

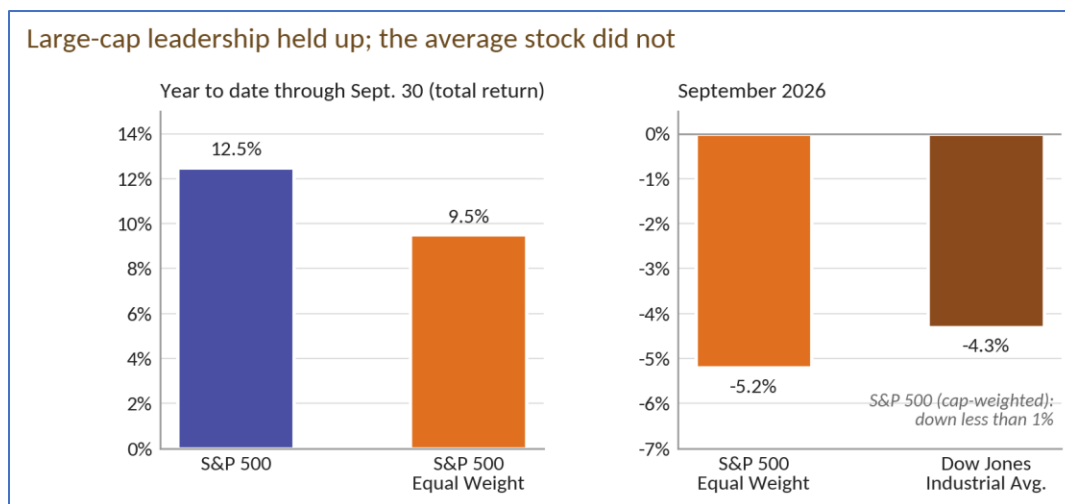
Introduction

September has lived up to its reputation as a difficult month for financial markets. Stocks and bonds both fell as investors grew concerned about high energy costs stemming from the wars in Iran and Ukraine, inflation, and rising interest rates. These concerns have weighed on investors seeking to protect their portfolios from potential economic fallout.

September's losses were concentrated in bonds, high-yielding stocks, and smaller-cap shares.

- **The S&P 500 Index** was relatively resilient, falling less than 1% during the month.¹
- By contrast, the **equal-weighted S&P 500 Index**, which more closely reflects the performance of the average constituent, declined 5.2%.¹
- **The Dow Jones Industrial Average**, which has greater exposure to higher-dividend stocks and less exposure to technology, fell 4.3% in September and 6.2% from its August 5 all-time high.¹
- Most **intermediate-term bond indices** declined 4%–5% over the same period.¹

Despite September's weakness, stocks remained positive year to date through September 30: the capitalization-weighted S&P 500 returned 12.5%, while the equal-weighted index returned 9.5%.¹



Sources: FactSet Market Watch. Data as of September 30, 2026. Year-to-date figures are total returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

Although high energy costs, inflation, and rising interest rates have increased investor anxiety and weighed on financial markets, a few bright spots have helped limit the selloff. Before turning to those bright spots, let's examine each investor concern. Interestingly, they're all connected: high energy costs fuel inflation, which in turn drives up interest rates.

