LIBERTY
International Investment Management

MARKET UPDATE

June 30, 2026

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- **Why bond returns have been weak and why Canadian bond returns have been weaker.**
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Equities

The best performing index so far this year has been the Japanese Nikkei Exchange, up 39% to June 30th. Here's why:

→ **Global investment trends** – The AI boom and investments in technology and industrial sectors have positioned Japan as a key beneficiary.

→ **Regulatory changes** – Japan's stock market has benefitted from significant regulatory reforms that have improved corporate governance and investor-friendly policies.

→ **Strong corporate earnings** – Strong earnings and a weaker Yen have boosted export competitiveness, attracting both domestic and international capital.

Benchmark returns for 2026 (in native currency without dividends re-invested) at June 30, 2026

INDEX	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	YEAR TO DATE
Nikkei Index (Japan)	5.93%	10.37%	-13.23%	16.55%	11.88%	7.69%	39.18%
MSCI Emerging Market Index (MXEF)	8.81%	5.41%	-13.26%	14.53%	8.86%	-1.67%	22.68%
Russell 2000 Index (US Small-Cap)	5.31%	0.71%	-5.17%	12.16%	4.20%	4.64%	21.86%
Nasdaq Composite Index (U.S. Technology)	0.95%	-3.38%	-4.75%	15.29%	8.36%	-3.67%	12.79%
S&P/TSX Composite Index (Canada)	0.67%	7.57%	-4.58%	3.65%	2.11%	0.50%	9.92%
S&P 500 Index (United States)	1.37%	-0.87%	-5.09%	10.42%	5.18%	-1.45%	9.55%
MSCI Global Index (World)	2.19%	0.64%	-6.55%	9.45%	3.97%	-0.79%	8.92%
EuroStoxx 600 Index (Europe)	3.18%	3.74%	-8.00%	4.83%	2.41%	2.22%	8.37%

Data Courtesy of Bloomberg L.P.

- **Reflationary phase** – Japan has entered a genuine reflationary phase, supported by rising wages and improved growth conditions, which has prompted the Bank of Japan to raise interest rates.

For holders of the hottest index funds last year, the S&P/TSX Composite Index and the S&P 500 Index (both up 28% in 2025 but up only 9% so far in 2026), the heavy concentration of stocks in one or two sectors in each index held back returns.

In Canada, gold miners accounted for a large part of the TSX's 2025 gain in 2025 (up 29%), while in the U.S., the Magnificent Seven stocks, making up 35% of the index, pushed the S&P 500 Index higher.

