

September 2026 Financial Planning Email Update

Every day we are bombarded with news of the developments in the war in the Ukraine, the conflict between the United States and Iran, the tariff trade war between Canada and the United States... I could go on but you get the idea. This background of information leads almost every client to question why we continue to see very positive investment values in our portfolios. Here are six potential reasons why investment valuations may have continued to grow.

The first reason is corporate earnings. Profit growth has remained strong even when economic growth has been slowing. I believe low corporate tax rates in the United States may have been a contributing factor. The U.S. Bureau of Economic Analysis reports corporate profits rising from \$4.08 trillion in 2025 to \$4.43 trillion in Q1 2026 and \$4.83 trillion in Q2 2026, indicating continued profit expansion.

The second reason is the positive correlation between equities and bond prices. Diversification benefits may be reduced when both asset classes move in the same direction, and this could potentially support asset inflows toward equities where investors perceive greater upside potential. "The correlation of equity and bond returns" by Marco Lombardi and Vladyslav Sushko, published by the Bank for International Settlements on December 4, 2023 states that the correlation between equity and bond returns shifted from negative to increasingly positive amid inflation and fixed-income volatility. It also explicitly says that this weakens diversification and undermines bonds' role as a hedge for equities.

Reason three is the wealth effect. Economists often refer to the 'wealth effect,' whereby rising stock and housing prices may support consumer confidence and spending.

Reason four relates to the central banks of Canada (Bank of Canada) and the United States (Federal Reserve) ability to intervene at early stages of market volatility, which may help reduce the severity of market downturns. The precedent for central bank intervention arose during both the financial crisis and the global pandemic.

The fifth factor is the long-term decline in oil intensity, generally defined as the volume of oil consumed per unit of economic output. Research from Columbia University's Center on Global Energy Policy found that global oil intensity declined by 56% between 1973 and 2019 and had fallen steadily since the mid-1980s. The International Monetary Fund has also noted that greater energy efficiency and a more diversified energy system help cushion economies from oil-price shocks. Consequently, higher oil prices may cause less economic disruption than comparable shocks did several decades ago, although their effects remain significant and vary by country.

Reason six involves many corporations entering the recent period of higher interest rates with balance sheets that were stronger than during prior periods of financial stress. According to the IMF Global Debt Monitor Corporate leverage has generally declined from pandemic-era highs, and many firms continue to maintain adequate earnings relative to debt-servicing costs. In addition, software and other asset-light sectors have historically required less capital-intensive investment than traditional industrial businesses. While debt levels and credit conditions vary significantly across countries and industries, current corporate credit conditions do not appear to resemble those that preceded the 2008 financial crisis."

Markets have always fluctuated and these trends may continue to contribute to the resilience we are experiencing in the investment markets. However, these same investment markets may

encounter negative issues which cause a correction or decline. The exact time and reason for such a setback is never known but one potential catalyst for a market correction could be the implementation of rising interest rates in response to rising inflation rates.

While market conditions can change over time, we continue to focus on maintaining diversified portfolios aligned with each client's objectives, risk tolerance and long-term financial goals.

When reviewing your portfolio, you should note that all returns and market values are net of management and advisor fees/trailing commissions and management expenses. For illustrative purposes only, hypothetically if a fund has a Management Expense Ratio (MER) of 2.12% then a \$100,000 investment would have a total cost of \$2,120 per year. The MER is broken down into the following parts: 1% advisor fee of \$1,000 + 1% portfolio management fee of \$1,000 + 0.12% trading expense fee of \$120.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning.

As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary



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