

Q3 2026 Newsletter

As we sit down to write this Newsletter on the last day of the Third Quarter (September 30), we hope that you were able to enjoy Summer's sunshine and our relatively little lack of smoke this year. We did consider playing a joke on you! After re-reading our Second Quarter Newsletter, we considered printing it word for word and re-titling it "3rd Quarter Newsletter". After all, so little has changed since then. To recap that Newsletter, we stated that despite the Ukraine war continuing and the new Iranian war starting, and despite inflation rising above 4% causing the Fed to "cancel" its three proposed interest rate reductions, we might have expected to see markets decline. Instead the S&P/TSX recorded a gain of +11.2% over the first six months of the year while recording 12 record closes along the way. The S&P 500 returned +10.2% in the first six months while recording 24 all-time high closes. The Nasdaq recorded a +12.69% return.

So, what has happened since then? As it turns out: not very much. What did occur might be deemed negative when considering the increasing tariff war prompted by the U.S., and the U.S. Federal Reserve (FED) abandoning its course of interest rate cuts in favour of raising rates in September. (Expectations are now that the Fed will raise rates three more times in the next 12 months). Despite this, world markets have not fallen apart. Here is a comparison of market returns, then and now:

	S&P/TSX	S&P 500	Nasdaq
As of June 30, 2026:	+11.2%	+10.2%	+12.69%
As of Sept. 30, 2026:	+12.9%	+12.7%	+15.57%
3rd Qtr Increase:	+1.7%	+2.5%	+2.88%

In our Second Quarter Newsletter we stated that we believed we were in a longer-term bull market that would last until 2030, but that we would likely face headwinds in the months preceding the US mid-term elections this year. This may or may not be playing out now, but we stand by our previous prediction and continue to believe that 2026 will end with markets higher than they are now.

As usual, this Newsletter will outline the trades that we made in client portfolios in the

Pipe, Lok and Cheung Wealth Management
BMO Nesbitt Burns
www.PLCwealth.ca


Tel: 604-443-1520
Jim.Pipe@nbpcd.com


Tel: 604-443-1591
Wendy.Lok@nbpcd.com


Tel: 604-443-1606
Ricky.Cheung@nbpcd.com


Tel: 604-443-1602
Crystal.AuYeung@nbpcd.com


Tel: 778-327-5227
Sara.DiazCranage@nbpcd.com

Third Quarter and will discuss the market returns year-to-date. Because our current outlook mirrors what we wrote in the 2nd Quarter Newsletter, we will take this opportunity to outline our general philosophy in managing your money and how we manage risk, not just overall return.

Your Portfolio and Performance Reports are attached.

3rd Quarter Trades in Managed Portfolio Accounts

During the Third Quarter we made several trades which included selling Netflix, Thomson Reuters, WSP Global, Tourmaline and Corteva. We also trimmed Bank of America, Eli Lilly, and Morgan Stanley. We bought Canadian Energy stock Suncor and we added to Peyto, as well as MDA (Canadian space) and US Health stock CVS. The result of these trades was to increase cash in accounts by 6 to 7%. Despite our belief that world markets will end the year higher than they were on July 1, we heeded the signals from past mid-term elections whereby markets have fallen (sometimes substantially) in the months preceding the elections. This cash will give us the opportunity to buy equity if this were to happen again.

We take a little more risk in Tax Free Savings Accounts and tend to keep those accounts fully invested. Aside from the stock sales noted above, we also sold Chemours in TFSA's, but we also bought Micron, Peyto, Suncor, GE Vernova and Keyera. (Peyto, Suncor and Keyera are Canadian Energy stocks).

3rd Quarter and Year to Date Returns in MPA Accounts[1]

We underperformed the markets in the 3rd Quarter which has dragged down year-to-date returns to a level of 7-8% in Growth mandated accounts and 5.5%-6.5% in Balanced Accounts. In the Third Quarter, MPA accounts in general lost 2-3% and at first, we couldn't understand this. The answer soon became apparent. Increasingly, the market is running on one engine: a familiar cast of tech companies (The Magnificent Seven) that are building out and benefiting from the AI revolution. Just about everything else has been going down. While the S&P 500 and NASDAQ are blowing past new closing records almost every day! The majority of US stocks are suffering from rising interest rates and $100 a barrel of oil.

