SEPTEMBER 2026

Q3 report

The third quarter extended a pattern that has defined markets since the early months of the year. Through the first half, sharp swings driven by geopolitical and policy headlines repeatedly interrupted the market's attempts to establish a sustained trend, and that choppy, mean-reverting character persisted through the summer. The moves that did develop frequently failed to find follow-through, and false breakouts were a recurring feature across sectors and asset classes, with advances that appeared poised to extend instead reversing within weeks.

Beneath the surface of the major indices, the leadership of the first half came under sustained distribution as momentum unwound, and gains became concentrated in a narrow set of areas, making for a challenging backdrop in which to establish and hold positions. Due to this persistent environment, the Pools have kept position sizes measured and been deliberate about where capital is committed, waiting for a trend to confirm itself before leaning in with conviction.

The macro backdrop compounded the challenge. The Iran War has persisted well beyond what most had anticipated, and the tentative de-escalation that characterized the close of the second quarter gave way to renewed hostilities, with U.S. and Iranian forces exchanging strikes in the Strait of Hormuz in September. Crude rallied sharply, with Brent reaching its highest level since the spring, reinforcing the case for oil prices that remain higher for longer. The pass-through to inflation expectations was swift. Government bond yields rose sharply, the U.S. 10-year yield reached its highest level in nearly two decades, and the long end of the curve broke down technically on a long-term basis. Against this backdrop, the Federal Reserve, now under new Chair Kevin Warsh, delivered its first rate increase in more than three years in a unanimous decision and signalled that further tightening remains under consideration.

The sharp rise in yields also reshaped the market's

barometer

appetite for duration. Higher discount rates weigh most heavily on long-duration assets, whose valuations rest on cash flows expected far into the future, and the quarter saw pronounced pressure on high-multiple growth stocks, including several of the richly valued leaders of the first half. Investors gravitated instead toward businesses generating substantial cash flow today and returning it to shareholders through dividends and share repurchases. Where growth was rewarded, it was growth backed by tangible near-term results, such as enterprise software companies reporting accelerating, AI-driven revenue. Commodity producers fit the same profile, with valuations anchored in the cash they generate at today's prices rather than in earnings expected years from now. The same repricing reached the new issue market, where several high-profile IPOs were pulled or deferred into next year.

Beneath the index level, leadership rotated decisively. Through the first half, the market rewarded the companies building out artificial intelligence infrastructure, including the semiconductor and memory manufacturers and the industrial and power names supplying data centres. In the third quarter, the market began to pass the torch from these build-out beneficiaries to the companies positioned to benefit from AI adoption. Industrials, previously the market's momentum favourite, ranked among the weakest sectors alongside utilities, while memory semiconductors entered a period of consolidation following a parabolic advance. The Health Care sector came into favour more broadly, with pharmaceutical and biotechnology companies in particular benefiting as AI compresses and improves the drug development process. Energy was the clear sector leader.

Precious metals traded in a wide range over the quarter. Gold consolidated through July before breaking out sharply in August to re-establish its uptrend, only to surrender a sizeable portion of that advance in September as yields climbed and the pace of central bank purchases slowed from an exceptionally strong second quarter, leaving the metal only modestly higher for the period. With Treasuries now offering their most attractive yields in years, the opportunity cost of holding a non-yielding asset has risen, drawing incremental demand away from the complex.

Canada has proven resilient. Earlier in the year, sentiment was weighed down by U.S. tariffs on Canadian goods, uncertainty surrounding the review of the Canada-United States-Mexico Agreement, and concern that a soft start to the year would tip the economy into recession. The economy has absorbed these trade tensions better than feared, and the tail risks of a broader downturn have not materialized. Growth rebounded in the second quarter, unemployment has fallen to its lowest level in two years, and consumer spending has held up well. Together with higher-for-longer crude, this is making Canada an increasingly

Barometer Capital Management Inc. | First Canadian Place, PO Box 202, 100 King St West, Suite 4420, Toronto, ON M5X 1A9 | Tel: 416-601-6888 Fax: 416-601-9744 Toll Free: 1-866-601-6888

investable market.

In a market without a clear trend, and with breakouts repeatedly failing to hold, the balance of risk and reward did not favour adding exposure or leaning more heavily into any single area. Importantly, the rotation has brought new areas of leadership into focus, from Canadian energy producers to the beneficiaries of AI adoption, and positioning has shifted toward these areas of the most durable relative strength. With dry powder preserved, the Pools enter the final quarter with the flexibility to act decisively as a more sustained trend takes hold.

