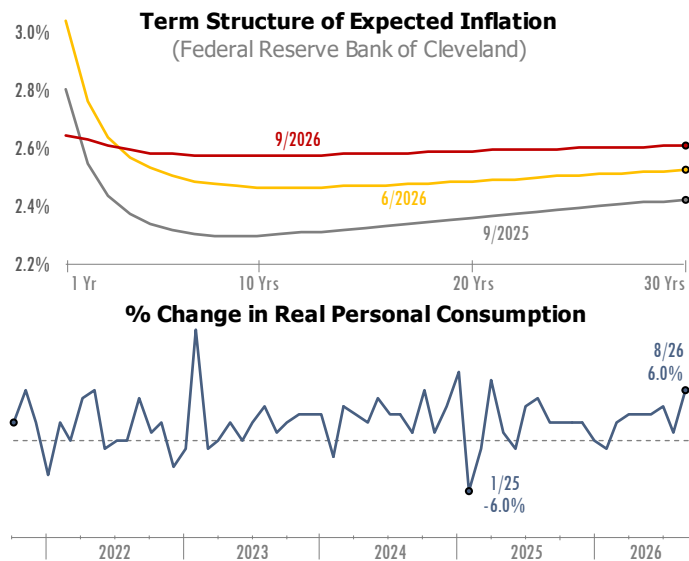


MARKET Recap

The US Economy: “Great Expectations”

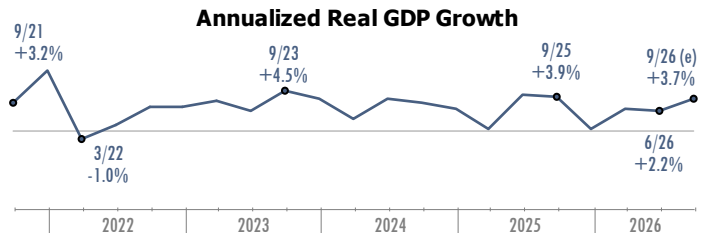
Economic growth for the second quarter was revised upward to a 2.2% annualized pace, and is currently estimated by the Atlanta Fed to accelerate for Q3. Robust consumer spending was the primary driver for both figures, partially offset by an increase in imports. Capital investment in technology was the other major contributor for Q2. Real personal consumption expenditures for August accelerated sharply.



The Cleveland Fed maintains an excellent public website focused on compiling and publishing data on expectations, and it reveals a concerning trend. Short-term inflation expectations are declining, as the US/Iran conflict stabilizes and the Fed's cycle of interest rate cuts has ended for now. However, long-term inflation expectations remain above the Fed's 2% target and are rising; not at a dramatic, Argentina-like pace, but it calls into question whether long-term expectations are in fact still “anchored”. If not, one would expect consumers to accelerate purchases, especially of durable goods, in anticipation of higher prices. One would also expect bond investors to demand greater compensation for long-term dollar loans.

One reason we believe long-term inflation expectations are increasing is decreased confidence in a political process which, under both parties, has failed to deal with deficits, accumulating debt, and ballooning healthcare costs. Which brings us to politics and, specifically, the looming US midterm elections. Judging from consumer sentiment, Republicans have good reasons for concern. The University of Michigan survey provides insight into sentiment by party identification. Sentiment among Republican consumers remains lower than under Trump-1, with a notable decline since the outbreak of hostilities. Independents tend to fall between the partisans, but are currently as pessimistic as Democrats.

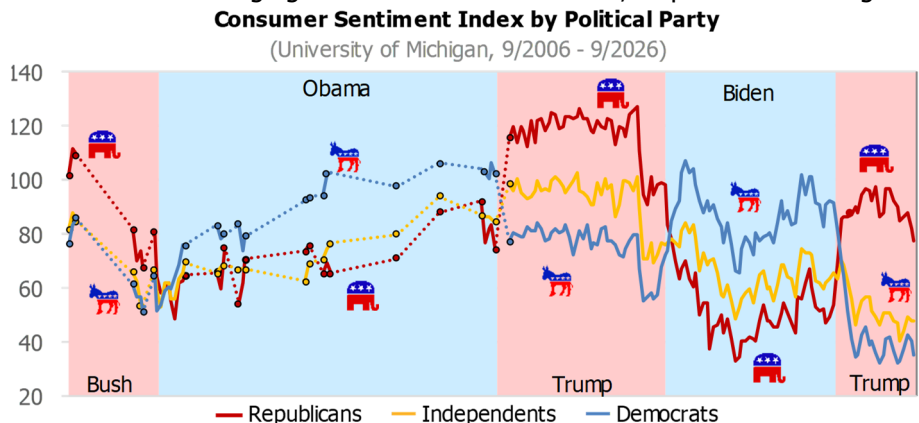
James Carville quipped “It’s the economy, stupid” during Bill Clinton’s successful 1992 Presidential campaign. History does not always repeat itself, but it often rhymes.



Simultaneously consumer sentiment, measured by either the Conference Board or the University of Michigan surveys, has declined throughout the year and reached relative low points in September. If people are so worried, why are they spending so much? We believe the answer to that, in part, is declining confidence in institutions to deal with rising prices.

