

INVESTMENT ENVIRONMENT

Periodic Middle East flashpoints continue to cause some strain. Economy remains resilient as broader growth drivers more than offset these challenges.

EQUITY MARKETS

Dispersion of equity returns was elevated during the quarter. Companies with durable growth drivers seem well placed in current higher yield environment.

FIXED INCOME MARKETS

Uptick in volatility as Central Banks increasingly data dependent. Appetite for corporate bonds remains high despite heavy issuance.

INVESTMENT ENVIRONMENT | GEOPOLITICAL FRICTION PERSISTS, THOUGH MACRO RESILIENCE PREVAILS

In a quarter defined by numerous moving parts, four of the most consequential included a spike in energy prices driven by Middle East tensions, surging bond yields, shifting sentiment across the Artificial Intelligence (AI) ecosystem, and evolving expectations surrounding the U.S. midterm elections.

Optimism surrounding June's U.S.-Iran memorandum of understanding quickly faded in July when the de-escalation deal collapsed following renewed attacks on commercial vessels. In response, the U.S. restricted Iranian traffic through the Strait of Hormuz while escorting allied shipping, as Gulf nations utilized dark fleets for ship-to-ship transfers and redirected crude exports through alternative pipelines. Despite a strong recovery in Hormuz crude flows, persistent infrastructure and shipping attacks underscore ongoing security risks as Iran seeks to maintain its primary point of leverage. With diplomatic channels stalled, economically isolated Iranian leadership seemingly unfazed by hardship, and military deployments rising, the situation remains at a tense impasse.

The refined products backdrop is more complex, driven by distinct global supply shifts. With diesel exports from major Middle Eastern, Russian, and Asian hubs constrained by infrastructure and domestic priorities, the market is exceptionally tight and prone to sharp price spikes. This has heightened reliance on U.S. Gulf Coast exports to supply Europe and Latin America, lifting domestic prices (Figure 1). If sustained, expensive diesel risks embedding cost pressures across industrial, agricultural, and transport sectors, feeding broader inflationary currents.

As the U.S. midterm elections approach, affordability, foreign policy, AI, and tariffs remain contentious issues. Elevated diesel prices have drawn scrutiny, prompting vulnerable legislators to float potential export bans. While such measures risk undermining the U.S. refining industry's reputation as a reliable supplier, urgency

may subside following Europe's coordinated release of emergency fuel reserves. Concurrently, polling and prediction markets indicate a distinct possibility that both chambers of Congress could flip to Democratic majorities, potentially ushering in political gridlock and increased legislative constraints on the Trump administration through the remainder of its term.

A confluence of factors drove the long end of the bond curve higher, with the U.S. 10 year yield surging upward of 80 basis points over the quarter (Figure 2). Yields were lifted by resilient economic growth, sticky inflation exacerbated by rising energy prices, and a U.S. Federal Reserve (The Fed) that enacted a rate hike and signaled a potentially more restrictive policy stance. At the same time, heavy corporate debt issuance required to fund the buildout of AI infrastructure further compounded the supply and demand pressures. We expand on the implications of this development for equities and bonds in the sections that follow.

The U.S. remains the epicentre of the global data center buildout, driving significant economic growth through capital outlays for specialized AI compute infrastructure. However, this expansion faces rising public and political scrutiny over electricity and resource consumption that inflate utility bills, particularly ahead of midterm elections. In response, ecosystem players have framed these investments as a national security imperative against global competitors like China. Looking ahead, we expect sustained investment growth, tempered by a heightened focus on mitigating local community impacts.

Although inflation has proven more persistent and interest rates have risen sharply, the economy remains resilient, supported in part by a healthy labour market and corporate earnings that have held up well. This resilience should provide time for some of these pressures to abate, supporting a more constructive outlook for equities.

