Quarterly Portfolio Management Commentary



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"Successful investing is about managing risk, not avoiding it."

- Benjamin Graham

At MaxWealth, our goal is something different: to construct resilient portfolios grounded in evidence, designed to help you achieve your long-term financial objectives — in any market environment.

Executive Summary

Index returns were relatively modest during the third quarter, but beneath the surface, market leadership changed considerably. Inflation moved higher, bond yields rose, and leadership became increasingly concentrated in energy, materials, and selected technology companies. While the headlines suggested a calm quarter, market internals told a more nuanced story.

Three developments that were particularly important to investors during the quarter:

1. **Energy Reasserts Leadership.** The resurgence of Middle East geopolitical tensions — particularly escalating Houthi attacks on Saudi infrastructure and Iran's threats to restrict shipping through the Strait of Hormuz — sent crude oil prices surging, with WTI regularly trading in the $89–$103/barrel range and Brent approaching $110 per barrel. Canadian energy stocks were the primary beneficiaries. The iShares S&P/TSX Capped Energy ETF (XEG.TO) returned an extraordinary +18.2% in Q3 alone, making energy one of the strongest performing sectors this year.
2. **The Return of Inflation.** After a period of disinflation in late 2025 and early 2026, consumer prices re-accelerated. Canada's headline CPI climbed to 3.1% in September, while U.S. inflation reached 3.7% — both well above the respective 2% targets. Markets increasingly expect additional tightening from the Bank of Canada.
3. **Rising Yields Hurt Rate-Sensitive Assets.** The U.S. 10-year Treasury yield climbed toward 5.1–5.3% — a level not seen since 2002 — dragging Canadian yields higher alongside it. The result was a challenging quarter for fixed income: the iShares Core Canadian Universe Bond ETF (XBB.TO) fell -3.1% in Q3. Canadian Real Estate Investment Trusts (REITs) declined -7.2%, while utilities retreated -7.3%, as investors rotated away from yield-sensitive instruments. Despite the volatility, year-to-date results remain strong. Canadian equities are up approximately +13–14% through Q3, the S&P 500 has gained approximately +13% in USD terms, and the MSCI EAFE Index (hedged to CAD) has advanced approximately +12–13%. Diversified portfolios with meaningful energy exposure have been well-rewarded, while those with heavy long-duration bond allocations faced headwinds.Our weight-of-the-evidence investment process continues to guide positioning. As we enter Q4 2026, we remain positive on equities with a bias toward energy and value, underweight long-duration fixed income, and attentive to the geopolitical and fiscal risks that could alter the landscape quickly.

1. Global Market Review

Chart 1: Q3 2026 Asset Class Performance (Indexed to 100)

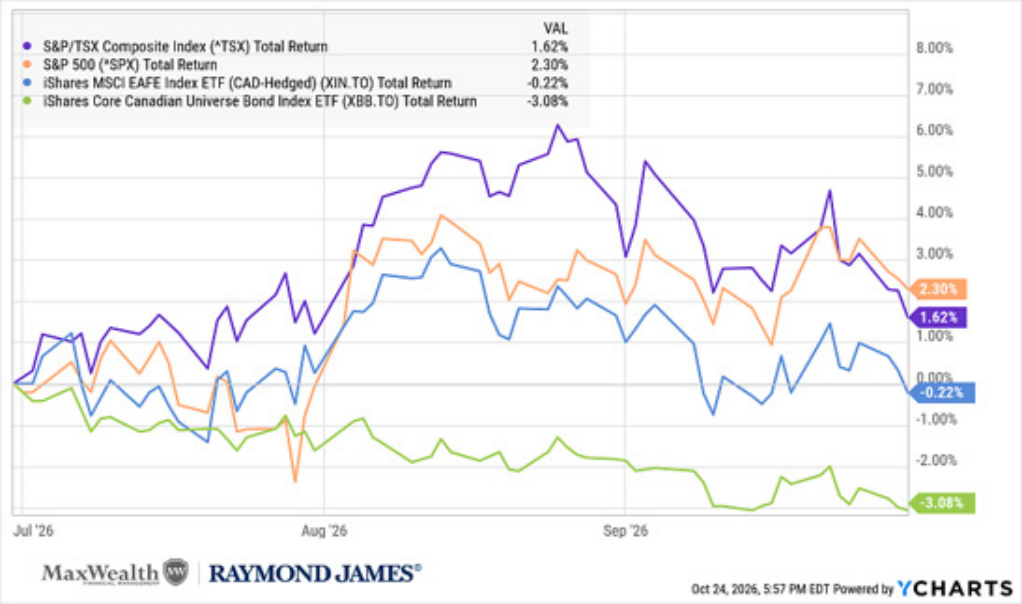

Chart 1 illustrates the total return paths for the S&P/TSX Composite, the S&P 500, the MSCI EAFE (CAD-hedged), and the Canadian Bond Universe during Q3 2026. Equities peaked in mid-August before consolidating, while bonds trended lower throughout the quarter as yields rose.