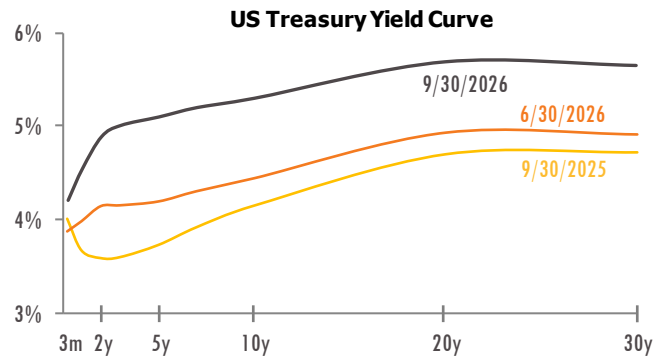
The media devotes much attention to each incremental announcement for the CPI and other current inflation indices. However, markets are driven by long-term inflation expectations, much more so than short-term price fluctuations. Short-term inflation expectations tend to be quite volatile, driven by geopolitical events, weather shocks, or the business cycle. Long-term expectations tend to be more stable (“anchored” as economists would say) as short-term events tend to become noise over two or three decades.

Inflation expectations are measured in part through market prices, and in part through business and consumer surveys.



The US Bond Market

The US Treasury 5-year key rate led the yield curve higher in the third quarter with a sharp 90-basis-point climb. Yet, much of the news focused on the consequential 10-year key rate, which trailed by just 5 bps. While each key rate has its fans, the 10-year rate is widely accepted as the primary benchmark for setting mortgage rates as prevailing interest rates rise and fall. It was also the more eye-catching rate, as it battled to push through resistance at 5% from September 10th through the 22nd. After breaking out, it extended its reach to end the quarter at 5.29%. For studious observers of the yield curve, this marked the highest closing yield in almost 25 years, beating out the June 2007 peak by 3 bps. Note, correlation to Global Financial Crisis does not equal causation.



The rest of the yield curve followed, to a lesser extent. The front end rose by one-third of a percentage point, locked into the expected path of Fed monetary policy. So, yields steepened dramatically up to the 2-year key rate and gradually from there to the 5-year. The long end of the curve flattened for nearly no net change for the 2-year versus 30-year yield spread.

US Bond Index Returns	
Bloomberg Idx	3Q26
Aggregate	-3.51%
Short Gov't	0.49%
Interm. Gov't	-1.68%
Long Gov't	-8.02%
TIPS	-3.24%
Municipal	-6.35%
Interm. Credit	-2.26%
Long Credit	-7.43%
High Yield	-1.82%
Leveraged Loan	2.06%
MBS	-4.25%

While Treasury rates jumped in the last week of September, the bulk of the move occurred as a somewhat consistent climb from early July to September 10th. All this time, credit spreads lay dormant. High yield spreads enjoyed an uncharacteristic period of mild volatility, fluctuating at most 10 basis points above or below an average near 270 basis points...that is, until the final week of September. As if credit investors suddenly woke up to find the slow and steady Treasury rates approaching the finishing line, high yield spreads clocked an impressive 42 basis points of widening. This puts them back toward the top of their range for the trailing year, aside from the brief breakout in March (up to 342 bps) as the US began its campaign of attacks on Iran.

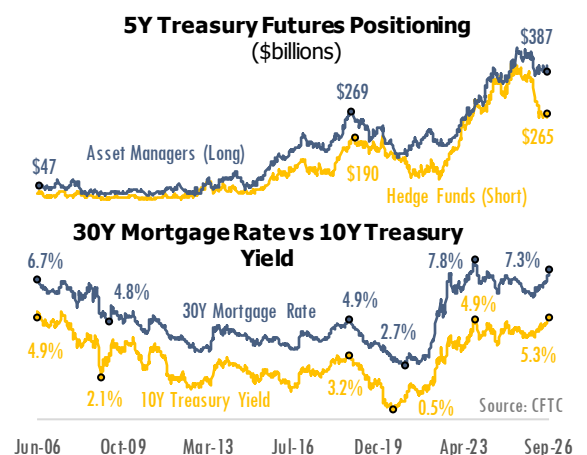
The combination of higher rates and wider spreads led to disappointing bond index quarterly return. Unsurprisingly short-duration government bonds were one of the few safe spaces for fixed income investors, muting the impact of these headwinds. Much more curious was the outperformance of leveraged loans. While these floating rate loans sidestep the drag of rising rates, they tend to perform poorly as credit spreads widen. However, these assets caught a bid

relative to high yield as, comparatively, the secured loans offer a senior position in the capital structure with stronger downside protection against both rising rates and defaults but (currently) a comparable yield.

While many forces contributed to the rise in yields, most of the blame lies at the doorstep of hedge funds, where bond and bond derivatives trading is enjoying a recent renaissance. Investors should be wary of the potential cost. How much do hedge funds influence the yield curve, which serves as the basis for much of our financial system? More than ever. Rekindling the 1980s moniker "Masters of the Universe" that once aptly fit such traders (from the popular-with-a-certain-aging-generation 'Bonfire of the Vanities' by Tom Wolfe) seems apt, though glamorized.

Hedge funds hold a record 7% of US Treasuries. The potential benefit is that hedge funds are not as tied to market cyclicalities as other market participants, so they supply liquidity in both rallies and selloffs [HFR]. However, a Fed study found no evidence that hedge funds trading Treasuries provided liquidity during the March 2020 dislocation [Kruttli].

