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Q3 2026 Market Commentary

Benchmark performance as of September 30, 2026

Index	September	3-Month Trailing	2026 YTD Return
S&P/TSX Composite TR	-2.6%	1.6%	13.0%
S&P 500 TR	-0.4%	2.3%	12.8%
Nasdaq Composite	1.9%	3.3%	16.1%
WTI Oil	3.9%	28.1%	57.8%
Natural Gas	4.3%	-9.5%	-24.4%
Copper	-0.3%	8.6%	15.9%
Gold	-8.5%	3.7%	-4.4%
10-Year US Treasury Bond	11.1%	18.7%	26.5%
USD/CAD FX	2.7%	0.3%	3.7%

Source: FactSet

True to form, September produced negative returns for the S&P TSX but less so for the S&P 500 as the heavily weighted information technology and communication services sectors rallied. The Nasdaq gained 1.9% in September as the Artificial Intelligence (AI) trade regained momentum.

Continued mega-cap corporate spending on AI infrastructure (data centres, semiconductors, and hardware) remained the main growth catalyst for the trend reversal in mega-cap performance from the weakness experienced in Q2.

Uncertainty regarding AI regulation eased somewhat as major technology CEOs established agreements with US Federal policymakers regarding voluntary safety standards. A new AI Czar was appointed to provide regulatory guidance within a 120-day period.

Other cyclical and rate-sensitive sectors (financials, materials, utilities, and real estate) declined as bond yields rose.

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The US Federal Reserve (Fed) 25bps rate hike led to a strengthening of the USD relative to other currencies and the 10-year US Treasury yield closed at a 5.29% at month end – a multi-year high going back to 2007 levels.

YTD 2026 the US Dollar Index has gained 4% and gold has declined by 4%.

Oil and gas prices moved higher amid escalating US-Iran tensions, as Saudi Arabia's oil infrastructure faces continued threats from Iran-backed proxy groups including the Houthis. On a positive note, there has been a clear uptick in crude exports through the Strait of Hormuz since CENTCOM ramped up its maritime escort service in August but the sustainability of this approach to ship oil securely is questionable given the vast security resources required to ship oil out of the region.

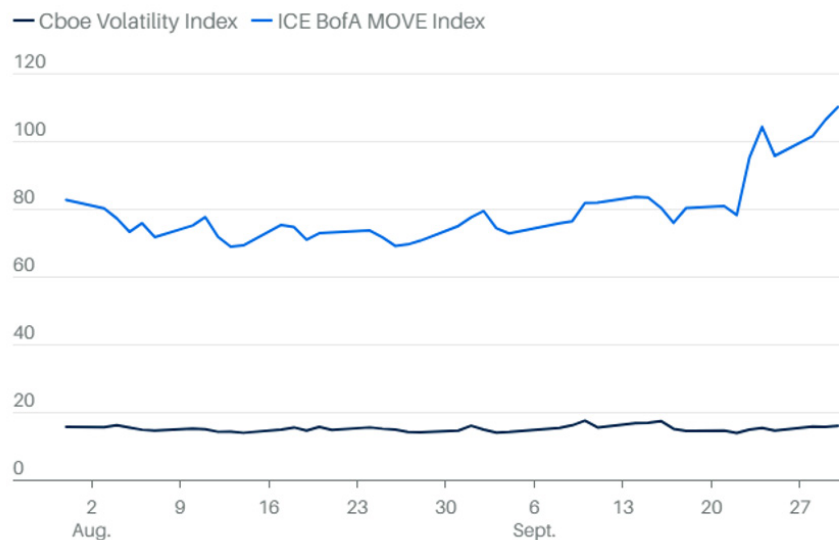
The G7 decision to tap strategic reserves is taking some of the immediate supply anxiety out of the price of oil, while there's a growing view that Saudi Arabia export volumes are moving back toward prewar levels, even if those barrels are still moving at higher cost and via less efficient routes.

