

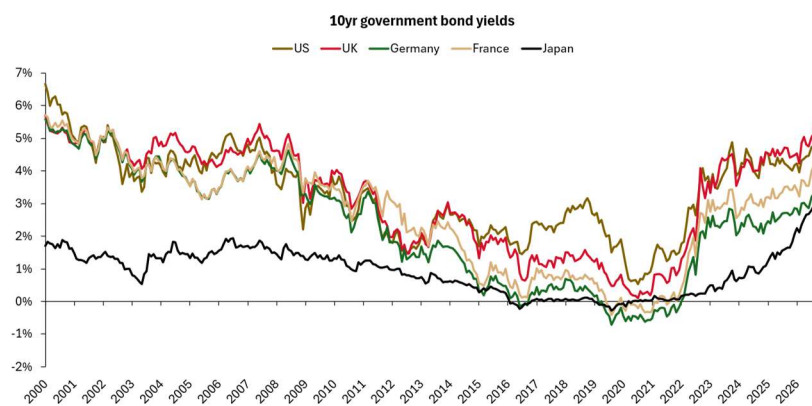


COVINGTON INVESTMENT ADVISORS, INC. Q3 2026 QUARTERLY NEWSLETTER

The third quarter brought a continuation of the resilient backdrop of the economy paired with shifting interest rates and monetary policy. The fundamentals of the economy remain strong. Unemployment is still near the bottom end of its historical range at 4.20% as of September's reading. Wage inflation remains in that sweet spot of 4%. And price inflation, while sticky, is being pushed by not only supply constraints, but by strong growth spurred by a generational capital investment cycle.

However all of these factors did combine to propel treasury yields, both domestically and abroad, to continue their rise during the quarter. Benchmark US treasury yields breached the 5% level on both 10 and 30 year maturities. For a global economy whose prior cycle was defined by anemic - in some cases negative - rates, this is a stark difference that so far has been digested well by risk assets.

Exhibit 1: Rising yields across the board in developed economies



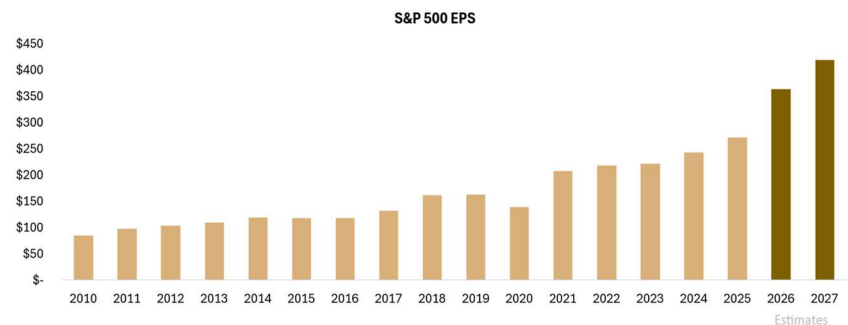
(1) October 2026
(2) Source: Bloomberg

Covington Investment Advisors

Monetary policy thus remained a focal point during the quarter as the Federal Reserve navigated its leadership transition under new Chairman Kevin Warsh. While energy shocks have largely stabilized, consumer prices remain sticky enough to keep the central bank measured in its approach. The Fed did deliver the first rate hike in more than three years during the quarter to address these pressures.

All of that said, corporate earnings are what's propelling markets higher. Despite multiple wars, inflation shocks, trade disruptions, and technology revolutions, earnings growth has been remarkably strong. Consensus estimates are currently expecting 30% S&P 500 year-over-year EPS growth in 2026 and 15% in 2027. Some of this EPS growth is due to IPOs and index mechanics, but even when stripping these out, growth is still accelerating over last year. The sustainability of this earnings growth will continue to be tested with corresponding market volatility - but for now its a growth environment and the economy remains in expansion mode.

Exhibit 2: S&P 500 earnings growth is remarkably strong



(1) October 2026
(2) Source: Bloomberg, Yardeni

Covington Investment Advisors



COVINGTON INVESTMENT ADVISORS, INC. Q3 2026 QUARTERLY NEWSLETTER

Now let's review the market performance for the third quarter of 2026.

Market Review

Exhibit 3: Major indices performance table

Index	2025	Q1 2026	Q2 2026	Q3 2026	YTD
<i>Stock Indices</i>					
S&P 500 Total Return Index	17.88%	-4.33%	15.20%	2.30%	12.75%
Dow Jones Industrial Average	14.92%	-3.19%	13.38%	-2.34%	7.19%
Nasdaq Composite	21.14%	-6.96%	21.60%	2.61%	16.09%
Russell 2000 Index (Small Cap's)	12.81%	0.89%	21.49%	-7.23%	13.71%
<i>Bonds</i>					
Bloomberg Barclays US Aggregate Bond TR	7.30%	-0.05%	0.67%	-3.51%	-2.91%
Bloomberg Barclays Municipal Bond TR	4.24%	-0.18%	2.50%	-6.35%	-4.18%
ICE BofA US High Yield Index	8.50%	-0.55%	2.45%	-1.81%	0.04%
<i>Gold</i>					
S&P GSCI Gold Spot Price Index	64.37%	7.78%	-13.68%	3.67%	-3.56%
<i>Real Estate Investment Trusts (REITs)</i>					
FTSE NAREIT REIT Composite Index	2.80%	3.47%	10.50%	-6.39%	7.03%
<i>International Indices</i>					
MSCI EAFE Index	27.89%	-1.87%	9.80%	0.29%	8.05%
MSCI Emerging Markets Index	30.58%	-0.51%	23.31%	-1.05%	21.40%

