Quarterly Market Letter

GENTER CAPITAL MANAGEMENT

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Introduction

In 1777, the Code Duello was established in Ireland to set "ground rules" for dueling. It was regarded as a "breakthrough" because it meant that "affairs of honor" would have a cooling off period. This gave "gentlemen" an opportunity to de-escalate, to avoid a lethal confrontation without impairing their good reputation.

As the Code Duello made its way across the English-speaking world, American duelists tended to opt for pistols rather than swords. Firearms were seen as a kind of democratic equalizer, as opposed to the aristocratic pastime of swordplay. Duels, and the ramp up to a duel, were a common part of American life, especially in the southern and western parts of the country. It took the Civil War, really, with its massive death count, to make dueling seem small-minded and petty.

This past quarter, it sometimes felt as though there was a Code Duello going on between Treasury Secretary Scott Bessent and the bond market. Bessent, who has a reputation for being chippy, has jokingly compared himself to the first Treasury Secretary, Alexander Hamilton, who lost his life in a duel with Vice President Aaron Burr in 1804. At least his disputes, Bessent claims, have "turned out a little better for the Treasury's side."

This "duel" began in late July, when Secretary Bessent announced that the United States had agreed to work with Japan to support the yen. It marked the first time since 1998, at the height of the Asian financial crisis, that Treasury intervened to support the Japanese currency. Why would the Trump administration, avowed economic nationalists, want to prop up a foreign currency? Japan owns a good amount of Treasury debt, and the concern is that the Japanese will sell a significant portion and use the dollars to strengthen its own currency.

Bessent utilized the arcane methods of foreign exchange, including selling euros from the Treasury Department's Exchange Stabilization Fund, to support the yen. As a result, it now trades at ¥158 to the dollar, an improvement of 4% from its low of ¥163. A rate hike from the Bank of Japan has also helped things.

But yen stabilization also means that American interest rates should stay low. Higher relative rates tend to strengthen currencies, and a stronger dollar is counterproductive to strengthening the yen. That is why Bessent promised, in mid-August, to pin down the long end of the treasury curve through a "twist" operation, where the Treasury issued short-term paper to buy its longer-term debt.

Throughout this period, July and August, treasury rates drifted higher, with the market expressing its skepticism about the ability of the Treasury Department, and the Federal Reserve, to keep interest rates low. The problem seemed to crack on September 8th, when Secretary Bessent spoke before an audience at Southern Methodist University in Dallas. At the SMU speech, Bessent literally dared traders to bet against the policy actions of the Treasury Department. The thrust of his argument was that he had access to "asymmetric information" regarding central bank strategies. "You can bet against me if you want," he boasted, but "I am the house now." A few days later, on a podcast defending his bond market interventions, Bessent chided the "Bloomberg Terminal bros" for misunderstanding the strength of the American economy.

While we accept the premise that the strength of the American economy is often underestimated, higher rates are not necessarily a sign of national weakness. In any case, Bessent's SMU speech was followed by the worst month for treasury yields since the inflation scare of 2022. Interest rates, which had sold off earlier in the quarter over concerns relating to the "Bessent twist," galloped higher yet. The benchmark ten-year Treasury, already backed up 35 basis points, backed up another 50 during the remaining weeks of September. For municipal bonds, it was the worst month since September 2008.

By early October, facing criticism and declining credibility, Secretary Bessent tried to regain his footing. Bessent acknowledged that he does not have infallible control over the bond market, and that investors betting against him may "win a few hands," but that over the longer haul, the house wins. But is that an apt analogy? Is the Treasury Department, even when combined with central banks, "the house" for financial markets? Or is it more like, in casino parlance, a "whale"—a large and formidable player, to be sure, but not exactly "the house."

