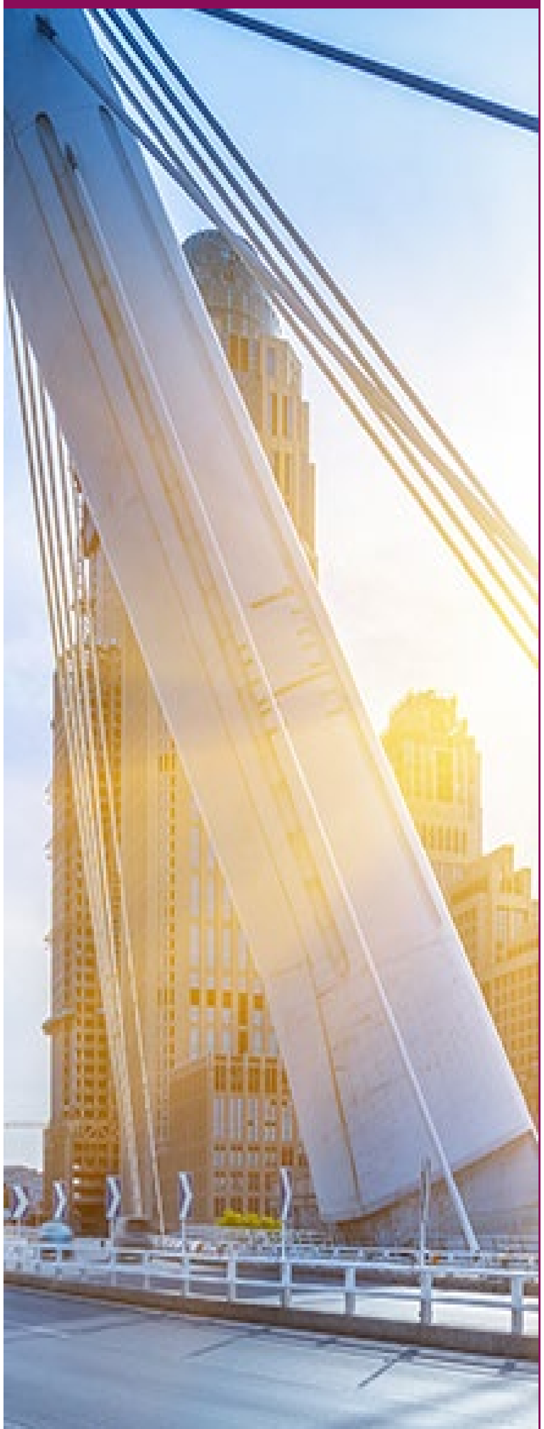
8 September 2026

Investor Strategy

The latest market insights from Richardson Wealth



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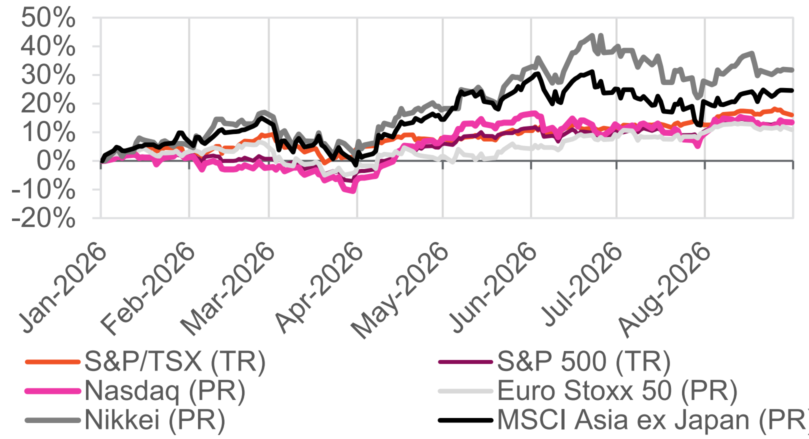
An eventful end to summer

Global equity markets moved higher in August as resilient economic activity and a strong corporate earnings season outweighed concerns surrounding higher interest rates, geopolitical tensions, and elevated energy prices. In Canada, the S&P/TSX Composite gained 3.1% during the month on a total return basis, bringing its year-to-date return to 16%, while the S&P 500 rose 2.7% and the Nasdaq gained 3.9%. Canadian equity market strength was highly concentrated, however, with eight of the TSX's 11 sectors declining. Materials provided the greatest source of support, rising more than 25% as gold prices climbed nearly 10% and gold mining shares rallied roughly 30%. In the U.S., tech stocks resumed their leadership following July's weakness, helped by another strong earnings season and continued investment in AI infrastructure. Semiconductor shares recovered, while software companies also performed well as solid fundamentals helped offset concerns about potential disruption from AI. Developed and emerging markets also posted gains, with Japan benefiting from tech-related strength and a weaker yen, while Taiwan stood out among emerging Asian markets amid continued enthusiasm around AI and semiconductors.

