



GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q3-26 Investment Letter (No. 77)

October 28, 2026

OVERVIEW

Dear Clients & Friends,

We are pleased to provide this quarterly report for the period ended September 30, 2026. This report will be divided into three sections: (1) What's New, (2) Market Recap and (3) Commentary.

WHAT'S NEW

2026 REVIEWS

GIM would like to remind you of its obligations to conduct annual "Know Your Client" ("KYC") reviews. Investment reviews are a great way for us to update you on your account and for you to keep us informed about your personal and financial circumstances so we can best serve you. The information we go over in these reviews directly impacts our assessment of your ability and willingness to tolerate investment risk, and therefore, it will impact our investment recommendations for you.

You may receive communication from our admin department shortly to schedule a review with one of our portfolio managers. If you wish to speak with someone or have a change in your circumstances, please do not hesitate to contact our office anytime.

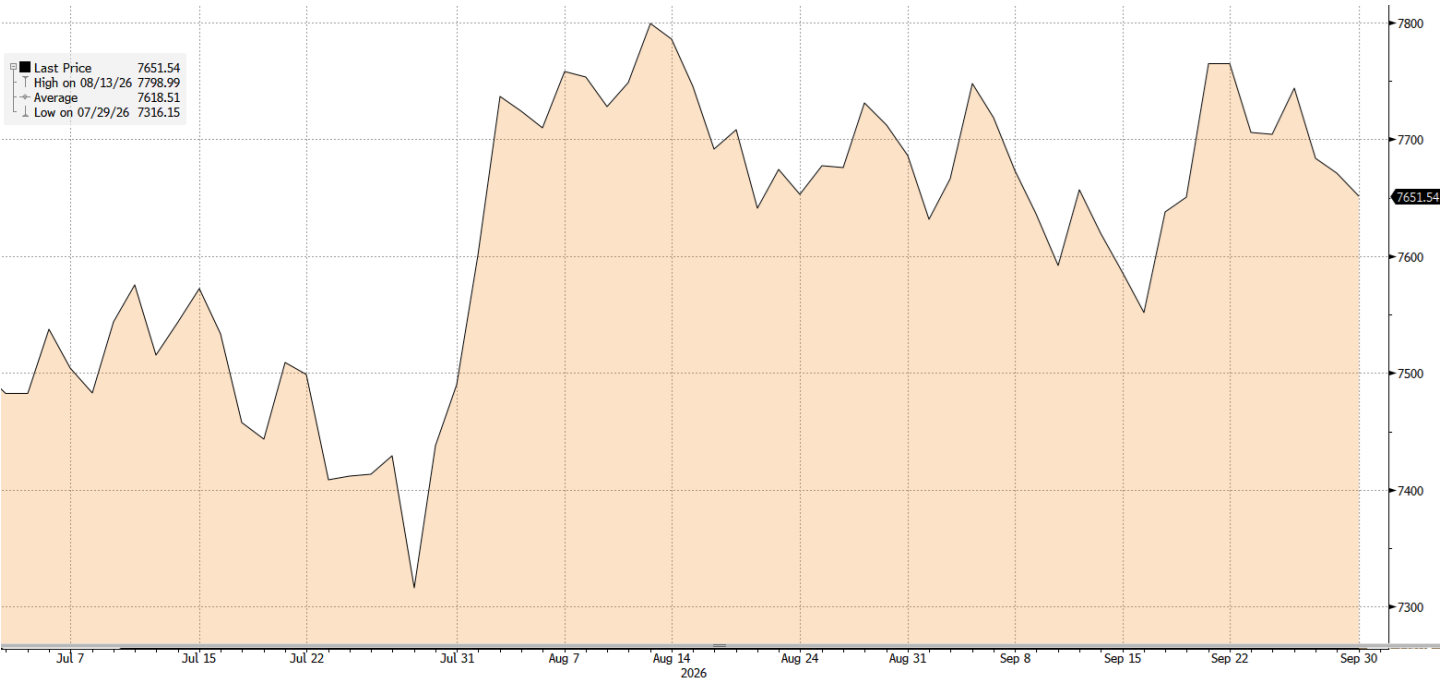
CONTRIBUTION ROOM

You are encouraged to check your contribution room with Canada Revenue Agency prior to making any contributions to RRSPs, TFSAs, RDSPs, RESPs, or FHSAs.

