



GLOBAL EQUITY AND INTERNATIONAL STRATEGIES

Third Quarter 2026 Review

Q3 2026 Review

Most of the developed market indices generated modest positive returns during the third quarter of 2026. Although returns were largely positive, ongoing geopolitical tensions and a series of interest rate hikes led to significant volatility across global equity markets. Despite these headwinds, the global economy appears to be in good shape based on leading economic indicators and corporate earnings continue to be robust. Returns for the key market indices are highlighted in the chart below.

Q3 2026 Global Stock Market Returns

Index	Geographic Region	Currency	Q3 2026 Price change	Q3 2026 Total return including dividends
MSCI World Index	Global	US\$	+1.6%	+2.0%
S&P 500	United States	US\$	+2.0%	+2.3%
Euro Stoxx 600	Europe	Euro	-1.1%	-0.6%
Tokyo Stock Exchange	Japan	Yen	+2.9%	+3.8%
Toronto Stock Exchange	Canada	CAD\$	+1.1%	+1.6%

Source: Bloomberg

Several themes stood out to us during the quarter. These themes included a shift by central banks towards a more synchronized tightening phase, positive economic momentum across most of the developed world, robust corporate earnings, and ongoing geopolitical tensions.

As mentioned, one of the key developments during the quarter was a shift by developed market central banks towards a more synchronized interest rate tightening cycle. Bond yields have increased in most parts of the world and the U.S. 10 Year Treasury yield rose above 5% for the first time in 2 decades. Meanwhile, the U.S. Federal Reserve increased interest rates by 25 basis points during the month of September. This was the first hike in more than 3 years. The increase in bond yields has been driven by a combination of higher energy prices, strong Manufacturing PMI readings, and increasingly hawkish commentary from central banks around the world. As a result, there are now expectations of 2 to 4 interest rate hikes over the next 12 months from some of the largest central banks in the developed world. This includes the U.S. Federal Reserve, European Central Bank, Bank of Japan, Bank of England, and the Bank of Canada. This can be seen in the chart below.



	Central Bank	Current Policy Rate	Expected Change in 12 months in basis points (bps)
	U.S. Federal Reserve	3.75-4.00%	+83 bps
	European Central Bank	2.50%	+70 bps
	Bank of Japan	1.25%	+82 bps
	Bank of England	3.75%	+102 bps
	Bank of Canada	2.25%	+100 bps

Source: Rate Probability

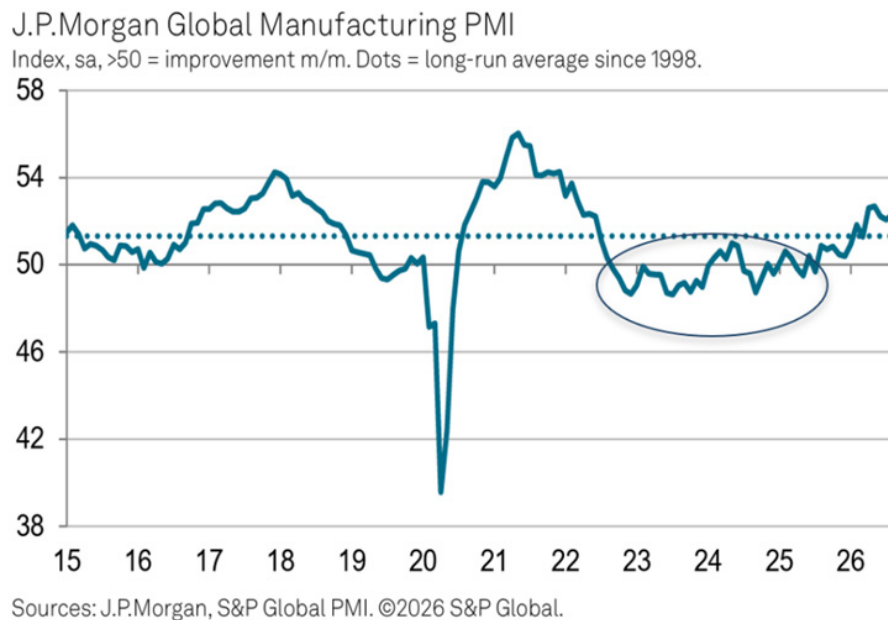
Economic momentum looks firm across most regions of the developed world according to some of the leading economic indicators. One of the most reliable leading economic indicators is the ISM Manufacturing PMI, which has been flashing green as of late. The Manufacturing PMI has historically been one of the best cyclical indicators for stocks and earnings. This is due to the high correlation between the Manufacturing PMI and global earnings growth as seen in the chart below.