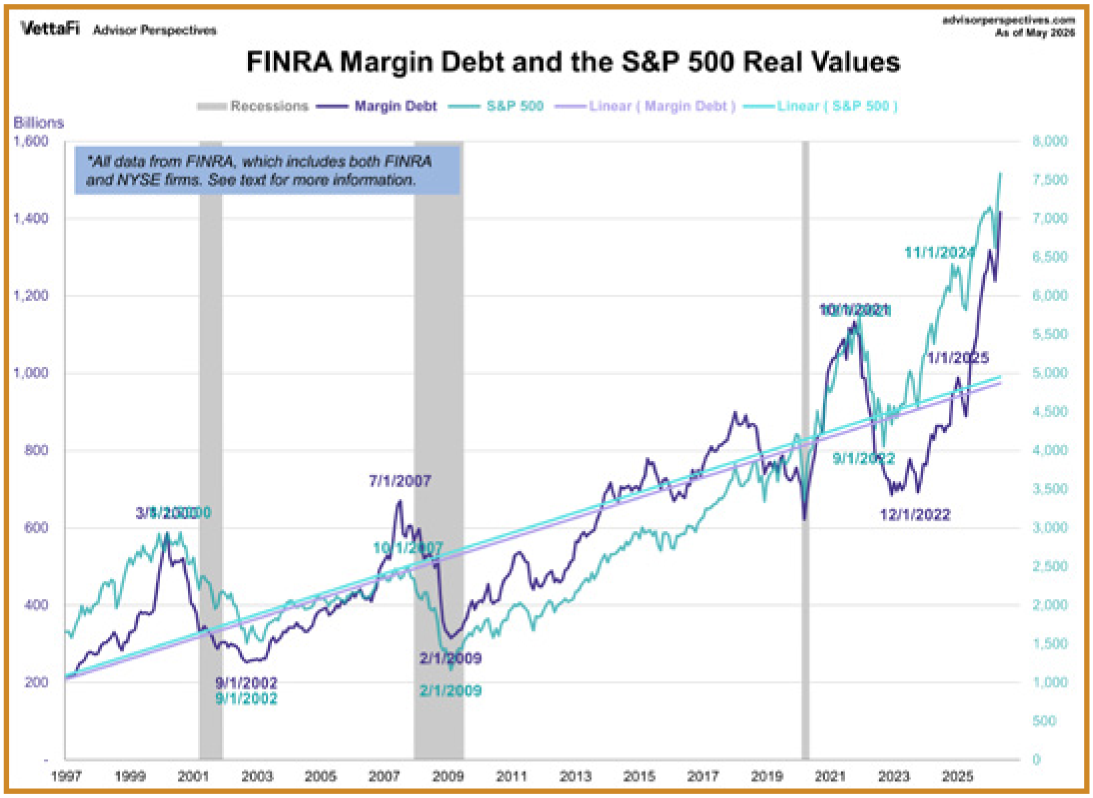


Chart Courtesy of Advisor Perspectives

This year, the gold miners are down 2.5%, while the Mag 7 names are down 1.8%, hence the underperformance of these indexes compared to other markets this year.

The lesson for index investors is: The higher the concentration of a few stocks or sectors in an index, the greater the volatility and range of returns, both positively and negatively. At Liberty, we prefer to deal with volatility risk by being more diversified globally with equally weighted holdings.

Finally, volatility has been a recurring theme in 2026. Usually, stock markets rise or fall an average of one or two percent monthly. As you can see from the table above, it has been more like plus or minus five to ten percent each month.

This means investors are trading more actively and the concerning thing is they are doing it on margin, borrowing money to buy shares.

From the above chart, there appears to be some correlation between rising margin levels and peak markets. With higher levels of borrowed money, stock prices, naturally, are pushed higher such as in March 2000, July 2007, October 2021, and today.

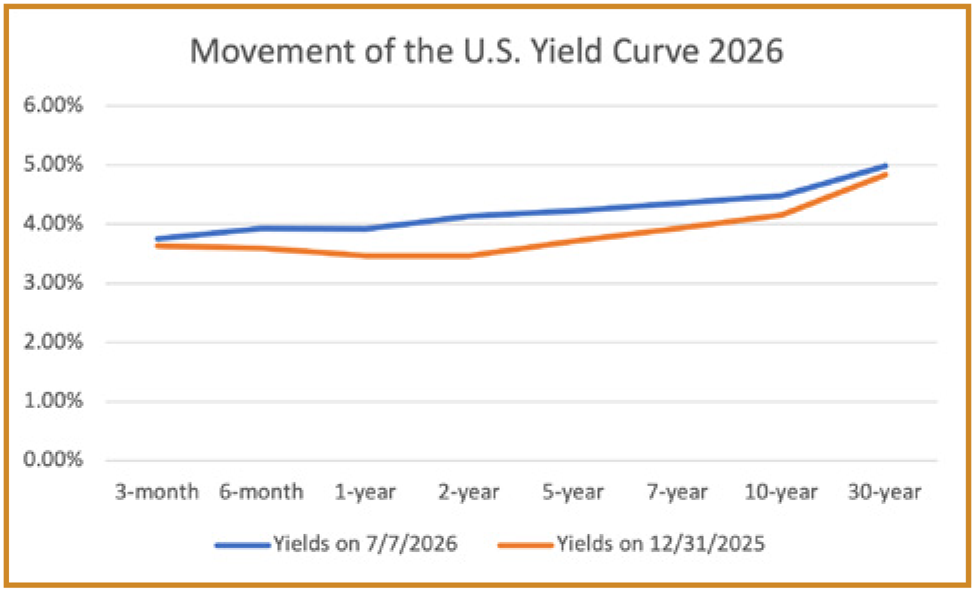
And when markets start to tumble, margin calls force brokers to sell investor shares to cover the debt, pushing prices lower. That is why, at the bottom of the market, margin amounts are also at low levels.

The consensus appears to be that younger investors are the biggest borrowers, treating the stock market like a casino, hoping to make their millions in a brief period of time, rather than letting time and compounding guide their growth.

