



Portfolio Snapshot

Q3 2026

SHEPPARD



Sector Outlook

Market conditions shifted during Q3 2026 as geopolitical tensions and inflation concerns resurfaced alongside higher energy prices. Despite these pressures, U.S. equities were mostly positive during the quarter, with the S&P 500 and Nasdaq Composite gaining, while the Dow declined. Reflecting the mixed backdrop, performance increasingly diverged across sectors, largely influenced by sustained strength in oil markets, evolving rate expectations and sector-specific drivers.

Given the significance of energy shocks to the broader market, the sector maintained its leadership position, outperforming all other sectors during the quarter and year-to-date. Technology was another leading sector, with gains driven by AI and cloud investment, and solid demand for infrastructure, software and other related services, despite lingering valuation concerns weighing on sentiment.

The continued strength in energy and technology year-to-date reflected underlying optimism among investors, albeit tempered by greater caution as market and macroeconomic conditions shifted. This more measured stance also supported gains in some defensive sectors. Healthcare advanced, consumer staples softened and utilities lagged amid higher yields and financing-cost concerns. Other cyclical and rate-sensitive sectors, also declined over the quarter, as the economic outlook evolved and as markets adjusted to heightened geopolitical tensions, upside inflation risks and “higher for longer” interest rates.

Sector		
Name	QTD Performance (%)	YTD Performance (%)
Energy	17.23%	40.28%
Materials	-2.81%	8.82%
Industrials	-9.66%	8.54%
Consumer Discretionary	-5.09%	-5.82%
Consumer Staples	-1.90%	5.98%
Health Care	6.46%	10.15%
Financials	-0.12%	-1.30%
Information Technology	7.20%	28.38%
Communication Services	3.64%	4.48%
Utilities	-12.39%	-5.65%
Real Estate	-5.57%	5.31%
S&P 500	2.30%	12.75%

Data as at 09/30/2026

Key Themes

Geopolitical & Energy Risk: Geopolitical tensions persisted, constraining oil and gas flows, putting upward pressure on prices and contributing to broader market volatility.

Shifting Rate & Inflation Outlook: Higher energy prices reinforced inflation and policy-rate uncertainty, increasing markets’ sensitivity to economic data.

Economic Resilience: Economic activity held firm despite higher interest rates, geopolitical tensions and lingering trade uncertainties. This was underpinned by strength in business and consumer spending, as well as mixed but somewhat stabilizing labor market conditions.

Rising Yields: Persistent inflation, higher energy prices, heavy issuance and tighter monetary policy expectations pushed bond yields higher and prompted a reassessment of the rate outlook.

Sector Outlook



Growth Sectors

The outlook for growth sectors remains constructive but selective. Technology should benefit from sustained investment in AI and cloud infrastructure as businesses deploy funds towards projects. Performance across other growth sectors may vary as investor focus remains on AI, data infrastructure and semiconductor manufacturing. Higher interest rates and persistent valuation concerns, however, could also weigh on key names.

Risks: higher-for-longer interest rates, regulatory and geopolitical risks, valuation concerns, and trade frictions.

Portfolio Note: Growth exposure remains selective, with allocations tilted toward technology, to capture opportunities that may arise from further AI investment and cloud expansion.

Defensive Sectors

The outlook for defensive sectors remains mixed but could become more favorable if economic momentum softens. Healthcare should benefit from relatively steady demand for services, while consumer staples may find support from consumer spending although price-sensitive consumers and higher input and logistics costs could constrain volumes and margins. At the same time, persistent inflation and lingering uncertainties might weigh on corporate margins, limiting upside. Additionally, utilities, while buoyed by the AI and data center boom, may face pressure from rising interest rates and the financing costs associated with expansion.

Risks: Interest rate risk, inflation risk, policy uncertainty, and broader economic shifts.

Portfolio Note: Defensive exposure will be applied selectively and are intended to improve diversification and portfolio resilience during periods of weaker growth.

Cyclical Sectors

The cyclical outlook will remain closely tied to the strength of the economy, commodity prices and the path of interest rates. Energy will likely find support from constrained oil supply if Middle East tensions persist. Industrials may hold firm, helped by infrastructure investment, though higher financing costs could temper activity, while financials might benefit if economic activity remains resilient, providing support to lending and capital market activity. Credit conditions and the path of interest rates, however, could present headwinds. These pressures could also weigh on consumer discretionary, where persistent price pressures and elevated financing costs may increasingly constrain household spending.