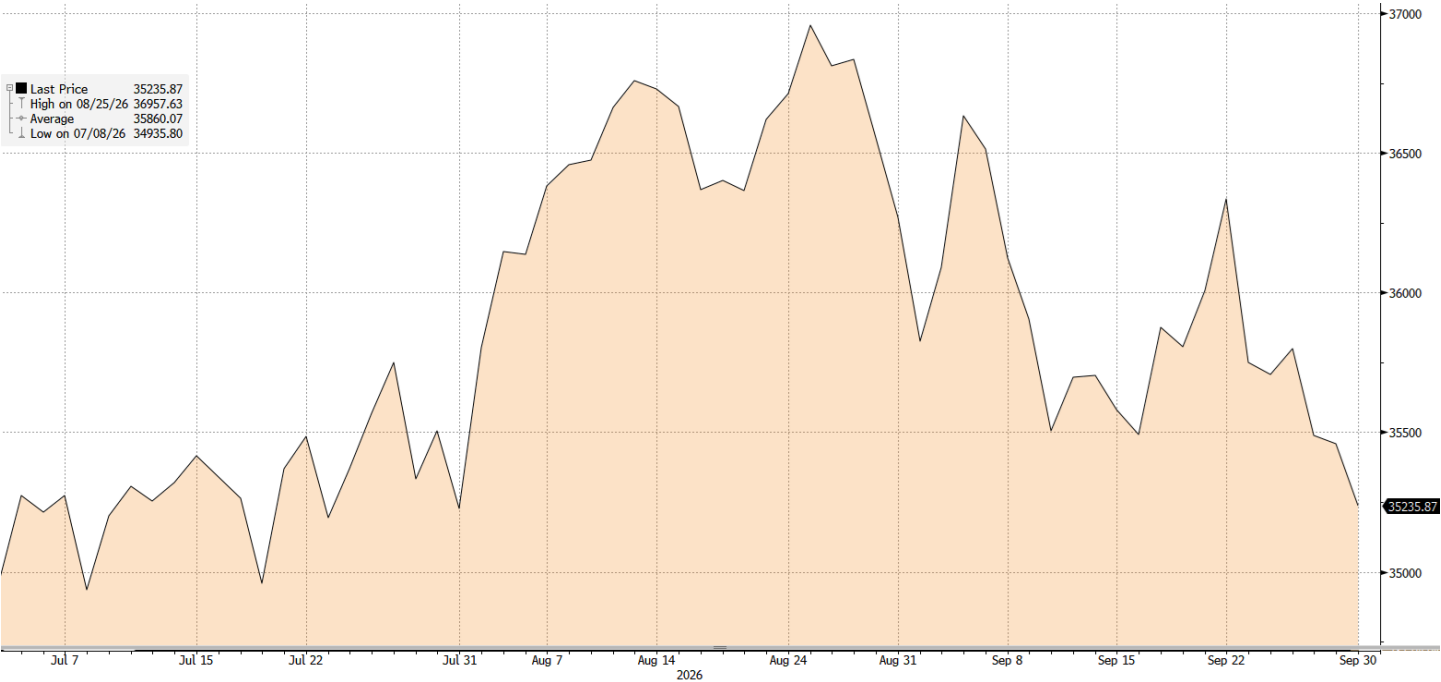
It is very important to note that contribution room takes time to update on the CRA's online portal. We recommend checking room from the past 2 years and checking your activity to ensure that the right room is reflected before any contributions are made. Overcontributions can cause penalties to be charged by CRA.

MARKET RECAP

The S&P 500 Index (in USD) increased by 2.31% in the quarterly period ending September 30, 2026.



