

THIRD QUARTER, 2026 INVESTMENT REVIEW

Won't Get Fooled Again

"Meet the new boss, same as the old boss"
- Pete Townshend, *The Who*

One of the more interesting aspects of investing is how often the headlines change while the underlying questions remain the same. Every few years, investors become captivated by a new concern – be it inflation, geopolitical conflict, election cycles, tariffs, artificial intelligence, or government spending. Yet beneath each news cycle lies a familiar question: can the economy continue to grow faster than the challenges confronting it?

This quarter, one topic has consistently found its way into many client conversations. The US national debt recently surpassed \$40 trillion while longer-term Treasury yields have remained elevated. Understandably, many investors are asking whether this represents a looming crisis and, more importantly, how such a challenge might eventually be addressed. Like the iconic refrain from *Won't Get Fooled Again*, it is worth looking beyond the rhetoric and focusing on the economic realities behind the headlines.

Markets

Global capital markets continued navigating an environment marked by resilient economic growth, moderating inflation, and elevated long-term interest rates. Despite a general decline in consumer sentiment, the broader tone of the market remained constructive even with ongoing concerns surrounding fiscal deficits and more opaque monetary policy. The S&P 500 returned +2.3% during the quarter while the technology-heavy NASDAQ 100 Composite gained +0.4%. Small cap equities, as measured by the S&P 600 Index, dropped -8.3%, while international equities, represented by the MSCI ACWI ex-US Index, gained +0.5%. In fixed income markets, the Bloomberg US Aggregate Bond Index dropped -3.5% as investors continued to reassess the trajectory of interest rates, inflation, and Fed policy. The 10-year treasury yield surged in September to end the quarter at 5.29% (up from 4.47% last quarter) while the 30-year treasury yield jumped to 5.64%, compared to 4.95% last quarter. Corporate earnings growth remained robust and healthy as investors increasingly rewarded companies demonstrating strong cash flows and disciplined capital allocation.

The \$40,000,000,000,000 Question

Whenever discussions about the national debt arise, the same question inevitably comes up: "How do we solve it?" Fortunately, the potential solutions are not particularly mysterious. Historically, countries have addressed large debt burdens through some combination of three approaches:

1. Grow Faster than the Debt

The most favorable outcome is for economic growth to outpace debt growth. It is important to note that this approach does not necessarily reduce the total amount of outstanding debt. Rather, it reduces the debt burden relative to the overall size of the economy. If the economy grows faster than government borrowing, the debt burden becomes smaller relative to the size of the economy. Following World War II, the United States experienced decades of strong economic growth that helped reduce debt relative to GDP without requiring dramatic fiscal adjustments. Today, many investors view productivity improvements from artificial intelligence and technological innovation through this lens. Though the benefits of these advances remain uncertain, stronger productivity growth has historically been one of the most effective ways to ease debt burdens over time.

2. Fiscal Discipline

The second path involves some combination of spending restraint, revenue increases, or structural reforms. While debates over how to accomplish this often become political, the mathematics themselves are straightforward – deficits occur when spending consistently exceeds revenue. Slowing the growth of deficits slows the growth of debt. Most economists agree that long-term debt stabilization likely requires some version of fiscal discipline, though opinions vary significantly regarding the specific policies required. Furthermore, this approach tends to be the most dismissed mechanism from a political standpoint. Rarely has a government official run a successful election campaign on promises to either raise taxes or cut entitlements as they are not typically popular campaign promises that inspire confidence.

3. Inflation Over Time

The third option is the least discussed and perhaps the least popular approach but has appeared throughout financial history. Moderate inflation can gradually reduce the real burden of outstanding debt, particularly when inflation exceeds the government's borrowing costs. Governments collect taxes in nominal dollars. If inflation pushes wages higher, profits higher and asset values higher, then tax

receipts often rise as well. At the same time, much of the previously issued debt remains fixed. While we are not predicting such an outcome, it remains one of the historical mechanisms through which heavily indebted nations have navigated large debt loads.

TABLE 1: POTENTIAL PATHS TO DEBT REDUCTION

Approach	Description	Historical Investor Impact
Economic Growth	GDP grows faster than debt	Generally positive for stocks, earnings growth, and long-term wealth creation
Fiscal Discipline	Reduced deficits over time	Mixed; can improve fiscal stability but may temporarily slow economic growth
Inflation	Debt burden declines in real terms	Often challenging for savers and bondholders, but supportive of debt reduction

Why Long-Term Interest Rates Matter

Much of the market's recent focus on the 10-year and 30-year Treasury yields stems from these three possibilities. Unlike short-term rates, which are heavily influenced by Federal Reserve policy, longer-term yields often reflect investor expectations about economic growth, inflation, future borrowing needs, and fiscal sustainability. As a result, long-term interest rates have increasingly become the market's report card on the nation's fiscal trajectory. When investors are confident that economic growth and government finances remain on a sustainable path, yields tend to remain contained. When concerns about inflation, deficits, or future borrowing needs increase, long-term yields often rise as investors demand additional compensation for those risks.

Outlook and Investment Philosophy

Our investment philosophy remains unchanged. While market narratives continue to rotate between AI, inflation, deficits, and geopolitics, we remain focused on company fundamentals, cash flows, valuations, and balance sheet strength. Elevated long-term interest rates reinforce the importance of this discipline. When the cost of capital is no longer free, investors tend to reward quality and durability. Within our fixed income portfolios, today's yield environment continues to provide opportunities that have been largely absent for much of the past decade. High-quality bonds and US Treasuries now offer attractive income potential while also serving their traditional role as portfolio stabilizers.

Though fiscal policy will likely remain a major topic of discussion in the years ahead, our approach remains centered around constructing diversified portfolios capable of navigating a broad range of economic outcomes rather than relying on any single forecast. As always, prudent diversification and risk management remain paramount.

Closing Thoughts

Markets often move from one dominant concern to the next, but successful investing rarely depends on predicting every headline correctly.

The national debt deserves attention, but it should not distract us from the long-term drivers of wealth creation – innovation, productivity, quality businesses, and disciplined investment decisions. History tells us that debt burdens are rarely solved overnight. More often, they are addressed gradually through a combination of growth, policy adjustments, and economic adaptation.

Our investment policy is not to predict every twist and turn in Washington, but rather to remain disciplined stewards of your capital and position portfolios to succeed across a variety of economic environments.

We remain grateful for the trust you place in Regency Wealth Management. Thank you for allowing us to be on your financial team and referring us to those you care about most.



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