



NORTH AMERICAN EQUITY STRATEGY

Third Quarter 2026 Review

During the third quarter, the S&P 500 posted a total return of +2.30% in U.S. dollar terms. After adjusting for currency effects, the return is similar at +2.36% in Canadian dollar terms, as the Canadian dollar remained flat changing only by 0.17 cents over the quarter to \$0.7027. The S&P/TSX Composite Index delivered a positive total return of +1.62% for the quarter. Given that the main concerns in the marketplace are largely U.S. centric, this commentary has focused mostly on the U.S. macro factors shaping conditions, including the Federal Reserve, AI driven earnings performance across technology and other sectors, and the implications for the outlook ahead.

Exhibit 1 reviews the Summary of Economic Projections (SEP) from the September U.S. Federal Open Market Committee (FOMC) meeting. The FOMC decided to raise the target range for the federal funds rate by 1/4 percentage point to 3-3/4 to 4 percent in a 12-0 vote. The Committee noted economic activity is expanding at a solid pace and while uncertainty remains elevated, owing in part to geopolitical developments, domestic spending has also been resilient. Job gains have kept pace with the workforce, and the unemployment rate has changed little. The Summary of Economic Projections support this view as real GDP growth increased in both 2026 and 2027 over June projections, projected unemployment declined in both years and both PCE and Core PCE rose in 2026. PCE refers to Personal Consumption Expenditures and it is the preferred measure of inflation by the U.S. Federal Reserve (Fed).



Exhibit 1: Federal Reserve Summary of Economic Projections (SEP)

Variable [in %]	Median				Longer run
	2026	2027	2028	2029	
Change in real GDP	2.3	2.4	2.2	2.1	2.0
June projection	2.2	2.3	2.2		2.0
Unemployment rate	4.1	4.1	4.1	4.1	4.2
June projection	4.3	4.3	4.2		4.2
PCE inflation	3.7	2.3	2.1	2.0	2.0
June projection	3.6	2.3	2.0		2.0
Core PCE inflation	3.4	2.5	2.2	2.0	
June projection	3.3	2.5	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	4.1	4.1	3.9	3.6	3.2
June projection	3.8	3.6	3.4		3.1

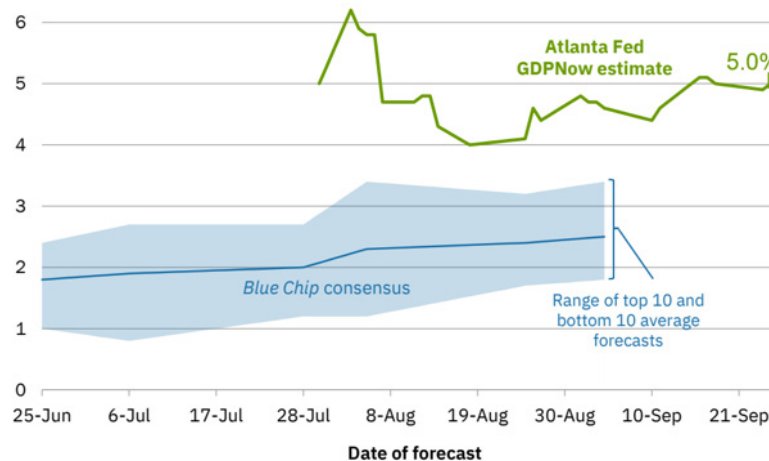
Source: Federal Open Market Committee, 09/16/2026

During the press conference, the comments from new Fed Chair, Kevin Warsh, appeared hawkish as he repeated his statement from his Jackson Hole speech in August that "*I would be hard-pressed to describe broad financial conditions as restrictive*". He went on to say, "*so we removed a dose of accommodation*" rather than saying we made the policy rate more restrictive. Our interpretation would be to expect more interest rate hikes; however, the SEP forecasts only one more rate hike between now and year end and none in 2027. Importantly, investors entered 2026 expecting interest rate cuts, not hikes so any hikes is more than what the market anticipated at the start of the year.



One factor mentioned that probably influenced the Fed's risk assessment is the resilience of economic growth. **Exhibit 2** shows the Atlanta Fed's GDPNow model, which estimates third-quarter GDP growth at 5.0%, the strongest pace since late 2021. While GDPNow is not an official forecast, it provides a useful real-time measure of economic momentum and suggests growth remains robust.

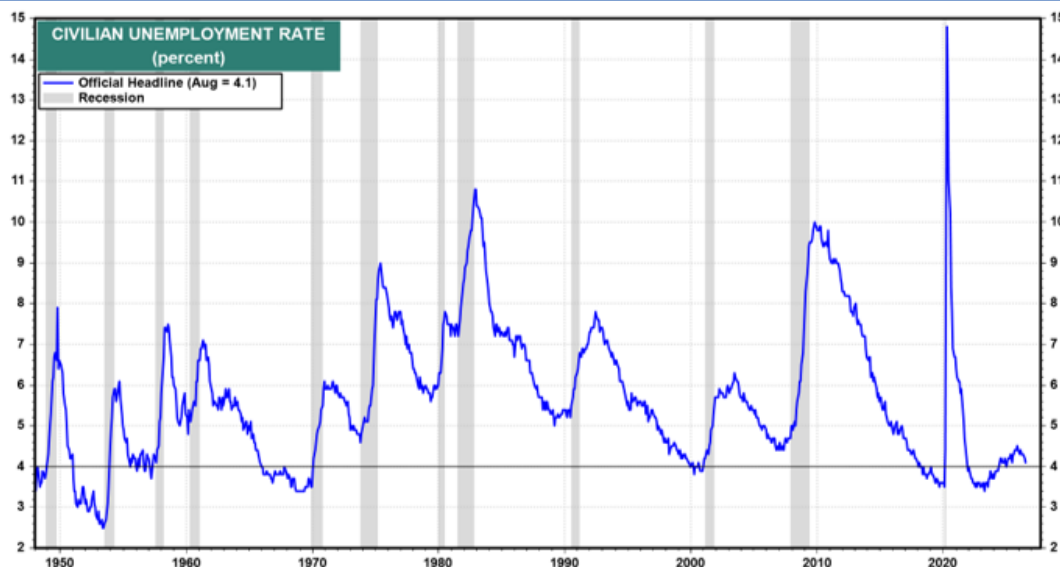
Exhibit 2: U.S. Real GDP forecast for Q3 2026 [quarterly % change]



Source: Federal Reserve Bank of Atlanta, 09/25/2026

Exhibit 3 shows the U.S. unemployment rate going back to 1980. As indicated in the chart, the labour market also continues to show considerable strength and unemployment remains low at 4.1%, while jobless claims are near levels typically associated with full employment. Strong payroll growth, low unemployment, and historically low layoff rates all point to a healthy labour market.

