

COLONIAL TRUST *Quarterly*

Quarter In Review

In The Spotlight with Lorie Barton

Trump Accounts



QUARTER IN REVIEW

THE THIRD QUARTER PRESENTED INVESTORS WITH A SHARP CONTRAST: ECONOMIC GROWTH REMAINED RESILIENT, BUT RISING INTEREST RATES PRODUCED UNEVEN MARKET RETURNS.

Large technology and communication-services companies supported the market-cap weighted indices, while small-cap stocks, interest-rate sensitive sectors, and bonds came under pressure.

Equity market returns were mixed in the third quarter following a historically strong second quarter. The S&P 500 provided a total return of 2.3%, although only four of its eleven sectors finished in positive territory. The technology-heavy Nasdaq Composite gained 2.6%. The DJIA, with less exposure to tech and AI, declined 2.3%, while the Russell 2000 Small-Cap Index fell 7.2%. International markets were nearly flat: the MSCI EAFE Developed Markets Index gained 0.9%, and the MSCI Emerging Markets Index declined 0.4%. Fixed income markets also struggled, posting their weakest returns since 2022, when CPI reached 9.0%.

Total Return	3Q26	YTD
S&P 500	2.30%	12.73%
DJIA	-2.34%	7.19%
Nasdaq	2.61%	16.09%
Russell 2000	-7.19%	13.87%
MSCI EAFE	0.91%	10.91%
MSCI Emerging Markets	-0.40%	23.52%
Bloomberg Agg Bond Index	-3.51%	-2.91%

Source: Bloomberg, LP

Equity market leadership narrowed during the third quarter as the Magnificent Seven stocks regained momentum; the Bloomberg Magnificent Seven Index returned 11.1% for the quarter. Software stocks also rebounded after performing poorly during the first half of 2026 amid concerns that artificial intelligence could alter the software-as-a-service business model. Energy stocks performed well as oil prices rose alongside continued fighting in the Strait of Hormuz.

IN THE SPOTLIGHT: LORIE BARTON

CELEBRATING MORE THAN 35 YEARS OF SERVICE

This quarter, we celebrate Lorie Barton as she prepares to retire at year-end after nearly 36 years with Colonial Trust in our Spartanburg office. During her remarkable tenure, Lorie has contributed meaningfully to the firm’s operations and our clients’ experience. At its core, her role has been in client service, but no single title can capture the many ways she has supported clients and the firm.

Lorie is known for her exceptional dedication, warmth, and compassion. She consistently puts clients first and works tirelessly to meet their needs, with diligence and meticulous attention to detail. Lorie has thankfully had ample time to train SaraBeth Shalala and Jacquena Irving who have big shoes to fill. You can learn more about them both on our website, and we hope you will get to know them soon.

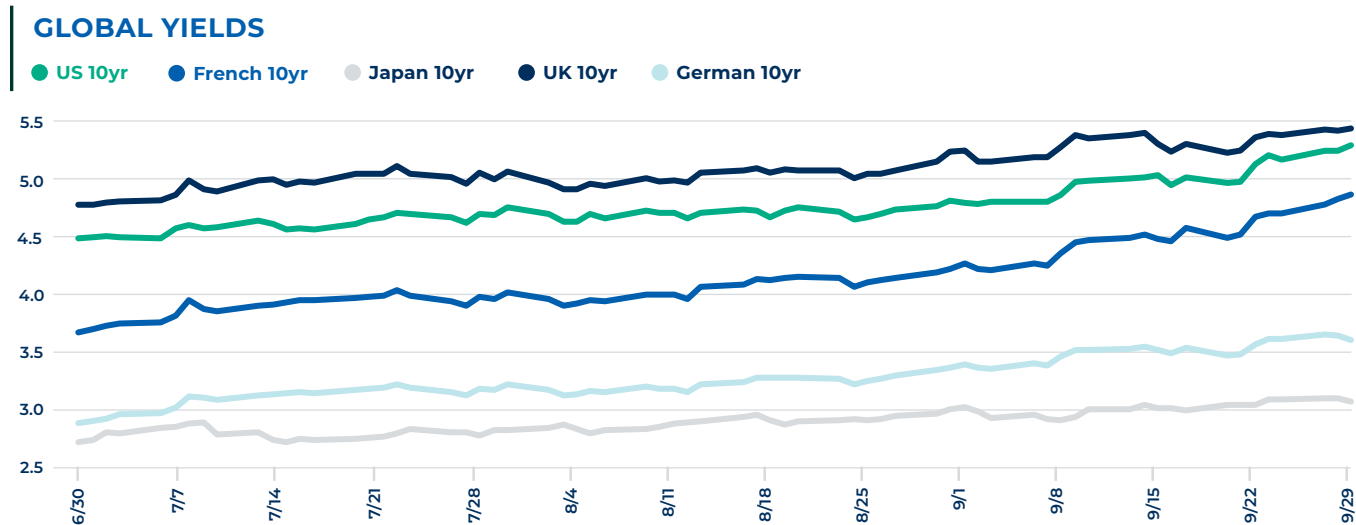
In retirement, Lorie looks forward to more time with family, especially as “Nana” to her three grandchildren. All of us at Colonial Trust will miss Lorie deeply and wish her every happiness.