Source: Deutsche Bank

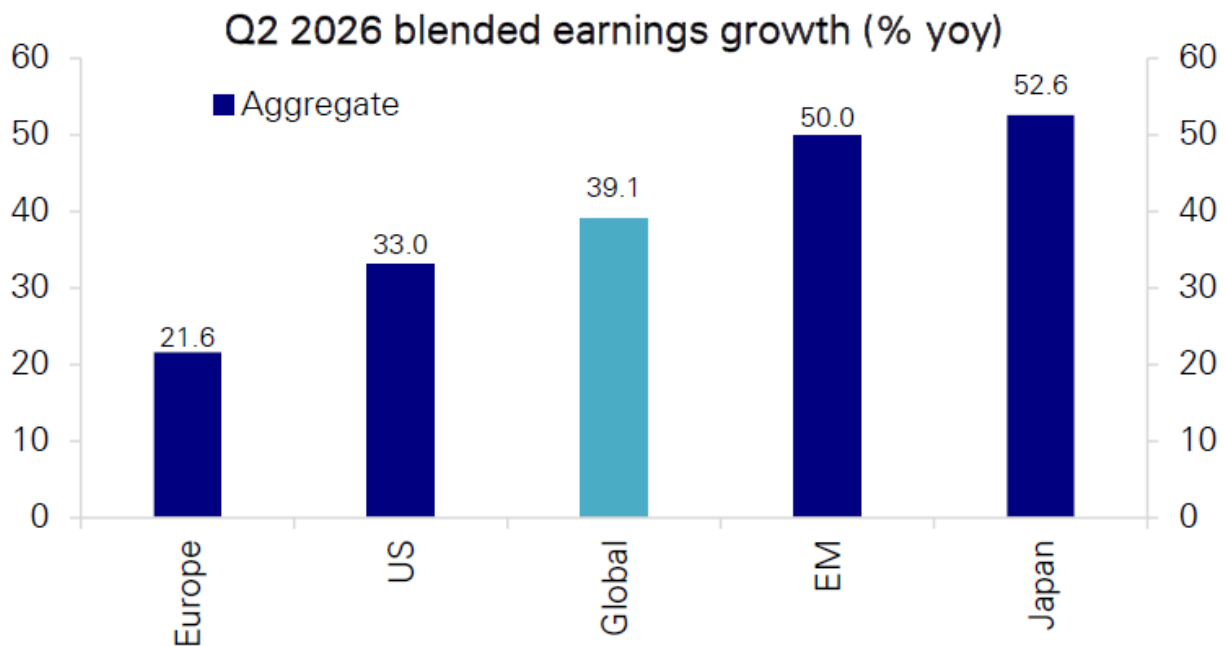


After spending the better part of 3 years in contraction (below 50), the J.P. Morgan Global Manufacturing PMI inflected into expansionary territory (above 50) in 2025 and has continued to climb in 2026 as illustrated in the chart below.



The most recent figure for the month of September showed a reading of 53.0, up from 52.3 in August. This represented the highest Manufacturing PMI reading since February of 2022. Manufacturers were buoyed by rising levels of output, new orders, and international trade. Demand for goods has improved throughout 2026 on the back of spending on artificial intelligence infrastructure, defence equipment and other areas of the economy. The September PMI reading provided an encouraging sign that demand is starting to strengthen across the board, which has in turn helped the geographical broadening of the global upturn.

The historically strong correlation between the Manufacturing PMI and corporate earnings growth has persisted in the current cycle with earnings inflecting higher on the back of the sharp rise in Global PMI's. In fact, corporate earnings have been so strong that some commentators are saying they are unprecedented. Why unprecedented? Because the current level of earnings growth is typically only seen when the economy is emerging from an economic recession. During the second quarter of 2026, global earnings grew by 39% on a year-over-year basis as shown in the chart below.



