Monthly Market Update

September 2026

Madison INVESTMENTS

- The S&P 500 gained 2.7% in August, as resilient corporate earnings outweighed concerns about inflation, deficits, and monetary policy.
- Long-term Treasury yields rose, with the 30-Year Treasury reaching its highest level since 2007, creating headwinds for borrowers and bondholders.
- The Treasury expanded its long-term Treasury buybacks, providing temporary relief for long-term rates before yields moved higher again.
- The Fed continued to prioritize inflation concerns, with Warsh signaling that persistent price pressures could warrant further tightening even as the workforce shrinks.
- Two forces are sustaining inflation: weaker supply from tariffs and energy disruptions, and rising demand from significant data center investment.

In August, underlying tensions in the stock and bond markets were overshadowed by robust corporate earnings, leading to an S&P 500 Index return of 2.7% and a year-to-date increase of 13.1%. The underlying concerns included sticky inflation, expansive deficit spending, and seemingly contradictory messages and actions from the Federal Reserve (Fed) and Treasury. The 30-Year Treasury yield rose from 4.9% at the end of June to 5.3% by August 18, the highest level since mid-year 2007. Higher rates are not only costly to the U.S. Government, as it pays more to bondholders, but also directly impact mortgage rates, making housing even more unaffordable. They also drive down the value of existing bonds with lower coupons, which helps explain why diversified bond portfolios such as the U.S. Aggregate ended the month close to flat for the year.

On August 19, Treasury Secretary Bessent announced the department would expand its buybacks of long Treasuries from $2 billion to $4 billion. While seen as an effort to tame long-term rates, it caused only a momentary dip. Not only was the increase a minor blip given the size of the Treasury market, but market participants widely dismissed it as a political maneuver. A similar signal of administration concerns over higher rates was Bessent's efforts to convince Japan to shift Treasury assets to a Federal Reserve lending facility rather than sell them outright.

Meanwhile, Federal Reserve Chairman Warsh spoke at the Fed's Jackson Hole meeting. Investors hoping weakness in the job market would keep rate hikes at bay were not reassured by Warsh's assessment that the workforce is shrinking. Instead, he focused on inflation and left the strong impression that the Fed would need to take action (raise rates) if prices continued to rise. He has also remained committed to shrinking the Fed's balance sheet even as the Treasury increases its own purchases.

Inflation relief requires combating two central pressures: diminished supply and increasing demand. Supply weakness stems directly from higher tariffs and the Iran war, which restricts oil and refinery products through the Strait of Hormuz. Demand is largely a product of the data center boom, which is projected to continue into 2027 and beyond. Spending a trillion-plus dollars on these construction projects has a measurable effect on the cost and availability of labor, heavy equipment, and materials.

Turning to investment implications, we expect inflationary pressures to persist. We are also exercising caution about the most optimistic projections for the coming age of AI. One concern is the circularity of the AI spend among chipmakers, hyperscalers, and leading AI developers. Another is the frantic pace of the build, which implies a sort of arms race in which the players are self-admitting the potential for winners and losers. On this note, a positive trend for the kind of diversified portfolios we favor is the market's continued breadth away from AI megacaps into this year's strong sectors, including Health Care, Materials, and Energy.

U.S. Equities (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	1.5	11.8	18.6	17.3	10.6	13.5
S&P 500	2.7	13.1	20.4	21.0	12.8	15.4
Russell 1000	2.8	13.0	19.8	20.8	12.1	15.1
Russell 1000 Value	2.0	23.1	29.7	19.8	11.8	11.8
Russell 1000 Growth	3.7	4.1	10.8	21.1	11.9	18.0
Russell Midcap	1.9	16.7	17.9	16.8	8.1	11.7
Russell 2000	1.0	20.0	26.5	17.5	6.8	10.6

U.S. Equity Characteristics - S&P 500

	August	12/31/25
Price/Earnings Ratio (NTM)	19.4	22.2
Weighted Avg. Market Cap ($B)	1,590.3	1,430.6
Dividend Yield (%)	1.0	1.1

