HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

OCTOBER 2026 COMMENTARY



TRUE INDEPENDENCE™

Market Review in Minutes

Equities

- Equity markets saw increased volatility late in October as investors assessed earnings, central bank decisions, and the upcoming midterm elections. The S&P 500 fell 1.0% (or down 2.7% in CAD) on concerns about the high spending of the data center build out by AI companies, which also weighed on Mega cap stocks. The S&P/TSX Composite gained 1.2%, supported by energy and consumer staples stocks.

- International equities were mixed. South Korea and Japan fell sharply also amid concerns about AI infrastructure spending, while parts of Europe gained.

- **Leaders:**

  - In the US, Energy led the S&P 500, supported by higher oil prices and strong earnings. Consumer Staples and Utilities also led as investors rotated from technology into defensive, income-paying stocks amid elevated long-term interest rates and concerns around AI companies.

  - In Canada, the Energy sector led the S&P/TSX Composite, supported by rising oil prices and escalating Middle East tensions. Similar to the US, the Consumer Staples was the second highest contributor to the index due to investors searching for defensive positions.

- **Laggards:**

  - In the US, Communication Services was the weakest sector as Google and Meta sold off after earnings, both falling over 15% in October. Google recorded its worst trading day since going public, dropping more than 12% in a single day. Information Technology also lagged as concerns about debt-financed AI spending overshadowed expected investment returns.

  - In Canada, the Materials sector lagged as Canadian mining giants, such as Barrick Gold Corporation, Agnico Eagle Mines, and Wheaton Precious Metals dragged the sector lower due to higher interest rate expectations and a stronger US dollar. The Health Care sector was the next laggard.

As at October 31, 2026	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	+1.5%	+0.5%
Canadian Equities *S&P/TSX Composite Index*	+1.2%	+14.3%
US Equities S&P 500, in C$	-2.7%	+13.5%
Intl Equities (ex USA) iShares MSCI ACWI ex US	-2.9%	+10.6%
Gold	-6.8%	-10.3%
Oil *West Texas Intermediate Crude*	+15.2%	+81.3%
Canadian Dollar	+1.9%	-1.8%

Market Review in Minutes (Continued)

Fixed Income

- US government bonds rebounded after months of rising interest rates as investors sought safety amid AI concerns and geopolitical uncertainty.
- The Canadian Universe Bond Index also witnessed a rise of 1.5% this month due to flight to safety as well.

Commodities

- Oil prices soared higher by over 15.2%. Prices were supported by geopolitical tensions and supply concerns.
- Gold continued to face pressure and fell 6.8% due to a firmer US dollar and elevated interest rates, which made interest-paying securities more attractive than gold.
- The Canadian dollar appreciated against the US dollar, rising by 1.9%, as higher oil prices supported Canada's energy-export outlook, additionally expectations of further Bank of Canada rate increases supported the Loonie.

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Notable Monthly Highlights

USA – The Federal Reserve held rates steady as inflation and geopolitical risks remained elevated

- The Federal Reserve held its policy rate at a range of 3.75%–4.00% at its October meeting, in line with expectations, following September's 0.25% increase. The committee cited strong economic growth and resilient domestic spending, while inflation remained elevated and geopolitical uncertainty persisted. Two committee members favoured a 0.25% increase, but the Committee opted to wait for more information to guide policy and bring inflation back to its 2% target.

- US reported mostly negative economic data. On one end, retail sales rose, though majority of the sales came from gasoline and manufacturing continued to expand despite rising price pressures. On the other hand, September inflation accelerated, hiring slowed, housing weakened further, and consumer sentiment remained subdued.

  - September headline inflation rose 0.6% MoM, in line with expectations, lifting annual inflation to 3.7% from 3.4% (above expectations of 3.6% YoY). Energy and shelter added pressure, while food inflation eased. Core inflation increased to 2.6% YoY from 2.4%, exceeding expectations of 2.5%.

  - Retail sales rose 0.8% MoM in September, following a 1.3% gain in August and surpassing the expected 0.3% gain. Gasoline station sales rose 6.4% on higher prices. However, excluding gas, sales increased just 0.2%.

  - September nonfarm payrolls rose just 29,000, down from the previous 133,000 gain in August and below expectations of 90,000. Unemployment edged up to 4.2% from 4.1%, slightly above the expected 4.1% level.

  - Housing starts declined 5.2% MoM in September to an annualized 1.2 million units, below expectations of 1.3 million. This third consecutive decline brought starts to their lowest since May, as elevated mortgage rates weighed on housing and construction.