High Energy Costs

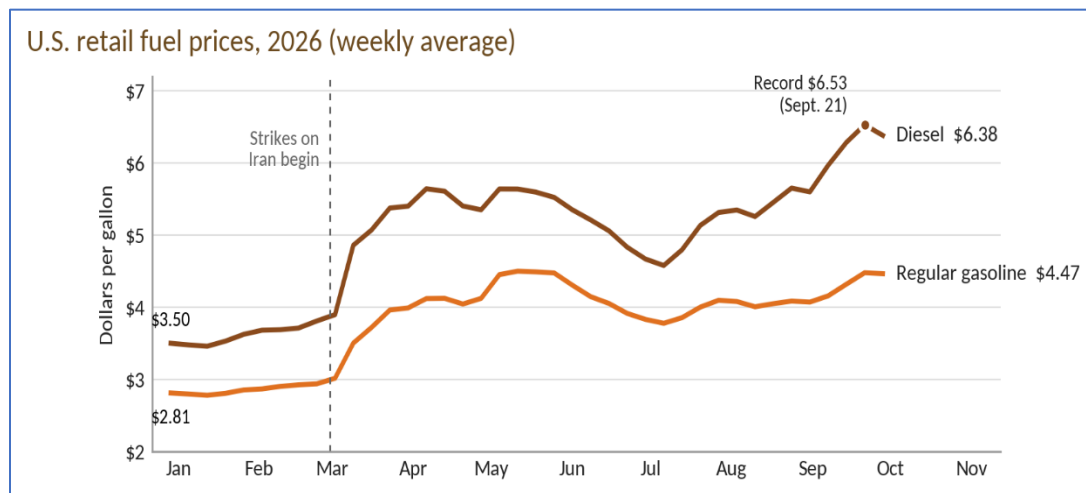
This year's rise in energy costs is directly tied to the wars in Iran and Ukraine-Russia. The war with Iran has disrupted oil flows through the Strait of Hormuz, pushing prices up about 50% since the conflict began in late February. West Texas Intermediate (WTI) crude rose from the mid-\$60s to more than \$100 per barrel.¹ Prices have also climbed for many petroleum-derived products, including gasoline, diesel, heating oil, and jet fuel. In January, regular gasoline averaged \$2.81 per gallon in the U.S. By September 28, the national average had reached about \$4.47—a 59% increase in less than nine months, according to the Energy Information Administration (EIA).⁵ Higher gas prices function like a tax on consumers, squeezing discretionary spending. Each \$1-per-gallon increase is estimated to drain \$130 billion a year from

household budgets—money that could otherwise be spent at retailers, restaurants, in the travel industry, and elsewhere. So far, the increased gasoline prices are costing consumers about \$200 billion annually.

Rising diesel prices have dealt the economy an even harder blow. According to the EIA, diesel hit a record \$6.53 per gallon on September 21, nearly 90% above its early-January price.⁵ Diesel powers the machinery used to move and make nearly everything. As prices have climbed, so have transportation and freight expenses, food prices, and industrial and construction costs. The increase reflects not only higher oil prices but also a shortage of refining capacity. The Persian Gulf is one of the world's largest diesel-exporting regions, but reduced oil flows through the Strait of Hormuz and attacks on Gulf refineries have significantly cut its diesel supply. Ukraine's repeated strikes on Russian refineries have also

reduced production, and Russia is a major global diesel supplier.

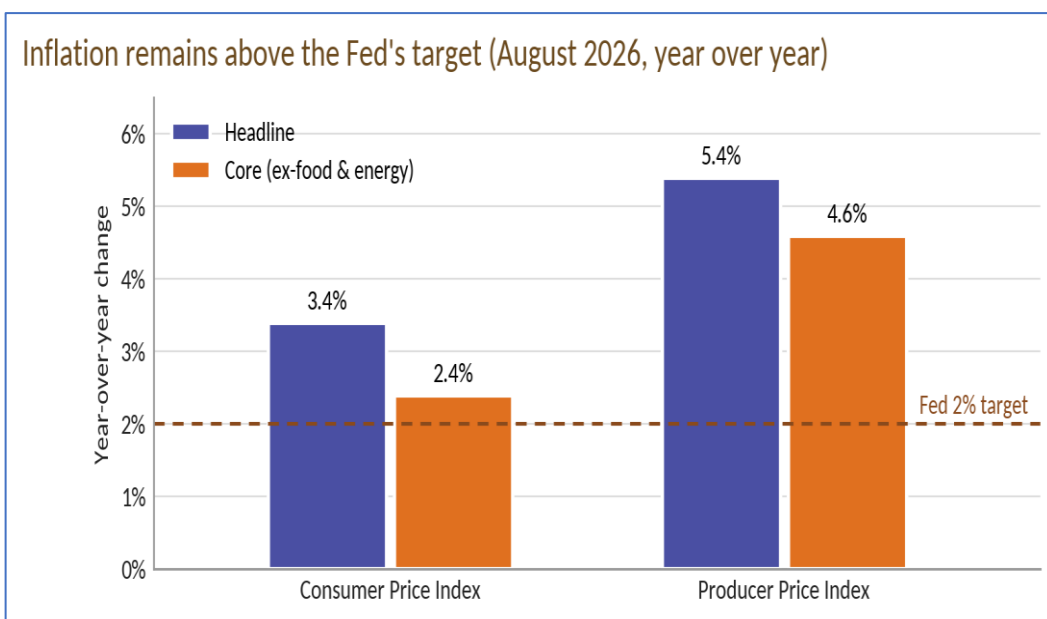
Fortunately, the U.S. is a major diesel producer and exporter, so it is not facing shortages. But if global supplies continue to tighten, U.S. supplies could become constrained, and prices could climb even higher. That's why President Trump is considering a ban on diesel exports.



