

Where Credit Is Due

After a few years of relative calm in the US banking sector following the Silicon Valley Bank (SVB) collapse, fresh concerns are surfacing. When several “isolated” losses occur simultaneously, investor anxiety can spread quickly. That’s the mood surrounding recent disclosures from Zions Bancorp, Western Alliance, and Jefferies Financial Group; three institutions reporting sudden credit hits tied to alleged fraud, collateral failures or exposure to collapsing borrowers. Deciphering whether these losses are truly idiosyncratic or a sign of fault lines emerging in the US economy and financial markets will be critical to the outlook moving forward.

The bank disclosures come in the immediate aftermath of the collapse of First Brands and Tricolor; two companies operating in different corners of the US automotive industry. These bankruptcies have renewed scrutiny over underwriting quality and transparency in the private credit market, which has grown rapidly in recent years and become increasingly intertwined with the traditional banking sector. It also serves as a reminder that opaque lending structures can obscure true risk until a borrower defaults.

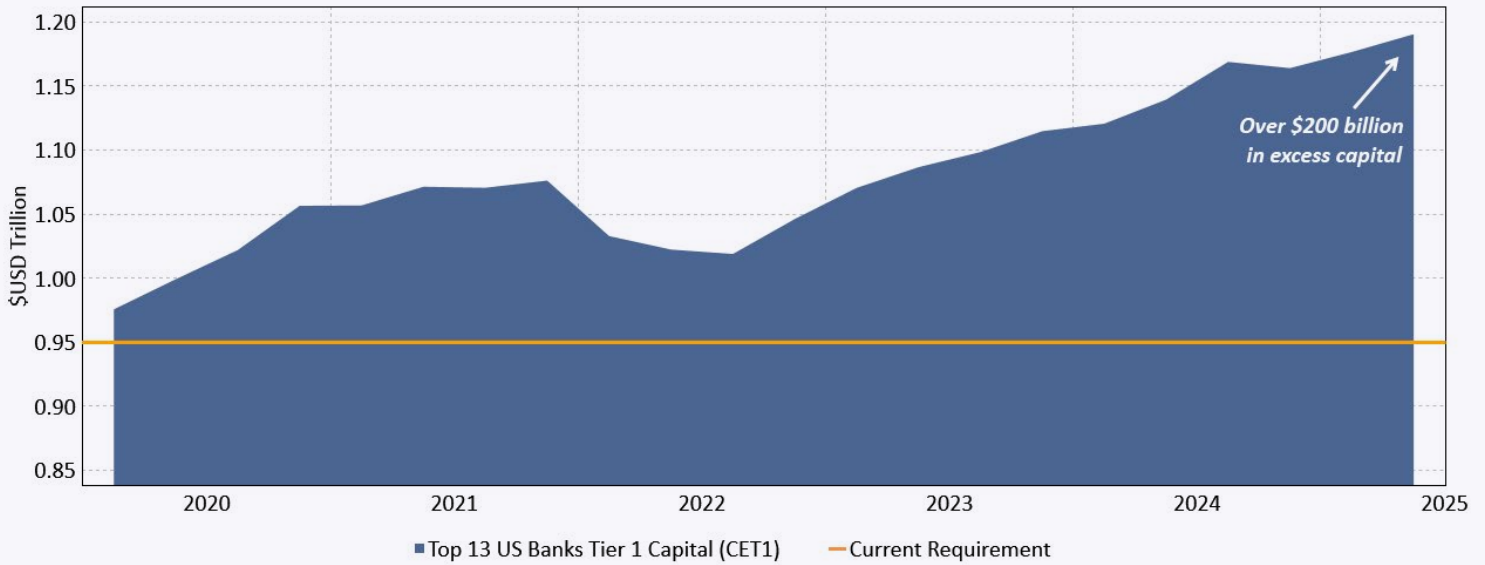
Individually, these incidents appear manageable. But taken together, they underscore an uncomfortable theme: even well-capitalized institutions are not immune to cracks forming at the intersection of bank and non-bank credit. Timing also matters. US labour market data is showing a softening trend, which dims the outlook for consumer spending in the period ahead. In a fragile macro environment, idiosyncratic shocks can quickly become systemic if they undermine trust in the soundness of smaller institutions.