What we *do* know, in case we had forgotten, is that interest rates are not automatically lowered just because a powerful man opens his mouth. And while we certainly respect the ability of Secretary Bessent, Fed Chairman Kevin Warsh, and President Donald Trump to move markets, September reminded us of Friedrich Hayek's insight that markets are economic knowledge scattered across millions of individuals, and *that* has more power, and more durability, than pronouncements from public officials.

To be sure, Secretary Bessent's brinksmanship with the bond market was not the only reason for the spike in interest rates. In the aftermath of the September FOMC meeting, Kevin Warsh cited three reasons: 1) strong economy, 2) competition for capital, 3) geopolitical pressures. Each of these are key parts of the equation. Still, the past quarter reinforced the truth that, when push comes to shove, markets will overwhelm institutions.

Review and Outlook

President Trump has never hidden his economic ambitions. He was largely elected, and then re-elected, on the economic dissatisfaction of Americans. As an economic matter, Trump's singular contribution has probably been to reorient the country away from the "free trade" globalism which dominated thinking, in both parties, for forty years, and back to the economic nationalism which characterizes, in one form or another, most of our history.

During the 2024 campaign, Scott Bessent, acting as a surrogate for Trump, put forward a "3-3-3 plan." This approach has been enthusiastically adopted by the second Trump administration. The 3-3-3 plan seeks to increase the real growth rate of the American economy to a reliable 3% per year, stabilize the federal deficit to 3% of GDP, and increase domestic oil production by 3 million barrels per day.

What is the report card on 3-3-3? According to the Congressional Budget Office, the current deficit, tracking near $2.1 trillion, is at 6.2% of GDP, well above the 3% target. And using 2024 as the starting point, the daily production of oil has increased from 13.2 million to 14 million, still a good distance from the target 16.2 million barrels. On the growth side of things, however, we are closer to obtaining the 3% goal.

The incoming Trump administration was encumbered by an economic contraction (-0.6%) in Q1 2025. But despite conventional wisdom about the "growth-busting" nature of tariffs, real GDP growth in Q2 and Q3 2025 was 3.8% and 4.4% respectively. Growth slowed down to a more earthbound 1.4% in the final quarter of last year, largely due to the 42-day government shutdown. 2025 ended with an annual real growth rate of 2.3%.

For 2026, both Q1 and Q2 saw similar real growth patterns, at 2.5% and 2.2% respectively. But in this third quarter, GDP Now, an econometric "real time" estimate of GDP growth that is provided by the Atlanta Federal Reserve Bank, popped out of the gate at 6.2%. It drifted lower towards 4%, before cresting 5% again in mid-September. Then it drifted lower again, to its current level of 3.6%.

The Bloomberg economic forecast, which polls 20-25 economists, is projecting a more earthbound 2.8% for Q3 2026. Still, that growth picture, though not quite the 3% per annum envisioned by Secretary Bessent, is in the general neighborhood, and this should dampen any gut reaction that the economy is "terrible." In any event, we will see the first official print of Q3 GDP—what is called the "advanced estimate"—on October 29th. But the growth in the Trump economy, not unlike the growth in the Biden economy, is better than advertised.

Inflation remains well above the Fed's 2% target. While the price of oil has been remarkably well-contained during the regional conflict in the Middle East, shipping and insurance costs have increased exponentially, driving up the delivered cost of oil. Refining capacity has also been dramatically reduced, not only in the Middle East, but in Russia, another war region. The price of diesel, for instance, which is linked closely to trucking and the cost of goods, is up 77%.

But the inflation picture today is nuanced, according to key Fed officials. Although the core PCE print, at 3.0%, is still well above its 2.0% target, and several Bank Presidents are expressing concern (and calling for higher rates), officials like Vice Chair Philip Jefferson, Governor Christopher Waller, and New York Bank President John Williams, have seen reason to doubt that the higher number represents sustained price instability. And while each of these, along with Fed Chairman Kevin Warsh, voted to raise the target Fed Funds rate by 25 basis points in September, there continues to be the view that, as with tariffs, something is going on within the economy which is keeping prices in check.

