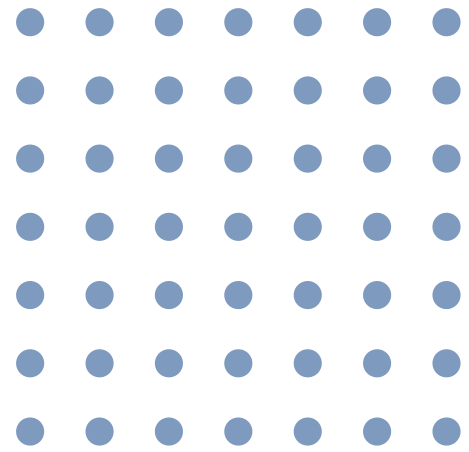




Flower City
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Flower City Capital

Quarterly Investment Update

Fall 2026

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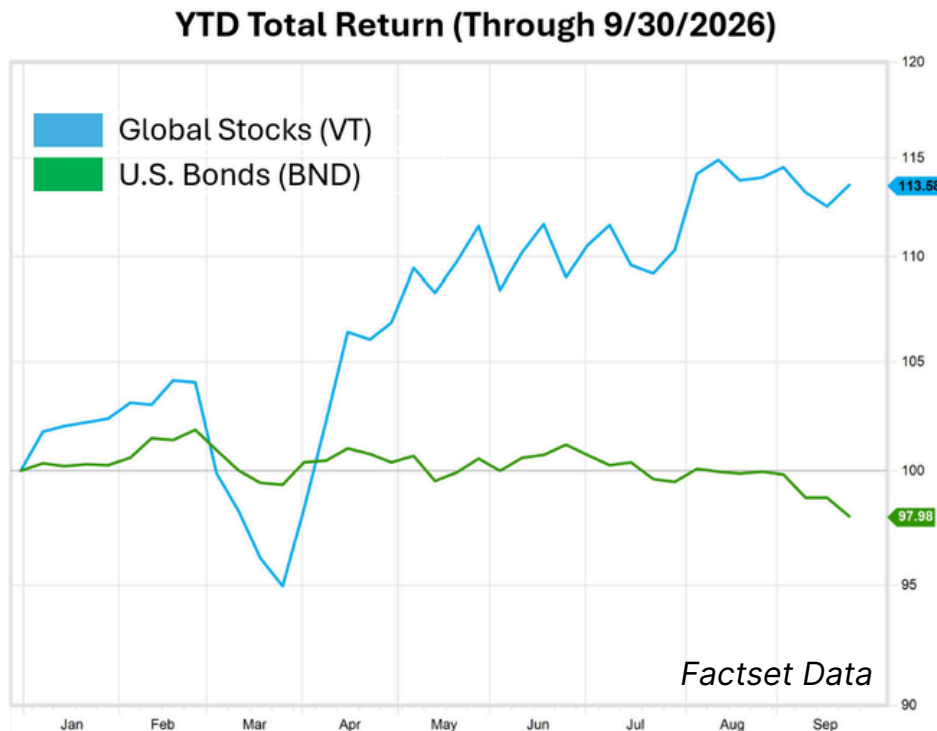
Investment Update

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Dear Members of Flower City Capital,

Balanced portfolios have generally experienced a smooth ride this year. Through the third quarter, global equities gained approximately 13.5%¹, while U.S. bonds declined about 2%². Depending on the allocation between stocks and bonds, diversified portfolios have generally produced returns in the mid-single digit range. For many long-term investors, these results are broadly consistent with the return assumptions and long-term expectations incorporated into their financial plans.



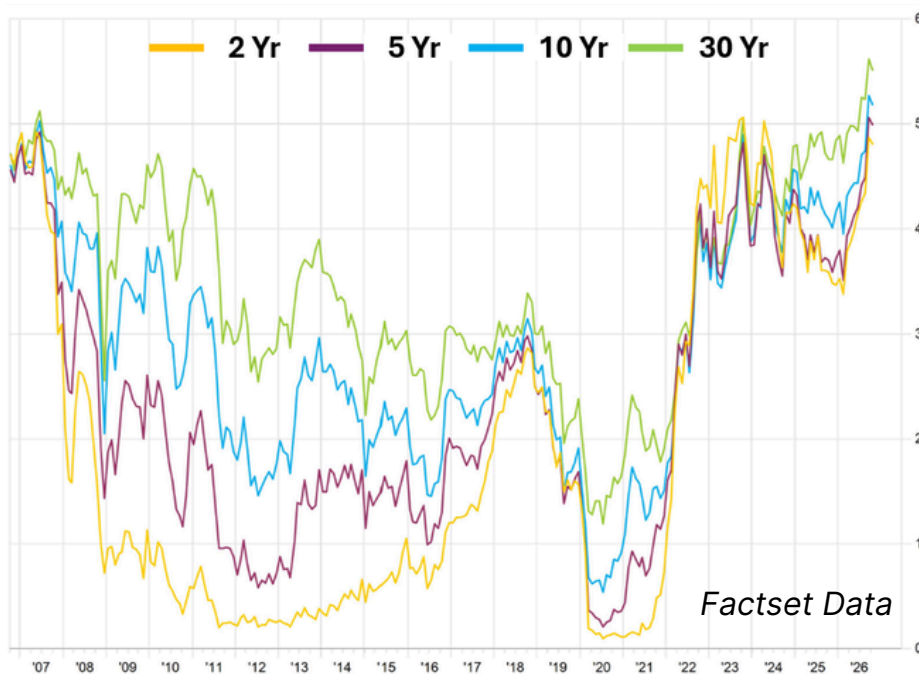
Depending the mix, diversified portfolios have returned somewhere in the mid-single digit range

