



HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK PRIVATE PORTFOLIOS

SEPTEMBER 2026 COMMENTARY



TRUE INDEPENDENCE™

Market Review in Minutes

Equities

- Equity markets were mixed in September with the US equities (in CAD) ending positive, while Canada and Europe saw weakness. The S&P 500 was little changed, moving slightly lower by 0.5% as investors balanced strong Artificial Intelligence (AI)-related earnings against higher interest rates, while the S&P/TSX Composite fell 2.7% as weaker commodity prices and Canada-US trade uncertainty weighed on sentiment.
- International equities outside of US also fell 2.3%.
- **Leaders:**
 - In the US, Information Technology led the S&P 500 as there was renewed enthusiasm in AI and cloud infrastructure spending despite its elevated valuations. The next sector leader was Communication Services, largely driven by a 30% rise of Meta Platforms. Meta launched its own AI agent, which automates shopping, phone calls, travel booking, and scheduling. Meta’s AI agent, called Muse, saw 2.5 million downloads in less than two weeks.
 - In Canada, the only positive performing sector was Information Technology as AI-related infrastructure demand supported hardware names such as Celestica.
- **Laggards:**
 - In the US, rate-sensitive areas lagged as interest rates moved higher during the month. Specifically, Financials were weaker despite higher interest rates, as concerns around credit conditions, funding costs, and the broader economic outlook weighed on the sector. Materials and Real Estate were the next laggards as aluminum and mining stocks fell and while higher borrowing costs and weaker consumer confidence weighed on Real Estate.
 - In Canada, the Materials sector lagged as gold, copper, and other metals pulled back amid higher interest-rate expectations and a stronger US dollar, while Energy weakened as crude prices eased later in the month on softer demand expectations and hopes for renewed peace talks.

As at September 30, 2026	Monthly % Total Return	YTD % Total Return
Canadian Bonds <i>FTSE Canada Universe Bond Index</i>	-1.3%	-0.98%
Canadian Equities <i>S&P/TSX Composite Index</i>	-2.7%	+12.9%
US Equities S&P 500, in C\$	+2.3%	+16.7%
Intl Equities (ex USA) iShares MSCI ACWI ex US	-2.3%	+13.9%
Gold	-6.4%	-3.8%
Oil <i>West Texas Intermediate Crude</i>	+5.4%	+57.5%
Canadian Dollar	-2.7%	-3.6%

Market Review in Minutes (Continued)

Fixed Income

- US government bonds declined as persistent inflation and expectations for higher-for-longer interest rates pushed the 10-year Treasury Yield above 5.2%, its highest level in nearly 20 years. Higher interest rates weighed on bond prices and increased borrowing costs across the economy.
- The Canadian Universe Bond Index fell 2.7% as interest rates moved higher, reflecting persistent inflation risks and ongoing trade uncertainty.

Commodities

- Oil prices were volatile in September yet ended positive by 5.4%. Prices were initially supported by geopolitical tensions and supply concerns but weakened later in the month as hopes for renewed diplomacy and softer demand expectations weighed on energy markets.
- Gold fell nearly 6.4% in September as the Federal Reserve raised interest rates and expectations for further hikes. Since gold does not pay interest, higher interest rates made income-producing investments more attractive, reducing demand for the precious metal despite ongoing geopolitical uncertainty.
- The Canadian Dollar depreciated significantly against the US Dollar, as firmer Canadian economic data was offset by trade uncertainty and broad US Dollar strength following the Fed's rate hike.

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Notable Monthly Highlights

USA – The US Federal Reserve hiked for the first time since March

- The Federal Reserve raised its policy rate by 25 basis points to a range of 3.75%–4.00%—its first increase since July 2023—as persistent inflation and resilient economic growth prompted policymakers to tighten monetary policy.
- US data showed firmer household demand and labour-market momentum in August, while inflation remained elevated, housing activity weakened, and consumer and business confidence softened.
 - August inflation remained elevated but showed some improvement beneath the surface. Headline CPI rose 0.4% MoM, while annual inflation held at 3.4%, in line with expectations. Core inflation eased to 2.4% YoY from 2.5%, also matching expectations, as shelter and food inflation moderated even as gasoline prices moved higher.
 - Retail sales rebounded 1.2% MoM in August from the 0.5% MoM decline from the previous month, exceeding expectations of a 0.8% increase. Gains were broad-based, led by gasoline stations and online retailers.
 - The US labour market strengthened in August, with nonfarm payrolls rising by 162,000, well above expectations for a 56,000 gain. The unemployment rate held at 4.1%, in line with expectations, while labour-force participation improved.
 - Housing remained a soft spot, as higher mortgage rates and constrained affordability continued to weigh on activity. Housing starts fell 2.6% MoM in August to an annualized rate of 1.275 million units, below expectations of 1.31 million and the lowest level since October 2025.
 - Confidence signals weakened. Consumer sentiment fell to 48.1 in September from 51.7 in August as households grew more concerned about high prices, personal finances, and future business conditions; however, it still exceeded the expectations of 47.6. Meanwhile, the ISM Manufacturing PMI (business confidence) eased to 54.6 in August from 55.6 in July, but remained in expansion territory for an eighth consecutive month.