Exhibit 3: Civilian Unemployment Rate in %

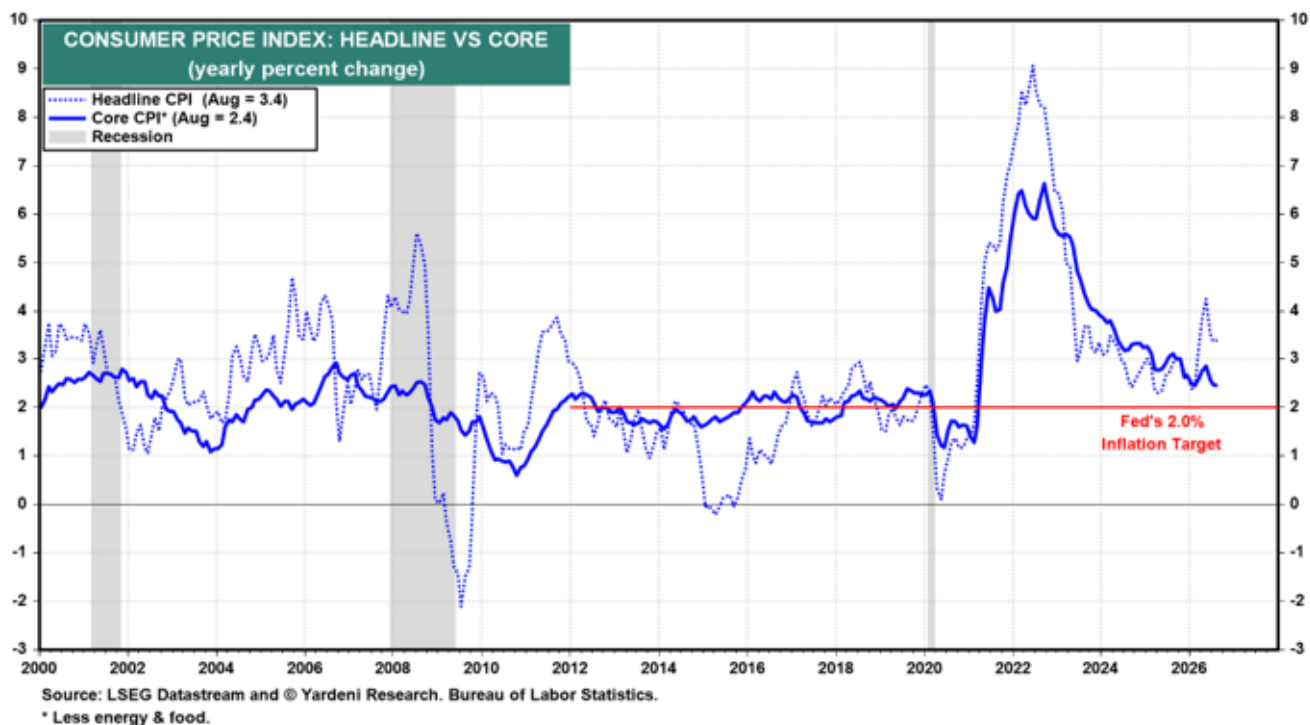


Source: Yardeni Research, 09/26/2026



Inflation, however, remains above the Fed's target. As shown in **Exhibit 4**, headline CPI (Consumer Price Index) was 3.4% and core CPI was 2.4% in August, down from 4.2% and 2.9%, respectively, when Chair Warsh took office in May. While inflation is moving in the right direction, progress has been gradual. The Fed's preferred inflation measures, PCE and Core PCE, remain higher at 3.7% and 3.3%, respectively. During the press conference, the Fed emphasized that inflation has remained above its 2% target for the past 5 years, with many categories still experiencing price increases above 3%, reinforcing the need to keep monetary policy restrictive

Exhibit 4: U.S. Consumer Price Index (Headline versus Core), yearly % change



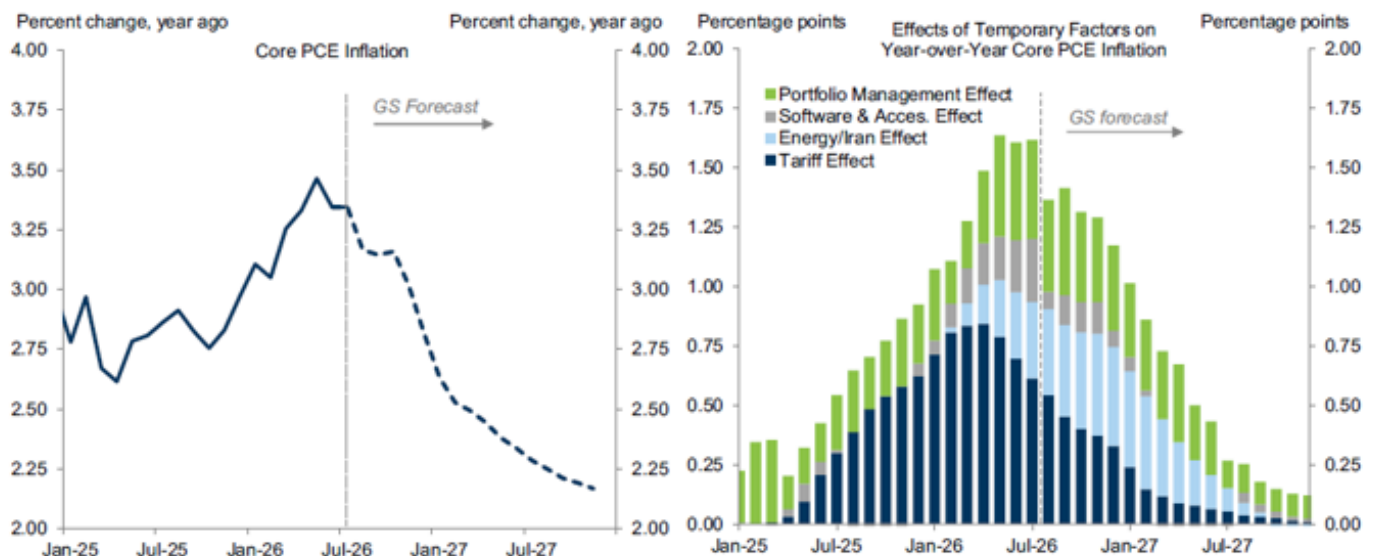
Source: Yardeni Research, 09/26/2026

Following September's 25 basis point (i.e. +0.25%) interest rate hike, market pricing continues to imply a more hawkish path for interest rates than the Fed's latest projections. As shown in **Exhibit 5**, futures markets now expect the Fed's policy interest rate to rise toward approximately 4.8% by year end-2027, implying roughly three to four additional quarter-point rate hikes from current levels. This contrasts with the Fed's projections shown in **Exhibit 1**, which point to only one further hike this year and no additional hikes in 2027. However, **Exhibit 6** suggests that even if the markets are correct and we do indeed get three or four more rate hikes, the cumulative amount of tightening would still rank among the shallowest hiking cycles in modern history. Unlike prior cycles such as 1994, 2004, or 2022, where interest rates rose several hundred basis points (ie: several percent) from very low starting levels, the current cycle begins from a much more restrictive policy rate near 4%. As a result, while markets anticipate some further tightening, the overall magnitude of additional interest rate increases remains modest by historical standards.



