



Economic expansions, recessions and transition periods come in all shapes and sizes. For example, many people are familiar with V-shaped recoveries and L-shaped slogs. But now the financial news media is abuzz about K-shaped economies. The upper stroke of the K represents those riding policy tailwinds, asset booms and technological revolutions. The lower stroke is everyone else left behind: lower-income workers, small businesses and sectors still reliant on old-fashioned face-to-face interaction (hospitality, travel, retail and the like).

In the US, no statistic captures the mood of the lower K better than the recent University of Michigan survey showing that nearly a quarter of US consumers expect to lose their job over the next five years — a 99th percentile reading going back to when this data was first gathered in 1997.

People are enormously insecure about their jobs, yet stock markets keep clocking fresh all-time highs. Why are markets so emboldened in a world offering so many reasons not to be? It's puzzling, but one reason is that the mantra of the K-shapers is that "the stock market is not the economy."

Of course, K shapes and other incongruities cannot continue forever. Looking ahead into 2026, 3 scenarios stand out: continued K-shaped divergence (sustainable for only so long), a recession affecting even top performers (causing a

stock market downturn), or an economic rebound that lifts Main Street too. For a deeper dive, please see our recent [Ask Forstrong: What's So Special About The K-Shaped Economy?](#)

This is undoubtedly tricky terrain. K shapes and contradictions are everywhere. Trump's policy agenda appears to be simultaneously jarring and oddly inconsequential. The Eurozone's periphery once was viewed as a perpetual laggard and now it's leading the charge. The tech sector was once celebrated for its capex-light business model. That's now gone into reverse. Markets feel euphoric yet uneasy — a bull market that constantly looks over its own shoulder. It's an environment ripe for error.

What is likely to be the deciding factor? Our vote would be the shift from monetary easing to fiscal expansion. In recent years, the former has arguably been more effective at inflating asset prices while the latter has done a better job of stimulating the real economy (the lower K). With major government spending initiatives set to take effect in 2026, the ominous signal from the lower K should start to abate.

## Cash and Currencies

### Cash and gold bullion as stabilizers

- 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.
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## Global Equities

### Maintaining overweight equity positioning

- Fiscal stimulus from numerous major economies is the key variable heading into 2026, as a reflationary environment should support corporate earnings.
- However, the strong performance of global equity markets this year has outpaced fundamentals, causing a deterioration in valuation multiples and elevated downside risk.
- We remain moderately overweight equity exposure in client portfolios.

### Liquidating US bank equities

- US bank equities have been the beneficiaries of a resilient US economy, reduced regulatory uncertainty following the Silicon Valley Bank collapse and a pivot towards deregulation under the Trump administration.
  - However, following 2 years of strong performance, valuations have deteriorated, a shaky labour market has raised questions about US consumer health and warning signs are emerging from private credit exposure.
  - We have elected to take profits on US bank equities and invest the proceeds back into “core” broad market US equity positions this quarter.
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## Global Fixed Income

### Staying modestly underweight fixed income

- Global fixed income markets are light on attractive opportunities, as relatively flat yield curves caution against taking duration risk, while tight credit spreads weigh on corporate bond upside potential.
- Widening fiscal deficits will likely not help matters, from both a quality and net issuance perspective.
- Fixed income exposure remains modestly underweight this quarter.

### Increasing EM debt overweight

- Local currency EM sovereign bonds have numerous tailwinds, including much higher real interest rates than comparable developed market bonds, benign inflationary pressure in most nations and the return of foreign investor flows after a multi-year exodus.
- Additionally, US Federal Reserve rate cuts and US dollar weakness provide a greater degree of monetary policy flexibility for EM central banks.
- EM debt exposure remains overweight and has been modestly increased this quarter.

## Opportunity Investment Highlights

### Initiating copper miner equities

- Copper prices should be supported by a multitude of factors including a weakening US dollar, electrical grid enhancements, data center demand, electric vehicle proliferation and a reflationary environment underpinned by fiscal expansion in major nations worldwide.
- Accordingly, copper mining companies should be the beneficiaries of continued M&A activity, rising earnings and increasing flexibility in deploying free cash flow (capex, buybacks, dividends, etc.)
- We have initiated a position in global copper miner equities in balanced and growth-oriented strategies this quarter.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
<b>NET GLOBAL ASSET MIX</b>				
Cash		✓		– Unchanged
Total Equity			✓	– Unchanged
Total Fixed Income	✓			– Unchanged
Commodities			✓	– Unchanged
<b>CANADA INVESTMENTS</b>				
Bonds		✓		– Unchanged
Stocks		✓		↑ Increased
<b>U.S. INVESTMENTS</b>				
Bonds	✓			↑ Increased
Stocks	✓			↑ Increased
<b>INTERNATIONAL INVESTMENTS</b>				
Bonds	✓			– Unchanged
Stocks			✓	↓ Decreased

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