Kevin Warsh has instituted five task forces to review the way the Federal Reserve does business and to suggest reforms. These will report their findings at year-end. One of those task forces involves the inflation framework used by the Fed. Another task force covers data, and its timeliness and quality for real-time decision making. Warsh has spoken disparagingly about metrics which are "echoes of history" and wants actionable data which reflect meaningful trends.

Chairman Warsh has specifically identified this as a problem for measuring inflation, which he thinks is less about the broader basket of goods and services than an aggregated median. We suspect that the task forces will recommend a new inflation metric altogether, away from the "echo of history" that is PCE and core PCE. Warsh has spoken favorably of the Dallas Trimmed Mean. That statistic, which originates from the Dallas Federal Reserve Bank, currently depicts national inflation at 2.2%, very close to the Fed's inflation target of 2%. While we do not challenge the legitimacy of reviewing and possibly changing the inflation bogey, we would point out that, if instituted, it could change the whole thrust of monetary policy.

Another of the Warsh task forces covers the area of "productivity and jobs," and especially the effect of artificial intelligence on productivity and jobs. As we await that study, we note that AI is driving arguably the largest physical investment boom in American history. A recent Brookings' paper called "Financing the AI Buildout" estimated that a typical 200-megawatt AI "campus" costs $8.2 billion. Scaled across the expected buildout, Brookings projects $10.3 trillion in national investment between 2025 and 2032, roughly 3.6% of annual GDP. This surpasses the railroad expansion (2.3%), the interstate highway system (1.1%), and telecom/fiber optics (1.1%).

One concern regarding AI is that the investment is rapidly outrunning internal cash flows and that capital expenditure runs the risk of becoming overextended. Combined capex at Oracle, Microsoft, Amazon, Meta, and Alphabet, for instance, rose from $97 billion in 2020 to over $400 billion in 2025, with more than $800 billion estimated for 2026. This surpasses the combined operating cash flows of these companies.

To bridge the gap, "hyperscalers" are turning to leases, joint ventures, project debt, private credit, and securitization. Morgan Stanley estimates that over half of the $2.9 trillion needed for incremental hyperscaler "compute" through 2028 will rely on outside capital. They think it will be roughly split 60/40 between equity and debt—and will include $800 billion in private credit. But moving assets off balance-sheet merely relocates leverage; it does not eliminate it. According to the Brookings paper, the four top hyperscalers have roughly $3 trillion in data center obligations, only one-fifth of which are recognized on their balance sheets.

All this capital is supposed to earn a return, and Brookings estimates that the capacity coming online through 2032 will require $3.7 trillion of annual revenue to earn a 10% unlevered return at a 50% margin. This is roughly 9% of the projected 2032 GDP! In other words, the economics of AI pose both lucrative and daunting challenges. For context, OpenAI and Anthropic combined generate roughly $100 billion in revenues today, so reaching that $3.7 trillion mark implies about 80% annual growth through 2032.

Whether AI can generate that kind of cash flow is an open question—the stuff of markets—but relatedly, and linked to Kevin Warsh's reason #2, there is an impact on interest rates coming from the buildout's financing. Even if debt accounts for only 40% of the projected $10.3 trillion, it means several trillion dollars of new issuance will hit credit markets alongside the already large Treasury supply. In other words, AI will lift long-term productivity, but financing the path there could make capital substantially more expensive across the economy. As the vicar of the cost of capital, the Federal Reserve, as it prepares to reform its engagement with the wider world, must balance these conflicting variables.

Intuitively, of course, the largest economic challenge posed by AI is unemployment itself. AI allows knowledge work to be farmed to "agents," specific-purpose programs designed to use AI models for handling particular tasks. Still, despite the prospect of an "agentic economy," employment continues in decent shape. Both unemployment and underemployment are down from recent peaks. While labor force participation has declined from almost 63% to just under 62%, it can probably be attributed to Boomers retiring at a faster clip than young people are entering the workforce. Meanwhile, continuing jobless claims, perhaps the most important indicator, is still historically low.

