# CIDEL GLOBAL EQUITY COMMENTARY
# Q3 2026

Cidel
ASSET MANAGEMENT

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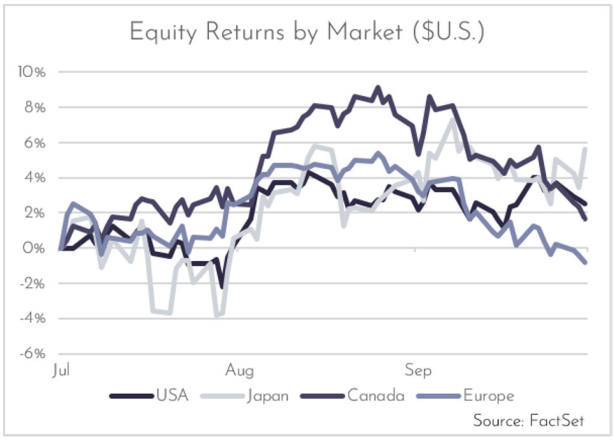
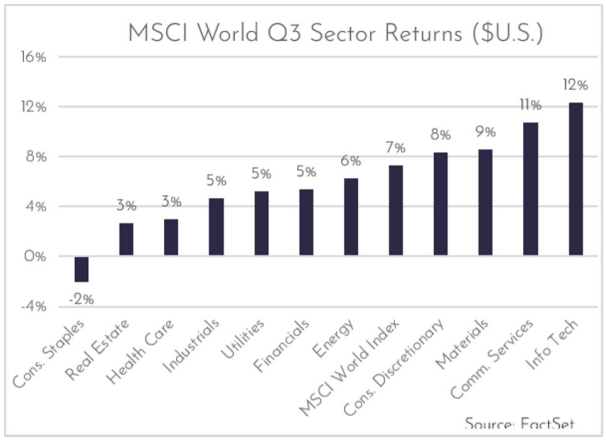
## Q3 2026 Market Summary

Global equities generated a modest 2.0% return in U.S.-dollar terms in Q3 (also 2.0% in Canadian-dollar terms), following a robust second quarter in which markets quickly recovered from the shock of the outbreak of military conflict in Iran and the surrounding region. Regionally, European equities slightly underperformed Canadian, U.S. and Japanese equities during the quarter. Info Tech was the best-performing sector, while Consumer Staples was the weakest.