At Liberty, we are cognizant of this volatility and our answer to that has been to re-balance positions as necessary. See the re-balancing discussion on page 5.

Bonds

Contrary to the U.S. White House's desire for lower interest rates, the exact opposite has occurred this year, as noted by the chart below:



Data courtesy of Bloomberg LP

Compared to the 30-year US T-bond, which has risen only 0.15% this year, the 2-year T-bond has jumped 0.67%, a product of:

- **Inflation concerns** – the Iran conflict raised oil prices which raised inflation fears, prompting investors to demand higher yields to protect their investments.
- **Market sentiment** – investors anticipate tighter monetary conditions (higher interest rates).

We view the U.S. situation as a tale of two economies, whereby the rich get richer and the poor struggle to make ends meet. For middle and low-income American families, the higher costs of groceries, gasoline and utilities (especially in non-regulated states) have caused them to sacrifice some other necessities just to make ends meet.

One reason healthcare stocks have underperformed this year is because struggling families must decide whether to pay the utility bill or buy health insurance. During times like this, they will put off elective surgeries or even dentist visits just to keep the lights on at home.

The first table below on Page 4 illustrates where 10-year global government bond yields stand. Note that the 1.08% spread between U.S. rates (4.46%) and Canadian rates (3.38%) is why the Canadian dollar has suffered in 2026. We will discuss it further in the Currencies section below.

Meantime, Japanese interest rates have risen from their negative yields from a year ago. Usually, when interest rates move higher, the home currency rises - not so in Japan.

Japanese interest rates have risen to deal with domestic inflation (a slowing birth rate, aging population, etc.) but it has come at a cost because of Japan's high debt levels. The Yen has been on a downward path because of the higher interest payments associated with the higher rates.

The United States should take note as they, too, have a deficit spiraling out of control, which is why their long-term interest rates have barely budged this year. With the 30-year T-Bond rate just over 5%, this means mortgage rates are in the 7% range, making home ownership unaffordable for many families.

This, in turn, has hurt the homebuilders (Lennar's stock price is down 19% in 2026) and do-ityourself building retailers like Home Depot (down 2% Year-to-date) and Lowe's (down 13%). In contrast, the S&P 500 Index is up 9% this year.

10-year Government bond yields at June 30, 2026	
COUNTRY	YIELD
India	6.76%
Mexico (USD)	6.25%
Brazil (USD)	6.08%
Australia	4.78%
United Kingdom	4.78%
United States	4.46%
New Zealand	4.40%
Canada	3.38%
Japan	2.69%
Sweden	2.68%
China	1.73%
Switzerland	0.27%

Data Courtesy of Bloomberg L.P.

For Liberty clients, the focus remains on buying international bonds where yields are higher than Canadian rates and where there is an opportunity to earn a total return (yield plus currency appreciation) that is better than owning Canadian dollar bonds.

For example, some of the best total returns (in the 8% to 10% range) through June 30th were Australian, New Zealand and Mexican bonds, thanks to a higher currency value relative to the Canadian dollar.

For Canadian bonds, the big drop in value in March was caused by the onset of the Iran war, the spike in oil prices and the fear of higher inflation. That is why, of all the bond indexes, the Canadian Real Return Bond Index was up the most (2.37%) year-to-date. That index holds inflation-protected bonds.

On the preferred share front, the Canadian Laddered Preferred Index, made up mostly of rate-reset preferred shares, was up 4%, well below the 12% it was up last year. The reason is two-fold:

- Prices have risen to $26 a share, compared to their $25 a share issue price. If a company ever calls its preferred shares, it will pay out only $25, not $26.
- These preferred shares reset in 2028 and based on current interest rates, they may reset at a lower coupon for the next five years. An implied loss of income would result.

Because of these factors, Liberty is not currently buying rate-reset preferred shares and, in fact, continues to sell any that breach their $25 par value.

Currencies

In 2011, when oil reached $100 a barrel, the Canadian dollar reached par with the U.S. dollar. This year, upon the breakout of the Iran war, oil climbed to $100 a barrel but the Canadian dollar fell. Why the difference?

