

The Bond Market Takes the Wheel

The 10-Year Treasury Is Back Above 5%

The highest since 2007. Mortgages and car loans follow this rate, not the Fed.



Data through September 28, 2026 | Source: U.S. Treasury | Chart: TradersBlog.SEMWealth.com

Informational purposes only. Not investment advice. Past performance is not a guarantee of future results.

If you only looked at the stock market, it was a relatively quiet quarter. The S&P 500 gained a couple of percent for the quarter and around 12% for the year (as of 9/28). Underneath the surface, it was anything but quiet. The market spent the summer sorting the AI winners from losers. Small-cap stocks (the big winners of the first half) gave back a big chunk of their gains in September.

The real story was in the bond market. The 10-year Treasury yield climbed above 5% for the first time since 2007, and mortgage rates are back around 7%. In September, the Federal Reserve RAISED interest rates for the first time since 2023 and said it expects one more increase this year.

Why does that matter? The rates most of us actually pay (mortgages, car loans, credit cards, and business loans) follow longer-term rates, which the Fed doesn't control. If they stay high long enough, they slow the economy. So far the economy is holding up and corporate profits are still strong.

The pressure on yields did impact one of our models. Our Tactical (high-yield bond) system moved to money market on September 24. That isn't necessarily a crash prediction, but rather the system doing its job when the trend in riskier bonds turns lower. It can jump right back in when the trend improves.

For the latest market updates go to: TradersBlog.SEMWealth.com

Should I be invested in AI?

This is the question we continue to hear the most. The honest answer: you probably already are. Technology is now a bigger share of the S&P 500 than at the peak of the 1999 tech bubble, so a typical index fund or 401(k) option already has a lot riding on AI.

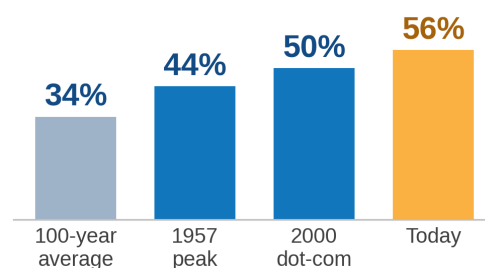
So the real question is, "Should I have **more** AI?" Like every "should I be invested in..." question, the answer comes down to three things:

- 1.) **Financial Plan** (when will you need the money?)
- 2.) **Cash Flow Strategy** (are you adding money or taking it out?)
- 3.) **Investment Personality** (could you sit through a 35–50% drop without selling?)

Money you won't touch for 15 years or more can ride out a lot of fluctuations. Money you'll need in the next 3 to 7 years can't. If your plan hasn't changed, your allocation probably shouldn't either. Included in this newsletter is our annual "Suitability Standard," making this the perfect time to let us know if anything in your life has changed.

If you would like a personalized review of your portfolio, go to Risk.SEMWealth.com

Two Industries Now Own More Than Half the Stock Market



Share of U.S. stocks in the two largest industries (today: tech + financials).
Source: SEM calculation from Kenneth French data, June 2026

AI: Boom, Bubble, or Both? One Year Later

By: Jeff Hybiak, CFA

Our fall newsletter last year asked whether AI stocks were a boom, a bubble, or both. Our answer was "both." A year later we'd give the same answer, just with much bigger numbers.

Since 2022 companies have spent roughly \$1.6 TRILLION building AI data centers, chips and the power to run them. The revenue AI has brought in so far is closer to \$0.2 trillion. That huge gap is the bet.

The "boom" side is most certainly real. Millions of people use these tools every day (I'm one of them). Corporate earnings have been exceptional ("jaw-dropping" is a term I've used frequently). Importantly, some of what's being built keeps its value no matter who wins. Power plants and transmission lines built for the data centers will still be useful in 20 years.

The "bubble" side is real too. More of the spending is now paid for with borrowed money and creative deals, including chip makers helping finance their own customers (or receiving stock in private companies instead of cash). History says not everybody wins. If you bought the five biggest technology stocks at the end of 1999 (Microsoft, Cisco, Intel, Oracle and IBM), you lost roughly 70% by late 2002 and waited over a decade to get back to even. The technology those companies represented changed the world, but the stocks just got (way) ahead of the payoff.

