HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

MAY 2026 COMMENTARY

Market Review in Minutes

Equities

- Global equities surged higher in May, pushing the S&P 500 and Nasdaq to record highs. Markets were driven by strength in the Artificial Intelligence (AI) theme, strong corporate earnings and optimism surrounding a potential US-Iran peace deal, which eased concerns over prolonged global supply disruptions.
- The S&P 500 (in CAD) gained +6.92%, while the S&P/TSX Composite rose by +2.23%.
- International equities (outside the US) rallied higher, with the MSCI ACWI Index rising +3.90%.
- **Leaders**:
  - Technology and Consumer Discretionary led the S&P 500, driven by continued strength in AI-related companies and better-than-expected earnings, particularly across semiconductors and mega-cap stocks.
  - In Canada, Materials and Financials led the market, supported by resilient bank earnings, which benefited from stable credit conditions and higher net interest margins (the core of banking operations).
- **Laggards**:
  - In the US, Energy and Utilities lagged. Energy underperformed, softening on an expected resolution to the conflict in Iran. Meanwhile, Utilities were pressured by fluctuating bond yields, which reduced the relative attractiveness of their income streams.
  - In Canada, Health Care and Energy stocks underperformed in May.

Fixed Income

- US fixed income markets posted mixed returns. Investment grade and high yield bonds ended positive for two consecutive months as investors searched for higher sources of yield/income, meanwhile the US government bonds were flat.
- The Canadian Universe Bond Index performed rose +1.33% as interest rates in Canada fell.

As at May 31, 2026	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	+1.33%	+1.62%
Canadian Equities *S&P/TSX Composite Index*	+2.23%	+10.28%
US Equities S&P 500, in C$	+6.92%	+11.75%
Intl Equities (ex USA) iShares MSCI ACWI ex US	+3.90%	+13.96%
Gold	-1.76%	+5.06%
Oil *West Texas Intermediate Crude*	-16.86%	+52.14%
Canadian Dollar	-1.56%	-0.51%

Market Review in Minutes (Continued)

Commodities

- Oil prices were volatile, falling 16.86% as tensions de-escalated around a possible lasting US-Iran agreement. The oil price (WTIC crude) ended the month at $87.
- Gold declined by 1.76%, pressured by higher interest rates in the US at the beginning of the month. Higher interest rates mean gold is less attractive to hold since it does not pay income.
- The US Dollar appreciated against the Canadian Dollar rising by 1.59%.

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Notable Monthly Highlights

USA – AI-driven equity strength and new head of US Federal Reserve (FED) takes over at a time of heightened inflationary pressures and geopolitical tensions

- One of the biggest themes that drove the US equity markets higher in May was the continued strength of the Artificial Intelligence (AI) trade, particularly across semiconductors and data-center infrastructure companies.

- New head of the FED, Kevin Warsh was sworn in this month and is expected to refocus the FED on its core job of keeping inflation under control and supporting employment. Like his predecessor, Jerome Powell, he emphasized the importance of the FED's independence. However, he will eliminate press conferences after every policy meeting and thereby reducing communication, unless there is something significant to report.

  - US economic data painted a mixed picture, with persistent inflation but an improvement in growth and in the labour market.
  - Inflation ticked up to 3.8% YoY in April from 3.3% in March, reaching the highest level since May 2023 and surpassing the expected 3.7% level due to higher oil prices from the Middle East conflict. Likewise, core inflation ticked up slightly higher to 2.8% in April from 2.6%.
  - Retail sales performed in line with market expectations, increasing slightly by 0.5% MoM in April, following a 1.6% gain in March.
  - The unemployment rate held steady at 4.3% in April, in line with market expectations. Moreover, the US non farms payroll reported a gain of 115,000 jobs in April, far exceeding the expectation of a gain of 62,000.
  - Business confidence remained unchanged at 52.7 in April, lower than the market expectations of 53.0.
  - Consumer confidence fell to 44.8 in May from 49.8, missing the consensus estimate of 48.2.

Notable Monthly Highlights (Continued)

Canada – Mixed economic data in an uncertain geopolitical and inflationary environment

- In a report released in May, the Bank of Canada stated that the financial system remains resilient overall, but vulnerabilities are building as economic and geopolitical uncertainty rises. It flagged elevated stock valuations, increasing corporate debt, and increased leverage in parts of the market, warning that a new shock could lead to weaker confidence and more volatile asset prices.