The Fed rate hike served to flatten the bond yield curve, weighing on the financial sector that benefits from the higher spreads provided by a steeper yield curve. The 2-year to 10-year US Treasury bond yield spread was 40 bps at month end - or 32bps tighter than the beginning of the year.

The bond market volatility (MOVE index) increased sharply last

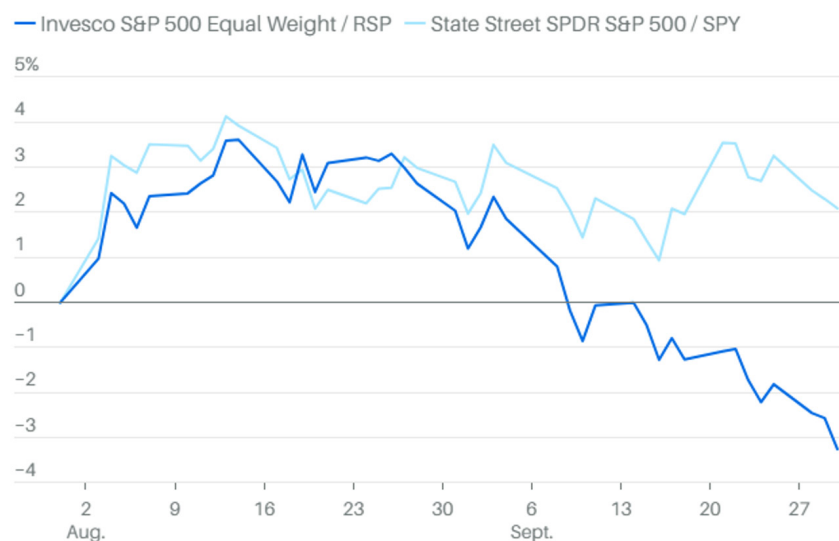
Chart 1: Stocks shrug as bonds shake

The bond market's volatility is not being reflected in the VIX



Source: Bloomberg

Chart 2: S&P 500 Equal weight gets weighed down



Source: Bloomberg

month while equity volatility (VIX) remained muted. See Chart 1.

While we consider the reasons for the recent rate repricing, and what it could mean for equities and bonds going forward, one thing is clear, the higher yields go, the more

attractive bonds become relative to other asset classes. The exact level of interest rates that would break the back of the equity rally is unknown, but higher nominal GDP growth does deserve a response from the Fed in terms of higher rates to retain its credibility.

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One concerning aspect of the S&P 500 performance last month was the poor market breadth.

Broad positive sector participation is a key element of a healthy market. The underperformance of the equal weighted S&P 500 index (down 5% last month) relative to the market cap weighted index highlights the fact that investors are allocating capital to a very narrow group of companies that are the leaders in the AI ecosystem and lower growth companies in more rate-sensitive sectors are experiencing price to earnings multiple compression. See Chart 2.

How narrow is the S&P 500 leadership?

Four companies have driven roughly half of the YTD 2026 S&P 500 performance. It is unsurprising that all four names are mega-cap information technology companies and three are semi-conductor companies that are the key beneficiaries of the AI data centre build out. See Chart 3.

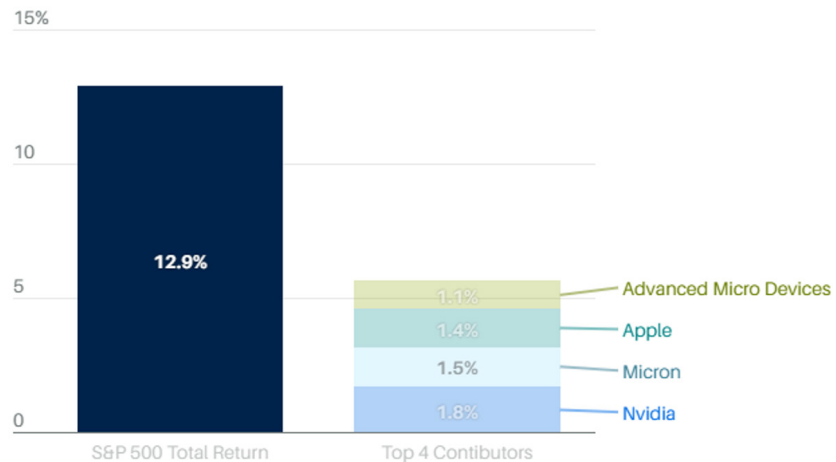
There are more S&P 500 constituent companies hitting 52-week lows than 52-week highs – a condition that has not occurred since 2000 during the tech meltdown. I want to be careful not to make a false comparison to the 2000 period because today's information technology leaders trade at more reasonable price-earnings multiple, have strong balance sheets and cash flows, and are the best growth companies in the market.

