there is far more to this story. First, the basics:

- **AI cycle outperforming expectations:** With S&P 500 earnings up approximately 50% year over year in the third quarter, it has become apparent that the AI boom is not likely to let investors down. It is more likely that investors are underestimating the growth potential of this cycle.
- **The growth engine:** Resilient consumer demand and a robust economy allowed large companies to pass along higher costs, expand top-line revenue, and generate earnings on a spectacular level.
- **The CapEx floor:** A generational corporate spending boom in AI infrastructure, data centers, and domestic manufacturing reshoring created an insulated layer of corporate demand. Large-cap technology and industrial firms utilized their massive balance sheets and cash flow to fund these multibillion-dollar projects without relying too much on expensive debt markets.

WHAT REALLY DROVE THE PERFORMANCE OF U.S. STOCKS THIS QUARTER – THE MAGNIFICENT 7

Beneath the surface of large-cap indexes, a dramatic capital rotation completely flipped the market dynamics that defined the first half of the year.

- **The Q2 semiconductor regime:** In the second quarter, "long global semiconductors" became the most crowded trade on Wall Street. Chasing a memory shortage and extreme pricing power, capital aggressively piled into chipmakers and hardware suppliers. This massive concentration came directly at the expense of software companies and select components of the Magnificent 7 (like Microsoft and Alphabet), which were treated as funding vehicles to reallocate capital to semiconductors.
- **The great reversal:** In the third quarter, this exact trade inverted as chip stocks lost their froth. A massive capital rotation forced an exit from overcrowded semiconductor positions and redirected money straight back into the relative safety of large software platforms and cash-generative Magnificent 7 stocks.

THE NET RESULT – A RETURN TO A NARROW MARKET

Overall, the U.S. market exhibited remarkably narrow market breadth this quarter. Rarely do I encounter a new way of looking at the market, but this quarter, "negative beta" became a thing. In this context, the term "negative beta" is being used to describe stocks that declined while the overall market rose. The S&P 500 Index has become so concentrated that close to 40% of S&P 500 stocks declined in the third quarter, while the overall market rose. This simply means that investors sold large swaths of stocks to buy just a few, and this quarter the Magnificent 7 stocks were the recipients of this tide.

Capital markets overview (cont'd)

S&P 500 top 10 stock concentration

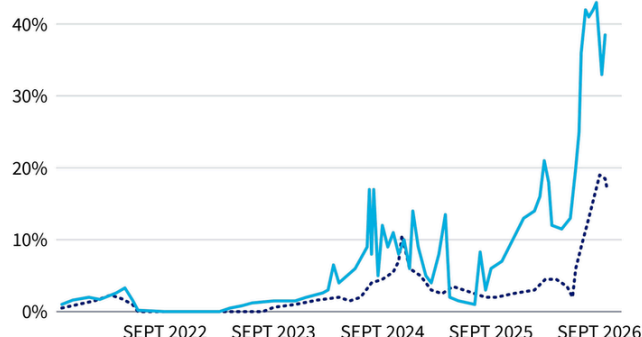
Top 10 stocks' share of the index (%)



S&P 500 stocks with negative beta (%)

3-month beta (daily returns)

1-year beta (weekly returns)



Source: MFS Global Outlook August 2026. CNBC "Nearly half the stocks in the S&P 500 are at cross purposes with the rest of the market," September 28, 2026.

INTERNATIONAL EQUITIES: VALUE EMERGES AS THE SAFE HAVEN – AGAIN

As global inflation dynamics have surfaced, international value allocations reestablished themselves as a premier defensive hideout.