The S&P/TSX Composite Index gained 0.75% in the quarterly period ending September 30, 2026.



The Canadian Dollar quoted in USD (CADUSD) fell by 0.28% for the quarterly period ending September 30, 2026.



COMMENTARY

We hope that all our clients and readers of this letter had a great Thanksgiving.

This quarter we will be returning to a topic we cover every 4 years: the U.S. Presidential Cycle. This will set us up for a discussion about Canadian and non-Canadian investments.

Here’s the one-line summary: ignore the noise, because there will always be noise.

Part 1. The Presidential Cycle. Presidents Come and Go...

Since President Trump was elected for a second term in November 2024, we have received constant feedback about his possible effect on the stock markets. Oddly, we have never heard a word about his economic impact on bond markets, which we regard as more important. More on this shortly.

The Presidential Election Cycle Theory applies to the stock market and was first identified in the Stock Trader’s Almanac in 1967. Since that year, the Presidential Election Cycle has continued to work.

This theory claims that the U.S. stock market, as measured by the Dow Jones Industrial Average (DJIA), is positive, but weakest, in the first 2 years of a President’s term. It is strongest in year 3, which we’re about to enter. In the fourth and final year of a President’s term, the stock market also continues to be positive.¹

Chart 1 – Dow Jones Industrial Average from 1896

	Post-election Yr 1	Midterm Yr 2	Pre-election Yr 3	Election Yr 4
DJIA Return	3%	4%	10.2%	6%

www.sofi.com/learn/content/presidential-election-cycle-theory/

Here we offer our *empirical* thoughts on the Presidential Cycle. Note that the Presidential Cycle tends to show a similar pattern regardless of whether the president is a Democrat or a Republican. In our analysis we will be reviewing Trump as the current sitting head of state to give perspective on current market conditions.

¹ <https://www.sofi.com/learn/content/presidential-election-cycle-theory/>

Here's a chart of the S&P500, the main U.S. stock market index, since January 2025. It clearly shows the U.S. market has been strongly positive.

Chart 2 – President Trump’s first 2 years positive for stock market

S&P 500 (^GSPC) ★



Since Trump’s election, we have witnessed a lot of worry that the stock markets will permanently reset to a lower level. The exact opposite has happened: the U.S. stock market has been extremely strong over the past 2 years.

So, what is going on? We can think of a couple of factors.

Item 1 – the U.S. economy is doing very well. The U.S. economy has been extremely strong, and we expect that to continue. By contrast, Canada’s economy is weaker. A strong U.S. economy should still help Canada out, since the vast majority of our trade is with the Americans.

Chart 3 – U.S. economy red hot, Canada’s is weaker

Canada	2025	2026E	2027E	Comments
Real GDP	1.9%	1.0%	1.8%	Economic growth, after inflation
CPI (inflation)	2.1%	2.8%	2.2%	Sept 2026 inflation 3.1% ²
Unemployment rate	6.8%	6.6%	6.2%	Worse than U.S.
10 year Govt Canada bond	3.23%	3.60%	3.80%	Rising trend
USA	2025	2026E	2027E	Comments
Real GDP	2.3%	2.3%	2.3%	Much higher than Canada in 2026 despite higher inflation
CPI (inflation)	2.7%	3.5%	3.0%	Higher than Canada, but economic growth more robust
Unemployment rate	4.3%	4.2%	4.2%	Materially lower than Canada’s
10 year Treasurys yield	4.29%	4.65%	4.95%	Rising trend

Source: BMO Focus, October 16, 2026

² <https://www.cbc.ca/news/business/inflation-september-2026-9.7386437>

We show economic statistics as percentages to give an apples-to-apples comparison between Canada and the U.S. Real GDP is economic growth after inflation (CPI) and BMO's economics team expects it will be 2.3% for the Americans and an anemic 1.0% for Canada in 2026. A difference of 1.3% may not seem like much, but even 1% better performance each year puts a stronger country in a considerably better financial position over the long term.

