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Investor Strategy

The latest market insights from
Richardson Wealth

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Wealth

Defying gravity

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Bucking the September trend

Equity markets extended their winning streak in September, defying the month's reputation for weakness and closing out one of the strongest Septembers in years. Despite a few softer sessions late in the month, global equities posted broad-based gains as investors focused on moderating inflation, steady growth, and a friendlier central bank backdrop, while largely brushing aside risks that might have unsettled sentiment earlier in the year. The S&P 500 advanced 3.7% on a total return basis, its best September since 2010, while the Nasdaq climbed 5.6% as enthusiasm around AI continued to lift technology shares. Canadian equities also delivered standout performance, supported by strength in materials and record-high gold prices. The S&P/TSX Composite Index rose 5.4%, its best showing since 1997, and closed above the 30,000 mark for the first time. European and Asian markets joined the rally, with the STOXX 50 up 3.3% and China's CSI 300 advancing 3.2%, while Japan remained near all-time highs.

A September to remember

	Sep-2025	Q3	YTD
S&P/TSX TR	5.4%	12.5%	23.9%
S&P 500 TR	3.7%	8.1%	14.8%
Nasdaq (PR)	5.6%	11.2%	17.3%
Europe (PR)	3.3%	4.3%	12.9%
Japan (PR)	5.2%	11.0%	12.6%
MSCI Asia ex Japan	6.6%	10.2%	24.7%
FTSE Can Bonds	1.89%	1.5%	3.0%
U.S. Bonds	1.09%	2.0%	6.1%

** local currency*

Average Monthly Returns

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Sep 2025
S&P/TSX	0.9%	0.6%	0.3%	1.0%	1.3%	-0.5%	1.1%	-0.1%	-1.1%	0.6%	1.4%	1.3%	5.1%
S&P 500	0.4%	0.1%	1.0%	1.5%	1.1%	0.1%	1.5%	-0.5%	-0.7%	1.4%	2.2%	1.3%	3.5%

Source: Bloomberg, As at Sept 30, 2025. Data since 1990

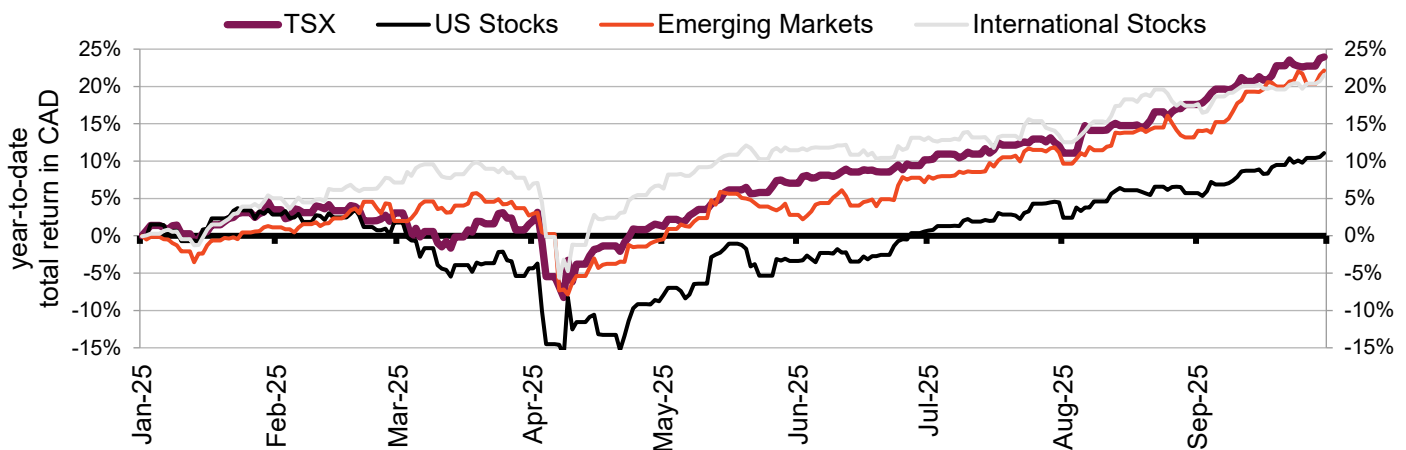
Economic data released over the month provided further reassurance. In Canada, GDP rose 0.2% month-over-month in July, breaking a three-month streak of declines, supported by gains in manufacturing, transportation, and resource industries, although trade frictions and a softer labour market remain constraints. In the U.S., second-quarter GDP was revised upward to an annualized 3.8%, the fastest pace in nearly two years, as consumer spending and business investment proved stronger than expected following a first-quarter contraction. Early third-quarter indicators also point to resilient momentum, underpinned by solid consumer demand and equipment spending. The Bureau of Economic Analysis' annual revisions showed that real GDP grew at an average annual rate of 2.4% from 2019 to 2024, portraying an economy that rebounded quickly from the pandemic shock. Since then it has transitioned to steady growth, even as inflation remains somewhat elevated.