Bond & Preferred Share performances (price change only without interest or dividends re-invested) at June 30, 2026

FIXED INCOME	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	YEAR TO DATE
Canadian Short-Term Bond Index (ZCS)	0.14%	0.36%	-1.35%	0.00%	0.29%	0.25%	-0.31%
Canadian Mid-Term Bond Index (ZCM)	0.64%	0.95%	-2.69%	0.32%	0.85%	0.25%	0.32%
Canadian Long-Term Bond Index (ZLC)	0.79%	1.70%	-4.06%	0.47%	1.62%	-0.13%	0.40%
Canadian Real Return Bond Index (ZRR)	0.00%	2.87%	-2.58%	0.00%	1.94%	0.14%	2.37%
Cdn. Laddered Preferred Index (ZPR)	-0.41%	1.63%	-0.64%	2.26%	1.14%	0.16%	4.14%

Data Courtesy of Bloomberg L.P.

- → **Interest rate differentials** - also known as "yield spreads," are a significant factor influencing currency strength. Simply put, investors prefer currencies with higher interest rates because they offer better returns on deposits and bonds.
- → **Canadian tax rates remain high** – especially compared to U.S. tax rates. If you are a doctor trained in Canada, how would you feel about paying a 53% personal tax rate in Canada compared to a 22% tax rate in certain states? And if you incorporate, the corporate tax rate in Canada remains at 30%, compared to the U.S. rate now at 21%.
- → **Canada's productivity remains weak** – according to David Rosenberg's research, "Since 2008, there have been only two years in which Canada attracted more real investment from abroad than what left the country. In volume terms, Canadian exports are no higher than they were seven years ago."

CAD Dollar vs. a basket of international Currencies in 2026

CURRENCY	VALUE AT JAN. 1, 2026	VALUE AT JUNE 30, 2026	YTD DIFFERENCE
Brazilian Real (BRL)	$0.2497	$0.2734	9.49%
Australian Dollar (AUD)	$0.9155	$0.9802	7.07%
Mexican Peso (MXN)	$0.0762	$0.0811	6.43%
South African Rand (ZAR)	$0.0829	$0.0868	4.70%
US Dollar (USD)	$1.3725	$1.4213	3.56%
British Pound (GBP)	$1.8465	$1.8862	2.15%
New Zealand Dollar (NZD)	$0.7897	$0.8067	2.15%
Swiss Franc (CHF)	$1.7300	$1.7570	1.56%
Euro (EUR)	$1.6109	$1.6186	0.48%
Danish Krone (DKK)	$0.2157	$0.2165	0.37%
Japanese Yen (JPY)	$0.0088	$0.0088	0.00%
Swedish Krona (SEK)	$0.1488	$0.1462	-1.81%
Indian Rupee (INR)	$0.0152	$0.0149	-1.97%
Indonesian Rupiah (IDR)	$0.0822	$0.0792	-3.65%
Black = CAD weaker			2.18%
Red = CAD stronger			

Data Courtesy of Bloomberg L.P.

As a result, Liberty has been happy to own non-North American investments to reap the benefits of weaker U.S. and Canadian dollars.

From the chart at right, three of the top four currencies that have advanced against the Canadian dollar in 2026 are from the emerging markets where capital continues to flow into those countries, pushing the currencies higher. The fourth, the Australian dollar, has jumped against the Loonie because the central bank there raised interest rates on February 18th.

Why the concept of re-balancing portfolios makes sense today

If there are 30 stocks in a portfolio with an average 3% weight, the prudent thing to do when one of those stocks reaches a 6% weight is to sell half. Academic evidence has shown that re-balancing enhances compound annual returns over a 10-to 20-year period by 1% to 2%.

When stock markets are as volatile as they are today, it is paramount to take profits. Consider, for example, Comfort Systems, an HVAC industrial company out of Houston, Texas. Because of the long-term demand for cooling systems in data centers, the stock in the past year has been on a tear.

We made our first purchase of Comfort Systems in April 2025 at $330 a share. On May 14, 2026, it hit a price peak of $2,073, an increase of 528% in less than a year. Since stocks historically only grow 10% to 15% a year on average, investors enjoyed 30 to 50 years of growth in just 12 months.

To Liberty, this growth occurred too far, too fast and the prudent thing was to re-balance the position back to a neutral weight. By the time of this writing on July 8th, the stock had fallen to $1,675, a 20% drop. Will it recover to $2,000 again? That will depend on earnings growth. If earnings disappoint, the stock could fall further.