The better economy in the U.S. makes it much easier for companies that make up the stock market to earn profit, which in turn is reflected in a rising stock market. Canada does over 75% of its trade with the U.S., despite the current tariffs levied by President Trump. So, a strong U.S. economy helps Canada out too, which in turn has been supportive of the Canadian stock market.

Item 2 – The bond market has been supportive of the stock market. This is a second reason for the performance of equities. Chart 3 shows that bond yields are expected to keep rising in 2026 and 2027. This is very bad news for the bond market, as bond prices move inversely with interest rates. As interest rates and bond yields go up, bond markets go down.

When it comes to investing there are 3 general categories of assets: cash (lowest risk), bonds/fixed income/debt (next lowest risk) and equities like the stock market (highest risk). That's what the finance textbooks say. Lately, stocks have generally outperformed bonds significantly.

Take a look at the chart below. This shows the performance of the TSX Capped Composite Index ETF (XIC) versus the Canadian Universe Bond Index (XBB) over the past 5 years. Chart 4 only compares the TSX to the Canadian bond index, but a U.S. chart would show the same pattern.

Chart 4 – TSX (XIC.to) vs Canadian bond index (XBB.to) October 2021 to October 2026

iShares Core S&P/TSX Capped Composite Index ETF (XIC.TO) ★

57.39 -0.37 (-0.64%)

As of 3:47:55 p.m. EDT. Market Open.



Source: Yahoo Finance, October 19, 2026

Difficult bond market

**S&P/TSX Capped
Composite
ETF up +68%
past 5 years**

vs

**Canadian Universe
Bond Index ETF down
-13% over 5 years**

We are taught to never say that the bond market is riskier than the stock market. But, we need to consider if an investor's portfolio can produce returns that can keep up with inflation. Cash (like GICs or term deposits) has a difficult time keeping up with inflation – see Chart 3; Canada's September inflation came in at 3.1% for the month and September gasoline prices are up a whopping 23% year-over-year.² Chart 4 clearly shows the bond market has underperformed over the last 5 years. That can cause more investors to look to the stock market as a place to put investments.

Let's tie everything back to the Presidential Cycle. The first 2 years tended to be the weakest, with the DJIA returning 3% and 4%, respectively. The final 2 years of the presidency tend to be the best, with year 3 stronger than year 4, and the DJIA returning 10% and 6%, respectively.

A few things to note from this theory.¹

- The S&P500 and Nasdaq also reflect the Presidential Cycle. Between 1943 and 2020, in the third year both the DJIA and S&P500 were up 15% on average. Since 1971, the technology-heavy Nasdaq has been up 28.8% on average.
- Stock markets did better when a sitting president was running for re-election. Since 1949, the DJIA was up 10.1% on election years when the incumbent was running for re-election versus 5.3% in all election years.
- The cycle is not perfect. A case in point is President Joe Biden 2021-2025, when the global economy was shaking off the effects of COVID-19. So global events can, and will, override the cycle.
- Some interesting correlations:
 - When the stock market rose between August and October in an election year, the incumbent party retained power 85% of the time since 1936.
 - The stock market is strongest when the incumbent party wins re-election.

In the final chart of this section, we complete Chart 1 and illustrate the stock market's actual performance. The first two years of Trump's second presidency have been very strong, with returns well above average. If this cycle continues, the third year is expected to be the strongest of the four, while the final year is also projected to deliver positive returns. Please note that this analysis reflects historical trends and is not intended as investment advice or a prediction of future stock market performance.

Chart 5 – Presidential Cycle: Expected and Actual Results

	Post-election Yr 1	Midterm Yr 2	Pre-election Yr 3	Election Yr 4	Comments
DJIA Expected	3%	4%	10.2%	6%	Presidential Cycle results
Trump elected	2025 – Yr 1	2026 – Yr 2 YTD	2027 – Yr 3	2028 – Yr 4	Comments
DJIA *	14.8%	10.9%			Year 2 is YTD Oct 21, 2026
S&P500 *	17.9%	14.2%			Actual results Midterm year

* Source: Bloomberg

We understand that while some investors are bullish, other investors have expected the opposite, namely a meltdown of the equity markets. There is a flamboyant and bombastic American President. The media can't stop talking about the U.S. November mid-term elections (1/3 of the U.S. Senate and the entire House of Representatives are elected every 2 years). We have previously written about Canada having problems with deficits, a weaker economy, and even weaker productivity. And as of this writing, our home province of Alberta had a referendum where Albertans decisively voted against a formal separation vote in 2027. So, there is plenty to be concerned about, and we sympathize.

However, the markets have successfully navigated 2 world wars, the Korean War, the Vietnam War, the 1970s oil shocks, the 2008-09 financial crisis and the 2020 COVID-19 crash. We view investing as a long game and recommend concerned clients not watch too much of the news. Bad news sells better, and it can drive you crazy. As your portfolio manager, you can leave the worrying to us.

Part 2. The need for non-Canadian investments

Talk of the Presidential Cycle dovetails nicely into our next topic: the need to diversify into non-Canadian investments.

We have previously discussed how the Canadian economy is lagging the Americans. Imports to Canada from around the world, including food in winter, are priced in U.S. dollars. A weaker economy will, over the long term, result in a falling Canadian dollar against the U.S. dollar, making food and other imports more expensive. The result is a negative feedback loop where our standard of living will worsen over time.

Chart 6 on the following page, from an October 8, 2026 Fraser Institute study, illustrates why one should not park all of one's long-term investments in only one country.³ We referenced this chart before, but it has been updated. Sadly, it reflects the negative feedback of a falling standard of living in our country.

³ <https://www.fraserinstitute.org/studies/squandering-canadian-century-part-2-comparing-econ-performance-cdn-prov-us-states>

Chart 6 – Canada vs America:



Source: www.fraserinstitute.org/studies/

*In CAD\$ indexed to 2017

When Canada's provinces are compared to the U.S. states, the results aren't pretty. 7 of 10 Canadian provinces rank in the bottom 10 in terms of GDP (economic wealth) per person. That even includes Ontario, where most of Canada's manufacturing is concentrated. Alberta and Saskatchewan are the only 2 provinces that rank decently.

When it comes to making a living, all 10 Canadian provinces rank dead last compared to the U.S. states in terms of average (median) income per person.

The Fraser Institute's report is careful not to get into policy reasons for Canada's poor ranking, but it points to a study suggesting that federal government policies regarding the economy, taxation and regulation have contributed.

Conclusion. In 2025, the Canadian S&P/TSX Composite index outperformed the S&P500, delivering a total return of 31.2%, and it's up 16.6% year-to-date to October 21, 2026.

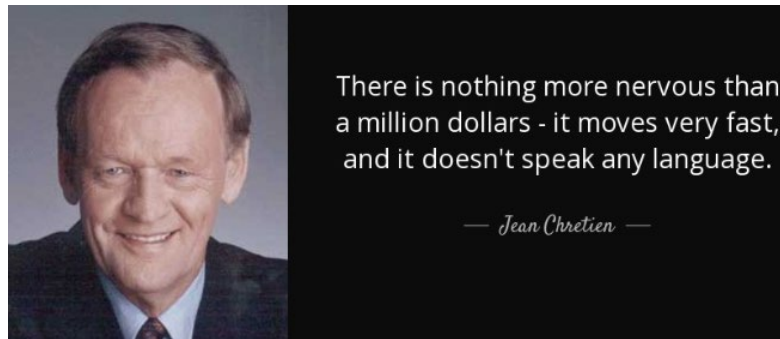
Chart 7 – Canada vs. US stock market

Total Return	2025	2026 YTD Oct 21	Comments
S&P/TSX Composite	31.2%	16.6%	Canada
S&P500	17.9%	14.2%	U.S.A.

