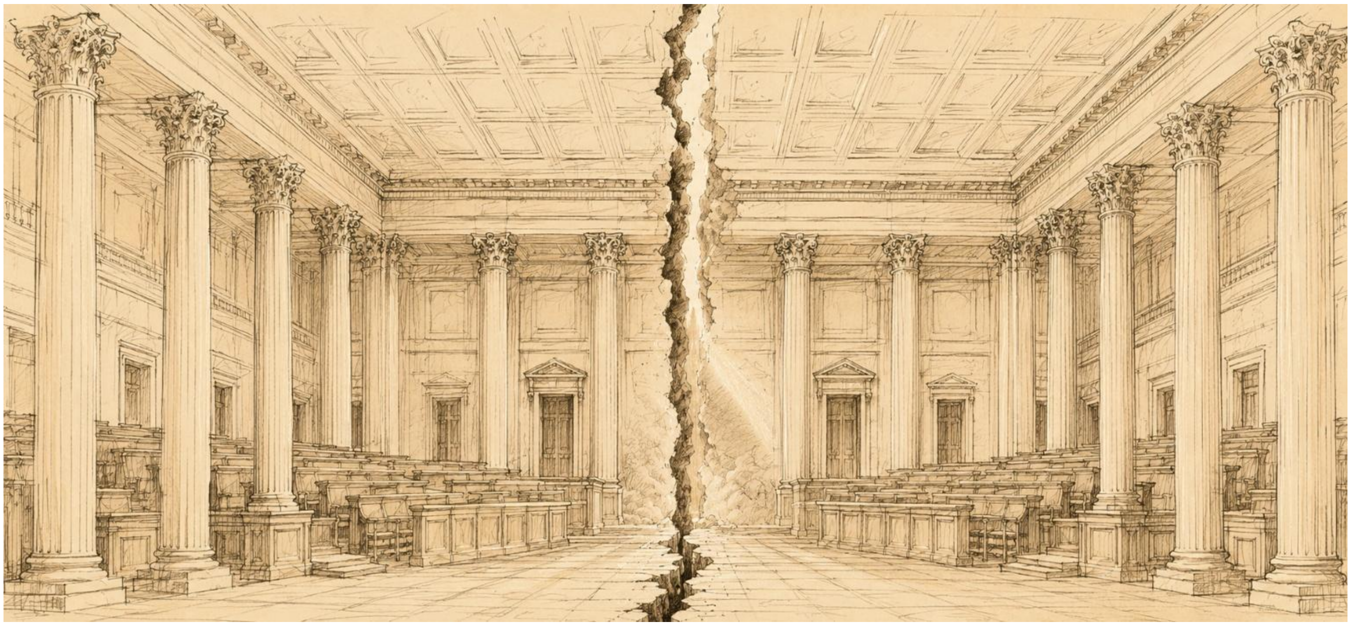
MONTHLY MARKET NOTE · SEPTEMBER 2026

Midterms, The Expected Divide.

Congress may split. Spending will not. A look at a potential gridlock scenario and the bond market impact.



01 – SUMMARY

Heading into the Midterm Elections.

As we enter the second half of the year, polling data around mid-term races begin to consolidate and provide a rough sketch of potential outcomes. Currently, Republicans hold the House 220-213 and the Senate 53-47. However, Democrats are favored to take the House while the U.S. Senate is a toss-up. Below are Lakewood's probabilities for each outcome and their implications over the next two years:

- **60% Democrats take House, Republicans keep Senate:** Gridlock becomes the default. Major legislation needs bipartisan support or dies in committee. Expect shutdown/debt-ceiling standoffs grow more frequent. Historically, government spending increases during a split Congress as neither party takes full responsibility for fiscal deficits.
- **30% Democrats take both chambers:** Gridlock continues as the president has veto power over legislation passed by a Democrat controlled House and Senate. Remaining Trump administration nominees and judicial appointments may be blocked by a Democrat controlled Senate.
- **10% Republicans keep House and Senate:** Trump's agenda continues largely unimpeded. Reconciliation lets Republican tax, energy, and spending priorities pass with simple majorities, sidestepping the filibuster. Judicial and executive branch nominees are confirmed steadily.

02 – GRIDLOCK

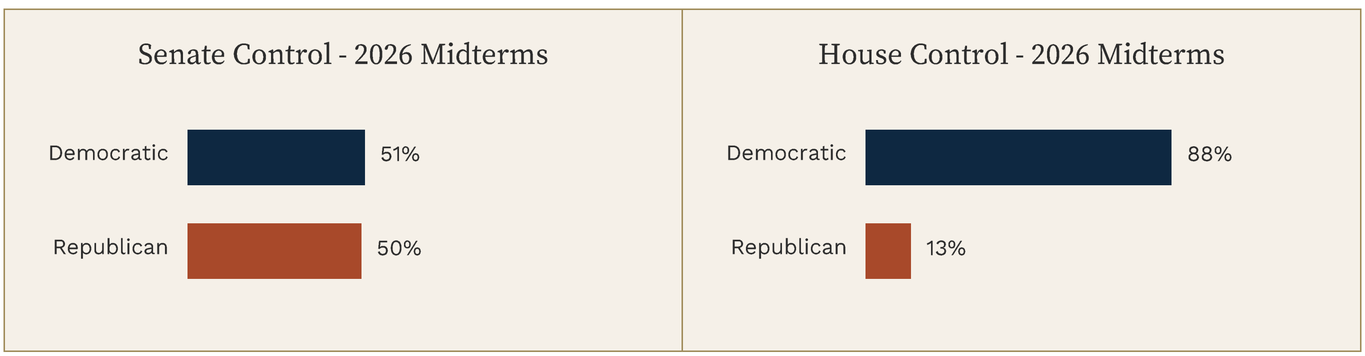
What to Expect if Congress Splits.