Performance: Resilient markets

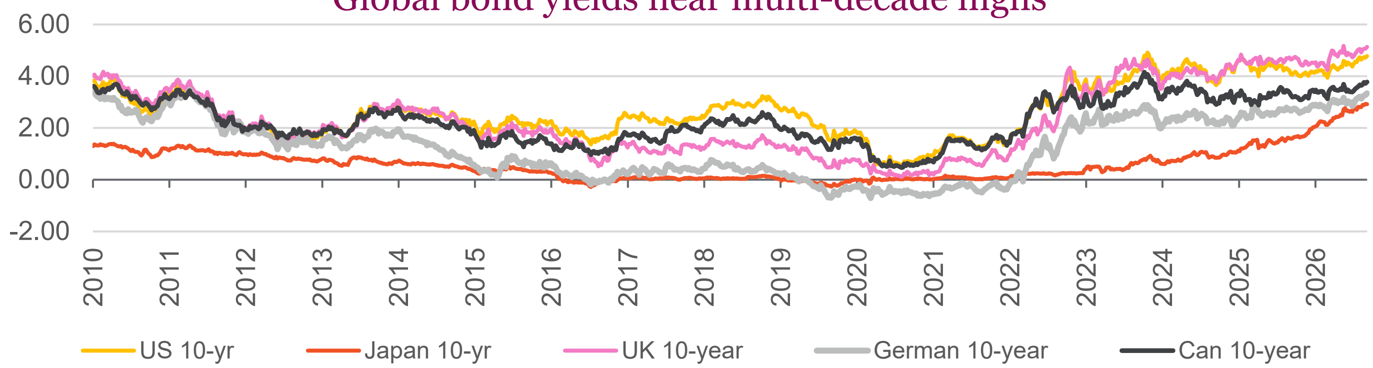
	Aug-2026	YTD
S&P/TSX TR	3.1%	16.0%
S&P 500 TR	2.7%	13.1%
Nasdaq (PR)	3.9%	13.5%
Europe (PR)	1.0%	10.9%
Japan (PR)	3.0%	31.7%
MSCI Asia ex Japan	3.2%	24.6%
FTSE Can Bonds	-0.21%	0.5%
U.S. Bonds	0.39%	-0.3%

** local currency*



Trade uncertainty also returned to the forefront for Canada after negotiations with the U.S. broke down late in the month. The U.S. announced 50% tariffs affecting roughly $20 billion of Canadian exports, prompting Canada to respond with counter-tariffs on approximately $20 billion of U.S. goods beginning in September. With nearly $900 billion in goods and services exchanged between the two countries last year, a prolonged dispute represents a significant risk to the Canadian outlook. The dispute also complicates the Bank of Canada's policy outlook, as weaker exports could weigh on economic growth and retaliatory tariffs add to inflationary pressures.

Inflation fears abound:
Global bond yields near multi-decade highs



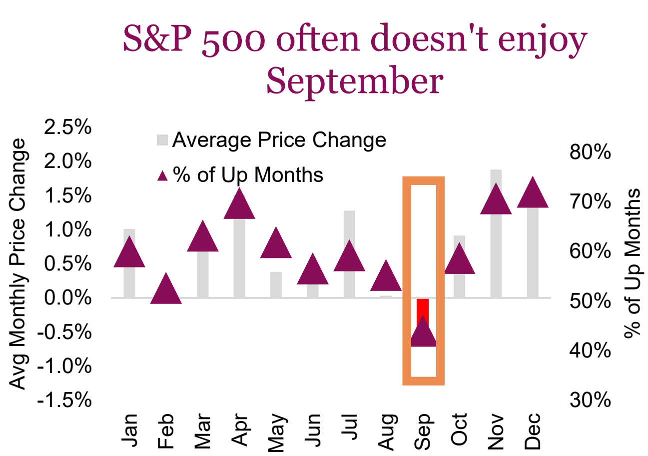
Fixed-income markets faced a more challenging environment as persistent inflation, large fiscal deficits, heavy government borrowing, and substantial AI-related capital spending contributed to upward pressure on longer-term interest rates. The FTSE TMX Canada Universe Bond Index declined -0.21% in August and is now up just 0.45% year to date, while the U.S. Aggregate Bond Index gained 0.39% for the month but remained down -0.31% year to date. Inflation has remained stubborn as supply disruptions, tariffs, higher energy costs, and strong demand associated with the AI infrastructure build-out have added to price pressures. Fed Chair Kevin Warsh reinforced expectations that monetary policy could remain restrictive, noting at Jackson Hole that recent inflation data had not improved enough, with markets now pricing in the possibility of additional rate hikes. Long-term sovereign yields remained elevated across several major markets, with the U.S. 30-year Treasury yield briefly reaching its highest level since 2007 and yields also moving higher in Canada, Europe, and Japan. With long-term yields near multi-decade highs and equity valuations elevated, markets are becoming more and more dependent on continued earnings growth to justify current valuations. Further increases in rates, a prolonged U.S.-Canada trade dispute, or a deterioration in economic momentum could therefore weigh on sentiment in the coming months. We will dig more into tariffs and yields shortly.

