ACROPOLIS®
INVESTMENT MANAGEMENT

# PORTFOLIO INSIGHTS

September 2026: Volume 25, Issue 4 // David Ott, Editor

## In this Issue:

2 | Stock Market Summary
3 | Bond Market Review
4 | What is Circular Financing?
6 | Inside the Economy: The Two Year
7 | It's Not Just U.S. Yields
8 | The Big Picture

## Contact us:

P | (888) 882-0072 (Toll Free)
| (636) 449-4900 (St. Louis)
F | (888) 453-1266 (Toll Free)
| (636) 778-2400 (St. Louis)
E | info@acrinv.com
A | 14567 North Outer Forty, Ste. 200, St. Louis, MO 63017

## Acropolis was born from a simple idea:

**In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.**

# FIVE PERCENT RETURNS

The trouble with wordplay in a regulated industry like ours is that I have to explain it right up front: *Five Percent Returns* refers to the fact that U.S. Treasury notes and bonds with maturities of three years and longer now yield more than five percent, which is a return to higher, but historically more normal, interest rates.

The recent spike in yields is fascinating because it marks the end of an era of extraordinarily low bond yields. While much of the attention has focused on the terrible year for bond prices in 2022 (and, to a much lesser extent, this year), the good news is that starting yields have historically been a reliable guide to bond returns over the following years, and today's starting point is the best in nearly two decades.

Perhaps the big story last quarter for stocks was their resilience. I know it is an overused word at this point, but there were three significant challenges to stocks that could have gone in a different direction.

First, the tone from our new Federal Reserve Chair, Kevin Warsh, turned more hawkish. Although he took office in the second quarter, his August speech in Jackson Hole was notably hawkish, and the Federal Open Market Committee raised interest rates in September. Higher rates increase the cost of capital for consumers and businesses as the Fed attempts to tamp down inflation.




"How about making that interest rate a little more interesting?"

Second, there was a sharp selloff in semiconductor stocks early in the third quarter that caused investors to question whether enthusiasm surrounding artificial intelligence had gone too far. Chip stocks fell sharply from their June highs even as earnings remained strong, a reminder that ultra-high expectations can make even very good results disappointing. The selloff ultimately proved temporary, however, and enthusiasm for AI remained one of the strongest forces supporting the broader market.

Lastly, the mid-June ceasefire between the U.S. and Iran broke down in July, closing the Strait of Hormuz again and keeping energy prices elevated.

Still, despite these headwinds, well-diversified portfolios finished the quarter near breakeven, which may be unremarkable result on the surface, but a surprisingly resilient one given everything investors had to absorb.

# STOCK MARKET SUMMARY

*By David Ott*

With 39 percent of the S&P 500 concentrated in just ten companies, what happens at the very top can hide a great deal of what's going on in the other 490 stocks.

The S&P 500 gained 2.3 percent, but the ten largest stocks gained 9.3 percent, implying that the remaining 490 lost about 2 percent. That roughly matches the equal-weighted S&P 500, which fell 1.9 percent.

Sector results were just as lopsided. Energy, an amazingly small 3.5 percent of the index, gained 16.5 percent, more than double technology's 7.1 percent.

Health care and communication services also gained ground, but the other seven sectors all lost money, with utilities at the bottom, down 13.0 percent.

Interest rates explain much of the split. With oil prices surging on the disruption in the Strait of Hormuz, the Federal Reserve raised rates in September for the first time since 2023 and signaled another increase before year-end. The 10-year Treasury yield reached nearly 5.3 percent, its highest level since 2007, hitting utilities, real estate, and smaller companies hardest.