Here is what usually happens when one party controls the House and the other controls the Senate: very little gets done on purpose, and a lot happens as a result.

Big legislation, tax reform, entitlement changes, real budget discipline, requires both parties to agree. In a split Congress, that agreement rarely comes. So Washington falls back on the things it can do without agreement: short-term spending bills, last-minute deals to avoid a shutdown, and periodic showdowns over the debt ceiling.

Split Congresses have a long history of spending more, not less. When neither party is fully in charge, neither party is fully blamed for the deficit. That makes it easier to keep spending and harder to cut anything.

More spending means more government borrowing. That can drive bonds to be volatile. This tends to show up gradually, then suddenly, around one triggering event: a weak bond auction, a credit rating warning, or a shutdown that drags on longer than expected. These are acute bouts of turbulence, centered in the bond market, caused by Washington's spending habits rather than the economy itself.



Source: Polymarket, as of Aug 21, 2026. Market-implied probability, not a Lakewood forecast.

In addition to deciding the next members of congress voters will go to the polls making decisions on a variety of state specific referendums. Some of the most important referendums impacting investors include:

- **California Proposition 40**: This is consequential referendum for ultra-high-net-worth individuals both in California and nationally. The proposal would impose a one-time 5% wealth tax on billionaires. If it passes, could set a precedent for other states to follow with similar measures (or lower thresholds) in future cycles. Even investors well below the billionaire threshold should watch this closely as a bellwether for wealth-tax momentum nationally.
- **California proposition 3**: This would make the state's top income tax rates permanent beyond their scheduled 2031 expiration. Extending elevated top-bracket rates indefinitely rather than letting them expire.

03 – PORTFOLIOS

What Does This Mean for Portfolios.

In each scenario described on page 1, we expect treasury yields to grind higher as increased spending and debt issuance tests global bond investor capacity. Diversification into our Alternative Fixed Income and Absolute Return sleeves provides support as they are less impacted by rising U.S. Treasury yields. In addition to bond volatility, debt ceiling standoffs and government shutdowns have historically led to short equity sell offs. Lakewood uses proprietary, back-tested signals that allow us to take advantage of these short dips by tactically buying equities in clients' portfolios.

End of August 2026

MARKET SEGMENT	BENCHMARK TICKER	MTD	QTD	YTD
US Aggregate Bond	[AGG]	+0.4%	-0.9%	-0.2%
Multi-Strat / Market Neutral	[QDSRX]	+2.6%	+4.4%	+8.4%
Defined-Outcome / Buffered Equity	[FDEC]	+1.9%	+2.5%	+9.1%
Global Equity	[ACWI]	+2.7%	+2.4%	+14.3%
Option Overlay Equity	[SPUC]	+1.7%	+2.6%	+11.8%
Diversified Income	[BINC]	+0.4%	+0.1%	+1.5%
S&P 500	[SPY]	+2.7%	+2.7%	+13.1%
Core 60/40 Balanced Allocation	[AOR]	+1.8%	+1.1%	+8.6%

As of 08/31/2026. These are unmanaged funds shown to illustrate the market environment discussed in this note. They are not Lakewood strategies and do not represent any Lakewood account, composite, or actual client performance, which will vary materially. Source: Bloomberg. US Aggregate Bond [AGG ETF], Multi-Strat/Market Neutral [QDSRX MF], Defined-Outcome / Buffered Equity [FDEC ETF], Global Equity [ACWI ETF], Diversified Income [BINC ETF], Option Overlay Equity [SPUC ETF], S&P 500 [SPY ETF], Core 60/40 Balanced Allocation [AOR ETF].

04 – YOUR TEAM AT LAKEWOOD

The Partners.

FROM THE PARTNERS

"Markets historically get choppy heading into midterm elections, and we expect this cycle to be similar. Beneath that seasonal noise, the mechanics we outlined on page two continue to play out. Government spending keeps rising. The deficit keeps widening. The Treasury has shown it will use every tool available, attempting to keep funding markets orderly. That combination has historically provided a near-term backstop for the economy and for equities, even as bonds remain more volatile than usual. Our Absolute Return and Alternative Income allocations are built for exactly this kind of environment: diversification when stocks and bonds move together, not just when they move apart. We reviewed how these strategies performed through a similar stretch of volatility on page 3 of our August note. We are not forecasting a smooth path to November. We continue to manage client's allocations, customized to their time horizon, lifestyle goals and risk capacity. The portfolios are constructed to hold up regardless of how the next few months unfold."

See last month's note for more on Absolute Return and Alternative Income performance: lakewoodfg.com/.../Lakewood_Monthly_August-2026.pdf

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