



SEPTEMBER 2026 NEWSLETTER

MARKET REVIEW

The third quarter of 2026 has produced muted returns for the market indexes, with the S&P 500 up 2.02% and the S&P/TSX up 1.10%. The one year returns at this point are also attractive, with the S&P 500 up 14.4% and the S&P/TSX up 17.36%. Under the surface, the median stock is performing poorly, and a handful of very large cap stocks have been producing almost all of the returns.

<u>Index</u>	<u>Sept. 30 2025</u>	<u>June 30 2026</u>	<u>Sept. 30 2026</u>	<u>90-Day % Change</u>	<u>1-Year % Change</u>
S&P 500*	6,688	7,499	7,652	2.0%	14.4%
S&P/TSX Composite	30,023	34,857	35,236	1.1%	17.4%
Vanguard FTSE All World ex US ETF*	\$71.37	\$83.75	\$82.97	-0.9%	16.3%

*Currency reported in USD

Source: FactSet

Published for the friends and clients of
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This is very evident from the list of new 52-week highs and lows as of September 30th.

<u>Index</u>	<u>New Highs</u>	<u>New Lows</u>
Toronto Stock Exchange (TSX)	46	221
New York Stock Exchange (NYSE)	25	329

Source: FactSet

In Canada, the new highs are made up mostly of Canadian-listed US technology ETFs , and the lows include bond ETFs, REITs, telecom companies, and junior, more speculative stocks.

In the US, the highs include some niche drug companies and technology companies. The much longer list of new lows includes bond ETFs, REITs, forestry companies and many consumer products companies, including Nike, Lowes, Home Depot, Whirlpool, and Hershey. Our conclusion is that the US consumer is not doing well and the stock market is deteriorating, masked by a handful of mega cap companies doing well.

FIXED INCOME

Covering the fixed income portion of the market for the last few years has been as exciting as watching paint dry, but we are pleased that we have been consistent in our message to stay away from the bond market, other than short duration bonds of a year or two.

Our viewpoint has been that the bond market has not been paying investors sufficiently to compensate for the inflation rates that we have been experiencing.

Below is a chart of the Canadian and US Consumer Price Index and Producer Price Index.

Inflation

<u>Country</u>	<u>Change in CPI</u>	<u>Change in PPI</u>
Canada (August)	3.0%	13.5%
US (August)	3.4%	5.4%

Source: Statistics Canada and US Bureau of Statistics

At present, producers have been absorbing their higher input costs but eventually these have to be passed on to consumers.

Canadian T-Bills & Bond Yields

<u>T-Bills & Bonds</u>	<u>Sept. 30 2025</u>	<u>June 30 2026</u>	<u>Sept. 30 2026</u>
3-Month	2.44%	2.27%	2.40%
6-Month	2.42%	2.35%	2.40%
1-Year	2.43%	2.52%	2.99%
2-Year	2.48%	2.75%	3.36%
5-Year	2.69%	3.01%	3.70%
10-Year	3.14%	3.38%	3.99%
30-Year	3.62%	3.78%	4.29%

Source: FactSet

International Bond Yields (10-Year)

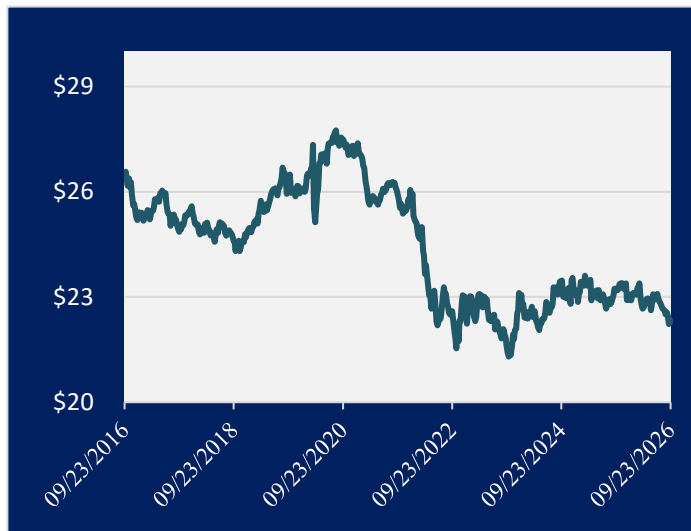
<u>Country</u>	<u>Sept. 30 2025</u>	<u>June 30 2026</u>	<u>Sept. 30 2026</u>
India	6.55%	6.70%	7.16%
United Kingdom	4.15%	4.76%	5.42%
United States	4.70%	4.47%	5.29%
Italy	3.54%	3.58%	4.60%
Greece	3.14%	3.53%	4.48%
France	3.38%	3.54%	4.84%
Canada	3.54%	3.38%	3.99%
Germany	2.71%	2.86%	3.60%
Japan	1.90%	2.68%	3.06%
China	1.65%	1.71%	1.69%

Source: FactSet

As the charts indicate, yields around the world have started to rise sharply, as bond investors want to earn a real return above inflation. This decreased the value of existing bonds, other than those maturing in a very short time.