Chart 2: YTD 2026 — Global Market Performance

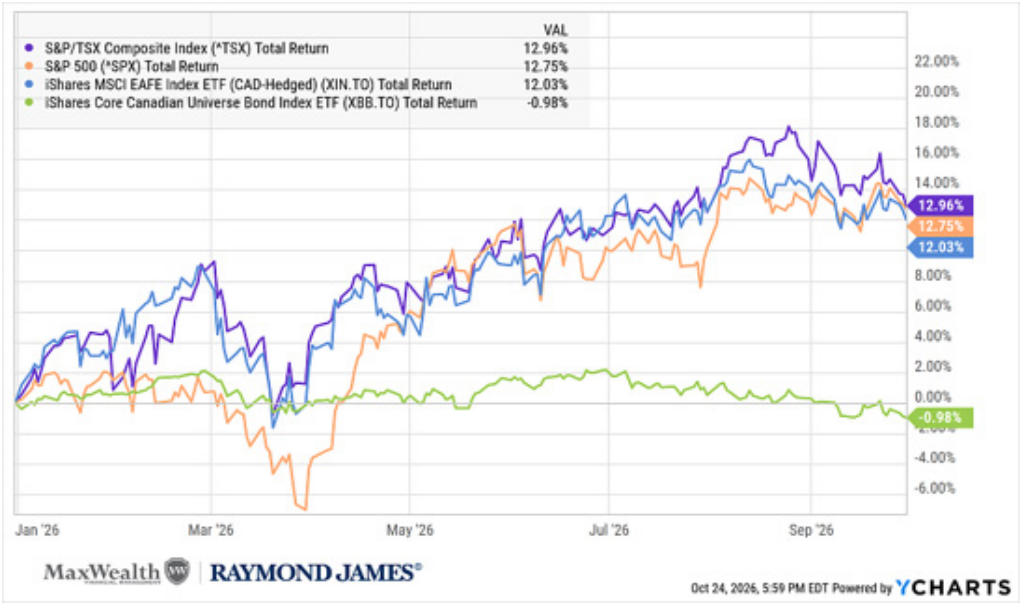

Chart 2 shows the year-to-date return picture through the end of Q3. All three major equity regions have delivered double-digit returns, while Canadian bonds have struggled in the rising rate environment.

Asset Class	Proxy	Q3 2026 Return	YTD 2026 Return (Approx.)
Canadian Equities	^TSX	+1.6%	~+13.7%
U.S. Equities (USD)	^SPX	+2.3%	~+13.0%
U.S. Equities (CAD)	ZSP.TO	+2.7%	~+12-13%
International Equities (CAD-Hedge)	XIN.TO	-0.2%	~+12.6%
Canadian Bonds (Universe)	XBB.TO	-3.1%	~-0.7%
Canadian REITs	ZRE.TO	-7.2%	~+5.0%

Canada

The Canadian economy entered Q3 2026 on a firmer footing than expected, with second-quarter GDP growth tracking at approximately 2.0% annualized — a resilient outcome in the face of ongoing trade uncertainty. However, the IMF maintained its modest 2026 GDP growth forecast of 1.1% for Canada, reflecting expectations that the second half of the year will be materially weaker, as U.S. Section 338 tariffs weigh on activity and business investment slows.

The Canada Investment Summit hosted in September reinforced Canada's growing emphasis on attracting private investment in infrastructure, energy, advanced manufacturing, artificial intelligence, and critical minerals. While these investments will take time to influence economic activity directly, they support a constructive long-term outlook for select Canadian sectors.[1]

The TSX's modest Q3 gain masked a strikingly bifurcated market. Energy stocks surged as oil prices responded to Middle East supply disruptions, lifting the TSX above its weight. Meanwhile, financials fell -3.1% and utilities declined -7.3% as rising bond yields compressed valuations in rate-sensitive sectors. Investors monitoring the Canadian banking sector are watching closely for early signs of credit deterioration as higher rates begin to weigh on mortgage renewals and consumer balance sheets.

On monetary policy, the Bank of Canada faces a genuinely difficult choice. Canada's core inflation remains relatively contained at approximately 2.1%, but headline CPI at 3.1% — primarily driven by energy prices — and hawkish commentary from Governor Tiff Macklem have markets anticipating a 25-basis-point hike at the October 28th meeting, which would bring the overnight rate to approximately 2.50%. The Canadian dollar has strengthened on these expectations, with USD/CAD trading around 1.40–1.42.

United States

The S&P 500's +2.3% Q3 gain was punctuated by considerable volatility. The quarter saw a mid-July technology-driven sell-off, a powerful August recovery led by renewed AI optimism, and a September consolidation as Treasury yields climbed toward multi-decade highs. The U.S. 10-year Treasury yield reached 5.1–5.25% by quarter-end — its highest level since approximately 2002.