In **Exhibit 7**, Goldman Sachs argues that there is little economic justification for further interest rate hikes because the remaining inflation above the Fed's 2% PCE target appears to be driven almost entirely by temporary, fading factors rather than persistent underlying inflation pressures. The firm highlights that tariff pass-through, energy-related effects, software and accessories price increases, and portfolio management fees as a result of strong market performance are all waning, while more fundamental drivers such as labor and housing costs remain benign. Although Goldman expects the Fed to deliver one additional 25 basis point hike in October given the FOMC's hawkish guidance, it views the case for tightening as weak and expects interest rates to remain stable thereafter before eventually declining starting in late 2027.

Exhibit 7: Temporary Inflation Drivers Are Starting to Diminish

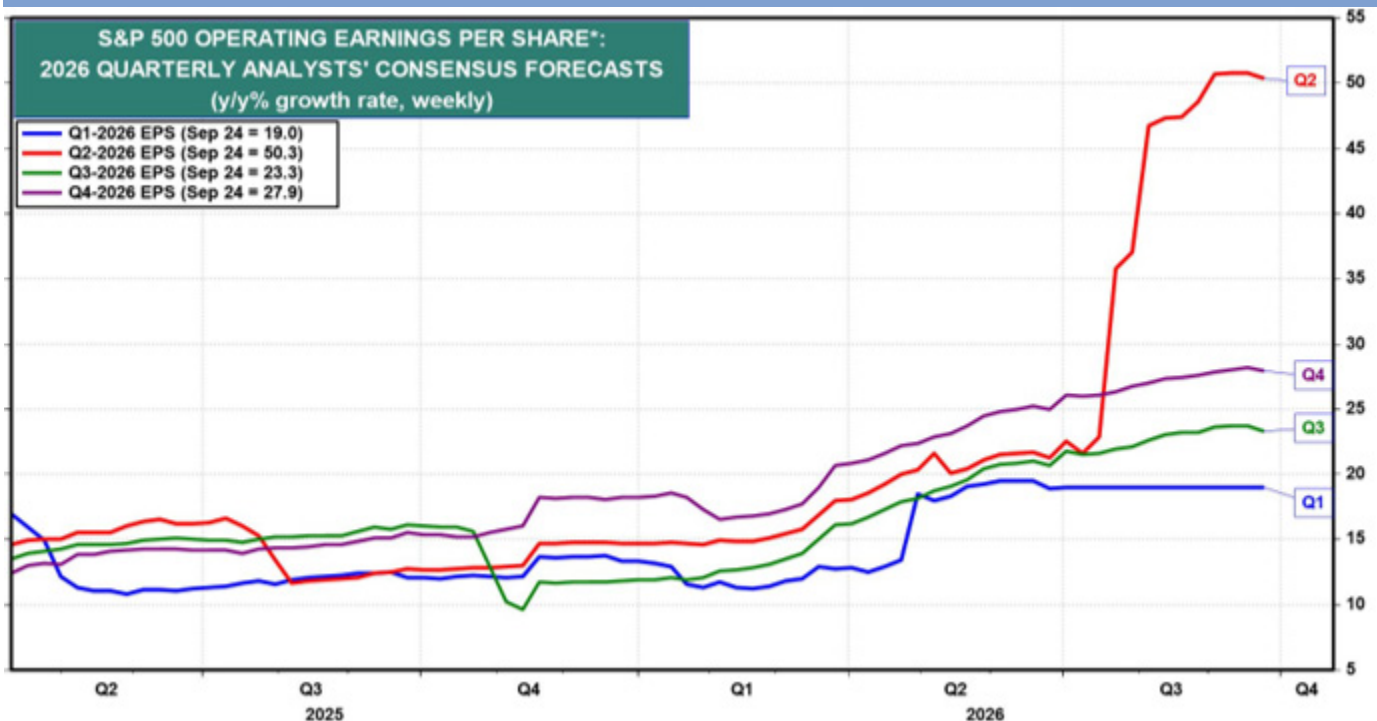


Source: Goldman Sachs, 22/09/26, Hatzius et al



Exhibit 8 shows quarterly actual and forward consensus earnings for the S&P 500. During Q2, S&P 500 earnings per share increased by an extremely impressive +50.7%, up from +19.0% in Q1. While Q2 results were boosted by one-time mark-to-market (MTM) gains, excluding these impacts, still leaves earnings growth at roughly +25%. As shown in the chart, the consensus outlook for the second half of the year remains exceptionally strong, with expected earnings growth of +23.6% in Q3 and 27.9% in Q4.