Vanguard Canadian Aggregate Bond Index ETF

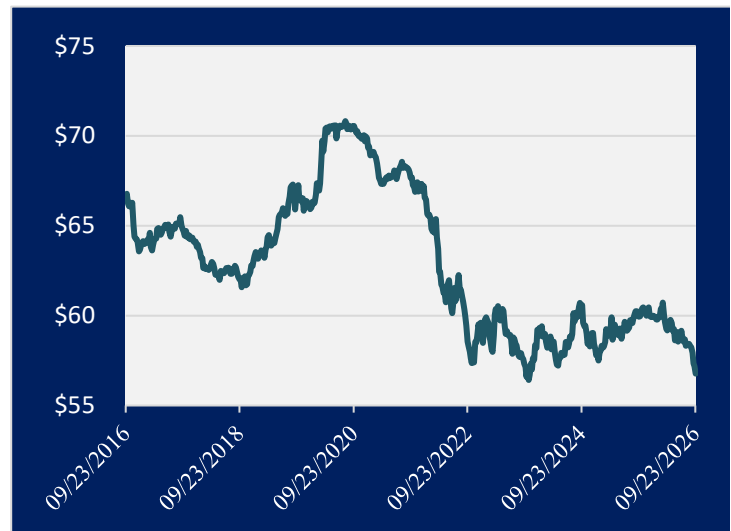
(10-Years)



Source: FactSet

Vanguard Intermediate-Term Treasury ETF

(10-Years)



Source: FactSet

The charts above are Canadian and US mid-term bond ETFs, indicating that these have been underperformers for the last decade. Investors applying too rigid asset allocation models, for example always keeping 40% in bonds, have underperformed not only equity markets but high-interest savings accounts.

TIME TO BUY BONDS?

There are two schools of thought about whether now is the time to buy medium and longer-term bonds after the run-up in yields.

The Bull Case

Bond bulls believe that once the Strait of Hormuz is opened, oil and diesel prices will return to normal and inflation and interest rates will fall, stimulating the bond and stock market.

The Bear Case

Bond bears have a number of concerns that give caution:

- 1) Historically, military intervention lasts longer than promised. WWI, Vietnam, Iraq, Afghanistan and Ukraine are a few examples that cast doubt on a quick return to normalcy in Middle Eastern oil markets.

- 2) The Ukraine war has damaged or destroyed oil and gas infrastructure in both Russia and Ukraine. With a global energy market, this is an impediment to lower diesel prices.
- 3) The US Federal deficit is expected to be around \$2.1 trillion this year, about 6% of GDP. Worldwide government deficits combined with the demand for capital by the private sector to build AI data centers create a huge supply of bonds that need to be purchased, pressuring rates to the upside.
- 4) Tariffs and other trade impediments take purchasing decisions from consumers to government officials. As the free movement of goods and services is stifled, we lose the benefits of each country exporting what they are good at producing and importing what they are not so good at producing.

This is not a political newsletter and there is likely disagreement whether these are good public policies or not. That being said, the side effect of these policies is increased inflation, which depresses bond prices.

We are "bond bears" and continue to believe that daily interest accounts or very short-term bonds are the best choice for fixed income at present.

RRSPs: WHAT IS THE NET BENEFIT?

RRSPs are very popular with Canadians and with Douglas Duncan clients, but sometimes investors question how beneficial these are, particularly when the withdrawals are fully taxable (less the \$2,000 pension income deduction).

We decided to look at two potential investors in different tax brackets, comparing an RRSP savings plan to a regular savings plan.

The parameters are:

- 1) contributions from age 30 to 65
- 2) a rate of return of 7%
- 3) taxable income is 1/3 interest & US dividends, 1/3 Canadian dividends, 1/3 capital gains
- 4) Investor #1 has taxable income between \$58,523 and \$100,728 and therefore pays:
 - 28.20% tax on interest & US dividends
 - 1.63% tax on Canadian dividends

- 14.10% tax on capital gains.
- 5) Investor #2 has taxable income between \$140,430 and \$181,440 and therefore pays:
- 40.70% tax on interest & US dividends
 - 18.88% on Canadian dividends
 - 20.35% on capital gains.
- 6) 2% indexing of contributions
- 7) \$10,000 per year contributions made at the beginning of each year.
- 8) For each investor we compare the after-tax investment to the after-tax return.

