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MARKET UPDATE | The "September Effect" Was In Full Effect

Since 1928, the month of September has historically been the weakest month for the S&P 500 with returns averaging -1.1% while 55% of Septembers have experienced stock declines. This market anomaly is known as the "September Effect" and this September was no different as the S&P 500 sank 0.4% for the month. The Dow Jones Industrial Average (DJIA) performed far worse, dropping 4.1%, while the tech-heavy NASDAQ was one of a very few indices that was positive for the month, adding 1.9%. International equity markets also disappointed. International developed markets, as measured by the MSCI EAFE Index, plunged 3.1%, while the MSCI Emerging Markets Index was down 0.6%. On the fixed income side, bonds struggled immensely as yields surged, with the Bloomberg Aggregate Index dropping 2.6% for the month.

Market Return Indexes	Sept 2026	Q3 2026	YTD 2026	2025
Dow Jones Industrial Average	-4.1%	-2.3%	7.2%	14.9%
S&P 500	-0.4%	2.3%	12.8%	17.9%
NASDAQ (price change)	1.9%	2.5%	15.6%	20.4%
MSCI Eur. Australasia Far East (EAFE)	-3.1%	0.8%	10.3%	31.2%
MSCI Emerging Markets	-0.6%	-0.4%	23.4%	33.6%
Bloomberg High Yield	-2.5%	-1.8%	0.1%	8.6%
Bloomberg U.S. Aggregate Bond	-2.6%	-3.5%	-2.9%	7.3%
Yield Data (Month End)	Sept 2026	Aug 2026	July 2026	June 2026
U.S. 10-Year Treasury Yield	5.29%	4.75%	4.75%	4.44%

One of the most significant stories in September was the Federal Reserve's decision to raise its benchmark interest rate by 25 basis-points on September 16th to a target range of 3.75% to 4.00%, its first rate hike since

July 2023. The Fed made the move in an effort to combat sticky inflation that has remained elevated amidst higher oil prices brought on by the conflict in Iran and uncertainty pertaining to the Strait of Hormuz. Interestingly, the Federal Open Market Committee (FOMC) approved the move unanimously (a vote of 12-0) after just three members favored a hike at the July meeting.

A deeper look into the decision via the dot-plot grid of individual officials' expectations released by the FOMC showed that the majority of members believe another rate hike is possible before year-end. Specifically, 16 of the 18 participants (Fed Chairman Warsh has chosen not to submit a dot since taking the position) anticipate at least one additional rate increase, while four projected two additional rate hikes.



16 of the 18 participants anticipate at least one additional rate increase

Economic data also points to the possibility of further increases and a higher-for-longer rate environment.

Data showed that economic growth was relatively strong here in the United States. U.S. flash PMIs rose to 58.4, the highest level since July 2021, signaling strong economic activity, while second quarter GDP growth was revised up from 1.5% to 2.2% and Consumer sentiment increased to 48.1, showing an improved consumer outlook. As growth remains resilient, the Fed has less urgency to reverse course, meaning higher-for-longer rates may continue to be a concern for markets.

In addition to the Fed Funds Rate increasing in September, Treasury yields across the board were on the rise for a multitude of reasons indicated above, along with rising US government debt and a historic investment

cycle driven by the increased demand for capital amid the AI build-out, all of which contributed to a sell-off of Treasuries. For reference, the 10-year Treasury yield hit 5.29% at month-end (from 4.75% at the end of August), its highest level since 2002, while the 30-year Treasury jumped from 5.25% at the end of August to 5.64% at the end of September. These factors weighed on fixed income returns during the month and continued to pressure interest rate sensitive assets.

However, there was some good news released on the last day of the month pertaining to the Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE) Index. August PCE data showed that prices cooled more than expected during the month, with headline PCE at 3.4% (down from 3.7% in July) and the core PCE (which excludes food and energy) at 3.0% (down from 3.3% in July). The relatively positive data on the inflation front may temper expectations of another interest rate hike next month.

While higher prices and affordability remain an issue for many Americans, the Fed's initial move to alleviate those concerns was certainly a step in the right direction. And if history were any indication of what's to come, it's very likely that more hikes are on the horizon. A look back at historical Federal Reserve action shows that single-hike cycles are quite uncommon, and that multi-hike cycles are much more the norm. What the Fed decides to do going forward is anyone's guess, but it certainly looks like Fed Chairman Warsh is sticking to his claim that price stability is the central bank's core duty.



Prices cooled more than expected during the month

Managing a retirement plan is much more than an administrative function. Under ERISA, individuals responsible for overseeing a retirement plan have fiduciary obligations that require prudent decision-making, ongoing oversight and a well-documented governance process. Critically, ERISA fiduciaries can be held **personally liable** for losses resulting from a breach of those duties, meaning liability exposure is not limited to the plan or the organization. As litigation and regulatory scrutiny continue to focus on retirement plan fiduciaries, plan sponsors should periodically assess whether their governance structure continues to support effective decision-making and provides meaningful protection against legal risk.