Exhibit 8: S&P 500 Forecasted Earnings per Share by Quarter

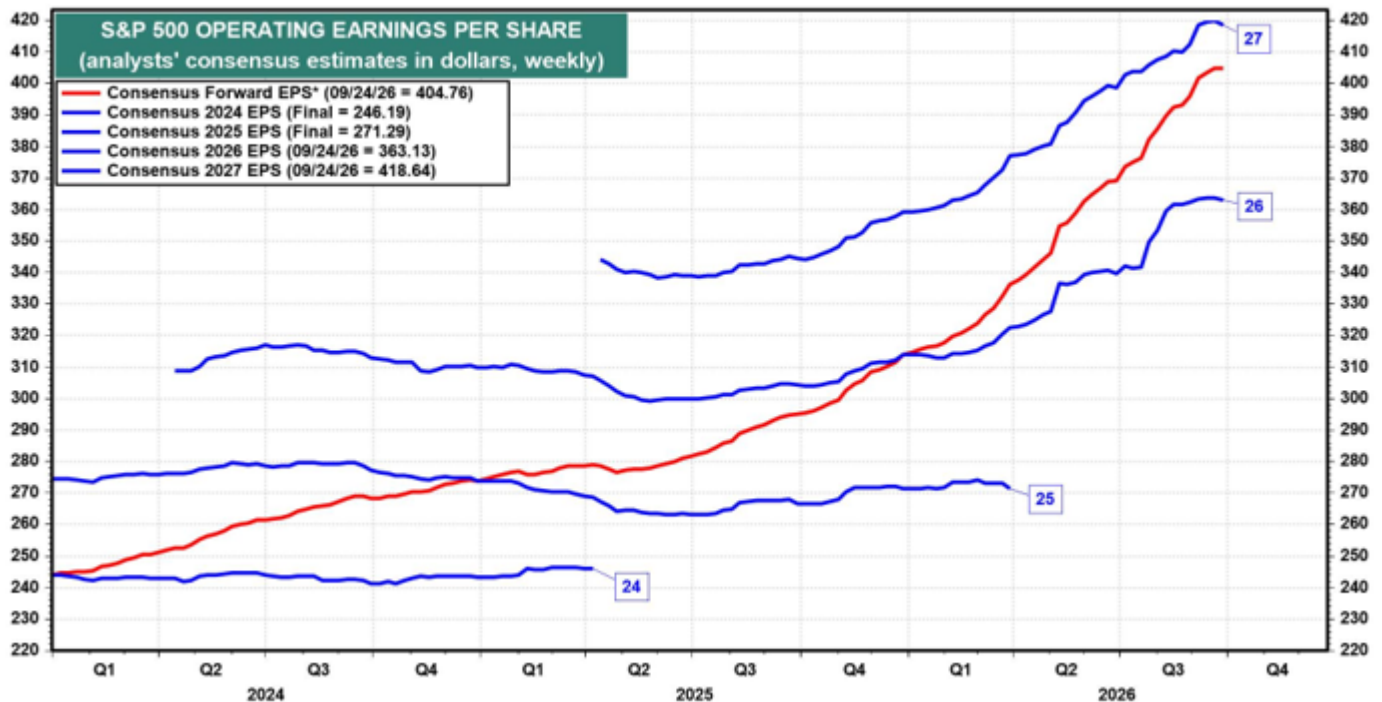


Source: Yardeni Research, 09/24/2026



Exhibit 9 presents consensus earnings estimates for 2026 and 2027 of \$363.13 and \$418.64 per share, respectively, implying year-over-year earnings growth of +15.3% in 2027. Forward earnings reached a record \$404.76 per share last week (red line in the chart) and continue to converge toward the year-end 2027 consensus estimate of \$418.64.

Exhibit 9: S&P 500 Forecasted Earnings per Share by Quarter

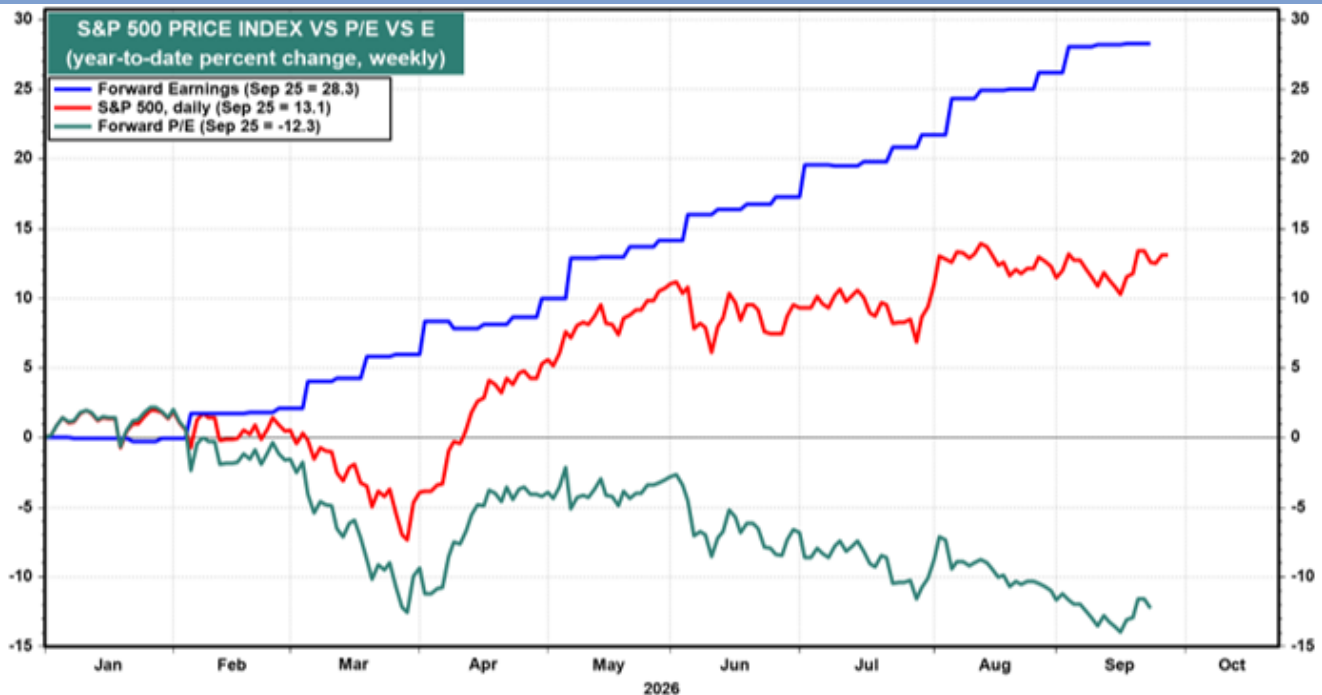


Source: Yardeni Research, 09/24/2026



Exhibit 10 shows the relationship between forward earnings (blue), price (red) and the forward P/E (green) for the S&P500 since Jan 1, 2026. Investors have been watching analysts raise their earnings expectations faster than stock prices have been rising. As a result, stocks have become cheaper, assuming that analysts' earnings expectations are correct. So far this year, the 12-month forward P/E for the S&P500 has declined from 22.2x to 19.2x, which is right in line with the average historical 10-year 12-month forward P/E of 19.2x.

Exhibit 10: S&P 500 Price Index vs Price/Earnings Multiple versus Forward Earnings



Source: Yardeni Research, 09/25/2026



Given that valuations have been contracting with improving earnings expectations, it is reasonable to ask whether investors are becoming more skeptical about the outlook for future profits. **Exhibit 11** compares actual earnings with forward 12-month analyst earnings estimates made one year earlier, dating back to 1995. As the chart illustrates, the relationship between the two series has historically been very strong, with meaningful divergences occurring primarily during and immediately following recessionary periods (grey vertical bars in the chart).