Central banks stayed in focus as both the Bank of Canada and the U.S. Fed delivered 25-basis-point rate cuts in September, signaling a gradual pivot toward policy easing. The BoC lowered its overnight rate to 2.50%, citing a weak growth backdrop and cooling inflation, while the Fed reduced its target range to 4.00%–4.25% amid moderating price pressures and softer labour data. Both emphasized a data-dependent approach, keeping the door open for additional cuts if economic momentum slows. The Bank of England, however, opted to hold rates at 4.00%, maintaining a cautious stance amid persistent inflation concerns. Bond markets were mixed as investors weighed the balance between easing policy, growth trends, and supply dynamics. Still, aggregate bond indexes ended higher, with the FTSE Canada Universe Bond Index up 1.9% and the Bloomberg U.S. Aggregate Bond Index gaining 1.1%. Looking ahead, October has historically brought increased volatility, and with fiscal negotiations ongoing in the U.S., potential data delays, elevated valuations, and lingering geopolitical risks, markets may face a more uneven path in the weeks ahead.

Q4 outlook – mildly defensive

At the three-quarter mark of 2025, how can we sum up the year in a single word? Awesome! Canada's TSX is up an eye-popping 24% this year, breaching the 30,000 level. U.S. equities are the laggard at +10% (in Canadian dollar terms) compared to 25% for Europe, 15% for Japan and 21% for emerging markets. This market keeps shaking off tariffs, political uncertainty, deficit concerns, soft economic data and sticky inflation. Bonds are up mid-single digits, with higher returns for those with more credit risk. Awesome.

After the tariff-induced drop, it has been smooth sailing



Source: Bloomberg Purpose Investments

If you are scratching your head as to how this market just keeps on climbing, you are not alone. There isn't any great news story driving markets up, it is more a middling of factors. Inflation hasn't gone away, but it hasn't gone up much either. Economic data softened somewhat in Q2 but firmed up enough recently to soften growth concerns. Same with earnings estimates, which softened in Q2 but in Q3 saw revisions to the upside. Let's call all these macro fundamental factors and say there is nothing huge to the upside or downside, perhaps it's even boring. Markets like boring.

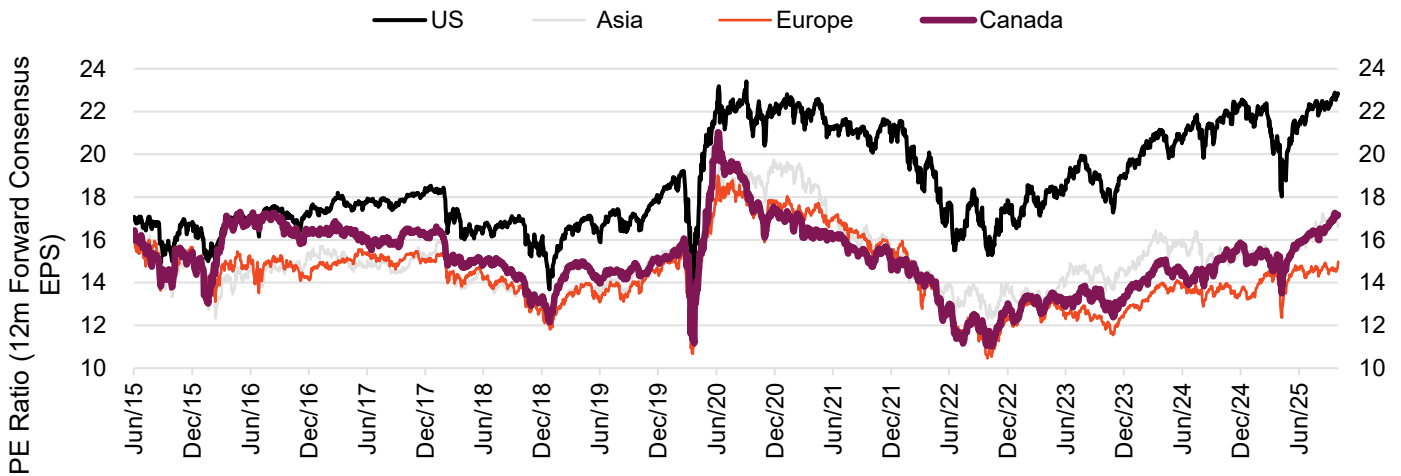
The macro fundamental data may be boring, but the headlines certainly are not. There may be a temporal lesson ahead for investors. The impact of policy changes whether interest rates, tariffs or any regulation, are never immediate. It takes time as things adjust gradually. Meanwhile the markets often overreact on the initial news but then quickly move on, perhaps even forgetting about it. For example, tariffs are continually having a larger impact on prices and trade, while the equity markets have clearly moved on. As policy changes gradually make their way through the economy and into earnings, things may not remain boring for long.

Mildly defensive heading into the final quarter of 2025

Perhaps the most frequent question that's been popping up is: Can this keep going? In what was shaping up to be a challenging investment year, gains have been strong albeit with a few bumps along the way. With a plain vanilla 60/40 portfolio up around 10-12%, it's only natural to want to tilt a bit more defensive. We would concur. Heading into Q4 we do have a bit of a defensive tilt with a mild underweight in bonds, and increased holdings in cash and diversifiers.