With reference to national employment, there has been a material drop in employment at the federal government since the start of the second Trump term. Total federal employment has fallen from just over 3 million in January 2025 to under 2.7 million in September 2026, for a net reduction of 328,000 jobs—nearly 11%. The contraction has been incremental and consistent.

It is not grandiose to regard AI as the culmination of the digital revolution. Like the first and second industrial revolutions, this third industrial revolution does not redefine who we are, but it does redefine how we function. In other words, the world around us changes, even if human nature does not. Today, for better or worse, that world is amplifying human nature. This creates challenges, to be sure, but we think it is wrong to think of those challenges as dystopian. The future is unknown and open-ended, and human beings will do as we have always done, work into it with imperfect knowledge, learning as we go.

Our commitment at Genter Capital is that, to the extent we use AI, it will be to make our work *better*. And no matter what, your interactions with Genter Capital will involve human beings, not machines. This includes the Market Letter you are now reading.

Equity Report

The third quarter provided investors with another positive, though considerably more complicated, period for U.S. equities. Despite a sharp rise in interest rates, renewed inflation concerns, geopolitical uncertainty, and some evidence that the labor market is losing momentum, major large-cap indexes finished the quarter higher. Beneath the surface, however, market leadership narrowed and performance became increasingly uneven—conditions that reinforce, as we enter the final quarter of the year, the importance of valuation, earnings quality, and balance-sheet strength.

The S&P 500 gained approximately 2% on a price basis during the third quarter, and roughly 2.3% including dividends, bringing its year-to-date total return to approximately 13%. The technology-heavy Nasdaq Composite advanced approximately 2.5% during the quarter and was up nearly 16% through September. In contrast, the Dow Jones Industrial Average declined approximately 2.7% during the quarter, while the Russell 2000 fell roughly 7.5%, despite remaining positive for the year at 12.9%.

The divergence between large-cap indexes and the broader market was one of the quarter's more important developments. By the end of September, nearly half of the individual companies in the S&P 500 were negative for the year, even though the capitalization-weighted index remained firmly positive. Rising interest rates were particularly challenging for smaller companies and businesses dependent upon external financing. Conversely, the largest companies—with strong balance sheets, substantial free cash flow, and less sensitivity to financing conditions—generally proved more resilient.

Sector performance also changed meaningfully during the quarter. Energy emerged as the strongest sector again, gaining approximately 17% as crude oil prices increased sharply amid renewed geopolitical tensions and supply concerns. Health Care also performed well, while Information Technology remained among the better-performing sectors, despite some moderation in enthusiasm surrounding portions of the AI infrastructure trade.

At the other end of the spectrum, Utilities were among the weakest groups, as sharply higher bond yields reduced the relative attractiveness of their dividend yields and increased financing costs. Industrials, Consumer Discretionary and Real Estate also struggled for much of the quarter.

The year-to-date picture remains somewhat like what we saw in the third quarter. Technology has continued to benefit from significant investment in artificial intelligence and data-center infrastructure, while Energy's third-quarter surge moved it decisively into the leadership group for 2026. Health Care has also strengthened.

We view this rotation as healthy in some respects. Markets ultimately become more durable when returns are supported by a wider variety of industries and fundamental earnings drivers. At the same time, the weakness beneath the headline indices during September reminds us that capitalization-weighted index returns can occasionally obscure deterioration among the average stocks.

Economic data released during and immediately following the third quarter presented investors with an increasingly unusual combination: economic activity remains relatively resilient, but employment growth slows while inflation remains above the Federal Reserve's target.

Labor-market data were particularly important. September payroll employment increased by only 29,000, while July employment was subsequently revised to a decline of 10,000 and August employment growth was revised downward from 162,000 to 133,000. Combined revisions reduced previously reported July and August employment by 60,000 jobs. The unemployment rate nevertheless remained relatively stable at 4.2%, while average hourly earnings increased 3.0% from a year earlier.