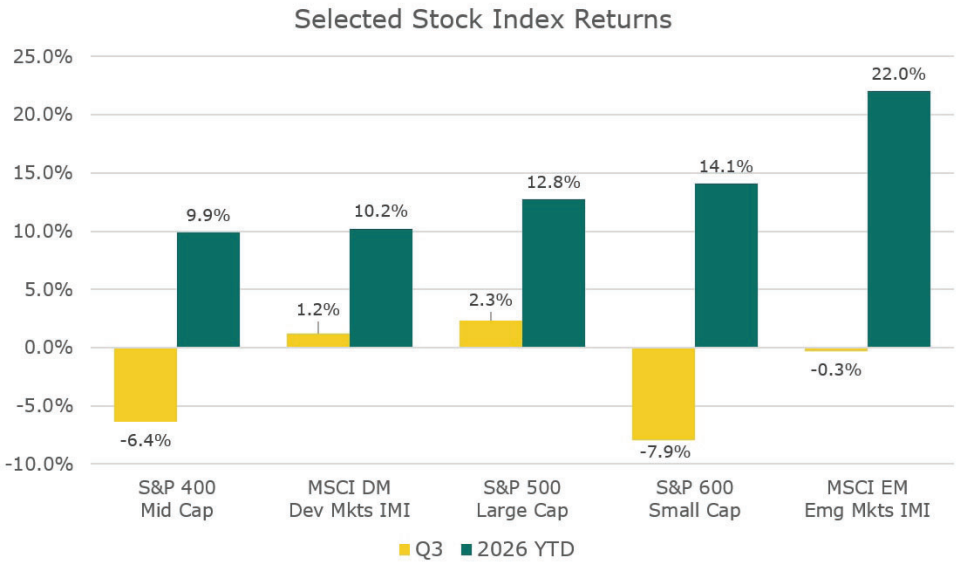
Mid- and small-cap companies had a tough quarter, especially once a September rate hike became clear.

Fundamentals did the heavy lifting. In the second-quarter reporting season, revenues rose 15.6 percent, 3.3 percent more than expected, and earnings rose 53.1 percent, 26.2 percent more than expected. Earnings grew faster than prices, so the forward P/E fell from about 20.4 to 19.2. Although that's good news, other measures like the Shiller P/E ratio still suggest that the market is expensive.

Overseas, the dividing line was energy. Japan gained about 5.9 percent, while Germany managed to gain less than one percent amid high European energy costs. Emerging markets were roughly flat for the quarter but remain up about 22.0 percent for the year, led by commodity exporters.

**"Nothing endures but change."**

*Heraclitus*
*Greek Philosopher*
*6th Century BC*




*Data Source: Bloomberg*

# BOND MARKET REVIEW

*By Ryan Craft, CFA*

The bond market has been under pressure for a few years, but the dam finally broke this past quarter. Yields across the curve jumped 60-80 basis points, with most of the increase coming in September.

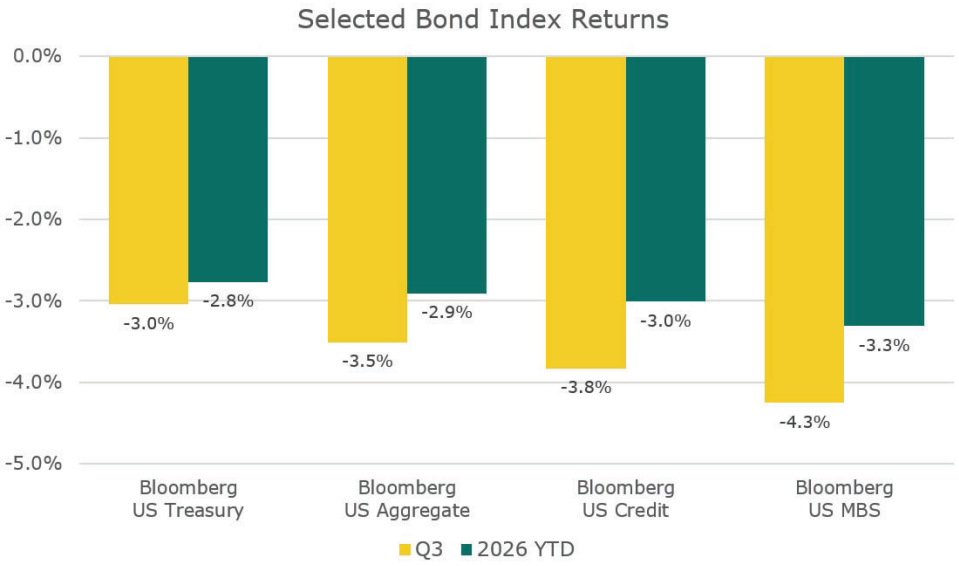
The result was poor performance for the bond market, with the broad Aggregate posting a -3.5 percent return for the third quarter. The pain spread across sectors, with Treasuries, Credit, and MBS all losing similar amounts. After years of immunity to rate fluctuations, the municipal market was hit hardest, down 6.4 percent.