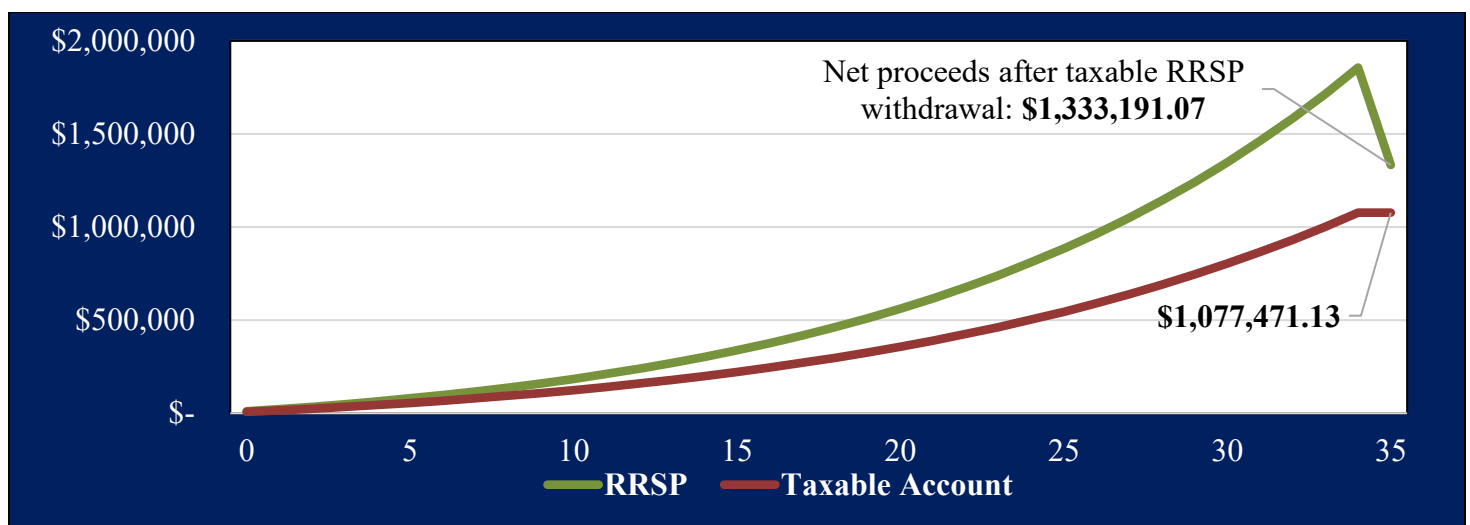
Investor #1

Earns taxable income between \$58,523 - \$100,728. Invests \$10,000 per year in his/her RRSP, gets a \$2,820 tax refund for a net outlay of \$7,180 per year. Alternatively invests that \$7,180 per year in a taxable account.

RRSP Option: After 35 years, investor #1 has a \$1,856,812 RRSP, upon withdrawal we assume the same 28.2% tax rate to incur tax payable of \$523,621 and net proceeds of \$1,333,191.

Taxable Account Option: In this case, the investor invests \$7,180 per year as there is no tax refund. The after-tax rate of return is only 5.98% as the taxable account is taxed annually at 14.64% (parameter #4). The end value is \$1,077,471 as the dividends and interest have already been taxed and the example assumes that capital gains are crystallized annually.

35-Year Growth Comparison



RRSP Net Proceeds	\$1,333,191
Taxable Account Net Proceeds	\$1,077,471
Net Benefit of the RRSP	\$257,933

