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Cliff's Notes

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Q3 Market Recap



by Cliff Robello

Anyone who has ever sailed a boat, flown a plane, or even ridden a bicycle knows about headwinds and tailwinds. The former is a wind that blows against you, slowing you down. The latter blows in the same direction as you are going, speeding you up or enabling you to expend less energy.

This same phenomenon exists in the markets, too.

Every quarter, investors contend with headwinds that push against stocks. Some headwinds are economic, some purely psychological. At the same time, investors must position themselves to take advantage of tailwinds — factors that stimulate growth, stoke enthusiasm, and push stocks higher. When one type of wind outnumbers or out-pushes the other, we experience a positive or a negative quarter. When both are approximately equal, the quarter will end roughly flat.

Q3 was a quarter with a couple significant tailwinds, but an increasing number of headwinds, too. As a result, the S&P 500 reached new all-time highs, but also rose only 2%.1 So, in this message, I want to briefly recap a few of the most important headwinds and tailwinds we experienced last quarter so we can better understand how they might impact Q4. Let's start with…

Tailwind: Corporate Earnings Growth.

Corporate earnings, which are a company's profits after operating expenses and taxes, have been a major tailwind for the entire year. While we won't know Q3's earnings growth until later in the month, it's expected to be quite high again…following on the heels of Q2's spectacular 53.7% growth rate.[1]

Strong earnings can support valuations and give companies greater capacity to reinvest, pay dividends, or repurchase shares. So, if investors believe earnings will continue to rise in the future, that expectation can power the markets forward despite fierce headwinds. Headwinds like:

Headwind: Inflation.

Rising consumer prices continue to be an issue. While the inflation rate has cooled some compared to what we saw in Q2, prices continue to be elevated. The most recent Consumer Price Index report indicated prices ticked up 0.4% in August compared to 0.1% in July, largely due to higher energy costs.[2]

Inflation on its own is usually only a weak headwind for the markets. But it matters because it contributes to a more important one: Interest rates. More on this in a moment.

Tailwind: AI.

AI has been the ultimate tailwind over the past few years, with a handful of "hyperscaler" companies like NVIDIA, Microsoft, and Google leading the way. AI infrastructure companies, like those that create semiconductors, have also been major contributors. That tailwind continued in Q3, but with less power: Some of the big AI players saw large gains, while others were flat or even down for the quarter. Why did this happen? There are two potential reasons. One is that AI mostly made headlines for all the wrong reasons, with calls to better regulate the industry or slow down the pace of development due to potential safety concerns. AI development remains highly capital intensive. Major technology companies are collectively committing hundreds of billions of dollars to infrastructure, and some firms are also relying on substantial debt financing. That raises questions about whether future revenues and earnings will justify today's level of investment.[3] That's especially important right now due to the next headwind.

Headwind: Rising debt and interest rates.

AI companies aren't the only things in debt: Our nation is, too. In fact, our national debt hit the $40 trillion mark in August.[4] This, combined with debt supply, inflation expectations and Fed policy contributed to higher

Q3 Market Recap (cont'd)



by Cliff Robello

Treasury yields and borrowing costs. (The Federal Reserve has also recently hiked interest rates to combat rising inflation.)

Higher interest rates can be a headwind for stocks because they make it harder for companies and investors to access or pay back financing. That, in turn, requires them to be more careful with capital, which can slow down growth. Keep an eye on this storyline, because it's likely to be one of the most important in Q4.

Tailwind: Post-Midterms.

Speaking of Q4, let's look ahead to a possible tailwind: Midterms. Now, the results of midterm elections don't typically have a significant impact on the markets, but putting the elections in the rear view mirror often does. In fact, between 1980 and 2025, the U.S. stock market has averaged a return of 8.7% in the twelve months before a midterm election…and 17.5% in the twelve months after.[5] That's because the midterms themselves bring all sorts of uncertainty regarding which party will be in power and what policies they'll employ. Historically, U.S. stocks have often produced stronger returns in the 12 months following midterm elections than in the period leading up to them. However, that historical relationship does not establish that elections caused the stronger returns and should not be treated as a forecast. Economic growth, inflation, interest rates, corporate earnings and other factors can have a much greater influence on market performance.

Headwind: Market Concentration.

I mentioned earlier that corporate earnings growth has been high in 2026. That's true, but it's also a little simplistic. While some companies have grown tremendously in recent quarters, many have not. As of the end of September, 44% of the stocks in the S&P 500 are "down at least 20% from their 52-week highs."[6] That's a major drag on the markets as a whole. And with over half of the S&P 500 market capitalization being AI or AI-related, it means that the market's growth, while impressive on the surface, may have very shallow roots.

So, there you have it. A quarter where the markets were buffeted back and forth by both headwinds and tailwinds. It's impossible to know which way the wind will blow in Q4, but by preparing for all directions, we can cruise when we can and tack when we have to. In the meantime, have a great quarter, and a happy holiday season!



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7 Benefits of Donor-Advised Funds



by Cliff Robello



Have you heard the ancient legend about a ruler who wanted to reward one of his servants for their incredible bravery? The story goes that when the ruler asked the servant what they desired, the servant made a surprising request: grains of rice. Specifically, one grain of rice for the first square of a chessboard, then double the amount for each subsequent square.

