Navigating Rising Yields

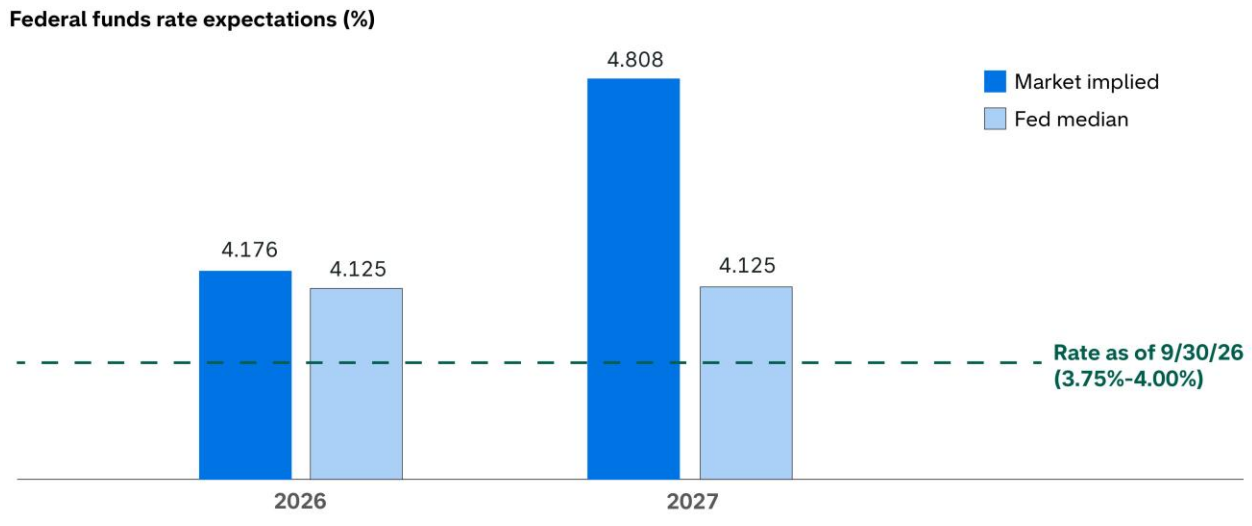
Bond yields have been rising once again, prompting questions from investors who may have flashbacks to the challenging fixed income environment of 2022. However, when evaluating a new period of rising rates, it is vital to examine the broader historical context, underlying economic drivers, and current starting conditions.

Today's higher yield environment is being shaped by several distinct forces: rising energy prices, supply dynamics, higher global bond yields, a reassessment of underlying economic growth, and a more hawkish tilt from the Federal Reserve. In response to inflation remaining persistently above target, the Fed implemented a rate hike in September; its first in more than three years. While these forces have pushed yields higher and bond prices lower, deeper analysis reveals a much different landscape than what investors navigated a few years ago.

Starting Conditions Matter

Entering October, market pricing implied three to four additional rate hikes over the next year, more than the one to two hikes projected by the Fed through 2027. For bond prices to sustain another severe drawdown, expectations would need to surge well beyond the market's current projection of the federal funds rate approaching 5%.

In addition, today's higher starting yields offer a meaningful income cushion that was missing ahead of 2022. When the Fed began raising rates in 2022 to combat sharp inflation, exceptionally low starting yields provided little income cushion to offset falling bond prices.

