Global Asset Allocation ETF Strategies

Performance Commentary | Third Quarter 2026

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EQUITY ALLOCATION PERFORMANCE

Contributors

- Software Sector
- U.S. Large Cap Growth

Detractors

- Industrials Sector
- Banks Sector

Sticky inflation and concerns around the rising cost of capital, growing deficits, and heavy supply injected uncertainty into the equity path during the quarter. Within equities, the resilience of the broad indices, especially in the U.S., masked narrow breadth and underlying weakness. A small group of mega-cap growth and AI beneficiaries drove index returns higher, while most sectors struggled. Rate-sensitive sectors and cyclicals saw sharp drawdowns. Further, small-cap weakness pointed to both rate pressure and risk aversion.

The strategy posted a slightly positive return for the quarter, with technology-oriented sectors, most notably software, leading the way. Cyclicals sold off during the quarter, with banks and industrials as the biggest detractors to performance.

Notable Portfolio Adjustments During the Quarter

- Increased International DM
- Reduced Large Cap Growth/Consumer
- Reduced Equities Exposure in Asset Allocation Models

FIXED INCOME ALLOCATION PERFORMANCE

Contributors

- Leveraged Loans
- CLOs

Detractors

- Long Treasuries
- Mortgaged Backed Securities

It was a challenging quarter for investors, with returns driven by a significant repricing of interest rates. The Federal Reserve embarked on a rate-hiking cycle in September and signaled that further increases may follow. Fixed income returns were negative across nearly all sectors, as elevated income could not absorb the rapid adjustment in rates. However, corporate credit spreads remained stable despite the outsized supply from corporate issuers.

The fixed income strategy posted a negative return for the quarter, with overweight positions in MBS and long Treasuries detracting from performance, owing to their higher rate sensitivity. Bank loans and CLOs were positive for the quarter due to their low duration and a stable credit spread environment.

Notable Portfolio Adjustments During the Quarter

- Increased Securitized
- Exited Intermediate/Long IG Corporates
- Increased Fixed Income Exposure in Asset Allocation Models

OUTLOOK & CURRENT POSITIONING

- Strong economic data suggest growth should remain solid, though signs of strain are emerging as labor market data softens. Inflation remains the Fed's primary focus, but policy adjustments are more likely to be modest than aggressive. We believe any further Fed tightening will be limited, with expectations already reflected in current yields. The reset in yields has materially improved the outlook for forward returns. Higher yields give investors more income, more compensation for uncertainty, and a larger cushion against future rate volatility.
- We remain overweight equities relative to fixed income. We are also tilted toward the U.S., given greater inflationary pressures from energy prices in Europe and Asia, and we carry a more diversified sector mix.
- Following the sharp repricing, we maintain full duration across our fixed income strategies and continue to be defensive within our credit allocation, emphasizing income generation, opportunities at the issuer and industry levels, and greater diversification across high-yield corporate bonds and securitized markets, where valuations are more compelling.

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