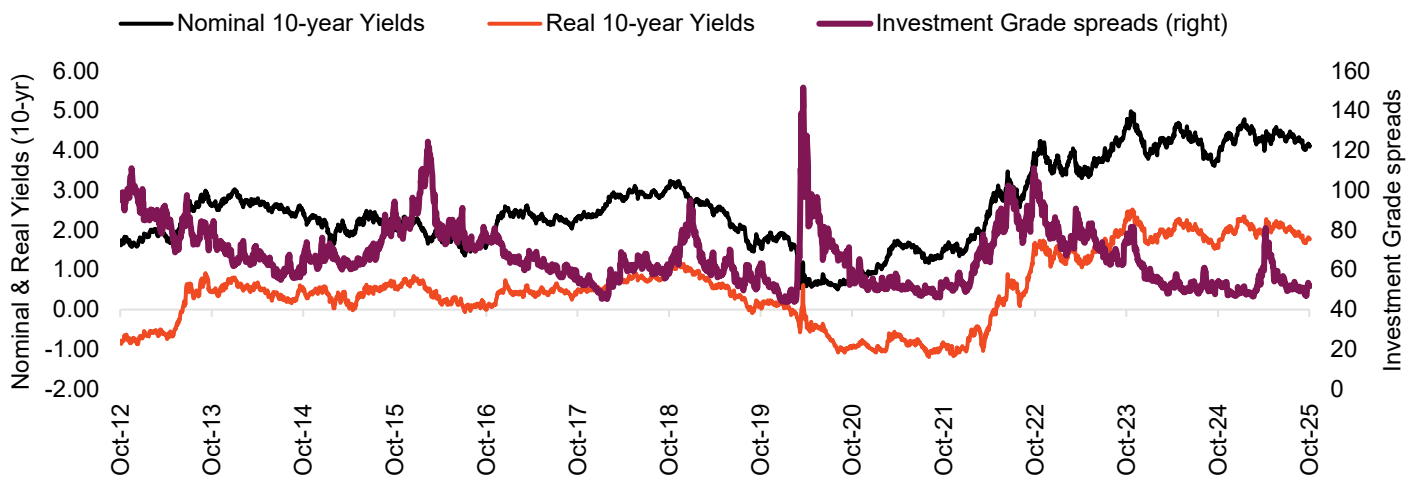
The relative valuations between equities and bonds are actually pretty close right now, based on equity risk premium or our adjusted Fed valuation model. The challenge is that neither is overly attractive after the run this year. We will pick on the U.S. market a bit, acknowledging it has been the laggard from an equity performance perspective. The price-to-earnings ratio of 23x has proven to be an upper limit for valuations a number of times over the past few years. The TSX, thanks to strong gains this year mainly driven by multiple expansion, isn't cheap like it used to be. Same with Asia, and perhaps Europe remains on the cheaper side. Add it all up, and equity valuations are not overly compelling.

Valuations - Not as compelling after this market run



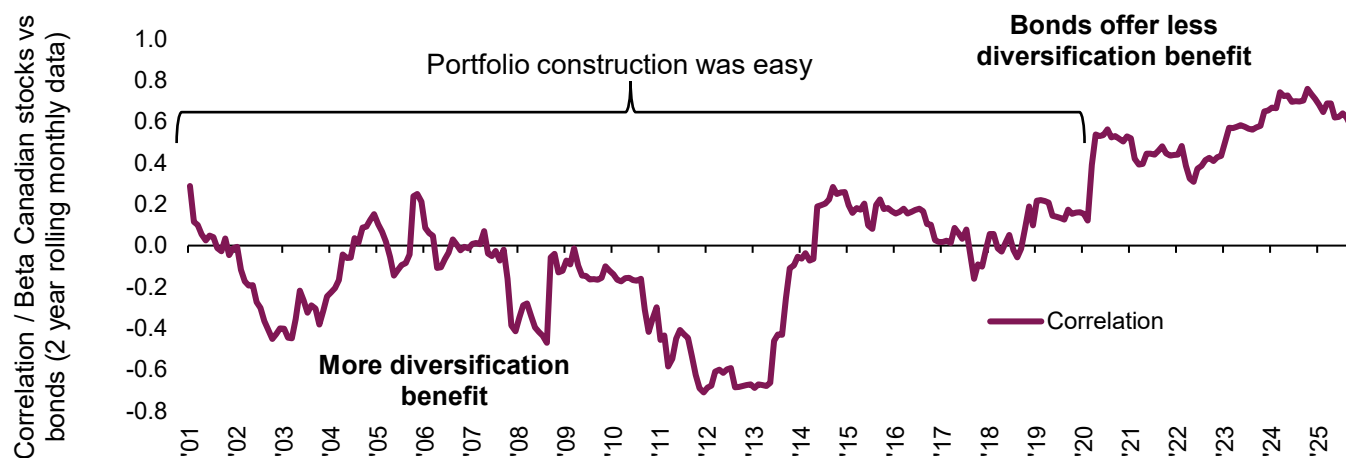
Bonds too. Yields, based on 10-year Treasuries or Govies, have been somewhat rangebound between 4-5% over the past few years (a lower range for Canadian yields). Currently, yields are closer to the lower end of that recent range. The real yield on U.S. 10-years is running about 1.8%. Not bad, but not great either. And then throw on credit spreads at very low levels. Add this all up and we are not negative on bonds, which carry a decent yield compared to years past, but not really excited either at this point.

Nominal & Real yields are decent but have dipped of late, while spreads are very tight



With a mild underweight in bonds, neutral on equities, we are parking extra capital in cash and diversifiers. Diversifiers help, especially given bond/equity correlations remain elevated, which may continue to mute portfolio stabilizing characteristics of bonds. The extra cash is there to be opportunistic should there be a period of market weakness ahead, perhaps in Q4.