Heading into fall with challenges ahead

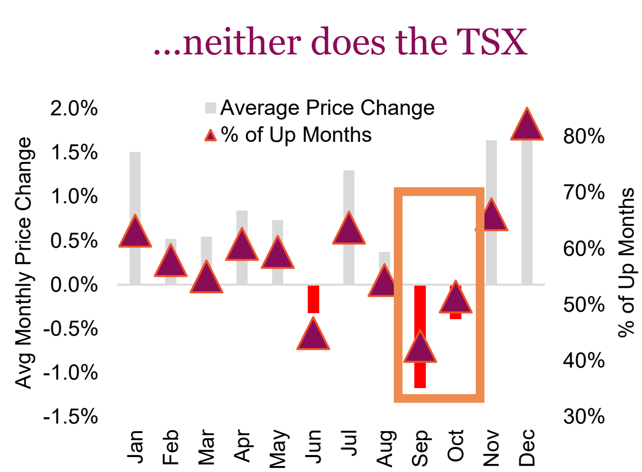
This one likely has something for everyone. Flows have lifted Canada's equity market causing an interesting dispersion: dividend yields down, bond yields up, tariffs 2.0 and, to kick things off, we are entering a challenging seasonal period for markets.

As summer winds down, markets are now heading into the more challenging season: the often-feared September and October gambit. Why this happens, who knows. Maybe after the historically lower volume summer months, investors return from their summer break and want to make changes. Perhaps because sunny days have a correlation to the U.S. market on a daily basis, and there are fewer sunny days ahead. Don't get excited, it is a weak correlation and if you were going to follow it, you would then be investing based on the weather forecaster's prediction for sun the next day.

Whatever the reason, we are entering these challenging months. For both the TSX and S&P, September has historically been the worst month (on average). Averages can hide more than they reveal, but the percentage of up months and the median are also the lowest. October is pretty wild, with greater dispersion before the much more pleasant November/December period kicks in. The TSX suffers even more during this period.



Source: Bloomberg, Purpose Investments, 1951 to 2026



Adding an additional twist, the U.S. midterm elections are approaching. We could data mine the heck out of this, make some fun charts, quote a bunch of averages. Instead, let's all just agree this is a more challenging time for markets. Throw in a good economy, an AI bubble, bond yields getting too high, Hormuz still somewhat closed, awesome earnings, and new tariffs … it may sound daunting but let's not forget markets are up decently so far this year and have posted pretty impressive gains for the past couple years. Maybe we are due for a few bumps as the weather starts to turn.