Infrastructure First, Payoff Later

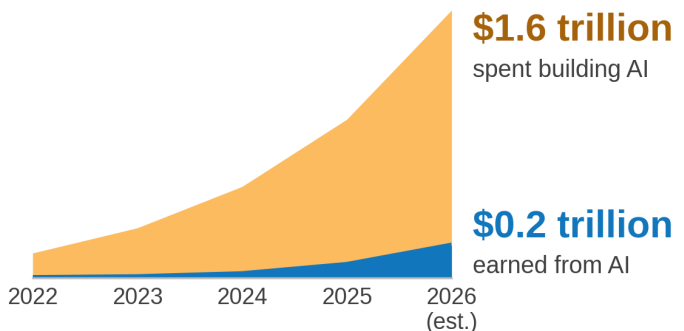
Every big technology has followed the same path

	BUILD	CONSOLIDATE	PAYOFF
Electricity	1890s	1900–15	1920s
Radio	1920s	1925–32	1930s
Computers	1960s–70s	1970s–80s	1990s
Internet	1995–2005	2005–15	2016–19
AI	2022–?	?	?

Dates are approximate. Source: SEM Wealth Management.

The Gap Is the Bet

AI spending vs. AI revenue, added up since 2022



Sources: company filings, Epoch AI, Menlo Ventures. 2026 estimated.

I joined SEM in 1998. I vividly remember how impressive the earnings reports were in April 2000, right before the bust. Great earnings and an overheated market can happen at the same time.

We won't know until we have the benefit of hindsight whether we are being overly cautious or got swept up in the hype. Despite the rapid developments of the past year, nothing has changed in our analysis. Importantly, despite our cautious stance, our long-term focused models are still participating in the AI-fueled rally. Even more importantly, each of the models has triggers and mechanisms to adjust our allocations when the DATA tells us to make a change.

For more, check out our bonus content at TradersBlog.SEMWealth.com/Newsletter_Q32026

What is **ENCORE**?

ENCORE is a Quarterly Newsletter provided by SEM Wealth Management. **ENCORE** stands for: **E**ngineered, **N**on-**C**orrelated, **O**ptimized & **R**isk **E**fficient. By utilizing these elements in our management style, SEM's goal is to provide risk management and capital appreciation for our clients. Each issue of **ENCORE** will provide insight into investments and how we managed money. To learn more about **ENCORE** Portfolios, please contact your financial advisor.

The information provided is for informational purposes only and should not be considered investment advice. Information gathered from third party sources are believed to be reliable, but whose accuracy we do not guarantee. Past performance is no guarantee of future results. Please see the individual Program Reports for more information. There is potential for loss as well as gain in security investments of any type, including those managed by SEM. SEM's firm brochure (ADV part 2) and Form CRS (ADV Part 3) are available upon request and must be delivered prior to entering into an advisory agreement.



The Importance of “Suitability”

In order to fulfill our role as an Investment Advisor, SEM requests certain financial information for the client accounts we manage. This information is important for the management of your account, and we request clients to contact their financial advisor within 90 days if there are any changes to their financial situation.

We are asking clients to complete the information online through our website. Your responses will be shared with your financial advisor and reviewed to ensure the investments match the financial profile. To do this clients can go to risk.semwealth.com or click on the “Take Our Risk Questionnaire” at SEMWealth.com. If we do not receive a completed questionnaire by 12/10/2026 we will assume your information on file is current.

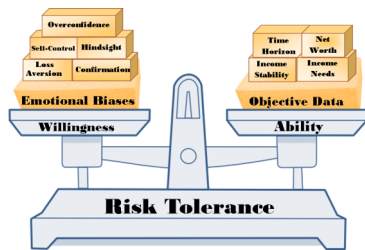


Creating a Customized Solution

Every investor has a unique set of circumstances that makes it difficult to find a pre-packed solution. SEM offers a wide range of investment models that are designed to be risk efficient for a broad range of investors. The key to long-term investment success is allocating your assets to the portfolio that best suits YOUR individual needs.