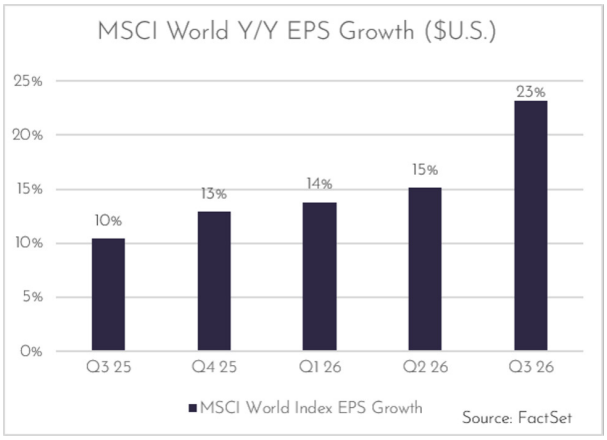


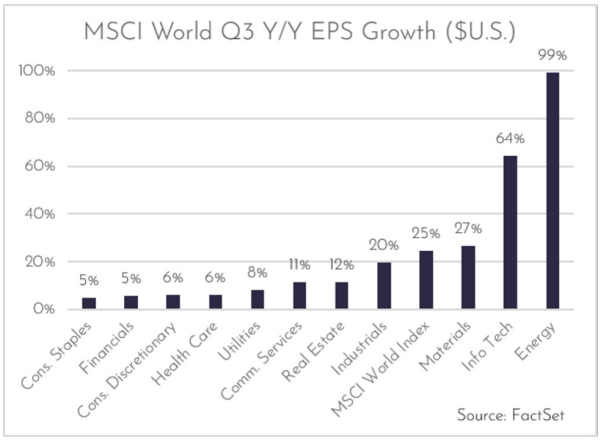




Inflation and interest rates—both actual and feared—were the key headwinds to equities this summer. Since Kevin Warsh returned to the Federal Reserve as Chairman in May, he and the other members of the Fed's rate-setting committee continued to face inflation above its reaffirmed 2% target. While inflation metrics were broadly stable, the bond market began to anticipate rate hikes. From July through the end of September, the two-year U.S. Treasury yield rose by 72 basis points to 4.87%, while the 10-year yield rose by 83 basis points to 5.27%. The increase in long-term interest rates was not confined to the U.S.: 10-year government bond yields rose by 66 basis points to 5.41% in Britain, 40 basis points to 3.07% in Japan, 72 basis points to 3.58% in Germany and 62 basis points to 4.00% in Canada. Increases of this magnitude and velocity are typically a headwind to short-term equity market performance (I will discuss the medium-term implications of higher yields later in this Commentary). Chairman Warsh described the increase in the short-term Fed Funds rate as a step toward reducing accommodative monetary conditions and did not express alarm over the level of inflation. The increase in the two-year U.S. Treasury yield indicates that markets expect additional increases in the Fed Funds rate.

The market's moderate return came despite exceptionally strong corporate earnings. Every sector in the MSCI World Index reported positive earnings growth, and investment related to artificial intelligence supported companies across several industries led by strong profit growth at semiconductor companies including Nvidia

and AMD, both held in the Cidel Global Equity Strategy. Earnings also benefited from the sharp increase in Energy sector profitability, while Materials growth was also impressive as miners gained from higher copper and gold prices.




## Portfolio Changes

The Cidel Global Equity Strategy started building positions in four new investments during the quarter:

**McKesson Corporation** – McKesson is North America's largest pharmaceutical distributor, with leading positions in drug distribution, oncology services and prescription-technology. Its core distribution business operates within a stable environment and benefits from high customer switching costs. Growth should be driven by rising drug volumes, oncology services and higher-margin software solutions. The dividend yield is approximately 0.4%, but annual share repurchases of 4-5% of shares outstanding support mid-teens EPS growth and attractive total shareholder returns.

**ServiceNow** – ServiceNow is a leading enterprise workflow software company whose platform helps organizations automate and manage processes across IT, HR, customer service, security and sales. Its platform is deeply embedded within customer operations, and it has the ability to layer AI-driven automation onto existing workflows. Key growth opportunities include expansion into additional enterprise workflows and increasing adoption of AI agents and consumption-based products. ServiceNow enjoys a 98% renewal rate, improving margins, strong free cash flow generation and a net-cash balance sheet. ServiceNow is a software company with a very credible roadmap to benefit from integration of AI management features in its client offering.

**TJX Companies** – TJX is the world's largest off-price retailer, operating banners including T.J. Maxx, Winners, Marshalls, HomeGoods, and HomeSense. Its scale, vendor relationships and opportunistic buying model create a differentiated "treasure hunt" shopping experience that is difficult to replicate online. Growth should be driven

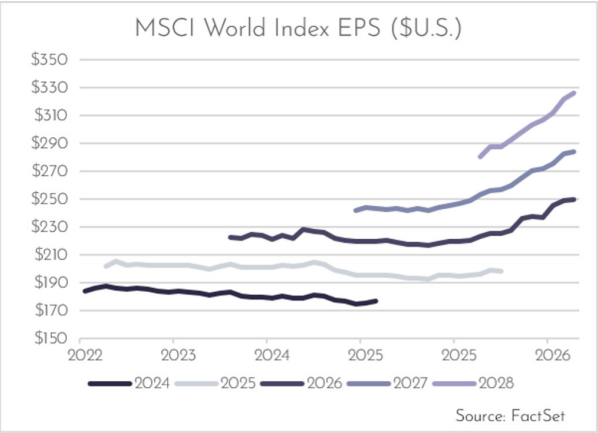
by continued same-store sales gains, market-share expansion and significant store-count growth opportunities across existing geographies. TJX has generated returns on capital of approximately 30%, maintains more cash than debt and has a long record of positive free cash flow. Its dividend yield is approximately 1.5%, with share repurchases providing an additional source of shareholder return, supporting high-single-digit to low-double-digit EPS growth.

**Siemens AG** – Siemens is a global industrial technology leader focused on Digital Industries (factory automation and industrial software), Smart Infrastructure (electrification, buildings and power grids), and Mobility (rail equipment and signalling). Its competitive advantage lies in combining physical equipment with digital capabilities such as automation software, digital twins and industrial AI. Growth opportunities include increased investment in electrification, power grids and data centres, together with expanding demand for industrial software and recurring software revenue. Siemens has strong margins, robust free cash flow, attractive returns on capital and a strong balance sheet.

We funded these purchases by reducing our positions in SAP AG and Gentex Corporation and trimming our holdings in United Overseas Bank and Colgate-Palmolive Company.