Stubborn inflation, spurred by higher oil prices, drove the narrative for most of the summer. Long-term interest rates pushed over five percent for the first time in decades. This backdrop forced the Fed's hand, prompting it to raise the Fed Funds rate by 25 basis points at the September meeting and leave the door open to more hikes. This time last year, the market expected the Fed to slowly lower rates over time, but it has now had to adjust to a higher-for-longer regime, along with the potential for more hikes.

It is easy to pin this all on inflation, but the data says something else is afoot. Comparing Treasury yields to TIPS (which protect from inflation) shows that inflation expectations have not changed. This means that real yields are what have increased substantially. Real yields are driven by other factors such as credit, liquidity, and term premiums. It could certainly be the case that the outsized US budget deficits are finally becoming an issue, but rising yields have been a global phenomenon. If this was credit related, it would be more isolated to just the US market.

The more likely culprit is simple supply and demand. Governments continue to issue debt at a rapid clip and the AI infrastructure buildout is being financed primarily through debt.

The silver lining is that yields on safe, liquid bonds are fantastic. Treasury yields are over five percent, levels not seen since 2007. It may not be as sexy as the next AI IPO, but low risk investments with these yields should allow bonds to resume being a productive and low-volatility part of a balanced portfolio.




*Data Source: Bloomberg*

**"We shape our tools and thereafter our tools shape us."**

*John Culkin*
*American Priest & Academic*
*1928 - 1993*

**"Facts are stubborn things."**

*John Adams*
*American President & Founding Father*
*1735 -1826*

# WHAT IS CIRCULAR FINANCING?

*By David Ott*

The term "circular financing" is showing up more frequently, usually as a warning from skeptics about the risks of artificial intelligence stocks.

Circular financing happens when companies invest in, lend to, or otherwise help finance their customers, who then use some of that money to buy the companies' products or services.

Let's start in 1919, when General Motors created the General Motors Acceptance Corporation, or GMAC. GM realized it could sell more cars if customers had easier access to financing, so it created GMAC to provide it.

Customer financing isn't necessarily circular financing, but it's a useful place to start. The important question is who ultimately provides the economic demand. With GMAC, the customer wanted a car but needed a loan to buy one. The loan made the purchase possible, but there was still an independent customer at the end of the transaction, making payments out of their own income.

There is also a less comforting precedent. In the late 1990s, telecom equipment makers like Lucent and Nortel lent billions of dollars to young telecom companies.

Those telecoms used the money to buy Lucent and Nortel equipment. The sales were real on paper, but much of the demand depended on the financing. When those customers failed in 2000 and 2001, the loans went bad and the orders disappeared, so both Lucent and Nortel lost most of their value.

Circular financing becomes concerning when the seller, its suppliers, its customers and its investors finance one another in ways that make it harder to understand the source and size of the ultimate demand.

The largest AI companies are spending enormous amounts on chips, data centers and computing capacity. At the same time, many of the companies selling that equipment are also investing in the companies doing the spending.