*Q2 is blended, assumes companies yet to report beat at current beat rate

Source: Deutsche Bank

One of the most impressive things about the global earnings backdrop is how widespread it is across geographies and industry sectors. During the second quarter of 2026, earnings growth was positive for all 11 sectors and increased by double digits in all sectors except Real Estate as seen in the chart below.

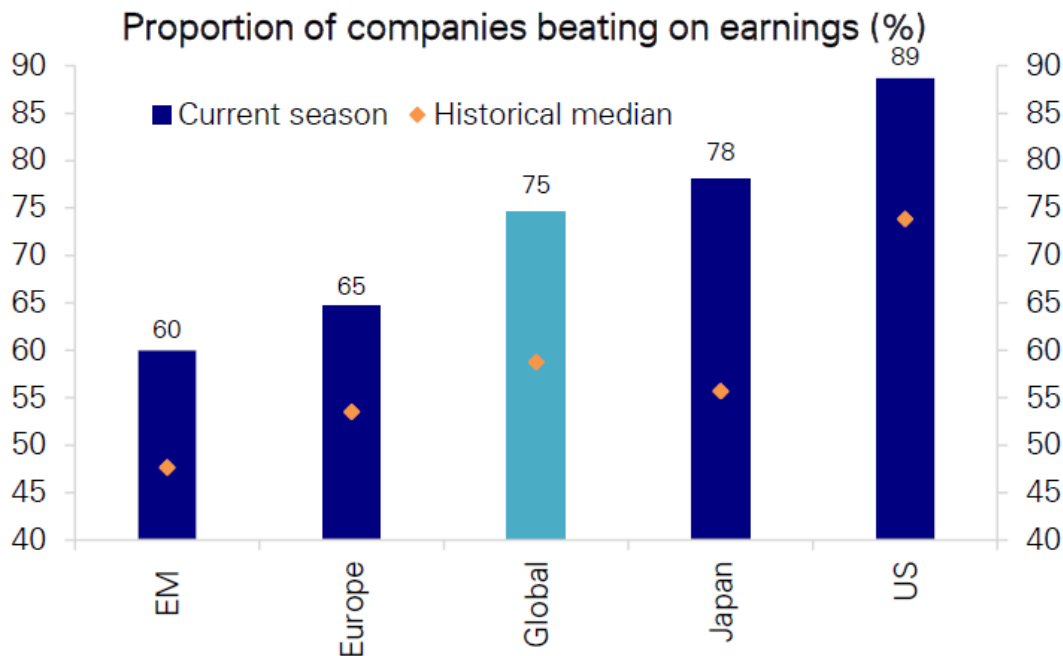


* Q2 is blended, assumes companies yet to report beat at current beat rate, growth in USD

Source: Deutsche Bank



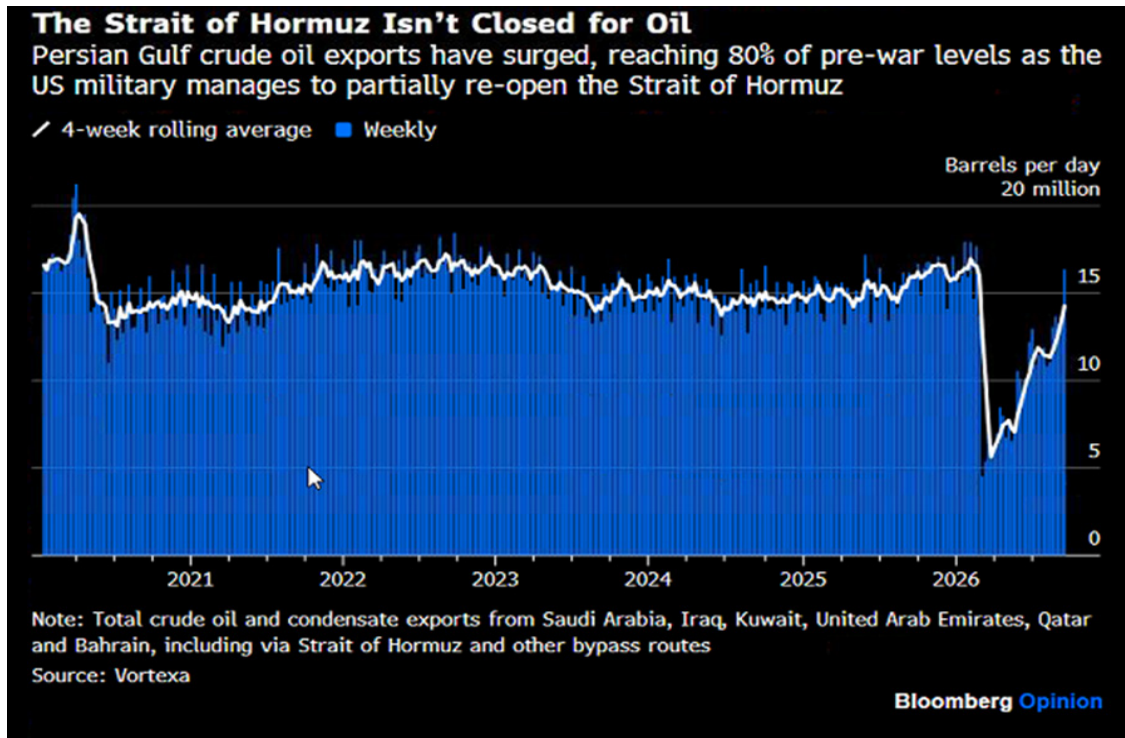
The proportion of companies that have generated earnings ahead of consensus has also been broad based across geographies as shown in the chart below.