✓ Start with Fiduciary Education

A fundamental component of strong fiduciary governance is ensuring that committee members understand their responsibilities. ERISA requires fiduciaries to act prudently, solely in the interests of plan participants and beneficiaries, follow plan documents, diversify investments when appropriate and avoid prohibited transactions. Regular fiduciary training can help committee members understand these obligations and make informed decisions on behalf of the plan.

How This Mitigates Liability: One of the most common grounds for ERISA litigation is that a fiduciary failed to understand the scope of their duties, particularly with respect to prohibited transactions or the monitoring of service provider fees. Courts evaluating fiduciary conduct apply the "prudent expert" standard, meaning fiduciaries are held to the standard of a knowledgeable professional — not just a well-meaning layperson. Documented, ongoing training demonstrates that committee members understood the standard to which they were being held and actively worked to meet it. It also reduces the likelihood that a fiduciary unknowingly authorizes a prohibited transaction, which can trigger excise taxes and personal liability independent of any lawsuit.

Training is particularly important when new committee members are appointed, but periodic refresher training can benefit even experienced fiduciaries by reinforcing best practices and highlighting evolving risks and responsibilities.

✓ Building an Effective Committee

There is no one-size-fits-all approach to committee design. However, effective committees are typically composed of individuals who are willing and able to exercise independent judgment, dedicate sufficient time to plan matters and actively participate in meetings and decision-making. Committees that are too large or fail to meet regularly may struggle to respond appropriately to important issues, increasing fiduciary risk.

Many organizations utilize a single committee to oversee both plan administration and investments. Others separate responsibilities between an administrative committee and an investment committee, depending on the size and complexity of the plan.

How This Mitigates Liability: A well-structured committee directly reduces the risk of co-fiduciary liability under ERISA Section 405, which can hold one fiduciary responsible for the breach of another if they knowingly participated in, concealed, or failed to remedy a co-fiduciary's breach. Clear separation of roles — whether through a single well-chartered committee or distinct administrative and investment committees — helps establish defined accountability and reduces the risk that one committee member's failure cascades into shared liability across the group. Committees composed of individuals with the capacity and independence to exercise genuine judgment are also far better positioned to defend against claims that decisions were made without adequate deliberation or with conflicts of interest.

✓ Formal Governance Matters

An effective fiduciary governance framework should include more than simply appointing committee members. Best practices often include:

- Formal appointment and acknowledgment of fiduciary responsibilities.
- A written committee charter outlining roles, responsibilities, authority and procedures.
- Clearly established meeting schedules and voting procedures.
- Defined processes for reviewing plan operations, investments and service providers.

How This Mitigates Liability: Formal governance documentation serves as the foundation of a fiduciary's legal defense. In ERISA litigation, courts assess whether fiduciaries followed a **prudent process** — not simply whether the outcomes were favorable. A written charter and formal appointment acknowledgments demonstrate that roles were clearly defined and accepted, limiting ambiguity about who bore responsibility for which decisions. Without these structural safeguards, plan sponsors risk being unable to demonstrate that any coherent governance process existed, which courts have found to be evidence of a deficient process in and of itself. Additionally, a formal charter that establishes a defined review process for investments and service providers directly addresses two of the most litigated areas in ERISA disputes: excessive investment fees and imprudent retention of underperforming funds or underqualified service providers.

✓ The Importance of Committee Meetings and Documentation

Regular committee meetings provide an opportunity to review plan administration, monitor investments, evaluate service providers and address emerging issues. Quarterly meetings are common, although additional meetings may be warranted during periods of market volatility or significant plan events.

Equally important is maintaining accurate meeting minutes. Under ERISA, fiduciary decisions are generally evaluated based on the process used to reach those decisions rather than solely on outcomes. Meeting minutes should document attendance, topics discussed, decisions made and follow-up action items.

How This Mitigates Liability: Meeting minutes are among the most powerful tools a fiduciary has in defending against a breach of duty claim. Because ERISA focuses on **process over outcomes**, a committee that made a decision that ultimately proved unfavorable can still successfully defend that decision if the minutes demonstrate that the committee gathered relevant information, considered appropriate alternatives, consulted qualified advisors where warranted and reached a reasoned conclusion. Conversely, the absence of minutes — or minutes that are sparse, inconsistent or clearly prepared after the fact — has been

cited in litigation as evidence of a deficient process. In the event of a Department of Labor audit or participant lawsuit, well-maintained minutes can be the difference between a defensible record and an indefensible one. Follow-up action items documented in the minutes also protect against claims that the committee identified a problem but failed to act on it.

✓ Key Takeaway

A formal, organized fiduciary governance structure can help retirement plan committees fulfill their responsibilities and manage fiduciary risk.

Regular training, engaged committee members, clearly defined roles, consistent meetings, and thoughtful documentation all contribute to a stronger governance process that better serves both the plan and its participants. Importantly, these practices are not merely administrative formalities, they are the building blocks of a defensible fiduciary record. In an environment where ERISA class action litigation continues to grow in both frequency and complexity, committees that invest in strong governance are not only serving their participants better; they are meaningfully limiting their own legal and financial exposure.

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The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10-Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment.

The higher the yield, the better the economic outlook.

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