  - October consumer sentiment edged down to 48.0 from 48.1, a five-month low despite beating the expected 46.3 level. September's ISM Manufacturing PMI eased to 54.5 from 54.6, below expectations of 55.0, but still signalled expansion despite rising price pressures.

Notable Monthly Highlights (Continued)

Canada – Bank of Canada raised policy interest rates as persistent energy prices added to inflation risks

- Canada continued to diversify its trade relationships in October as efforts to reach a deal with the US remained unresolved. On October 27, Canada signed a Comprehensive Economic Partnership Agreement with the United Arab Emirates (UAE). The agreement is not yet in force, but once fully implemented, it is aimed to reduce or eliminate tariffs on over 99% of current Canadian exports to the UAE, helping open new markets while US trade uncertainty persists.

- The Bank of Canada raised its policy rate by 0.25% to 2.50% in October, its first increase since July 2023 and in line with expectations. The move aimed to prevent high energy prices from spreading to broader inflation. The Bank signaled that further increases may be needed.

- Canadian economic data remained mixed. Though retail sales are expected to rebound, core inflation eased, and business activity continued to expand, inflation edged higher as gasoline prices rose, the labor market softened, and consumer and business confidence fell.

  - Headline inflation in September rose 0.1% MoM and 3.1% YoY, up from 3.0% but below expectations of 3.2%. Gasoline added pressure, while food inflation eased. Excluding energy and food prices, core inflation slowed to 2.2% from 2.4%.

  - September's preliminary estimate for retail sales points to a further 0.7% increase, which would extend the 1.2% rise in August.

  - Unemployment in September fell 68,300, following August's 41,700 decline and missing expectations of a 7,000 gain. Both full-time and part-time work declined. Unemployment rose to 6.5% from 6.4%.

  - Consumer confidence fell to 47.3 from 48.2, while business confidence eased to 58.2 from 64.3, below expectations of 65.2.

Notable Monthly Highlights (Continued)

World – China's growth improved while trade uncertainty and energy costs kept the global outlook mixed

- US–China trade relations remained uncertain in October despite the extension of their trade truce through January 10, 2027. The proposed tariff-relief framework covers $30 billion of non-sensitive goods from each country and the published product lists did not establish new tariff rates or effective dates.
- China's data released in October showed firmer growth, with Q3 GDP expanding 4.5% YoY versus 4.3% in Q2. Retail spending improved and unemployment eased, while consumer inflation remained modest:
  - Inflation edged up to 0.9% YoY in September from 0.8% in August, slightly below expectations of 1.0%. Higher gasoline and transport costs added pressure, while food prices continued to decline. Meanwhile, core inflation held steady at 1.0% YoY.
  - September retail sales rose 1.1% YoY, up from 0.4% in August and above expectations of 0.5%, marking the strongest growth since March. Communication equipment sales supported the increase, while continued weakness in autos and building materials kept the consumer recovery uneven.
  - The unemployment rate eased to 5.2% in September from 5.3% in August, suggesting some improvement in labor market conditions. Youth unemployment also declined to 18.0% from 18.9% but remained elevated.
- Outside North America, policymakers continued to balance inflation risks against growth. The European Central Bank held its deposit rate at 2.50% in October, following September's increase. Higher energy prices and borrowing costs remained headwinds, although underlying inflation and wage pressures were stable.
- Global investors continue to watch energy prices, long-term interest rates, and trade developments closely. October's fixed income rebound showed renewed demand for safety, while persistent energy costs continued to complicate the inflation and interest rate outlook.

Watermark Private Portfolios Outlook and Positioning

Equity markets were volatile in October amid earnings season, upcoming midterm elections, and geopolitical tensions. To manage these risks, we trimmed equity exposure across the Enhanced Plus portfolios to lock in gains, moving proceeds into fixed income in the more conservative portfolios and adding Berkshire Hathaway in the higher-risk portfolios.