Now, hedge fund activity appears to be compounding a rise in yields prompted by renewed inflation concerns, continued conflict with Iran, and rising government borrowing needs. Bank capital rule changes that let dealers hold more Treasuries are causing an unwind to leveraged basis positions (US Treasury bonds held against US Treasury futures). They have fallen about 20% this year to \$1.2 trillion (though much more may be unreported in this figure, due to US hedge funds electing to domicile in the Cayman Islands). CFTC data show hedge funds' net shorts in 2-year futures are down more than 40% since March [Reuters]. Effective April 1, changes to the enhanced supplementary leverage ratio eased capital constraints on large banks' balance sheets. Greater dealer capacity has narrowed cash-futures pricing gaps, squeezing the profits that can make leveraged basis trades so attractive. Even the world's safest, most liquid collateral can make for a crowded exit.



The US Stock Market

Market momentum shifted in Q3, and US equity returns pulled back from Q2's double-digit gains. The quarter was marked by elevated inflation, climbing Treasury yields that eventually hit historic highs, and a Fed rate increase in September. Higher Treasury yields typically weigh on stock returns in a number of ways: depressing the present value of future cash flows, increasing borrowing costs (for both corporations and consumers), and enticing investors out of stocks with competitive risk-free yields. However, expectations of future earnings growth for AI-related stocks seem to defy a rising discount rate, as the sector rallied for the quarter.

US Stock Indices - Total Returns			
Largecaps		3Q26	
S&P 500		2.30%	
Russell 1000		1.80%	
Growth		0.92%	
Value		2.61%	
Broad Markets			
S&P 1500		1.58%	
Russell 3000		1.41%	
Growth		0.45%	
Value		2.31%	
Midcaps		3Q26	
S&P Midcap 400		-6.36%	
Russell Midcap		-3.00%	
Growth		-5.84%	
Value		-1.98%	
Smallcaps			
S&P Smallcap 600		-7.93%	
Russell 2000		-7.23%	
Growth		-9.39%	
Value		-4.91%	

Q2 High Flyers Come Down to Earth		
	2Q	3Q
Micron Technology	242%	8%
Intel	216%	-14%
Advanced Micro Dev	186%	5%
Dell	163%	25%
Bloom Energy	123%	-9%

Value outperformed growth (ex-AI) for the quarter across all market caps largely due to strong performance from cyclical sectors like energy and financials in July. The beginning of the quarter also saw a correction in semiconductor equipment makers, chip manufacturers, and related companies as investors took profits after their stellar returns in Q2. In another pivot from last quarter, small caps underperformed their larger-cap peers. Higher borrowing costs from rising rates and a flight to quality weighed on smaller companies throughout the quarter.

The major mega-cap technology firms helped drive positive results in the large-cap and broad-market benchmarks. In particular, Microsoft had a notable quarter, posting the biggest one-day market-cap gain for any US company in July. After earnings reports allayed fears that AI spending would outpace cash generation, Microsoft stock surged 16%, resulting in a \$450 billion gain in market cap. For the quarter, Mag 7 returns ranged from 37.7% for Microsoft to -15.6% for Tesla.

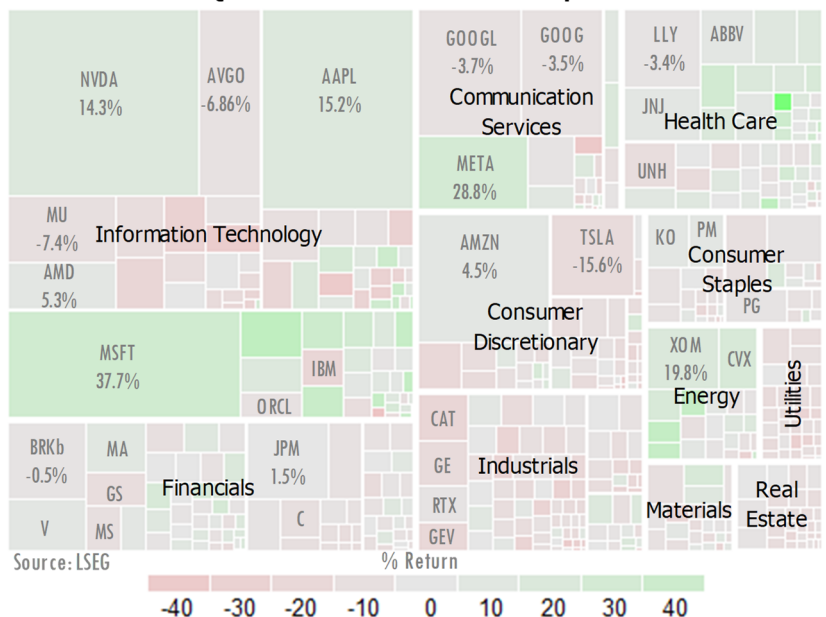
The positive returns in the large-cap and broad market headline indices demonstrate how narrowly focused the market has become. Almost 80% of stocks in the S&P 500 were actually down for the quarter [The Wall Street Journal]. Further, as September came to a close, more than 40% were trading 20% or more below their 52-week high, putting them in bear-market territory [MarketWatch].