FIGURE 1: UPWARDS PRESSURE AT THE PUMPS

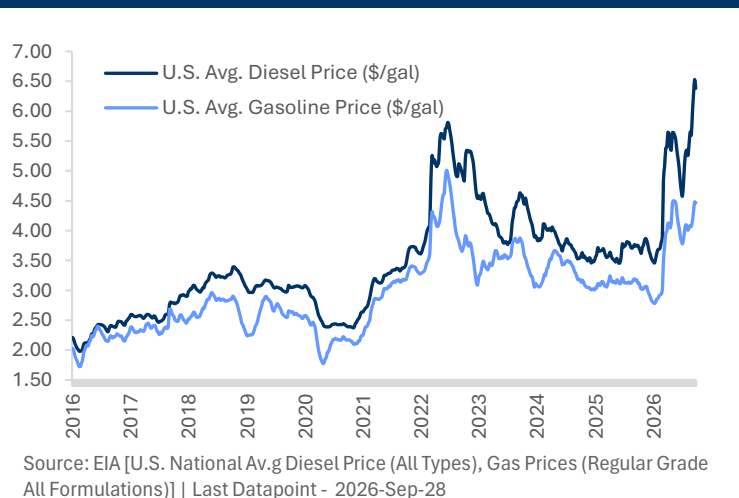
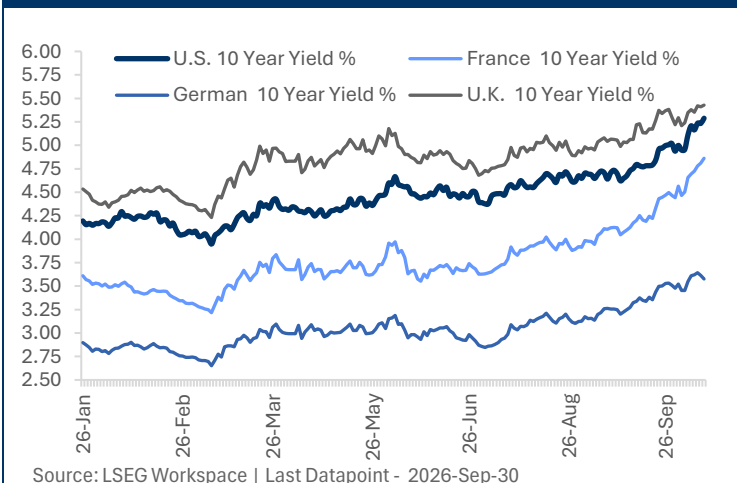


FIGURE 2: 10Y YIELDS RISING ACROSS MANY MARKETS



Equity Index Returns				
	3Q26 (CAD)	3Q26 (USD)	YTD26(CAD)	YTD26(USD)
Global (Net)	1.9%	1.9%	15.7%	11.8%
Canadian	1.6%		13.0%	
CDN Small Cap	2.4%		20.8%	

Equities posted positive returns in the quarter, though there was significant dispersion across sectors. Most Energy and Materials constituents benefited from the move higher in underlying commodities. Companies with long-duration cash flows that employ debt in their capital structure across Real Estate, Utilities, and Infrastructure de-rated with the move higher in yields. Areas of the market, including many pockets within Industrials and Consumer sectors, that either had to absorb higher input costs before passing them through, or had exposure to the lower-end consumer, were laggards.

Information Technology was once again a source of strength, though the composition of the outperformance varied from prior quarters. The majority of semiconductors and AI-exposed capital goods providers trailed this quarter despite many beating earnings expectations, reflecting a natural consolidation following strong prior gains alongside questions regarding the trajectory of growth in the capital expenditure cycle. By contrast, software rallied sharply, having been heavily sold on AI disruption fears, with companies generally posting better-than-expected results and many making a stronger case that AI may be a growth driver rather than a threat.

BIM EQUITY FRAMEWORK

The broadening in stock market performance that emerged early in the third quarter proved short-lived, as investors increasingly focused on areas less exposed to geopolitical uncertainty, input-cost pressures and higher bond yields. However, equities remained in positive territory during the quarter, supported primarily by strong earnings growth (Figure 3). While some of these macroeconomic pressures may persist, the rapid increase in long-term interest rates suggests that much of the adjustment may already have occurred. Against this backdrop, we continue to focus on companies with durable growth prospects, attractive valuations and balance sheets with appropriate leverage. We see particularly attractive opportunities among businesses providing infrastructure for the global buildout of the AI ecosystem, as well as companies positioned to benefit from the “Build Canada” investment theme.