	Asset Class	October 2026 Highlights
Public Investments	Equities	• The portfolios are well diversified from a sector and individual company standpoint, which should result in a smoother return profile. • The portfolios contain active management strategies that can capture upside opportunities and protect on the downside.
	Fixed Income	• We hold 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.
	Liquid Alternative	• We also have a liquid alternative strategy, Birchmont Absolute Return Pool, to improve diversification beyond traditional public equities and bonds. Its flexible absolute-return approach can pursue opportunities across different market environments, with the goal of generating steadier returns, reducing sensitivity to broad market swings, and helping cushion the portfolio during periods of equity or bond weakness.
Private Investments	Private Equity	• We partner with large institutions to access private companies and continue to favor this area as valuations on private companies are relatively cheaper than public companies.
	Private Credit	• 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	• The low correlation of private real estate with public equities diversifies the portfolios, while the income generated from real estate mutes any drawdowns. • 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 and Balanced Growth Plus Portfolios:

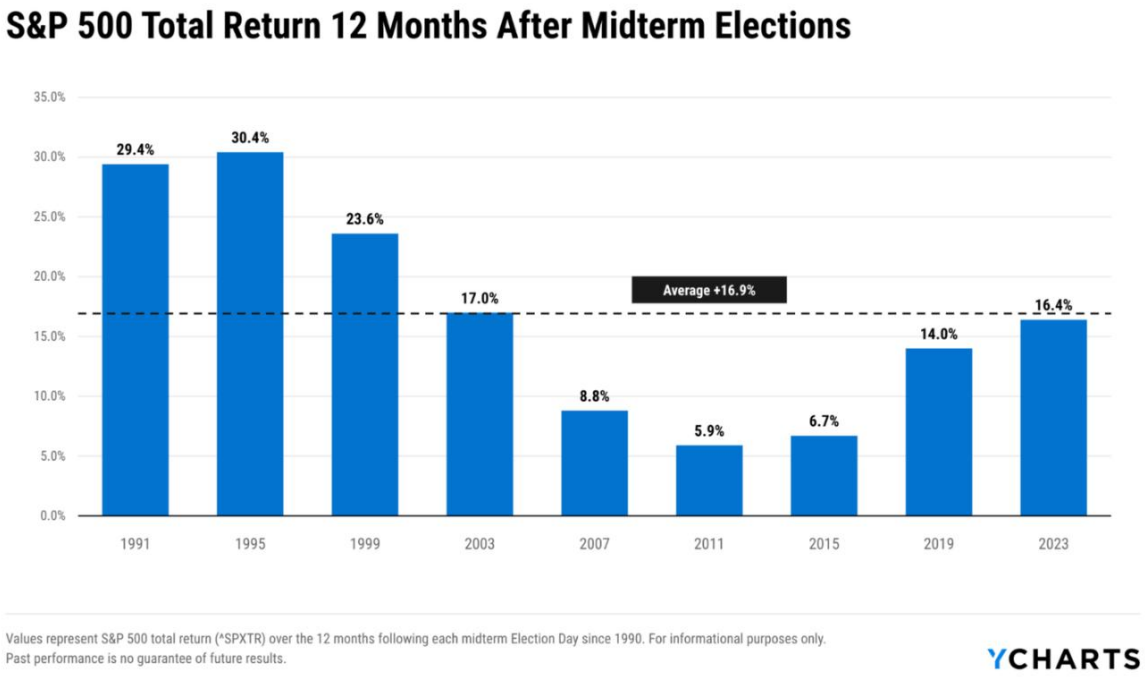
- We trimmed the TD Q Canadian Dividend ETF.
- We bought the Purpose High Interest Savings ETF.

In the Enhanced Strategic Growth and All Equity Plus Portfolios:

- We trimmed the TD Q Canadian Dividend ETF.
- We bought Berkshire Hathaway.

Did You Know?

Market volatility has historically risen ahead of midterm elections. In each of the nine previous midterm cycles since 1991, the S&P 500 finished higher one year after the election, with an average return of 16.9%.



Our opinion:

Although past performance does not guarantee future returns and while interest rates remain higher amongst persistent inflation, trade uncertainty, and AI concerns remain, maintaining equity exposure (even reduced exposure during volatile periods) is important for growing portfolios. Our long-term asset allocation and sector diversification help preserve capital by spreading exposure across different sources of return and companies in different sectors, with different economic drivers. While this does not eliminate losses, it reduces drawdowns on your portfolios so that you can grow your wealth from a higher base when volatility wanes. We continue to monitor your portfolios actively and adjust positioning as risks and opportunities evolve.

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	3.70%	▲	4.00%	▬	4.20%	▲	3.40%	▲	19.1	▼
Canada	3.10%	▲	2.50%	▲	6.50%	▲	1.10%	▲	16	▲
China	0.90%	▲	3.00%	▬	5.20%	▼	4.50%	▲	9.4	▼
Japan	2.10%	▲	1.25%	▬	2.40%	▼	0.70%	▲	14.7	▼
United Kingdom	3.50%	▲	3.75%	▬	4.70%	▼	1.40%	▲	11.9	▼

Source: Trading Economics

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