Other stocks we own that needed to be re-balanced were in the technology or financial sectors such as Lam Research, Littelfuse, Analog Devices, ASML Holding, Great-West Lifeco and Royal Bank.

In general, this is why the smartest thing an investor could do is take profits every time a stock becomes a double weight in a portfolio.

Setting return expectations based on asset mixes

Certain parts of our brains control aspects of investment decision-making. The left-brain controls reality, logic, and math, while the right brain controls emotions, fantasies, and creativity.

Today's markets appear to be dominated by right-brain thinkers. Unfortunately, expecting an annual 20% stock market return is just not reality.

During the last four years, markets have powered higher, but investors need to be reminded that the cause was U.S. corporate tax cuts (from 35% to 21% in 2017), coupled with new capital expenditures on Artificial Intelligence.

The rate cuts have accounted for most of the earnings growth, and, therefore, the rising stock market. Unfortunately, companies do not increase their profits by more than 10% or 15% over time. They cannot, because the bigger they get, the slower their growth rates. This is known as the Law of Diminishing Returns. This law states that adding more of one input to a production process, while keeping other inputs constant, will eventually yield smaller increases in output.

To prove this point, here is how the S&P 500 Index has performed over the past 20 years:

Sorry, right brainers, earning an annual 20% stock return does not compute. Last year, I even had some prospective clients tell me they expected 30% annual returns. Obviously, after we discussed reality, they did not become clients.

And given the market volatility seen today that is like the Roaring 20s (remember how that turned out after 1929), it is important for investors to rein in their hopes and wishes and focus on expected long-term returns.

When creating a portfolio, investors must consider expected returns based on their asset mix. Over the past 20 years, returns on the S&P 500 Index were 9.28%, not 20%. And during that time, interest rates moved around a lot but averaged about 4%.

The table on page 7 is a reality check on what you should plan on earning over time. Note that the percentages in the table on page 7 don't include the timing of contributions or withdrawals.

For example, if your asset mix is 100% stocks, you should expect a 10% annual return over a 10-to-20-year period with a lot of volatility, meaning bad years could produce losses of 30% to 40%. This asset mix would be deemed to be Aggressive Growth.

As you add bonds to the portfolio, you reduce your risk but give up return for that safety net. Bonds are half as risky as stocks because when they mature, you get back all your principal. With stocks, you never know if you will make back your investment.

An asset mix of 60% stocks and 40% bonds would be considered Average Risk and expected returns would be around 7.6%.

S&P 500 Index simple rolling returns at June 30, 2026

	YEAR TO DATE	1-YEAR	5-YEAR	10-YEAR	20-YEAR
PERFORMANCE	9.55%	20.86%	11.77%	13.57%	9.28%

Data Courtesy of Bloomberg L.P.

Using The Rule of 72 (Dividing 72 by the rate of return indicates how long it takes to double your money), a 10% return of a 100% stock portfolio would double your money in 7.2 years. The 60/40 asset mix, with a 7.6% return, would double your money in just under 10 years.

Return expectations based on asset mixes over a 10-20 year time horizon

ASSET MIX	EQUITY RETURN	FIXED INCOME RETURN	TOTAL EXPECTED RETURN
100% Stocks	10%	4%	10.00%
80% Stocks / 20% Fixed Income	10%	4%	8.80%
70% Stocks / 30% Fixed Income	10%	4%	8.20%
60% Stocks / 40% Fixed Income	10%	4%	7.60%
50% Stocks / 50% Fixed Income	10%	4%	7.00%
100% Fixed Income	10%	4%	4.00%

The hypothetical performances in this table are for illustrative purposes only and are not a guarantee of future results.

The moral of the story is this: Left brain investors always outperform right brainers. In the markets, it is important to leave your emotions at the door when making investment decisions. Be realistic about your expectations and you will eventually get what you expect.

Avoid buying investment "Products"

Bay Street is littered with people who want to sell products that promise higher-than-expected returns. Unfortunately, they come at a cost which can hurt investors hugely. These products are known as "Alternative Investments."