GLOBAL MARKETS

Consistent with this framework, we have increasingly emphasized companies with durable, company-specific growth drivers. Our bottom-up research looks for businesses with valuation support, strong balance sheets and earnings that are less dependent on the

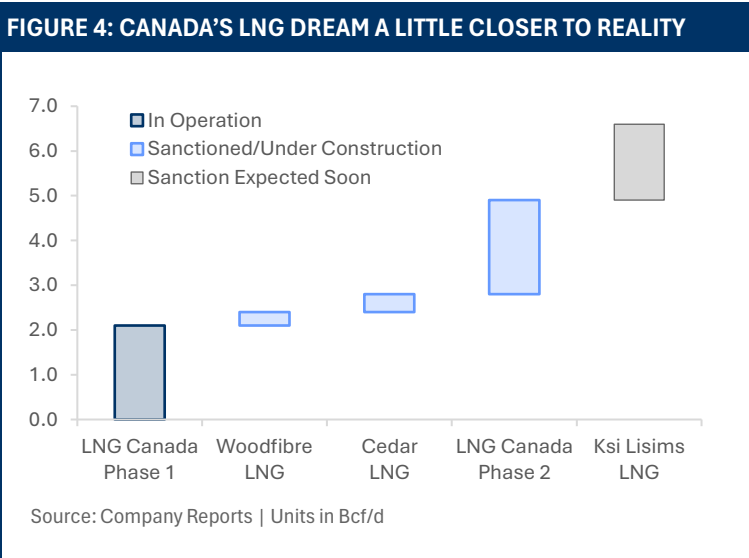
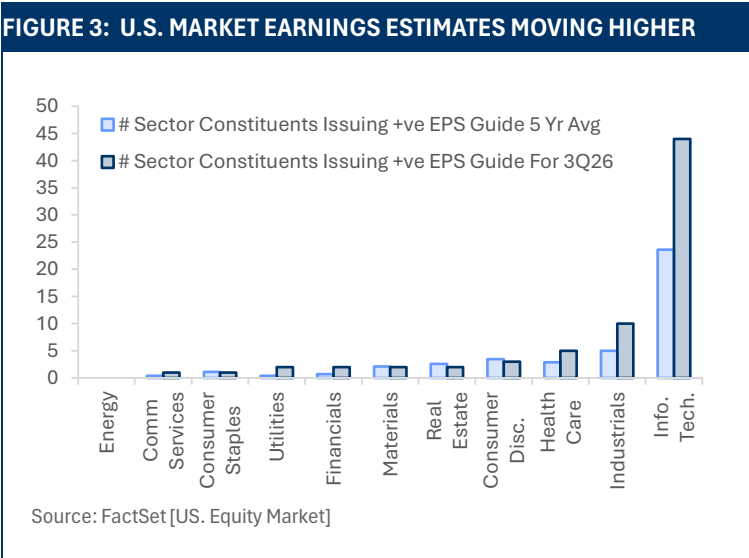
economic cycle. One example is Dell Technologies, where server demand has grown substantially as customers expand their AI infrastructure. Dell is particularly well positioned given its scale, supply-chain relationships and ability to integrate leading-edge GPUs into complete server systems. Furthermore, demand for AI compute continues to exceed available capacity, suggesting the industry remains in the early stages of the infrastructure buildout. Over time, we also expect AI adoption to broaden beyond hyperscalers as more enterprises deploy AI workloads within their own data centres.

Healthcare is another area with secular growth drivers, supported by an aging population, drug innovation, and increasing therapy complexity. Biotech funding has also strengthened alongside a more active IPO market, improving conditions for emerging developers. Thermo Fisher is well-positioned to capture these tailwinds through its broad exposure to life science tools, equipment, and services. Additionally, the ongoing reshoring of drug manufacturing capacity to the United States is creating further opportunities as firms build out domestic production infrastructure.

CANADIAN ALL-CAP MARKET

Escalating trade tensions with the U.S. have provided PM Carney with the political capital to advance an ambitious industrial agenda at a time when the world is clamouring for Canadian resources. Moving past historic false dawns, a major push has been made to clear obstacles to investment and accelerate infrastructure and energy export projects. To this end, the inaugural Canada Investment Summit showcased an extensive project portfolio to major global institutional and sovereign investors. This was swiftly followed by the announcement of targeted tax incentives for capital spending and legislative action to streamline project approvals. Conditions are rapidly aligning for a multi-year investment boom in Canada, positioning the companies that will service this build-out exceptionally well, including Black Diamond which we profile in the Equity Thesis Spotlight.