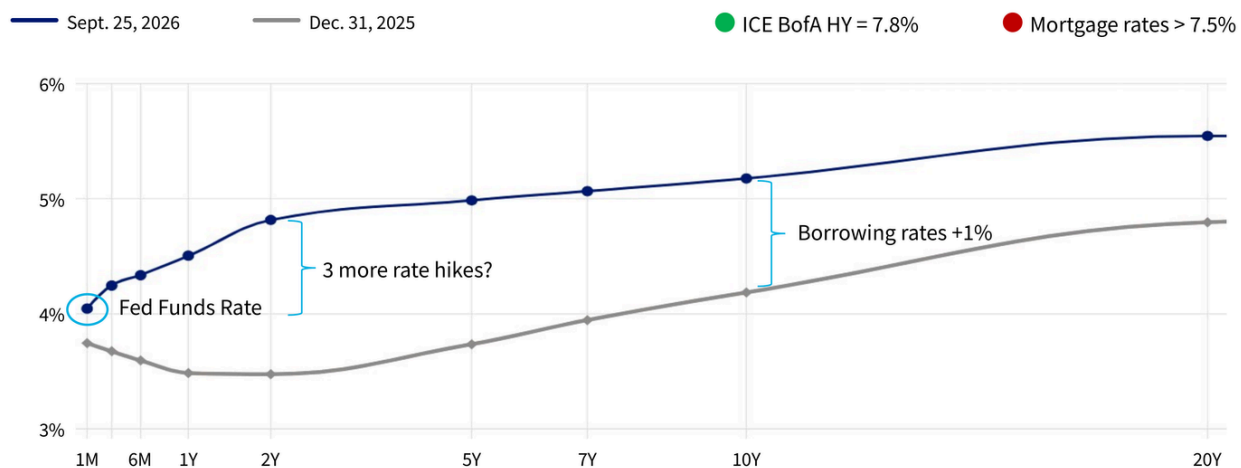
- **Leading quarterly returns:** MSCI EAFE Value gained 4% for the quarter, outperforming all other major equity asset classes, reaffirming the defensive characteristics of international value stocks relative to other equity asset classes.
- **Old-economy tailwinds:** International value funds benefited directly from a multi-year industrial rebuilding cycle. Heavy machinery, global banks, and energy providers within the index absorbed higher rates as an earnings tailwind, pushing MSCI EAFE Value to outperform the S&P 500 Index with a robust 15% YTD gain

FIXED INCOME

The bond market faced a sharp reversal in sentiment as early optimism for interest rate cuts was dismantled by evidence of "sticky" inflation. This triggered an abrupt adjustment of expectations, forcing long-dated Treasury yields above the pivotal 5% level. Over the past six months, investors have had to adjust their expectations to a "higher-for-longer" Federal Reserve policy and renewed inflationary pressures.

Capital markets overview (cont'd)

U.S. TREASURY YIELD CURVE CHANGE — THE “MARKET” DRIVING RATES HIGHER



Source: YCharts. Data as of September 25, 2026.

FED BEHIND THE CURVE

Inflationary pressures returned in force in August, confirming the “higher for longer” narrative and placing the Fed behind the curve. “Will they raise or will they not raise?” has now become “The Fed should raise.”

- **Commodity prices:** Rising raw material and energy costs are driving structural, sticky inflation.
- **Growing isolationism:** Deglobalization and trade protectionism can lead to sustained increases in manufacturing and labor costs.
- **Bond vigilantes:** Investors are demanding higher yields to compensate for massive government deficits, forcing the Fed's hand.
- **Booming economy and stock market:** Robust consumer spending and strong corporate earnings give the Fed room to tighten policy without triggering an immediate recession.

Many active managers have been able to navigate this environment well, and key Frontier positions continue to generate added value. This is largely due to:

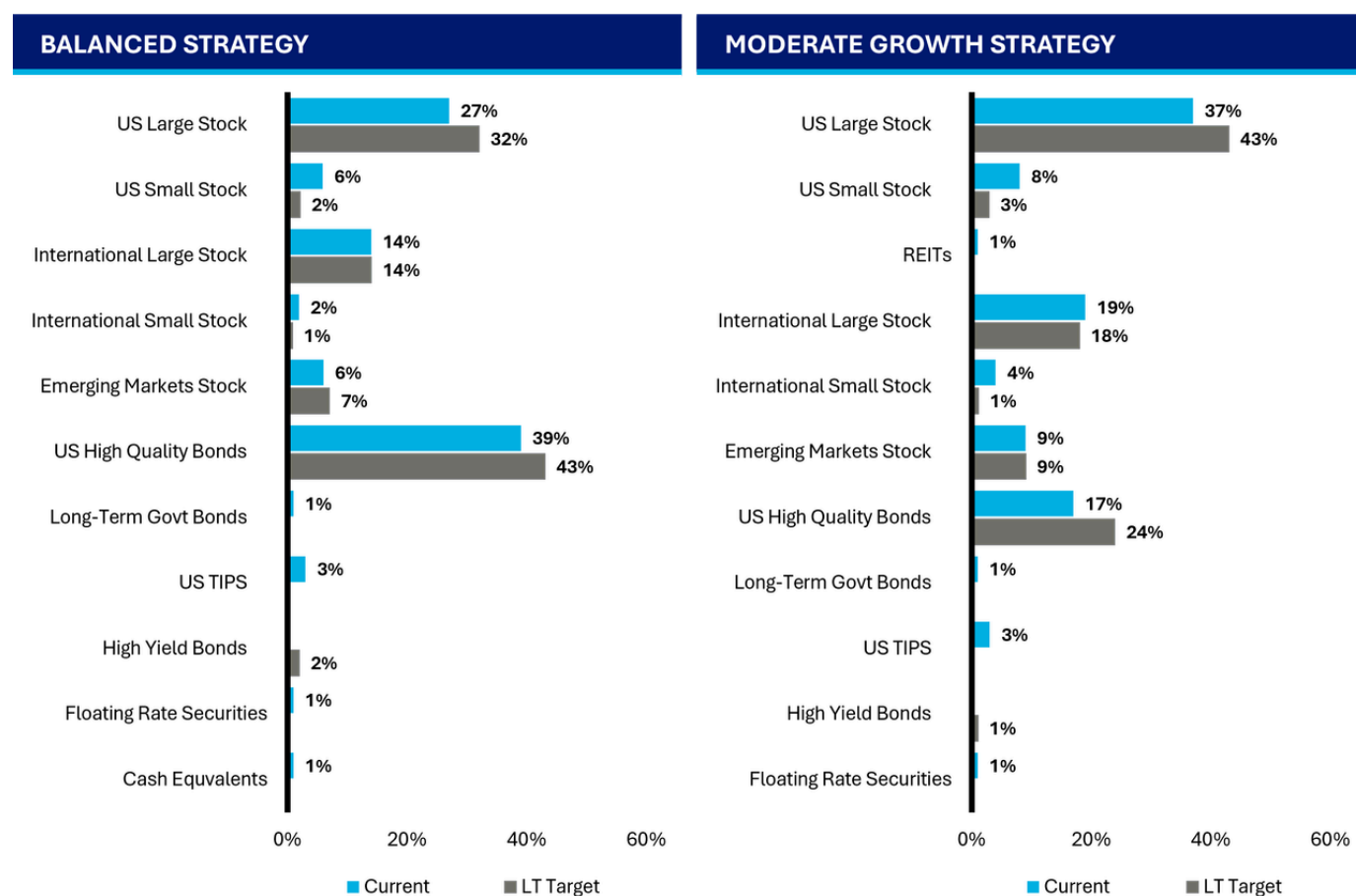
- **Duration:** Core bond indexes generally have moderate to long durations, which can lead to losses when interest rates rise, while active managers can lower duration.
- **Sector divergence:** While the broad Bloomberg U.S. Aggregate Bond Index has been flat, credit-sensitive sectors such as high-yield bonds and bank loans have remained resilient, supported by a strong economy.
- **Security selection:** If investors all index at the same time, this can leave large swaths of the market with mispriced securities.

Despite having crept up, yields remained surprisingly subdued. The U.S. bond market has remained quite resilient over the last six months, given commodity prices, renewed inflation concerns, and off-the-charts government borrowing.

Portfolio positioning

Important portfolio attributes include:

- **Underweight large-cap stocks:** Most Frontier Strategies remain relatively underweight U.S. large-cap stocks.
- **International stocks:** Frontier holds near-benchmark positions to international stocks but also maintains unique exposures to international small-cap stocks and emerging markets.
- **Small-cap stocks:** Most Frontier Strategies maintain measured overweights to small-cap stocks.
- **Fixed income:** Bond positioning remains below benchmark duration and implemented primarily through active managers.
- **Fund selection:** To provide an additional layer of risk management and strategy diversification, Frontier Strategies hold considerable exposure to risk-managed funds.



Source: Frontier Asset Management. Data as of September 1, 2026.

Performance highlights



The third quarter was marked by narrow market leadership in the U.S., poor returns for small-cap stocks, and losses in fixed income. Most Frontier Strategies came in slightly below their benchmarks for the quarter, but results were close to 0% return, and manager positioning helped offset the challenges of narrow market breadth, small-cap stock performance, and bond losses.

Some highlights for the quarter include.

- Despite being slightly overweight in small-cap stocks, portfolios overall were largely unhindered by the losses. For example, the **Global Opportunities Strategy**, which generally holds close to 40% U.S. small-cap stocks, returned nearly 0% return for the quarter despite small-cap indexes losing close to 8%.
- **The Conservative and Conservative Income Strategies** lost less than 1% for the quarter, which could be seen as positive given that the Bloomberg U.S. Aggregate Bond Index lost close to 4% for the quarter.
- **The Balanced and Moderate Growth Strategies** were within 50 basis points of their benchmarks for the quarter.
- **For the 1-year period**, most Frontier Strategies remain handily ahead of their benchmarks.
- **Alternative strategies: Victory Market Neutral** has gained over 10% year to date.
- **The right mix of funds and strategies:** In terms of fund and strategy diversification, our portfolios continue to hold robust combinations of funds with differentiated performance patterns. We have lost less when markets declined and captured enough upside when markets gained to finish ahead of most of our benchmarks over the one-year period.