Barometer Tactical Income Pool

For the Barometer Tactical Income Pool, Energy and Materials sector exposure were the primary contributors to performance, offset by weakness in Industrials, Financials, and Information Technology.

Energy sector exposure was the largest source of strength. With the Iran War extending beyond expectations and crude increasingly likely to stay higher for longer, refining margins have widened considerably. The large Canadian integrated producers stand to benefit most, as their refining capacity allows them to capture those margins directly. New positions were established in Suncor (SU), Cenovus (CVE), and Canadian Natural Resources (CNQ), alongside Imperial Oil (IMO), which continued to contribute. These companies are generating substantial cash flow and returning it to shareholders, with Suncor stepping up its share repurchases during the quarter. Earnings estimates offer a further positive catalyst. Analysts still expect earnings to decline year over year, and at current crude prices, those estimates are positioned to inflect higher. Tamarack Valley (TVE) remained a positive contributor on the strength of its Clearwater assets.

Materials sector exposure also contributed as precious metals positions were re-established. The second-quarter commentary noted that the Pools were watching for gold to resume its uptrend, and that signal arrived with gold's breakout in August. New positions in DPM Metals (DPM) and Agnico Eagle (AEM) were the strongest contributors, and a new position was also established in Wheaton Precious Metals (WPM). Copper markets were volatile. Uncertainty over a potential U.S. tariff on refined copper imports drew metal into U.S. warehouses and drained inventories on the London Metal Exchange, pushing LME prices to record highs and creating a dislocation in the physical market that bled through into copper mining shares. The miners have nonetheless remained resilient through this volatility, and copper exposure was rotated, with Hudbay Minerals (HBM) exited and a new position established in Teck Resources (TECK.B).

Health Care sector exposure added modestly. New positions in Johnson & Johnson (JNJ) and, late in the quarter, Merck (MRK) joined

Eli Lilly (LLY), reflecting the growing recognition of pharmaceutical companies as beneficiaries of AI adoption rather than a defensive shift. Merck offers a clear example, as estimates suggest its use of AI has shortened certain drug development timelines by more than 30%, while also improving compound quality and lowering costs.

Industrials sector exposure weighed most heavily on returns during the quarter. Having been the market's momentum favourite, the sector came under heavy selling pressure as that momentum unwound, and Caterpillar (CAT), Finning (FTT), CSX (CSX), and GE Vernova (GEV) were exited, the last caught up in the cooling of the AI power trade.

Howmet Aerospace (HWM) deserves particular mention. A long-standing holding that has worked well over several years and featured often in these commentaries, it was a detractor this quarter. In early September, SpaceX announced plans to cast its own gas turbine blades and vanes, and shortly after, GE Aerospace agreed to acquire Consolidated Precision Products, a major castings competitor, raising questions about competition in one of Howmet's most important growth markets. The fundamental case to own Howmet remains intact, as these are technically complex components and new capacity will take years to come online, but the stock came under persistent selling pressure and the position was exited, in keeping with the Pools' process.

Financials sector exposure also detracted from returns during the quarter. Morgan Stanley (MS) and Goldman Sachs (GS) were exited as several high-profile IPO candidates pulled or postponed their listings into next year, softening the outlook for deal activity. Separately, Citigroup (C) weighed as a sharp rise in short-term yields and a flatter yield curve made for a tougher lending environment. The Canadian banks, including Bank of Montreal (BMO), Canadian Imperial Bank of Commerce (CM), and Royal Bank of Canada (RY), softened late in the quarter but remain core holdings. Although they trade above their historical valuation multiples, the strength of their underlying franchises justifies a premium more fully than at any point in the past.

Information Technology sector exposure detracted, primarily through Lam Research (LRCX), which was exited over the summer as memory semiconductors digested a parabolic advance. NVIDIA (NVDA) continued to contribute, and a new position was established in Apple (AAPL). Apple has stood apart from its mega-cap peers by declining to borrow, issue equity, or sacrifice free cash flow to fund AI infrastructure, choosing instead to preserve its cash generation and license leading AI models from partners, an approach well suited to a market that increasingly favours dependable, nearer-term cash flows.

