

MARKET UPDATE

September 30, 2026

IN THIS ISSUE:

- Why we are increasing our exposure to Asian and Emerging market stocks.
- Why simple valuations look stretched.
- The benefits of owning dividend paying stocks, holding multiple currencies in portfolios, and creating laddered bond structures.
- A focus on real yields for fixed income

Equities

For the second year in a row, Asia and the Emerging Markets were the best stock market performers. The European Index was weaker than the rest because the continent does not boast many technology companies and its economy has suffered from a rise in oil prices as it is a net importer of energy.

From a valuation standpoint, I decided to look at the Graham Number, a ratio devised by one of Warren Buffett's mentors, Benjamin Graham.

His valuation rule dictates that a stock's Price-to-Earnings (P/E) ratio multiplied by its Price-to-Book (P/B) ratio should be 22.5 or less. This threshold

is derived from multiplying Graham's maximum recommended valuation caps for a defensive investor: a P/E of fifteen and a P/B of 1.5.

The product of these two metrics calculates a maximum price ceiling known as the Graham

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

INDEX	1ST QUARTER	2ND QUARTER	3RD QUARTER	YEAR-TO-DATE
Nikkei Index (Japan)	1.43%	35.90%	-4.72%	32.61%
MSCI Emerging Market Index (MXEF)	-0.58%	22.95%	-1.05%	21.32%
Nasdaq Composite Index (U.S. Technology)	-7.11%	20.21%	2.47%	15.57%
Russell 2000 Index (U.S. Small-Cap)	0.58%	19.63%	-7.52%	12.69%
S&P 500 Index (United States)	-4.63%	14.37%	2.03%	11.77%
S&P/TSX Composite Index (Canada)	3.33%	6.69%	1.09%	11.11%
MSCI Global Index (World)	-3.88%	12.94%	1.60%	10.66%
EuroStoxx 600 Index (Europe)	-1.53%	9.81%	-1.07%	7.21%

Data Courtesy of Bloomberg L.P.

Number. While it offers an exceptional baseline margin of safety for traditional industries, it is notoriously restrictive when applied to modern, asset-light corporations.

When applied to today’s stock markets, it is evident in the table below on September 24th, how expensive the indexes are, especially compared to the table showing valuations in 2022.

Stock market valuation based on The Graham Number at September 24, 2026			
INDEX	P/E	P/B	PRODUCT (P/E TIMES P/B)
S&P 500 Index (United States)	23.5	5.6	132.2
Russell 2000 Index (U.S. Small-Cap)	36.2	2.5	89.0
Nikkei Index (Japan)	21.2	2.8	60.3
S&P /TSX Composite Index (Canada)	18.5	2.8	50.8
EuroStoxx 600 Index (Europe)	16.2	2.4	39.4
MSCI Emerging Market Index (MXEF)	15.4	2.5	37.8

Data Courtesy of Bloomberg L.P.

The S&P 500 Index, because of its dominance from ten technology stocks, or 40% of the index, shows how expensive the U.S. stock market is. On a relative valuation, Europe and the Emerging Markets appear to offer better value.

From 2022, the last time interest rates rose because of higher inflation, the list remained in the same order, but the valuations were much cheaper.

Stock market valuation based on The Graham Number at December 31, 2022			
INDEX	P/E	P/B	PRODUCT (P/E TIMES P/B)
S&P 500 Index (United States)	17.1	3.9	67.0
Russell 2000 Index (U.S. Small-Cap)	20.9	2.0	41.5
Nikkei Index (Japan)	17.8	1.6	27.7
S&P /TSX Composite Index (Canada)	12.1	1.8	21.6
EuroStoxx 600 Index (Europe)	11.8	1.8	20.7
MSCI Emerging Market Index (MXEF)	11.6	1.7	19.2

Data Courtesy of Bloomberg L.P.

While Liberty already has a significant exposure to European stocks, we are adding more names to the Emerging Market regions and Asia.

A BNN *Bloomberg* viewer wrote after a recent broadcast of mine that he did not understand why Asia was so compelling. He queried ChatGPT and found that China and Japan were experiencing a declining population. So why was I so enamored by Asia?