Source: U.S. Energy Information Administration, weekly U.S. retail prices for regular gasoline (all formulations) and on-highway diesel. Data from December 29, 2025, through September 28, 2026.

Inflation

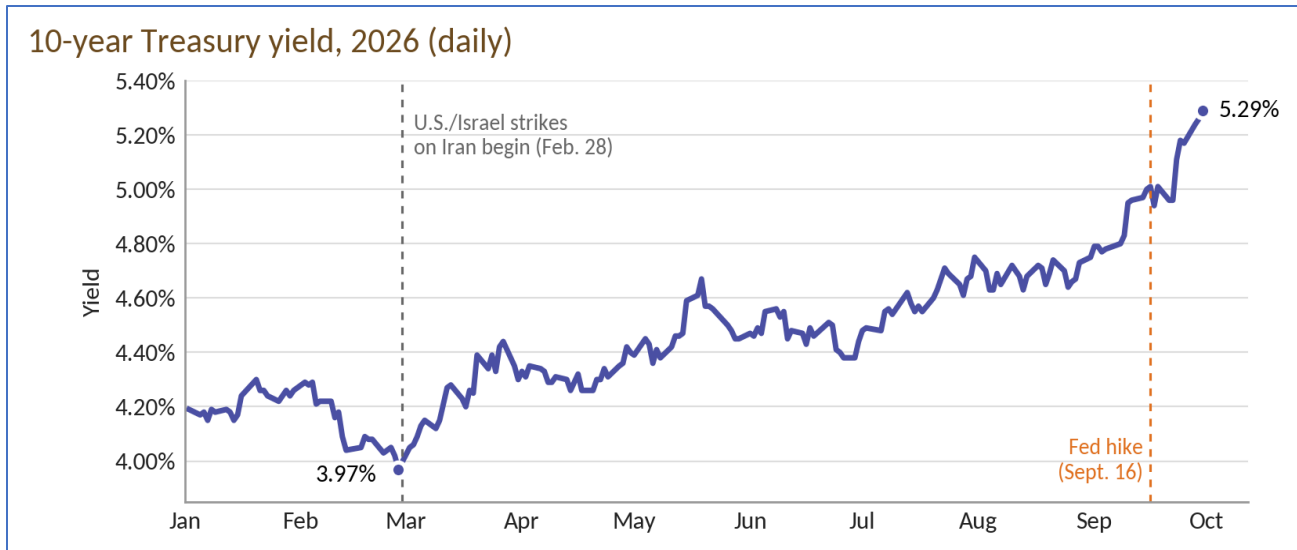
The energy price shock stemming from the conflicts in Iran and Ukraine is driving up other prices and hindering further progress in reducing inflation. Inflation has remained above the Federal Reserve's 2% annual target, ranging from 3% to 5%, depending on the measure. The Trump administration's tariff policy is also likely contributing to higher short-term inflation. Despite the Supreme Court's February ruling invalidating the administration's IEEPA fentanyl and reciprocal tariffs, the administration has pursued other legal avenues to impose tariffs. For now, in our view, the Trump tariffs are having a modest effect on inflation statistics. The August **Consumer Price Index (CPI)** report showed year-over-year inflation of 3.4%, while core CPI, excluding food and energy, was 2.4%.³ The **Producer Price Index (PPI)**, which measures the average change in prices at the producer level, rose 5.4%, while core PPI, excluding food and energy, was 4.6%.⁴ The Federal Reserve closely monitors these statistics, which inform its monetary policy.