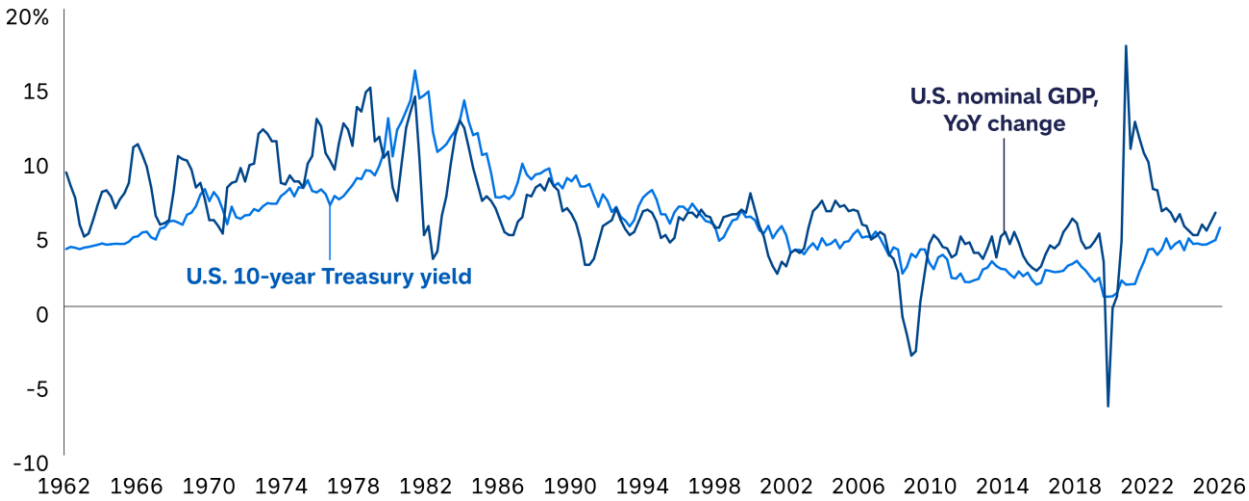


*Source: : Bloomberg, Federal Reserve. As of 9/30/26.

Nominal GDP Serves as a Natural Ceiling for Yields

The historical relationship between 10-year treasury yields and nominal GDP has been remarkably consistent, with nominal GDP acting as an effective ceiling for yields. The intuition is straightforward: over time, investors are rarely compensated more for lending to the government than the returns generated by investing in the broader economy.

With the 10-year treasury yield already trading in the 5.0% to 5.5% range in late September, this historical relationship implies that yields may have limited room to climb further.

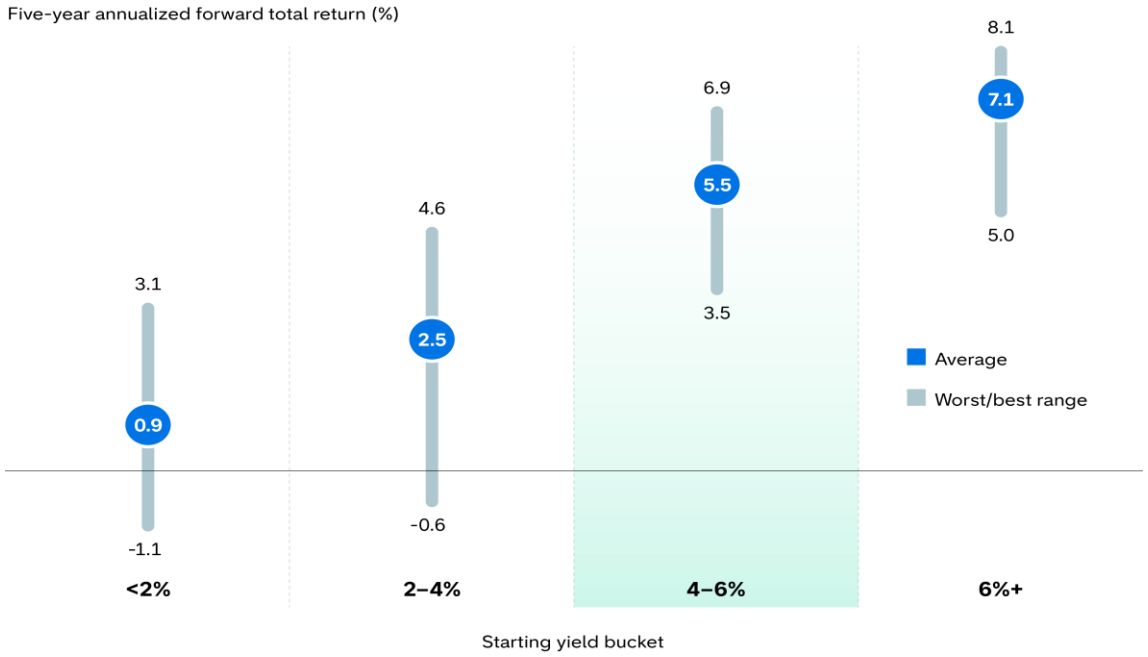


*Source: : Bloomberg. As of 9/30/26.