Asian stock markets are more appealing than Western alternatives due to higher projected economic growth, cheaper relative valuations, and critical positioning in the global technology supply chain. Also, China’s release of both Moonshot and DeepSeek illustrate that their Artificial Intelligence models have caught up to American innovation. If they ever pass the U.S. in technology leadership, Asia should do well while the U.S. markets could suffer.

ASIA'S ECONOMIC GROWTH & DEMOGRAPHICS

Higher GDP Growth: Asia contributes roughly 60% of total global economic growth. Its five billion citizens make up 60% of the world’s population.

Younger Population: The regional median age is thirty-two, compared to thirty-eight in the U.S. and forty-four in Europe. They are also well educated.

Expanding Middle Class: Asia’s middle-income population provides robust domestic consumption.

Semiconductor Dominance: Asian firms anchor the hardware and chip sectors powering global artificial intelligence.

Indispensable Supply Chains: South Korea, Taiwan, and Japan control core manufacturing segments that are hard to replicate elsewhere.

ASIA'S VALUATIONS & CORPORATE REFORMS

Attractive Pricing: Asian equities often trade at lower price-to-earnings ratios than over-concentrated US mega-caps.

Shareholder Returns: Markets like Japan and South Korea have actively implemented corporate reforms to increase payouts and dividends.

Superior value and higher growth potential: This continues to draw investment shifts away from expensive Western peers.

While we’ve long invested in the emerging markets of Latin and South America, India and Southeast Asia, our plan is to add more names as the research team uncovers hidden gems.

Bonds

With the rise in interest rates this year, bond markets have been badly hurt in terms of simple performance (see the chart below).

Bond & Preferred Share Performances (Price change only without interest or dividends re-invested) at September 30, 2026				
FIXED INCOME	1ST QUARTER	2ND QUARTER	3RD QUARTER	YEAR-TO-DATE
Canadian Short-Term Bond Index (ZCS)	-0.85%	0.53%	-1.75%	-2.07%
Canadian Mid-Term Bond Index (ZCM)	-1.14%	1.45%	-3.93%	-3.62%
Canadian Long-Term Bond Index (ZLC)	-1.65%	2.02%	-6.34%	-5.97%
Canadian Real-Return Bond Index (ZRR)	0.22%	2.08%	-2.52%	-0.22%
Cdn. Laddered Preferred Share Index (ZPR)	0.57%	3.52%	-0.93%	3.16%

Data Courtesy of Bloomberg L.P.

However, some yields have reached over 5% and a few market commentators have postulated that real yields offer attractive returns. “Real Yield” is simply the interest rate minus the inflation rate.

The last time U.S. real yields (as measured by 10-year and 30-year Treasury Inflation-Protected Securities (TIPS)) were sustained at these level was from **2007 to 2008**, just before the onset of the Global Financial Crisis.

Below is a chart of 10-year real yields for the following countries:

10-year government bond real yields at September 30, 2026			
COUNTRY	CURRENT 10-YEAR YIELD	INFLATION RATE	REAL YIELD
Mexico	7.07%	3.26%	3.81%
Brazil	6.73%	4.22%	2.51%
United Kingdom	5.37%	3.10%	2.27%
United States	5.27%	3.40%	1.87%
Australia	5.34%	4.00%	1.34%
Japan	3.08%	1.90%	1.18%
New Zealand	5.04%	4.10%	0.94%
Canada	3.94%	3.00%	0.94%
China	1.67%	0.80%	0.87%
Germany	3.46%	3.30%	0.16%

Data Courtesy of Bloomberg L.P.

For Emerging Market bonds, we own what’s known as “Supranational” bonds. These are bonds issued by either the World Bank or the International Monetary Fund (IMF).

Countries around the world put money into these funds, which, in turn, invest in infrastructure in Emerging Markets. As a result, these supranational bonds carry a AAA credit rating – it is why we can take the risk of owning Brazilian and Mexican bonds.

We own multi-national bonds to spread the risk around but also to take advantage of stronger currencies versus the Canadian dollar. Instead of just investing in yield, we believe in earning a total return on our bonds, which is the yield plus the currency return.