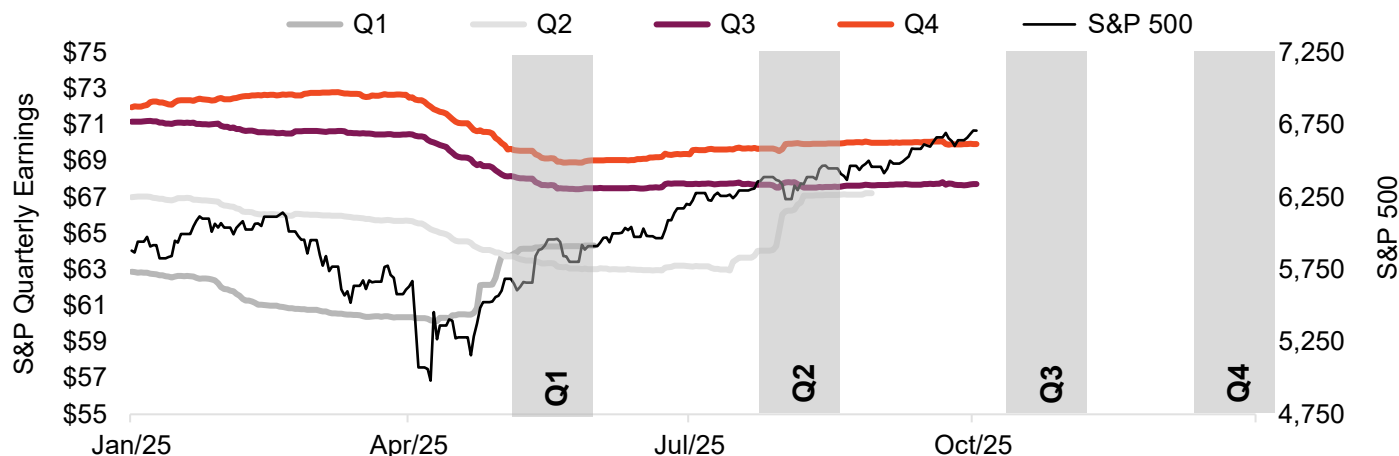
Bond / equity correlations remain elevated, muting the diversification benefit of bonds



What could upset this rally – To say this market advance since April has been resilient is an understatement. Anecdotally, it seems that any bit of bad news only has a fleeting impact on market prices, which then push higher. This is thanks to decent macro fundamentals from mildly improving economic data, inflation that isn't accelerating and positive earnings revisions. Outside of a complete surprise from left field (always possible), we remain most focused on the upcoming Q3 earnings season, any signs of inflation heating up or if the softness in labour markets spread within the economic data.

Q3 earnings season will be interesting. The pattern for Q1 and Q2 saw estimates revised materially lower, and then the actual earnings easily beat the lowered bar. Again, this may go towards that temporal lesson awaiting investors. Uncertainty and the impact of tariffs have been mild so far and companies have navigated well by pulling levers to mitigate the impact on the bottom line. Will this continue or will these factors start to show up in Q3 or Q4 or even later? That is the risk as estimates have ticked up somewhat for the upcoming quarters.

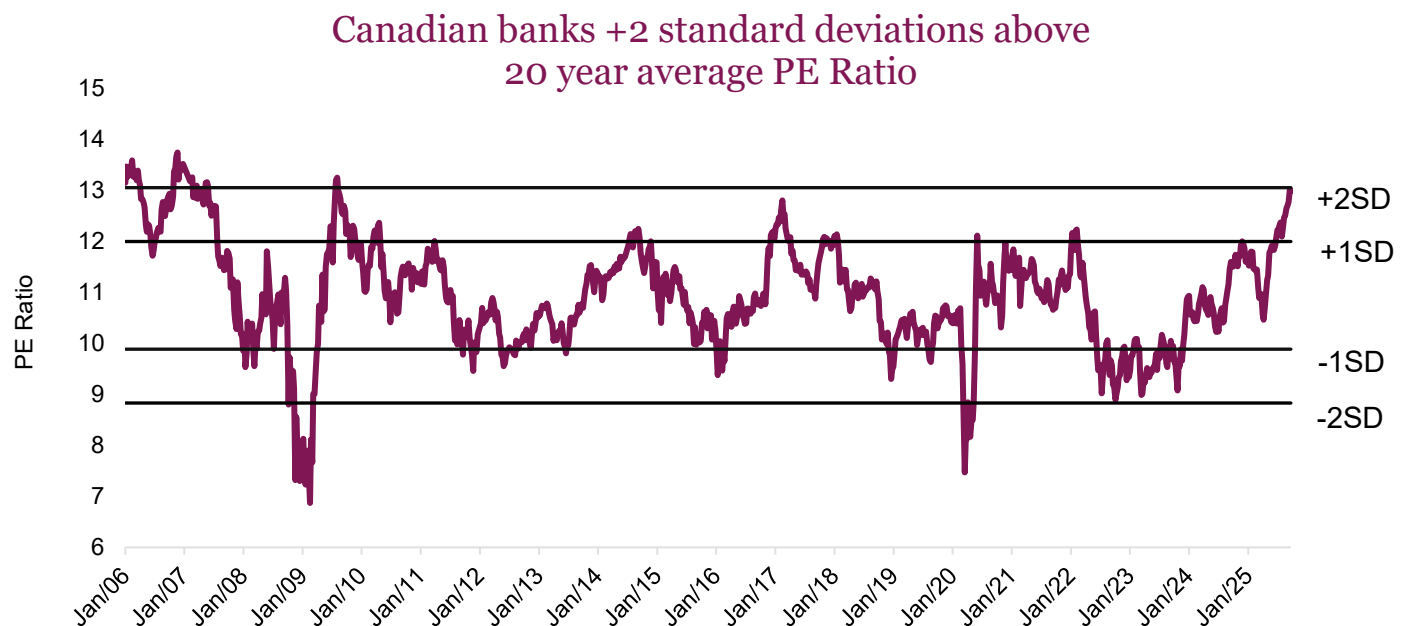
This market will likely need Q3 & Q4 to punch above estimates to continue



There are lots of positives as well. Global growth has been improving — a weaker U.S. dollar is rather positive for many markets and factors. Let's just say as this market moves higher, we incrementally become a bit more cautious and have an allocation that has lots of flexibility should we run into something disruptive. Tilted a bit defensive, but with enough exposure to enjoy if this rally continues.