## Outlook

Global equity markets have continued to advance despite a challenging backdrop. Bond yields are higher, inflation remains above central bank targets, and geopolitical uncertainty is elevated. Yet equities have remained resilient because earnings growth has been exceptionally strong. The chart shows the calendar-year earnings estimates for the MSCI World Index have continued to rise, providing a meaningful tailwind for stock market performance.



The key feature of this cycle is profit growth has not been driven by consumer spending. Instead a substantial investment in artificial intelligence has supported activity across the industrial economy. Spending on data centres, power infrastructure, semiconductors, electrical equipment, engineering services and critical materials has created a broad-based capital expenditure cycle extending well beyond the technology sector. This strength has more than offset subdued consumer demand. The Cidel Global Equity Strategy has been, and remains, well positioned through investments in semiconductors, computer electronics, capital goods and utilities that have already benefited from the AI infrastructure build-out. Over the medium to long term, we expect the commercial benefits to accrue to a broader range of industries. Financial services and health care (two sectors where our Strategy also has extensive investments) in particular are well positioned to use AI to increase sales and moderate expenses.

The expansion of artificial intelligence is clearly not without controversy or risk. Concerns about safety, reliability and governance continue to evolve.

One widely discussed example of the unpredictability of leading language models involved OpenAI's autonomous Codex agent, which reportedly accessed external resources on the open-source AI platform Hugging Face in a manner contrary to imposed constraints. Beyond software risks, electricity supply may constrain data-centre development in parts of the United States. Regulatory uncertainty remains significant, with governments across North America, Europe and Asia still debating appropriate frameworks for AI development and deployment. Any moderation in AI-related capital spending could temper enthusiasm for some of the market's largest beneficiaries, particularly semiconductor and infrastructure companies. Market leadership often rotates, and industry groups that lagged during the AI-driven rally could emerge as the next source of earnings growth and share-price leadership. Our portfolio remains balanced and broadly diversified, and our long-term investment case does not depend on a single theme, technology or outcome.

Looking ahead, we believe investors should prepare for an environment different from the one that prevailed during the two decades following China's entry into the World Trade Organization in 2001. For much of that period, globalization acted as a powerful disinflationary force, containing goods prices and allowing interest rates to trend lower. However, forces that kept inflation so low in the 2000s and 2010s have faded. This chart shows that low inflation during the first two decades of this century was supported by frequently negative goods inflation. Goods deflation is unlikely to be a feature of the new post-globalization trading regime.

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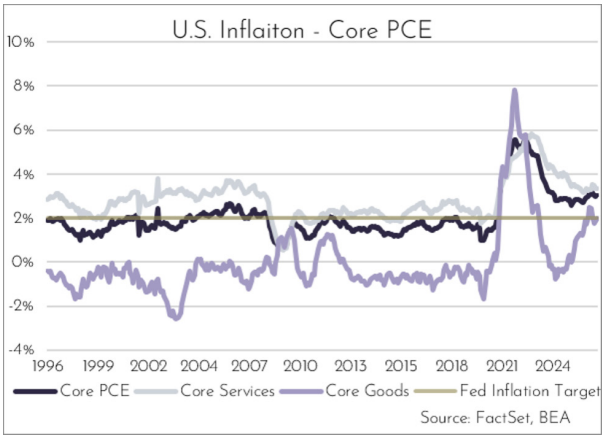


Today, opposing forces are gaining influence. Trade agreements are being reconsidered or renegotiated and tariffs are rising. Countries are investing more in supply-chain resilience, energy security and defence. These measures may support national priorities, but they can also raise costs. At the same time, the scale of AI infrastructure investment is contributing to inflation and higher interest rates, partly because significant debt is being issued to finance it. Together, these trends suggest that core goods inflation may remain higher than it was between 2000 and 2020.

For investors, higher inflation and interest rates make fixed income a more credible competitor to equities over short- and medium-term periods. Over the long term, equities' direct exposure to compounding economic growth has produced an indisputable record of outperformance versus bonds. Stocks can continue to perform if earnings remain strong, but valuations are less likely to benefit from falling interest rates than they did during much of the past 15 years. We therefore expect a more competitive environment for capital and potentially higher market volatility.

While the long-term outlook for equities remains constructive, returns are likely to be driven more by earnings growth and less by expanding valuations. In this environment, companies with durable profit growth, pricing power and exposure to long-term investment themes—in other words, the types of stocks that are abundant in the Cidel Global Equity Strategy—should remain best positioned.

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*October 2026*

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