Energy recaptured its position as the best-performing sector. By late September, crude prices were nearing \$100/barrel on instability in the Middle East and global production bottlenecks. After double-digit losses in Q2, oil giants ExxonMobil, Chevron, and ConocoPhillips returned 19.8%, 24.3% and 21.2%, respectively. However, it was the petroleum refiners that led the sector, benefiting from expanding crack spreads (the difference between unrefined crude and refined petroleum products like gasoline and diesel). Marathon Petroleum, Valero Energy and Phillips 66 returned 55.1%, 49.3%, and 51.8%, respectively. As noted in previous recaps, US refining capacity has been in a near decade-long decline having peaked in 2017. Adjacent to the sector in industrials, fuel-cell provider Bloom Energy's multi-quarter, AI-driven run came to a screeching halt as it returned -8.5%.

After a weak first half, Software-as-a-Service (SaaS) stocks rebounded, led by Microsoft. However, this phenomenon was not limited to the tech sector. After a difficult July, shares of Meta ended the quarter on a strong note after a surge in downloads of its Muse AI agent following its launch in early September. In health care, Veeva Systems was a notable bright spot. Added to the S&P 500 in May, it benefitted from a rally in health information services and increased demand for its AI-driven clinical workflow and regulatory software. The stock returned 60.8% in Q3.

S&P 500 Sector Components - Total Returns			
Sector	3Q26	Sector	3Q26
Energy	17.23%	Materials	-2.81%
Info Tech	7.20%	Consumer Discr	-5.09%
Health Care	6.46%	Real Estate	-5.57%
Comm Services	3.64%	Industrials	-9.66%
Financials	-0.12%	Utilities	-12.39%
Consumer Stpls	-1.90%		

3Q 2026 Returns in S&P 500 Companies

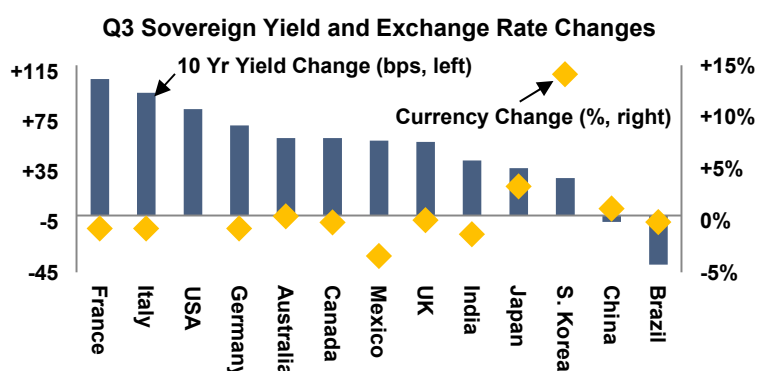


International Markets

International equities delivered uneven returns in Q3, with developed outperforming emerging markets. Japan led developed markets. Europe dipped, as Germany held modest gains while France lagged on fiscal stress and a luxury goods sell-off. Emerging markets fell after a strong first-half rally, with South Korea, last quarter's driver, the biggest drag. Gains came mostly in July and August on AI-related investment and an export-oriented manufacturing recovery. September reversed much of the advance as energy-driven inflation, central bank tightening, and rising global bond yields weighed on risk assets.

Unhedged Foreign Markets Indices - Total Returns			
Stocks	3Q26	Bonds	3Q26
MSCI ACWI ex-US	0.48%	Global Aggregate	-2.46%
EAFE (Developed)	0.81%	Pan-Euro	-4.11%
Emerging Markets	-0.37%	Asian-Pacific	1.90%
MSCI EM Asia	-1.09%	Eurodollar	-1.65%
Europe	-1.65%	Other Currencies	-3.82%
Japan	5.96%		
China	3.66%		
Latin America	3.88%		

Global bond markets remained focused on inflation. The ECB raised its deposit rate 25 bps to 2.50% in September, its second hike of the year, to counter persistent energy-driven inflation from the Middle East conflict. The Fed and BoJ also hiked, a synchronized tightening that pushed long-term yields higher.



In Europe, fiscal concerns compounded the move as French 10-year yields hit their highest since 2008 and their spread over Bunds topped 100 bps for the first time since the 2012 euro crisis. EM debt was mixed as attractive carry competed with rising developed market yields, a stronger dollar and energy price volatility.

Currency markets were volatile. The yen gained 3.3%, helped by a joint US-Japan intervention in late July, but slipped after the BoJ's September hike on insufficiently hawkish guidance. The Korean won led Asia, up 13.8% on surging chip exports, and the yuan hit its strongest

since mid-2022 as the PBOC allowed appreciation ahead of the US-China summit. The Mexican peso fell 3.3% as the dollar and yields rose late in the quarter, while higher oil prices weighed on net energy importers, including the Philippine peso, Indian rupee and Thai baht.

Asia

Japanese equities benefited from corporate governance reforms, AI-related capital spending, and semiconductor equipment demand. The "Takaichi trade," bigger fiscal spending and a weaker yen, remained intact, supporting stocks even as JGB yields reached multi-decade highs.