Corporate earnings provided a constructive offset: Q3 2026 results coming in through October have broadly exceeded expectations, with companies including 3M, Equifax, and Hasbro raising guidance. However, investors continue to reconcile strong corporate earnings with rising government borrowing needs.

The Federal Reserve remains in a difficult position. Dallas Fed President Lorie Logan articulated that "another 50 basis points of hikes may be needed," while other FOMC members have signalled a more cautious, data-dependent approach. Markets are pricing a high probability of at least one additional hike before year-end, likely in December.

Consumer confidence, as measured by the University of Michigan, fell to 48.0 in October — a deeply subdued reading that reflects household concerns about energy costs, geopolitical tensions, and the cumulative burden of higher rates. That said, the U.S. manufacturing PMI jumped to 56.0 — a 53-month high — presenting an unusual divergence that merits attention: factories are humming even as consumers feel stretched.

[1]Source: RJL Insights and Strategies October 2026.

International Markets

International developed markets, as proxied by the iShares MSCI EAFE ETF (CAD-Hedged) (XIN.TO), essentially flat-lined in Q3 (-0.2%), though the YTD return remains a solid ~+12.6%.

Europe grappled with its own energy shock. ECB President Christine Lagarde warned that "the energy shock was too significant to ignore" while pledging a measured policy response. France's GDP growth was nearly stagnant in Q3, while Germany raised its 2026 GDP growth forecast to 1.3% — modest by any measure.

China provided a modest positive surprise, with Q3 GDP growth of 4.5% — slightly ahead of the 4.4% consensus — offering some relief to commodity exporters and international equity investors.

2. Opportunities and Risks

Chart 3: Q3 2026 Asset Class Returns by Category (CAD)

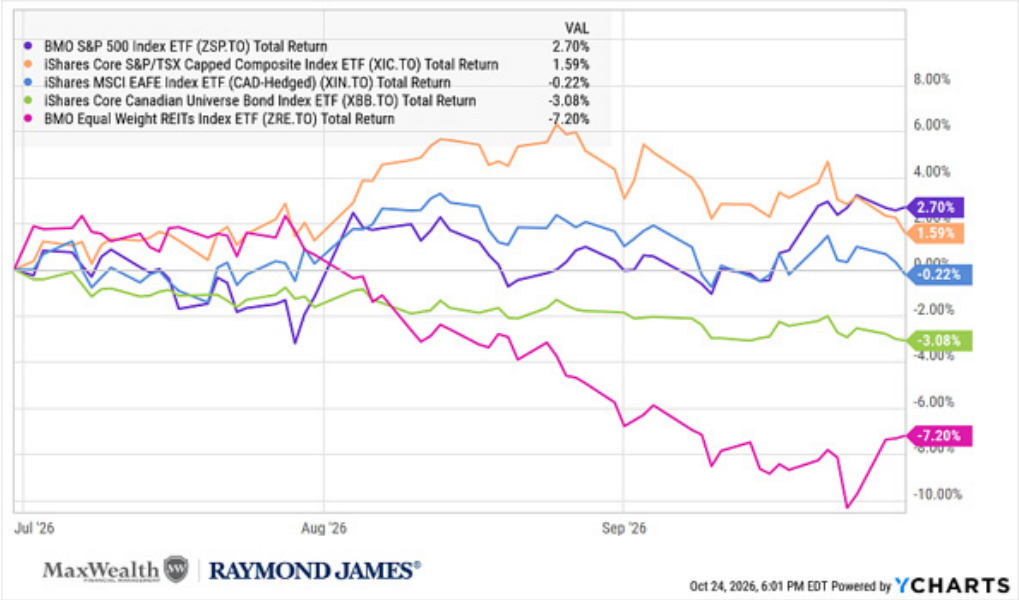

Chart 3 illustrates the wide dispersion in returns across asset categories in Q3 2026. REITs and bonds were the clear underperformers, while U.S. equities in CAD terms led.

Current Opportunities

Energy and Commodities: The geopolitical risk premium embedded in oil prices remains elevated. WTI crude has been trading in a structurally elevated range, and Canadian energy producers continue to generate exceptional free cash flow at these price levels. Gold — trading at approximately $4,000–$4,150 USD per ounce — reflects both inflation concerns and safe-haven demand, providing an important diversification function in portfolios.

Short-to-Medium Duration Fixed Income: With Canadian five-year government yields near 3.6% and short-term GICs and money market instruments offering attractive yields not seen in many years, high-quality short-duration fixed income presents a compelling risk-adjusted return profile. Investors no longer need to accept duration risk to achieve meaningful income.

Broad International Diversification: Despite modest Q3 performance, international equity markets continue to offer valuation advantages relative to U.S. equities. With non-U.S. developed markets trading at significant discounts on a price-to-earnings basis, the long-term case for global diversification remains intact.