While it pays to keep a keen eye on emerging risks, some further context is needed. Firstly, loan charge-offs are

common, and comparisons to the SVB ordeal in 2023 (in which multiple banks failed) are thus wide of the mark. Deposits are stable, liquidity backstops remain in place, and the Federal Reserve’s pivot toward rate cuts is easing funding costs across the system. From an economic perspective, labour market wobbles must be weighed against an accommodative monetary and fiscal policy backdrop; particularly the “One Big Beautiful Bill” which will start to have an outsized impact in 2026.

Crucially, large US banks are in solid health, even before factoring in the deregulation agenda of the current government. Despite the recent series of losses, loan loss provision ratios actually fell for most big banks this quarter. Per the chart below, the top 13 banks in the US currently have over \$200 billion in excess capital. This should continue to enable share buybacks, acquisitions and provide a safety net for the broader industry, much as large banks did during the SVB crisis, when they acted as a stabilizing backstop to prevent contagion.

So is this just another example of financial markets overreacting? Yes and no. The response to the bank credit loss disclosures was very much “sell now, ask questions later”. Considering the coincident timing, the breakneck pace of private credit growth in the US (with bank lending to private credit funds surging commensurately), its inherent opacity and the SVB collapse still fresh on the minds of investors, this jittery response is understandable. Still, perspective matters. Good investment decisions require nuance and a broader lens — tools that help strip emotion from the process. Investors are right to stay alert to excesses in private markets (we are watching closely), but it’s equally important not to lose sight of the countervailing forces at play.



Sources: Macrobond, JP Morgan, Forstrong Global Asset Management

Global Strategy Overview

Cash

The US dollar has depreciated against most major currencies this year, defying expectations that US-initiated tariffs on major trading partners would have the opposite effect. If an inflection point has been reached, the US dollar has considerable downside risk as it remains overvalued according to conventional metrics such as real effective exchange rates. A partial Canadian dollar hedge on US assets has been increased in client portfolios.

Bonds

With most major equity markets running hot this year (and outpacing their underlying fundamentals), maintaining a healthy level of fixed income exposure as portfolio ballast is warranted. However, with plentiful global liquidity, fiscal expansion in numerous major markets and continued central bank rate cuts, risk appetite should be well supported for the time being. Fixed income exposure remains modestly underweight this quarter.

Equities

Developed Asian equities have performed well year-to-date, despite their inherent export sensitivity and the impact of US tariff uncertainty. However, valuation multiples are now expensive relative to historical averages and strong momentum appears vulnerable to a reversal. We have trimmed our overweight exposure to developed Asian equities in client portfolios.

Opportunities

Gold prices have been supported by rising central bank purchases, a weak US dollar and heightened geopolitical risk. Gold remains a critical portfolio diversifier and tail risk hedge, but has become overheated in the short-term relative to most other commodities. We have elected to take some profits and trim exposure to gold in growth-oriented strategies this quarter, however remain structurally positive on the metal.

Forstrong Strategies	Inception Date	1 Month	YTD	1 Year	3 Year	5 Year	10 Years	Since Inception
Balanced								
Global Income	30/06/08	1.88%	8.85%	10.49%	11.09%	5.55%	5.33%	7.40%
Global Balanced	30/06/03	3.19%	12.83%	13.99%	13.76%	7.69%	7.11%	7.35%
Global Growth	30/06/03	3.84%	16.56%	17.89%	17.15%	10.71%	9.19%	8.70%
Canadian Income	30/06/08	1.92%	8.86%	10.14%	10.28%	5.74%	5.18%	6.46%
Canadian Balanced	30/06/03	3.48%	13.66%	14.76%	13.27%	8.54%	7.27%	7.44%
Canadian Growth	30/06/03	4.32%	18.69%	19.99%	16.67%	11.71%	9.18%	8.65%
Global Equity								
Emerging Markets Equity	31/01/19	5.30%	20.53%	16.52%	12.72%	6.87%	NA	5.40%
Global Ex-North America Equity	31/12/19	3.75%	23.45%	20.19%	19.41%	10.22%	NA	8.20%
Alternative Income								
High Income Opportunities	30/06/22	2.59%	16.83%	16.94%	14.82%	NA	NA	13.29%

* Performance as of September 30th, 2025
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