Five Mile River Investment Management LLC October 10, 2026

Clients and Partners Q3 Letter

PERFORMANCE

	Dow Jones Industrial	**S&P 500*** (Capitalization Weighted)	**S&P 500**** (Equal Weighted)
2026 Q1	-3.58%	-4.33%	0.67%
2026 Q2	12.90%	15.20%	11.39%
2026 Q3	-2.70%	2.30%	-1.87%
2026 YTD	5.90%	12.75%	10.03%

Market Breadth and 2026

Market breadth, an indicator that measures how many stocks are participating in a market move, helps distinguish a broad, healthy market advance separate from one drive by only a handful of companies. Market breadth was improving through the first six months of 2026, only to abruptly reverse in August and September. **Only 10 companies** were responsible for the 2.30% rise in the S&P 500 in 3Q26. The "median" performer within the S&P 500 fell 20% in 3Q26 from the 2Q26 price level. This confirms the negative breadth across the market. The 3Q26 Equal Weighted Index performance of -1.87% better reflects the market's price performance. The see-saw performance of the three indices listed above of the past three quarters underscores the concern about global uncertainties, and individual company earnings forecasts. +3

Five Mile River (FMR) portfolios are structured to temper market volatility and have been defensively positioned with heavy weightings in energy and health care, two of the top three performing industries in 3Q 26. These two industries continue to be attractively valued AND are significantly benefitted by the rollout and usage of Artificial Intelligence (AI).

Multiple Cross Current Themes Emerged in 3Q26

The strength in oil prices was the driver for the outperformance by energy stocks. Five Mile River's (FMR) analysis reinforces the outlook that energy prices will remain higher for several years, that is, much higher and longer than anticipated. The second major cross current is the effect of rising interest rates. The Federal Reserve's 25 basis point (¼ of a percent) increase in the federal fund's rate sparked expectations for three or four more additional rate increases. The prospect of additional increases in Federal Funds rate contributed to the sharp drop in price of the 10-Year Treasury Note (the long bond). This price fall caused the yield to rise from 4.35% to over 5.3% in a matter of a few weeks. The yield of the long bond is a primary ingredient for calculating mortgage interest rates, and interest expense for both government and consumer credit. Because the Long Bond is also used as THE proxy for a guaranteed return, this creates a increased handicap that competes with stock appreciation.

The Good News

The two major consumer sentiment indicators, generated by The Conference Board and the University of Michigan Survey, are both reporting record low consumer sentiment readings. Historically, these measurements have been *infallible coincident indicators* for predicting consumer spending. This time the consumer is behaving quite differently as consumer spending is running ahead of last year at a 6.2% pace!

The obvious fact is that **this bull market has continued marching higher** in the face of numerous uncertainties: wars, tariffs, inflation, shortages, and interest rate increases. Tuesday, October 13th marks the four-year anniversary of this bull market, making it the sixth longest of the 24 bull markets since 1932. One contributor to the current bull market is the continued strength in the U.S. economy, thanks in part due to consumer spending which represents fully 2/3rd of U.S. GDP. With unemployment hovering around 4%, job security has improved, as have the consumers' net worth from rising home values and stock prices. This is referred to as the "wealth effect" which can explain why consumer spending has remained so strong in the face of such poor sentiment readings. The obvious positive feedback loop of the stock market's effect on the economy can reverse. However, there are multiple drivers in place for economic growth.

Capital Spending Tsunami

As mentioned previously, there is tremendous potential for economic growth caused by the U.S. trading partner's commitment to invest **$21 Trillion in U.S. capital projects.** Remember the Trump exchange allowing tariff money to be waived if the "violating" company or country invested in the U.S.? This exchange, tariffs for capital projects, even if scaled down, has initiated a mountain of U.S. capital investments. To put this amount in perspective, the U.S. GDP is now over $32Trillion this year. This year capital expenditures should total between $5Trillion to $6Trillion.

Given the size of this new commitment, capital spending will provide a very positive lift to sustain GDP growth.