It's football season, so the simplest analogy we can offer is this: the offense (stocks) has put over 13 points on the board, while the defense (bonds) has given up 2 points. Most coaches and fans would be pleased with that overall performance. Yet despite the team's success, it's natural to be upset with the defense allowing a field goal.

That brings us to bonds. Why are bond prices down? The simple answer is that interest rates have moved higher across the maturity spectrum. As interest rates rise, the prices of existing bonds generally fall.

The following chart shows the increase in U.S. Treasury Yields at different maturities along the yield curve. The reason for this is that demand for capital remains strong. Companies are investing heavily in AI-related infrastructure financed with debt, the federal government continues to run large fiscal deficits, and consumers have remained willing to spend. When many borrowers are competing for investment dollars at the same time, they often must offer higher interest rates to attract lenders.

US Treasury Yields (Through 10/14/'26)



US Treasury Yields are higher across the board, driving bond prices down

If stocks were slightly down, most investors would yawn. We would harvest tax losses, rebalance portfolios, and ultimately move on, just as we did in the first quarter. Bonds, however, are the defensive portion of the portfolio, and even though we will be harvesting tax losses and rebalancing there as well, it's still reasonable to ask what investors should expect from them going forward.

Fortunately, that's where the story becomes more encouraging. While rising interest rates create short-term pressure on prices, they also increase the income that newly purchased bonds may generate.

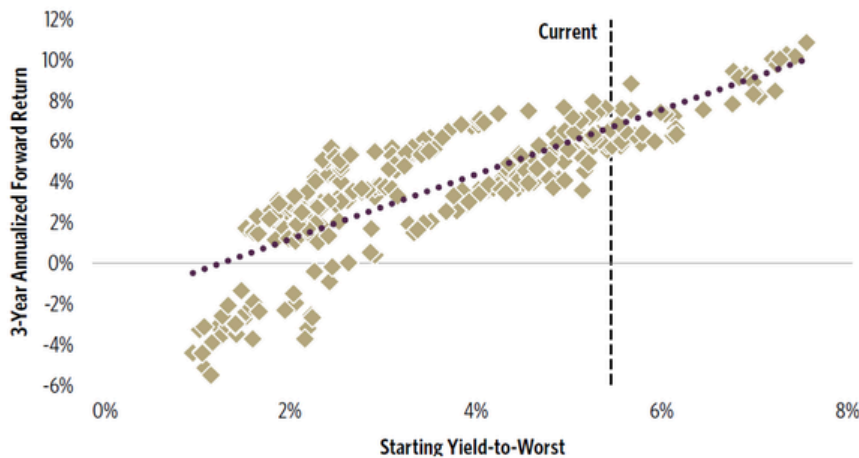
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When you buy a bond, you're entering into a contract in which the borrower promises to repay principal and interest over time. Because of that, a bond's starting yield has historically been a good approximation of the return an investor might reasonably expect if the bond is held to maturity and the issuer remains financially sound.

In summary, today's higher yield environment may provide a more attractive starting point for fixed income investors than was available just a few years ago. While interest rates may move higher or lower from here, current yields offer a larger cushion against future volatility and a stronger foundation for long-term returns. As a result, the outlook for bonds appears considerably more balanced than it did during the low-rate environment of recent years.

Bloomberg U.S. Aggregate Index: Starting Yield-to-Worst vs. Subsequent 3-Year Annualized Return



Source: Guggenheim Investments, Bloomberg. Data as of 9.28.2026. Yield-to-worst calculations span monthly observations on month-end from 8.31.1999-8.31.2023. Three-year forward returns are based on the performance of the index for the three-year period following each yield observation.

Today's higher yield environment may provide a more attractive starting point for fixed income investors

It's also important to remember that stocks and bonds are priced relative to one another. As bond yields rise, fixed income can become more attractive relative to stocks because investors could expect higher returns with lower volatility. As a result, higher yields can place pressure on stock valuations. This relationship is often most apparent among smaller companies and other interest rate sensitive areas of the economy.

Let’s talk about stocks for a minute. The economy remains on solid footing. Unemployment is low, household and corporate balance sheets are healthy, and businesses continue to benefit from a supportive policy environment. Meanwhile, the rapid buildout of AI-related infrastructure and data centers has helped support investment and profit growth across several sectors.

