



With the first half of 2026 fraught with headline risk, those hoping for a smoother ride in the third quarter were left disappointed. Renewed hostilities in the Middle East pushed energy costs higher, fanning inflationary pressure and complicating the task facing central bankers. The US Federal Reserve and European Central Bank raised interest rates, while longer-term bond yields have climbed to levels rarely seen over the past two decades. Viewed in isolation, this hardly sounds like a welcoming environment for risk assets. Yet corporate earnings have been doing considerably more than simply weathering the storm.

The apparent contradiction deserves scrutiny. Investors became accustomed to an economic regime in the post-global financial crisis era where subdued growth and inflation led to ultra-low interest rates and rising yields threatened to upset the arrangement. Monetary accommodation became central to the investment case for almost everything. But applying that framework today risks misreading a shifting economic environment supported by a very different set of growth drivers.

Corporate profits offer a useful starting point. Recent earnings seasons have delivered substantial growth across major markets, with companies repeatedly exceeding expectations. Technology remains a powerful contributor, but the strength has not been confined to a handful of American mega-caps. European companies

and Asian exporters are also participating. Higher energy prices and some exceptional gains have flattered headline figures, but the underlying picture remains constructive. Rising revenues and healthy profit margins provide a firmer foundation for equities than a dependence on cheap financing.

Looking ahead, fiscal spending and corporate capital expenditures should continue to reinforce demand. Governments are investing in defence, infrastructure, energy security and domestic industrial capacity. These priorities are unlikely to disappear with the next central bank announcement. Meanwhile, the artificial intelligence buildout continues to generate enormous demand for computing capacity and the physical infrastructure required to support it.

Importantly, one company's capital expenditure becomes another company's revenue. Spending by technology platforms flows into semiconductor orders, electrical equipment, construction, cooling systems and power generation. Public infrastructure programmes create similar linkages across industries. The investment cycle's economic reach thus extends well beyond the companies dominating AI headlines.

Where do higher bond yields fit into this picture? Relative to the past decade or two, current yields look elevated. But viewed over a longer history, they are considerably less unusual. An economy

experiencing firm nominal growth, persistent inflation and strong demand for investment capital should not be expected to have the same borrowing costs as one characterized by subdued inflation and more modest investment spending.

That does not make higher yields painless. As financing costs rise, valuation multiples can come under pressure and heavily indebted businesses become more vulnerable. However, equities can accommodate higher yields when earnings are growing sufficiently to offset some of that pressure. The relationship depends on what is driving yields, not simply where they stand.

The important caveat is that an orderly adjustment can quickly become a disorderly one. A bond sell-off driven by deteriorating fiscal credibility or

unanchored inflation expectations would offer little corresponding benefit to corporate earnings. An abrupt tightening in financial conditions could overwhelm otherwise healthy fundamentals. A prolonged energy shock would also erode purchasing power and squeeze margins, particularly in energy-importing economies. We continue to closely monitor these risks.

On balance, we remain relatively upbeat on global equities and pro-cyclical commodities. The earnings and investment cycles supporting this expansion have not run their course. But optimism should not be confused with complacency. Diversification and portfolio hedges remain essential as headline risk stays elevated and markets remain sensitive to sharp moves in bond yields and any signs of weakening corporate or government spending.

Cash and Currencies

Replacing HISA with money market exposure

- Numerous ETF options are available to boost strategy yield on cash and equivalent holdings.
- The yield on our current preferred exposure (a high interest savings account (HISA) ETF) has recently begun to trail behind money market ETF exposures, despite having a similar risk profile.
- We have modified our cash and equivalents composition this quarter; liquidating the HISA exposure and initiating a money market exposure.

Global Equities

Switching to high dividend EAFE equities

- Previously, the gap in dividend yields between market capitalization-weighted and high dividend developed market international equities was relatively small.

- With recent stellar performance, the dividend yield on market-capitalization weighted international equities has receded; necessitating a switch for income-oriented strategies.
- We have liquidated market-capitalization weighted international equities and initiated high dividend international equities in income-oriented strategies this quarter.

Liquidating Chinese onshore “A share” equities

- China’s economic picture remains uneven: domestic demand continues to lag, even as exports and manufacturing remain strong.
 - Government priorities have become more skewed toward technological self-sufficiency rather than domestic demand reflation, raising the bar for the large, decisive stimulus that would typically help re-rate the onshore equity market.
 - We have liquidated our exposure to onshore Chinese “A share” equities and invested the proceeds into a “core” broad emerging markets equity position in balanced and growth-oriented strategies this quarter.
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Global Fixed Income

Maintaining underweight and short duration fixed income positioning

- In an environment of robust growth and sticky inflation, we expect the “path of least resistance” for long-term bond yields to be higher, even after a period of acute upwards pressure.
 - While long-term bonds can enhance portfolio income generation, short-term bond yields are also grinding higher alongside central bank rate hikes, making the added interest rate risk at the long end of the curve even less attractive.
 - We have maintained our underweight and short duration fixed income positioning this quarter.
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Opportunity Investment Highlights

Initiating gold miner equities

- Elevated gold prices are translating into wider margins and stronger free cash flow for major gold mining companies, supporting dividends, buybacks and balance sheet improvement.
- Constrained mine supply and improved capital discipline also support the gold majors, which provide a higher beta exposure to our structural gold investment thesis.
- We have initiated a position in gold mining equities in growth-oriented strategies this quarter.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
NET GLOBAL ASSET MIX				
Cash		⬇		⬇ Decreased
Total Equity			⬇	⬆ Increased
Total Fixed Income	⬇			➡ Unchanged
Commodities			⬇	➡ Unchanged
CANADA INVESTMENTS				
Bonds		⬇		➡ Unchanged
Stocks		⬇		➡ Unchanged
U.S. INVESTMENTS				
Bonds	⬇			➡ Unchanged
Stocks	⬇			➡ Unchanged
INTERNATIONAL INVESTMENTS				
Bonds	⬇			⬆ Increased
Stocks			⬇	⬆ Increased

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