Step 1: Determine Your Time Horizon

Investing involves risk. Risk is essentially the volatility of returns during the time it is invested. While over the long-run an investment may have superior returns, over short periods of time the returns may be negative. The shorter the time horizon, the less risk a portfolio should have. Keep in mind different portfolios may have different time horizons based on the purpose of the funds. For investors taking income from their portfolio, separating the income portion into its own portfolio is a popular strategy.



Step 2: Determine Your Risk Tolerance

Risk tolerance is generally thought of how much risk an investor is WILLING to take. This is certainly an important determinant, but it is typically driven by EMOTIONS. Often investor feelings toward risk fluctuate with the direction of the market. The more important determinant is the ABILITY to take risk. The ability to take risk is determined by data, not emotions. While time horizon is one portion of a portfolio’s ability to take on risk, other determinants are based on the individual situation.

There are numerous questionnaires, including SEM’s, available to determine the WILLINGNESS to take risk. Your advisor can look at your overall situation to help you determine your ABILITY. Like Time Horizon, portfolios can be separated into different portions based on the purpose and objectives for that money.

Step 3: Understand Your Personality

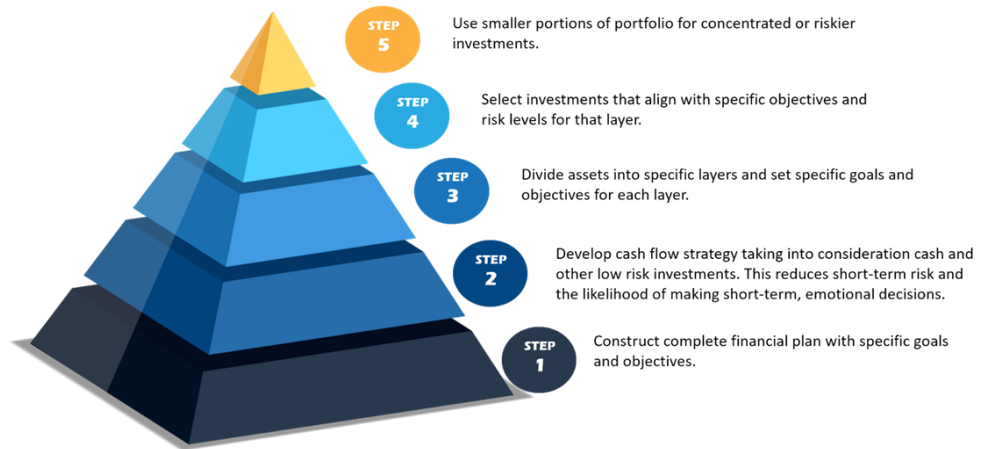
Too often our industry places clients in portfolios using a pre-determined model based on age. Our behavioral approach understands that even if you have time on your side and the ABILITY to take on risk, if you are invested in a portfolio that does not fit your overall investment personality there will be times where you are not comfortable. Typically when we are not comfortable we are more likely to make an emotional decision.

Step 4: Determine Your Customized Portfolio Blend

SEM’s Risk Questionnaire generates a blend that matches your time horizon, risk tolerance, and personality. It is designed to be a starting point with additional adjustments to be made to make the portfolio fit into the overall financial plan. You may already be in an optimized, custom blend of SEM models, but when you submit your questionnaire results SEM will send them to your advisor to review your portfolio and how it compares to your results. Upon review your advisor may work with SEM and possibly recommend a change to your investment allocations.

Creating a Customized Behavioral Portfolio

SEM works closely with our financial advisors to create a customized portfolio. We believe the strength of the portfolio starts with a solid financial plan and cash flow strategy as the foundation & then follows the steps above.



SEM's Portfolio Building Blocks

Beginning in step 3 above, SEM works with the financial advisor to select investment models that fit the financial plan, cash flow needs, and the client's personality. We have over a dozen building blocks to choose from across three distinct investment management styles (tactical, dynamic, & strategic). Each model has its own risk/return profile which can be blended with other models to create the customized portfolio. Each plays a different role. **Note in general, the higher returns you seek, the longer time horizon you need to have, and the more risk you must be willing to accept.**