Source: Deutsche Bank

The robust corporate earnings backdrop reflects strong demand in spending on artificial intelligence but also reflects a pickup in cyclical growth as evidenced by the Manufacturing PMI index.

In terms of geopolitics, the ongoing clash between the U.S. and Iran continues to be front and centre. While the conflict in the Strait of Hormuz remains unresolved and the price of oil is hovering near \$100 per barrel (Brent crude oil), there has been a positive development. Crude oil exports from regional U.S. allies through the Strait of Hormuz and bypass routes, have risen to about 80% of prewar levels. Prior to the conflict that emerged on February 28, crude oil exports from the Persian Gulf amounted to approximately 17 million barrels of crude a day. At the lowest point, crude exports plunged to less than 4.5 million barrels a day. Exports began to recover in June and have reached nearly 14.0 million barrels per day in recent weeks. This is illustrated in the chart below.



Risks:

In terms of the potential risks, we would highlight inflation, geopolitics, and volatility as we approach the U.S. Midterm Elections.

In terms of inflation, it is proving to be stickier than expected and this is one of the reasons why the U.S. Federal Reserve hiked in September for the first time in 3 years. Having said that, core inflation is still moving in the right direction as seen in the chart below.

Five Different Cores

By most measures, core inflation is still falling, slowly

CPI Ex Food & Fuel Trimmed Mean Median Supercore Sticky Price

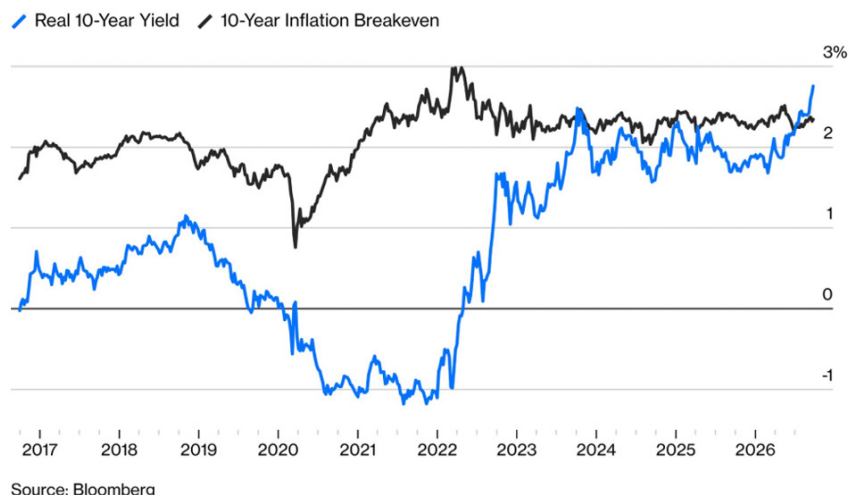


In the U.S., the most recent inflation reading was better than expected. For the month of August, the personal consumption expenditures price index, the Fed's preferred inflation measure, saw an increase of 3.4% on the headline number and 3.0% for the core figure. These figures were well below consensus estimates of 3.3% and 3.7% respectively.

