

Quarterly Insight

Market Update

FROM THE DESK OF CIO CHARLES RINEHART, CFA, CAIA

Fifty degrees feels cold in October and warm in March.

It is the same temperature, but after a summer of 90-degree days, the first morning in the 50s can send you looking for a jacket. Meanwhile, I'll admit that on one of those first 50-degree days in spring, you'll occasionally find me driving with the windows down. Objectively, it's the same weather but the way we experience it is shaped by our frame of reference.

Just as temperature tells us a great deal about the weather, interest rates tell us a great deal about the investment environment. Interest rates are essentially the price of money. Low rates make financing inexpensive and lower the hurdle for new investment. Higher rates force borrowers to compete harder for capital and investors to demand more compensation for taking risk.

For much of the last two decades, investors became accustomed to unusually low interest rates. The period lasted long enough that it stopped feeling unusual. The third quarter offered a reminder that circumstances can change.

The yield on the 10-year U.S. Treasury, an important input in the valuation of everything from stocks and bonds to mortgages and real estate, rose from 4.44% at the end of June to 5.29% at the end of September.

Five percent feels noteworthy largely because we have not seen it in a long time. In fact, the last comparable period was 2007. For perspective, the median American today is about 39 years old. That means that roughly half of the American population has spent their adult lives in an environment where long-term Treasury yields were below current levels.

For many investors, this does not feel normal. History offers a different perspective. Ten-year Treasury yields averaged more than 10% during the 1980s and roughly 6.5% during the 1990s. A 5% yield would not have looked particularly remarkable for much of the postwar period. In fact, before the fall of 1998, the 10-year had spent more than two decades continuously above 5%.

That does not mean rates belong at 5% today. It simply illustrates the danger of confusing what we are accustomed to with what is normal.

The more useful question is not whether current rates are historically high or low. It is why they have risen and what that means for investors. Several forces appear to be at work.

First, inflation has again become more complicated. Higher energy prices associated with geopolitical conflict have added to price pressures and made the path toward lower inflation less predictable.

Second, the Federal Reserve has changed direction. Investors began the year expecting additional rate cuts. Instead, persistent inflation, partially driven by energy prices, led the Fed to raise its benchmark rate by 0.25% in September. The

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Total returns*

	3Q 2026	2026
S&P 500	2.3%	12.7%
DOW JONES INDUSTRIAL AVERAGE	-2.3%	7.2%
NASDAQ	2.6%	16.1%
RUSSELL 2000	-7.2%	13.7%
MSCI EAFE (INTERNATIONAL)	0.8%	10.3%
BLOOMBERG U.S. AGGREGATE BOND INDEX	-3.5%	-2.9%

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Market Update

quarter-point increase itself is less important than the shift in expectations. Investors have moved from asking how quickly rates might fall to debating whether additional increases will be necessary.

Third, a market fixated on interest rates creates the odd situation in which good economic news can occasionally be bad news for markets. Strong job growth and consumer spending are fundamentally positive. But when inflation is a concern, strong economic data can also imply that demand remains high enough to sustain price pressures. That can lead investors to expect tighter Federal Reserve policy and higher interest rates. Markets then have to balance two opposing forces: stronger growth improves expected corporate earnings, while higher interest rates reduce the value investors place on those future earnings.

Finally, fiscal policy is part of the story, although probably not the whole story. Large federal deficits require enormous amounts of Treasury borrowing. Greater supply can increase the return investors demand to own long-term government debt. But long-term inflation expectations remain reasonably well anchored, suggesting the bond market is not currently signaling runaway inflation or a wholesale loss of faith in monetary policy.

The better interpretation is probably that several forces are operating together: stronger economic growth, persistent inflation, energy shocks, changing Federal Reserve expectations and some increase in the compensation investors require for lending money over long periods.

What does that mean for portfolios? For bonds, higher interest rates create a tradeoff. Rising yields cause the prices of existing bonds to fall in the short term. But those higher yields also improve the prospective returns available to new investors and allow portfolio income to be reinvested at better rates.