Source: U.S. Bureau of Labor Statistics, Consumer Price Index (September 11, 2026) and Producer Price Index (September 10, 2026) news releases. Year-over-year change for August 2026.

Rising Interest Rates

First, both short- and longer-term interest rates have risen since late August. Short-term rates increased after the Federal Reserve raised the federal funds rate by 0.25 percentage points, setting a target range of 3.75%-4.0% at its September 16 Federal Open Market Committee (FOMC) meeting.² The FOMC's post-meeting statement said the increase was appropriate given solid economic activity and job growth, as well as elevated inflation in recent data. Longer-term rates have been rising since March. As the chart below shows, the benchmark 10-year Treasury note yield climbed from 3.97% on February 28, when the U.S. and Israel began a series of strikes against Iran, to 5.29% on September 30.¹ Meanwhile, the 30-year fixed mortgage rate rose above 7%, its highest level since January 2025.¹



Source: U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates (10-year constant maturity). Data from January 2 through September 30, 2026.

Why are yields rising?

We believe the recent rise in interest rates stems primarily from higher energy costs due to the wars in Iran and Ukraine, which are putting upward pressure on inflation.

The short-term rate increase is directly related to the Federal Reserve. As mentioned earlier, the Fed raised the federal funds rate in September, citing the need to see further progress in lowering inflation toward its 2% target. Longer-term yields are also affected by inflation: when investors expect inflation to rise, they demand higher interest rates on longer-term bonds. We believe this is the primary reason the 10-year Treasury note has risen this year.

Another factor pushing longer-term rates higher is the deteriorating fiscal outlook across most major economies. Deficits in the U.S., Japan, and much of Europe have raised concerns about mounting government debt. The U.S. fiscal 2026 deficit is about 5.8% of GDP, and total U.S. government debt reached \$40.2 trillion in August. Japan and many European countries face even greater fiscal challenges. Investors have largely overlooked these debt concerns so far, but that may be changing. Bond yields have risen in many of these countries, reflecting investors' demand for higher returns to offset rising debt risks.

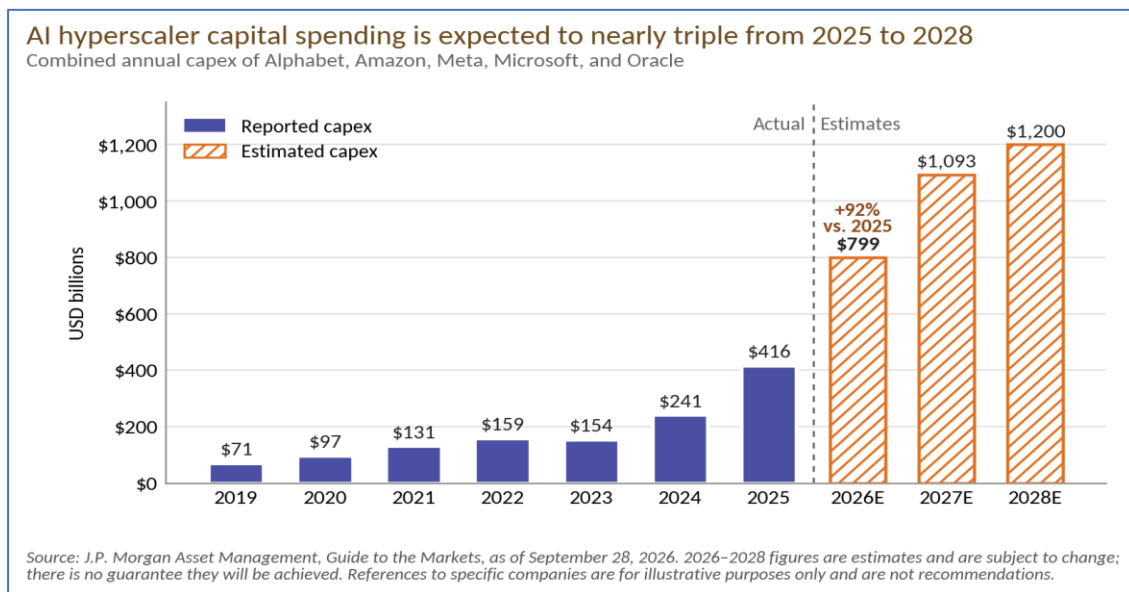
It's difficult to predict where interest rates will go from here. Inflation data over the coming months will be key to determining their direction. If inflation remains sticky, both short- and long-term rates could rise further. The Federal Reserve is signaling at least one additional quarter-point rate hike this year and possibly another in 2027. It wouldn't surprise us if the 10-year Treasury yield reaches 5.5% by year-end and 6% in 2027, although that is not a forecast.