(1) As of 09/30/2026 | Data provided by Envestnet Tamarac through data providers Refinitiv. Total Return includes the effects of dividends. Past performance is no guarantee of future results

Covington Investment Advisors

Equities

Following the broad, sharp rebound of equities in the second quarter, returns for stocks were more mixed during the third quarter. Large cap US equities, as represented by the S&P 500, were still positive, rising 2.30% during the quarter, bringing their year-to-date return through September 30th to 12.75%. However, the rally in these stocks was not as broad as the prior quarter. The Dow Jones Industrial average, which tracks 30 blue chip stocks which are more tilted towards rate sensitive industrials, was slightly negative down -2.3% in the quarter. However, returns for both indices remain on their positive trend line.

Small cap stocks, as represented by the Russell 2000 index, underperformed during this period, falling -7.23% during the quarter. Small cap stocks tend to have more leverage and a more cyclical revenue source than large cap peers, hence the underperformance when rates rise sharply.

Looking abroad, international stocks also had mixed performance. Developed international markets, as represented by the MSCI EAFE Index, eked out a positive return during the quarter, rising 0.29%. Emerging market equities, as represented by the MSCI Emerging Markets Index, fell slightly during the quarter by -0.29%. The emerging market index in its current form is heavily tilted towards AI and memory semiconductor stocks which pulled down their return slightly during the quarter but have been strong when looking back one year.

Fixed Income

Fixed income markets struggled during the quarter as treasury yields edged higher in response to sticky inflation and a recalibration of monetary policy expectations. The Bloomberg Barclays US Aggregate Bond index, which is a broad benchmark that tracks the performance of the US investment grade bond market, fell -3.51% during the quarter bringing its full year return to -2.91%. The Bloomberg Barclays Municipal Bond Index, which tracks US investment grade tax-exempt municipal bonds, fell even further, returning -6.35% in the quarter bringing its 2026 return to -4.18%.

High-yield bonds, which tend to be more volatile than investment grade bonds, outperformed in the quarter, falling -1.81%. This is due to high yield bonds tending to have shorter maturity dates.



COVINGTON INVESTMENT ADVISORS, INC. Q3 2026 QUARTERLY NEWSLETTER

Summary

In summary, the third quarter highlighted a consolidation following the sharp market rally in the prior quarter. The key theme of our Q2 newsletter was illustrating how similar the environment and market behavior of 2026 has been to last year. Now differences are starting to emerge as we head into the end of the year.

Rising treasury yields are a central investing motif as this “risk free” rate is what all other investments get priced off of. However, just as we have highlighted in the past, rising rates are a double-sided function of inflation/monetary expectations and growth. And currently the growth expectations remain solid and hence why I think markets have been able to digest rising rates strongly to this point.

Looking into the fourth quarter there remains a “tug of war” between the risks and opportunities in the economy and markets. Risks largely remain centered around valuation multiples, tech capital expenditure cycles, sticky consumer prices, and fluctuating treasury yields. Underlying inflation will likely come in at around 3.5% for year-over-year 2026 and consensus estimates are for 2027 CPI inflation to be around 2.6%. Again, this is slightly higher than the Fed’s 2% target but not as severe as the post-covid peak. Accordingly, there's a chance the Fed will hike two more times this year by 25bps each in Oct and Dec depending on how the data comes in over the rest of the year.

Opportunities include the continued expansion of the economy and a capital investment cycle that is translating to exceptional earnings growth. Real GDP is expected to remain strong in the third and fourth quarter with growth expectations of 1.8% and 2.3%, respectively - essentially historical trend line growth. This growth is supported by strong AI related capex spending and a resilient consumer (although there are beginning to be signs of slightly weakening here). However, this

trendline economic growth is translating into exceptional corporate profit growth. Third quarter S&P 500 earnings season is expected to deliver around 30% year-over-year growth, following an equally impressive Q2.

The US is also entering an election season. Basing investment decisions off political expectations as opposed to fundamentals is almost always a mistake but the midterms will likely provide some short-term volatility. While markets often consolidate ahead of US mid-term elections, 21 of the last 23 mid-term years have seen positive Q4 returns, with an average gain of 7%. We continue to think that economic fundamentals will move markets, not politics. Maintaining discipline with investments and sticking to the financial plans we have built for you will continue to be crucial as we head into the fourth quarter of 2026 and begin looking ahead to 2027.

Enclosed is your performance report for your account as of September 30th, 2026. Please contact us if you have any questions on your quarterly performance report or if there are any changes to your financial picture.

Sincerely,

Pat

Patrick R. Wallace

Covington Investment Advisors, Inc. is a Federally Registered Investment Advisor. The information contained herein is general in nature and is provided solely for educational and information purposes and does not constitute legal, financial or tax advice. Opinions and forward-looking statements expressed are subject to change without notice. Past performance is no guarantee of future results. Covington Investment Advisors, Inc. uses reasonable efforts to obtain information from sources which it believes to be reliable and does not endorse, approve, certify or control the third-party content referenced.