The BoJ raised its policy rate 25 bps to 1.25% in September, the highest in 31 years, on a 7–2 vote. The yen nonetheless weakened as investors doubted the BoJ would tighten fast enough to offset inflation and wide rate differentials, and intervention speculation persisted with the yen near levels that historically draw scrutiny. Political pressure remains a real risk as Prime Minister Takaichi has questioned further hikes, and her two "reflationist" board appointees have raised questions about the bank's independence and pace of tightening.

Rising Japanese rates also concern US policymakers, raising two related risks for US Treasuries: an unwinding of the yen-funded carry trade and a gradual repatriation of Japanese investors' overseas holdings, including \$1.1 trillion of US Treasuries. Either could lift Treasury yields. In response, the US Treasury joined Japan in buying yen, its first currency intervention since 2011 and first yen purchase since 1998, funded by selling euros rather than dollars. Treasury Secretary Bessent also urged the Fed to upsize its FIMA repo facility, which lets foreign central banks borrow dollars against Treasuries rather than sell them. While a wholesale withdrawal of Japanese capital remains unlikely, repatriation is a considerable concern.

MSCI China rose in Q3, rebounding from a Q2 decline, but remained down roughly 11.9% year-to-date. Returns diverged sharply, with consumer sub-indexes falling about 18% over six months to near decade lows, while the AI-heavy technology index climbed to more than double its 2016 level. China's uneven economy drove the split, as capital shifted toward AI.

In a two-speed economy, export-oriented manufacturing drove activity while domestic demand and property investment stayed weak. Unemployment rose to 5.3% in August, and retail sales disappointed, rising just 0.6% YoY in July and 0.4% in August. Geopolitical energy disruptions lifted oil prices, squeezed margins, and pressured Chinese equities given heavy reliance on imported energy.

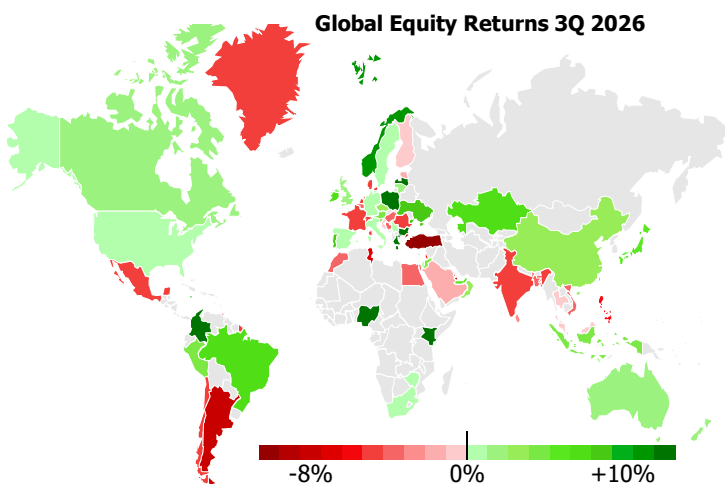
Industrial output, a primary driver, rose 5.2% in August, led by advanced equipment, semiconductors, robotics, and clean energy (EVs, solar, batteries). Global AI infrastructure spending and manufacturers' rush to ship ahead of anticipated US tariffs kept exports high. GDP growth slowed to 4.3% in Q2, and the official PMI fell to 49.2 in July.

Q3 shows export manufacturing provides a floor, but internal weakness and the Middle East conflict hamper full recovery. Despite China's insulation efforts, energy disruptions are surfacing, with producer prices up 3.8% YoY in August on higher fuel and import costs. These costs and supply bottlenecks squeeze profits, threaten the export-reliant economy, and risk dampening trading partners' spending as US and EU protectionism escalates.

South Korea was the world's worst-performing major market in Q3, as the KOSPI fell about 19%, its worst quarter since early 2020. Samsung and SK Hynix, nearly half the index, slumped as leveraged memory-chip trades unwound amid AI-demand doubts and foreign selling. However, the won's rally cushioned dollar-based losses.

Europe

Europe entered Q3 with improving data, but inflation and fiscal risks remained at the fore. The eurozone manufacturing PMI rose to 52.7 in August, its strongest in over four years. September surveys showed broader resilience, with eurozone business activity expanding at its fastest pace in over three years.



Germany's preliminary September composite PMI rose to 53.8, signaling economic expansion and suggesting Europe's manufacturing recession may be easing. The recovery remains fragile amid elevated input costs and uncertainty over energy prices and trade. The DAX hit an all-time high in August, but September's inflation and rate shock erased most gains, and the MSCI Germany Index returned 1.0% in Q3. SAP, Deutsche Börse, healthcare, and large banks led, while defense and industrials detracted, with Rheinmetall falling on delivery delays, and Siemens Energy and Infineon tumbling. Autos still lagged on soft global demand and increased competition.

In France, the CAC 40 also hit a new high in August, but equities reversed sharply in September; the MSCI France Index returned -4.1% in Q3. Luxury goods, a large index

weight, were the main drag, with LVMH and Hermès at multi-year lows on weak Chinese demand. Banks fell as sovereign stress intensified and the 10-year yield approached 4.6%.

Eurozone inflation rose to 3.2% in August from 2.9% in July, largely on higher energy prices, even as core inflation eased to 2.4%. ECB President Christine Lagarde called the September hike a "no-brainer" given the August print. The hike reflected concern that energy-driven price pressure could persist, though policymakers acknowledged further tightening could hurt household incomes and growth.