Much will depend on developments in the war with Iran and what happens with oil prices. A quick resolution could bring oil prices down sharply, helping to lower inflation. However, if the war drags on and supplies of oil and related products like diesel remain constrained, prices may stay high, and inflation could remain stubbornly elevated.

Reasons for Optimism

Although high energy costs and the recent rise in interest rates have dampened investor enthusiasm and weakened financial markets, their impact on economic activity has been minimal so far.

- **Consumer spending**, which accounts for about two-thirds of U.S. GDP, has been positive for most of 2026. After being nearly flat in the first quarter, spending rose 3.8% in the second quarter, contributing to 2.2% GDP growth.⁶ The third quarter has been mixed, with a weak July followed by a strong August. The first estimate of third-quarter GDP, due in late October, will provide a clearer picture of how higher interest rates and energy costs are affecting consumers' pocketbooks.
- **The U.S. job market** continues to grow steadily, though at a slow pace. Payrolls increased by 29,000 in September, and the unemployment rate edged up 0.1 percentage point to 4.2%, according to the U.S. Bureau of Labor Statistics (BLS). That followed strong August payroll growth, which was revised to 133,000 new jobs. The September BLS report also showed that average hourly wages rose 3.0% over the past year. In 2026, the U.S. economy has added 632,000 jobs, averaging 70,000 new jobs per month. Although job growth may slow moderately over the next few months, we believe employment will remain a strength for the economy.
- **Business investment** has been the strongest part of the U.S. economy in 2026, driven largely by spending on Artificial Intelligence (AI). Major AI hyperscalers such as Alphabet, Amazon, Meta, Microsoft, and Oracle are spending an estimated \$799 billion in capex in 2026, growing to \$1.2 trillion in 2028, as noted in the chart below. They are investing these funds in order to build the infrastructure needed to meet insatiable demand for AI.⁷



Government entities, businesses, and consumers are expanding their use of AI. Governments and businesses use it to increase efficiency and productivity. We use AI every day for research, document evaluation, financial planning, and more. Recently, consumers have adopted AI

through various “chatbots” and, increasingly, AI agents. Consumers use ChatGPT, Claude, Microsoft Copilot, Google Gemini, and other chatbots to get information and research on a wide range of topics. Recently, Meta rolled out its consumer AI agent, Muse. It is designed to do things for you like a personal assistant. The app has already been downloaded more than 3.4 million times and has topped app-store charts, according to Sensor Tower data. As an AI agent, Muse can provide information and answer questions like a chatbot, but it can also perform tasks like scheduling appointments, shopping online, making purchases, calling customer service on your behalf, helping with budgeting, working with files on your computer, and more. You can download and use it for free, but once you hit a usage limit, you can buy more “tokens,” starting at \$20 per month.

All AI chatbots and agents use tokens. A token is the basic unit of text that an AI model reads and writes. As a rule of thumb, one token is roughly three-quarters of a word. An AI response of 300 words uses about 400 tokens. These tokens are generated mainly by computers housed in data centers. Data centers are, in essence, token factories. As AI is adopted for both commercial and personal use, demand for tokens rises. Think of tokens like kilowatt-hours generated by a utility company. The more demand for electricity, the more utilities need to produce kilowatt-hours. Regardless of the particular

AI chatbot you use, you are consuming tokens every time you ask the agent a question or issue an instruction. You get a limited number of tokens for free with most chatbots, but then you must pay for more, generally starting at about \$20 per month. Many businesses are spending thousands of dollars a month on AI services.

We need more “token factories” to meet this demand, and that is where the investment opportunity lies. We believe data center buildouts in the U.S. will continue despite opposition in some parts of the country over concerns that data centers will strain water and electricity resources. However, many states, including Texas, Virginia, Georgia, Ohio, Louisiana, and Arizona, welcome data center development. Recently, AI experts have warned about AI's dangers, and some have even suggested that AI could lead to human extinction. While we believe such claims are highly speculative, such warnings can fuel calls for heavier regulation.