This narrowing of market leadership favored the largest companies, which have an outsized influence on the market-cap weighted S&P 500, while the average stock performed considerably worse. The S&P 500 Equal Weight Index declined 1.9% for the quarter, and four sectors—Utilities, Industrials, Real Estate, and Consumer Discretionary—fell more than 5%. We believe higher interest rates were the most significant contributor to this broad weakness.

THE 10YR TREASURY YIELD ROSE FROM 4.47% TO 5.29% DURING THE THIRD QUARTER, THE LARGEST QUARTERLY INCREASE SINCE 2002.

This is a global phenomenon, with a synchronized rise in global sovereign yields. Global yields are hitting multi-decade highs around the world, with the notable exception of China.



Source: Bloomberg, LP

Higher yields pressure equities by making bonds more attractive, increasing interest expense for indebted companies, and slowing economic activity. These effects help explain the weakness in interest-rate-sensitive utilities and real estate stocks.

Several factors contributed to the increase in interest rates during the quarter. One was renewed inflation pressure associated with elevated oil prices. WTI crude rose 30% in the second quarter, pushing gasoline and diesel higher. That increase interrupted the Fed's progress on reducing inflation and heightened concerns that higher transportation costs could feed through to the higher prices of other goods.

MARKETS ARE INCREASINGLY FOCUSED ON SOVEREIGN DEBT AND THE LIMITED POLITICAL APPETITE FOR PERSISTENT DEFICITS.

U.S. federal debt crossed \$40 trillion during the quarter. France's debt is approaching 120% of GDP, the United Kingdom installed its fifth prime minister in five years amid fiscal challenges, and Japan is pursuing expansionary policy despite having the world's highest debt-to-GDP ratio and facing higher inflation and interest rates. These developments are increasing the sovereign risk premium in government bond yields.

Heavy government borrowing coincides with increased corporate bond issuance, much of it from investment-grade hyperscalers financing data-center construction. Governments and companies are competing for capital. Hyperscalers are projected to issue \$260 billion of debt in 2026, rising to

\$420 billion next year according to Goldman Sach estimates. This substantial demand for capital from both public and private sector borrowers is contributing to a higher cost of capital in the form of elevated interest rates.

This inflationary fiscal backdrop has pushed central banks around the world toward more restrictive monetary policy. During the third quarter, the Federal Reserve, European Central Bank, Bank of Japan, and Reserve Bank of Australia raised short-term interest rates to contain inflation and moderate demand. These policy actions, combined with concerns about government borrowing and bond supply, contributed to the synchronized increase in global yields.

While the uptick in rates caused poor performance in parts of the equity markets, it has not materially impacted GDP growth. Quarter-end brought us revisions to 2nd quarter GDP, which improved from 1.5% to 2.2%. The consumer spending component rose 3.8%, the best quarter since 4Q24. The Atlanta Fed GDPNow reading of 3rd quarter GDP estimates 3.7% GDP growth for the quarter, which was above 5% for much of September before a rise in imports reduced this estimate.

THE LABOR MARKET REMAINED HEALTHY ENTERING THE FOURTH QUARTER, ALTHOUGH JOB GROWTH IS MODEST.

The September jobs report showed 29,000 new jobs created for the month and 582,000 for the year-to-date. The unemployment rate ended the quarter at 4.2%. While job growth is not stellar, layoffs are muted with the four-week average of initial claims for unemployment falling from 222,500 to 200,000, a level consistent with historically low layoffs. The labor market is balanced at a low level of job growth because of slow labor force growth.

Other economic measures also point to continued strength, with Manufacturing and Services PMIs firmly in expansion territory. Durable goods orders ex-aircraft have posted monthly increases since April 2025. Retail sales and personal spending remain in positive territory, with August retail sales up 1.2% over July. This paints the backdrop of an economy that is in expansion territory.

However, not all the economic data have been favorable. Inflation remains a challenge for consumers, with CPI running at 3.4% in August and gasoline prices over \$4.00 per gallon. Consumer sentiment remains close to the all-time lows reached in May. Housing activity continues to be weak: existing- and new-home sales have struggled to gain traction as the average 30-year mortgage rate increased from 6.55% to 7.23% during the quarter, according to Bankrate.com.