Barometer Tactical Balanced Pool

During the third quarter, Energy sector exposure and the Pool's corporate bond holdings contributed to the Barometer Tactical Balanced Pool, while exposure to Industrials, Information Technology, Financials, and Materials detracted.

Energy sector exposure was the strongest contributor, as refining margins widened considerably with the Iran War extending beyond expectations. The large Canadian integrated producers are best placed to benefit, as their own refining capacity allows them to capture those margins directly. New positions in Suncor (SU) and Cenovus (CVE) contributed alongside Imperial Oil (IMO), and a new position was established in Canadian Natural Resources (CNQ). The group is generating considerable cash flow, much of it returned to shareholders through dividends and buybacks. Earnings estimates also present a positive catalyst, forecast a year-over-year decline that current crude prices suggest is too conservative.

The Pool's corporate bond holdings provided steady income and a modest positive contribution, helping to cushion results in a difficult quarter for the Pool's equity holdings.

Health Care sector exposure was a small positive, with new positions in Johnson & Johnson (JNJ) and, late in the quarter, Merck (MRK) joining Eli Lilly (LLY). The additions reflect the growing view of pharmaceutical companies as AI adoption beneficiaries, as AI tools accelerate drug discovery, improve the selection of promising compounds, and reduce the time and cost of moving candidates into the clinic. Estimates suggest Merck's use of AI has shortened certain drug development timelines by more than 30%.

Industrials sector exposure weighed most heavily on performance during the quarter, as the broader unwind in momentum hit the sector particularly hard. Caterpillar (CAT), GE Vernova (GEV), and Toromont (TIH) were exited, and CSX (CSX) was sold as rail stocks came under pressure. Howmet Aerospace (HWM), a long-time holding in the Pool, was also exited after SpaceX announced plans to cast its own gas turbine blades and GE Aerospace agreed to acquire Consolidated Precision Products, a major castings competitor. The fundamental case to own Howmet remains intact, but the stock came under persistent selling pressure and the position was exited in keeping with the Pools' process.

Information Technology sector exposure detracted from performance during the quarter, driven by Lam Research (LRCX), a leading supplier of the equipment used to manufacture memory chips. After a parabolic advance, semiconductor companies tied to memory production entered a period of consolidation, and the position was exited over the summer. NVIDIA (NVDA) remained a positive contributor as demand for its AI computing platforms

continues to accelerate. The company reported another record quarter in August, with data centre revenue more than doubling from a year earlier and guidance pointing to further growth as its next-generation Vera Rubin platform ramps into production. A new position was also established in Apple (AAPL), which has distinguished itself among mega-cap technology companies by funding its AI ambitions without heavy borrowing, new equity issuance, or a sacrifice of free cash flow, opting instead to license leading AI models from partners. That discipline has become an advantage in a market that increasingly rewards dependable, nearer-term cash generation.

Financials sector exposure also detracted from performance during the quarter. Morgan Stanley (MS) was exited as a number of large IPOs were pulled or pushed into next year, and M&T Bank (MTB) was exited as a flatter yield curve made for a tougher lending backdrop. Citigroup (C) weighed on results despite progress in its multi-year turnaround, as the flatter curve and a softer outlook for capital markets activity pressured the shares. Banco Santander (SAN), by contrast, contributed positively after reporting record first-half profit, steady customer growth, and continued share repurchases. Bank of Montreal (BMO) and Canadian Imperial Bank of Commerce (CM) softened late in the quarter but remain held, given the quality of their franchises.

Materials sector exposure detracted modestly from performance. Precious metals positions were re-established as gold broke out in August, and a new position in Wheaton Precious Metals (WPM) was among the strongest contributors in the Pool. New positions in Agnico Eagle (AEM) and Kinross Gold (K) were also established, but Kinross gave back ground as gold retreated in September and, together with Hudbay Minerals (HBM), more than offset Wheaton's gains. Copper exposure was rotated, with Hudbay exited and new positions established in Teck Resources (TECK.B) and BHP (BHP). Copper has become an increasingly important part of BHP's business, accounting for the majority of its earnings for the first time in its most recent fiscal year, and the position was established as the Pool sought greater exposure to the metal.

Barometer Tactical Equity Pool

The third quarter was a difficult one for the Barometer Tactical Equity Pool, and results fell short of expectations. Gains in Energy and Materials sector exposure were more than offset by losses in Industrials and Information Technology, where the Pool's holdings in beneficiaries of the AI infrastructure build-out, a key source of strength in the first half of the year, reversed sharply as momentum unwound. These losses have weighed on the Pool's results for the year to date.