Furthermore, the bond market is not signalling any major concerns about future inflation based on the breakeven inflation rate. An inflation breakeven rate represents the bond market's implicit expectation of average annual inflation over a specific time horizon. Because the inflation breakeven rate has remained remarkably flat, the bond market is implying that long-term inflation pricing remains well-anchored. While consumer inflation concerns have risen since the Iran war emerged seven months ago, longer-term market-based inflation expectations have barely budged over the last five years as illustrated in the chart below.

It's Not About Inflation

Breakevens have barely changed as yields have risen



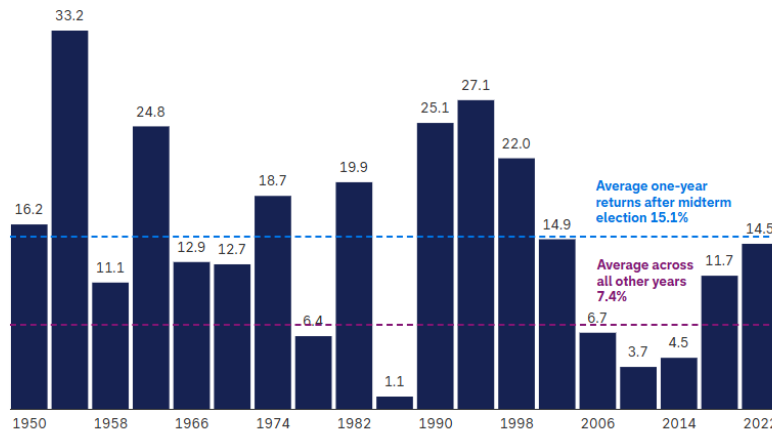
In terms of geopolitics, we highlighted the progress that has been made with crude oil exports from the Persian Gulf reaching 80% of prewar levels. While this is encouraging, more progress is required to resolve the other problem facing the energy market. That being the scarcity of refined products. Shipments of gasoline, diesel, and jet fuel are at 50% of prewar levels. Diesel is especially important given the crucial role it plays in the industrial economy. Unlike gasoline, which primarily powers passenger vehicles, diesel powers global commerce. This includes heavy freight trucks, trains, cargo ships, agricultural machinery, and industrial equipment. While crude oil can often be re-routed, refined products are more expensive to move than crude oil. One of the key bottlenecks is that global refineries outside the Persian Gulf are unlikely to pick up the slack because most refineries are already operating at or near maximum utilization rates (~95%+). This leaves little spare refining capacity to replace damaged Persian Gulf facilities.

Another risk is the potential for elevated volatility in the period leading up to the U.S. Midterm elections. Having said that, the silver lining for investors is that markets have historically rebounded strongly after election day. Since 1950, the average one-year return following a midterm election was 15.4%. That's nearly twice the return of all other years during a similar period as shown on the chart below.



Post-midterm market returns have been strong

S&P 500 Index price return one year after midterm election (%)



Sources: Capital Group, RIMES, S&P Global. Calculations use Election Day as the starting date in all election years and November 5th as a proxy for the starting date in other years. Only midterm election years are shown in the chart. As of December 31, 2025. Price returns exclude distributions. Returns are in USD.

Speaking of market risks, we have been hearing a lot about the complacency that exists in the market today. Given the risks and uncertainties that exist, some investors wonder how the S&P 500 and many other global indices can be trading within a few percent of their all-time highs. While this may sound like complacency, we must consider the level of damage has occurred beneath the surface of the market.

First and foremost, there has been a significant contraction in the valuation multiple for the S&P 500. The twelve-month forward price-to-earnings (P/E) ratio has fallen from 22.0x at the beginning of 2026 to 19.0x currently. The current P/E multiple is now inline with the 10-year average. In addition, a significant number of stocks in the Russell 3,000 have experienced large declines. The Russell 3,000 tracks the performance of the 3,000 largest publicly traded companies in the United States, which represents about 98% of the investable U.S. stock market. So, this index does a good job of representing the overall market. Since June, approximately 54% of Russell 3,000 stocks have sustained a drawdown of greater than 20% as seen in the chart below. We therefore refute the idea that there is a high degree of complacency in the market today.