Flows: Don't touch the tap

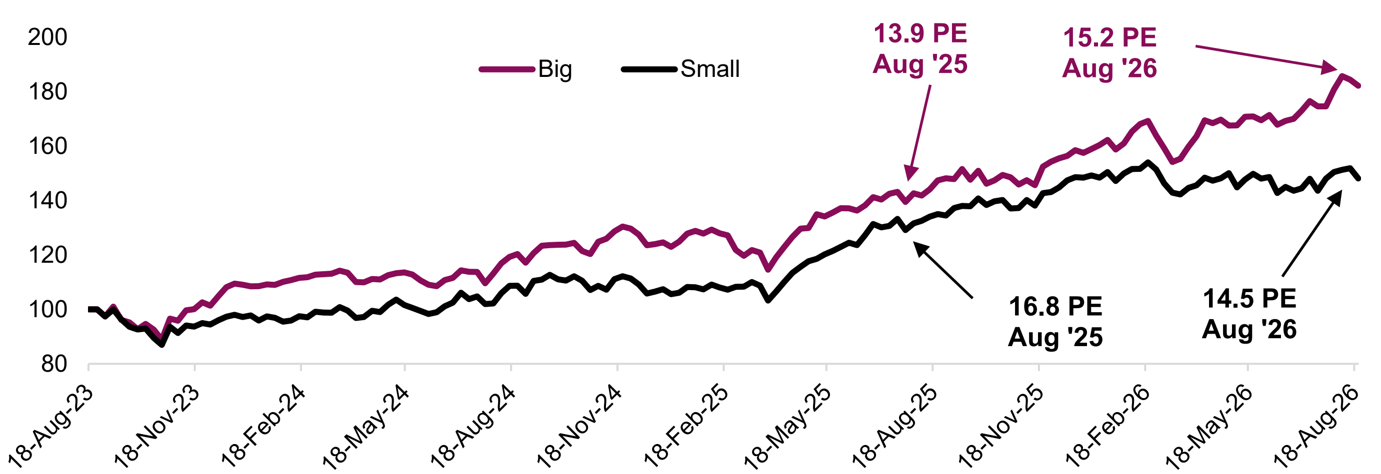
However you choose to measure it, the inflows into Canadian equities have been well above longer term trends over the past few quarters. Many narratives abound to explain these flows. After decades of increasing U.S. equity exposure among global portfolios, a trend appears to have surfaced that is marginally more balanced. This has increased flows into Canada, Europe, Asia and emerging markets. Not saying money is coming out of America, but on the margin a new dollar is going a little more outside the U.S. compared to years past.

Maybe this is driven by policy uncertainty, concentration risks or simply looking to diversify. Perhaps our new leadership or resource-heavy index have attracted flows. Whatever the motivation, this has really helped the TSX. Based on Bloomberg total return indices in Canadian dollars, over the past two years Canada is #1 vs U.S., Asia, Europe and emerging markets.

Once you are done celebrating our rank, there is an interesting byproduct of these flows beyond simply lifting the TSX higher. Canada is a particularly liquid market, as once you get below the top 30 names or so, it can take a while to build or exit a position. Past the top 60 names, you had better be prepared to hold onto that name for a while. As a result, when global flows increase most of those dollars likely get directed into the Canadian megacaps (not to be confused with U.S. megacaps — that is a whole different league).

This is evident in the following chart. For TSX 60 constituents, which are all relatively large caps, it breaks out the performance of the smallest quartile (small) vs the largest (big). This divergence really accelerated in 2026 as inflows into Canada increased.

Flows into Canada seem to hit bigger caps the most



Source: Bloomberg, Purpose Investments. Big is 1st quartile, Small is 4th quartile TSX 60 ranked by size. PE is median for the group based on consensus estimates for next 12-months

So, if you are confident that the increased flows into Canadian equities from international and domestic investors will continue, let those Canadian megacaps ride! That is mainly banks, Shopify, rails, big gold miners, biggest energy names and biggest pipes. Alternatively, if the flow from the money tap slows down, well, that poses a challenge. While impossible to calculate, a good portion of the past price advance is likely supported by these steady inflows.

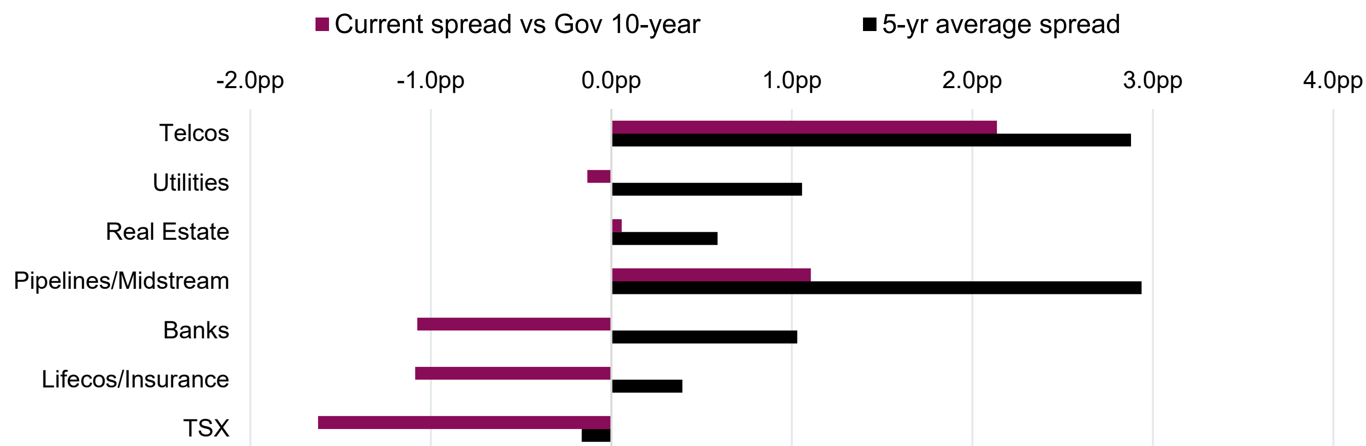
Meanwhile, the smaller cohort appears to be offering better value. Remember, the small cohort is still among the top 60 companies by size in Canada, with market caps ranging from $8 to $35 billion. The forward estimate median PE ratio for the "Big" quartile has risen from 13.9 to 15.2x while the "Small" PE ratio has fallen from 16.8 to 14.5x.