Less Canada

We are less enthusiastic about Canadian equities as we head into Q4, in part thanks to their resounding success in the previous three quarters. 17x is a bit expensive for Canada as the vast majority of gains this year have come from multiple expansion. TSX valuations should always be taken with a grain of salt given the composition of the index. With about 40% of gains coming from the Materials sector, which is dominated by gold, we are happy given our positive exposure to gold but wary of these gains disappearing just as quickly.



Source: Bloomberg, Purposee Investments

Maybe gold will just keep going. It is expensive though. A bigger concern is with the beloved Canadian banks. The Canadian economy is not doing great, after a negative Q2 GDP print and expectations of almost no growth in Q3. Meanwhile the banks, which are sensitive to domestic economic growth, are trading at valuations 2 standard deviations above the historical average. Is this the time to be giving Canadian banks a premium valuation?

Outside of the lift from gold exposure, it's all about fund flows. It appears that global investors are, at the margin, looking to diversify a bit away from America. Canada is receiving its share of those flows, as are international equity markets. That is helping push the TSX higher. We do believe this trend will continue, but it will be limited by higher valuations.

This does have us more constructive on the international side of equities.

More international – constructive on Japan

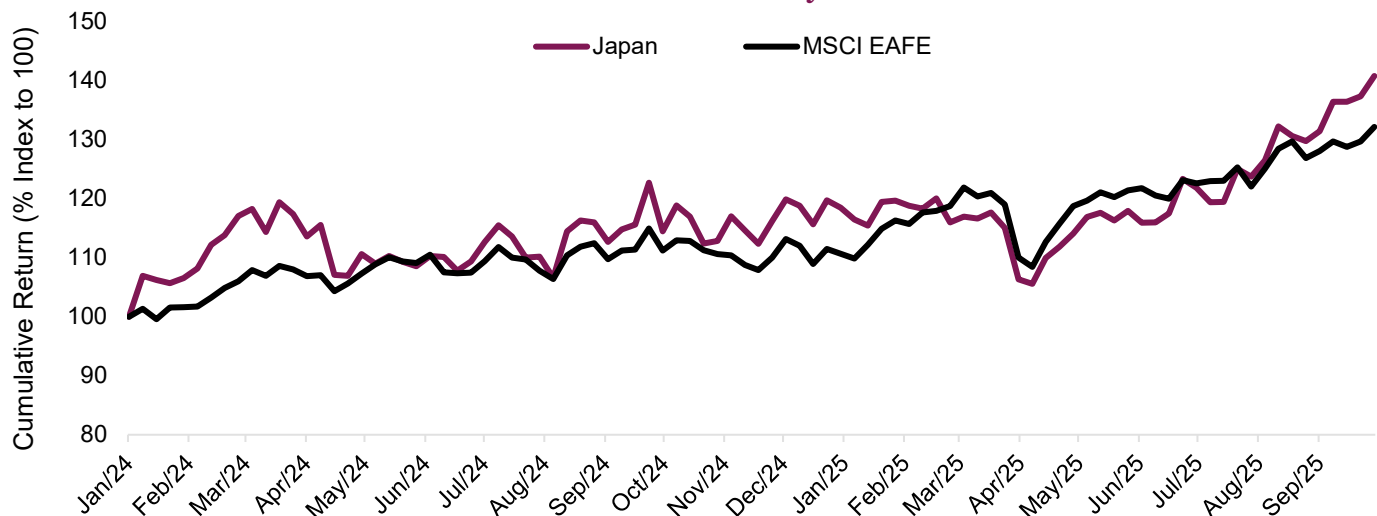
We have a positive view of international equities, namely developed Europe & Asia plus emerging markets. The U.S. equity market has dominated performance for 15 years, so no question Asia and Europe are due. But there are other factors that support this view. The currency setup, with the U.S. dollar still overvalued and losing some of its reserve currency status, is one factor. There has also been a change in focus from policy, with the U.S. enacting policy that is less investor friendly, while many international governments are adding to fiscal growth spending and tackling regulations.

This could lead to a long-term great rebalance of global portfolios, that will gradually cause fund flows to become more global and less America-weighted. Given most portfolios are still very overweight U.S. equities, this could be a very long-term trend.

One area of international that doesn't see much attention is Japan. Decades after a spectacular crash, Japanese markets have been quietly roaring back. Thirty-four years in the making, Japanese markets finally broke out to new highs last year. Since that time, the Nikkei has endured two 20%+ pullbacks (in local currency) but is now back on track.

Year to date, the Nikkei is up 16.7% YTD in local terms. However, in Canadian dollar terms it is up 21%. So far, it's been lagging other developed international markets this year but that is beginning to change as seen in the chart below. Since the market bottomed post-Liberation Day, the Nikkei is up 44% in dollar terms compared to ~30% for broader developed international market indices and the S&P 500. Most of that difference has occurred just in the past three months, where Japanese markets have risen over 10%. Our bullish view on Japan centers on four key pillars: Modest Yen appreciation, recovery of the Japanese economy, corporate earnings growth, and ongoing corporate reforms.