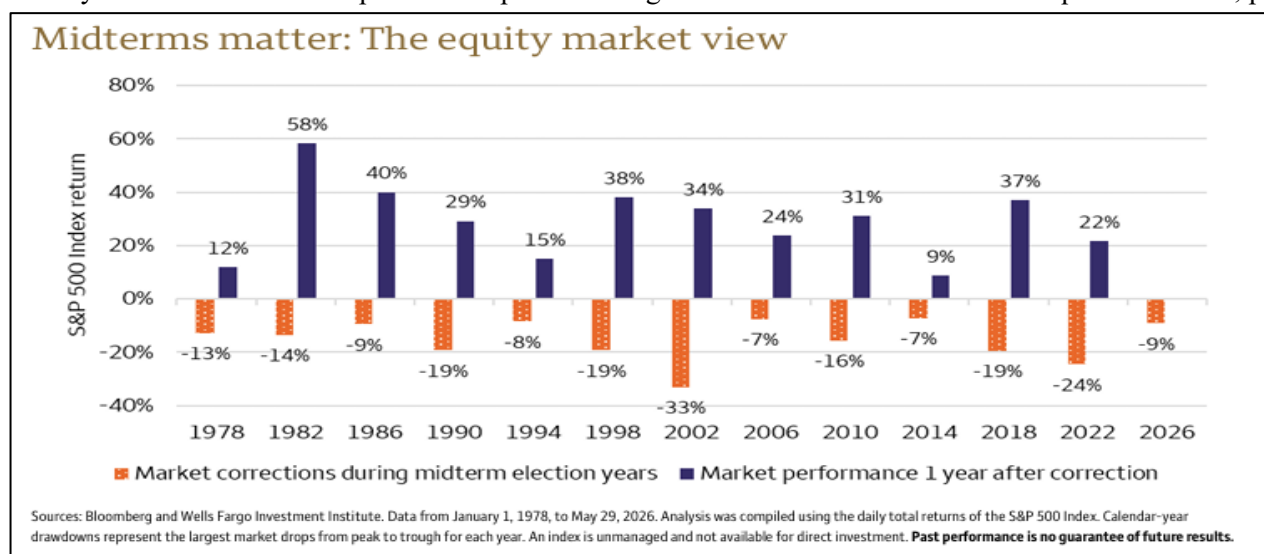
I believe technological advances and sensible regulations can address legitimate concerns about water and electricity use, as well as AI safety. But China is moving full speed ahead with AI development. Although its AI models are still inferior to those of U.S. companies, they are catching up quickly. We believe it is vitally important, for both economic and military reasons, for the U.S. to stay ahead of China in AI development. The current Trump administration supports continued AI development. As we have noted in previous newsletters, we expect capital investment to remain robust in the coming years as AI adoption by governments, businesses, and individuals accelerates.

Mid-term Elections

With elections about a month away, betting markets favor Democrats taking control of both the House of Representatives and the Senate. Although prediction markets have been wrong before, we believe investors should prepare for that possibility. A Democratic flip in both chambers would certainly impact geopolitics, immigration, regulations, judicial appointments, and more. But how would it affect financial markets? In our view, Democratic control of the House and Senate would likely have little impact on the stock market. Essentially, a Democratic-controlled Congress alongside a Republican president would mean legislative gridlock, with very little getting done over the next two years.

That is not entirely bad for the economy or the stock market. In our experience, investors generally prefer gridlock in Washington. It makes it less likely that legislation that could harm the economy and financial markets—such as tax increases, massive spending programs, or regulatory reforms—will pass. The economy is growing, corporate earnings are strong, the regulatory environment is favorable for most businesses, and U.S. consumers are financially healthy overall.