Artificial Intelligence: AI remains one of the most important drivers of economic growth, capital spending, and corporate earnings. However, investors are increasingly shifting their attention from infrastructure spending alone toward the monetization of AI investments. In our view, future winners may increasingly be determined by earnings growth, cash flow generation, and valuation discipline rather than participation in the AI theme alone.

Key Challenges

Inflation Persistence: The re-acceleration of inflation in both Canada and the U.S. during Q3 — after a brief period of progress — underscores that the "last mile" back to 2% is proving elusive. Energy prices are the primary culprit today, but the risk is that energy-driven inflation bleeds into broader price expectations. University of Michigan consumer surveys show one-year inflation expectations at 4.7% and five-year at 3.5% — a troubling sign if sustained.

Valuation Pressure in a 5% Rate World: U.S. large-cap equities, particularly in the technology sector, trade at elevated earnings multiples. With a risk-free rate of 5%+, the discount rate applied to future earnings is materially higher than it was just two years ago. This creates a fundamental valuation headwind that requires earnings growth to accelerate simply to sustain current prices.

Rate-Sensitive Sectors Under Pressure: REITs, utilities, and dividend-focused equities all face a structural headwind as long bond yields compete directly with equity income. Investors should expect continued volatility in these segments until there is clarity on the trajectory of central bank rates.

3. Weight-of-the-Evidence Assessment

We have never believed that any single indicator can consistently explain market behaviour. We integrate evidence from three distinct lenses — fundamental, quantitative, and technical — and seek points of agreement and divergence across them. We have the highest conviction when all three disciplines point in the same direction.

"We make decisions based on the weight of evidence, not the weight of conviction."

Chart 4: Inflation and Interest Rate Environment (2023–2026)

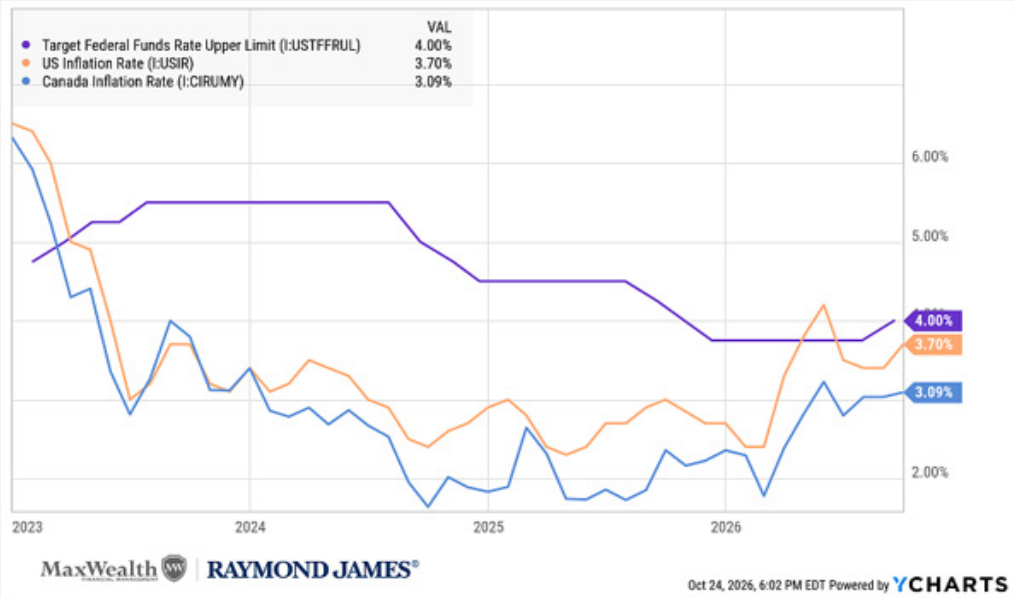

Chart 4 shows the relationship between the U.S. Federal Funds Rate upper limit, the U.S. Inflation Rate, and the Canada Inflation Rate from 2023 through Q3 2026. Note the re-acceleration of inflation in mid-2026 after a period of disinflation — a key development shaping the current investment environment.

Fundamental Lens

Growth: The economic expansion continues, though at a decelerating pace. U.S. manufacturing, at a 53-month high PMI, contradicts recession fears in the goods sector, but consumer confidence is weak and housing activity is declining. Canada's Q3 GDP growth was solid at ~2.0% but the fourth quarter is expected to slow materially below 1.5% as tariff headwinds intensify

Earnings: Corporate earnings have been surprisingly resilient. Q3 2026 results broadly exceeded expectations, and forward guidance from industrial and consumer companies has been constructive. Energy sector earnings are exceptional, given the oil prices. However, technology sector margins face scrutiny as capital expenditure requirements for AI infrastructure escalate dramatically (Meta, for example, increasing capex by $5+ billion).

Valuations: U.S. large-cap equity valuations remain stretched against the backdrop of 5%+ risk-free rates. Canadian equities are more reasonably valued, particularly in the financial and energy sectors. Bonds are now the most interesting they have been in years from a yield perspective — though inflation risk clouds the total return picture for long duration.