Nearly a year after receiving priority status from the Major Projects Office, LNG Canada Phase 2 and Coastal GasLink Phase 2 were formally sanctioned in September. As LNG is arguably the country’s most sought-after export, delivery on this potential over the next five years will be transformative (Figure 4). Woodfibre and Cedar lead the delivery queue, followed by LNG Canada Phase 2, while Ksi Lisims, backed by offtake agreements for ¾ its capacity, approaches the threshold of a Final Investment Decision. Higher LNG export activity will require increased natural gas and associated liquids production, which should drive future upside for Canadian-focused midstreamers such as AltaGas, Keyera, and Pembina Pipeline.



CANADIAN SMALL CAP MARKET

It was an up and down ride through much of Q3. Despite global equity indices grinding out further gains, under the surface it has been quite volatile. Market breadth has deteriorated substantially with U.S. benchmarks being buoyed by a handful of AI-exposed names. In Canada, large cap tech rebounded during the period and materials and energy sectors continued to lead.

It was a strong period for the small cap portfolio with energy holdings providing a nice offset to conflict-related inflationary pressures and copper-exposed names continuing to benefit from the forecasted supply-demand tightness ahead. Most importantly, over the last year the portfolio has leaned into “Build Canada” tailwinds across the portfolio – most significantly in the industrials sector – which has delivered positive returns in the face of persistent inflation and higher interest rates. Construction holdings Bird (BDT) and Aecon (ARE) are seeing record backlog growth. Newly added, Mullen Group (MTL) provides trucking and related services with large exposure to Western Canada and major project development. Westshore Terminals (WTE) owns and operates an irreplaceable port asset on the west coast, which offers exposure to non-U.S. commodity exports. Finally, Black Diamond Group (BDI) is positioned in the centre of some of these positive themes, which we’ll elaborate on below.

With strong returns through the first nine months of the year we remain cautiously optimistic. As breadth has weakened, it remains a “stock picker’s market” with pockets of economics stress, areas of market froth, and underappreciated small cap names starting to be uncovered.

FIXED INCOME MARKETS | CONTINUED STRONG DEMAND FOR CORPORATE ISSUES

Fixed Income Index Returns		
	3Q26	YTD26
Canadian	-2.9%	-0.8%

Fixed income markets entered the final months of 2026 having navigated turbulent price swings. A measure of this volatility is provided by the MOVE Index, which indicated a level of 110 at quarter end, up markedly from a measurement of 65 as the year started, but still well below a peak of near 200 reached in 2023. The uptick in volatility stems from certain central banks committing more strictly to a data-dependent approach for future policy decisions. Moving away from a more well-signaled glide path, this pivot has left the market highly reactive, exposing duration positioning to sudden, sharp repricing driven by incoming economic data and the resultant shift in policy expectations.

This environment has caused a more defined split between central banks. The Bank of Canada (BoC) kept its policy rate steady, noting offsetting dynamics including inflation risks due to Middle Eastern conflict, stalled trade talks, and a still-resilient economy. As such, even though Canadian GDP came in ahead of expectations, some existing slack provided the headroom to stand pat. Meanwhile, the U.S. Fed raised its overnight rate in September, citing persistent inflation pressure, ongoing economic expansion, and healthy labor markets. Chair Warsh emphasized a strict commitment to the 2% inflation target, refraining from providing forward guidance and noting that the policy path is not predetermined. Markets have priced in additional future hikes, though views on the outcome of the upcoming October meeting oscillate with incoming economic data. While the short end of the curve has seen some fluctuations, the longer end of the curve reacted more forcibly to potential war-induced inflation concerns and perceptions of weakening government finances (Figure 5).