Yield to temptation

Bond yields have risen steadily higher in recent months — the move is global and across the curve. Short-term rates have surged on increasingly hawkish central bank expectations, while long bond yields have climbed to levels not seen in roughly two decades. Canada's 30-year sits at levels last reached in 2009, and Japan's 30-year now yields the same as ours. There is no single driver. Rising inflation expectations, strong economic growth and swelling sovereign debt levels are the kneejerk explanations, while the crowding out of government debt by massive hyperscaler bond issuance is a newer twist. Whatever the mix, the marginal buyer has changed. Price-insensitive holders of government debt are giving way to price-sensitive ones, and price-sensitive buyers demand to be paid.

Bond yields have an impact on just about every other investable market. Within equities, long-duration growth plays feel it, and so do the safer defensive "bond proxies". For the first time in nearly a decade, Canadian utilities yield less than a Government of Canada 10-year bond (3.62% vs 3.76%). Looking back, that has happened on just 2.2% of trading days since 2017. The chart below details select equity groups and their yield spread versus the Canadian 10-year. When the "risk-free" alternative pays more than a utility, it is perhaps worth reconsidering them from an asset allocation perspective (air quotes added to 'risk-free' as most investors likely don't view government bonds as risk-free given recent performance). These dividend to bond yield spreads didn't narrow because dividend payouts were cut, they narrowed because the risk-free alternative repriced while equity markets rallied. Every one of the higher-yield groups now sits in the bottom quartile of its own decade spread history. Real estate is the lone exception, the only group whose dividend yield actually rose over the past year. We are not adding to fixed income since we did it earlier in the summer and are continuing to monitor the bond markets for another inflection point. The equity side is where it gets more interesting.

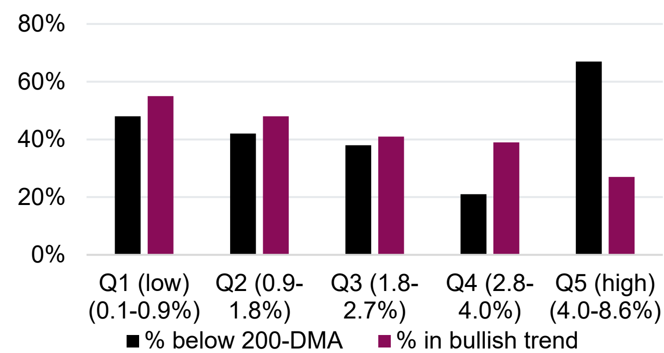
Every Group Is Priced Tighter Than Its 5-Year Norm



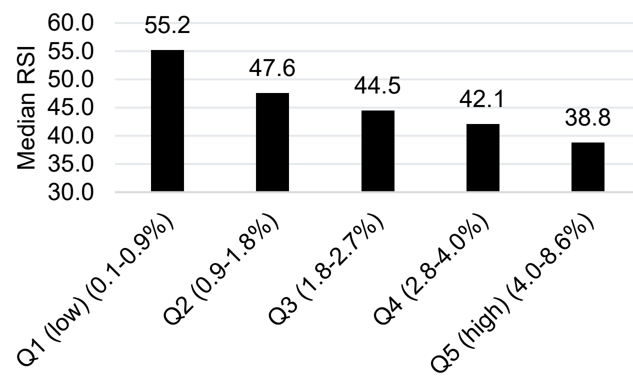
Source: Bloomberg, Purpose Investments

Through an equity-only lens, the recent move lower in the highly rate-sensitive sectors has our attention. Avoiding or underweighting groups like utilities, pipelines and REITs has been a decent call. The recent re-rating in prices and uptick in dividend yields has made them more attractive in our estimation. The market has been selling yield at an aggressive pace over the past month. Break the TSX into quintiles based on dividend yield, and it's the highest yielders that have been hit hardest. Median RSI in the top quintile is bordering on technically oversold, the share of names in bullish trends has collapsed, and it is the only quintile trading below its 200-day moving average. Sorry if we got a bit technical on you. Utilities and REITs have broken down, while banks and lifecos sit at the opposite end of the spectrum. Our interest clearly isn't momentum driven; it's a relative value, contrarian stance. When selling is indiscriminate and factor driven rather than based on fundamentals, it stands a good chance of creating company-level mispricings.