U.S. Equity Sectors - S&P 500 (%)

	August	YTD	Weight
Communication Services	-1.2	0.1	9.5
Consumer Discretionary	0.0	0.0	9.1
Consumer Staples	-0.7	9.6	4.5
Energy	7.0	44.2	3.5
Financials	1.3	6.3	12.3
Health Care	4.9	11.1	9.3
Industrials	-2.6	13.6	8.3
Information Technology	6.2	22.9	37.9
Materials	6.0	16.7	1.8
Real Estate	-1.9	12.2	1.8
Utilities	-4.8	0.3	2.0

International Equities (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	2.7	14.3	22.3	20.5	10.9	12.6
ACWI ex USA	2.6	17.0	27.3	20.2	9.4	9.6
MSCI EAFE	2.0	13.8	21.6	18.3	9.4	9.5
Emerging Markets	3.4	24.1	39.2	23.2	8.2	9.3
China	-0.3	-7.6	-6.1	10.5	-2.2	4.1
Japan	3.3	20.9	27.8	20.0	10.1	9.6
Germany	3.9	6.1	8.3	19.2	7.7	8.1
United Kingdom	0.7	12.7	22.1	20.2	13.0	9.1
India	-0.3	-8.6	-3.8	5.9	3.1	7.9

Key Asset Prices

	August	12/31/25
EUR/USD	1.16	1.17
USD/CAD	1.39	1.37
USD/JPY	159.97	156.80
GBP/USD	1.36	1.34
Bitcoin ($)	78,548.6	87,508.8
Gold ($/oz)	4,443.0	4,324.0
Crude Oil (WTI) ($/bbl)	87.0	57.3

Fixed Income (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	0.3	-0.5	1.2	3.2	-0.8	0.8
Municipal	-0.2	0.2	4.1	3.4	0.5	1.9
U.S. Aggregate Bond	0.4	-0.3	1.9	4.1	-0.3	1.4
Investment Grade Corporate	0.4	-0.3	2.0	4.9	-0.1	2.2
High Yield	1.0	2.7	4.9	8.5	4.1	5.4

U.S. Treasury Yields (%)

	August	12/31/25
3-Month	3.91	3.67
6-Month	3.99	3.59
2-Year	4.34	3.47
5-Year	4.49	3.73
10-Year	4.75	4.18
30-Year	5.25	4.84

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Dow Jones Industrial Average® (The Dow®): a price-weighted measure of 30 US blue-chip companies, covering all industries except transportation and utilities.

S&P 500® Index: large cap market index which measures the performance of a representative sample of 500 leading companies in leading industries in the US.

Russell 1000® Index: measures the performance of the 1,000 largest companies in the Russell 3000® Index.

Russell 1000® Growth Index: designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

Russell 1000® Value Index: designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

Russell 2000® Index: a small cap market index which measures the performance of the smallest 2,000 companies in the Russell 3000® Index.

Russell Midcap® Index: measures the performance of the mid cap segment of the US equity universe.

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MSCI ACWI ex USA Index: captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries.

MSCI EAFE (Europe, Australasia & Far East) Index: a free-float adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

China - MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market.

Government Bond - Bloomberg US Government Index measures the performance of US Treasury and Agency Indices, including Treasuries and US agency debentures.

Municipal - Bloomberg US Municipal Index covers the USD-denominated long-term tax-exempt bond market and has four main sectors: state and local general obligation, revenue, insured, and prerefunded bonds.

US Aggregate Bond - Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg US Credit Index measures the investment grade, USD-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying holdings and not the yield of the portfolio.

Federal funds rate: the target interest rate range set by the Federal Open Market Committee (FOMC) for banks to lend or borrow excess reserves overnight. It influences monetary and financial conditions, short-term interest rates, and the stock market.

Yield Curve: a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) & flat.

Upon request, Madison may furnish to the client or institution a list of all security recommendations made within the past year.

Madison-995747-2026-09-02