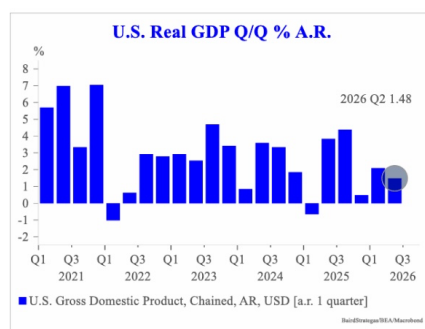


October 1, 2026

On September 16, 2026, the Fed announced the first rate hike under new Fed Chair Kevin Warsh. Investors are now struggling with how to assess the trade-off between stocks and bonds as the Fed ushers in a tightening cycle. Pier 88 submits that an objective review of historical data can be a helpful way to analyze the impact of rising rates on stocks and bonds. Historical data suggests equities and investment grade convertible bonds tend to outperform other fixed income asset classes during periods of rising rates. In our view, investment grade convertible bonds are a compelling choice in the current market regime, offering upside participation with downside protection.

It is helpful in our view to examine the recent interest hike in the context of the broader economy. Although the war with Iran has caused higher energy prices, the job market remains robust, inflation expectation measures have stayed relatively stable, and the U.S. economy remains strong and continues to exhibit growth. As many consider the rise in energy prices and tariffs to be more transitory than structural, we suspect the Fed's move signals a view on the strength of the underlying economy. We submit that the preference investors have had for stocks over bonds in 2026, also reflects a view that the economic backdrop remains healthy. Stocks have handsomely outperformed bonds this year.



Pier 88 reviewed data from the last 8 hiking cycles to compare the relative performance of bonds, stocks and the U.S. 10-Year Treasury. For simple analysis, Pier 88 Research reviewed the annual returns of these asset classes and the end of the calendar following the initial announcement of the rate hike. The following chart is quite illuminating:

	Date of Hike	BB U.S. Aggregate Bond	US 10 Year	S&P
	3/31/83	8.36%	3.20%	22.56%
	1/5/87	2.75%	-4.96%	5.25%
	3/30/88	7.89%	8.22%	16.54%
	2/4/94	-2.92%	-8.04%	1.32%
	6/30/99	-0.82%	-8.25%	21.04%
	6/30/04	4.34%	4.49%	10.88%
	12/16/15	0.55%	1.28%	1.38%
*No Hike	12/31/16	2.65%	0.69%	11.96%
	3/16/22	-13.01%	-17.83%	-18.11%

*Chart includes returns from 2016 as the 2015 hike occurred in December 2015. Sources: Bloomberg and Pier 88 Research as of 9/22/2026.

Equities as represented by the S&P 500 beat bonds, represented by the Bloomberg U.S. Aggregate Bond Index ("Bloomberg U.S. Aggregate"), and the U.S. 10-Year Treasury in 8 of the 9 years following the initial Fed move. Financial literature is replete with theories and opinions on why bonds do more poorly when interest rates are rising. We suggest the simple answer has to do with the strength of the underlying economy. The Fed tends to tighten to fight inflation brought about by a strong economy that is expanding.

Pier 88's research and decades of experience with investment grade convertible bonds inform our view that the asset classes' returns are highly correlated with the returns of the underlying stock. Pier 88's research team calculates the current sensitivity of the broader investment grade convertible bond universe to their underlying equities to be approximately 53% meaning that one would traditionally expect for the convertible to enjoy 53% of the upside move in its underlying equity. This sensitivity (or "Delta") tends to increase as the stock rises and falls as the stock declines. Given this current, an appreciating stock market is a positive signal for the convertible bonds. On the other hand, the delta also suggests that the convertible bonds should offer some downside protection should equity markets fall.

Index information for the two investment grade convertible bond indexes, VX5C and VXA1, only goes back to 2012 and 1995 so we can review how IG convertibles performed in 4 hiking cycles. The data indicates that investment grade convertibles outperformed the broader fixed income market as represented by the Bloomberg U.S. Aggregate and the U.S. 10-Year Treasury.