Exhibit 11: S&P500 Actual Earnings vs Analyst Estimates Made 12 Months Earlier

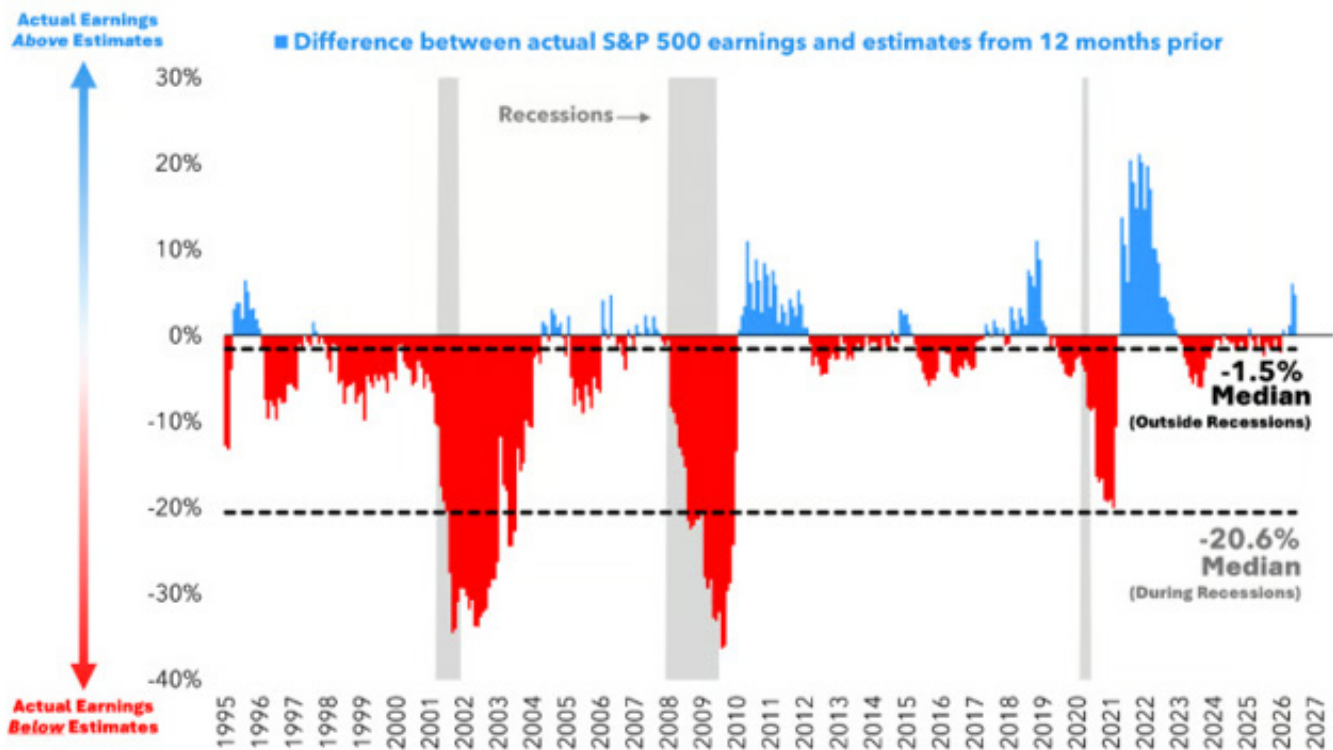


Source: The Compound Media



Exhibit 12 examines the difference between actual S&P 500 earnings and estimates made 12 months earlier. The analysis shows that during recessions; actual earnings have historically fallen a median -20.6% below prior estimates. Outside of recessionary periods, however, the median shortfall narrows significantly to just -1.5%. In our view, unless the economy enters a recession over the next 12 months, which is not our base case, current consensus analyst earnings estimates should prove reasonably accurate based on history.

Exhibit 12: Difference between actual S&P 500 earnings and estimates from 12 months prior



Source: The Compound Media



Canada's economy has remained stronger than expected, with GDP growth accelerating to +3.8% annualized in the second quarter and currently tracking near +2% in the third quarter. Ironically, a combination of supportive external factors has helped sustain growth. Geopolitical tensions, trade tariffs, and higher U.S. interest rates have provided a tailwind to parts of the Canadian economy, particularly the resource and commodity sectors. Higher oil and commodity prices have boosted export revenues and investment, while a weaker Canadian dollar has enhanced the competitiveness of Canadian exports and increased the value of foreign earnings when converted back into Canadian dollars. Together, these factors help offset economic headwinds and support continued growth. Importantly, our Canadian equity exposure is well positioned for this environment, with approximately 80% invested in energy, materials, and financial services, sectors that tend to benefit from stronger commodity prices and economic resilience. As a result, our direct exposure to tariff-sensitive areas of the market remains relatively low.

**Asset Allocation for our
North American Equity Strategy
As of September 30, 2026**

Equities	95%
Fixed Income	%
Cash	5%

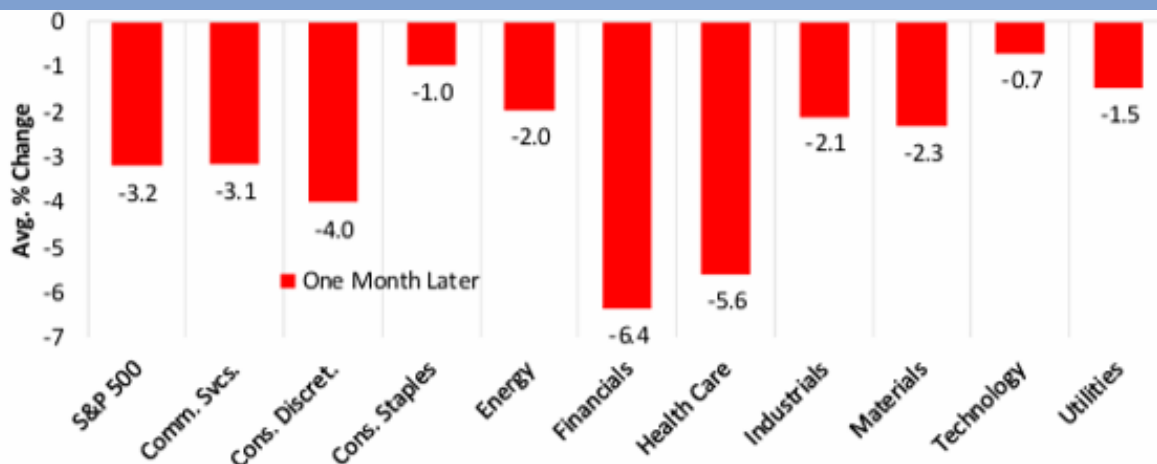
Our overall equity exposure decreased from 97% to 95% since June 30th, 2026, while cash increased from 3% to 5%. Within equities, U.S. exposure increased from 54% to 56%, while Canadian exposure decreased from 43% to 39% over the same period.