Americas

Latin American markets were mixed as investors weighed monetary easing, commodity prices, fiscal discipline, and trade risks. Brazil's economy slowed but beat expectations, with Q2 GDP up 0.5% quarter-over-quarter after a solid Q1. In late September, however, the government cut its 2026 growth forecast to 2.0%, citing softer services and manufacturing.

Brazil's central bank cut the Selic for a fifth straight meeting, to 13.75%. Policy remains highly restrictive, however, and investors are watching inflation expectations, fiscal discipline, and the domestic slowdown's durability. Commodities remain a key driver, but Q3 focus shifted toward balancing easing against inflation credibility.

Mexico remained supported by nearshoring and North American supply-chain integration, but trade took center stage. Banxico held at 6.5% in August, noting inflation will take longer than projected to return to target. The economy rebounded 1.4% quarter-over-quarter in Q2, but investors focused on the USMCA review and possible trade-rule changes. Mexico also pledged more US imports as part of the review, underscoring its reliance on US policy.

Canada's economy entered Q3 more resilient than expected, growing 3.3% annualized in Q2, but a burgeoning trade war and new US tariffs threaten Q4 growth. The Bank of Canada held at 2.25%, balancing stronger growth against above-target inflation and trade uncertainty. Canadian equities remained supported by energy, financials, industrials, and infrastructure, but US trade policy remained the dominant headwind.

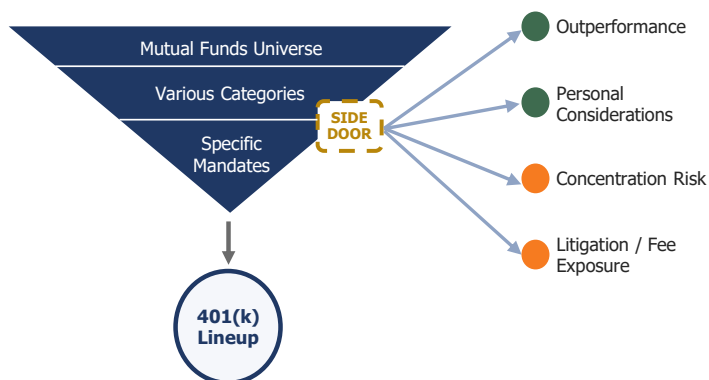
Focus On: The Brokerage Window Dilemma

When you teach someone to bowl, the first thing you do is raise the gutter bumpers. This guarantees that no matter how erratic the throw, the ball hits some pins. For decades, the defined contribution industry treated participants this way. The streamlined core lineup (a curated menu of mutual funds anchored by target-date funds) served as the fiduciary bumpers. Limited choice can mitigate risk to support a baseline of success. At first glance, offering a self-directed brokerage window in a retirement plan may seem like a contradiction. In a way it is. After decades raising the gutter bumpers, we install a side door which relies on odd, exclusionary regulatory guidance. This may seem counterintuitive, but there are legitimate reasons to do this. Whether those reasons outweigh the risks has no industry-wide answer; each investment committee must answer for its own workforce.

Experience tells us that most participants want the bumpers rather than having unlimited choice. However, not every participant wants bumpers. Conditioned by retail trading apps, zero-commission platforms and infinite financial data, a more engaged participant base wants the freedom to throw the ball however they see fit, rather than be confined to a standard S&P500 fund when a thematic tech ETF or ESG strategy is available elsewhere.

Enter the self-directed brokerage window (SDBA). Some participants may welcome access to more sophisticated investment options. Others might value specific funds (e.g., faith-based mandates) that align with personal convictions not addressed by the core lineup. A window can also give a committee some room to keep its core menu lean, since specialty demand has somewhere to go. In practice, though, that benefit is more bonus than business case. In an informal 2021 American Benefits Council survey, 98% of sponsors with a window cited expanding investment choice, while only about a quarter cited a leaner core menu.

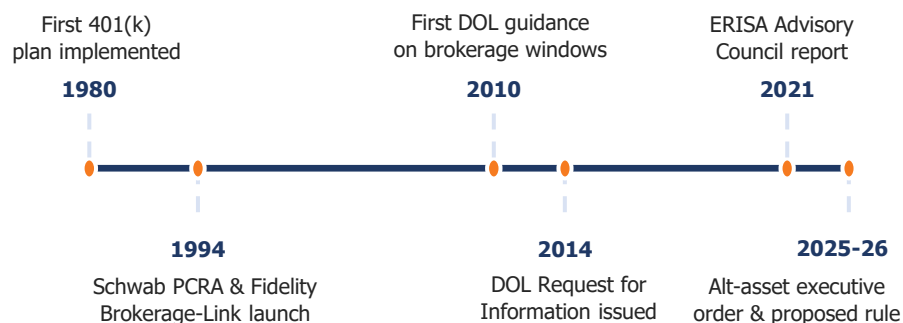
There is also the value of choice itself. Neo (from *The Matrix*) was offered two pills, and much of the scene's drama comes from being given the choice at all. Picture telling a group of target-date investors that the plan will soon offer nothing but target-date funds. Most participants would likely stay with the blue pill of a target-date fund, but many would still want to be offered the other. Some of the window's value lies in its mere availability. SDBAs can also serve as a prevailing tool for talent retention and participant engagement. However, they also introduce complex administrative and fiduciary hurdles. The critical question for sponsors: how do we offer flexibility without abandoning our duty of care?