Currencies

The Canadian dollar reached 70.1 cents on September 30th, thanks to U.S. and Canada trade issues and the subsequent higher tariffs expected to be charged. In 2011, the Canadian dollar reached parity with the U.S. dollar as the price of oil reached \$100 a barrel. Not so this time.

The Canadian dollar weakness can be attributed to the following issues:

US Dollar Strength: The Canadian dollar has underperformed against the US dollar, driven by geopolitical risk and better-than-expected US economic data.

Interest Rate Divergence: The Bank of Canada’s interest rates have not kept pace with the Federal Reserve’s, making the Canadian dollar less attractive to global investors.

Combined, these factors have led to the Canadian dollar’s status as one of the worst performers among major global currencies. This is why having a global portfolio of stocks and bonds in multiple currencies helps offset the Loonie’s weakness (see table below):

Canadian dollar vs. a basket of international currencies at September 30, 2026			
CURRENCY	VALUE AT JAN. 1, 2026	VALUE AT SEPT. 30, 2026	YTD DIFFERENCE
Brazilian Real (BRL)	\$0.2497	\$0.2734	9.49%
Australian Dollar (AUD)	\$0.9155	\$0.9913	8.28%
Singapore Dollar (SGD)	\$1.0675	\$1.1143	4.38%
US Dollar (USD)	\$1.3725	\$1.4251	3.83%
South African Rand (ZAR)	\$0.0829	\$0.0856	3.26%
Japanese Yen (JPY)	\$0.0088	\$0.0090	3.20%
Mexican Peso (MXN)	\$0.0762	\$0.0784	2.89%
British Pound (GBP)	\$1.8465	\$1.8870	2.19%
New Zealand Dollar (NZD)	\$0.7897	\$0.8003	1.34%
Euro (EUR)	\$1.6109	\$1.6039	-0.43%
Black = CAD weaker		Average Change	3.84%
Red = CAD stronger			

Data Courtesy of Bloomberg L.P.

Your Questions Answered

1. You do not normally trade much but last year and this year, I have had to pay more taxes because of more active trading. What is going on?

Last year, we had to exit three main sectors: Food, Healthcare and Software.

The food groups, such as Unilever and Lindt, were struck by a change in diet to more protein and fewer carbohydrates and sugar (junk food).

For healthcare stocks, the United States, which is by far the largest consumer of drugs in the world, saw funding cutbacks to hospitals and universities, an increase on compounds imported from other countries and subject to tariffs and an FDA led by an anti-vaxxer. This, in turn, led to many lower and middle-income class Americans reducing their healthcare spending.

If an individual must decide between buying health insurance or paying their utility bill to keep the lights on, they will choose the latter and put off elective surgeries or trips to the dentist.

Finally, the software companies continue to deal with the threat of Artificial Intelligence on their margins and profits. Many of these companies have fallen and not recovered to where they traded previously. The jury is still out on whether these companies will face a future like their past. For investors, they will need to keep an eye on cash flow and operating margins.

For example, a company like Constellation Systems has experienced lower profit margins. According to *Bloomberg*, its operating margins were 16.3% in 2020 but declined to 12.2% at the end of 2025.

As for the recent trading activity, one cannot live in the past and I am glad we sold what we did when we did.

I am also glad that we re-balanced stocks this summer as some stock prices went parabolic during all this AI mania. Since their highs in June, when we sold half our positions for clients who owned them more than a year, their performance has been negative.

We still consider them solid, long-term investments but it is important that when markets oscillate as much as these past three years, we must remain disciplined.

In the event the market corrects further, we have cash available from the re-balancing that can be re-allocated to names in portfolios that have smaller percent weightings.

According to academic research, re-balancing portfolios can enhance 10-20 year returns by about 1%. That is because when a stock triples or quadruples in a year, chances are it may go sideways until earnings catch up to its price. If profits cannot keep pace, it could go down and stay down.

As for the tax angle, I have learned in my career that it is important not to let the tax tail wag the investment dog. After all, investors get to keep 80% of their profits, which is better than losing money.

2. Why don't you hold more cash?

From 1951 to 1978, Woody Hayes was the long-time coach of the Ohio State Buckeyes. During that time, he compiled a record of 205 wins, 61 losses and 10 ties, for a winning percentage of .742, among the elite tier in U.S. college football history.