Policy: Central banks are in a late-cycle tightening phase, where policy errors become more consequential. The Bank of Canada's potential October hike raises the risk of over-tightening into an already-slowing economy. The Fed is being equally cautious, but the market-implied path suggests rates will remain "higher for longer" well into 2027.

Fundamental Verdict: Cautiously Constructive. Earnings support is present, but valuations and rate headwinds limit the upside. Prefer value over growth; Canada and international over pure U.S. exposure.

Quantitative Lens

Momentum: The clearest momentum signal of Q3 2026 was in energy — both in absolute terms and relative to every other sector. Trend-following models consistently favoured energy throughout the quarter. Technology momentum was significantly more mixed, with violent intra-quarter swings as sentiment around AI capital intensity fluctuated.

Relative Strength: The sector relative strength rotation clearly favoured cyclical and real-asset sectors (energy, materials) over growth and rate-sensitive sectors (utilities, REITs, technology). This is consistent with an environment of rising inflation and tightening monetary policy.

Breadth: Market breadth in Canada was narrower than the headline return suggests — energy's exceptional performance masked weakness across a significant number of index constituents. Periods of narrow market breadth warrant caution, as rallies driven by a small number of sectors are generally less durable. Markets are healthiest when leadership broadens. While narrow leadership can persist longer than many expect, broader participation would provide greater confidence in the durability of the current trend.

Volatility: Implied volatility remained elevated relative to its 2024 levels, reflecting the degree of uncertainty around central bank policy, geopolitics, and the AI capital expenditure debate. Elevated volatility is a feature, not a bug, of late-cycle environments.

Factor Leadership: Value and real-asset factors led; growth and low-volatility factors lagged. This is characteristic of an inflationary regime and supports our portfolio's tilt toward dividend-paying, cash-flow-generative businesses.

Quantitative Verdict: Energy and Value Momentum Remains Intact; Watch for Breadth Improvement. We would like to see broader participation across sectors and industries to strengthen our confidence in the current advance.

Technical Lens

Chart 5: S&P/TSX Composite — Technical Trend, Momentum & RSI

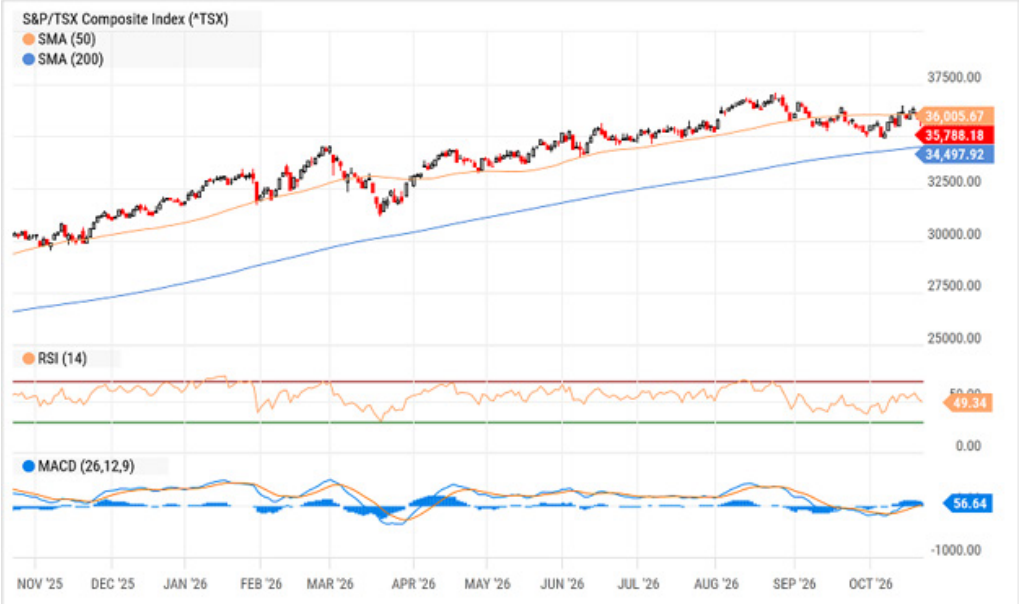

Chart 5 shows the TSX over the past 12 months with 50-day and 200-day moving averages (trend), RSI (momentum), and MACD (trend confirmation). The TSX established and maintained a golden cross (50-day above 200-day) in early 2026 — a bullish structural signal. However, the September pullback from August's peak and the MACD's moderation signal a consolidation phase rather than a trend reversal.

Trend: The S&P/TSX Composite has been in a well-defined uptrend throughout 2026, rising from the ~31,900 area at year-end 2025 to the ~35,800 area at Q3 end — a move of approximately +12%. The index maintained its golden cross (50-day SMA above 200-day SMA) throughout Q3. The August peak near ~37,000 gave way to a September consolidation, with the index finding support in the 34,500–35,000 range. This support zone is technically significant and is consistent with prior breakout levels from Q2 2026.