The employment numbers reinforce a trend we have been monitoring throughout 2026. Job creation has slowed substantially without yet producing the type of increase in unemployment normally associated with recession. Job openings stood at approximately 7.1 million in August, suggesting labor demand has cooled considerably from the unusually tight conditions of the post-pandemic period.

For equity investors, slower employment growth presents both an opportunity and a risk. Moderate cooling in the labor market can reduce wage pressure and help bring inflation lower without significantly damaging consumer spending or corporate earnings. A more pronounced deterioration, however, would raise questions about household income growth and the durability of economic expansion.

Unfortunately, inflation complicated the economic scenario during the quarter. August CPI increased 0.4% from July and 3.4% from a year earlier. Energy prices contributed meaningfully to the monthly increase, while core CPI increased 0.3% and 2.4% over the prior twelve months. Producer prices also remained elevated, with the Producer Price Index for final demand increasing 0.4% in August and 5.4% from a year earlier.

The combination of resilient economic activity, higher energy prices and persistent inflation ultimately pushed monetary policy into a less accommodative direction. In September, the Federal Reserve increased the federal funds target range by 25 basis points to 3.75%–4.00%, its first rate hike since 2023. More importantly for financial markets, longer-term interest rates increased substantially.

The increase in long-term interest rates represents one of the most significant changes to the investment environment. Higher rates affect equity valuations in several ways. They increase the discount rate applied to future corporate earnings, raise borrowing costs, and provide investors with increasingly competitive alternatives to equities. Companies with highly leveraged balance sheets or with business models dependent upon inexpensive financing are particularly vulnerable.

This does not necessarily mean equity markets must decline. Corporate profitability remains healthy, productivity growth has been encouraging, and investment spending—particularly related to technology and artificial intelligence—remains substantial. The Federal Reserve's September projections anticipate real GDP growth of approximately 2.3% in 2026, hardly consistent with a faltering economy, or one about to enter a recession.

It does mean, however, that valuation discipline becomes increasingly important. When investors can earn attractive returns from high-quality fixed-income securities, equities must offer sufficient earnings growth and cash-flow generation to justify their additional risk.

We are also attentive to signs of investor speculation and leverage. Margin debt reached approximately $1.45 trillion in August, an increase of 37% from a year earlier. Leverage does not necessarily signal imminent market correction, and historically it often increases alongside rising equity prices. However, leverage can amplify volatility when markets reverse. Borrowed capital that supports prices on the way up can become a source of forced selling when asset prices fall.

The combination of elevated investor leverage, speculative activity in selected areas of the market, and concentrated enthusiasm around rapidly evolving technologies, merits particular attention. Innovation can create enormous long-term economic value while simultaneously producing periods in which investors extrapolate growth too aggressively into current valuations. Those two ideas are *not* mutually exclusive.

As we enter the final quarter of 2026, we remain constructive on the longer-term outlook for U.S. equities, but increasingly selective about where that opportunity resides. The fundamental foundation remains supportive. Economic growth is positive, corporate earnings remain resilient, productivity is improving, and technological investment continues to create opportunities across multiple industries. At the same time, the investment environment has become more demanding. Interest rates are materially higher, inflation has not been fully defeated, employment growth is slowing, and investor leverage has increased significantly.

These conditions favor companies capable of generating sustainable free cash flow, maintaining strong balance sheets, and growing earnings without depending upon inexpensive capital or ever-higher valuation multiples. They also reinforce the value of dividends and disciplined capital allocation, which can represent an increasingly meaningful component of total return when broad market appreciation becomes more difficult.

Markets rarely move in straight lines, and periods of increased volatility are an inevitable part of long-term investing. We believe the appropriate response is not to abandon equities, but to fortify our discipline about what we own and the prices we are willing to pay.