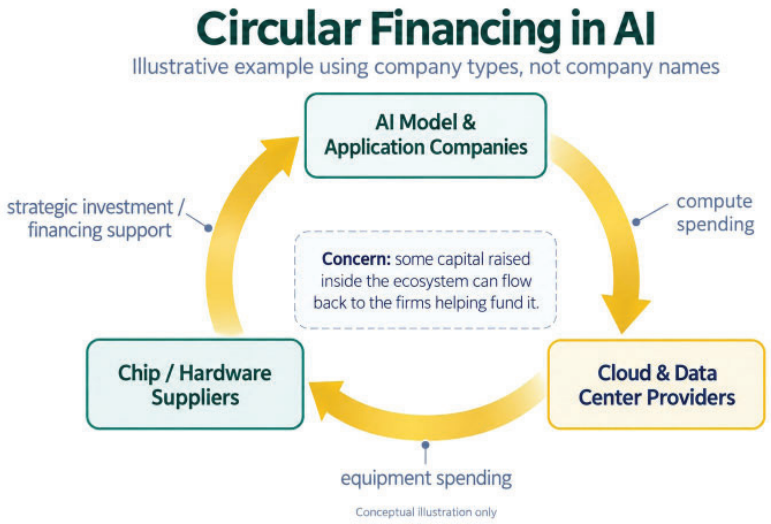
There is nothing inherently wrong with that arrangement. The question is whether the financing is helping real demand happen sooner, as it did with GMAC, or whether some of the demand depends on the financing itself, as it did with Lucent and Nortel. The AI version is more complicated because the companies involved are often investors, suppliers and customers at the same time.

Microsoft and OpenAI are a good place to start. Microsoft invested $1 billion in OpenAI in 2019, followed by additional investments in 2021 and a multibillion-dollar investment in 2023.

OpenAI, in turn, used Microsoft's Azure cloud to train and run its models. When the two companies restructured their relationship in late 2025, OpenAI committed to buy an additional $250 billion of Azure services. Microsoft provides capital to OpenAI, and a large share of OpenAI's spending comes back to Microsoft as revenue.

That does not mean OpenAI's demand for computing power is artificial. OpenAI plainly needs enormous capacity. But the relationship illustrates the circularity.

Nvidia and CoreWeave provide an even cleaner example. CoreWeave operates data centers filled with Nvidia graphics processing units, or GPUs, which it rents to companies that need




computing power. CoreWeave disclosed that all of the GPUs in its infrastructure were Nvidia GPUs, and that Nvidia accounted for 22.8 percent of its supplier purchases in the first half of 2026.

In January 2026, Nvidia invested $2 billion directly in CoreWeave to help finance an expansion to more than five gigawatts of data center capacity by 2030. Nvidia had also already agreed to buy up to $6.3 billion of any computing capacity CoreWeave cannot sell to other customers through 2032.

Nvidia may simply be backing a very good customer that needs capital to grow quickly. But Nvidia is now CoreWeave's largest supplier, one of its investors and a customer, all at once.

These are not isolated examples. The Bank for International Settlements recently studied investment relationships across the AI industry. It found that 55.2 percent of the money invested in AI companies between 2021 and 2025 came from other AI companies.

The large AI players are spending down their cash and issuing large amounts of debt, and Alphabet, Google's parent, announced $80 billion of equity offerings this year to help fund its AI buildout. OpenAI and Anthropic have raised capital in private markets, and both filed confidentially for public offerings this year.

For AI to work as a business, more of the revenue has to come from end customers. That means consumers and businesses paying for AI because it is worth the price, rather than the industry financing itself.

None of this tells us when, or even whether, the process breaks. As long as debt and equity markets stay open, it can continue for a long time. It does show, however, that a handful of interconnected companies now make up a large share of the market, and that their demand is harder to see clearly than their reported revenue suggests.