Barometer Capital Management Inc. | First Canadian Place, PO Box 202, 100 King St West, Suite 4420, Toronto, ON M5X 1A9 | Tel: 416-601-6888 Fax: 416-601-9744 Toll Free: 1-866-601-6888

Industrials sector exposure was the largest detractor, driven by the companies tied to powering AI data centres. Caterpillar (CAT), whose engines and generator sets had become an important source of growth as data centre power demand surged, and GE Vernova (GEV), a leader in gas turbines and grid equipment, had been among the Pool's strongest contributors through the first half. Both came under heavy selling pressure as the market began to question the durability of the data centre build-out, with growing local opposition to new projects and calls from some AI industry leaders for a slower pace of development weighing on sentiment, while rising yields compressed valuations across the sector's most richly valued names. Both positions were exited in keeping with the Pools' process.

Howmet Aerospace (HWM), a long-standing holding that has featured often in these commentaries, also detracted after SpaceX own gas turbine blades and GE Aerospace agreed to acquire Consolidated Precision Products, a major castings competitor. The fundamental case to own Howmet remains intact, but the stock came under persistent selling pressure and the position was exited. CSX (CSX) was also sold as rail stocks came under pressure.

Information Technology sector exposure also detracted, as the parabolic advance in AI-related semiconductors gave way early in the quarter. The Pool entered the quarter holding Lam Research (LRCX), a leading supplier of the equipment used to manufacture memory chips, SiTime (SITM), which supplies the precision timing devices used in AI data centres, and Celestica (CLS), which builds networking and server hardware for hyperscale customers. All three had been among the Pool's strongest performers on the back of AI infrastructure spending, and all three came under heavy selling pressure early in the quarter as a selloff in memory and AI hardware names spread from Asian markets. The positions were exited over the summer, but not before weighing heavily on results. NVIDIA (NVDA) and Apple (AAPL) continued to contribute positively, with NVIDIA reporting another record quarter on accelerating demand for its AI computing platforms.

In place of the hardware names, the Pool rotated toward AI adoption beneficiaries. The market had treated enterprise software as facing an existential threat from AI, yet as customers roll out AI and agentic tools, their usage of these platforms has risen sharply. A new position in Unity Software (U) was an early contributor after the company reported its strongest quarter as a public company, driven by its AI-powered advertising platform. New positions were also established in Snowflake (SNOW), which raised its outlook as AI products drove greater consumption, and Manhattan Associates (MANH).

Semiconductor exposure has begun to be rebuilt selectively through a new position in Micron Technology (MU), which reported record results. With industry memory supply growing at roughly 20% a year against demand that continues to accelerate, a persistent imbalance should remain supportive of memory pricing and the companies that produce it.

Energy and Materials sector exposure provided a partial offset. Headwater Exploration (HWX) and Tamarack Valley (TVE) led within Energy on the strength of their Clearwater assets, and new positions in Cenovus (CVE) and Suncor (SU) contributed as refining margins widened with the Iran War extending beyond expectations. Within Materials, a new position in DPM Metals (DPM) led as precious metals positions were re-established following gold's breakout in August, with Agnico Eagle (AEM) and BHP (BHP) also contributing. Hudbay Minerals (HBM), Capstone Copper (CS), and Major

Health Care sector exposure was built out around the same AI adoption theme, with new positions in Merck (MRK) and Vertex Pharmaceuticals (VRTX). The Pool also continued to hold the SPDR S&P Biotech ETF (XBI), which provides exposure to a broad basket of biotechnology companies as the group has re-rated higher. Owning the sector through a diversified basket allows the Pool to participate in that re-rating without taking on the binary risk of individual names, where a single clinical trial readout or regulatory decision can determine the outcome for a stock.

Financials sector exposure also detracted from performance and was subsequently reduced. Goldman Sachs (GS) and Morgan Stanley (MS) were exited as several large IPOs were pulled or postponed, and Citigroup (C) and National Bank of Canada (NA) weighed on results, with National Bank exited during the quarter.

Taken together, the quarter's exits have substantially lowered the Pool's exposure to the AI build-out, and positioning now reflects the areas showing the most durable strength, from Canadian energy to the beneficiaries of AI adoption.

