ECONOMIC OUTLOOK

Source: Google Images

I'M TOLD MY ASTROLOGICAL SIGN SUGGESTS I LIKE WATER WHICH IS TRUE. I LOVE MY BOAT. However, I'm a fair weather boater which means I read the weather forecast, my marine charts and find the direction of the wind and water currents before heading out. That's just how I work and play.

LOOKING FORWARD TO THE HORIZON may appear calm and obstacle free. Yet as much as I can assess conditions above the surface, what lies below can also represent danger. Especially after storms, marine buoys intended to indicate shallow depths are sometimes blown off course. Hazards may be unmarked on maps. Debris floating below the surface and out of view can cause damage. I had to repair a propellor last year because of a log floating below the surface well out into the lake where there was plenty of depth.

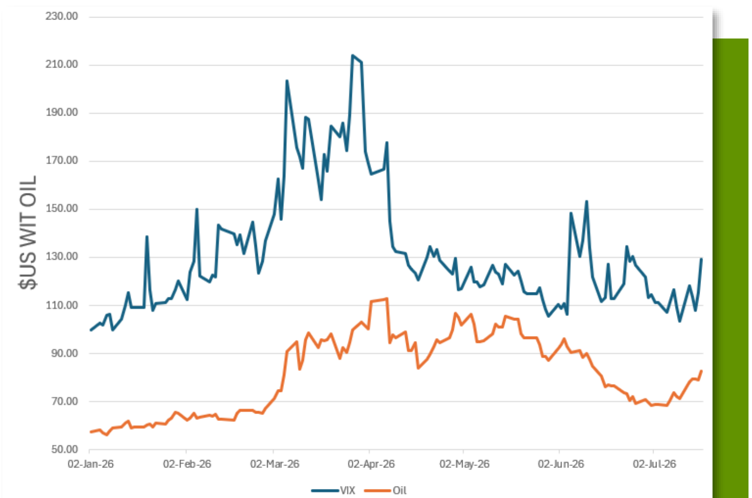
MARKET CONSENSUS ON CURRENT CONDITIONS SUGGESTS FURTHER ROUGH WEATHER IN THE FINANCIAL MARKETS due to a variety of factors we have been monitoring and identifying particularly this year. However, with our fiscal destinations in mind, it is a matter of exercising fair weather management which we continue to apply to achieve positive outcomes despite the obstacles. This means proactively adjusting the portfolio to minimize exposure to market risks both defensively and then positively to benefit from opportunities that emerge from change. Rarely is it possible to profit by second guessing the risks; this is sheer speculation.

IN THE FINANCIAL MARKETS CHANGE IS CONSTANT even negative events and some of the current challenges are reaching critical points in time. Therefore, we should view 2026 as a year that requires hands on attention but which is likely to evolve into a different environment by end of year and into 2027.

CURRENT ISSUES AFFECTING ECONOMIC ACTIVITY:

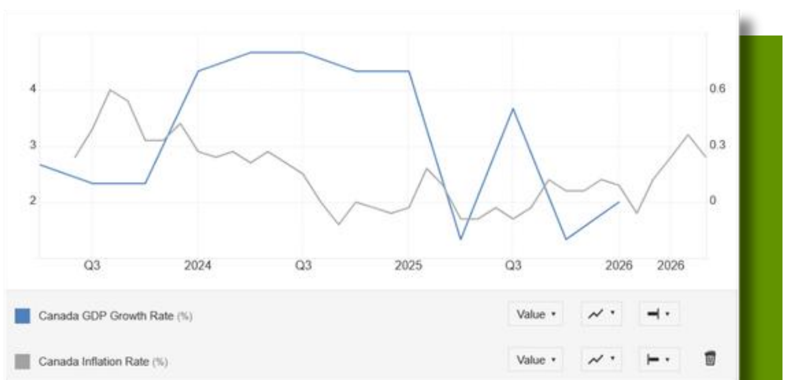
- **Geo-political**
  - The mid-east conflict is still unresolved and continues to affect oil energy prices creating uncertainty across business sectors as well as being a political leverage globally. As a result, producers are having to increase prices to protect against the instability. This is contributing to inflation affecting interest rates and consumer cost of living obstructing GDP growth..