Trend Damage Sits in the High-Yield Quintiles



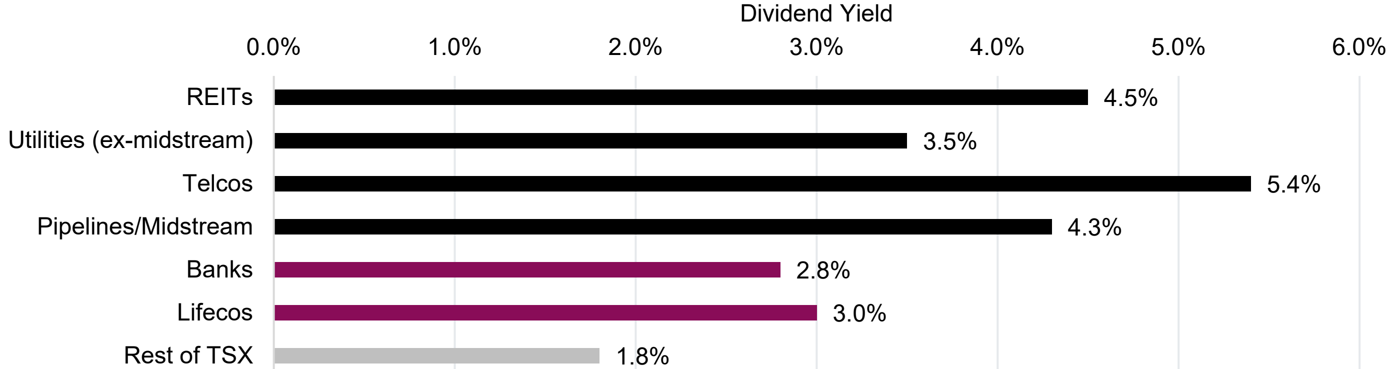
Higher the Yield, Deeper the Oversold



Source: Bloomberg, Purpose Investments

After three-plus years of very strong returns, deep value is extremely hard to find. Valuations for the rate sensitives are more attractive than they were a short time ago, but they are certainly not cheap on an absolute basis. Only telcos look cheap against their own history, offering a higher yield than their decade norm. With the TSX now yielding under 2%, quality companies with attractive yields and reasonable valuations have become scarce. That is why relative value, and relative yield, matter. Canadian banks, lifecos and energy producers sit at or near all-time highs, well ahead of their long-term moving averages and carrying elevated valuations. Contrast that with the sudden repricing in the rate sensitives, which suddenly look relatively attractive. Not cheap by any means, but closer to normal than the rest of the market. Relativity matters.

You get paid to wait: Median yield by basket



Source: Bloomberg, Purpose Investments

Dividend investors may want to look into more interest-rate-sensitive stocks, focusing on the laggards. However, the risk to the trade is straightforward: if tight labour markets reignite wage inflation, the bond rally never arrives and spreads normalize through lower prices instead. So far, the realized data points the other way, with inflation expectations well anchored despite the hawkish turn in central bank rhetoric, but it is the scenario we are watching. We are not calling a top in yields. However, with rates at cycle highs and approaching levels where they have topped out repeatedly over the past few years, we like the trade idea from a risk/reward standpoint. Adding some defensive, lower-beta exposure ahead of a seasonally weak period doesn't hurt either. This is not a major repositioning; it's more of a subtle tilt, adding on weakness. Higher yields are tempting and we're beginning to nibble.