These results are summarized as follows:
Accounts over $250K:

	Q3 2026	Year-to-Date 2026
MPA Growth (Non-Registered)	-2.33% to -1.88%	+7.02% to +8.14%
MPA Growth (Registered)	-3.06% to -2.74%	+6.83% to +7.85%
MPA Balanced (Non-Registered)	-1.69% to -0.87%	+5.45% to +7.56%
MPA Balanced (Registered)	-2.21% to -1.99%	+5.33% to +5.88%

[1] The performance figures exclude TFSA and smaller accounts. Please refer to your performance reports for the return figures of your accounts.

Why is this affecting the accounts that we manage? There are two reasons:

1. The Magnificent Seven and Technology companies in general now make up almost 40% of the S&P 500. We have been warning for two years about the dangers of the concentration of those seven companies in the S&P 500. As a matter of managing risk, we have slowly reduced that concentration to about 20% in our portfolios, so that these Technology holdings are approximately half of what they are in the US Index. If the S&P 500 excluded the Magnificent Seven and related Technology companies, the 2026 year-to-date return for the Index would be only 2.9%, not 12.7%.

   We don't believe that the Magnificent Seven can continue to dominate the market forever. Obviously, we were too early in our call. Our MPA portfolios are widely diversified including shares of Healthcare firms, Banks, Consumer Staple companies and other blue-chip companies like those in the Dow Industrials. These sectors all declined in the Third Quarter as the headlines screamed "Market Records" due to the performance of those seven stocks. The outstanding returns of the Magnificent Seven has camouflaged what has really happened in the markets as we approach the US mid-term elections.

   The AI powerhouses have grown so vast and the momentum behind AI's build-out so relentless, that many investors see these stocks as immune to the effects of higher interest rates. The big Tech companies including Alphabet, Amazon, Microsoft, Broadcom, and Apple (and we all own all of these companies) have been traditionally known as cash-rich and debt free companies that can keep growing even when borrowing and diesel costs rise. This is not the case for the rest of the 493 companies that comprise the S&P 500 which poses both a risk and a dilemma for investors.

2. The second reason for our underperformance is that we are not 100% invested in equities. As the market reached new highs, it would have been optimal to have been 100% invested, and particularly in the seven companies mentioned above.

   We are disappointed in our year-to-date results when compared to the S&P 500's stated return, but we understand why we apparently underperformed and we stand by our emphasis on risk management rather than total return as we approach the US mid-term elections.

Debunking The Myths of Scary Headlines

Consider the scary headlines that we, as investors, have had to endure in 2026:

- Inflation is sticky with the headline rates above +3.4%.
- Trump bombs IRAN, starting a war that shut down the strait of Hormuz and oil prices rise above $100/barrel.
- The Ukrainian War escalates with Russia bombing Kiev with impunity.
- With all of the wars, the US is short of patriot missiles which are necessary to defend itself.
- The U.S. 10-year Treasury yield is above 5%.
- The Summer scare over Artificial Intelligence dragged the Nasdaq to the edge of correction in August.

- The US. Federal Reserve has reversed policy from reducing interest rates to raising them.

Surely there are more spooky headlines if we looked, but despite all these negatives, the S&P 500 has closed at a record high 27 times this year and traded up over +12% year to date as of September 30. So, either the market is dangerously naive, or the permanent bears are missing something structural here. What could that something be? We believe that there are three facets to the structure of the current market.

1. Trading the headlines is a fool's errand. The most important thing for us to remember is that the markets are discounting machines. Investors often think they have found an edge in some scary article, but it vanishes as soon as it was published. Markets don't trade on what is happening now. They trade on what is expected to happen next, measured against what is already priced in. By the time a risk is on the front page and trending in your news feed, it has stopped being news. It became a consensus, and consensus is already "priced in" to the market. As BMO's former strategist, Don Coxe, used to say: "Don't read the headlines for what is likely to move the market next. The market has already moved. Read the news on 'page 16'."

   Consider one of the trendiest worries in public debate today: The monstrous debt of the US government. The deficit recently rose above $US 40 trillion, which is costing the government almost US $ 4 billion interest payments per day. Investors have read these same headlines for the better part of 15 years, and if they had avoided the market for that time, their retirements would be now in peril. We don't mean to belittle the US deficit problem, as it cannot go on forever. It is unlikely to be a crisis however in the investment years that we have left, and life goes on. It could likely be a problem for our children, however. Later in this newsletter, we'll take a closer look at US government debt, why it continues to attract so much attention, and how we think investors can best put these concerns into perspective.