The ruler, thinking the request to be modest, agreed. What he didn't realize was that by doubling each previous square's contents over 64 squares, he was promising the servant over 18 quintillion total grains of rice![1]

I love this legend because it shows the power of exponential growth. For that reason, it's common to see the story as an object lesson for investing.

Today, though, I'm sharing it for a different reason:

The power of charitable giving.

When it comes to charitable work, the impact of even a single donation is often quite a bit larger than it may seem. When a single life is changed, that person can go on to affect even more lives. Each change creates a ripple effect that can be as exponential as grains of rice on a chess board.

But how to ensure your charitable giving actually has this kind of effect? How can we create the biggest impact on our community? It's a question I am frequently asked. So, to answer it, I wanted to write to you about the benefits of a donor-advised fund.

If you've never heard of a donor-advised fund, it is designed specifically to help people support charitable organizations they care about. You may be eligible for a charitable income-tax deduction in the year of contribution, subject to applicable limits, substantiation requirements, and individual circumstances.

How can this type of fund make a chess-board-sized impact?

Take the example of the Salwen family. Back in 2008, they decided to sell their mansion in Atlanta and downsize to a home roughly half the size. That in itself is not so remarkable. What was remarkable is that they decided to donate half of the sale to charity.

When they found a cause, they contributed to a donor-advised fund. They called their fund Hannah's Lunch Box Fund. (That's a nifty feature of a donor-advised fund; you can name it whatever you want!) Today, the Salwens still grant money from this fund to various projects. For example, their fund often provides education and materials to villagers in impoverished countries on how to become self-reliant. This has impacted hundreds of lives.[2]

That's why a donor-advised fund is so powerful when it comes to charitable giving. It's a way of being able to continuously support the causes you care about, because the money in the fund can grow over time and be distributed whenever you choose. While a side benefit, it's also a way that you may provide tax-planning flexibility, depending on the individual, because the contributions you make to the fund are always tax-deductible.

The way I see it, there are seven benefits to forming a donor-advised fund.

1. You get an immediate tax deduction for your contributions.
2. The money in your fund can be invested and grow, tax-free, over time.
3. You may generally recommend how assets are invested from options made available by the sponsoring organization; the sponsor retains legal control.
4. By putting all your funds for charitable donations into one account, it can simplify the donation process.
5. You can recommend grants over time to eligible charities, subject to the sponsoring organization's review and approval. You could contribute today and then grant money from the fund five years from now if you wanted.
6. The fund can be a great way to create a lasting philanthropic legacy for yourself, or to recognize a loved one's legacy if you choose to name it after them.
7. Finally, your fund can contribute to and support multiple charities.

There you have it. Seven reasons to investigate a donor-advised fund. It is one of the most convenient and powerful ways to give back to our community. And when we give back, the funds we donate can have the impact of doubling the grains of rice on a chessboard.

What could be a greater legacy than that?

If you'd like to learn more about setting up a donor-advised fund, or have other questions regarding your charitable contributions, please let me know. We are always here to help you achieve your goals, cement your legacy, and put a little more good into the world!

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What's Happening at CMR...

Cliff...

Michelle and I recently joined our son and his family in Manchester, England, where two of our grandsons had been invited to attend a soccer camp. We cheered them on at a few of their games and spent the rest of our time exploring the city. One highlight was the Museum of Illusions. Here's a fun picture from our visit!

Since our son and his family live in Seattle, we don't get to see them as often as we'd like. We feel so blessed to have had this time together, especially with our grandchildren.



Jazmen...

Storm after storm, this has turned into the perfect season for shelling!

Our ohana has spent most of fall break at the beach. Haidyn and Jordyn love walking along the shore and diving to the ocean floor to look for shells.

They have kept us busy preparing for their Tahitian halau Ho'ike performance and their upcoming USASF cheerleading competitions.

We feel incredibly blessed to have this time together as a family, and we're excited to watch our girls showcase all their hard work in the coming months!

Margaret...

Can you believe we're almost at the end of 2026... I honestly can't! It feels like yesterday I was getting ready for the holiday season, and here we are again!

Over these past months, I've learned so much about caring for horses, spending time with them, and even learned how to ride. It has been such a beautiful and rewarding experience, and I'm grateful for every moment and every lesson along the way.

Meet "Mighty Man" who has and will definitely become a special part of this journey, and I'm excited to see where this new passion takes me.





Sheri and Zane...

Now that summer is over, we are back into Fall Sports. Zaia is playing club soccer with BVB. She is enjoying herself and learning so much. Zade is also playing soccer and enjoying playing with his friends. Zeke is back into baseball.

We went to Hilo for a tournament over fall break. They lost in the semifinals, but we really enjoyed the trip. And Zigy is getting so big and has now started crawling. He will be 1 year old before we know it. My how time flies.



Hans...

In July, we had a fun family trip to Seattle & Vancouver, B.C. In September, we took a bittersweet trip to UC Irvine to drop off Nevaeh for her 2nd year. Nate is now an upperclassman (11th) at Moanalua HS. My kids are growing up too fast!



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