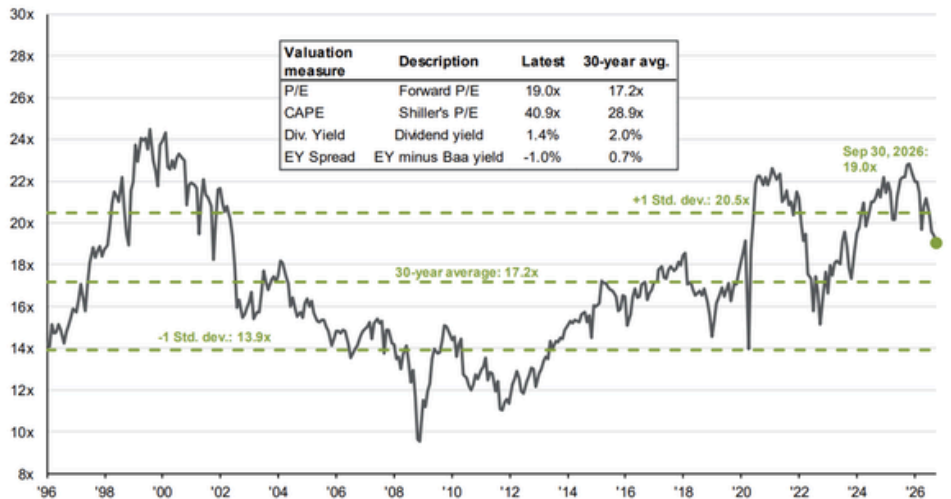
Of course, every boom invites questions about whether it could eventually lead to a bust. While that is always possible, one noteworthy development this year is that the S&P 500 Index has become less expensive relative to projected earnings despite rising stock prices. Earnings expectations have grown faster than prices, bringing the market’s forward price-to-earnings ratio closer to its long-term average.

There may be an underlying shift in the market away from higher-multiple software businesses and toward lower-multiple, hardware and infrastructure oriented companies, which could explain part of the decline in overall valuations. Alternatively, the decline may simply reflect a return to a more normalized market environment following the post-pandemic boom. As is often the case, markets are constantly pricing in future opportunities and risks in real time.

S&P 500 valuation measures

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S&P 500 index: Forward P/E ratio



Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as consensus estimates of dividends in the next 12 months, provided by FactSet, divided by the most recent S&P 500 index price. EY minus Baa yield is the forward earnings yield (the inverse of the forward P/E ratio) minus the Bloomberg U.S. corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand. Guide to the Markets - U.S. Data as of September 30, 2026.

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The S&P 500 Index has actually become less expensive this year as earnings have risen faster than prices

Investment Update

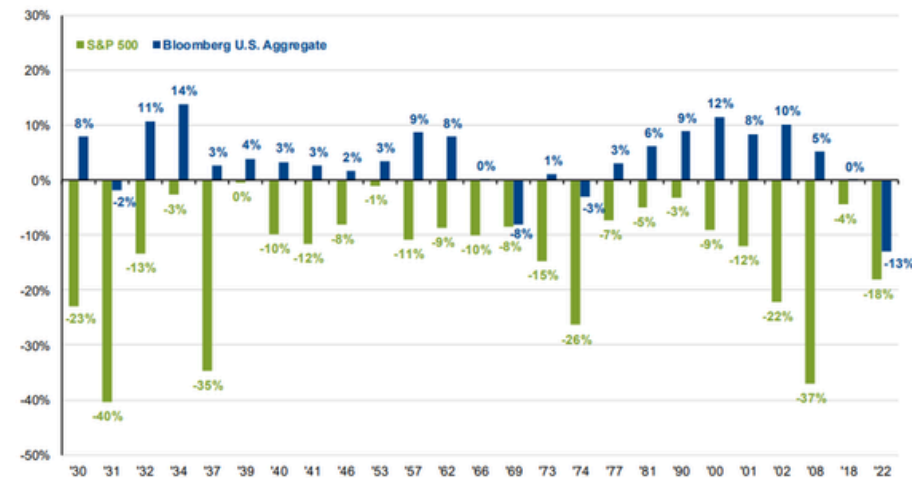
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Bringing it all together, stronger economic growth and continued demand for capital have contributed to higher interest rates and lower bond prices this year. Yet those same higher yields may improve the long-term return potential of fixed income investments compared with the low-rate environment investors faced in recent years. While neither stocks nor bonds move in a straight line, diversified portfolios continue to benefit from the complementary roles that each asset class can play. If equities serve as the offense that drives long-term growth, bonds remain an important source of income, diversification, and risk management when market conditions inevitably change.

Bond performance when stock returns were negative

Over the last century, bond returns were positive in 21 of the 25 years that stock returns were negative



Source: FactSet, Strategas, J.P. Morgan Asset Management. Guide to the Markets - U.S. Data are as of September 30, 2026.

J.P.Morgan
ASSET MANAGEMENT

Historically,
bonds have
often provided
stability during
equity
downturns

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