

Your Journey Towards Financial Independence Begins Here

GWM Market Update - Rates, Debt, and the Path Ahead

This past month brought a string of headlines worthy of consideration: the U.S. national debt crossed \$40 trillion for the first time, long-term Treasury yields climbed to their highest levels in nearly two decades before pulling back, and inflation data continues to run above the Federal Reserve's target. None of these developments happened in isolation — interest rates, inflation, and the federal debt are increasingly intertwined, and together they are shaping the environment we are investing in today.

Our goal with this update is to consider and contextualize what is happening in each of these areas, in plain terms, and to connect the dots to how we manage your portfolio for the long run. We do not feel the current environment should incite fear, but rather a season of change for future market dynamics. Our goal is to give you a clearer picture of a different but manageable environment - a landscape that looks different than the one investors grew accustomed to over the past decade and a half.

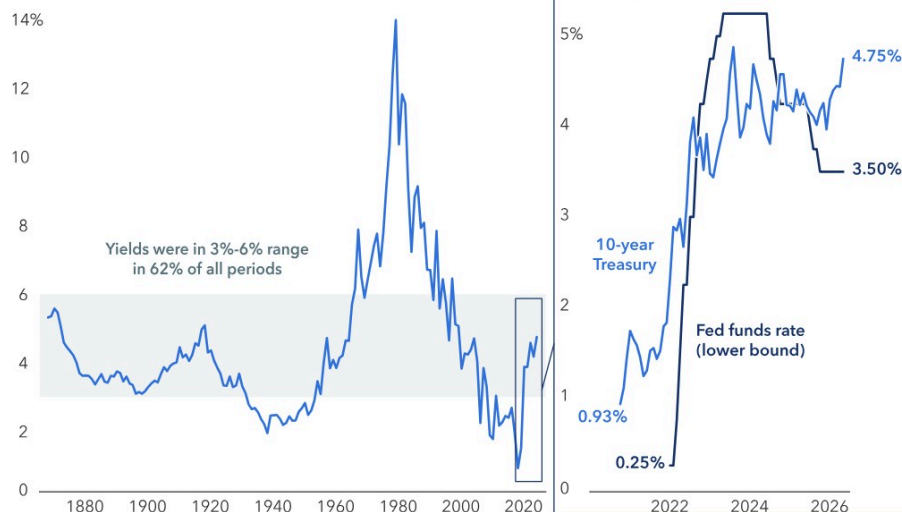
Interest Rates: A Return to "Normal"?

For most of the 2010s and into the pandemic, interest rates sat near historic lows. The 10-year U.S. Treasury yield — a benchmark that influences everything from mortgage rates to corporate borrowing costs — spent years below 2%. Today, that yield sits closer to 4.75%, and the 30-year Treasury briefly touched levels not seen in nearly two decades during August.

It is tempting to view this as unusual. Viewed over a longer stretch of history, though, it is not. The chart below - provided by Capital Group - traces 10-year Treasury yields back to 1871. Since then, yields have spent nearly two-thirds of the time in a 3% to 6% range — right around where we sit today. The truly unusual period, arguably, was the decade of near-zero rates that followed the 2008 financial crisis and extended through the pandemic.

A return to higher Treasury yields

U.S. 10-year Treasury yield



Sources: Capital Group, Federal Reserve Bank of St. Louis, LSEG Datastream, Robert Shiller. Data for 1871 to 1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data for 1962 to 2026 represents 10-year Treasury yields as of December 31 each year within the period. Data for 2026 is as of August 31, 2026.

What is driving yields higher now is a combination of forces: a resilient economy, inflation that has not fully returned to target, heavy government borrowing, and a Federal Reserve under new leadership that has deliberately stepped back from the detailed forward guidance markets leaned on in recent years. That last

point matters for day-to-day volatility — with the Fed offering fewer signals about its next move, markets are left to interpret each economic data release on their own, which can mean sharper swings in bond yields than we have grown used to. We saw a preview of this in August, when a spike in long-term yields only reversed after the Treasury Department stepped in to buy back more long-dated bonds — a reminder that policymakers have tools to manage this transition, but not unlimited ones.

Inflation: Cooling, But Not Vanishing

Inflation remains the other half of the rate story. The Fed's preferred inflation gauge rose 3.7% in July from a year earlier, and the “core” measure that strips out food and energy rose 3.3% — both still comfortably above the Fed's 2% target.