It's a risk we are clearly aware of, but it's hard to manage around as long as you own the S&P 500. In most cases, we've balanced it with bonds and with other equity asset classes, but the S&P 500 is still the 800-pound gorilla in the room.

**"It is a capital mistake to theorize before one has data."**

*Sir Arthur Conan Doyle*
*Scottish Author*
*1859 -1930*

# INSIDE THE ECONOMY: THE TWO YEAR

*By: David Ott*

One of the key rates that investors watch is the yield on the two-year Treasury note, because it is a signal of what the market thinks the Federal Reserve will do with rates in the future.

Investors can either buy a two-year note or keep rolling over short-term Treasury bills near the rate the Fed sets. If one choice paid noticeably more, money would flow to it until the gap closed. As a result, the two-year ends up reflecting what investors expect from the Fed.

In late 2021, the Fed was holding its policy rate near zero, but inflation had climbed above five percent, and investors knew hikes were coming.

So the yield on the two-year Treasury started climbing months before the first rate hike in March 2022 and stayed ahead of the Fed the entire way up. By the time the Fed reached 5.5 percent in the summer of 2023, the two-year had already leveled off.

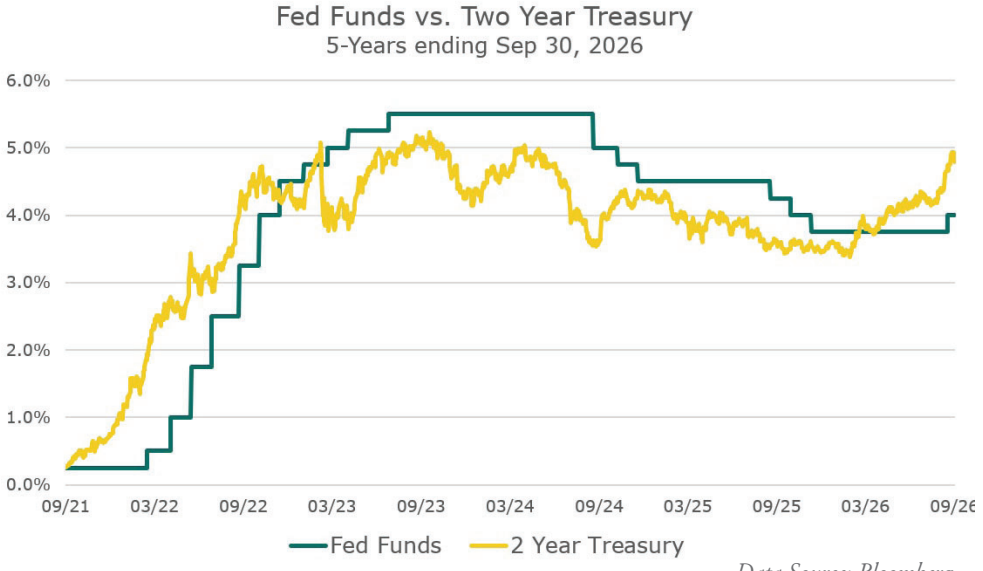
Then the relationship flipped as investors started to ponder when the Fed would start cutting rates. From 2023 through 2025, the two-year traded below the Fed Funds rate almost the whole time.

That gap was the market saying cuts were coming. They eventually arrived, starting in September 2024 and continuing into December 2025, when the Fed brought its rate down to 3.75 percent.

Early this year, the two-year yield moved back above the Fed Funds rate, and it has kept rising. In September, the Fed raised rates for the first time since 2023, to 4.0 percent. The two-year yield now sits near 4.9 percent, which signals that the market expects more increases ahead, not a one-time adjustment.

The two-year doesn't predict the Fed perfectly, as in late 2023, when two-year yields fell in anticipation of cuts that took nearly a year to arrive. But it does show, in real time, where the market expects short-term rates to average over the next two years.

Right now, that signal is clear: short-term rates are likely headed higher.