For clients who need income or who are matching portfolios to future spending needs, high-quality bonds now offer something they did not for much of the last two decades: meaningful income without requiring substantial equity risk.

For stocks, the adjustment is different. Stocks must compete with other investments for capital. When Treasury bonds yielded 1% or 2%, investors had a strong incentive to accept more risk in search of return. At 5%, that hurdle is higher.

The market has not ignored higher interest rates. Stronger earnings have simply been *powerful enough to overcome them.*

All else equal, higher interest rates should put downward pressure on stock valuations. We have seen some evidence of that this year. Even as the S&P 500 has risen, its price-to-earnings ratio has declined. The market has advanced because corporate earnings have grown rapidly enough to offset the valuation pressure from higher rates. The market has not ignored higher interest rates. Stronger earnings have simply been powerful enough to overcome them.

The effect has also been uneven. Larger businesses tend to have stronger balance sheets and easier access to capital. Smaller companies are often more dependent on borrowing and therefore more sensitive to higher financing costs. That helps explain why small-cap stocks struggled during the third quarter even while many of the largest U.S. companies remained resilient.

Ultimately, whether 5% interest rates feel high tells us mostly about what we became accustomed to yesterday. It tells us much less about what those rates mean for tomorrow. There is ample history showing that the U.S. economy can grow and investors can prosper with interest rates above current levels. There is also no guarantee that today's rates will persist.

Our job is not to decide prematurely whether it is time for sweaters or shorts. It is to make sure portfolios can function in either environment.

That means maintaining sufficient liquidity, owning high-quality assets that do not depend on cheap financing, taking advantage of more attractive bond yields where appropriate and remaining patient when periods of adjustment create opportunity. Higher rates create real challenges, but they also restore opportunities that have been missing for years. That is a tradeoff worth understanding, not fearing.



Chief Investment Officer, Charles Rinehart, CFA, CAIA, leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.

JIC BLOG: BEYOND THE NUMBERS

How to avoid being the richest person *in the graveyard*

For most of their adult lives, our clients are conditioned to save. Save for retirement, save for emergencies, save for college, save for the future. Work hard, invest consistently, exercise financial discipline, and gradually accumulate substantial wealth to support a comfortable retirement. Most

How to Avoid Being the Richest Person *in the Graveyard*

retirees spend 30 or 40 years reinforcing these habits centered around accumulation. These decades of good habits form well-worn ruts in the psyche. Over time, most are rewarded with financial independence and freedom to retire on their own terms. Then, literally almost overnight, the objective changes and instead of contributing to the portfolio, the portfolio is expected to contribute to them.

Reliable retirement spending is often portrayed as an extraordinarily complex endeavor. However, after evaluating some income tax factors, at its core, retirement spending comes down to a remarkably simple relationship: the ratio of future spending to current investable assets—that's it. That said, day after day and client meeting after client meeting, we witness an almost universal pattern: the math behind this ratio is rarely the problem. Instead, it is something much more vexing and harder to address: the change in mindset.

THE RETIREMENT RISK NOBODY TALKS ABOUT

When people envision the risks of retirement, they almost invariably focus on one concern: running out of money. Retirement may span three decades, or more, and over that time, markets will invariably ride a roller coaster of returns. Add in the uncertainty of healthcare costs, inflation, and other unknowables, and it's understandable why retirees are cautious not to jeopardize their financial security. Despite all this, more often than not, the greatest risk facing many of our clients is not premature portfolio depletion.

It's chronic underspending. Many retirees continue to operate with the same mentality that enabled them to accumulate wealth. Spending feels uncomfortable, even when their resources substantially exceed their needs. Vacations with the kids and grandkids are put off for another year, meaningful bucket-list experiences are deferred, and charitable intentions or financial help to others is targeted for "later in life." Meanwhile, over a long enough time frame, the portfolio almost always continues to grow well beyond the spending pace. Yet, the retiree's behavior often remains unchanged, which renders the biggest risk of all for many life-long diligent savers missing out on finding **fulfillment** in the time and the treasure built from a lifetime of discipline.