It is important to note that many client portfolios are invested through our North American plus International Equity strategy, which is currently allocated 80% to U.S. and Canadian equities and 20% to international equities. As a result, the effective weights of U.S. and Canadian equities within total equity allocations are modestly diluted due to this international exposure.



As the saying goes, “*Don’t Fight the Fed*”. **Exhibit 13** shows the average forward performance for the S&P 500 and its major sectors in the months following the first interest rate hike of a tightening cycle dating back to 1994. The Warsh-led rate hike in September represents the 7th start to a tightening cycle since then. On average, the S&P 500 has fallen -3.2% in the month after the first hike of a tightening cycle and -2.3% over three months with gains just +17% of the time. Six-month average returns are historically more positive with the S&P averaging a gain of +6.4%, and while one year returns on average were just +6%, they were positive 83% of the time. As mentioned above, we raised some cash through tax loss selling during the quarter with a focus on the sectors that have historically lagged following the first interest rate hike (namely consumer and industrial) and redeployed some cash into technology, in particular semi-conductors, which historically perform relatively better and had sold off from their peak in June.

Exhibit 13: S&P 500 and Sector Performance After First Rate Hikes of a Cycle



Sector Performance During FOMC Tightening Cycles: 1994 - 2026*

Sector	Median Performance (%)				Percent of Time Positive (%)			
	One Month	Three Months	Six Months	One Year	One Month	Three Months	Six Months	One Year
Comm. Svcs.	-3.1	5.5	12.2	6.3	17	50	83	50
Cons Discret.	-4.0	-2.5	6.7	3.7	33	17	50	50
Cons Staples	-1.0	-2.2	1.1	2.4	17	33	50	50
Energy	-2.0	1.9	8.7	22.2	50	67	67	83
Financials	-6.4	-1.6	1.5	3.1	0	17	50	67
Health Care	-5.6	-5.7	-0.8	11.8	17	17	17	67
Industrials	-2.1	-0.5	3.7	2.7	0	33	67	67
Materials	-2.3	1.1	7.1	1.4	17	50	83	50
Technology	-0.7	-0.7	2.0	21.6	33	33	67	67
Utilities	-1.5	0.3	4.8	12.6	50	50	67	50
S&P 500	-3.2	-2.3	6.4	6.0	17	17	67	83

* Periods where the FOMC hiked rates following a period of cuts and no prior rate hikes in the last year.

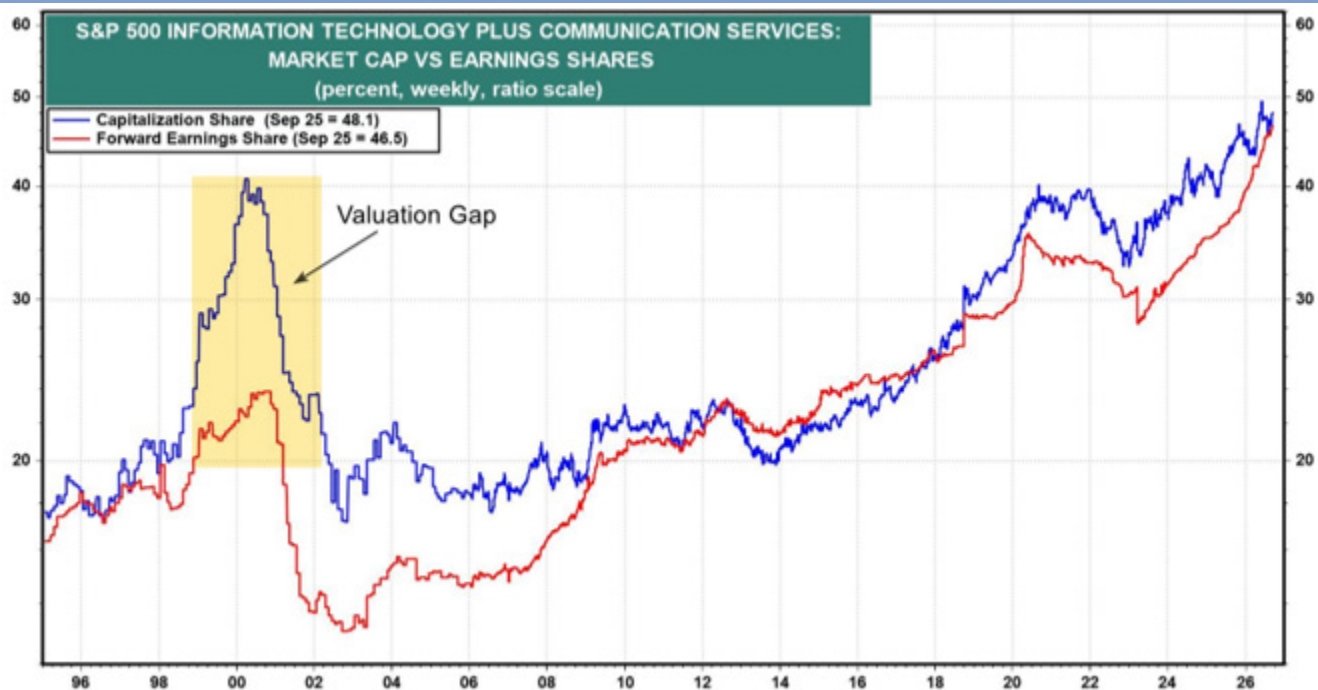
Starts dates that fit these criteria were 2/4/1994, 3/25/1997, 6/30/1999, 6/30/2004, 12/16/2015, and 3/16/22.

Source: Bespoke Investment Group



Exhibit 14 compares the Information Technology and Communications Services combined market capitalization of 48.1% of the S&P500 to the 12-month forward earnings share attributed to these sectors at a record 46.5% of total S&P500 forward earnings. While the absolute numbers are large (they are nearly half the market!), when you compare the market capitalization and earnings share of the same sectors at the Dot-Com peak in 2000, the current picture is far more reasonable, with market capitalization and earnings share roughly equal. At the dot com peak, market capitalization for these sectors was about 42% of the total market while they only made up about 24% of S&P500 earnings.