Focus on Long-Term Asset Allocation Potential

Daily fluctuations in oil prices or short-term sentiment should not distract from the primary asset allocation signal: current starting yields offer forward return expectations rarely seen in a generation. In the 4% to 6% starting yield bucket, the historical average 5-year annualized forward return over the past 25 years has been 5.5%. Even the worst historical 5-year forward return within this starting yield range remained positive at +3.5% annualized.

These starting yields imply attractive forward returns regardless of whether interest rates decline. If rate hike expectations hold, investors secure a high level of income. If economic growth softens and the Fed pivots toward rate cuts, investors stand to gain price appreciation on top of strong income generation.

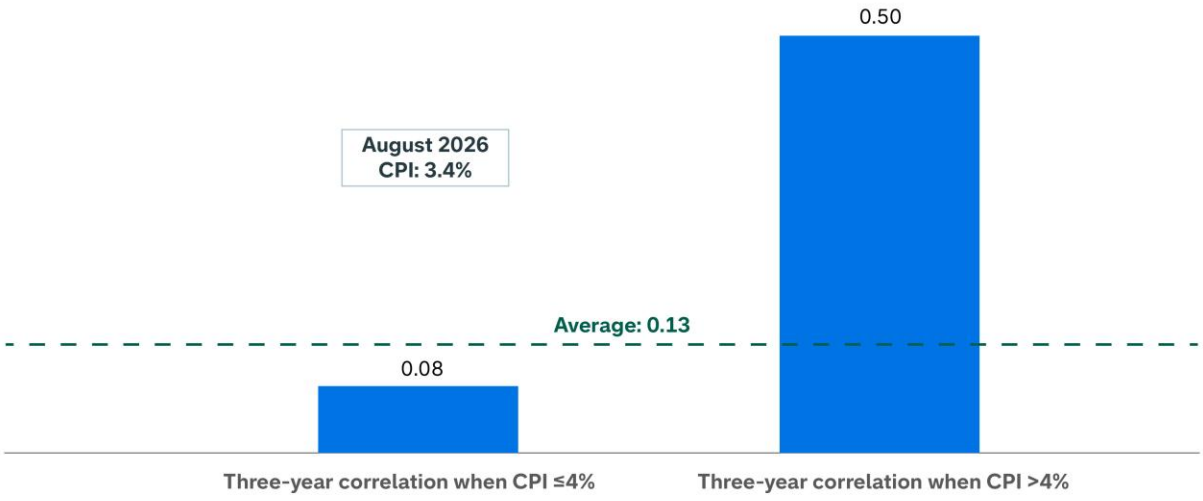


*Source: : Capital Group, Bloomberg. As of 9/30/26.

Inflation Holds the Key to Portfolio Diversification

A primary motivation for holding fixed income is its historical track record of providing diversification against equity volatility. The simultaneous rout in stocks and bonds during 2022 challenged this assumption.

Historical data since 1990 demonstrates that when CPI is ≤ 4%: the 3-year correlation between the Bloomberg Agg and the S&P 500 averages 0.08. When CPI is > 4%: the 3-year stock-bond correlation spikes sharply to 0.50. With the August 2026 CPI reading standing at 3.4%, inflation remains safely below the critical 4% threshold where stock-bond correlations historically deteriorate.



*Source: : Capital Group, Bloomberg. As of 9/30/26.

Summary and Strategic Takeaways

1. **Starting Conditions**: today's higher starting yields offer a meaningful income cushion that was missing ahead of 2022.
2. **Natural Ceilings**: 10-year treasury yields are nearing projected nominal GDP levels, which have historically acted as a ceiling for interest rates.
3. **Forward Returns**: Current starting yields imply high return potential, with historical 5-year forward returns remaining positive across all cycles.
4. **Maintained Diversification**: Inflation remains below the threshold where stock-bond correlations historically decouple.