*Data Source: Bloomberg*

**"In the fields of observation, chance favors only the prepared mind."**

*Louis Pasteur*
*French Scientist*
*1822 - 1895*

# IT'S NOT JUST U.S. YIELDS

*By: David Ott*

Ryan Craft noted on page three that government bond yields are rising around the world, albeit to different degrees.

The chart below shows the 10-year yield for the five largest government bond markets. The US is by far the largest at about $30 trillion, followed by Japan at $7.5 trillion, China at roughly $5 trillion, and the UK and France at about $3.5 trillion and $3 trillion, respectively.

While the 10-year yield on Chinese government bonds has fallen this year, yields in the other large markets have all risen. Because the chart shows yield levels, the moves can look modest, so it may help to think in percentage terms.

Take Japan, which started the year with a 10-year yield of around two percent and ended the quarter near three percent. One percentage point may not seem like a big deal, but it's effectively a 50 percent increase in the yield.

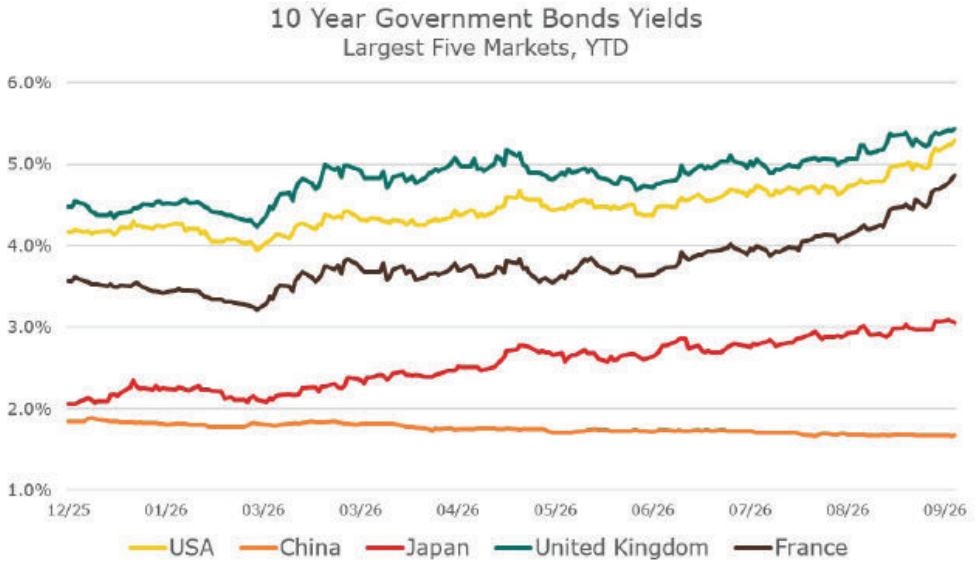
Measured that way, the US 10-year yield is 27 percent higher than at the start of the year, while UK and French yields are up 21 and 36 percent, respectively.

China is the exception, with its 10-year yield about 10 percent lower than where it started the year, for reasons that are largely homegrown.

Inflation there remains very weak, growth expectations are the lowest in decades, and the central bank continues to lean toward easing. And because China's capital controls limit how freely money moves in and out, rising yields elsewhere don't spill over the way they do among the other large markets.

The gap between Japanese and Chinese yields is almost the mirror image of five years ago, when Chinese bonds yielded about three percent and Japanese bonds yielded almost nothing.

For thirty years, Japan was the textbook example of what economists call a liquidity trap, where growth stalls, prices fall, and interest rates sink so low that central banks lose their power to revive the economy. Japan now appears to be finally escaping that trap, just as China is showing many of the same symptoms that pulled Japan in.