Historically, election years have often brought heightened volatility as investors assess potential policy outcomes. Stocks have historically been volatile during midterm election years, with an average peak-to-trough decline of about 15% across 12 election cycles.⁸ The S&P 500 experienced a peak-to-trough decline of about 9% in the first quarter of 2026, primarily

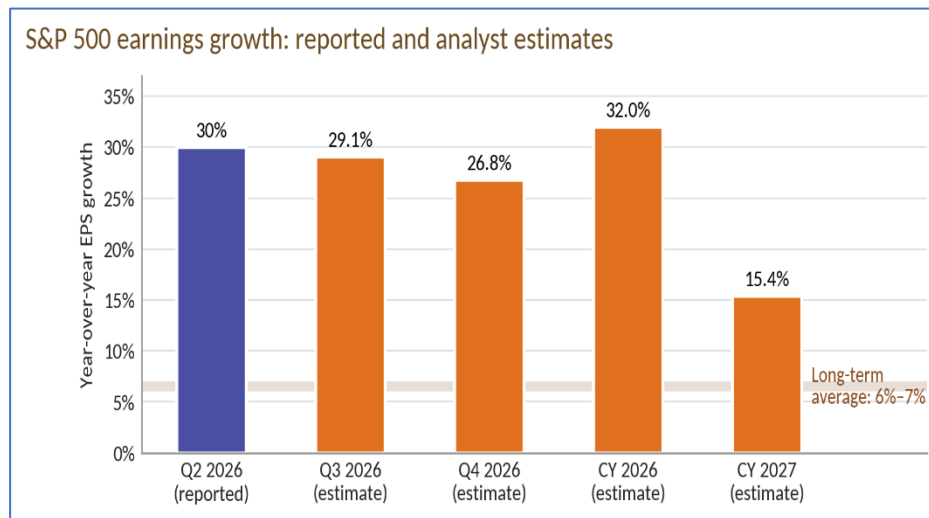


related to the war in Iran and rising oil prices.¹ But the S&P 500 quickly recovered those losses with a 13.1% average return the following year. While election-related market corrections and subsequent recoveries have occurred during many election cycles, historical patterns do not guarantee future results.

Strategy

Despite recent weakness in the equity markets, we remain optimistic that the bull market in stocks will continue for several more quarters. Stocks remain supported by strong corporate earnings, with second-quarter S&P 500 earnings up

30% year over year.⁹ This marks the third consecutive quarter with over 20% growth and the eighth straight quarter of double-digit earnings increases for the index. Analysts continue to raise earnings estimates, with third-quarter earnings growth of 29.1% and 26.8% for the fourth quarter, according to FactSet.⁹ Analysts expect 32% earnings growth for the S&P 500 in 2026 and 15.4% for 2027. This growth is well above the S&P 500's long-term average growth rate of 6-7% nominal, 3% after inflation.



Source: FactSet Earnings Insight, September 25, 2026. Estimates reflect analyst consensus and are subject to change; there is no guarantee that any estimate will be achieved.

Our current equity positioning:

- **Sectors we favor:** Our equity allocation strategy favors the technology, industrial, energy, and materials sectors. Many stocks in these sectors benefit from the AI infrastructure buildout.
- **Rate-sensitive sectors:** Given the recent trend of rising interest rates, we are neutral to negative on utilities, real estate, and consumer staples, although these areas are starting to look fundamentally attractive on a valuation basis. However, if interest rates continue to rise, stocks in these sectors will likely keep falling.
- **Company focus:** Our focus remains on large- and mid-cap stocks with solid balance sheets and rising earnings.
- **Small caps:** Higher interest rates tend to hurt small-cap stocks more because they need to borrow more to fund operations, so we remain underweight in this asset class.
- **International equities:** International equity markets performed well over the first nine months of the year despite challenges in both developed and emerging economies. However, concerns remain about the growth prospects for most international markets. Many of these economies rely more on energy imports and are therefore more vulnerable to supply shocks and price increases than the U.S. Given these factors and our expectation of a strong dollar for the foreseeable future, we maintain an underweight position in international stocks in our portfolios.

Fixed Income:

While we have favored stocks over bonds for the past several years, the recent rise in fixed-income yields has made bonds more attractive. For a portfolio that has been heavily invested in cash and underweight in fixed income, now may be a good time to move some funds into fixed-income instruments.