Usually, the unspoken goal is often this concept of **fulfillment**, which means putting financial assets to use in a way that aligns with one's values. Almost always, this means meaningful experiences with loved ones, contributing to people and causes, and freeing up time to enjoy and enhance relationships.

In short, the key is finding that spending sweet spot of a meaningful retirement by striking the balance between overly conservative asset hoarding and frivolous spending to ensure you're not the richest person in the graveyard.



PERMISSION TO SPEND THE RETIREMENT PAYCHECK

One of the most valuable roles we play for retired clients is helping them develop confidence around spending and it rarely is a question of affordability. The real question is: "How do I know it's prudent?" This is where clear-eyed and thoughtful planning and analysis becomes indispensable.

The first step is identifying baseline spending needs. Retirees must first develop a clear understanding of the resources required to sustain their desired lifestyle, including housing, healthcare, taxes, travel, insurance and other recurring expenditures. Once that baseline is established, step two is often the process of creating and setting up the recurring transfers as a "retirement paycheck."

Just as our clients received a paycheck throughout their working years, we can help set up our retirees to receive a monthly transfer from their investment portfolio into their checking account. We are simultaneously reviewing ongoing tax projections (along with our clients' CPAs) to identify the proper account to pull funds from to minimize the tax burden. In addition, we can coordinate estimated payments, or even tax withholding, directly from those distributions. We stress test these scenarios by modeling severe market declines, below-trend returns, elevated inflation, higher spending levels, increased longevity, and long-term care scenarios. If the plan remains viable across a broad range of adverse conditions, clients can spend with confidence rather than apprehension.

The result is not only a cash-flow solution but a psychological framework that sets spending on autopilot. So, rather than evaluating every expense through the lens of scarcity, retirees gain confidence knowing their spending is supported by a carefully constructed, tax sensitive, and rigorously tested financial plan.

In a very real sense, the retirement paycheck provides something many retirees need: permission to spend. In fact, recent research shows many retirees who have annuities, another form of a paycheck from an insurance company, spend more than those retirees that do not. While we won't lay out the debate on the advantages and disadvantages of annuities

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How to Avoid Being the...

here (please refer to our blog on this topic), the concept is the same. With consistent monthly cash flow, spending becomes more of a habit that does not leave retirees wondering if the rate is sustainable.

RETIREMENT CASH FLOW PLANNING IS NOT A ONE-TIME EVENT

Of course, a retirement cash flow plan is not a static proposition. Portfolio values fluctuate, tax laws change, health circumstances shift, family dynamics evolve, and spending patterns fluctuate.

As a result, a retirement spending plan should never be approached as a set-it-and-forget-it exercise. At least annually, it's critical to revisit the analysis and stress-test the plan against current realities and updated assumptions. The purpose is to continually evaluate whether the relationship between spending and investable assets remains sustainable under a wide range of circumstances. Very often, new retirees start off with an understandably conservative spending pace, and over the years, we find ourselves recommending an **increase** in spending pace after several of these annual reviews, as many of the doomsday scenarios never came to pass.

RETHINKING THE RETIREMENT PORTFOLIO "BENCHMARK"

The best retirees eventually realize that their benchmark is no longer the S&P 500 or some other mix of market indices. Their benchmark becomes much more personal. Are their assets supporting a dignified retirement? Do they have clarity and confidence about the future? Are they investing time in the relationships that matter most? Are they creating meaningful experiences? Are they supporting the people, institutions, and charitable causes they care deeply about? Do they have genuine peace of mind?

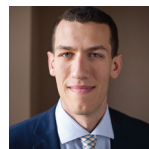
Those are the metrics that matter and the true "return" on the portfolio. The most successful retirees we've worked with are rarely those who generated the highest investment returns. They're the ones who successfully transformed financial capital into life capital. This is perhaps the most overlooked aspect of retirement planning. The end goal, and purpose, is for the portfolio to support a rewarding life and to ensure the legacy you wish to leave behind. In the end, the goal is not to die with the most money.