Japan pulls ahead of developed international equities since Liberation Day



Source: Bloomberg, Purpose Investments

Behind the buying - So, what's different this time? There are a variety of forces pushing Japanese markets higher. As the old adage from any political thriller goes, just 'follow the money'. Tokyo Stock Exchange data shows it's not just one group driving the move. Foreign investors are steady net buyers, domestic retail investors are slowly returning, and corporations themselves are stepping in as net purchasers. There is a noteworthy counter-acting force: the Bank of Japan. They've now begun to unwind the ETFs sitting on their balance sheet. At the moment the pace is quite small, and it would take them over 100 years to fully exit all ETFs. It's a tug of war, but given the amount of international capital pouring in, the war has been somewhat lopsided.

Currency - The Yen remains spectacularly weak and has been since the BoJ decided to keep monetary policy very easy compared to other countries. Back in 2021, one dollar was worth 102 Yen, now it's around 150 Yen. That's a big reason why so many people you may know have been visiting Japan. A weak Yen isn't just good for tourism; it's also a big demand driver for the export-centric economy. Since the Bank of Japan first hiked rates last year, the Yen has begun to appreciate, which is an added boost for foreign investors of Japanese assets. Now, that the BoJ and the Fed are moving in different directions, rate differentials that sustained the carry trade are beginning to erode. It remains profitable but less so, diminishing the counterforce keeping the Yen weak. One caveat around the Yen is that it is also one of the bigger risks. Runaway Yen appreciation could again unsettle the carry-trade, which as we saw last August, can very quickly rattle markets.

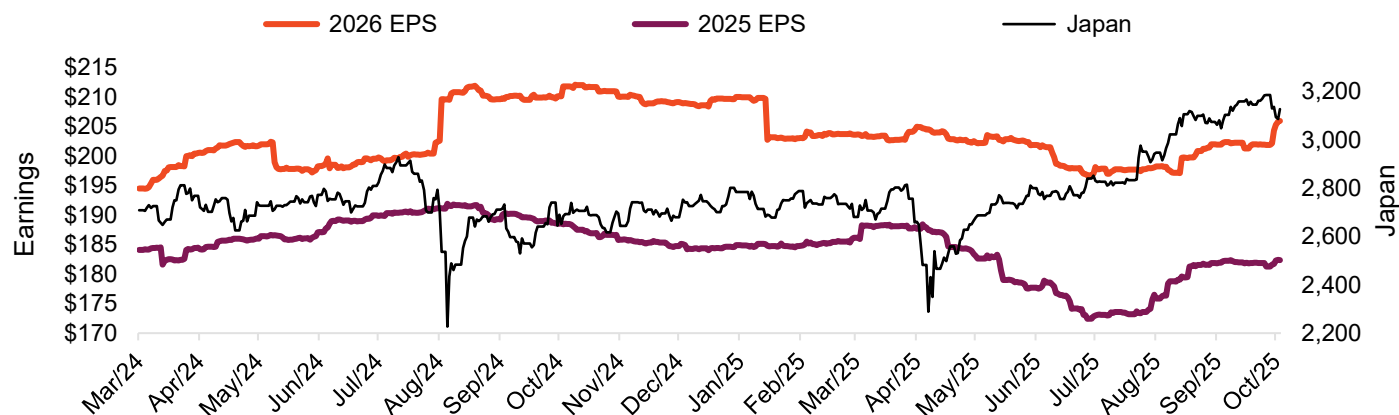
Yen remains very cheap



Source: Bloomberg, Purpose Investments

Economic shift and the boardroom evolution - For the first time in a generation, Japan is breaking out of a deflationary backdrop. It's now in a sustained period of nominal growth, and normalized inflation which translates to a higher stock market. Unlike Canada where the stock market and economy can sometime move in very different directions, Japanese equities are very much tied to the Japanese economic engine which is again moving along at a decent clip.

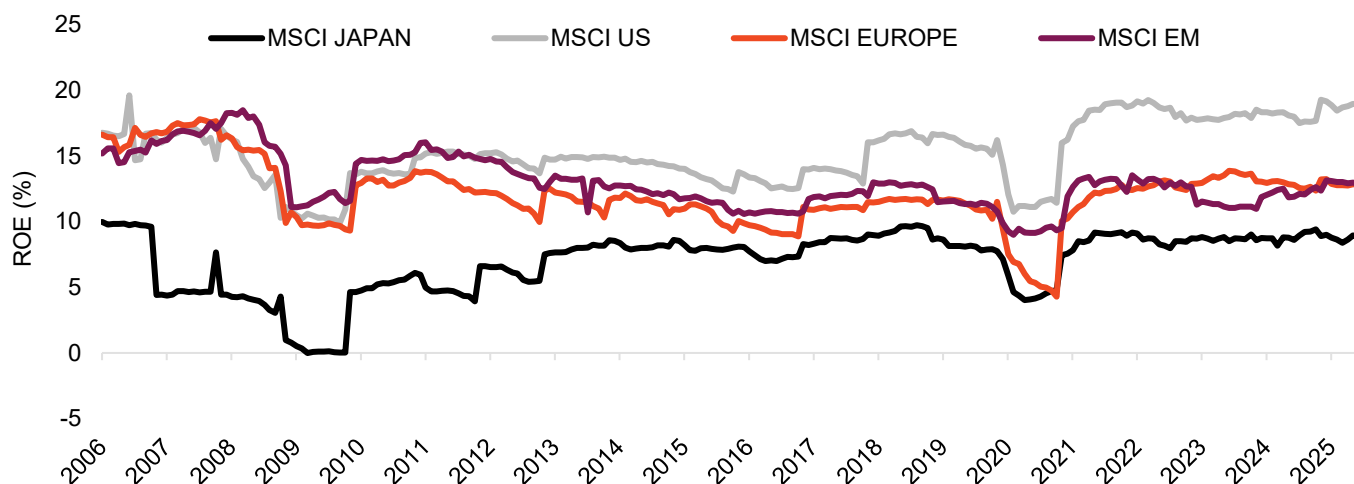
Earnings have ticked up over past few months.
Currently pricing in 13% growth from '25 to '26