Exhibit 14: S&P 500 Information Technology plus Communication Services (market cap vs earnings shares)

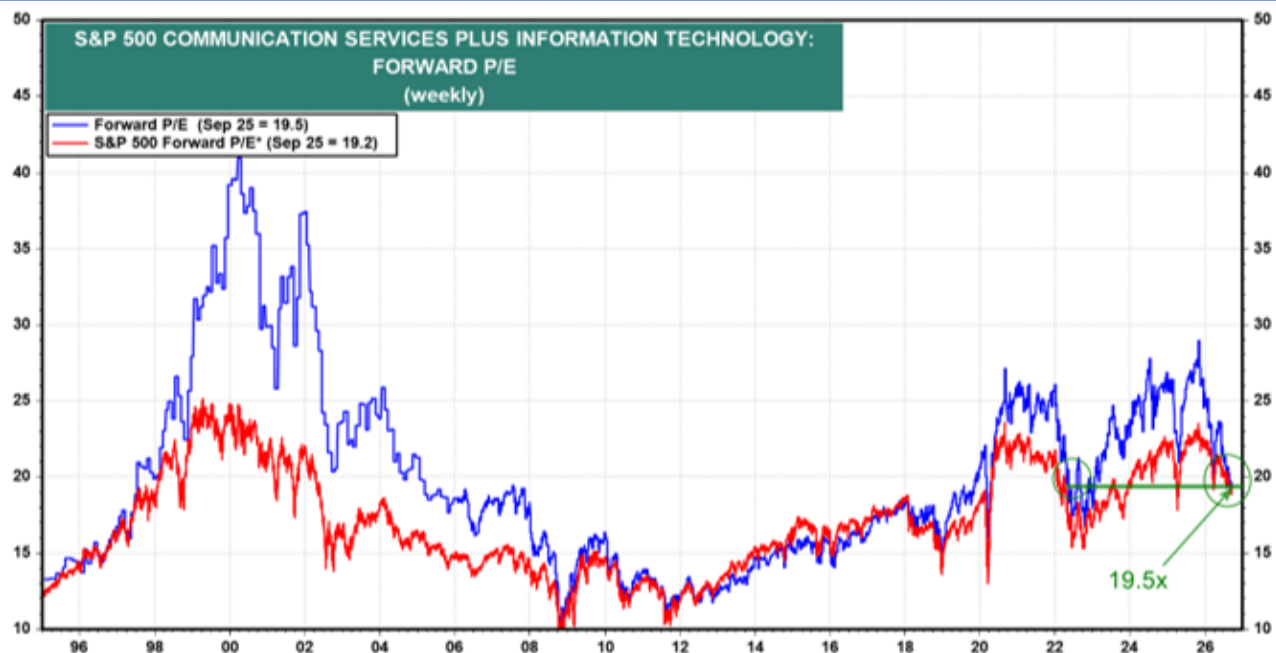


Source: Yardeni Research, 09/25/2026



Exhibit 15 compares the 12 month forward P/Es of the Information Technology and Communications Services (IT/CM) sectors (blue line) to the S&P500 (red line). As indicated in the chart, the forward multiples have converged at about 19.5x and 19.2x, respectively, given the strong earnings growth relative to the price moves for the Information Technology and Communications Services sector year to date. As indicated in the chart, the IT/CM multiple has contracted from nearly 30x in late 2025 and is now approaching the 2022 market lows, around the time OpenAI's ChatGPT was first introduced to the public, helping to spark the subsequent run-up in these sectors.

Exhibit 15: S&P 500 Communication Services + Information Technology Forward P/E



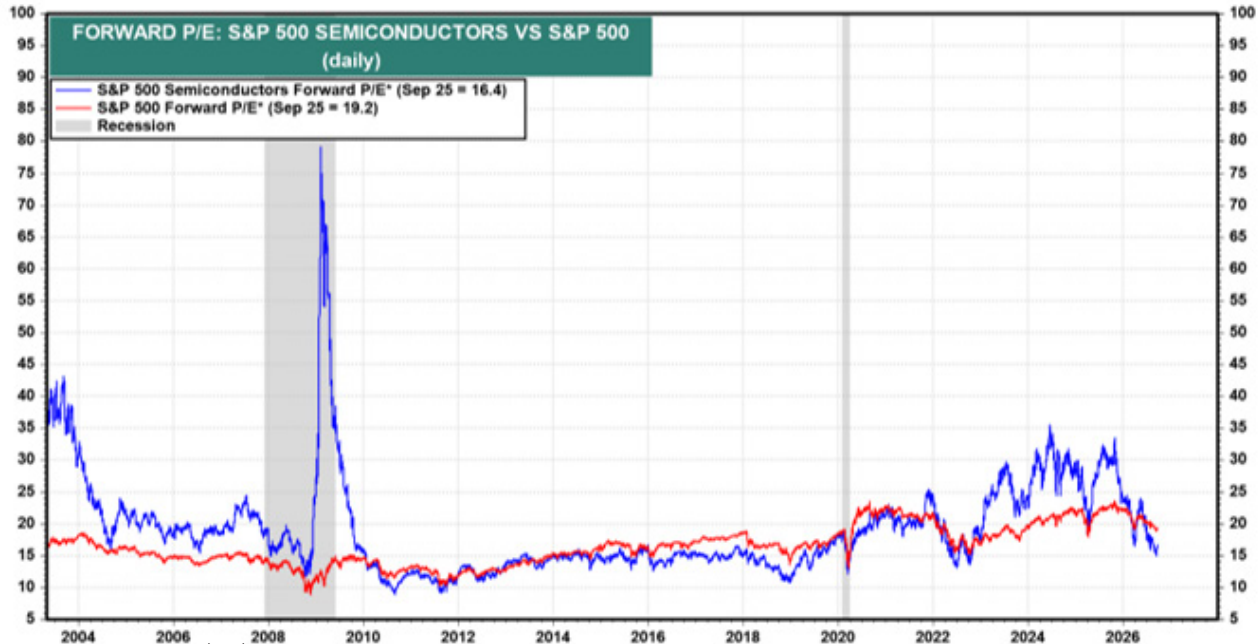
Source: Yardeni Research, 09/25/2026



Exhibit 16 is a similar chart to **Exhibit 15** but specific to the semi-conductor sub-index, which has traded down in a similar pattern from almost 35x in late 2025 to 16.4x today. We bought semi-conductor company Micron Technology (MU) and increased our weight in Analog Devices (ADI), another semi-conductor company during the quarter. When Nvidia, which is a long-held portfolio company, reported their most recent results late in August, it reinforced the strength of the AI infrastructure buildout, with 2027 growth expectations materially exceeding consensus forecasts. Since every high-performance AI GPU (Graphics Processing Unit) requires large amounts of high-bandwidth memory, stronger-than-expected demand for Nvidia systems translates directly into stronger and longer-lasting demand for Micron's products. We initially established our position in Analog Devices during the second quarter and added to the position in the third quarter following a pullback across the broader semi-conductor sector. We continue to view Analog Devices as being able to benefit from several powerful secular growth themes, including automotive electrification, autonomous driving, industrial automation, robotics and AI data centers.