Participation: Leadership breadth narrowed materially in Q3. Energy and materials led, while financials, utilities, and REITs lagged. When participation narrows, it is a signal that requires monitoring — broad-based participation is the hallmark of a healthy bull market. At quarter-end, the weight of technical evidence suggested consolidation rather than a top.

Support and Resistance: Key technical levels for the TSX in Q4 2026: Support at 34,500–35,000; overhead resistance at 36,800–37,200. A sustained break above resistance would represent a constructive breakout; a violation of 34,500 would warrant a more defensive posture.

RSI: Momentum remains positive but has cooled from August extremes. Importantly, long-term trend measures continue to confirm the primary uptrend, suggesting the recent weakness is consistent with consolidation rather than deterioration.

Technical Verdict: Bullish trend intact; in consolidation mode. The recent weakness from August highs remains consistent with a normal consolidation within a broader uptrend. Historically, the fourth quarter has been a seasonally favourable period for equities. The technical picture supports a patient, constructive stance. Particularly noteworthy is that the index remains above both its 50-day and 200-day moving averages despite the recent pullback. From a trend-following perspective, corrections that occur above rising long-term moving averages are generally viewed differently than corrections that occur below them.

Where Disciplines Agree and Where They Diverge

	Fundamental	Quantitative	Technical
Canadian Equities	Cautiously constructive	Neutral-positive (energy strong, breadth narrow)	Bullish but consolidating
U.S. Equities	Neutral (valuation concern)	Mixed (tech volatile, industrials firm)	Neutral-bullish
International	Constructive (valuations)	Neutral	Neutral
Canadian Bonds (Long)	Negative (rate risk)	Negative (downtrend)	Negative
Short Duration Fixed Income	Positive (yield attractive)	Positive	Positive
Energy Sector	Positive	Positive	Positive
REITs / Utilities	Negative-neutral	Negative	Negative

Agreement: All three disciplines agree on the attractiveness of energy exposure, the headwinds facing long-duration bonds, and the appeal of short-duration fixed income for income generation.

Divergence: The fundamental case for international equities (attractive valuations) is not yet confirmed by technical or quantitative momentum. We maintain international exposure for diversification but are waiting for momentum confirmation before adding.

Portfolio Implication: The convergence of signals across energy, short duration, and value/dividend equities reinforces our current positioning. We are not chasing broad technology exposure at elevated multiples when the weight of evidence does not yet support doing so.

4. Sector Rotation — Winners and Laggards

Chart 6: YTD 2026 Canadian Sector Rotation

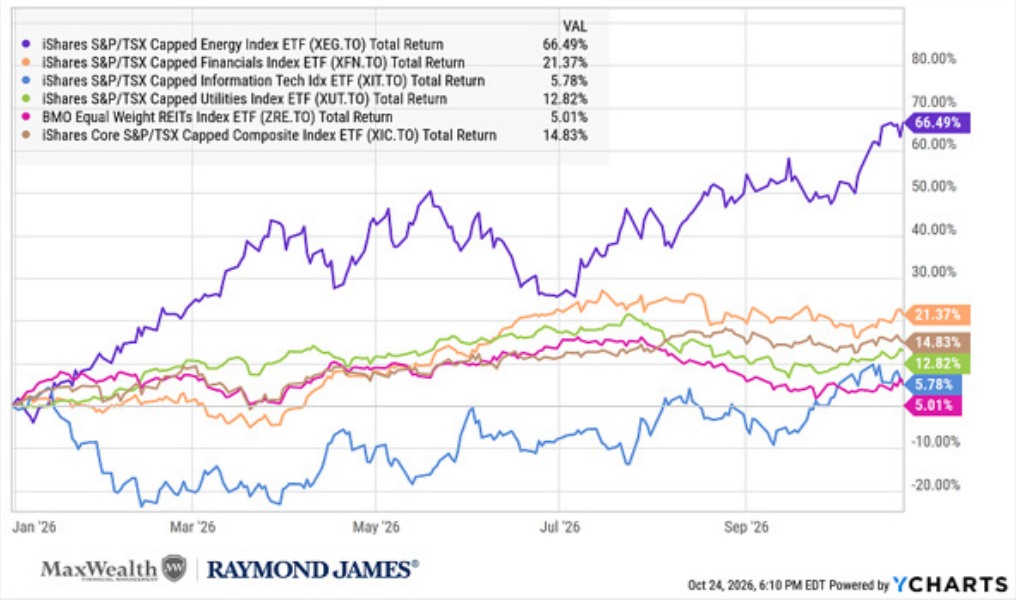

Chart 6 illustrates the dramatic dispersion in YTD 2026 sector returns. Energy's approximate +50% YTD return dwarfs all other sectors, reflecting the powerful combination of geopolitical supply risk and elevated global oil prices. Technology has been volatile and is approximately flat-to-slightly positive YTD. Utilities, financials, and REITs have significantly lagged energy but have recovered from their Q1 lows.