2. Here is the second pillar, which determines where prices go next. Over any horizon, stock prices follow earnings, specifically the market's best estimate of profits over the coming year. Until something dents that outlook, the path of least resistance is higher.

   So what is the outlook for earnings today? It is booming. In the second-quarter 2026 reporting season, 86% of S&P 500 companies beat estimates with an average profit growth of 30%. Here is the interesting part. The S&P 500 traded at a price/earnings (P/E) multiple of approximately 23x in January of this year. As the index kept setting records, the forward P/E multiple FELL from 23 to approximately 20 times now.[2] The multiple didn't expand because increased earnings outran the share prices chasing them. (The "E" of the price/earnings ratio rose, making the ratio smaller). For the bears who believe that markets will implode like they did in the year 2000 technology bubble, there is a very large difference. A record-high index trading on a shrinking multiple as it is today, is the opposite of 1999. The engine driving the markets today is profits (or the "E" of "P/E"). In 1999, it was an expansion of the multiple built on hope and false beliefs of "concept" companies with no earnings. (Back then, the "P" or prices of stocks rose while the "E" declined, or was 0).

[2] Factset Earnings Insight Q3 2026

Naturally, this concept cuts both ways. In the future, the day will come when forward price estimates roll over, and investor optimism will turn dangerous. This is a signal our team watches far more closely than any political headline. Right now, the earnings trend still points upward, so we stay constructive, we stay awake and we read the news on "page 16".

3. The third pillar gets the least attention and may matter the most. It is technical and boring so we will be brief!

   The US Federal Reserve reversed course and increased interest rates in September for the first time in three years. Yet at the same time, the FED reaffirmed its policy of keeping bank reserves "ample" as it continued to add treasury bills to its balance sheet. In other words, the price of money (interest rates) increased, while its quantity of reserves continued to grow. When the FED adds reserves, it expands the banking system's capacity to lend, and that credit feeds the real economy with increasing bank loans to fund corporate growth. A good share of the Fed's added reserves also ends up in equities. Money is the oxygen of a bull market, so as long as reserves stay abundant, the banks keep lending against them. This is why the "valuations are too high, so stocks must fall" argument has failed for four years running. Valuation is a terrible prediction tool. Liquidity is the variable that actually moves cash into equities, and currently it is flowing.

The Math that Favours Investor Optimism

The previous three points address the overall plumbing behind the market, but there is one piece that ties them together and suggests how we, as investors, should weigh risk. In short, permanent pessimism carries a negative expected return. The reason is the market's long-term upward drift. After all, in the beginning, indices all started at "0". Since 1928, the S&P 500 and its predecessors have finished the year higher in 73% of all years. (72 years up and 26 years down). To be structurally bearish is to bet, year after year against an outcome that shows up almost three times in four. As well, history shows that "up" years have delivered far greater gains than "down" years have inflicted losses. The drift is real; it is powerful, and it grinds against anyone positioned for permanent catastrophe.

We are not saying that risk is a myth. It is very real. But anyone who sells into panic, has to be right about the timing of a rare event, then right again about when to climb back into the market. The pessimist must make two hard calls, while the optimist, who rides out a correction, makes none. This asymmetry is the arithmetic behind why investor optimism wins. For those who maintain a steady state of optimism, the default positioning lines up with a century of data.

Being structurally optimistic doesn't mean that we close our eyes to risk that may be lurking on "page 16". It means participating in the drift while managing the downside with rules instead of emotions. This is a long-winded way of explaining why we are not currently 100% invested in equities despite the fact that we believe the markets will end the year higher than they are today. We are managing risk by keeping some powder dry in the case of a market correction preceding the U.S. mid-term elections. After all this has happened a majority of times leading up to the mid-terms in the past century.

Pullbacks are normal. They are the price of admission for the opportunity to participate in long-term growth and what Einstein called the 8th wonder of the world: the magic of compounding.

The U.S. Government Debt Question: Should Investors Be Concerned?

Clients have likely seen headlines about U.S. government debt surpassing $40 trillion and may be wondering what that means for your investments. While the number is certainly large, we believe it is important to look beyond the headlines and understand the broader picture.