A more detailed review of the business fundamentals and outlook for company purchased during the quarter is provided in **Appendix 1**.

Exhibit 16: Valuation of the S&P 500 Semi-conductors Subindex & the S&P 500



Source: Yardeni Research, 09/25/2026



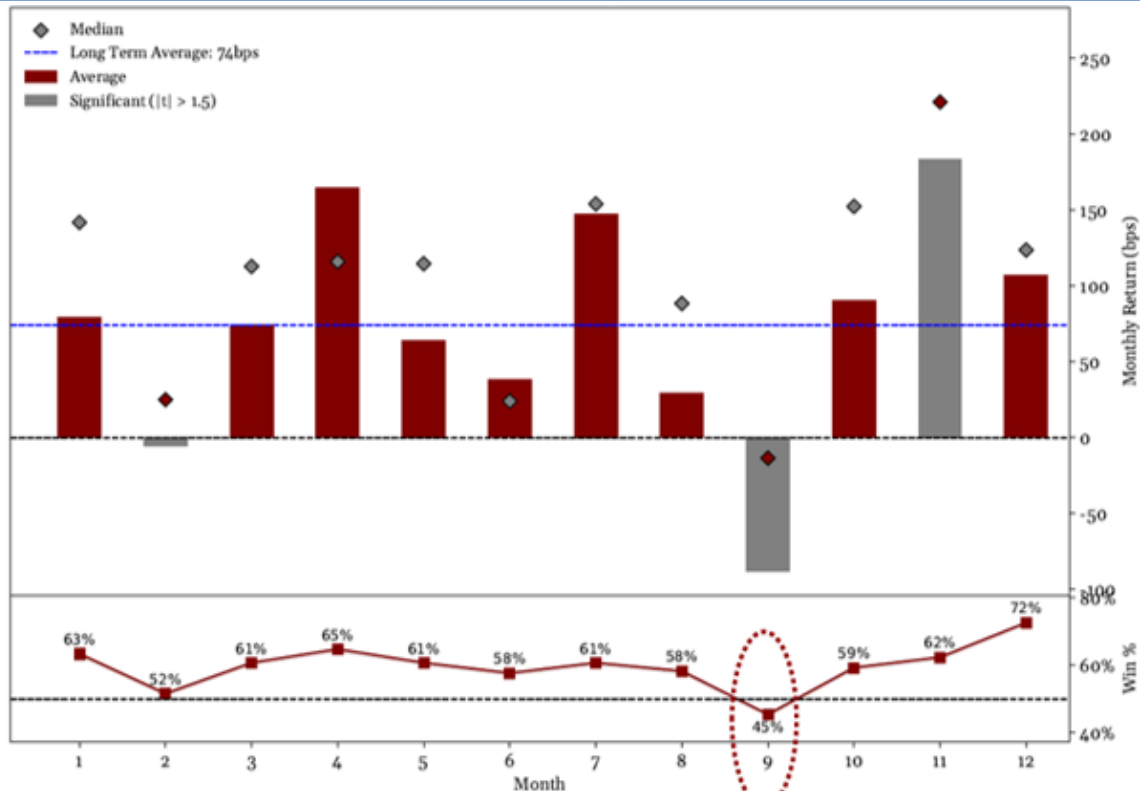
The Fed's September rate hike warrants caution, particularly because the market's response to the first increase in a tightening cycle can be uneven. **Exhibit 13** indicates that equities may experience heightened volatility and periods of weakness in the months following an initial rate hike. However, this historical pattern does not necessarily signal a prolonged downturn. Market performance will also depend on the strength of economic growth, the pace of future policy tightening, inflation trends, and the ability of companies to continue delivering earnings growth.

Against this backdrop, U.S. economic activity and corporate earnings remain resilient. Although higher interest rates may gradually increase financing costs and place pressure on valuation multiples, a healthy economy and solid earnings can help offset some of that impact. We therefore remain constructive on equities, while recognizing that returns may be more selective and volatility may remain elevated. We favour areas where earnings growth provides fundamental support for valuations, including semi-conductors and other companies positioned to benefit from sustained technology investment.

September has historically been the weakest-performing month of the year, as highlighted by the vertical ellipse in **Exhibit 17**. The exhibit also illustrates a more favourable seasonal backdrop from October through January, which could provide additional support to equities should investor sentiment continue to improve. Nevertheless, we do not view seasonality as a substitute for fundamental analysis, and we will continue to closely monitor economic data, Federal Reserve communications, earnings revisions, market breadth, bond yields, corporate spreads and other relevant information as the situation evolves. Our cash position provides flexibility and some dry powder to capitalize on opportunities should short-term volatility create attractive entry points. Overall, we believe a disciplined approach, maintaining exposure to high-quality growth-oriented companies while preserving liquidity, offers the best balance between participating in further upside and managing the risks associated with a changing interest-rate environment.



Exhibit 17: S&P 500 Index, Seasonal Monthly returns (1979-2026)



Source: RenMac, 8/28/2026

Peter Jackson
Chief Investment Officer
September 30, 2026

*Cumberland and Cumberland Private Wealth refer to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates.

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Appendix 1

New Equity Investments:

Cumberland North American Equity Mandate

United States

Micron Technology

Micron is benefitting from an AI-driven memory cycle while trading at an undemanding valuation multiple of ~7x next-twelve-month's earnings. AI inferencing and agentic reasoning workloads have triggered severe supply-demand imbalances, forcing a capacity reallocation toward High-Bandwidth Memory (HBM)—which commands 4x higher pricing than standard DRAM and is sold out through 2027. Micron has signed multi-year strategic customer agreements with 16 large customers that lock in roughly 20% of DRAM and 33% of NAND revenue under binding take-or-pay structures out until 2030. These contracts secure gross margins well above historical peak cycles, providing better long-term earnings visibility than the company has enjoyed previously, which we think will drive a rerating for the stock.