In an environment where the cost of capital has risen and speculation has increased, we believe investment based upon fundamentals should become more—not less—valuable. Our focus remains on identifying durable businesses with sustainable competitive advantages, sound balance sheets, attractive cash-flow characteristics, and management teams capable of using capital intelligently through changing economic conditions. This discipline has served investors through many different market cycles, and we believe it is especially useful as we approach the final months of 2026.

Fixed Income Report

As the Equity Report says, the capital market is decisively influenced by interest rates. Those are built from the baseline provided by sovereign debt; in our country, Treasury debt. The jarring increase in rates this quarter was not simply domestic. Here is the "before and after" for ten-year sovereign debt in selected G-7 countries.

Sovereign Debt Q3 Country	Open (7/1)	Close (9/30)	Chng (bps)
France	3.68%	4.86%	+118
Italy	3.67%	4.61%	+94
Germany	2.88%	3.59%	+71
Japan	2.71%	3.07%	+36
United Kingdom	4.76%	5.42%	+66
United States	4.48%	5.29%	+81

At home, Treasuries underwent an essentially parallel shift—not a "steepener" or a "flattener" –as the market built more inflation and growth premiums into its required yields. Here is the "before and after:"

U.S. Treasuries Q3 Maturity	Open (7/1)	Close (9/30)	Chng (bps)
3-Month	3.85%	4.20%	+35
2-Year	4.17%	4.88%	+71
5-Year	4.24%	5.09%	+85
10-year	4.48%	5.29%	+81
Long Bond 30-Year	4.97%	5.64%	+37

The change over the quarter paints a picture of a bond market in orderly retreat, although it is important to remember that treasuries, in their role as safe haven for capital, can be a contrary indicator of macroeconomic health. In other words, when the treasury market is up (yields are down), things do not necessarily look good in the real economy, and when the treasury market is down (yields are up), things do not necessarily look bad.

Investment grade corporate bonds also suffered. As measured by the Bloomberg United States Investment Grade Corporate Bond Index, the asset class returned -3.76% for the quarter, with the bulk of the loss coming from the increase in underlying Treasury rates rather than an increase in credit spreads. Elevated corporate issuance, induced by AI-related capex, created further pressure on bond prices. Despite the headwinds, and the modest widening in credit spreads brought about by a broader "risk-off" trade, demand for investment grade corporate paper remains relatively firm.

During the third quarter, we moved our taxable strategies to a neutral duration orientation relative to their specific benchmark. While most factors (growth, inflation, employment, fiscal expansion) point to higher rates, interest rates above 5% represent one of the most attractive risk/return dichotomies since 2023, when inflation was much higher. To frame it another way, a 100 basis point move up in interest rates over the course of a year causes the 10-year Treasury to lose only -1.45%, while 100 basis points in the other direction results in a gain of +12.25%!

Given our outlook for solid growth, moderating inflation, and reasonably stable employment, we are comfortable maintaining our overweight allocation to corporate bonds. Further, positive technical factors, such as corporate bond demand being likely to exceed new supply, provide a favorable tone for corporate bonds. We also think allocation rebalancing due to equity outperformance is another technical factor which should keep a bid under bonds.

Regardless of yield, economic activity continues its forward motion, with the driver being AI capital spending, and hyperscalers accelerating investment in all things AI. This strong economic growth has increased investor confidence, and we have seen an uptick in mega leveraged buyouts and corporate mergers and acquisitions. The dramatic and rapid increase in debt funding, combined with the significant uncertainties about future profitability, has stretched the market's appetite, where higher spreads and yields are needed to entice future investment. The capacity of the market to digest the new issuance raises questions about the long-term sustainability of continued rapid development. These crosscurrents require an ongoing discipline of rethinking assumptions and constantly reassessing the evolving pockets of relative value.