Inside Anthropic's S-1 Filing

Following our review of rising fixed income yields, we turn our attention to the equity markets and the broader AI ecosystem, examining the high-level takeaways from Anthropic's recent S-1 registration. While the following insights highlight key trends across the AI value chain, they are intended to provide macro context rather than an opinion on the investment merits of Anthropic specifically.

1. **Compute Constraints Underscore Robust AI Demand.** AI demand remains exceptionally strong, with compute capacity serving as the primary bottleneck. Anthropic's revenue surged from $4.6 billion in 2025 to $16.3 billion in the first half of 2026. Management reported that growth has been strictly capacity-constrained because aggregate demand for compute exceeds available supply.
2. **Broadening Enterprise Adoption and Scale.** More than half of the Fortune 500 now maintain annual spending levels of $100,000 or greater with Anthropic. Over 1,900 enterprise customers are currently spending at least $1 million annually.
3. **Improving Model Economics and Profitability.** According to research from Evercore ISI, Anthropic's filing demonstrates that AI model economics can improve dramatically with scale. Compute and infrastructure costs dropped from 251% of revenue in early 2025 to 48% in Q2 2026. This dramatic efficiency gain helped Anthropic generate its first quarterly operating profit.
4. **Massive Multi-Year Commitments to Infrastructure.** Unsurprisingly, Anthropic joins the ranks of major technology leaders making massive capital commitments, disclosing nearly $800 billion in total compute arrangements.
5. **Moving Beyond Productivity to Direct Revenue Generation.** AI is proving to be much more than a back-office productivity tool; it is actively driving top-line revenue growth for end-users. Walmart showcased its Claude-powered "Sparky" shopping agent, where average order values were 35% higher compared to non-Sparky transactions. Shopify highlighted its "Sidekick" tool, which saw daily active merchant users triple year-over-year.

Alpha Wealth
Monthly Brief

AW
Oct | 2026

Fast Facts

Steph Curry officially established a milestone in sports business contracts this month, becoming the NBA's first player to surpass $200 million in single-season total earnings (combining on-court salary and long-term equity endorsements). – *Forbes*

Real-time settlement systems have crossed major adoption thresholds globally. Led by regional networks like India's UPI handling over 800 million daily transactions, sovereign central banks are quietly replacing legacy batch-wire transfers with instant settlement API infrastructure. – *Bloomberg*

Security analysts and tech executives highlight that generative AI is radically accelerating software exploit timelines. AI tools now identify code flaws faster than human patch teams can release fixes, forcing companies to move toward continuous security monitoring to avoid immediate zero-day exposure. – *Morningstar*

Following recent private equity capital infusions and massive U.S. fan growth, the average valuation of a Formula 1 team crossed the $3.5 billion threshold, with top-tier teams like Ferrari and Mercedes approaching $5 billion valuations. – *Forbes*

Fortune 500 treasury departments have accumulated a record $2.6 trillion in cash reserves and ultra-short Treasuries. Companies are holding high-liquidity buffers to cushion against potential election-cycle volatility and elevated short-term interest rates rather than allocating to long-gestation capex projects. – *Wall Street Journal*

Contact Us

As always, feel free to reach out if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our team.

"All of history and all of life is stuffed full of the unexpected and the unthinkable." – Peter Bernstein

4435 Waterfront Dr. Suite 203 Glen Allen, VA 23060 o: 804-346-2615 f: 804-346-2618 **AlphaWealthAdvisors.com**

This material is for general information and educational purposes only and is not intended to provide specific advice or recommendations for any individual. Investing involves risk including the loss of principal. There is no assurance that the views or strategies discussed are suitable for all investors or will yield positive outcomes. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Securities and advisory services offered through LPL Financial, a Registered Investment Advisor, Member FINRA/SIPC. Alpha Wealth Advisors and LPL are separate entities. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.