A Three-Decade Loophole

The SDBA's lineage traces back to the earliest days of the 401(k). Following the IRS code reforms of 1978, the first 401(k) plan was implemented in 1980, and rudimentary brokerage windows were introduced shortly thereafter. The feature stayed a niche curiosity until the mass-market recordkeepers got involved. Charles Schwab and Fidelity Investments were early adopters, launching their "Personal Choice Retirement Account" and "BrokerageLink" products, respectively, in 1994.

Despite rapid commercial expansion, regulators were slow to catch up to the product. The first DOL participant disclosure rule on what constitutes a brokerage window wasn't issued until 2010, three decades after the feature existed. Rather than defining the SDBA affirmatively, the DOL defined it by exclusion, carving brokerage windows out of the definition of a "designated investment alternative" and describing them as enabling participants to select investments beyond those chosen by the plan sponsor. That exclusion, deliberate or not, is the root of most of the fiduciary ambiguity today.

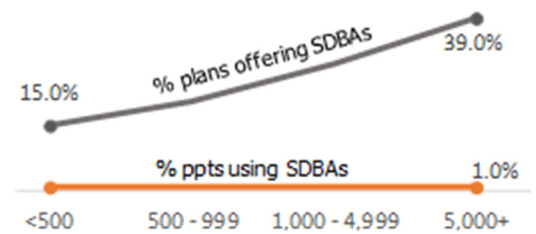


Subsequent guidance has done little to close the gap. In 2014, the agency asked whether more guidance was needed. In 2021 the ERISA Advisory Council concluded that additional regulation would cost more than the value it would deliver. The council's only recommendation was for the DOL to further study plans offering a brokerage window as the only investment option. Three decades on, the window remains governed mostly by ERISA's general standards of prudence and loyalty.

The Demographic Paradox

Vanguard's data indicates that 23% of plans (and 39% of plans with 5,000+ participants) offer a brokerage window. Yet, across the industry, only about 1% of actively employed participants use them. This presents a dilemma for plan sponsors.

A distinct profile emerges within that 1%. These participants are predominantly older, tenured, highly compensated executives. Schwab's Q2 2026 report puts the average balance at \$397k. Average trades per account reached 19.6, up from 15.4 a year earlier. Alight's data point the same way. In nearly 90% of plans that offer a window, fewer than 5% of participants use it. Only 2% of window users hold less than \$10,000, compared with nearly a third of all participants.



This data highlights a tug-of-war between HR and the fiduciary committee. For HR and finance leaders, the SDBA could be an effective executive retention tool. It keeps high-net-worth employees from rolling assets out to an IRA in search of investment flexibility and meets their desire for specialized wealth management. From a legal perspective, however, it raises an uncomfortable question. Are we absorbing plan-wide legal exposure to satisfy the bespoke demands of 1 in 100 employees? For some workforces the honest answer is yes; for others it is no, and both are defensible.

Among sponsors without a window, the leading reasons were few or no participant requests (58%), ERISA liability concerns (54%), or because it was deemed unsuitable for their workforce (40%). Among sponsors already using a brokerage window, 22% opted to retain the window simply because it existed. Once participants start investing inside the window, closing it forces them to liquidate investments they chose. That argues for an entry barrier. Is there real demand? Would a narrower fix, such as a mutual fund-only window, tiered core menu, or managed account service meet the need more effectively?

A Safe Harbor That Stops at the Window

In August 2025, Executive Order 14330 directed the Department of Labor (DOL) to develop guidance for holding alternative assets, such as private equity and digital assets, in defined contribution plans. On March 30, 2026, the DOL followed with a proposed rule creating a process-based safe harbor for fiduciaries who select designated investment alternatives (DIAs) within the core menu.

But here is the critical wrinkle. The proposal does not apply to brokerage windows.

The omission creates asymmetry. Historically, the SDBA has been the de facto "back door" for participants to access crypto, alternatives, and ESG funds not found in the core lineup. Yet, this feature where participants already buy volatile, non-traditional assets is the one left unprotected by the new regulatory shield.

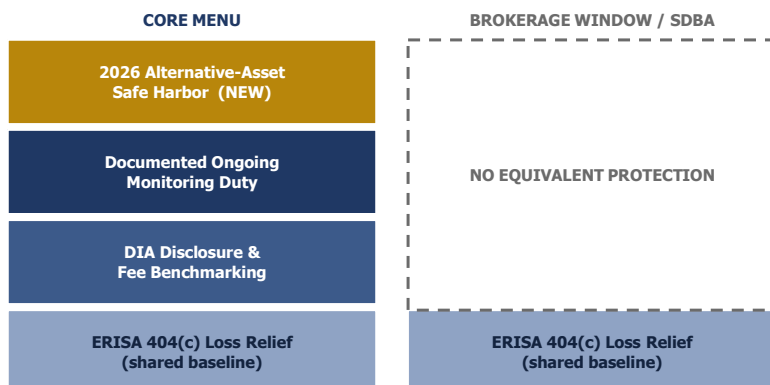
Instead, the DOL expects most alternatives exposure to arrive inside target-date funds and professionally managed accounts. Only about 4% of defined contribution plans offer alternatives, and just 0.1% of plan assets are allocated to them. The result is a two-track system. Alternatives are chosen, diligenced, and monitored by the committee on one track, and alternatives are self-selected by participants through the window on the other. A final version of the proposed rule is expected as early as Q4.