AI will be an engine for growth

The Second Industrial Revolution, which ran from 1885 up until WWI in 1915, presents an analogy or prelude for potentially similar effects from AI. The most striking parallel analogy is AI's potential for generating economic growth. At the start of the Industrial Revolution GDP growth had been stalled at a meager rate of 0.55%/yr. However, with the advent of several new technologies such as: open hearth steel manufacturing, the expansion of railroads, electrification, the internal combustion engine and many other innovations, U.S. GDP rose to over 3%/yr for three decades. During this period productivity advanced as machines replaced workers. Now, the AI revolution will also bring rising productivity as the efficiency of the economy improves. Rising productivity will likely run at a high enough level to offset the inflation risk that normally accompanies strong economic expansion. Because new AI applications are being spread across the ubiquity of cell phones and computers, AI's functionality will continue faster than expected.

FMR has concentrated AI investments on the infrastructure buildout required for broad scale deployment. This strategy has proven successful through owning multiple companies on the forefront of AI deployment. The next multi-year leg for FMR's research will focus on those businesses that AI might transform. FMR's overweight in Health Care investments is testimony to this very AI-driven economic benefit. It is no secret that the life blood of the pharmaceutical business is developing new drugs. The problem facing this industry historically has been that it takes between seven to ten years to develop and guide a new drug through arduous clinical trials necessary to get an FDA approval. AI reduces the time from years to weeks, AND offers the potential to create entirely new molecules that will treat significant unmet medical conditions.

Will AI displace workers and bring about mass firings?

Listening to the media one might arrive at this conclusion, however, the facts remain to unfold. An early example of this threatened displacement was the work done by radiologists. Instead of job losses as were predicted, AI has greatly enhanced growth in the radiology business. Why? AI generates more accurate radiology readings that improve health diagnoses. Not only are AI readings more accurate, now readings can be performed lightning fast, and all at a lower cost. AI's influence has caused salaries to rise for radiologists, and radiology jobs are now expanding. This is exactly the opposite of the threatened forecast for job losses.

How has FMR responded to the early onset of AI?

FMR tilted most portfolios conservatively to reduce portfolio volatility and offer downside protection. Portfolio positions were increased in the natural gas pipeline sector (Williams and Oneok). This increased portfolio dividends, thereby lowering portfolio volatility. The natural gas pipeline companies will enjoy solid growth from the enormous AI driven electricity demand. Fully 2/3rd of all U.S. electricity is produced by natural gas, and it is the one fuel source that can easily increase to meet this new demand.

FMR also purchased shares in Cameco, the standout world leader in the field of nuclear energy. Cameco's subsidiary, Westinghouse, will be spun out and will become a public company in early 2027. This should provide a generous boost to the company's valuation. FMR is bullish on the growth in nuclear power generation. Cameco is uniquely positioned as the only company capable of offering the gamut of services for the full life cycle of a nuclear facility from the design, to operations and maintenance, fuel sourcing for the life of the reactor, and ultimately decommissioning.

FMR also raised portfolio weightings in health care companies. Unusually, the very best companies were priced unfairly low and were not reflecting the AI driven benefits previously mentioned. These stocks also were additive to portfolio dividend yields, and similar to the pipelines, they carry low market volatility.

In Conclusion

FMR's focus is on finding and owning great businesses at attractive prices. Most FMR portfolios hold slightly higher levels of cash in short maturity government notes yielding approximately 4%. This cash buffer also provides dry powder for opportunistic purchases. Nevertheless, FMR's optimism is strong about the multi-year path forward of growth from capital investments and the deployment of AI.

The FMR team is always available to discuss the market outlook in greater detail, and to review any changes you may want to discuss regarding your investment strategy. With 2026 flying past, we appreciate your confidence in FMR to safeguard your assets and to grow them consistently and conservatively. We wish you a healthy, safe and profitable holiday season.

Warmest regards:

Lee Garcia Todd Robbins Pete Haglin Mary Robbins Martha Robbins

**The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies. This index is used for a comparison for FMR accounts. The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.*

*** The S&P 500 Equal Weighted Index (EWI) is a version of the S&P 500 index however the difference is that all 500 companies of the S&P 500 are given an equal weight of 0.2% of the total index. This differs from the S&P 500 which gives the highest valued companies the largest weight in the index (otherwise known as the market cap weighted index). The EWI eliminates the mega cap concentration that produces a distorted market index performance.*

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