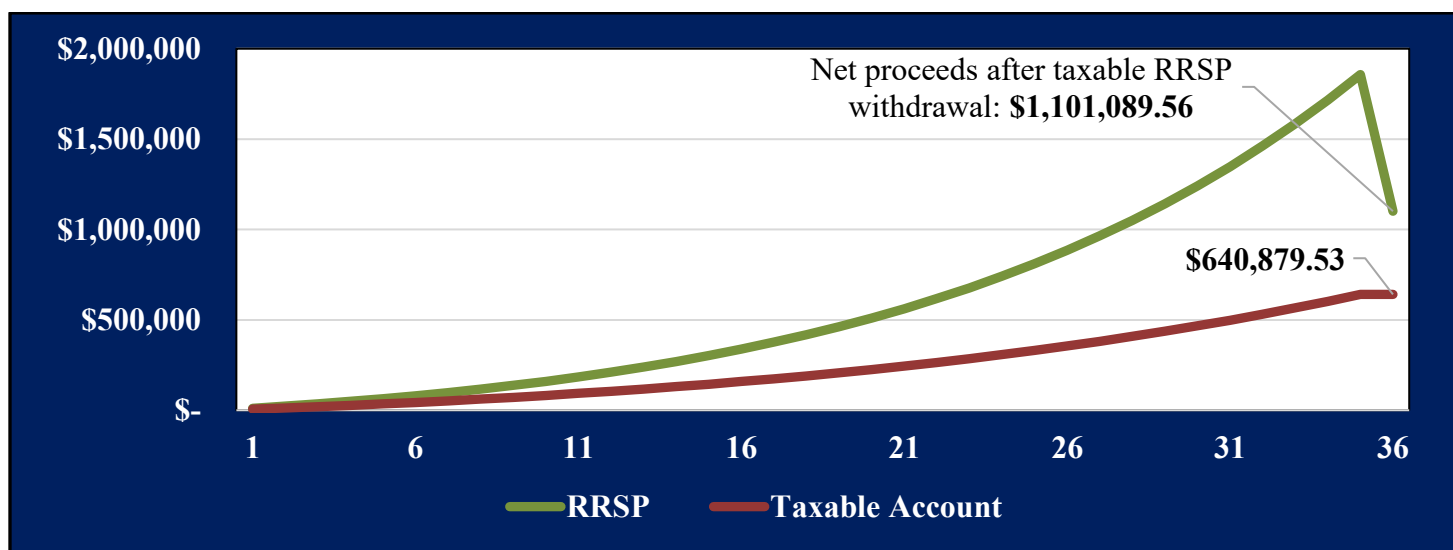
Investor #2

Earns taxable income between \$140,430 - \$181,440. Invests \$10,000 per year in his/her RRSP, gets a \$4,070 tax refund for a net outlay of \$5,930 per year, or invests that \$5,930 in a taxable account.

RRSP Option: After 35 years, investor #2 also has \$1,856,812 in their RRSP, upon withdrawal we assume the 40.7% tax rate to incur tax payable of \$755,722 and net proceeds of \$1,101,090.

Taxable Account Option: In this case, the investor invests \$5,930 per year as there is no tax refund. The rate of return is only 4.34% as the tax rate is 26.6%. In this case, the end value is \$640,880 as the tax on dividends and interest is already paid and the example assumes that capital gains are crystallized along the way.

35-Year Growth Comparison



RRSP Net Proceeds	\$1,101,090
Taxable Account Net Proceeds	\$ 640,880
Net Benefit of the RRSP	\$ 460,210

Variables that we didn't account for in these illustrations include changes of tax rates and the income splitting benefits of RRSPs once they become RRIFs. One potential pitfall of investing in RRSPs is when a low-income earner receives perhaps a 20% tax refund from their contributions and then needs a large lump sum withdrawal incurring a higher marginal tax.

However, the arithmetic math indicates that with very few exceptions, middle-and-high-income earners benefit greatly from the use of RRSPs to fund future retirement income. If you have any RRSP or RRIF questions Meaghan and Mark can assist you to find the most optimal choice for your situation.

DIVIDEND INCREASES

<u>Holding</u>	<u>Previous Dividend (Q2, 2026)</u>	<u>New Dividend (Q3, 2026)</u>	<u>% Increase</u>
JPMorgan Chase & Co. (JPM)	\$1.50	\$1.65	10.0%
Microsoft Corp. (MSFT)	\$0.91	\$0.98	7.7%

Source: FactSet

DIVIDEND DECREASES

Telus had a very tough third quarter of 2026 as the new CEO reduced the dividend by 55%.

TELUS Corp. YTD Performance

Source: FactSet

While this reduction was anticipated by the market (and us) the reaction was worse than expected, with the stock down 20.3% for the quarter. This is a reminder to us that we are not infallible and there is a reason why we diversify. There is an old expression that stocks "go up the escalator" and "down the elevator," so as much as we try to avoid mishaps, we are going to get a "Telus" situation now and then.

SUMMARY AND STRATEGY FOR THE 4TH QUARTER OF 2026

As we enter the last quarter of 2026, the TSX is down 4.7% from its high, and the S&P 500 is down 2.1% from its high. This is not representative of the median stock as many high quality companies have experienced larger corrections. With rising bond yields competing for investment capital and inflationary government policies in the world's largest economy, we believe that a defensive investment posture continues to be the best choice.

Strategies to prepare for potentially worse market outcomes include:

- 1) Have 10% less equities than usual in your portfolio. For example, if a 70% equity weighting is normal for you, a 60% equity weight might be appropriate now.

- 2) If you have a regular withdrawal program from a RRIF or an investment account, we suggest that you hold enough cash in a daily interest account to cover six months to a year of withdrawals, so you are not forced to sell securities at a horrible price in the future to cover the payment.
- 3) If you have a major purchase or expense planned for the next six months to a year, we recommend that you have enough funds in daily interest accounts to cover this .
- 4) Markets are unpredictable so a long-term investor is usually better off not making radical asset allocation changes. Incremental steps to protect your capital are likely the best choice.

If you have concerns about your financial situation, please call Meaghan or Mark and they will help to ensure that your investments are aligned with your needs.



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If you have friends or family who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!

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