On the tax-exempt side, the quarter brought a confluence of pressures—geopolitical events, persistent inflationary trends, and tax loss harvesting opportunities—into a major sell-off. Again, September was the worst performing month for municipal bonds since the 2008 financial crisis. Virtually every AAA maturity tenor in the tax-exempt space was up well over 100 basis points for the quarter, with a corresponding erosion of prices.

AAA benchmark tax-exempt yields are now at multi-decade highs, with tax-exempt yields now surpassing 5% at the longer end of the curve! Munis have cheapened sharply compared to Treasurys, especially in the short and intermediate segments of the curve, leading to soaring taxable equivalent yields. For a taxpayer burdened with the

highest tax rate in a high tax state, the taxable equivalent yield may even approach double-digits, a level we have not seen in decades.

In terms of portfolio structure and duration, our flagship municipal intermediate strategy remains positioned in a modified barbell with an overweight to the front end of the curve. Our duration is neutral to our benchmark, and we continue to maintain our yield advantage over the bench. We attribute this to the focus on new issues and relative value in trade execution.

After any sell-off, fixed income investors wonder about good entry points. Nobody wants to "catch a knife," of course, and we know that there will be sell-offs in the future. This may well be a different bond market than the one extending from 1980 to 2020, when the drift of yields pointed downward. This bond market might be more analogous to the rate environment from 1940 to 1980, when the drift of yields pointed up.

Time will tell if this secular "insight" is, in fact, an insight, but the intermediate style is the best approach in *any* rate environment. The intermediate style takes interest rate bets off the table: we are long enough to garner some price appreciation when rates decline while short enough to be protected when rates rise.

After the long, lost decade of zero-bound rates, the "income" is back in "fixed income," and though billowing rates are painful for bond buyers to endure, they provide a pleasant view once you have arrived.

Conclusion

Scott Bessent was right about his department's history with dueling. In the earliest decades of our country, a few Treasury Secretaries were involved with dueling in one capacity or another, although it is important to note that none dueled *while* serving as Treasury Secretary.

In his life, Alexander Hamilton was involved with several "affairs of honor," both as a principal and as a second. In fact, in 1797, two years after he resigned his post as Secretary of Treasury, Hamilton came very close to dueling James Monroe, who was to become our fifth President (and preside over what is arguably a civic highpoint in our history, the "Era of Good Feelings").

The dispute between those two great Founders flared over the Maria Reynolds affair, which had tarnished Hamilton's reputation and put an end to his Presidential ambitions. The resolution of their dispute came from none other than Aaron Burr, who managed, in the nick of time, to find an honorable exit ramp for both.

Until his duel with Burr in 1804, Alexander Hamilton was always able to honorably negotiate himself out of an actual exchange of bullets. In 1801, though, Hamilton lost his son, 19-year-old Philip, to a duel. Philip's death created a kind of fatalism for Hamilton, and in such a way that when Aaron Burr confronted him for using indecorous words to describe his character, Hamilton basically refused, this time, to find a workaround.

It is said that Aaron Burr was strangely unmoved by the death of Alexander Hamilton. He would brush it aside as Hamilton's just desserts, even though it marked a point of no return for his own career in American politics. At any rate, dueling was a dangerous pastime, leading to suffering and tears, and we are fortunate to be done with it.

Though dueling is in the rearview mirror, people are still affronted by swagger and heedlessness. While self-confidence, or at least its appearance, has always been able to carry people far in life, there is a point, as the market showed us this past quarter, when it can contribute to the bottom dropping out. And while we certainly do not think the higher rates left in its wake are crippling, either to the American economy or its financial markets, we caution that it has made investment more challenging. Of course, challenges are the stuff of life—certainly of markets—and even if they no longer result in an activation of the Code Duello, they can still lead to thrills and chills.

Disclosure: For informational purposes only. Not a recommendation to buy or sell any security or class of security. Investing entails risk, including loss of principal. Past performance is no guarantee of future performance.