	Date of Hike	BB U.S. Aggregate Bond	US 10 Year	VXA1
	6/30/99	-0.82%	-8.25%	13.67%
	6/30/04	4.34%	4.49%	7.14%
	12/16/15	0.55%	1.28%	1.68%
*No Hike	12/31/16	2.65%	0.69%	14.23%
	3/16/22	-13.01%	-17.83%	-7.74%

*Chart includes returns from 2016 as the 2015 hike occurred in December 2015. Sources: Bloomberg and Pier 88 Research as of 9/22/2026.

Similar to equities, investment grade convertible bonds outperformed the broader fixed income market and the U.S. 10-Year Treasury for those 5 years following the initial rate hike. Sector data is also illuminating.

Index Performance During Periods of An Increasing Fed Funds Target Rate (Annualized)					
Index	1/31/1994 2/28/1995	5/31/1999 5/31/2000	5/31/2004 6/30/2006	11/30/2015 12/31/2018	Average (Sorted)
Technology	20.0%	47.5%	0.0%	15.0%	20.6%
Real Estate	NA	NA	20.4%	3.6%	12.0%
Energy	4.4%	11.8%	33.6%	-2.3%	11.9%
Health Care	20.3%	9.2%	0.8%	8.5%	9.7%
Utilities	-3.9%	5.1%	20.9%	11.2%	8.3%
S&P 500	4.1%	10.5%	8.1%	8.4%	7.8%
Industrials	0.6%	10.9%	12.4%	6.7%	7.7%
Financials	2.6%	1.7%	8.9%	8.2%	5.3%
Discretionary	-6.4%	3.8%	3.9%	8.3%	2.4%
Materials	0.5%	-11.6%	14.1%	5.6%	2.1%
Staples	13.8%	-15.1%	5.1%	4.0%	1.9%
Communications	-3.1%	-9.3%	12.5%	2.7%	0.7%

*Source: Strategas Research as of 9/22/2026

Technology and Healthcare are two of the sectors that have outperformed the average sector during periods of increasing Fed Funds Target Rate. Pier 88 has a strong track record of investing in these two sectors, and has been overweight these sectors given the strong secular trends and business fundamentals of our portfolio companies.

The Pier 88 Investment Team remains constructive on the convertible bond asset class, and, in particular, our portfolio companies for the foreseeable future. It is a privilege to manage capital on behalf of our partners, and we remain grateful for their support.

Regards,

Frank Timons
CEO
Pier 88 Investment Partners

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S&P 500 Index (SPX): The S&P 500 focuses on the large-cap sector of the market; however, since it includes a significant portion of the total value of the market, it also represents the market. Companies in the S&P 500 are considered leading companies in leading industries.

Bloomberg U.S. Aggregate Bond Index (Bloomberg U.S. Aggregate): The Bloomberg U.S. Aggregate Bond Index measures the performance of the U.S. dollar-denominated, investment-grade, fixed-rate taxable bond market. It is used in this material as a broad measure of U.S. investment-grade fixed-income performance during the referenced Federal Reserve rate-hiking cycles.

U.S. Generic Government 10-Year Treasury (USGG10YR): USGG10YR is a Bloomberg reference series reflecting the market yield of a U.S. Treasury security with approximately ten years to maturity. It is used in this material as a point of comparison to illustrate historical U.S. Treasury market performance during the referenced Federal Reserve rate-hiking cycles. References to U.S. 10-Year Treasury performance are based on data obtained from Bloomberg as of the dates indicated.

ICE BofA Investment Grade U.S. Convertible Indices (VXA1 and VX5C): The ICE BofA Investment Grade U.S. Convertible Index (“VXA1”) is a market-capitalization-weighted index of U.S. corporate convertible securities that meet the index provider’s investment-grade and eligibility criteria. The ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (“VX5C”) measures investment-grade U.S. convertible securities and applies a 5% issuer-level constraint intended to reduce concentration in any single issuer. VXA1 and VX5C are used in this material to illustrate the historical performance of the investment-grade U.S. convertible market during the referenced Federal Reserve rate-hiking cycles. Because VX5C history is available only from 2012 and VXA1 history is available from 1995, the index shown varies depending on the period presented. Accordingly, results across periods may reflect differences in index composition and methodology and are not directly comparable in all respects.

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