Strong economic data has been overshadowed by weak consumer sentiment as the election approaches. Both major parties have high unfavorable ratings—58% for Republicans and 59% for Democrats, according to Pew—and confidence in elected institutions remains low. The only institution with lower approval ratings than Trump is Congress. Prediction markets assign a greater than 90% probability that Democrats take the House and approximately a 60% probability that they take the Senate. With many close races expected, election-related uncertainty and a flood of negative ads will be part of the narrative during the next five weeks.

HOW WILL WE END THE YEAR?

WALL STREET EXPECTATIONS ARE FOR ROBUST EARNINGS GROWTH IN THE THIRD AND FOURTH QUARTERS.

Estimates for revenue and earnings growth for both quarters increased as the year progressed. According to FactSet, in mid-April, analysts forecasted 22% earnings growth in 3Q and 20% in

4Q. These forecasts increased through the summer and are now roughly 30% for both quarters. Revenue estimates have followed a similar pattern, with 3Q and 4Q estimates rising from high single-digits in the spring to 11% and 10% today. This is unusual in two respects. First, revenue and earnings growth are accelerating late into an economic expansion. Revenue growth has accelerated in each quarter since 2Q25, and earnings growth rates have increased materially in the last several quarters. Second, analysts typically begin to reduce estimates as earnings season approaches.

For the last several quarters, earnings growth for S&P 500 has outpaced equity returns, thereby reducing market valuations. In January, the forward P/E multiple of the S&P 500 was 22.1x earnings and today this multiple is 19.0x. Markets typically exhibit multiple contraction when interest rates rise as share prices fall. In this case, valuations have fallen because earnings expectations are increasing by a greater amount than price. Valuations metrics for the S&P 500 are heavily influenced by certain large companies and don't represent the experience of each of the 500 companies in the index.

AI AND DATA-CENTER COMPANIES ARE DRIVING MUCH OF THE MARKET'S EARNINGS GROWTH.

Goldman Sachs estimates AI-related investment is contributing nearly half of S&P 500 EPS growth this year. Micron alone represents 5 percentage points of the 30% third-quarter growth estimate after earnings rose from \$2.88 to \$33.23 per share. The buildout of infrastructure for AI also benefits industrials, utilities, pipelines, communications equipment, and investment banks.

The capital investment is estimated to be 2.4% of GDP in 2026 and is forecast to rise to 3.6% of GDP by 2032, for a total of \$10 trillion in the US according Columbia University. If these estimates prove correct, this investment will be larger than any investment in human history – greater than the railroads, electrification, or the interstate highway system.

Political resistance against data center construction and concerns about AI going rogue have dominated headlines during the back half of the quarter. While important, a report from Jones Lang Lasalle estimates North America has 66GW of data center capacity under construction and 95% of that is pre-committed to customers with 2028 delivery dates. The AI industry will have to navigate the risk of NIMBY and risk of rogue agents to reduce fears about the industry. However, we expect the projects under construction will be completed and drive economic activity for the next several years. Given that, we anticipate the next several quarters to have similar economic drivers to the last several years.

While the data center buildout will be the primary driver of economic activity, we are in the early innings of adoption of AI. During the quarter, Meta launched its first wildly popular AI agent with Muse. In less than a month it has 3.4 million downloads and more than 3 million weekly users. Consumers are using this to manage emails/calendars, shopping, and cancel unused subscriptions. Anthropic and Open AI are developing enterprise agents and systems for specific industries, like law, healthcare, and financial services. They are both seeing robust adoption and users are reporting significant efficiency. For example, Novo Nordisk reports Claude reduced the production time of certain regulatory documents from 10 weeks to 10 minutes.

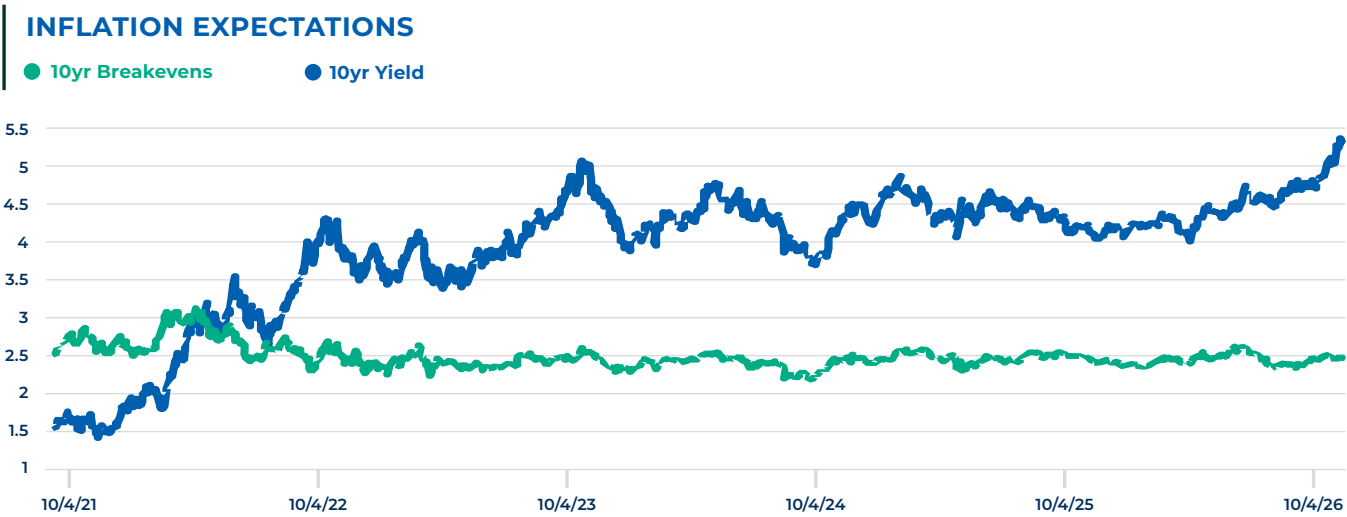
We believe AI utilization will take the baton from the data center buildout as the dominant market and economic narrative over the next several quarters. This will create winners and losers in the market, but we expect more winners. This will expand the benefits from the data center supply