- Canadian economic data show renewed inflation pressure, steady but moderating retail activity, and a weakening labour market:

  - Inflation rose to 2.8% YoY in April from 2.4% in March, the highest level since May 2024, but came in below market expectations of 3.1%. Core inflation eased to 2.1% in April from 2.5% the previous month.
  - Retail sales increased by 0.6% MoM in April, following a 0.9% gain in March, marking this the fourth consecutive month of gains.
  - The unemployment rate increased to 6.9% in April from 6.7% in March, surpassing market expectations. Employment declined by 17,700 jobs in April after a 14,100 increase in March, completely missing the market expectations of a 15,000 gain and pointing to a softer labour market.
  - Business confidence improved to 57.7 in April from 49.7 in March, beating the market forecast of 49.9 and signaling stronger business sentiment.
  - Consumer confidence fell to 45.6 in May from 49.2 in April, indicating softer household sentiment.

World – South Korea and Taiwan had a strong month, while China stock market struggled

- South Korea and Taiwan soared in May 2026 due to an explosive, AI-driven semiconductor rally based on excellent earnings from technology hardware. Surging global demand for AI servers and advanced chips sent shares of major hardware leaders soaring.

- China's stock markets experienced notable declines in May 2026 due to an aggressive government crackdown on cross-border brokerages, slower-than-expected consumer spending, and lingering geopolitical trade pressures. China's latest economic data were mixed but broadly stable:

  - Manufacturing PMI improved to 52.2 in April from 50.8 in March.
  - Inflation rose to 1.2% YoY from 1.0%.
  - The unemployment rate eased to 5.2% from 5.4%.
  - Business confidence edged down to 50.3 from 50.4, while retail sales remained soft at -0.48% MoM in April.

Watermark Private Portfolios Outlook and Positioning

Global equity markets ended May higher, led by strong gains in US equities. We continue to hold the TD Canadian Dividend ETF for its exposure to high-quality dividend-paying Canadian companies that trade at attractive prices, particularly across financials, energy, and other income-oriented sectors. During the month we added Fidelity Global Equity+ ETF and the Fidelity Global Balanced Portfolio to gain exposure to some Fidelity's top strategies and increase exposure to global equity growth. The Global Equity+ ETF also adds exposure to multiple Fidelity portfolio managers and liquid alternatives, while the Global Balanced Portfolio provides a more flexible mix of global equities and fixed income.

	Underweight	Target	Overweight	May 2026 Highlights
Equities			●	• We currently have an overweight to Canadian companies, which have relatively lower valuations and invests in companies that have strong and growing cash flows. • This month, we bought the Fidelity Global Equity+ ETF, which utilizes three active investment strategies employed by three excellent Fidelity Portfolio Managers. • Overall, the portfolios are well diversified from a sector and individual company standpoint, which should result in a smoother return profile.
Fixed Income	●			• Overall, we remain underweight fixed income, holding Brandsen Global Income Opportunities Pool, which offers several fixed income strategies that focus on achieving positive returns in all investment environments, thereby providing more diversification than traditional fixed income.
Private Credit		●		• No change, we maintain our long-term allocation to private credit as it adds asset class diversification and reduces portfolio volatility over the long run.
Private Real Estate & Infrastructure		●		• Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class. • Private Infrastructure has a massive tailwind with AI data centers and green energy projects needing to be built.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Balanced, Balanced Growth, Strategic Growth & All Equity Plus Portfolios:

- We sold the Fidelity All-in-One Equity ETF.
- We bought the Fidelity Global Equity+ ETF.

In the Conservative Portfolios:

- We sold the Fidelity All-in-One Conservative ETF.
- We bought the Fidelity Global Balanced Portfolio.

Did You Know?

SpaceX has filed for an Initial Public Offering on June 12th, where it's expected to become one of the top 10 largest companies in the world and the largest IPO in history. Furthermore, Open AI and Anthropic, two of the largest Artificial Intelligence companies, are expected to announce that they will be going public soon.

Our opinion:

It's very exciting to see these "Futuristic companies" become part of the present, where we will get more exposure to their business capabilities. From an investing perspective, these three IPO's will be very large and likely draw out a good chunk of market liquidity. Furthermore, companies in the S&P 500 will be trimmed to make room for the new publicly listed companies inside the index. Lastly, early investors typically take some profits once the company trades publicly (usually 90 days after an IPO as they are restricted from selling until then) as it can be tougher to trade/sell when the company is private. It will be exciting to watch how the market digests SpaceX in June and over the summer months; however, it could result in some volatility as the IPO(s) sucks some liquidity out of the market.

Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
USA	3.80%	▲	3.75%	▬	4.30%	▬	2.70%	▲	21.5	▲
Canada	2.80%	▲	2.25%	▬	6.90%	▲	-0.10%	▼	15.8	▼
China	1.20%	▲	3.00%	▬	5.20%	▼	5.00%	▲	11.1	▼
Japan	1.40%	▼	0.75%	▬	2.50%	▼	0.60%	▲	17.1	▲
United Kingdom	2.80%	▼	3.75%	▬	5.00%	▲	1.10%	▲	12.6	▲

Source: Trading Economics

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