There is a quiet revolution changing Japanese board rooms, which have historically been very conservative and not the most rewarding place for equity ownership. Japanese companies are known for making quality products, but the companies don't always make big profits. Their culture has emphasized stakeholder capitalism, with surplus value distributed between customers, employees, suppliers, and society at large — with shareholders further down the list. While still in place, there have been some very real government actions to pressure firms to improve capital efficiency. This renewed focus on returns should continue to pay dividends (literally) for shareholders as well as some large buybacks. While the profitability conundrum remains somewhat unsettled, it is moving in the right direction, which is a big opportunity.

We have a strong belief that the pro-business policies now in place should drive earning improvement over the next few years. Profitability based Return on Equity is still quite low compared to other markets as seen in the chart below, which means lots of room for improvement. Earnings expectations have begun to pick up in a meaningful way. 2026 EPS expectations have seen a substantial move higher, and the market is currently pricing in around 13% growth from 2025 levels.

Corporate Japan isn't all that profitable still
compared to rest of the world

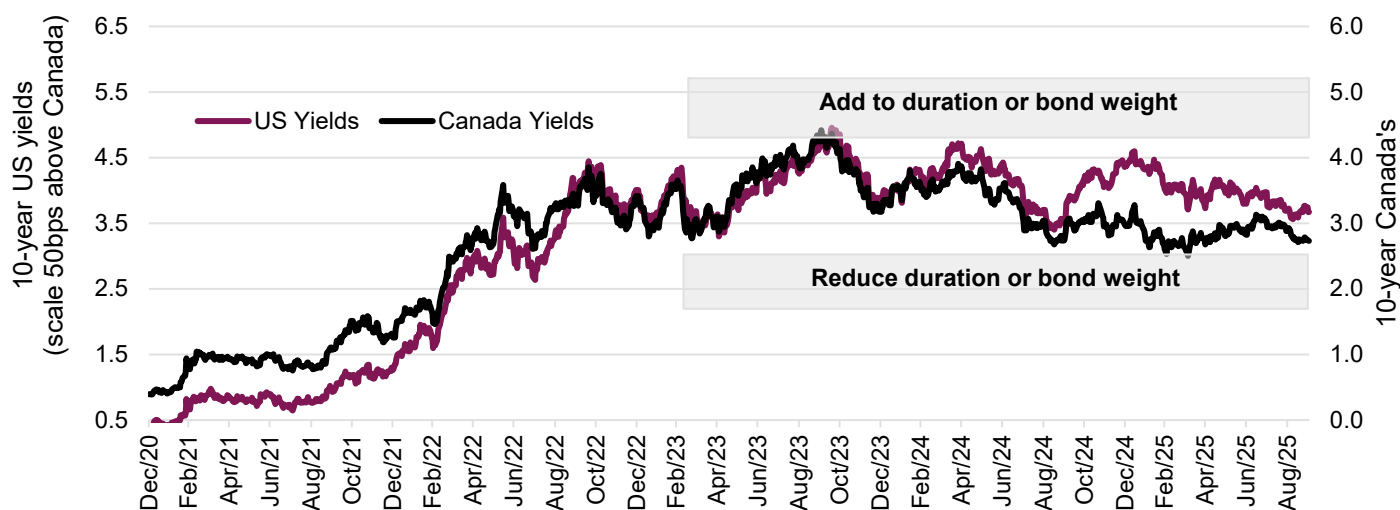


We have been looking intently at emerging markets and Japan over the summer, and just recently added some more international exposure via emerging markets with profit taking proceeds from our gold position, making us a little hesitant for now on Japan. However, for Canadian investors looking to diversify internationally, Japan deserves some consideration. The country is experiencing a real economic reawakening alongside long-overdue corporate governance reforms — both of which are creating opportunities for equity investors. The Yen's weakness continues to support exporters, and at roughly 16.5x forward earnings, Japanese stocks aren't expensive given the improvements we're seeing in profitability and capital allocation. While U.S. and European markets have captured most of the attention, Japan offers a market undergoing structural change that's still reasonably priced. It's exactly the kind of diversification that makes sense in today's environment and offers a great complement to passive international exposure which does not own enough developed Asia from our point of view.

Cooling duration

Bond yields moved toward the lower end of their recent ranges over the quarter. We had been constructive on carrying duration given the risk of a soft patch in the second half of 2025. While that outcome is still possible, the probability has diminished. The U.S. economy remains resilient and global growth has improved, and the recent decline in yields has reflected that backdrop. For yields to move materially lower from here, we would likely need to see a cooling in economic data. It is more plausible that firmer activity, tariff effects, and ongoing labour tightness keep near-term inflation pressures elevated, which would push yields higher. Against that outlook, we are not looking to add duration and prefer to keep bond portfolios near current positioning.