Trend in VIX vs. OIL



Source: Thomson Reuters

GDP vs. Inflation



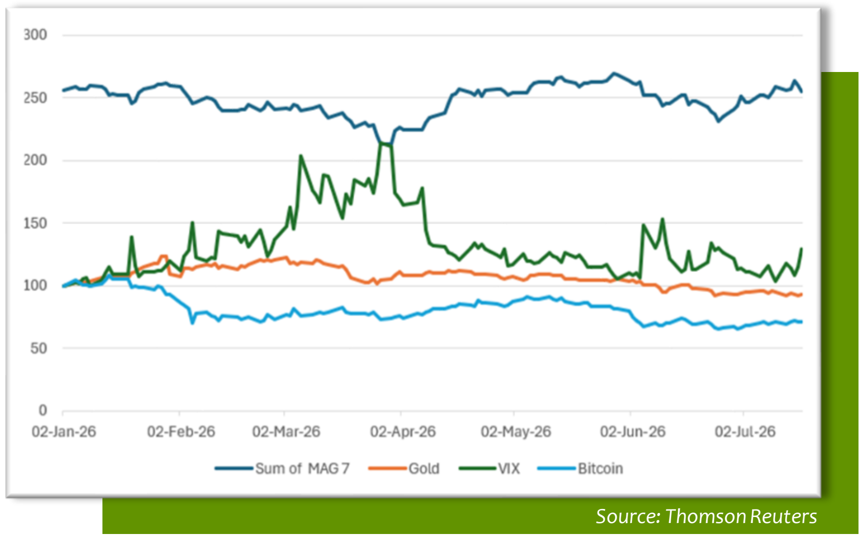
Source: TradingEconomics.com

  - Trade tariffs being imposed unilaterally by the U.S. have impacted business operating margins and are contributing to inflation further stalling growth. While some have already been ruled illegal the U.S. administration continues to attempt to apply and justify specific tariffs further fueling business and consumer uncertainty.

  - Upcoming U.S. mid term elections in November could upset the current administration's control of both houses of government. This could contribute to policy uncertainty and consequent market confidence. This has global implications as the U.S. dollar remains the global currency of commerce.

- **Market Momentum**
  - Following the market momentum in 2025, capital gain oriented investors continued to bid up market prices in the first half of 2026 in an attempt to maintain market momentum and above average returns in the more speculative sectors despite indications that the general global economy has slowed. This has included the tech sector, crypto currencies and commodities such as gold. However, investors have now become concerned, given a recognition of constrained growth, that the possibility of a slower pace of earnings and revenue growth for companies in these sectors could result in weakening market valuations "Oil prices jump, while the Dow drops more than 1,100 as sinking AI stocks drag Wall Street lower", BNN Bloomberg, July 29, 2026.

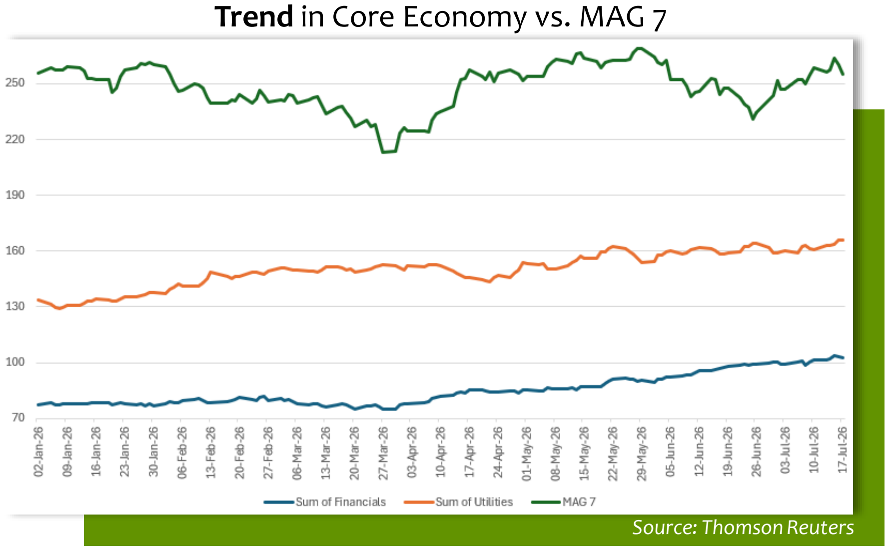
Trend in MAG7 vs. Gold vs. Bitcoin vs. VIX



Note: Trend in MAG 7 = Average prices for Google, Apple, NVIDIA, Microsoft, Amazon, Meta, and Tesla

  - An example of this situation is an emerging consensus that as that investment in artificial intelligence is now nearing $US 2 trillion (The Economist July 28, 2026) there has been no significant contribution to GDP or employment from this capital investment.
  - An emerging dichotomy has emerged between the speculative sectors and the core economy which continues to provide the critical economic services and employment, ie. keeping the lights on, the trucks rolling, health care, safe banking systems, etc. In contrast to the weakening speculative sectors, market holdings in the core economy have continued to demonstrate moderate but consistent growth and lower reliability. This compares with much longer term and undetermined outcomes such as with space travel or artificial intelligence.
  - While investment in tech has outpaced itself at this time it is possible that some of the current major participants could eventually pull ahead and become mainstream to justify higher valuations as commonly occurs in situations of intense market competition.

Trend in Core Economy vs. MAG 7



EMPLOYING FINANCIAL FAIR WEATHER PRACTICES

WITH CURRENT CONDITIONS LIKELY TO PERSIST INTO THE END OF 2026 a variety of portfolio practices are being exercised concurrently to mitigate market risks to the extent possible:

- The active use of cash reserves which are accrued to offset market value weakness and then redeployed as change occurs and new market opportunities emerge.
- The use of interest and dividend generation when market capital appreciation is weak to provide alternative returns to supplement capital growth as it returns.
- The inclusion of core economy sectors to provide effective diversification against the range of market risk. Some examples are financials, utilities, healthcare, basic consumer needs, infrastructure.
- Predetermining suitable holdings to be eventually acquired as recovering market cycles provide new entry price opportunities.
- Avoiding speculative momentum driven activities with attention to major participants only as they emerge.
- Regularly monitor portfolio objectives against market conditions and opportunities to ensure the chief investment mandate continues to be met.

Source: Jeffrey Eisen on Unsplash

Regards,

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