- **Taxable bonds:** High-quality taxable bonds, such as U.S. Treasuries and high-grade corporate bonds with maturities in the 2-5-year range, currently offer yields to maturity of 4.75%-5%.¹ You can get slightly higher yields by going further out on the maturity curve, but we believe the best value is in the shorter-term part of the curve.
- **Municipal bonds:** Tax-free municipal bonds also offer attractive yields, in our view. If you are willing to take the volatility risk of long-term bonds, you can capture over 4% in tax-free yields, which translates to a taxable-equivalent yield of about 6.2% for an investor in the 35% tax bracket.
- **A word of caution:** Given the current trend of rising yields, we would be careful about allocating too much capital to bonds and bond funds. It is difficult to predict how high yields will rise, and the uptrend in interest rates may continue for some time.

Bottom Line

Financial markets may continue to remain volatile in October. However, once we get past the next Federal Reserve FOMC meeting in October and the November elections, we believe the remainder of the year may be more positive for the stock market. We see stocks supported by continued strong earnings reports, especially for the next two quarters.

We will continue to monitor developments in the global economy and financial markets and keep you informed. We remain committed to helping clients navigate changing markets through thoughtful portfolio management and a long-term perspective. We appreciate the trust and confidence you place in Trinity Capital Management.

If you have any questions or want to discuss your portfolio in more detail, please feel free to contact us.

Your Trinity Capital Management Team

TCM Tyler, TX Location
821 ESE Loop 323, Suite 100
Tyler, Texas 75701
903-747-3960

TCM Dallas, TX Galleria Location
13355 Noel Rd., Suite 1100
Dallas, Texas 75244
214-746-3575

TCM Nacogdoches, TX Location
1323 N. University Dr.
Nacogdoches, Texas 75961
936-560-3930

Great Falls, MT location
2021 Whispering Ridge Dr.
Great Falls, MT 59405
406-727-9050

Website: www.tcmty.com

Footnotes

¹ FactSet Market Watch.

² <https://www.federalreserve.gov/newsevents/pressreleases/monetary20260916a.htm>

³ U.S. Bureau of Labor Statistics Consumer Price Index News Release, September 11, 2026

⁴ U.S. Bureau of Labor Statistics Producer Price Index News Release, September 10, 2026

⁵ U.S. Energy Information Administration, weekly U.S. retail gasoline (regular) and on-highway diesel prices, data through September 28, 2026.

⁶ U.S. Bureau of Economic Analysis, Gross Domestic Product, Second Quarter 2026.

⁷ JP Morgan Guide to the Markets as of September 28, 2026.

⁸ Wells Fargo Investment Institute Investment Strategy report, June 2026.

⁹ FactSet Earnings Insight, September 25, 2026.

To view the above links, press and hold the Ctrl key on your keyboard, hover over the link, and left-click your mouse.

Investment products and services are offered through Thurston Springer Financial, a registered broker-dealer and member of SIPC. Trinity Capital Management, LLC, is a separate entity from Thurston Springer Financial.

The opinions expressed in this report are those of the author(s) and are not necessarily those of Thurston Springer Financial or its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy.

References to specific companies are for illustrative purposes only and should not be considered a recommendation to buy, sell, or hold any security.

Past performance is no guarantee of future results, and there is no guarantee that any forward-looking statements made in this communication will be attained.

Investing in fixed-income securities involves certain risks, such as market risk if sold prior to maturity and credit risk, especially with high-yield bonds, which have lower ratings and are subject to greater volatility. All fixed-income securities may be worth less than the original cost upon redemption or maturity. Yields and market value will fluctuate so that your investment, if sold prior to maturity, may be worth more or less than its original cost. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

S&P 500 Index: The S&P 500 Index comprises 500 stocks selected for market size, liquidity, and industry group representation. It is a market-value-weighted index, with each stock's weight in the Index proportionate to its market value.

The S&P 500 Equal Weight Index comprises the same stocks as the S&P 500 Index but weights each stock equally.

The Dow Jones Industrial Average is a price-weighted stock market index that tracks thirty large-cap U.S. companies.

Index return information is provided for illustrative purposes only. Index returns do not represent investment performance or the results of actual trading. Index returns reflect general market results, assume the reinvestment of dividends and other distributions, and do not reflect deductions for fees, expenses, or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment.