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CHARTBOOK

MARKET COMMENT.

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: October 2025

Market Comment

On September 17, the Bank of Canada cut its policy rate by 25 basis points to 2.50% and framed the move as risk-balancing amid a weaker domestic backdrop and fading price pressure. The statement highlighted a second quarter GDP contraction of roughly 1.5%, a sharp 27% drop in exports as firms front-loaded shipments ahead of U.S. tariffs, softening labour markets (with unemployment at 7.1% in August), headline CPI at 1.9%, and underlying inflation running near 2.5%. With Ottawa removing most retaliatory tariffs, the Bank said upside inflation risks had diminished and stressed it would "proceed carefully," watching how trade disruptions feed through to investment, jobs, spending and inflation expectations. The next decision is October 29, 2025.

The Federal Reserve likewise delivered a 25 basis point cut, lowering the fed-funds target range to 4.00% - 4.25%, citing moderated growth in the first half of the year, slowing job gains and an unemployment rate that has edged up, alongside inflation that "has moved up and remains somewhat elevated." The Committee said the balance of risks has shifted, will assess incoming data before any further adjustments, and will continue to shrink its balance sheet; the lone dissent came from Trump ally and new Governor Stephen Miran, who preferred a 50 basis point cut.

It is a bit unusual to see central bank rate cuts with stock markets at or near all-time highs. Rate cuts are often associated with poor market environments and/or economic recessions and in such cases are intended to stimulate sluggish economies and fuel a recovery in asset prices. With stocks near their highs, these cuts could provide a strong tailwind for further returns.

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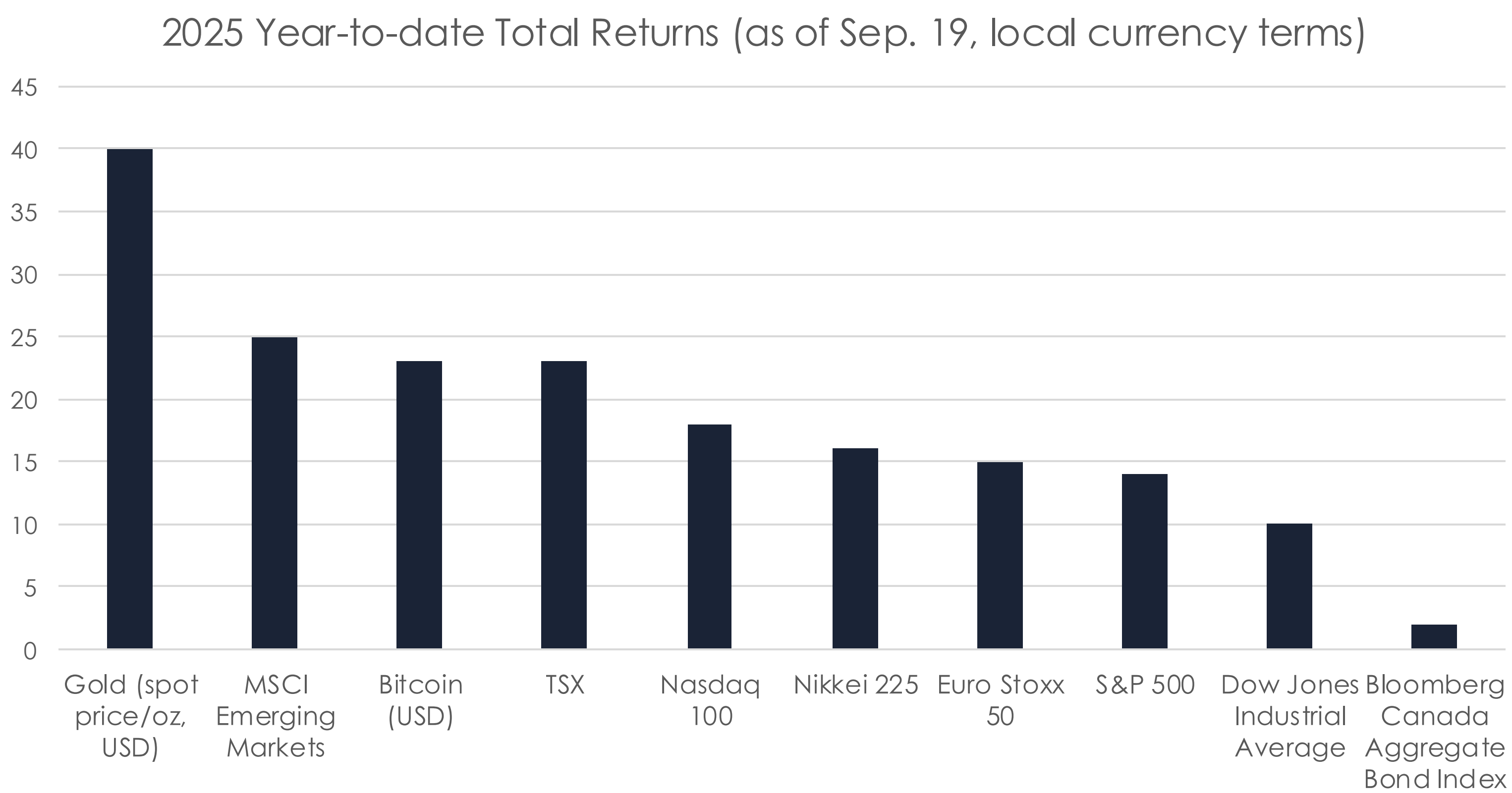
Selected Returns

To date, 2025 has been an excellent year for most stock markets while bonds have had relatively modest returns. Assets like gold and bitcoin have been top performers, with the price of gold rising 40%.



Past performance is not indicative of future results. You cannot invest directly into an index.

 Source: Bloomberg (Total Return Index, Gross Dividends), OceanFront Investment Counsel Inc.

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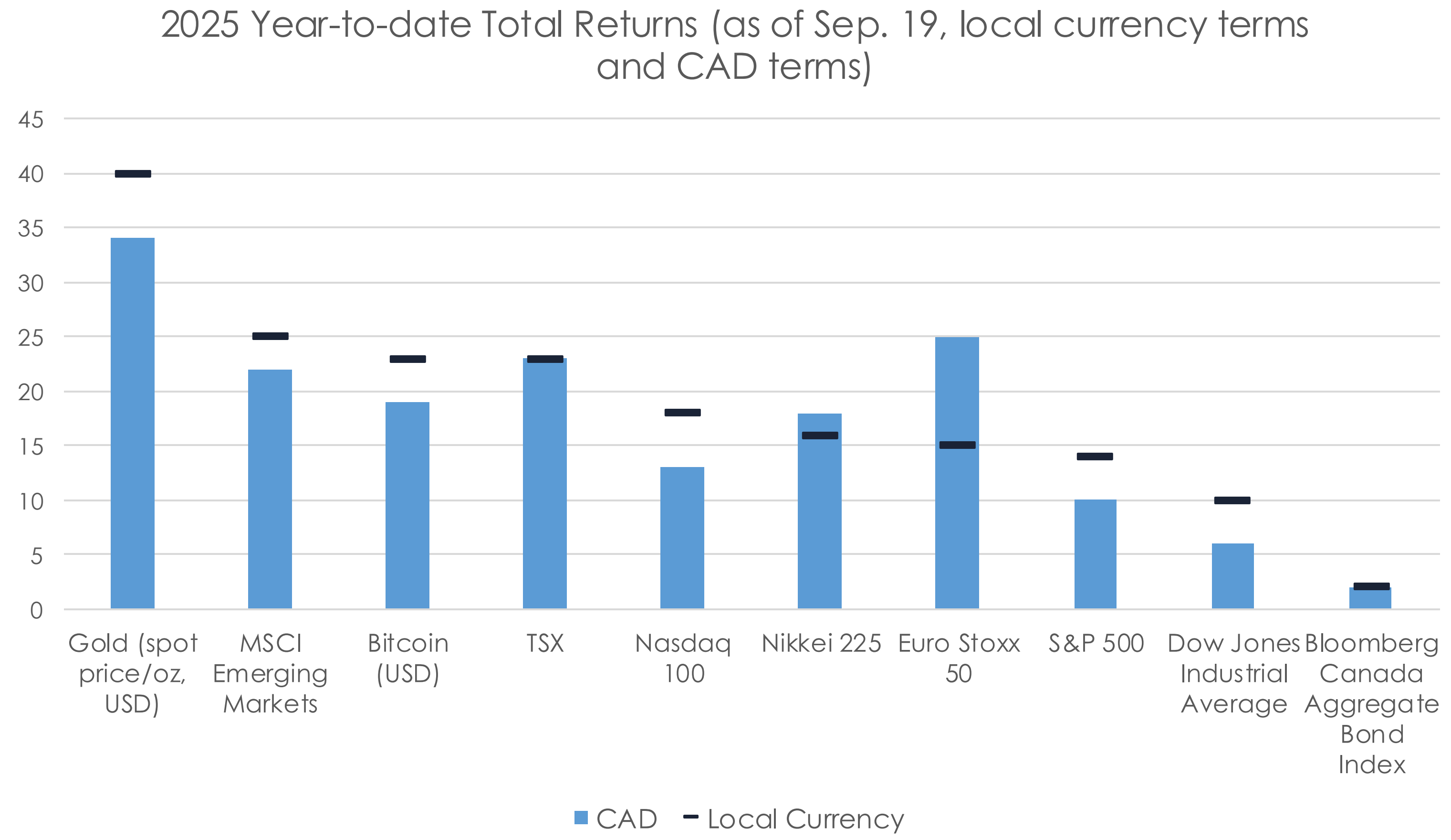
Further to the previous slide, if we translate the return data into CAD terms, there is quite a substantial difference in some of the returns. This represents the return a Canadian investor would receive assuming they have not hedged out the currency exposure.

For example, because they Euro has dramatically outperformed the Canadian Dollar year-to-date, the return on European assets like the Euro Stoxx 50 Index is enhanced in CAD terms. Conversely, CAD has outperformed USD so far in 2025 which detracts from the return in CAD terms on US assets like the S&P500, Nasdaq and Dow Jones Indices.

Selected Returns (cont.)



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Oracle Corporation

The AI theme has been a major driver of market returns in recent years. How much longer this AI boom will last is an open question, but at present, AI related stocks continue to be top performers.

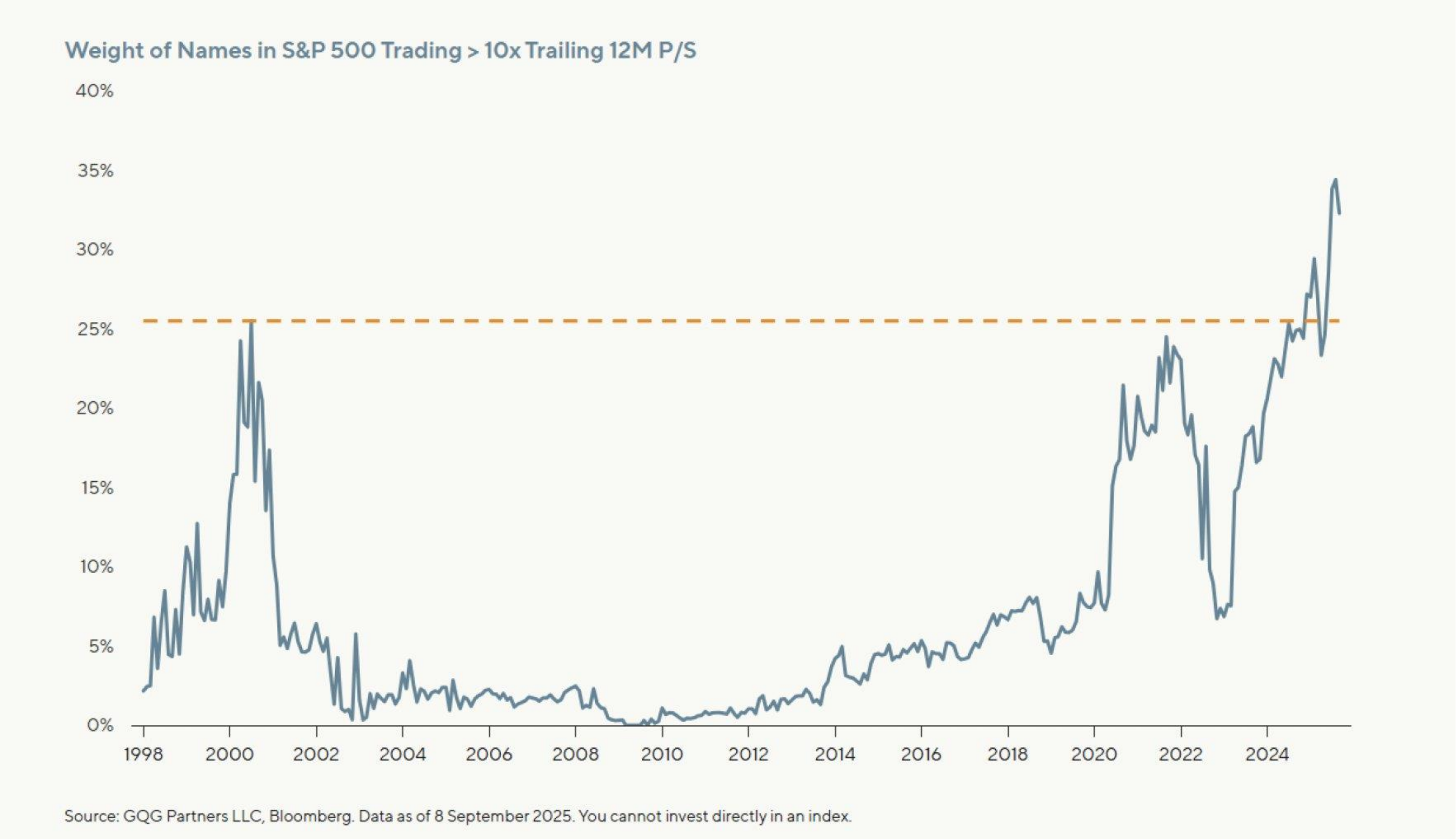
Oracle Corporation, for example, reported quarterly earnings in September and announced that they had expanded their contracts to supply computing power to AI businesses to US$455 billion, up from US$138 billion one quarter ago.

This came as a big surprise to Wall Street, and the stock jumped nearly 40% following the announcement! This advance represented an increase in market capitalization of about US$300 billion, roughly 1.5 times the value of Royal Bank, the most valuable company in Canada.

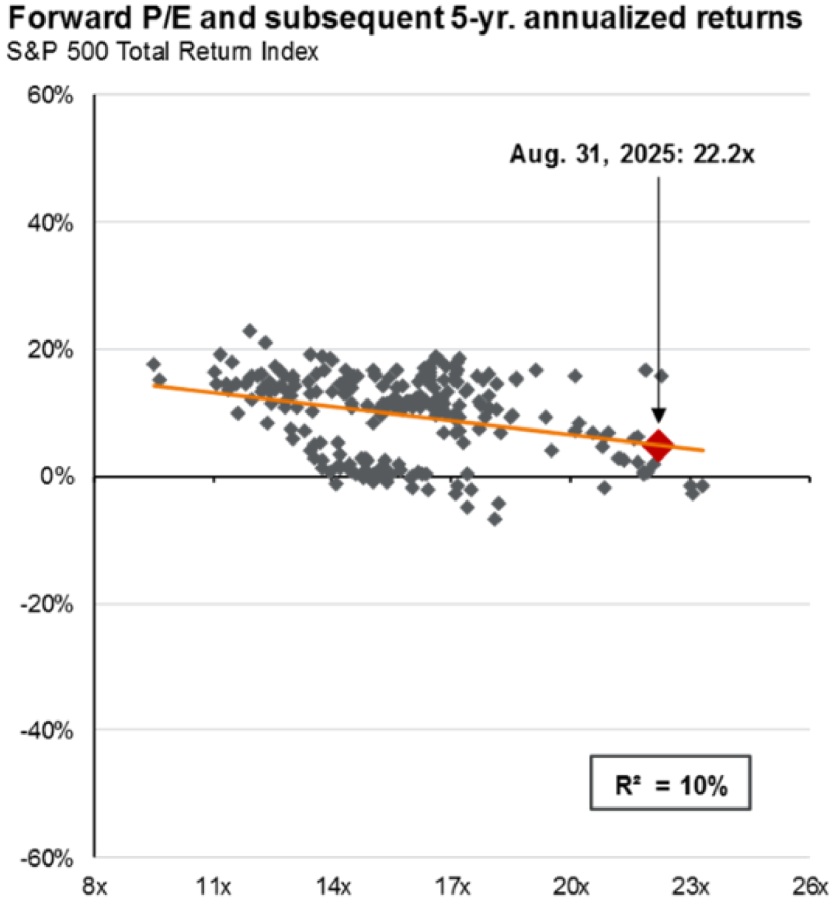
S&P500 Valuation

If we look at valuation using the Price-to-Sales ratio on S&P500 companies, we can see that these stocks are quite expensive relative to the recent past, even surpassing the level seen at the top of the dotcom bubble.

Excitement over AI related innovation and expected productivity growth has led to a lot of optimism in the valuation of certain stocks.



Valuation and Forward Return



Valuations have historically been correlated with forward returns, the higher the valuation, the lower the forward returns tend to be. This is why the high valuations we see in certain areas of the market today make it prudent to take a cautious investment approach.

As of August 31, 2025, the S&P500 forward P/E is near the highest level observed in the data, which suggests low returns are likely for the next few years.

 Source: JP Morgan Asset Management, OceanFront Investment Counsel Inc.

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Valuation Comparison

Index Basket OceanFront ▾ 1) Edit Basket As of Date 09/22/2025

11) Valuations | 12) Performance | 13) Estimates | 14) Custom

Name	Valuation Score↓	P/E	P/B	Dvd Yld	P/S	EV/EBITDA
MSCI EUROPE	1.31	15.88	2.30	3.12%	1.66	11.09
MSCI EAFE	1.29	16.42	2.11	3.00%	1.66	10.18
MSCI EM	1.16	15.61	2.05	2.39%	1.76	9.70
S&P 600 SMALLCAP INDEX	0.78	17.25	1.94	1.63%	1.20	12.64
S&P/TSX COMPOSITE IND...	0.73	19.05	2.44	2.40%	2.42	10.14
S&P 400 MIDCAP INDEX	0.39	17.83	2.63	1.45%	1.45	11.64
NIKKEI 225	0.24	23.24	2.37	1.68%	1.77	10.28
RUSSELL 2000 INDEX	-0.16	34.47	2.19	1.33%	1.45	16.24
DOW JONES INDUS. AVG	-0.27	22.80	5.69	1.59%	3.12	12.20
RUSSELL 3000 INDEX	-0.50	25.81	4.90	1.17%	3.09	16.49
RUSSELL 1000 INDEX	-0.51	25.51	5.19	1.17%	3.26	16.48
S&P 500 INDEX	-0.52	25.44	5.44	1.17%	3.45	16.47
NASDAQ 100 STOCK INDX	-1.09	32.89	8.77	0.64%	6.38	21.89
Magnificent 7	-1.39	36.61	14.45	0.27%	10.01	22.39
NYSE FANG+ Index	-1.47	40.28	15.05	0.25%	11.19	28.24

The Valuation Score summarizes how each index stacks up against the others in the basket. It is shown as a bar graph for quick comparison, where green suggests an index is relatively undervalued and red suggests it is relatively overvalued. The score is calculated as an equal average of three common valuation measures (Price/Earnings, Price/Book, and Dividend Yield) with each measure standardized (Z-scored) against the basket to make them directly comparable.

Based on this comparison, Europe, Emerging Markets, Canada and smaller sized companies in the US appear to have more attractive valuation scores.

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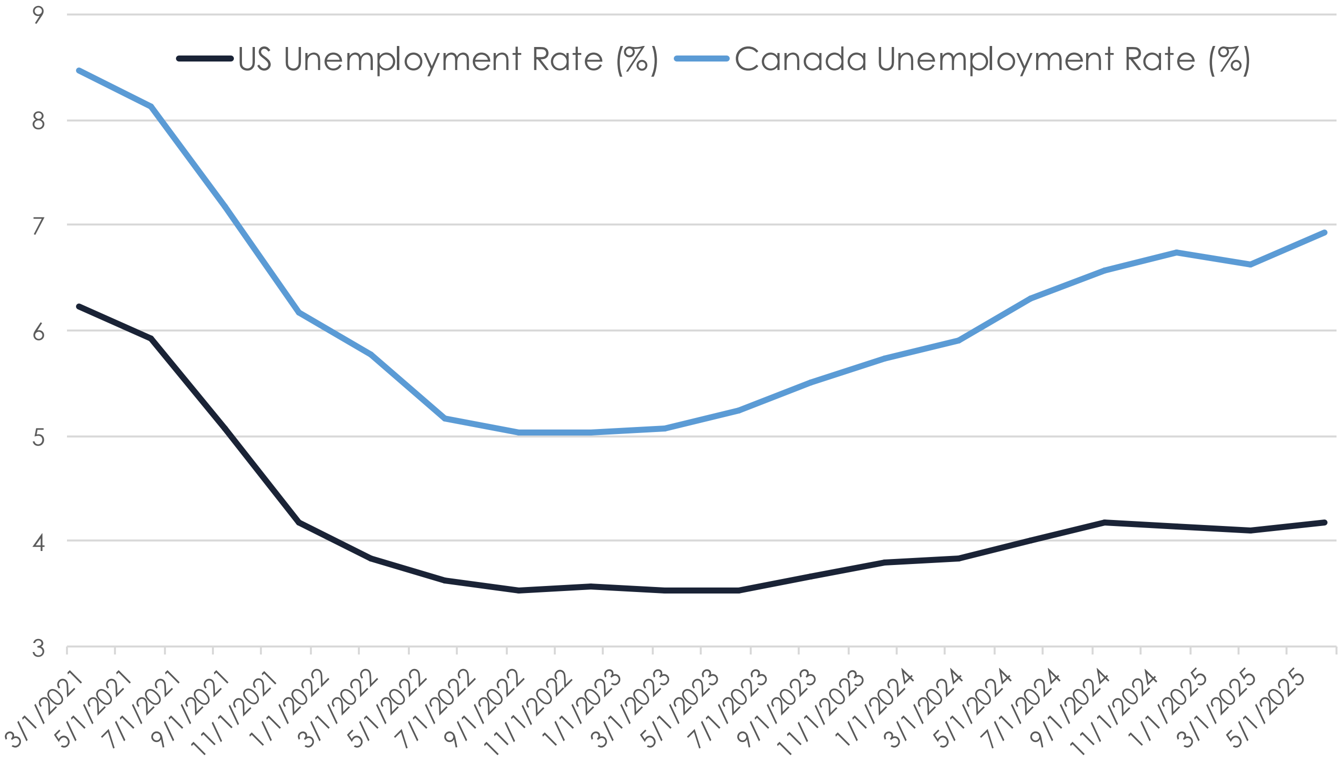
Employment

Employment data continues to show weakness in both the Canadian and US economies. The unemployment rate in Canada has risen nearly 2% since the low in 2022, while in the US it has risen just under 1% over the same period.

What's also concerning is the trend in the data, as the rate continues to increase.



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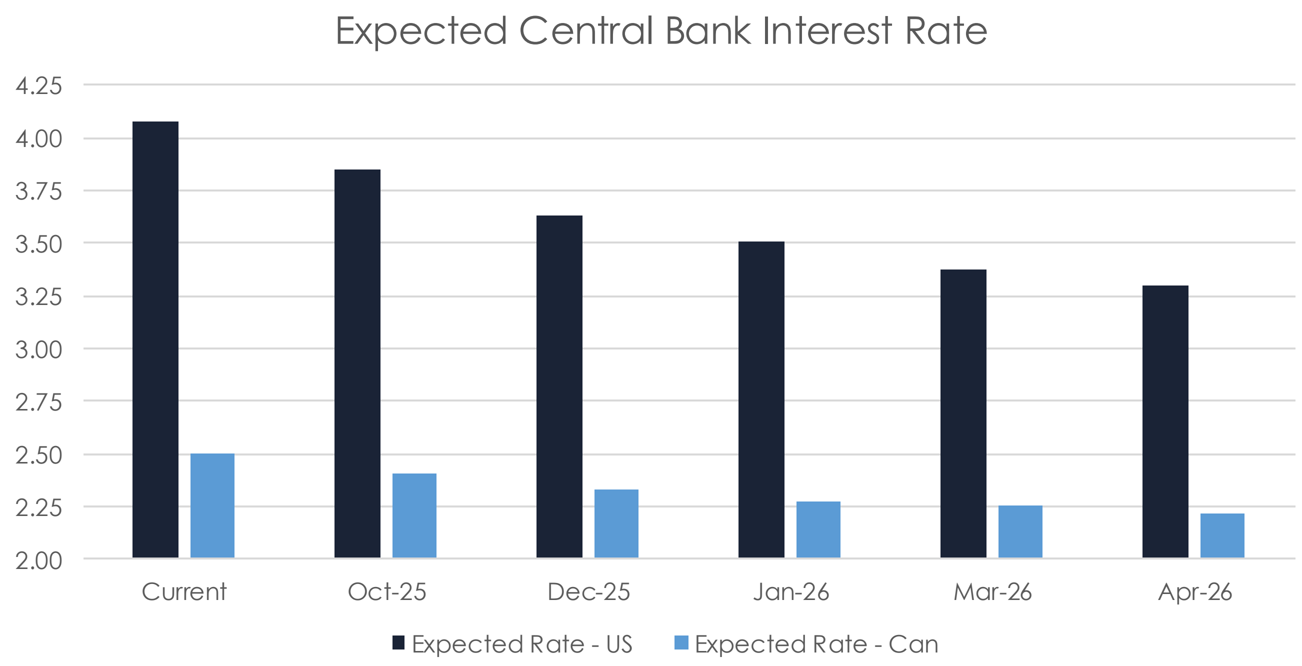
Interest Rate Expectations

Central banks have moved to cut rates in order to stimulate the sluggish labour market. Markets are pricing in 2 cuts from the Fed by year end and 1 or 2 cuts from the Bank of Canada. Lowering rates now risks igniting another wave of inflation, which central banks will be monitoring closely.



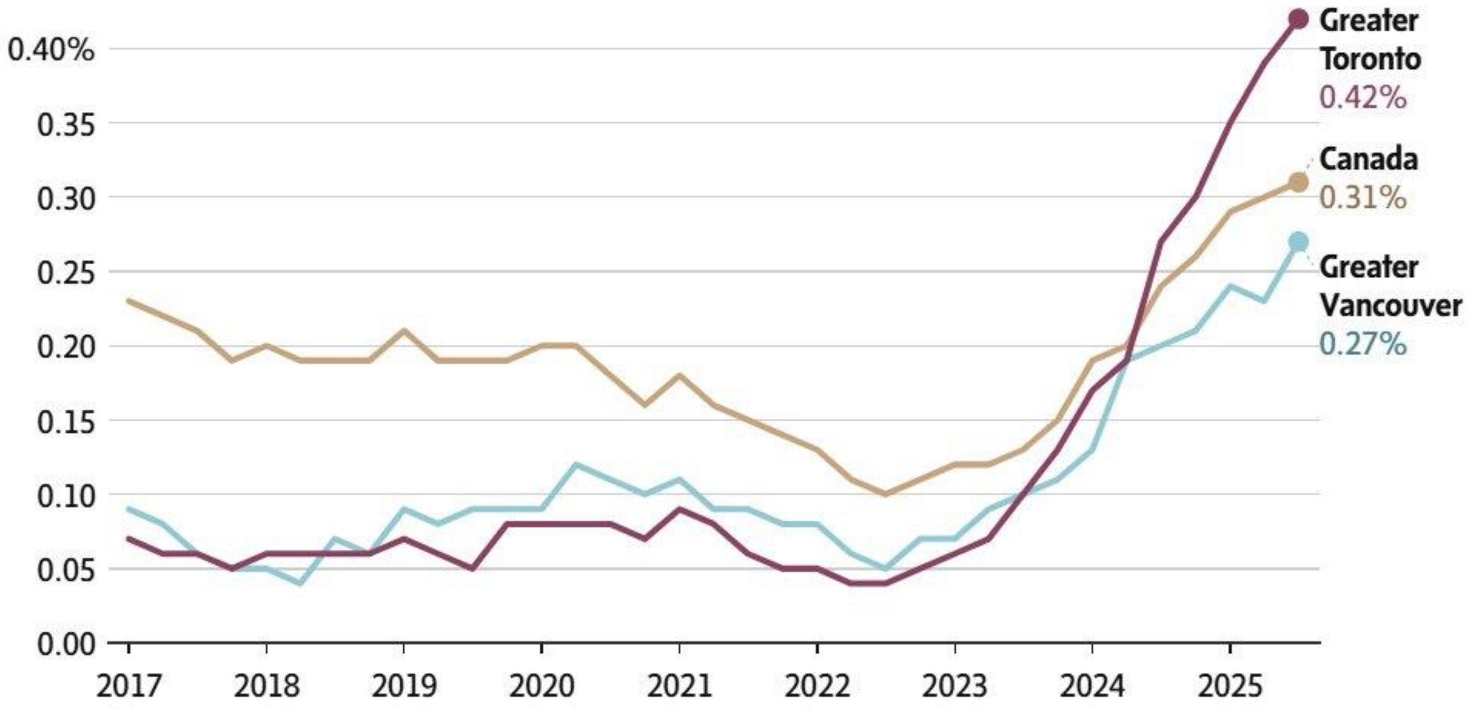
Data: Overnight Index Swap markets as of September 18, 2025

Mortgage Delinquencies

Rate cuts should bring some welcome relief to borrowers who have seen their payments increase due to higher rates and refinancings. Many mortgages in Canada were taken out in 2020-2021 in the ultra low rate environment and now must refinance at significantly higher rates.

Data from RBC compiled by the Globe and Mail shows that mortgage delinquency rates are on the rise and are at levels substantially higher than the past several years. The real estate sector in general has been very challenged by the higher rate environment, including residential, commercial, developers and builders.

RBC 90-day-plus mortgage delinquency rates, by region



THE GLOBE AND MAIL, SOURCE: RBC QUARTERLY REPORTS

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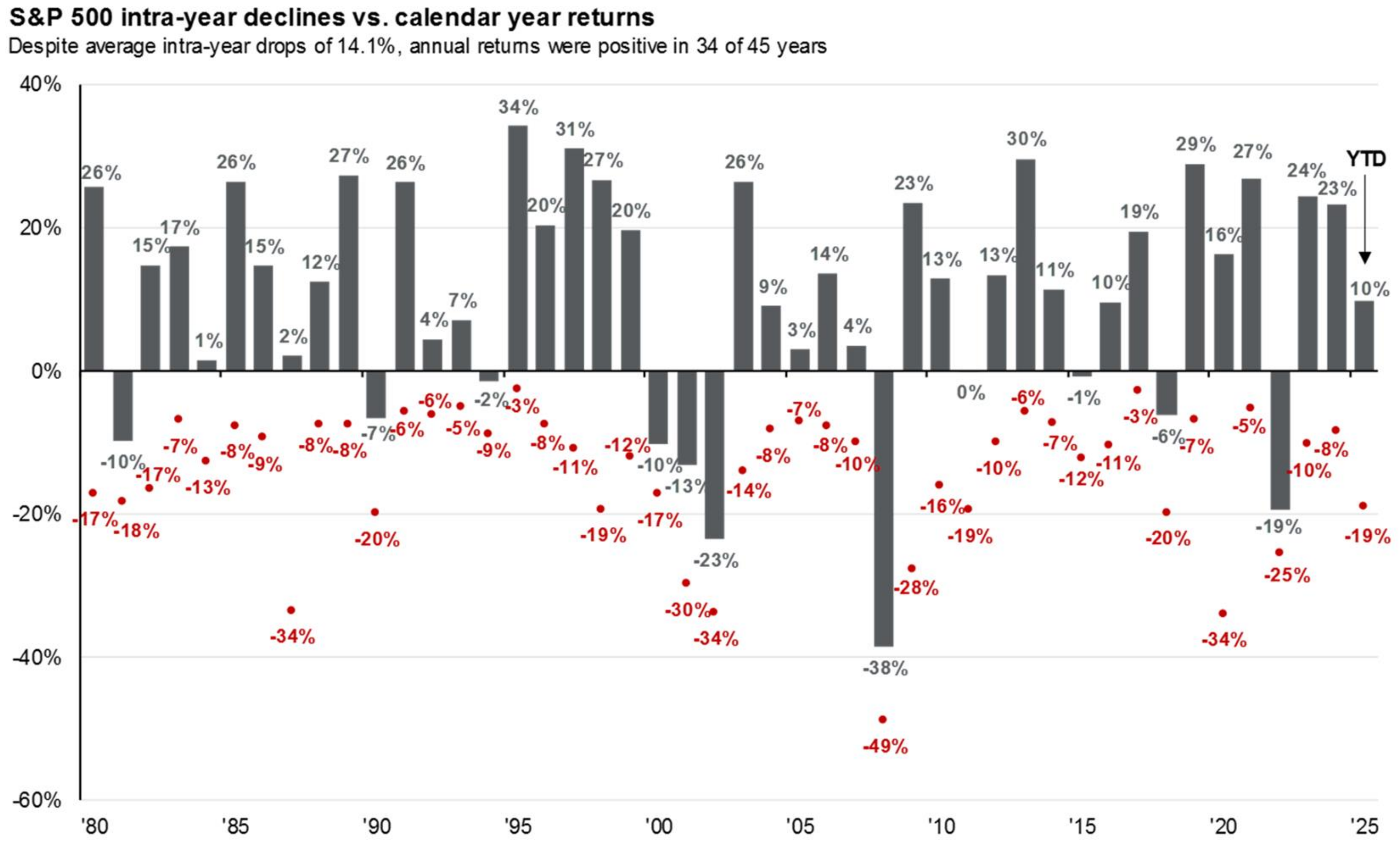
Annual Returns and Declines

It seems like so long ago that we were in the midst of nearly a 20% drawdown in stock markets following the "Liberation Day" announcement of tariff policy from President Trump. Since then, the S&P500 rallied to a 14% return year-to-date as of Sept. 19 (or 10% as of August 31 in the chart).

It's a good reminder that market bottoms tend to occur when the news is bad and economic prospects appear bleak. As you can see in the chart, it's common to have at least one significant drawdown per year in the stock market.

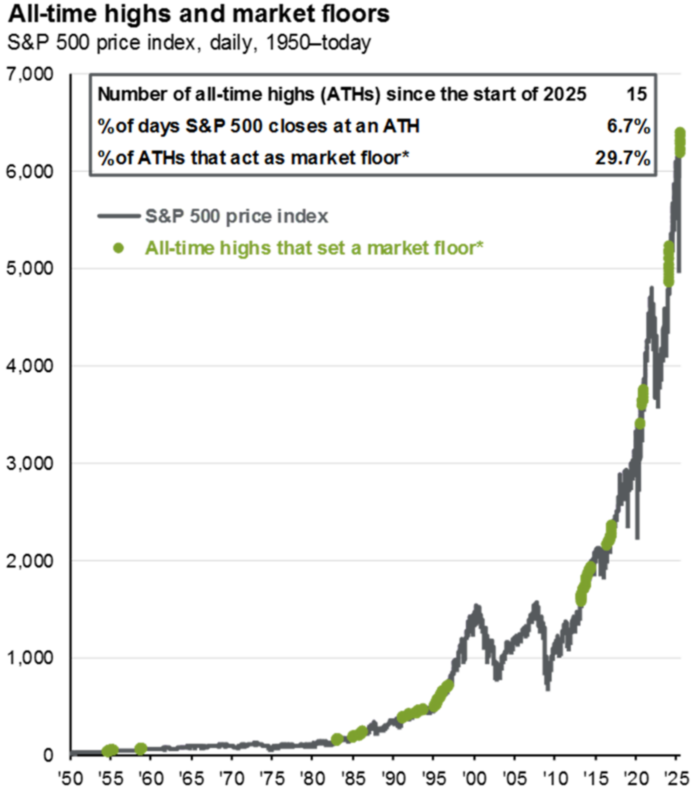


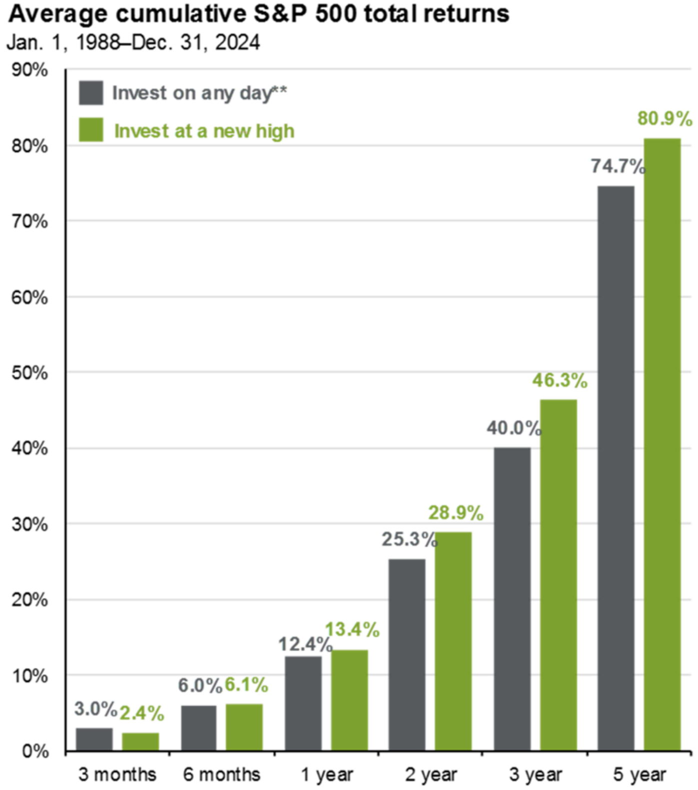
 | Source: JP Morgan Asset Management, OceanFront Investment Counsel Inc.

Investing at All-Time Highs

Investing new funds while markets are at or near all-time highs may seem risky because prices have often moved substantially higher and valuations may be high.

However, historical data shows that such periods have often been followed by strong forward returns. Because markets tend to move in trends, all-time highs have tended to lead to further all-time highs. Investors should note that past performance is not indicative of future results.





Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
(Left) *Market floor is defined as an all-time high from which the market never fell more than 5%.
(Right) **"Invest on any day" represents average of forward returns for the entire time period whereas "Invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-month, 6-month, 1-year, 2-year, 3-year and 5-year intervals, with data starting 1/1/1988 through 12/31/2024.

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