Barometer Global Macro Pool

For the Barometer Global Macro Pool, commodity exposure and short exposure to long-duration bonds were the principal sources of strength over the quarter, reflecting two of the period's dominant themes.

Exposure to precious metals was the largest contributor over the quarter, led by gold's August breakout. Strength was led by the miners, held through the Sprott Gold Miners ETF (SGDM), the VanEck Junior Gold Miners ETF (GDXJ), and the Global X Silver Miners ETF (SIL), alongside physical gold and silver through the Sprott Physical Gold Trust (PHYS) and the Sprott Physical Silver Trust (PSLV).

barometer

Copper miners added as well through the Global X Copper Miners ETF (COPX).

Energy exposure was among the strongest areas as crude rallied, led by the iShares S&P/TSX Capped Energy Index ETF (XEG) and the SPDR S&P Oil & Gas Exploration & Production ETF (XOP), and new positions in broad commodities through the WisdomTree Enhanced Commodity Strategy Fund (GCC) and the abrdn Bloomberg All Commodity Strategy K-1 Free ETF (BCI) contributed.

The Pool's short exposure to fixed income was the other principal source of strength. Short positions in long-duration U.S. government bonds, held through the PIMCO 25+ Year Zero Coupon U.S. Treasury Index ETF (ZROZ) and the iShares 20+ Year Treasury Bond ETF (TLT), were held throughout the quarter, and a short position in the broader U.S. bond market was established through the iShares Core U.S. Aggregate Bond ETF (AGG). As yields moved sharply higher, suffered a decisive technical breakdown, falling through long-term support in a clear signal of broad and persistent weakness across the bond market. The zero-coupon exposure was the largest contributor given its heightened sensitivity to interest rates. A short position in the iShares Mortgage Real Estate ETF (REM) also added to performance, as mortgage real estate investment trusts, which rely on borrowed money to hold mortgage securities, came under pressure from both higher funding costs and falling bond prices.

Bitcoin was another positive. The Pool moved from a short position to a long position in the iShares Bitcoin Trust ETF (IBIT) over the quarter, as Bitcoin firmed up technically and established a more constructive trend.

Internationally, the iShares MSCI Singapore ETF (EWS) was a leading contributor, and Japan added through the iShares MSCI Japan ETF (EWJ), with the WisdomTree Japan Hedged Equity Fund Taiwan and South Korea, leaders in the second quarter, played a smaller role. In Latin America, commodity-linked markets in Colombia (COLO) and Peru (EPU) added, while positions in Mexico, Brazil, and Argentina were exited.

Over the quarter, the Pool also moved from a net long to a net short position in North American equities, with short exposure concentrated in rate-sensitive and consumer-facing areas such as homebuilders, consumer discretionary, utilities, and small caps. This positioning, alongside the hedges held against the Pool's commodity exposure, was the principal offset to the gains above as U.S. large-cap indices held firm.

Looking Forward

The pattern that has defined markets since the early months of the year, with headline-driven swings and breakouts that fail to follow through, has yet to give way to a durable trend. The Pools enter the fourth quarter with position sizes measured and considerable room to add exposure, and remain deliberate about where capital is committed. That discipline is an advantage heading into the seasonally stronger part of the year, as it leaves the flexibility to lean in with conviction once a trend confirms itself.

The risks to equity markets here are clear and worth respecting. Inflation has continued to firm, and with bond yields climbing and the Federal Reserve having begun a new hiking cycle, financial conditions are tightening. Higher rates may continue to weigh on valuations, particularly for longer-duration assets, while the Iran War shows little sign of resolution and keeps geopolitical risk elevated.

These are reasons for discipline rather than pessimism, and they reinforce the value of waiting for confirmation of trend before committing capital.

There is much to be constructive about. In energy, crude looks set to remain higher for longer, the large Canadian producers are generating substantial cash flow and returning it to shareholders, and earnings estimates have room to move higher into next year. More broadly, Canada is becoming a more investable market, supported by a resilient economy and banks that are better businesses than they have ever been. The companies benefiting from AI adoption, from enterprise software platforms seeing rising usage to pharmaceutical companies using AI to speed up drug development, remain an area of focus.

In precious metals, the trade has paused for now, and positions continue to be held while the complex is watched closely for signs that it is reasserting its trend. With exposures aligned to the areas of greatest strength and ample capacity to add as the trend improves, we look ahead to the final quarter of the year with measured optimism.

barometer