He liked to run the football in what was considered “three yards and a cloud of dust”. He hated throwing the football because three things would happen and two were bad (an incompleteness or an interception).

This theory is similar in the investment world. When holding too much cash, three things will happen and two are bad – the market can go sideways and you

get paid minimally on your cash, or the market could go up and your portfolio would underperform.

Instead, in the worst of times, we use the rule of 20% cash times the equity weight in the portfolio. Academically speaking, holding cash is deemed to be a “synthetic short.” If you are not in the market, you are “short” the market, earning only a pittance in cash. However, if the market falls 20%, making 2% is better than losing money.

If an investor has a 100% equity asset mix, then they are 80% invested and 20% “short” the market. Therefore, their equity exposure is only 60% (80% minus 20%). If the stock market falls 20%, the portfolio hypothetically should drop only 12%.

Similarly, if an investor has a 60% stock / 40% fixed income asset mix, the maximum cash holding should be 12% (60% x 20%).

Finally, it is important to remember that nobody in the history of investing has ever bought at the bottom and sold at the top. Therefore, it is not wise to try to time the market.

3. Why are dividends important?

Dividends are important because they provide income, either for living expenses in retirement or to help compound portfolio returns during an investor's saving years.

Consider the following scenario:

An investor buys 100 shares of Royal Bank of Canada (RY CN) on December 31, 2015, at \$74.15 for a total cost of \$7,415. Every year thereafter, for 10 years, they buy new shares with their dividend income.

The first-year dividend income is \$328. They take this money and buy four new shares on December 30, 2016, at \$90.87 per share and repeat this exercise until December 31, 2025.

The net result is that on December 31, 2025, they invested a total of \$12,969.53, and owned 143 shares worth \$33,460.57, a total gain of 157.99% or a simple average annual return of 15.80%.

If an investor bought 100 shares of Royal Bank of Canada on Dec. 31, 2015... What's the value 10 years later?						
DATE	SHARES PURCHASED ROUNDED UP	TOTAL SHARES OWNED	PRICE	TOTAL COST	ANNUAL DIVIDEND PER SHARE	ANNUAL DIVIDEND INCOME
Dec. 31, 2015		100	\$74.15	\$7,415.00		
Dec. 30, 2016	4	104	\$90.87	\$363.48	\$3.28	\$328.00
Dec. 29, 2017	4	108	\$102.65	\$410.60	\$3.48	\$361.92
Dec. 31, 2018	4	112	\$93.44	\$373.76	\$3.77	\$407.16
Dec. 31, 2019	4	116	\$102.75	\$411.00	\$4.07	\$455.84
Dec. 31, 2020	5	121	\$104.59	\$522.95	\$4.29	\$497.64
Dec. 31, 2021	4	125	\$134.25	\$537.00	\$4.32	\$522.72
Dec. 30, 2022	5	130	\$127.30	\$636.50	\$4.96	\$620.00
Dec. 29, 2023	5	135	\$134.00	\$670.00	\$5.34	\$694.20
Dec. 31, 2024	4	139	\$173.32	\$693.28	\$5.60	\$756.00
Dec. 31, 2025	4	143	\$233.99	\$935.96	\$6.04	\$839.56
Total cost and dividend income for the 10-year period				\$12,969.53		\$5,483.04
Total Value of 143 Shares at Dec. 31, 2025			\$33,460.57			
Total Return			157.99%			
Simple Annual Return			15.80%			

Data Courtesy of Bloomberg L.P.
The preceding hypothetical performance is for illustrative purposes only and is not a guarantee of future results.
This is not a recommendation of, nor an offer to sell or buy, the security described herein.

This is what time and compounding are all about. Or to paraphrase Warren Buffett’s idea, “It is like rolling the snowball down the mountain. The further it goes, it gets bigger and bigger.”

That is how you make money in the stock market. It should not happen overnight and not everything goes straight up. But at the end of the day, you should make money. Over a 10–20-year period, stocks should grow between 10% and 15% a year.