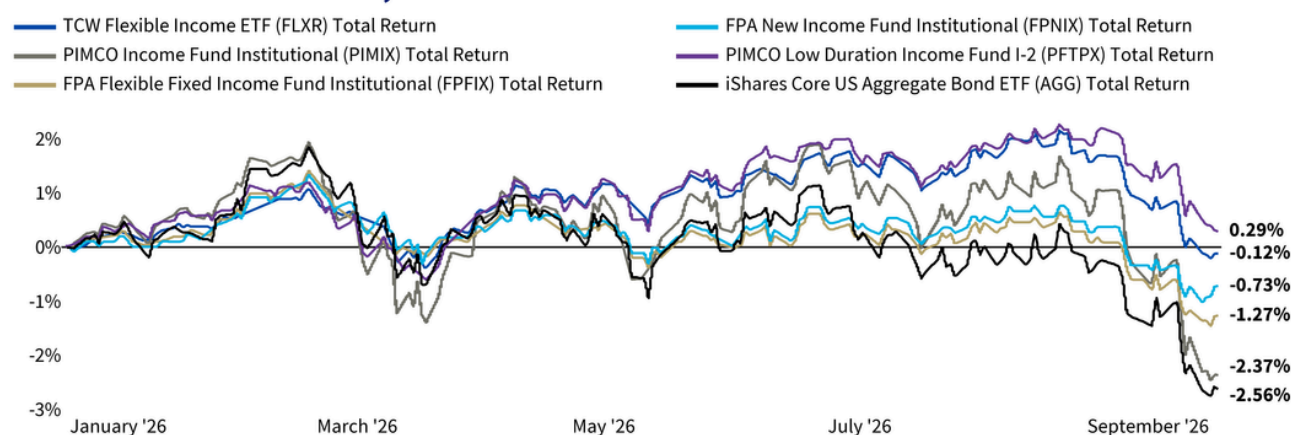
The major performance theme for this year is the validation of our “strategy” mixes. Because we optimize fund strategies as well as asset allocations, we are effectively combining each fund’s differentiated investment strategy and performance pattern. These patterns are often different from those of the indexes. This “strategy” diversification can be greatly beneficial in difficult markets and can generate excess return over time.

Mutual fund corner

HOW DID OUR ACTIVE FIXED-INCOME FUNDS PERFORM?

Clearly, the big story for this quarter was stubborn inflation, leading to rising interest rates and bond market losses. As part of Frontier's layered risk management approach, we utilize active managers in an effort to help mitigate downside risk. So, how did we do?

Year-to-date total return, 2026



Source: YCharts. Data as of September 30, 2026.

3Q26: LARGEST ACTIVE BOND POSITIONS IN FRONTIER PORTFOLIOS – YEAR-TO-DATE

While we also hold some index funds and ETFs in our portfolios, the chart above shows where we utilized active positioning. Some insights from the quarter are:

- Overall, active positioning performed well.
- PIMCO Income – PIMCO Income has increased its duration this quarter, which hurt its performance more than we would have expected.
- Our active positioning remains focused on low-duration investments.

Given that today's marketplace is dominated by large proprietary competitors that benchmark to the aggregate bond indexes, utilizing active positioning as a risk management lever is not only a differentiator but can also be a source of considerable added value in the face of benchmark losses.

For more information, visit frontierasset.com.

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Inflation is the decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period of time. The rise in the general level of prices often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods.

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Glossary of indices

It is generally not possible to invest directly in an index* therefore they do not incur frictional costs. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index.

Bloomberg Commodity Index: Index is made up of 24 exchange-traded futures on physical commodities, representing 22 commodities which are weighted to account for economic significance and market liquidity.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

Bloomberg U.S. Aggregate Bond Index (AGG): The index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Morningstar Global Markets Index: A broad equity benchmark that measures the stock performance of large-, mid-, and small-cap companies across developed and emerging markets worldwide.

MSCI EAFE Index: An equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada.

MSCI EAFE Value Index: Measures the performance of large- and mid-cap companies with value-style characteristics across developed markets outside of the United States and Canada.

S&P 500® Index: A stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.