Notable Monthly Highlights (Continued)

Canada – Bank of Canada held policy interest rates as trade uncertainty and inflation risks remained high

- Canada–US trade tensions escalated in September after negotiations failed to produce a final agreement. Canada’s matching tariffs of 15%, 25%, and 50% on \$27.6 billion of US goods took effect on September 8, while the US introduced additional restrictions on selected Canadian products. Although both sides remained in contact about a possible deal, the US signaled little urgency to reach an agreement, keeping trade uncertainty elevated.
- The Bank of Canada remained patient, holding its policy rate at 2.25%. Stronger employment and firmer inflation reduced the urgency for rate cuts, while trade uncertainty and cautious consumers kept the outlook balanced.
- Canadian economic data remained mixed. Q2 growth accelerated and business activity strengthened, but employment and consumer confidence weakened in August. Headline inflation held steady while core inflation edged higher, and July’s decline in retail sales was followed by a preliminary rebound in August.
 - Canada’s economy accelerated in Q2, with GDP expanding 0.8% QoQ, or 3.3% annualized, following an upwardly revised 0.1% increase in the previous quarter. Growth was supported by stronger exports, household spending, and business investment.
 - The labour market weakened in August, with employment falling by 41,700, well below expectations for a 15,000 increase and reversing part of July’s strong gain. The unemployment rate held steady at 6.4%, while the employment rate edged down to 60.8% from 60.9%.
 - Confidence indicators diverged in August. Consumer confidence fell to 48.2 from 49.4 in July as households became more cautious, while business confidence rose sharply to 64.3 from 55.1, exceeding expectations of 56.2 and signalling stronger business activity.
 - Inflation held steady in August, with headline CPI unchanged at 3.0% YoY and edging down 0.1% MoM. However, core inflation rate increased slightly from 2.3% to 2.4%.
 - Statistics Canada’s preliminary estimate points to a 1.3% rebound of retail sales in August, the strongest monthly gain since January.

Notable Monthly Highlights (Continued)

World – US–China trade talks progressed amid weaker Chinese data; European Central Bank raised rates

- The US and China agreed to pursue lower tariffs on \$60 billion of non-sensitive goods, split evenly between the two countries. The agreement covers US agricultural and medical products and Chinese consumer goods, while a two-month extension of the trade truce provides more time to negotiate a broader deal.
- China's latest data showed a weaker labour market, spending, and persistent inflation:
 - August retail sales rose only 0.4% YoY, slowing from 0.6% in July and falling short of expectations for a 0.8% increase, as continued weakness in autos and other big-ticket purchases weighed on consumption.
 - The unemployment rate rose to 5.3% in August from 5.2% in July, above expectations of 5.2% and the highest level since March.
 - Inflation increased to 0.8% YoY in August from 0.5% in July, in line with expectations. Core inflation edged up to 1.0% YoY.
- Outside North America, market conditions remained mixed. The European Central Bank raised its key interest rates by 25 basis points in September, lifting the deposit rate to 2.5% as energy-driven inflation remained elevated. Western Europe's growth outlook improved after stronger Q2 data, but higher borrowing costs, energy costs, and fiscal constraints kept the recovery subdued.
- Global investors continued to watch long-term interest rates and energy prices closely, as both can affect inflation expectations, valuation multiples, and central-bank policy paths across regions.

Watermark Private Portfolios Outlook and Positioning

Many equity markets outside the US ended negative as investors absorbed headline news about tariffs, elevated interest rates, inflation, and geopolitical risks. We recognize these risks are still present; therefore, we remain globally diversified. We have trimmed our equity exposure in the more conservative portfolios to lock in profits and move proceeds into Fixed Income, with interest rates on bonds now providing attractive returns.

	Asset Class	September 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 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.
	Liquid Alternative	We added to the 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 partnered with large institutions to access private companies and continue to favour this area as more companies choose to remain private.
	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	- Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class. Furthermore, the low correlation with public equities diversifies the portfolios. - 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 Plus Portfolios:

- We sold the TD Q Canadian Dividend ETF.
- We bought the Pender Corporate Bond Fund.

In the Enhanced Conservative Balanced Plus Portfolios:

- We trimmed the Jaxton Park North American Equity Pool.
- We bought the Birchmont Absolute Return Pool.

Did You Know?

As seen below, the long-term 30-year US Treasury yield has reached levels not seen in over 20 years. Long-term treasury yields historically have been used by investors to reflect long-term growth and inflation expectations, whereas they impact consumers primarily on mortgages. Most recently it seems the move higher has occurred as fixed income investors are asking for a higher return, due to increased government spending.

30-Year US Treasury Yield



Our opinion:

When interest rates rise amid ongoing risks such as trade uncertainty, geopolitical tensions, and persistent inflation and more recently poor fiscal discipline (government spending too much), bond prices are declining alongside equities, reducing the diversification benefits they have historically provided. We believe adding alternative asset classes to your portfolios, such as private investments and absolute-return strategies, introduces different sources of return that can help limit portfolio losses when both public equities and bonds decline. This asset allocation strategy for your Watermark Private Portfolios has proved to be effective, especially during these market conditions.

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	3.40%		4.00%		4.20%		2.20%		19.4	
Canada	3.00%		2.25%		6.40%		1.10%		15.7	
China	0.80%		3.00%		5.30%		4.30%		10.2	
Japan	1.90%		1.25%		2.50%		0.70%		15.6	
United Kingdom	3.10%		3.75%		4.90%		1.40%		12.1	

Source: Trading Economics

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