chains to the broader economy, leading to higher productivity, increased margins, and quicker growth.

While we are optimistic, there are risks lurking in the markets and economy. We are concerned about the safety of many of these AI products and the negative sentiment surrounding this technology. We saw several frightening stories of hacks from AI bots during the testing. This led to warnings from leaders of the companies and what appears to be a coalescence of these companies focusing on safety standards. Nvidia announced Open Agent Safety Platform, a program aimed at controlling autonomous agents, with a notable list of industry partners. We expect this issue to remain front and center and more concrete regulations to be introduced in the fourth quarter and beyond. The outcome of the election will impact the regulatory process.

BUT THE LARGEST RISK FACING THE ECONOMY AND MARKETS ARE HIGHER INTEREST RATES.

We believe the increase is less about inflation and more due to strong growth and fiscal concerns. Inflation break-evens, the difference between nominal and TIPS yields, have not changed as rates have increased, illustrating the market is not pricing in high inflation into the future. This does not mean that higher rates can't slow economic activity and make the next capital investment unprofitable with a higher cost of capital. Rates have not increased to the level that we believe will snuff out this economic expansion, but we are closer than we were 90 days ago. We are monitoring the level of rates and economic activity for signs we are approaching that level.



Source: Bloomberg, LP

It feels like the pace of change is accelerating, due to AI, how we consume media, and the current political environment. It is amazing to think about what the economy and markets have brushed off in the last two years – tariff tantrums, inflation, government shutdowns, Fed rate hike, war in Iran, rising rates, and \$100/BBL oil to name a few. These events dominated headlines for a time, but the US economy, companies, and entrepreneurs continued to develop new products, services, markets, and ideas to bring customers things they are willing to buy. This is what our economy has done for the last 250 years, and we believe will attempt to do for the next 250 years. We will try to identify the investments positioned to benefit from the opportunities that exist today and those discovered in the future. We thank you for the confidence you place in Colonial Trust to steward your financial resources and look forward to a prosperous end of 2026.

TRUMP ACCOUNTS: A NEW WAY TO SAVE FOR THE NEXT GENERATION

A NEW SAVINGS OPPORTUNITY IS NOW AVAILABLE FOR FAMILIES LOOKING TO INVEST IN A CHILD'S FUTURE.

Trump Accounts are tax-advantaged investment accounts designed for children under age 18, allowing parents, grandparents, and other eligible individuals to contribute up to \$5,000 annually. In addition, children born between 2025 and 2028 may qualify for a one-time \$1,000 government seed contribution, providing an early boost to long-term savings. Funds are automatically invested for long-term growth and the combination of time and compound returns can be a meaningful foundation for future financial goals.

Contributions are made with after-tax dollars, and investment earnings grow tax-deferred while held in the account. At age 18, the account converts to a traditional IRA, creating additional planning opportunities, including a potential Roth IRA conversion. For some young adults, a Roth IRA conversion may be an attractive strategy, as the original contributions can generally be converted tax-free, while taxes would be due only on any investment gains and qualifying government contributions.

For families interested in giving children an early start on investing, Trump Accounts may be worth exploring. If you have children or grandchildren under 18, you may contact your Colonial Trust advisor if you have questions about whether a Trump Account would be appropriate. More information can also be found at trumpaccounts.gov.

Important Platform Note: At this time, these accounts cannot be held on investment platforms like Fidelity or Schwab. Fidelity indicates that families can sign up for updates and that future transfer or rollover availability may depend on additional Treasury guidance. For now, the account should be opened and managed through the official U.S. government Trump Accounts website or app.

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