Source: Bloomberg

However, we're talking about risk management and how to *mitigate* the risk of a weaker economy on our standard of living. The longer our country stays in a weaker position, the harder it is to get ourselves out. In the short term, the Canadian stock market may do well, but there is a real risk of an economic downward spiral, and that could hit the stock market. We need to think about this risk now, because markets price in future events well before they happen, and by then it's too late for investment accounts.

If what we say sounds unconvincing, we remind readers what former Prime Minister Jean Chrétien famously said about economics and investment money:⁴



Part 3. Summary

The Presidential Cycle is what textbooks call a market anomaly. In other words, just because it has been observed in the past doesn't make it a 100% certainty in the future. Still, it's interesting, and here's our disclaimer: our take on it is based on empirical evidence.

The Presidential Cycle theory makes sense when we think about it. The first 2 years are when a president carries out his campaign promises and he has the "political capital" to spend on unpopular decisions. In the third year the President can coast and benefit from his decisions in the first 2 years, which should positively impact the stock market. In the last year of the presidency the President is considered a "lame duck" but there is still enough momentum for a positive stock market return.

In our last newsletter we showed a chart of Canadian bond yields looking bearish. This time, Chart 8 below shows U.S. 10 year Treasury yields following exactly the same pattern. This chart is courtesy of Tradingview.com and shows bonds have been losing money over the past 5 years, in aggregate. Recall that rising yields mean bond prices go down – so a yield over 5% is bad news as this threshold has been regarded as a psychological barrier for 10 year bond yields. Breaking above 5% is generally seen as a bad omen. Many bond investors consider that if returns do not keep up with inflation, that makes a case for being in the stock market – as equities have been keeping up with inflation in the long-term. However, we still recommend that clients consider their overall risk tolerance for stock market fluctuations, as the markets do not move in a straight line.

Chart 8 – U.S. 10 Year Treasury yields past 5 years



10 year Treasury
yield over 5%, a
bearish
psychological
barrier

Rising bond yield in
past 5 years means
falling bond prices...
ironically making a case
for the stock market

⁴ <https://www.azquotes.com/quote/1105355>

We have had clients question the need for non-Canadian investments. Our clients have homes in Canada and live on Canadian dollars. But there needs to be a way to *mitigate* the risk of a poor Canadian investment market. Diversification is one of the simplest solutions, and the U.S. markets are the largest and most liquid in the world.

Recently, some clients worried there may not be enough in their investments to cover the cost of living. *To be clear, we are not talking about whether accounts have positive returns, the concern is whether the expected retirement income can be stretched to cover living essentials.*

Cost of living or inflation risk is not something to be taken lightly. Just as we were finishing this newsletter on October 21, 2026, a sad statistic was published about food bank usage. Food bank use in Canada is up an eye-popping 117% since 2019, just 7 years ago. There has been an appalling 2.35 million monthly visits this year. Children under 18 make up 32.5% of food bank users, a ghastly 1 in 3. Since 2021, food bank users have reported food prices increasing 30%, housing 28% and transportation costs 24%. Food Banks Canada CEO Kirstin Beardsley said, “[This] is the story of what happens when millions of people are out of options.”⁵

We finish this quarter’s letter with a quote from legendary investor Peter Lynch⁶, who wrote One Up on Wall Street. He wisely said,



Mr. Lynch’s point is that patient, long-term investing mitigates the risk of market volatility and trying to predict market corrections costs more than riding out short-term problems.

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Thank you for entrusting us with your investments. As always, we welcome your questions and comments. You can [contact](#) GIM by telephone: 1.888.436.9955, fax: 1.866.541.7947 or email: invest@gold-im.com

Yours truly,
GOLD INVESTMENT MANAGEMENT LTD.

⁵ <https://financialpost.com/news/economy/food-bank-use-canada-more-than-doubles-2019>

⁶ <https://finance.yahoo.com/news/peter-lynchs-market-observation-far-221013428.html>
https://www.azquotes.com/author/9159-Peter_Lynch

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