After all, the value of wealth is not found in what it can accumulate. It is found in how it can serve for a meaningful retirement to help others. Almost everyone would choose this over being the richest person in the graveyard.

Recent *promotions*

We are pleased to announce that this individual has been promoted to a new position:

- **MICHAEL TIMM, CFA, CFP®**
Director of the Columbus Market



TIMM

New additions to *the team*

We are pleased to announce that these individuals have joined our team over the last several months:

- **NICHOLAS FRANKS | CINCINNATI**
Portfolio Manager Assistant
- **BETH KEMPER | CINCINNATI**
Client Support Assistant
- **DAVID KRAEMER | CINCINNATI**
Trust Associate



FRANKS



KEMPER



KRAEMER

Real *client stories*

The best way to understand how financial planning can help during life's biggest transitions is to see how others have navigated similar situations.

Explore stories of actual client situations and see how thoughtful planning helped people navigate retirement, family transitions, charitable giving, and more.

Know someone facing a major life change? Share these stories as a helpful resource.



In the *news*

The expertise of our Johnson team members is often sought after by local and national media sources. Scan the QR code to see recent articles and videos featuring our employees.

Recent highlights include:

- **BRANDON ZUREICK, CFA** in Kiplinger
- **CHAD MAGGARD, CFA** on Kiplinger
- **BILL JUNG, CFA** in the Cincinnati Business Courier
- **CHARLES RINEHART, CFA, CAIA** in MarketWatch
- **BRANDON ZUREICK, CFA** in CBS MoneyWatch
- **JOE ABBOTT, CFA** in Cincinnati Business Courier



About *us*

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than \$24 billion in assets for clients in 50 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

Our *divisions*

WEALTH MANAGEMENT

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If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

**Source: Bloomberg, FactSet, and Morningstar Direct, as of September 30, 2026. Returns are total returns. Indexes are unmanaged, cannot be invested in directly, and do not reflect fees or expenses. Past performance does not guarantee future results*

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National *ranking*

We are thrilled to have been included once again on Barron's "Top 100 RIA Firms" list. We are at #38 and are the only Cincinnati-headquartered firm in the top 70. Barron's published its first advisor ranking in 2004 to shine a spotlight on the nation's best wealth managers and raise standards in the industry. This prestigious award considers assets managed by the firms, technology spending, staff diversity, succession planning, and other metrics. As an independent Registered Investment Advisor (RIA) we have a fiduciary duty to act in our clients' best interests, and we are honored to have been doing just that since 1965.

Disclaimer: Johnson Investment Counsel did not pay a fee to participate in, be considered for, license, or promote this ranking. Advisors who wish to be ranked fill out a 102-question survey about their firm. Data is collected as of 6/30/2026. Barron's verifies the data against regulatory databases then applies their own rankings formula to generate a ranking. The formula features three major categories of calculations: (1) Assets, (2) Revenue, and (3) Quality of Practice. Each category contains multiple subcalculations. Barron's ranking is based on a variety of quantitative and qualitative factors. Quantitative factors include, but are not limited to, amount of assets, type of assets, growth, and client retention. Qualitative factors include, but are not limited to, experience levels, advanced degrees, industry designations, the size, shape and diversity of teams, charitable and philanthropic work and the compliance records of the firm and its associated employees. The ranking may not be representative of any one client's experience as it reflects a sample of client experiences. The award is also not indicative of future performance and there is no guarantee of future investment success.

Upcoming *webinars*

Are you a current or former Procter & Gamble employee? This webinar, led by Michael Stanis, CFA, CFP®, MBA, a former P&G employee, is designed to help owners of the P&G Profit Sharing Trust (PST) understand how the proceeds may be distributed and invested, and how taxes are impacted. Johnson Investment Counsel has helped hundreds of P&G employees navigate PST distribution options. We want to share what we know so that you can make the best decisions for your family.



SCAN TO REGISTER

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