GOELZER INVESTMENT MANAGEMENT

AI Fundamentals Meet Macro Forces

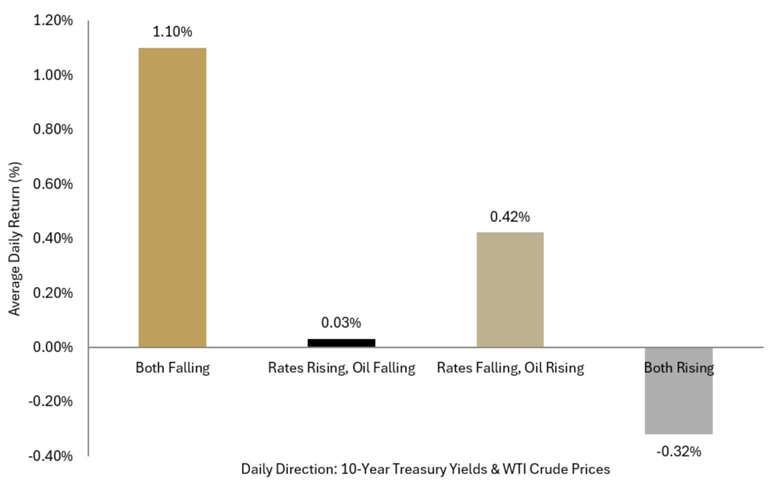
It has been a strong year for AI-linked equities, but this quarter has tested that momentum, as reflected in the recent rotation from semiconductor to software stocks. Sentiment faces headwinds from factors like local data center resistance, escalating hyperscaler capex, and AI safety concerns. Perhaps the most consequential variable remains the interest rate trajectory Fed Chair Warsh outlines today.

With the 10-year yield in 5% territory, markets have all but priced in a rate hike, weakening AI-related stocks. Rising yields compress valuations broadly, especially for long-duration names like the AI complex, where much of the value sits in distant cash flows. Compounding this, the Iran conflict has moved past its ceasefire into a contentious phase. The ensuing jump in oil prices adds pressure on the Fed to tame inflation.

While AI has climbed a “wall of worry” on strong fundamentals, closer scrutiny of year-to-date data reflects these macro concerns. Returns on a basket of AI-linked stocks, via the CHAT ETF proxy, show a clear performance drag when 10-year Treasury yields and WTI crude prices rise together. See Chart 1.

A mild outcome, like holding rates, keeps the growth story intact. However, a deliberate “higher for longer” stance could further reset valuations and growth expectations. With outcomes tied to variables largely outside investors’ control, diversification remains vital to balance risks with opportunities.

Average Daily Return: All Equities (CHAT ETF) by Rate & Oil Environment (YTD)



Sources: Bloomberg, Goelzer Investment Management

Economy

Last Week	This Week
- NFIB Small Business Optimism (Aug.): 98.7 vs. 99.8 one month prior	*- FOMC Rate Decision: 9/16*
- Producer Price Index (Aug.): 0.4% vs. 0.0% one month prior	*- Initial Jobless Claims: 9/17*
- Consumer Price Index (Aug.): 0.4% vs. 0.1% one month prior	*- Housing Starts: 9/17*
- U. of Mich. Consumer Sentiment (Sep P): 47.8 vs. 51.7 on month prior	*- Leading Index: 9/18*

Equities

		Returns (%)					
Index	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	7620	-1.25	1.83	12.21	17.07	20.98	12.67
Russell 1000 Growth	4879	-1.79	-2.39	2.81	5.96	21.14	11.60
Russell 1000 Value	2505	-0.87	5.33	22.38	28.27	19.49	11.86
FTSE High Dividend Yield	598	-0.80	3.11	14.98	17.64	17.76	12.08
S&P Small and Mid Cap	20754	-2.80	-4.44	14.17	15.92	14.62	7.68
MSCI EAFE	3168	-2.78	2.05	12.15	18.31	18.18	9.46
MSCI EM	1698	-3.31	-0.92	22.87	30.87	23.02	8.69

Characteristics

Index	NTM P/E	NTM P/E (20Y med)	Div Yield
S&P 500	18.2	15.9	1.1
Russell 1000 Growth	19.9	18.3	0.5
Russell 1000 Value	17.0	13.7	1.7
FTSE High Dividend Yield	13.9	13.1	3.6
S&P Small and Mid Cap	14.3	15.3	1.7
MSCI EAFE	14.8	13.5	2.9
MSCI EM	9.1	11.2	2.6

S&P Sector Returns YTD

• Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income

		Returns (%)					
Index	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	5.29	-1.07	-2.06	-1.46	-0.62	4.06	-0.57
U.S. Int. Gov/Credit	5.00	-0.80	-1.13	-0.73	0.32	4.40	0.86
U.S. Corporates	5.76	-0.97	-2.39	-1.56	-0.99	5.00	-0.45
High Yield	7.70	-0.75	-0.15	1.80	3.36	8.24	3.85
Municipals (1-10)	3.71	-0.91	-2.02	-0.93	-0.22	2.92	0.84

Levels (%)

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	4.66	4.40	4.18	3.48	3.50	5.01	0.21
10-yr Treasury	4.99	4.79	4.47	4.17	4.03	4.29	1.30
30-yr Treasury	5.35	5.25	4.95	4.85	4.65	4.38	1.86
SOFR	3.62	3.64	3.68	3.87	4.39	5.30	
6-mo. CD rate	4.28	4.13	4.00	3.62	3.97	5.73	0.19
Prime Rate	6.75	6.75	6.75	6.75	7.50	8.50	3.25
30-yr fixed mortgage	6.46	6.78	6.55	6.25	6.41	7.51	3.02

Data as of 4:300 PM ET, September 15, 2026. Returns through September 14, 2026.

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