Yields rangebound - But at lower end of range

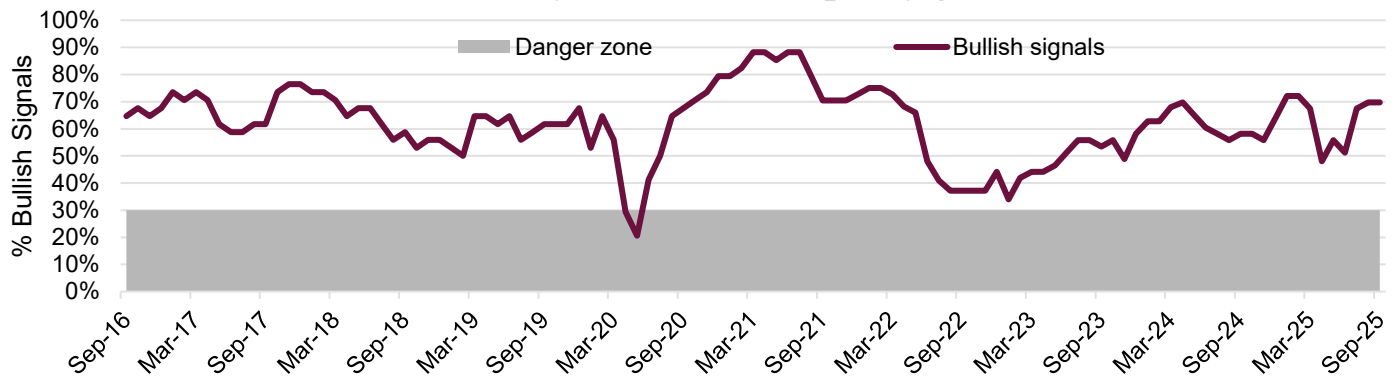


Source: Bloomberg, Purpose Investments

Market cycle and portfolio positioning



































































































With the economic data improving somewhat, it comes as no surprise that the Market Cycle indicators have remained healthy. These are a compilation of economic, sentiment, market and fundamental indicators. The soft area remains the U.S. economy that is slowing somewhat. Consumer sentiment turned negative, and while there were improvements in housing industry data points, manufacturing lost some of its previous momentum.

Market cycle indicators - pretty good



Source: Purpose Investments, Bloomberg

Market cycle indicators

Grouping	Metric			Better/ Worse	Grouping	Metric			Better/ Worse
Rates				0 / 3	Global Economy				4 / 4
	Net Cuts			-		Global PMI			+
	Yield Curve			-		Copper (6m)			-
	Yield Curve 3m			-		DRAM (3m)			-
US Economy				10 / 9		Oil (3m)			-
	Leading Ind (3m)			-		Commodities (3m)			-
	Leading Ind (6m)			-		Baltic Freight (3m)			+
	Phili Fed Coincident			+		Kospi (2m)			+
	Credit (3m)			-		EM (2m)			+
	Recession Prob (NY Fed)			+	Fundamentals				8 / 4
	Recession Prob (Clev Fed)			+		US: PE			-
	Citi Eco Surprise			+		US: EPS Growth			+
	GPD Now (Atlanta Fed)			+		US: EPS 2FY v 1FY			+
	US Unemployment			-		US: 3m EPS Revision			-
	Consumer Sentiment (3m)			-		Canada: PE			-
Manufacturing						Canada: EPS Growth			+
	PMI			+		Canada: EPS 2FY v 1FY			+
	PMI New Orders			-		Canada: 3m EPS Revision			+
	Energy Demand (YoY)			-		International: PE			+
	Truck Demand (YoY)			+		Int: EPS Growth			+
	Rail (YoY)			-		Int: EPS 2FY v 1FY			+
Housing						Int: 3m EPS Revision			-
	Starts (1yr)			-					
	Months Supply (6m)			+					
	Home Sales			+					
	New Home Sales			+					
	NAHB Mkt Activity			+					

Source: Purpose Investments, Bloomberg

The good news remains the global economy, where all signals are bullish. There is stronger economic momentum outside of North America at the moment. Fundamentals are encouraging as well with earnings factors all positive, apart from valuations for the U.S. and Canada. Overall, still supportive of a cycle continuation.

Portfolio positioning

House View		Underweight		Neutral	Overweight	
Overall	Equity			•		
	Bonds		•			
	Cash				•	
Equities	Canada		•			
	U.S.			•		
	International				•	
	Emerging Markets	•	→ •			
	Style Allocation (Value<---->Growth)			•		
	Size (Small <---->Large Cap)				•	
Fixed Income	Government			•		
	Credit			•		
	Investment Grade				•	
	High Yield		•			
	Duration		•			
		Passive			Active	
	Management Approach			•		

Final note

2025 has been an awesome year, from an investment perspective, gains a-plenty and few pain points. Improving global economic data is encouraging, as is the robust spending on the AI buildout. But how much of the good news is priced in already? We would say a good amount, which does have us tilting a bit more defensive.

Maybe earnings start to feel the strains of tariffs and policy uncertainty, maybe inflation picks up, maybe the economic growth falters. That is a lot of 'maybes' eh? With no clear and present danger visible, this is often when surprises come. It is usually easier to make money climbing a wall of worry, not surfing market euphoria.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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