**"As tasks are automated, the purpose of work will rise."**

*Jenson Huang*
*NVIDIA CEO*
*1963 -*

| Major Equity Indexes | 2026 YTD |
|---|---|
| Dow Jones | 7.2% |
| S&P 500 | 12.8% |
| S&P 400 Mid-Cap | 9.9% |
| S&P 600 Small-Cap | 14.1% |
| MSCI Developed Mkts | 10.2% |
| MSCI Emerging Mkts | 22.0% |

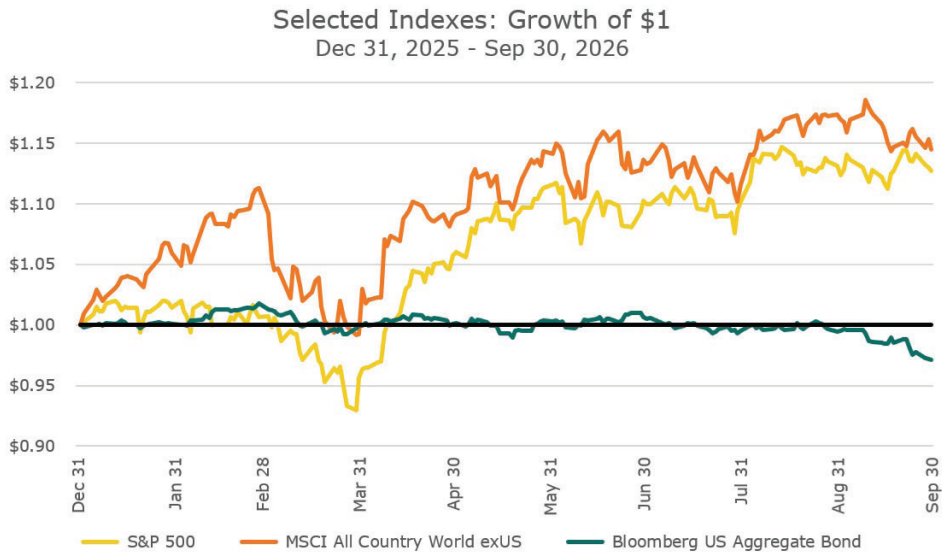
| Equity Styles | 2026 YTD |
|---|---|
| S&P 500 Growth | 15.9% |
| S&P 500 Value | 9.0% |
| S&P 500 Quality | 13.1% |
| S&P 500 Momentum | 27.8% |

| S&P Sectors | 2026 YTD |
|---|---|
| Basic Materials | 8.8% |
| Communications | 4.5% |
| Consumer Discretion. | -5.8% |
| Consumer Staples | 6.0% |
| Energy | 40.3% |
| Financials | -1.4% |
| Healthcare | 10.2% |
| Industrials | 8.5% |
| REITs | 5.3% |
| Technology | 28.4% |
| Utilities | -5.7% |

| Interest Rates | 2026 Q3 |
|---|---|
| Fed Funds | 4.00% |
| Prime Rate | 7.00% |
| 3-mo. Treasuries | 4.12% |
| 2-yr. Treasuries | 4.89% |
| 5-yr. Treasuries | 5.09% |
| 10-yr. Treasuries | 5.29% |
| 30-yr. Treasuries | 5.63% |

All Data as of 09/30/26

# THE BIG PICTURE




*Data Source: Bloomberg*




## Notice to Clients

Please remember to contact ACROPOLIS® Investment Management, LLC if there are any material changes to your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement as set forth on Part II of Form ADV continues to remain available for your review upon request.

## Legal Disclaimer

This publication is provided as a service to clients and friends of ACROPOLIS® Investment Management, LLC solely for their own use and information. The information in this publication is not intended to constitute individual investment advice and is not designed to meet your particular financial situation. You should contact an investment professional before deciding to buy, sell, hold or otherwise consider a particular security based on this publication. Information in this publication has been obtained from sources believed to be reliable, but the accuracy, completeness and interpretation are not guaranteed and have not been independently verified. The information in this publication may become outdated and we are not obligated to update any information or opinions contained in this publication.

© ACROPOLIS® Investment Management, LLC 2026. All rights reserved.