% of Stocks with x% max drawdown since June 1	>10%	>15%	>20%	>30%	>40%	>50%
Russell 3000	89%	72%	54%	29%	15%	7%

54% of Russell 3000 members
have seen greater than a 20%
drawdown since June

Source: FactSet, Morgan Stanley Research



Portfolio Review:

During the first quarter, we established 1 new position in our Global portfolio and 3 new positions in the International portfolio. A brief description of each new holding can be found in the Appendix.

Outlook for the remainder of 2026:

Throughout the year we have maintained a cautiously optimistic view. The underlying drivers behind this view are still intact despite the risks we have outlined in this commentary. We are particularly encouraged by the broadening out of economic momentum beyond the U.S. and the robust corporate earnings picture that has unfolded across geographies and sectors. This is being driven by a recovery in global manufacturing and a capex supercycle that spans across many areas of the global economy. This includes artificial intelligence, infrastructure, energy, defense, and reshoring as supply chains are being reconfigured around the world. All of these factors are providing an important foundation for global equity markets. Putting it all together, we continue to have a constructive view on global equities.

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October 8, 2026

John Hwang

Lead Manager, Cumberland* International Equities

Sources:

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Appendix A – Company descriptions for new positions added to the Global Strategy:

Established in 1963 and headquartered in Tokyo, Tokyo Electron is a global leader in Semiconductor Production Equipment (SPE). Tokyo Electron is a leading wafer fab equipment vendor with an estimated market share of 12% globally, with a slightly higher share in memory (20%). Semiconductor growth is expected to remain strong with AI a key driver as the market expands to \$1 trillion by 2030. The company faces limited restrictions from U.S. export controls and as they expand their installed base, demand for their aftermarket Field solutions will continue to grow at a mid-to-high single digits. Long-term low double-digit earnings growth driven by a strong backdrop for semiconductors we remain positive on the outlook for Tokyo Electron.

Appendix B – Company descriptions for new positions added to International Strategy:

Fisher & Paykel Healthcare Corporation Limited, based in New Zealand is a manufacturer, designer and marketer of products and systems used in respiratory care, acute care, and the treatment of obstructive sleep apnea. The company has a leading share in High Nasal Flow Therapy which historically has been primarily used in the Intensive Care Units but applications are now broadening into other areas within the hospital. The company operates a razor/razor blade model selling both the hardware units and high margins consumables for its devices. Increased penetration in areas such as anaesthesia and into lower acuity settings should continue to drive low double-digit revenue growth over the mid-term and result in strong operating leverage as they increase their installed base.

Sika is a Swiss-based global leader in construction chemicals with a market share of approximately 12%. The construction chemicals market is fragmented globally and Sika's strategy of driving solid organic growth with tuck-in acquisitions has allowed it to bolster growth while consolidating its target markets. The company's business mix is balanced between new build and refurbishment with approximately 40% of its sales coming from emerging markets. Stronger pricing should help to offset higher commodities costs and the company is expediting its cost savings plan in order to boost margins into their 20-23% target range. We believe the company should be able to deliver low-teens earnings growth over the medium-term and its valuation is attractive.

Based in Switzerland, Nestle is one of the world's largest food companies with over \$100 billion in revenues. New management has focused on returning to the company to its historical level of Real Internal Growth (RIG = volumes) by focusing on its growth portfolio, increasing advertising spend, and exiting non-core businesses. The company has already raised approximately 10 billion Swiss francs through its business exits. Lower cocoa and coffee costs should provide a tailwind in their confectionary and coffee business driving upside in margins. Higher commodity costs (cocoa and coffee) have been a headwind in prior years look to have peaked and should drive upside in margins going forward. The new CEO has committed to a focus on free cash flow which may drive better shareholder returns in the future.

*Cumberland refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International mandates with Phil D'Iorio and John Hwang as their respective lead Portfolio Managers.. Phil D'Iorio and John Hwang are Portfolio Managers at CIC. Cumberland Private Wealth is the registered trade name of CPWM and CIC.

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