4. Why bother owning bonds?

Fixed income is an important part of anyone’s portfolio if they do not want to just own stocks and

deal with the higher volatility or risk that goes with equities.

Bonds are half as risky as stocks because they have stated maturity dates, at which time, you receive back your principal. Stocks, on the other hand, can have any value at any point in time.

While bond returns are negative this year, there is a way to ignore the price movements and that is by setting up a laddered bond portfolio with

staggered maturity dates. See the chart below.

It is considered a “laddered” portfolio because if you think of the rungs of a ladder, each rung represents a different maturity year. When the 2028 bond matures, the proceeds are used to invest in a bond maturing in 2038.

The laddered effect works like an insurance policy against the movement in interest rates.

A Laddered Bond Approach						
	PRINCIPAL	COUPON	MATURITY DATE	PRICE	INCOME	SIMPLE YIELD*
Company A	\$10,000.00	3.25%	2028	\$100.00	\$325.00	3.25%
Company B	\$10,000.00	3.50%	2029	\$99.75	\$350.00	3.51%
Company C	\$10,000.00	3.75%	2030	\$99.50	\$375.00	3.77%
Company D	\$10,000.00	4.00%	2031	\$99.25	\$400.00	4.03%
Company E	\$10,000.00	4.25%	2032	\$99.00	\$425.00	4.29%
Company F	\$10,000.00	4.50%	2033	\$98.75	\$450.00	4.56%
Company G	\$10,000.00	4.75%	2034	\$98.50	\$475.00	4.82%
Company H	\$10,000.00	5.00%	2035	\$98.25	\$500.00	5.09%
Company I	\$10,000.00	5.25%	2036	\$98.00	\$525.00	5.36%
Company J	\$10,000.00	5.50%	2037	\$97.75	\$550.00	5.63%
Totals	\$100,000.00				\$4,375.00	4.43%

Data Courtesy of Bloomberg L.P.

*Simple Yield equals the yield-to-maturity which is the expected annual return earned on the bond if it is held to maturity.

The preceding hypothetical performance is for illustrative purposes only and is not a guarantee of future results.

Similar to 2020, when Covid-19 arrived and interest rates were cut from around 5% to around 0%, this hypothetical portfolio's bonds would avoid a massive drop in income (which could cripple retirees on a fixed income) because they're not all maturing at the same time.

Or, like 2022, when interest rates jumped from around 0% to around 5%, something would mature that could be re-invested in a higher coupon bond.

In 2026, inflation has risen and caused central banks around the world to raise interest rates, leading to a drop in bond prices. However, this should not be a cause for alarm.

Many professional bond investors are concerned with bond convexity, which measures the curvature in the relationship between a bond's price and its yield as interest rates change. This concept describes how a bond's duration shifts with interest rate fluctuations, impacting the bond's risk and reward profile. This

is how bond traders spend their days, buying and selling bonds to maximize their own profitability.

However, we do not care about convexity or duration, simply because we do not actively trade bonds. We buy them at a discount or close to par and hold them to maturity.

The commissions to buy and sell bonds average between 1% and 3%. By holding bonds to maturity, we do not pay commissions when the bond matures and that often carries more value than trying to actively trade bonds.

5. Given all the events going on in the world, what is your plan?

First, we want to stay focused and avoid the noise. Warren Buffet does not own a smartphone, nor does he answer e-mails. His reasoning is that if he listened to the noise, he would make bad business decisions.

Second, our plan has always been to:

1. Invest in companies with strong free cash flows and where their returns on invested capital are greater than their cost of capital.
2. Diversify by industry, country and size of company and reduce market risk.

3. Buy in October and November each year when markets tend to be weaker. Returns from October to October are often higher than January to December returns as the fourth quarter of corporate earnings tends to be stronger than the other three quarters.
4. Have multiple currencies in the portfolio to offset Canadian dollar weakness.
5. Leave our emotions at the door and ignore the noise.
6. Let dividends compound. Rising income from dividends helps offset inflation so an investor's spending power continues to grow.

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 should soften the blow.
- If a stock you own makes up more than 6% of your 30-stock portfolio, we will sell half.
- Instead of trading bonds actively, set up a laddered bond portfolio.

If you have any questions, let us know.

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