Alternative investments are assets outside of traditional stocks, bonds and cash. They are used to diversify portfolios and hedge against market volatility. Key types include Liquid Alternatives (mutual funds/ETFs using hedge-fund strategies), Private Credit, Private Equity/Venture Capital and Real Estate & Mortgages. They are explained below.

- **Liquid Alternatives** (Liquid Alts) are regulated mutual funds and Exchange-Traded Funds (ETFs) that trade on the Toronto Stock Exchange (TSX). They offer daily pricing and lower minimums, using sophisticated strategies like short selling, derivatives, and leverage to target positive returns.
- **Private Credit / Debt** are loans made directly to mid-market Canadian businesses that fall outside traditional bank lending criteria. Investors usually earn regular interest yield, often holding these via closed-end funds or limited partnerships.
- **Private Equity (PE) & Venture Capital (VC)** are direct or pooled equity investments in privately held Canadian companies. Venture Capital focuses on early-stage startups, while PE typically restructures and grows established mid-sized to large enterprises.
- **Real Estate & Mortgages** involves direct ownership of commercial properties, or pooled vehicles like Real Estate Investment Trusts (REITs) and Mortgage Investment Corporations (MICs). MICs pool capital to lend as mortgages and distribute the interest to investors.

The Pros and Cons of Alternative Investments

PROS OF ALTERNATIVE INVESTMENTS

- **Downside Protection:** Some products offer "buffers" or "floors". For example, a 10% buffer means the issuer absorbs the first 10% of market drops before your principal is impacted.
- **Customized Returns:** You can target specific market environments by choosing investments focused on growth, income, or capital preservation.
- **Upside Potential:** Leverage can provide higher returns in flat or moderately growing markets.

CONS OF ALTERNATIVE INVESTMENTS

- **Issuer / Credit Risk:** Your principal and returns rely entirely on the issuer's financial stability. If it defaults, or the pool defaults, you could lose your entire investment.
- **Capped Upside:** For some investments, issuers frequently cap the maximum return you can receive. Even if the underlying index experiences massive gains, your payout may be limited.
- **Illiquidity:** Easy to get in but hard to get out if things go awry.
- **Opportunity Costs & Fees:** These complex products usually contain fees embedded in the structure that can be high.

High fees keep Bay Street making money – but does the investor?

Fees are notoriously complex and mostly embedded directly into the product's price rather than appearing as a direct, line-item charge. Embedded fees can average up to 2.9% annually, and these costs are typically deducted from the principal or calculated into the final return payout.

Because the fee structure is hidden, it is crucial to understand the main costs involved and how to locate them in the offering documents:

- **Structuring and Distribution Fees:** Costs built into the initial price to compensate the issuer for structuring the product and the broker for selling it (often ranging from 1% to 3% of the initial principal).
- **Embedded Derivative Costs:** The cost of purchasing options or derivatives that provide the stock/index market exposure. This means less of your actual money is generating baseline interest.
- **Management & Administrative Fees:** Ongoing operational fees may be deducted regularly, slowly eroding the investment value.
- **Early Redemption / Secondary Market Fees:** If you need to sell the product before its maturity date, you may be subject to early trading fees or a steep bid-ask spread.

Liberty's opinion

Our opinion is quite simple. Stay away from alternative investments. The excessive costs offset any potential long-term rewards. That is why we own only global vanilla stocks, bonds, and preferred shares. They are liquid and can be sold at any time.

A lot of our companies are known as "Serial Acquirers," meaning they act like private equity investments but without the embedded costs.

When our bonds mature, you get all your money back at maturity. There are currently many Private Debt vehicles that are in financial difficulty where interest payments have stopped and withdrawals have been suspended. You could lose all your money.

And, finally, the high fees rarely cover the marketed "higher returns."

In summary:

- Investing globally in a diversified portfolio offers the best long-term returns.
- International bonds currently provide the best total returns.
- If the Canadian dollar weakens further, owning other currencies help soften the blow.
- If a stock you own makes up more than 6% of your 30-stock portfolio, sell half.
- Be realistic about your long-term investment return expectations.
- Avoid alternative investments.

If you have any questions, let us know.

David Driscoll CIM	**Brett Girard CPA, CA, CFA**	**Annie Bertrand CIM**	**Rory Burke CFA**
President & CEO	Portfolio Manager & CFO	Portfolio Manager	Portfolio Manager

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