Equity markets remain choppy due to persistently high energy prices, rising bond yields, and a Fed that has restarted a monetary policy tightening cycle.

Chart 3: Tech support

Just four stocks are responsible for almost half of the S&P 500's year-to-date performance.

YTD contribution to S&P 500



Source: Bloomberg

Chart 4: AI data centre construction spending exponential five-year growth

Construction Spending for Data Centers, SAAR, Billion \$



Source: Census Bureau

A weaker than expected September US Jobs report did provide some relief on the interest rate front, but it is corporate earnings expectations that keep the markets buoyant for now.

Earnings for the S&P 500 are expected to rise more than 25% in the fourth quarter of 2026, and 2027 earnings are forecast to rise 15%. Although the rate of change of earnings growth may slow next

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year the level is still impressive and should drive equity markets higher.

The RBC Capital Markets 12-month S&P 500 price target remains 8,150, with upside risk. This target implies a gain of 6.5% from the September 30 close of 7,651 into year end.

RBC CM suggests a forecast for the S&P 500 that is higher but not heroic, and reflective of the idea that stocks can move up in the year ahead even though the path is unlikely to be a linear one.

The consensus estimate for S&P 500 earnings for end of Q4 2026 is \$353, growing to \$420 one year forward. Applying a 20x PE multiple to the S&P 500 forward earnings implies an 8,400 target a year out.

Earning growth is well supported by the explosive demand for all AI data centre inputs.

Since the beginning of 2021, the annual rate of construction spending on data centre has spiked by 823%. See Chart 4.

These amounts only reflect the construction costs of the buildings, the improvements around the buildings, and the equipment integrated into the buildings,

such as HVAC systems. But that represents the cheap part of a data centre build out.

Not included here is the expensive part: equipping the completed data centre buildings with servers and racks, with electronic and optical equipment to connect the servers to the internet, and with the electrical equipment that supplies the servers with prodigious amounts of power, including, in many cases, onsite diesel or gas-turbine power generators.

Broad US-based hyperscalers total capital expenditures (roughly 75% of the capex is from Microsoft, Alphabet, Amazon AWS, Meta, and Oracle) for 2026 and 2027 estimates are \$800 billion and \$1.25 trillion respectively.

Recognizing the magnitude of the AI spending, I continue to hold portfolio positions with direct exposure to the enablers of AI: semiconductors, power generation, back-up power, cooling, data storage, and servers and networks.

October tends to be a positive month for the S&P 500, averaging a 2.80% return over the past five years.

From 2001 until 2025, the TSX gained in 68% of Octobers and averaged a 0.4% return, while the S&P 500 averaged 1.6%. Volatility does tend to run higher, with the VIX averaging 21.8 in October, higher than in any other month, helping explain why investors often consider it a risky month. October earned a notorious reputation for sharp market declines (1929, 1987, and 2008) but technically sets up a seasonally strong market period from November to May.

I recognize that tactical risks remain; the ongoing US-Iran conflict, the US mid-term elections, higher interest rates and Fed hikes, and possible revision to earnings projections based on the AI build out.

I remain constructive on equities because earning growth should more than offset the monetary policy tightening cycle that has been well telegraphed and slow to be implemented and to date has been well absorbed by corporate America and the equity markets.

—RK



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