On the corporate side, the Canadian bond market showed impressive stability. Corporate bond spreads narrowed across all credit ratings and maturities over the course of the quarter, before widening slightly from those tightest levels as September ended. Investor demand for fixed income remained exceptionally strong,

BIM EQUITY FRAMEWORK

Black Diamond Group (BDI), held across all Canadian portfolios, is a leading provider of modular space solutions across Canada, the U.S., and Australia. The company is exceptionally well-aligned with forthcoming nation-building projects in remote regions. Its extensive rental fleet provides ample capacity for higher utilization, allowing BDI to capture rising demand with minimal capital requirements and drive high-quality growth. Given the realities of the modern remote labor market, investing in top-tier camp logistics and services is treated as a critical success factor for attracting talent, mitigating turnover, and keeping complex projects on schedule.

While we expanded on the growth outlook for natural-gas-related infrastructure earlier in our newsletter, announcements in just the last few weeks strengthen the case for future oil-related opportunities as well. Ottawa’s designation of the Pacific Link pipeline as a project of national interest marks a major milestone for expanding oil sands transport to the West Coast, with the federal review process targeted for completion by September 2027. Additionally, Cenovus Energy’s recent proposal to acquire Athabasca Oil Corporation is in part predicated on their ability to accelerate the development of Athabasca’s oil sands projects and speaks to their optimism regarding future oil pipeline takeaway capacity growth.

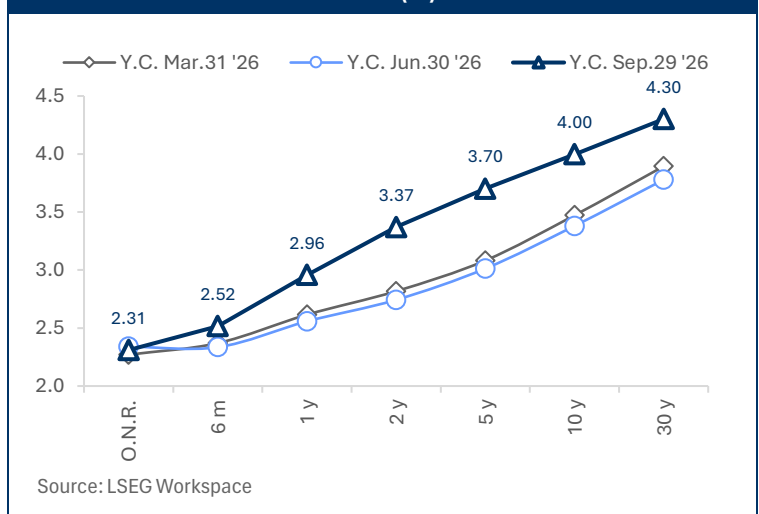
While the timing of major project awards and construction starts can be lumpy, the underlying business trajectory remains firmly upward, as evidenced by a record dollar value of formal outstanding bids.

comfortably absorbing \$45 billion in new supply, including more than \$20 billion from corporate issuers. Eager buying from domestic and international investors kept bond prices relatively well-supported despite heavy supply.

BIM FIXED INCOME FRAMEWORK

Activity during the quarter focused on capitalizing on the shifting conditions while tightly controlling risk. Portfolio duration remains neutral versus the benchmark where we are overweight the mid part of the curve and underweight the short and long end. This positioning combined with our continued overweight in corporate bonds seeks to maximize the potential benefits of spread compression and incremental yield while maintaining a high-quality profile in the portfolio.

FIGURE 5: CANADIAN YIELD CURVE (%)



BARRANTAGH
Investment Management

100 Yonge Street, Suite 1700
Toronto, Ontario M5C 2W1
(416) 868-6295
www.barrantagh.com

Barrantatgh Investment Management Inc. provides disciplined portfolio management to institutional and individual investors.

The firm is committed to a high level of client service provided directly by its experienced partners. We are dedicated to preserving our clients' capital while generating growth through consistent application of our quality value-based fundamental investment philosophy. We manage portfolios on a segregated basis to meet our clients' investment objectives. Because the firm is owned by our professional staff we maintain a completely independent and objective perspective.

For more information contact: Barrantagh Investment Management Inc. (416) 868-6295

Copyright 2026 Barrantagh Investment Management Inc. All rights reserved. Reproduction of portions of this Commentary is permitted provided the source is noted. Please notify us at info@barrantagh.com of any reproductions.