

MARKET SUMMARY

Third Quarter 2026

S&P/TSX Composite TR

Q3	YTD	1 year
↑ 1.6%	↑ 13.0%	↑ 19.7%

S&P 500 TR (US\$)

Q3	YTD	1 year
↑ 2.3%	↑ 12.8%	↑ 15.3%

MSCI EAFE GR (C\$)

Q3	YTD	1 year
↑ 1.0%	↑ 14.8%	↑ 17.7%

Canada Broad Bond Market TR*

Q3	YTD	1 year
↓ 2.1%	↓ 3.5%	↓ 4.5%

THIRD QUARTER HIGHLIGHTS

- S&P/TSX Composite hits a new all-time high of 37,069.10 on August 26th
- S&P 500 hit a new all-time high of 7,816.70 on August 13th
- Canadian dollar was range bound ending the quarter at \$0.7047
- WTI Oil was volatile, ending the quarter at \$97.18 USD per barrel
- Bank of Canada maintained the overnight rate at 2.25%

SUMMARY

Q3 delivered a market story with plenty of plot twists: Brent crude climbed from about US\$70 a barrel at the end of Q2 to more than US\$100 by September, while Canada–U.S. trade talks stalled and tariff measures escalated. Equities still eked out gains: the S&P/TSX rose 1.62%, the S&P 500 gained 2.22%, and the Nasdaq added 2.61%. Global stocks were mixed, while a September bond selloff pushed U.S. Treasury yields to levels last seen in 2002. Gold rose 3.63%; Brent surged 30.10%.

Canada's economy lost momentum: GDP was flat in July after spring's monthly gains, retail sales fell 0.7%, and employers shed 41,700 jobs in August. Inflation held at 3.0%, but wages grew just 2.0% year over year. The Bank of Canada kept its policy rate at 2.25%, citing trade uncertainty and energy costs while noting that core inflation remained near target. Early estimates pointed to a modest August rebound, though the full Q3 picture was still to come.

The U.S. economy looked resilient, powered in part by AI investment and strong consumer spending. September's composite PMI reached 58.4, its highest since July 2021; August retail sales jumped 1.2%, and payrolls grew by 162,000. But the picture had a sting: energy costs lifted inflation, business input prices and backlogs rose, and

consumer confidence sank. The Fed raised rates by a quarter point to 3.75%–4.00%, its first increase since 2023, as it weighed stronger activity against stubborn price pressures and geopolitical risk.

Europe's services sector kept activity growing, but energy costs weighed on manufacturers. Eurozone core inflation eased to 2.4%, while headline inflation edged up to 3.2%; the ECB raised its deposit rate to 2.5%. In the U.K., inflation accelerated to 3.1% as employment weakened, and the Bank of England held rates at 3.75% while warning that energy volatility could mean more tightening ahead. The region's balancing act: slowing labour markets on one side, renewed price pressure on the other.

In Japan, the central bank raised its policy rate to 1.25% as inflation pressures strengthened; producer prices rose 7.6%, with energy, shipping, and labour costs squeezing businesses. China's trade in technology-related goods remained brisk, but domestic demand was tepid. Inflation rose to 0.8%, and producer-price inflation reached 3.8%, with price increases concentrated in a narrower slice of the economy. Across Asia, growth and inflation were moving at different speeds. Japan affects us more than we'd like as for almost the prior two decades it has served as the world's cheap leverage that has become not so cheap and is now being returned to Japan to the detriment of asset prices.

Looking ahead, strong U.S. growth, solid Q2 earnings, and AI spending offered support—but higher fuel prices could keep inflation lively and put further rate hikes in play. For Canada, the stalled trade talks remained a major uncertainty, with tariffs and U.S. midterm politics converging ahead of November’s vote. In short: the economies kept moving, but energy prices, borrowing costs, and trade negotiations could still change the direction of the story and various areas, particularly Canada, remain fragile.

“Interest rates are to asset prices what gravity is to the apple.” – Warren Buffett

STRATEGIC NOTES

Interest rates: the force beneath asset prices

Warren Buffett has compared interest rates to gravity: they quietly influence the value of many things around us. Rates affect borrowing costs, what savers can earn, and how investors value future income and growth. Higher rates are also competition for the stock market; as rates rise more investors are willing to accept the fixed interest rate returns rather than speculate in the stock market for higher returns.

But rising rates don’t always signal trouble. They can climb when inflation is running hot, but they can also reflect a strong economy—one where businesses see attractive opportunities and compete for capital to invest, expand, and innovate; sounds like the AI infrastructure build-out we’re living through.

When rates rise, borrowing can become more expensive for households and businesses, and existing bonds may lose value as newer ones offer higher yields. At the same time, higher rates can bring welcome opportunities for savers and bond investors. If rates are rising alongside strong demand and productive investment, that may be a sign of economic momentum as well as a change in the cost of capital. The context matters: what’s driving rates, and how that affects each investment, is just as important as the direction they move.

When rates fall, financing costs can ease and the value of existing bonds may rise. Lower rates can support spending and investment, too—but they may also reflect slowing growth. Markets respond not only to the level of rates, but to what changing rates signal about inflation, economic activity, and future opportunity.

Trying to predict the next move in rates can be tempting, but even experienced investors can get it wrong. Markets often anticipate change and adjust before a change actually happens, and a portfolio built around one forecast may be vulnerable if the outlook shifts. Instead, we consider how different rate environments could affect each part of a portfolio and aim to include multiple sources of return and risk. Diversification can’t prevent losses, but it can help reduce reliance on any single outcome.

At Eastport, interest rates are part of the foundation of our portfolio decisions—not a signal to chase every market turn. We consider the role each investment plays, how its risks fit with the rest of the portfolio, and whether the overall allocation remains aligned with each client’s goals, time horizon, and comfort with risk. We rebalance when appropriate and stay attentive to changing conditions, while keeping short-term rate headlines in perspective. Our aim is to build portfolios designed to participate in opportunity and navigate a range of economic and market environments, with decisions grounded in fundamentals and focused on clients’ long-term objectives.

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