The composition of that inflation matters as much as the headline number:

- Price pressure has broadened less than the elevated headline figure suggests; housing and core services outside of housing have been moderating even as food and energy prices tick up.
- A softening job market and businesses' reluctance to push through further price increases are helping cool the underlying trend.
- The wildcard is the enormous wave of AI-related capital spending underway across the economy. If that spending drives productivity gains, it could help ease inflation over time. If spending runs ahead of productivity, it could add fuel to price pressures and complicate the Fed's path back to target.

Our baseline expectation, shared by many economists we follow, is that inflation gradually settles into a 2.5% to 3.0% range over the next few years — not the 2021–2022 extremes, but also probably not a full return to the ultra-low readings of the 2010s.

The Federal Debt: A Slow Grind, Not a Cliff

The debt headlines are harder to look past. Total federal debt now exceeds \$40 trillion, roughly double the level of just a decade ago, and debt held by the public recently crossed 100% of the size of the entire U.S. economy — a threshold last seen just after World War II.

What has changed is not just the size of the number — it is the relationship between two things: the interest rate the government pays to borrow, and the pace at which the economy grows. For most of the past fifteen years, economic growth comfortably outpaced borrowing costs, which meant the country was, in effect, growing its way out from under the debt even while running deficits. That cushion has largely disappeared. Borrowing costs and economic growth are now running much closer together, which means the debt is more likely to keep compounding on its own rather than shrinking relative to the economy over time.

Strategists have mapped out a range of paths from here — everything from a benign scenario in which growth outruns the debt, to a genuine fiscal crisis triggered by political dysfunction or a loss of confidence among Treasury buyers. We do not think either extreme is the most likely outcome.

Of the varying potential outcomes, J.P. Morgan Asset Management's research team lays out a baseline scenario with “steadily rising debt paired with gradually rising borrowing costs.” We see this scenario and condition as a reasonable expectation for a realistic path forward. Under this path, the debt continues climbing relative to the size of the economy over the next decade, and long-term interest rates likely drift somewhat higher along with it. It is not a crisis scenario. It is a slow, grinding shift — one that argues for structurally higher bond yields and modestly lower bond returns over the coming decade, not a reason to abandon high-quality fixed income altogether.

We think this is rational path because a genuine course correction — meaningful spending cuts or tax increases large enough to change the trajectory — would require a level of political consensus that simply has not been evident in either party in recent years. At the same time, the U.S. retains real advantages that make an acute crisis less likely in the near term: the dollar's role as the world's reserve currency, the deepest and most liquid government bond market on earth, and a long record of the Fed and Treasury doing what it takes to keep the system functioning smoothly.

What This Means for Your Portfolio

It is natural to wonder whether higher rates and a heavier debt load are reasons for concern. Based on both the data and history, here is how we are thinking about it:

- Stocks have historically weathered rising-rate periods reasonably well. Looking back at the periods since 1962 when the 10-year Treasury yield rose at least 0.75 percentage points over six months or

longer, the S&P 500 posted average gains of roughly 14% during those periods themselves, and roughly 30% over the two years that followed — even though those same periods came with real bouts of volatility along the way. Rising rates create discomfort, historically, but rarely derail markets on their own.

- Bonds are attractive again in a way they have not been in years. With yields near 5%, high-quality bonds now offer both a meaningful income stream and their traditional role as a shock absorber for portfolios — a combination that was largely missing during the ultra-low-rate decade.
- Diversification matters more, not less, in this environment. We continue to favor spreading exposure across asset classes, market capitalizations, and geographies — rather than concentrating too heavily in the higher-growth, higher-valuation names that can be most sensitive to further increases in rates.

General Economy

GDP growth held at a 2.1% annualized pace through the 2nd quarter - modest, but well ahead of the contraction many feared at the height of the conflict. Corporate earnings provided a powerful tailwind: S&P 500 companies posted 28.6% year-over-year earnings growth in the first quarter, the strongest since 2021, and estimates for the second quarter point to continued growth in the 20% range. Consumer spending, which softened under the weight of higher prices at the pump during the acute phase of the conflict, has begun to stabilize as energy costs retreat.

Closing Thoughts

None of this changes the fundamentals of how we manage your wealth. Interest rates will rise and fall. Debt headlines will keep coming, in this election cycle and the next. What does not change is the discipline behind long-term investing: building portfolios around your specific goals and time horizon, staying diversified, and resisting the urge to make reactive decisions based on any single month's news cycle.

We will continue watching these themes closely: the Fed's approach under its new leadership, how inflation evolves, and how the debt picture develops in the years ahead — and we will adjust your portfolio when the evidence warrants it, not because a headline demands a reaction. That is the same approach that has guided our work with you through every cycle, and it is the one we will continue to bring to your plan.

Thank you for your continued trust and confidence in our team. We look forward to keeping you informed as the landscape continues to evolve.



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