Elsewhere, due to the individualized nature of participant asset allocations, there has been little class action litigation targeting SDBA returns. However, class action litigation is emerging against broker-dealers and recordkeepers around cash sweep vehicles with below-market interest rates. Charles Schwab is defending itself against class action claims regarding its sweep accounts, and similar litigation over Merrill Edge self-direct retirement accounts (*Valelly v. Merrill Lynch*) achieved class certification in early 2026. Cash is more than a footnote in these types of accounts. Schwab reports cash and equivalents at roughly 7% of SDBA balances for 2025. These cases raise the questions: where does idle cash sit, and who keeps the spread? Merrill settled their claims for \$39 million on October 1, 2026, days before trial was due to begin.

The Limits of 404(c)

Many plan sponsors believe that ERISA Section 404(c) provides a bulletproof vest against SDBAs. It does not. While Section 404(c) can relieve fiduciaries of liability for losses resulting from participants' own control, it does not relieve the committee of the antecedent duty to prudently select and monitor the window provider, fee structure, or architectural guardrails. Even the relief 404(c) offers has edges. Practitioners note it does not extend to investments that carry a risk of loss beyond the participant's account balance, and sponsors often ask window users to acknowledge in writing that they bear the risk.

Recent litigation suggests that is where the exposure sits. In *Spence v. American Airlines*, a complaint that began with ESG funds reachable only through the window ended up pivoting to core-menu funds, and the court excluded the window from the class and the remedy. Courts have also generally treated a record-keeper's product design as separate from the sponsor's decision to offer a window. The Ninth Circuit in 2023 reversed in part a judgment for AT&T because the committee failed to show that it considered the record-keeper's compensation from BrokerageLink. Yet, even diligent fiduciaries may have difficulty assessing this.

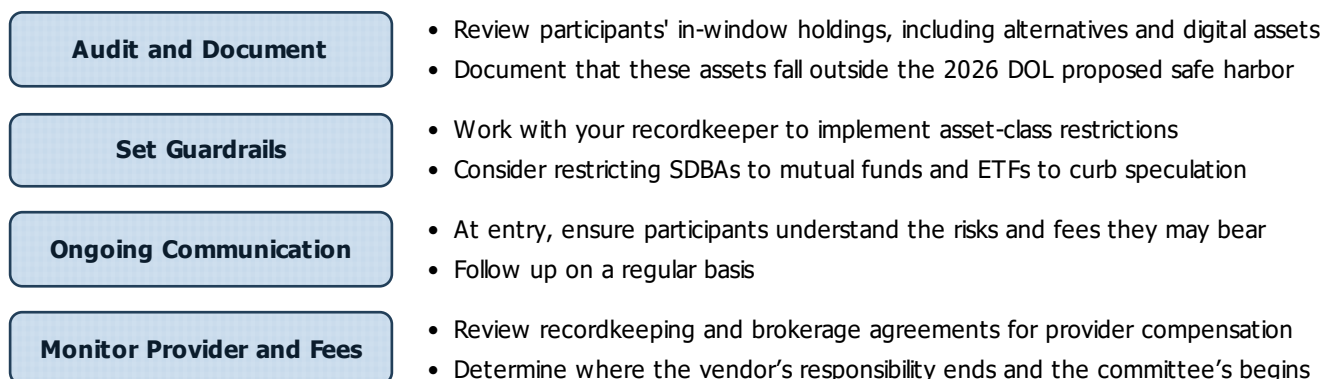


Because a brokerage window is not a designated investment alternative, administrators must explain how it works and what it costs to maintain, including a general description of trading charges. They are spared the expense-and-performance comparison required for core funds. Meanwhile, money can reach the provider through several channels, including account fees, commissions, fund expenses that may include revenue sharing, advisory fees and the yield on idle cash.

The Committee Playbook

For corporate fiduciaries, closing a brokerage window may seem like the simple, obvious solution to the potential complications they attach to a plan. However, a brokerage window can be prudent if structurally sound. Start by recognizing that a window is a dial, not a switch. Among plans that offer one, Alight's 2021 data show that 60% allow full brokerage access, 31% limit it to mutual funds and 9% to mutual funds and ETFs. More than half (54%) place no meaningful cap on how much can be allocated through the window; the most common cap is 50%.

Here is a four-stage protocol that may help fiduciaries review the appropriateness and effectiveness of a brokerage window:



A brokerage window is not a virtue nor a vice. For some workforces, it satisfies demand from key employees. For others, it introduces exposure that almost no one wants or needs. It is a choice, one that has evolved. Alternative assets are becoming easier to reach. The proposed safe harbor stops at the core menu. The days of the "unmonitored window" are over.

Whether a committee opens the side door, narrows it or keeps it shut, the choice should be deliberate, documented and revisited. Think of it as adjustable bumpers, raised or lowered to fit the workforce on the other side, and checked often enough that no one is surprised by where the ball ends up. The only failing is offering a window without due consideration.