Risks: A sharper-than-expected economic slowdown, a re-escalation of geopolitical tensions, tighter monetary policy, supply-demand imbalances, and a retreat in oil or metal prices.

Portfolio Note: Allocations to cyclicals will focus on capturing opportunities that may emerge from a potential shift in the economic outlook, while managing downside vulnerabilities.

Sector leadership is likely to remain dispersed through Q4 2026. Supply concerns should provide some support to energy, while AI and cloud investment may provide a tailwind for technology names. At the same time, restrictive monetary conditions and geopolitical uncertainty could weigh on valuations and earnings, particularly among more economically sensitive industries.

Strategy Recap

Across asset classes, Q3 returns were shaped by rising oil and gas prices, renewed geopolitical tensions and a more hawkish monetary policy backdrop. Risk assets, namely equities, were supported by relatively robust economic activity, corporate earnings and consumer spending. The sharp rise in oil prices, however, complicated the inflation outlook and contributed to expectations that interest rates would remain elevated, limiting stock gains.

These pressures were even more evident in fixed income markets, where persistent inflation and a more hawkish monetary policy outlook drove yields significantly higher towards the end of the quarter. Longer-term bonds were particularly affected, with the 10-year and 30-year treasuries crossing 5% as borrowing increased, alongside existing inflationary concerns. Shorter-term bonds, on the other hand, saw more modest movements due to their lower sensitivity to interest rates. This divergence was reflected in overall performance, with shorter-term bonds delivering narrower losses relative to their longer-term counterparts.

Commodities, by contrast, recorded stronger performance, primarily reflecting the surge in oil and gas prices amid Middle East tensions and supply disruption concerns. Gold also added to commodity gains, though returns were comparatively more modest due to pressure from higher treasury yields and evolving interest rate expectations.

Asset Classes		
Benchmark	QTD Performance	YTD Performance
U.S. 2YR Treasury	-0.22%	0.29%
U.S. 5YR Treasury	-2.67%	-2.83%
U.S. 10YR Treasury	-5.22%	-5.24%
Gold	3.73%	-3.75%
Oil	34.77%	62.79%
S&P 500 Index	2.30%	12.75%
Bloomberg U.S. Aggregate Index	-3.51%	-2.91%
Bloomberg Commodities Index	16.19%	32.87%

Data as at 09/30/2026

Strategy Recap

Performance was subdued over the quarter due to ongoing market volatility, with equity gains helping to offset weakness from fixed income allocations as treasury yields rose. Within equities, technology remained an important allocation across all six strategies, allowing the portfolios to benefit from the sector's strong performance. Defensive performance was less supportive overall, although gains in healthcare provided some support against declines in consumer staples and utilities. However, the extent to which the strategies benefited from these gains varied.

Strategies with greater exposure to fixed income and lower allocations to equities, particularly the Offshore strategies, benefited less from strength in the equity market. Exposure to medium and long term bonds also weighed on performance.

In contrast, the Pelagic strategies outperformed, supported by a more diversified asset mix that included gold and greater exposure to shorter-term bonds, which experienced narrower losses than their longer-term counterparts.

Year-to-date, all six strategies remained in positive territory, led by Blue Marlin and P-Blue Marlin, whose greater equity exposure and allocation to technology continued to support performance. While returns across the remaining strategies were more moderate, allocations to gold and shorter-duration bonds helped the Pelagic strategies maintain their advantage over the Offshore strategies.

Name	QTD Performance	YTD Performance	Risk Level
Blue Marlin	0.48%	6.56%	Aggressive
Tarpon	0.17%	3.58%	Balanced
Leatherback	0.35%	2.63%	Conservative
P-Blue Marlin	1.87%	7.49%	Aggressive
P-Tarpon	1.23%	4.72%	Balanced
P-Leatherback	0.61%	2.15%	Conservative
S&P 500	2.30%	12.75%	Benchmark

Data as at 09/30/2026

Returns shown are net returns

Following a second quarter rebalance, portfolio positioning was unchanged during Q3 2026:

- Fixed income allocations will remain concentrated in short to medium term bonds to help moderate sensitivity to interest-rate movements as the rate outlook evolves.
- Equity exposure will remain balanced between growth and defensive sectors such as consumer staples, utilities and health care to provide diversification and potential stability during periods of volatility.
- Within the Pelagic strategies, commodity exposure will remain concentrated in gold, providing an additional source of diversification amid persistent geopolitical, inflationary and market uncertainty.

About Sheppard

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