Tariffs 2.0

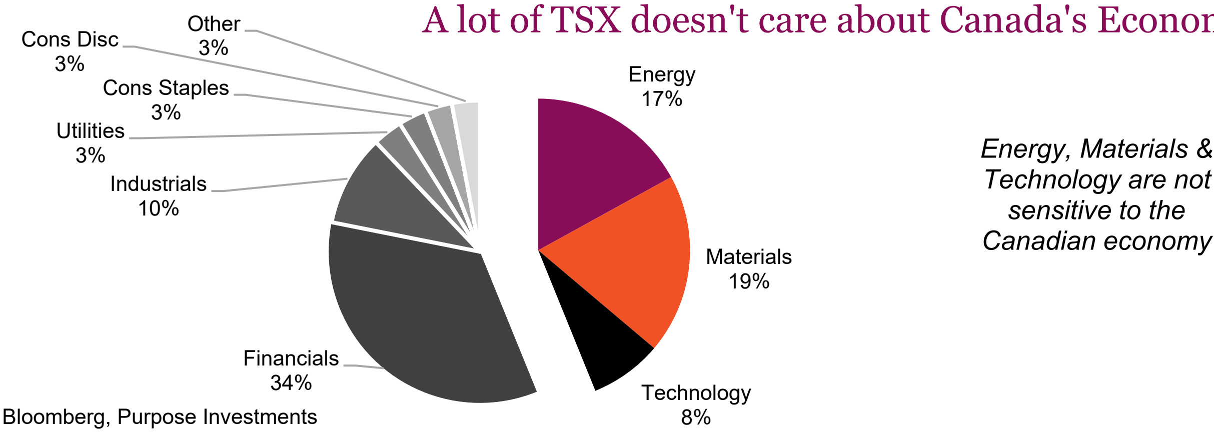
Markets are giant learning machines, or perhaps it's the investors that are constantly learning along the way. Recall the first riots in the streets of Athens which marked the start of the European debt crisis in 2010. Markets sold off as we watched angry citizens square off against lines of police. A month later riots broke out again, but markets didn't care anymore. Surprises out of left field will shock markets, like learning Greece is broke and has had to cut spending. If an event is less of a surprise, the market response is often rather muted. However, the slower moving, long-term implications are often ignored and carry more lasting impacts.

The TSX reacted very negatively to the surprise tariffs on Liberation Day in 2025 but had a muted response to this latest tariff escalation. Maybe markets learned that escalation is often followed by de-escalation as in the 2025 chain of events. Or have markets simply become numb to tariffs akin to the second outbreak of riots in Athens. The bigger challenge will be the longer-term impacts as the Canadian economy adjusts to greater trade policy uncertainty and to more east-west trade rather than simply going south.

We don't know if this spat will de-escalate or if Canada renames Lake Erie to Lake Windsor. As it stands, this escalation could trim GDP by an estimated 0.3% based on a few economist projections. Not great but also not nearly as dire as the original projections following Liberation Day. As we tend to focus more on markets, our concern is that this muted response could well be too muted.

We do have a mildly cautious view on the Canadian equity market, which pre-dated this latest tariff escalation and was more driven by already booked strong gains and high valuations. Higher tariff implications is an added risk but keep in mind most of the TSX doesn't really care about the Canadian economy. Energy, materials and technology largely beat to a different drum. Plus, a chunk of industrials and financials are more U.S.-focused.