The U.S. government has spent more than it collects in revenue for many years, financing the difference through borrowing. While this has resulted in a significant debt burden, the United States occupies a unique position in the global financial system that has allowed it to continue borrowing without experiencing the kinds of debt crises seen elsewhere, such as in France currently.

A big part of the story is the unique role of the U.S. dollar. Since World War II, it has served as the world's primary reserve currency and remains the most widely used currency in global trade, finance, and central bank reserves. As a result, governments, institutions, and investors around the world continue to hold substantial amounts of U.S. dollars and U.S. government bonds.

While many have predicted the decline of the U.S. dollar over the years, no alternative currency has yet matched the size, liquidity, stability, and global acceptance of U.S. financial markets. Although currencies such as the euro and China's renminbi continue to grow in importance, the U.S. dollar remains the cornerstone of the global financial system, and U.S. Treasury bonds remain among the world's most trusted investments.

The United States also benefits from several other important advantages. It borrows almost entirely in its own currency, giving it greater financial flexibility than countries that rely on foreign-currency debt. In addition, the U.S. economy remains one of the largest and most innovative globally, supported by a strong entrepreneurial culture and its ability to attract talent and capital from around the world.

None of these mean that debt can grow indefinitely without consequences. Over time, higher debt levels can put upward pressure on interest rates, increase government borrowing costs, and consume a larger share of government revenues through interest payments. The key issue is generally not whether the U.S. can continue borrowing, but rather the price investors will demand to keep lending to it.

What Does This Mean for Investors?

This is ultimately the question that matters most. While concerns surrounding U.S. government debt frequently dominate financial headlines, investors should remember that owning a U.S. Treasury bond and owning a great American business are two very different things.

Many U.S. companies operate globally, generate substantial revenues outside the United States, and possess durable competitive advantages developed over decades. Companies such as Microsoft, Apple, Visa, Nvidia, Alphabet, and Amazon derive their value primarily from their products, services, innovation,

and management execution rather than from the fiscal position of the U.S. government. Over the past several decades, U.S. government debt has risen steadily, yet many leading U.S. companies have continued to grow revenues, expand globally, and compound earnings at attractive rates.

While rising government debt can influence interest rates, inflation expectations, and market sentiment, long-term investment returns have traditionally been driven far more by business fundamentals than by debt-related headlines. Periods of fiscal uncertainty have come and gone, yet many high-quality businesses have continued to grow and reward patient investors.

Our View

We continue to monitor U.S. debt levels and fiscal trends closely. However, we do not currently view the situation as an immediate threat to our long-term investment outlook. The United States still benefits from deep capital markets, the world's leading reserve currency, a dynamic private sector, and many of the most innovative companies in the world.

While debt levels deserve attention, we believe investors are generally best served by staying focused on high-quality businesses, maintaining appropriate diversification, and keeping a long-term perspective. History suggests that long-term wealth creation comes not from reacting to the latest headline, but from remaining invested in businesses that can grow and create value over time.

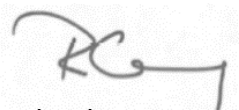
Summary

We positioned clients' portfolios conservatively heading into the third quarter, as equity markets have historically experienced increased volatility in the weeks leading up to U.S. mid-term elections. Despite a steady stream of challenging headlines this year, markets have remained remarkably resilient. While headlines can often feel unsettling, we believe it is important to stay focused on the factors that drive markets over time. Corporate earnings remain strong, liquidity remains supportive, and history continues to favour patient, disciplined investors. As we move into the fourth quarter, which has traditionally been a favorable period for equities, we remain cautiously optimistic. We will continue to monitor developments closely while maintaining flexibility to selectively deploy our cash reserves as compelling opportunities emerge.

As always, we look forward to hearing from you and look forward to speaking with you soon.

Sincerely,





J.S. (Jim) Pipe B. Comm, MBA, CMA
Senior Portfolio Manager, Senior Investment Advisor
(604) 443-1520

Ricky Cheung MBA
Portfolio Manager, Senior Investment Advisor
(604) 443-1606



Wendy Lok B. Comm, CIM, FMA
Associate Portfolio Manager &
Senior Investment Associate
(604) 443-1591



Crystal Au-Yeung B.A.
Senior Associate
(604) 443-1602



Sara Diaz Cranage
Associate
(778) 327-5227

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