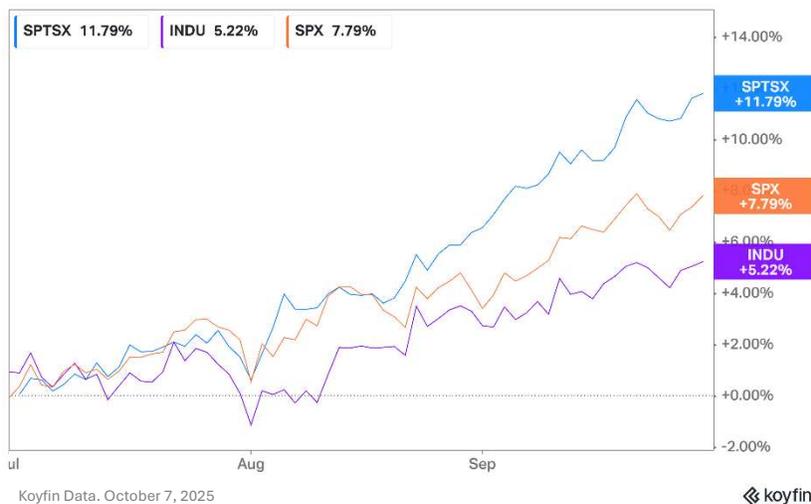


Review

If the second quarter of 2025 was marked by a sense of relief at Trump beating a hasty retreat from a global trade war, the third quarter was one of outright euphoria. Euphoria for what, exactly? That depends on whom and what you ask. Some Canadian technology stocks have jumped higher on AI potential, while others have taken steep downturns as the specter of the new technology threatens their long-term competitiveness.

In commodities, gold has gone from strength to strength on the back of concerns about debasement and inflation, while oil has flatlined amid expectations of slowing economic activity. So even as the market jumps to all-time highs, it remains full of binaries and extremes, with winners and losers making large moves in very short periods.



The TSX rose 11.8%, with a 12.5% total return over the quarter. This is the best quarter for the TSX in the past five years, outpacing anything experienced in the post-COVID optimism of 2020 and 2021, and bringing the total return for the year to 24%. In fact, you'd need to go back more than a decade (to the recovery from the global financial crisis) to find a comparable quarter. South of

the border, the S&P 500 was, by comparison, restrained, with price increasing 7.8% and a total return of 8.1%. The Dow Jones gained 5.2% (and 5.7% including dividends) over the quarter.

The broad Universe Bond Index was up 1.5% for the quarter as rate cuts by the Bank of Canada brought the bond market further respite. Amid this backdrop for traditional asset classes, it was gold that truly shook things up, increasing 16.9% in USD (19.6% in CAD) to \$3,860 an ounce. While the Canadian stock market cannot entirely lay its recent performance at the metal's feet, it has been a material driver of the run. Over the past quarter, Canadian-listed gold-mining stocks increased 45% on price alone.

Forecast

Looking ahead, while economic expectations in Canada are muted, if not outright gloomy, stock-market optimism remains robust. What Keynes once called "animal spirits" now goes by more direct acronyms such as YOLO and FOMO. Yet, as ever, we are being told it's "different this time." Whether that proves true remains to be seen, but the AI boom has few historical



parallels in relative size, with near-daily announcements of multibillion-dollar chip or data-center deals.

The scale of the investment is extreme, with one recent estimate of a total of \$1.2 trillion in AI investments by the five largest US “hyperscale” tech companies over the next three years.¹ For comparison, over the same three-year period, the entire US energy utility grid is expected to invest \$600 billion—which itself is growing because of expectations around AI power demand.² Those investments are expected to provide safe and reliable power to US households and industry for the next few decades and are backed by regulated demand. The tech companies believe the useful life of the AI hardware is roughly five years. For now, hope in AI continues to outrun evidence of lasting returns.

Given the Bank of Canada has begun to cut interest, (prematurely, in our view) we expect further cuts are around the corner. We again believe that the long-term risks around inflation are being ignored but there is little doubt that the data around the near-term economic environment is mixed. Canada's unemployment rate continues to tick up, reaching 7% in August, and economic growth is anemic, but wage growth is expected to remain above current inflation rates with more labor strikes announced or rumored.

And this gets on to the move in gold, which should give everyone pause. The shiny rock has more than doubled in value over the last five years and the speed of this recent move suggests that amid the market optimism and mixed economic data, there is vein of distinct concern.

Strategy

Preferred shares remain in favour as more firms announce redemptions, with rate resets remaining elevated. On the whole, most of the rate-reset issues that we follow or invest in remain near decade-long highs. Because there is a par price of \$25 at which firms may buy back their shares, there is a limit to how much upside these securities can provide on price alone. Some are already trading above par, supported by sizeable dividend yields and the growing prospect of further redemptions down the line.

While we acknowledge the limited upside to preferreds today, we continue to view the bond market as failing to compensate the buy-and-hold investor. Even though the stock market is high on an aggregate basis, there remain pockets of very favourable opportunities for new investors or new capital. With the rest, we continue to believe that these are resilient, durable businesses capable of withstanding economic stress and market volatility.

¹ J.P. Morgan Asset Management, *Guide to the Markets – U.S.* (September 30, 2025), 22

² “U.S. Utility Capex Forecast Nudges Higher on Increased Generation Spending Plans,” *S&P Global Market Intelligence*, September 23, 2025