A lot of TSX doesn't care about Canada's Economy



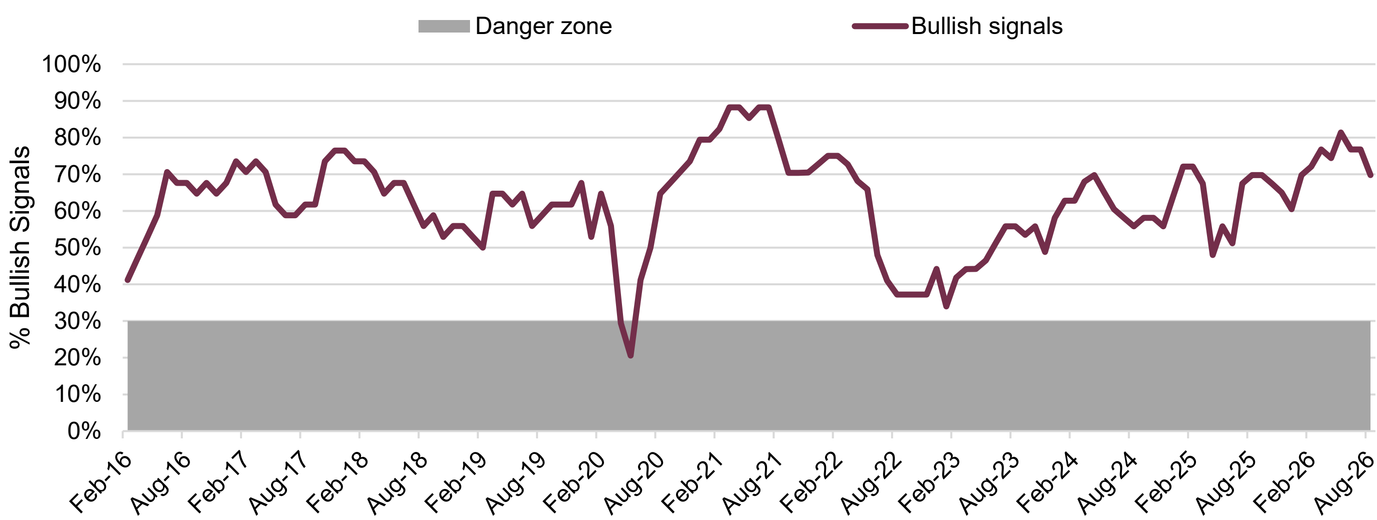
Source: Bloomberg, Purpose Investments

The trade tension escalation is a negative, but there really hasn't been a dislocation in the equity market to get excited either way. In the meantime, let's hope for a de-escalation but also recognize that policy uncertainty is something we are likely going to have to live with.

Market cycle

Market daily volatility continues to be driven by day-to-day macro news flow. Fed comments, varying enthusiasm for AI, Hormuz, tariffs, etc. Underneath the noise is the economy and market fundamentals, which remain healthy. Global manufacturing continues to improve, helped by the AI infrastructure buildout. As these are cyclical parts of the global economy, they are helping drive earnings growth.

Market cycle indicators - still pretty good



Source: Purpose Investments, Bloomberg

Economy good + earnings good is a strong combination. The recent dip in market cycle indicators, from a high starting point, is largely driven by housing. Given housing is one of the more interest rate-sensitive components of the economy, it's not surprising to see softness given bond yields.

Market cycle indicators

Grouping	Metric			Better/ Worse
Rates				**2 / 1**
	Net Cuts		✓	-
	Yield Curve	✓		+
	Yield Curve 3m	✓		+
US Economy				**8 / 10**
	Leading Ind (3m)	✓		-
	Leading Ind (6m)	✓		+
	Phili Fed Coincident	✓		+
	Credit (3m)	✓		-
	Recession Prob (NY Fed)		✓	+
	Recession Prob (Clev Fed)	✓		+
	Citi Eco Surprise	✓		+
	GPD Now (Atlanta Fed)	✓		-
	US Unemployment	✓		
	Consumer Sentiment (3m)	✓		+
Manufacturing	PMI	✓		-
	PMI New Orders	✓		-
	Energy Demand (YoY)		✓	-
	Truck Demand (YoY)	✓		+
	Rail (YoY)	✓		-
Housing	Starts (1yr)		✓	-
	Months Supply (6m)		✓	
	Home Sales	✓		+
	New Home Sales		✓	-
	NAHB Mkt Activity		✓	-
Global Economy				**7 / 1**
	Global PMI	✓		+
	Copper (6m)	✓		+
	DRAM (3m)	✓		-
	Oil (3m)		✓	+
	Commodities (3m)	✓		+
	Baltic Freight (3m)	✓		+
	Kospi (2m)		✓	+
	EM (2m)		✓	+
Fundamentals				**6 / 6**
	US: PE		✓	+
	US: EPS Growth	✓		-
	US: EPS 2FY v 1FY	✓		+
	US: 3m EPS Revision	✓		-
	Canada: PE		✓	-
	Canada: EPS Growth	✓		-
	Canada: EPS 2FY v 1FY	✓		+
	Canada: 3m EPS Revision	✓		-
	International: PE	✓		+
	Int: EPS Growth	✓		+
	Int: EPS 2FY v 1FY	✓		-
	Int: 3m EPS Revision	✓		+

Source: Purpose Investments, Bloomberg

One of the dangers for this market is the consumer, namely the U.S. consumer. As we promised last month, below are our consumer indicators that have a history of signalling a turn in consumer spending. Four bearish indicators and three bullish ones is a bit troubling, but not of alarm bell magnitude. This has been the same ratio for the past three months. Equity market, home prices and jobless claims are encouraging. Leading indicators, lending, sentiment and oil prices are not. The indicators have actually been pretty stable, four versus three, for much of the past year. Based on some of our faster consumer measures including card spending and spending categories more driven by wealthy consumers, at the moment the consumer appears ok.

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 thoughts

We understand the headlines may come across as rather dire: war, tariffs, attempted lake renaming, etc. What doesn't get as many headlines is a global economy doing well and solid earnings helping markets post strong performance. Unsure what might upset the applecart, we have some leading prospects, or it could be a total surprise. Nonetheless, after outsized gains we continue to lean more defensive.

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

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.

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