Chart 7: Q3 2026 — Canadian Sector ETF Performance

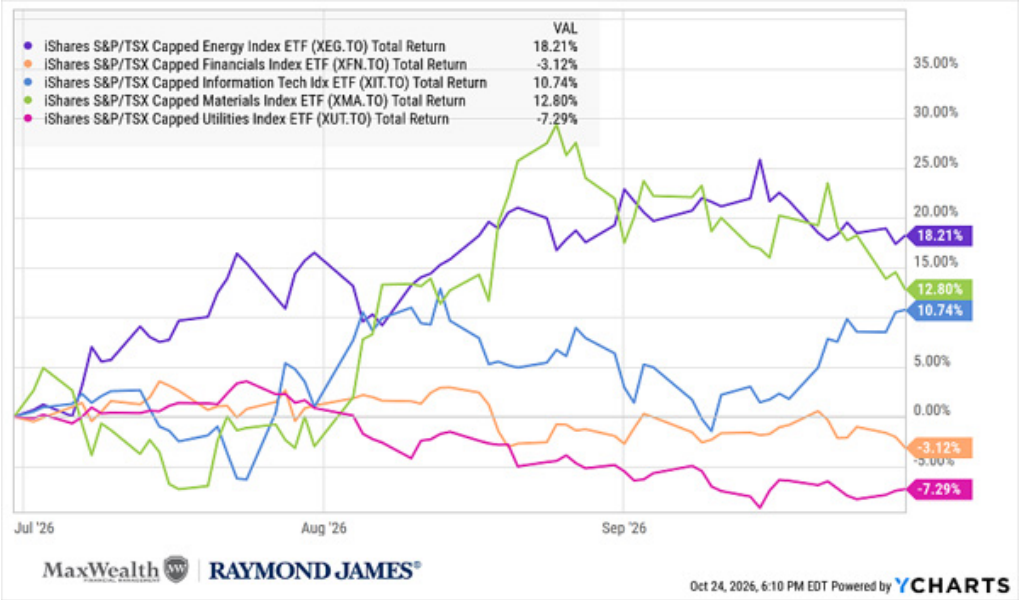

Chart 7 zooms into Q3 2026. Energy (+18.2%) and materials (+12.8%) dominated, while utilities (-7.3%) and financials (-3.1%) lagged materially. This pattern is characteristic of an inflationary, rising-rate environment where real assets outperform financial assets.

Canadian Sector ETF	Q3 2026 Return
iShares S&P/TSX Energy (XEG.TO)	+18.2%
iShares S&P/TSX Materials (XMA.TO)	+12.8%
iShares S&P/TSX Info Technology (XIT.TO)	+10.7%
TSX Composite (XIC.TO)	+1.6%
iShares S&P/TSX Financials (XFN.TO)	-3.1%
iShares S&P/TSX Utilities (XUT.TO)	-7.3%
BMO Equal Weight REITs (ZRE.TO)	-7.2%

5. Risks We Are Watching Closely

We approach risk discussion with a balanced perspective — our role is not to alarm clients with worst-case scenarios, but to be honest about what we are monitoring closely and to articulate how portfolio construction serves as the first line of defence.

Risk 1: Middle East Escalation and the Strait of Hormuz

The most acute risk currently visible in markets is the potential for a further escalation of the Middle East conflict. Iran has reportedly drawn up plans to target undersea communications cables in the Persian Gulf, and its threats regarding the Strait of Hormuz — through which approximately 20–21% of global oil supply transits — represent a genuine tail risk. Saudi Aramco's evacuation of its Dhahran headquarters, ongoing Houthi attacks on Saudi infrastructure, and U.S. naval deployments to the region are not background noise.

If shipping through the Strait of Hormuz were seriously disrupted, the oil price shock would be severe, inflationary, and globally destabilizing. Brent crude at $116+, as we near Q4, is already elevated. A supply disruption of meaningful scale could push prices dramatically higher in a short period.

What this means for portfolios: Our energy allocation serves as a partial natural hedge against this risk — rising oil prices benefit Canadian energy producers. At the same time, an extreme geopolitical shock would likely weigh on all risk assets in the near term, including equities. This is why portfolio diversification, disciplined rebalancing, and avoiding excessive concentration are so important. Our portfolios are constructed to remain resilient across a wide range of geopolitical outcomes.

Risk 2: The U.S. Fiscal Trajectory and Bond Market Discipline

The U.S. federal government ran a $1.99 trillion deficit in fiscal year 2026. More significantly, net interest costs reached a record $1.05 trillion — meaning the U.S. government now spends more on interest payments than on any other single expenditure category, including defence and Medicare. The 30-year U.S. Treasury yield has traded above 5.4–5.6%, and term premiums — the extra yield investors demand to hold long-duration bonds — have risen sharply.

A disorderly rise in yields could tighten financial conditions, pressure equity valuations, and create challenges across both bond and equity markets. While this is not our base-case expectation, the trajectory of government borrowing and debt servicing costs remains an important risk factor to monitor.

What this means for portfolios: We have deliberately maintained a short-to-medium duration bias in our fixed income allocations throughout 2026. We are not "reaching for yield" by extending duration into long-term bonds. Our fixed income component is designed to provide income and portfolio ballast, not speculation on interest rate direction. Should yields rise further in a disorderly way, our shorter-duration holdings will experience significantly less price impact than long-duration bonds. Canadian investors also benefit from owning energy-linked assets in this scenario, as a genuine fiscal crisis in the U.S. would likely coincide with elevated commodity prices.

Risk #3: Narrow Market Leadership

A third area we are monitoring is the increasingly narrow nature of market leadership. Historically, sustainable bull markets are supported by broad participation across sectors and market capitalizations. Today, returns across many markets remain increasingly dependent on a relatively small number of sectors, themes, and companies. While this does not signal an imminent market decline, it does reinforce the need for diversification and disciplined risk management.

6. Portfolio Positioning

Current Positioning Philosophy

Our model portfolios — including **MaxWealth Balanced Income and Growth, MaxWealth Focused Growth, MaxWealth Focused Canadian Equity, MaxWealth RESP, Raymond James Canadian Dividend Plus, and Raymond James U.S. Core** — are constructed with three priorities in mind: **resilience in adverse environments, participation in favourable ones, and the disciplined management of risk** at all times.

Key Positioning Themes in Q3 2026

Overweight Energy: One of the most meaningful contributors to portfolio performance in 2026 has been our above-benchmark exposure to Canadian energy. However, portfolio outcomes are ultimately driven by diversification, risk management, and disciplined asset allocation rather than any single sector. This was not a geopolitical bet — it was the result of our weight-of-the-evidence process identifying strong fundamentals (record free cash flow, significant shareholder returns through buybacks and dividends), positive momentum, and technically improving sector trends. With Canadian energy up approximately +50% YTD, this exposure contributed meaningfully to portfolio performance above benchmark.

Short-to-Medium Duration Fixed Income: We have avoided long-duration bonds throughout 2026, a decision that has protected portfolios from the -3.1% Q3 drawdown in the Canadian bond universe. We continue to favour short-duration government and investment-grade corporate bonds, along with GIC ladders where appropriate, to capture the attractive yields available without taking on excessive interest rate risk.

Diversified International Exposure: Our international allocation (primarily developed markets) has delivered solid YTD returns (~+12-13% CAD-hedged) and continues to serve the critical purpose of reducing concentration in any single economy. Geopolitical and currency dynamics argue for maintaining global diversification.

Reduced Allocation to REITs and Utilities: As rising yields compressed valuations in rate-sensitive sectors, we reduced or maintained underweight positions in REITs and utilities. These sectors remain attractive for long-term income, but the near-term rate environment argues for patience.

Dividend-Paying Canadian Equities: Across our Canadian mandates, we continue to emphasize companies with strong dividend histories, disciplined capital allocation, and free cash flow generation. In a world of elevated inflation and uncertain growth, these characteristics serve clients well — providing income, inflation linkage, and downside resilience.

Alternative Real Assets: We continue to monitor gold and precious metals as potential portfolio diversifiers. In an environment characterized by fiscal concerns, geopolitical uncertainty, and persistent inflation pressures, real assets remain an important component of a resilient portfolio.[2]

Rebalancing Actions

Given the outsized performance of energy in 2026, several model portfolios have undergone disciplined rebalancing to bring sector allocations back toward target weights. While rebalancing can feel counterintuitive — "trimming what is working" — it is a fundamental risk management practice that enforces buy-low/sell-high discipline over time. Proceeds from energy trimming have been redeployed into diversified Canadian equities, short-duration fixed income, and select international positions.

7. Closing Thoughts

The future is rarely as clear as market headlines suggest. Inflation remains above target, interest rates remain elevated, and geopolitical risks continue to evolve. Rather than attempting to predict every twist and turn, we remain focused on what has served investors best over time: a disciplined process, thoughtful diversification, and evidence-based decision making.

We make decisions based on the weight of evidence, not the weight of conviction. When fundamental, quantitative, and technical signals align, we act with confidence. When they diverge, we remain patient and allow the evidence to develop.

Markets will continue to surprise us from time to time, but our commitment remains unchanged: to protect capital prudently, participate meaningfully in long-term growth opportunities, and help clients make informed decisions through every stage of the market cycle.

We are grateful for the trust you place in us and remain committed to helping you navigate uncertainty with perspective, discipline, and a long-term mindset.

Warm regards,

Patrick Choquette, CMT

"Stay Disciplined. Stay Diversified. Think Long Term."

[2]Source: RJL Tactical Asset Allocation Report October 2026

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