Global Asset Allocation Perspectives

Q4 OUTLOOK

Scotia Global Asset Management®

Market recap

The third quarter again showed that markets and headlines do not always move together. Canada-U.S. trade tensions, conflict in the Middle East, changing energy prices and volatile bond yields remained prominent, yet global equities advanced as economic activity and corporate earnings stayed resilient. Equities benefited from earnings growth and continued investment in artificial intelligence, while longer-duration bonds struggled as government borrowing, heavy corporate issuance and inflation uncertainty pushed yields higher.

Equities

- **U.S. equities regained the lead by quarter-end.** The S&P 500 returned 2.4% in Canadian-dollar terms during the quarter and 16.8% year to date. Energy has been the strongest-performing U.S. sector year to date, underscoring that market leadership has broadened beyond technology. Technology remained important, but broader earnings support and capital investment were more important than a simple continuation of narrow index leadership.
- **Canada remained resilient, but performance was uneven.** The S&P/TSX Composite rose 1.6% in the quarter and 13.0% year to date. Commodity-linked businesses continued to provide support while telecoms dragged down performance. The technology sector performed well but remained more exposed to software and e-commerce concerns than the U.S. market.
- **Emerging markets retained the strongest year-to-date result.** The MSCI Emerging Markets Index was broadly flat during the quarter, declining 0.3%, but remained the strongest major region year to date with a 27.8% gain in Canadian dollars. Korea and Taiwan continued to benefit from semiconductor and memory demand linked to AI investment.
- **International results diverged. Japan gained 6.2% during the quarter, while Europe declined 1.5%.** The difference reinforced the value of maintaining geographic diversification rather than relying on one region to lead consistently.

Fixed income

- **Canadian bonds faced a difficult quarter.** The FTSE Canada Universe Bond Index declined 3.0% over three months and 0.8% year to date. Long-term bonds fell 6.3% over three months, while short-term bonds declined 0.9%.
- **Starting yields improved.** The FTSE Canada Universe Bond Index ended September with an average yield of 4.17%, compared with 3.57% at the end of June. Higher starting income may help offset some future rate volatility and improve the prospective return profile of high-quality bonds.
- **Credit was more resilient than duration.** The ICE BofA Canada High Yield Index was approximately flat over three months and gained 2.2% year to date. Higher income and lower rate sensitivity helped offset the effect of rising yields.
- **The yield curve steepened.** Long-term yields rose more than short-term yields as investors focused on fiscal deficits, greater bond supply, geopolitical risks and uncertainty around inflation. Bond volatility was therefore not solely about the next central-bank decision.
- **Monetary policy moved back into focus.** The Federal Reserve raised rates by 25 basis points in September, while the Bank of Canada held its policy rate at 2.25%. With inflation still elevated and long-term yields rising, markets have increasingly had to account for the possibility of additional tightening rather than the easing path investors had previously expected.

Alternatives

- **Private equity:** Private equity is now operating with more disciplined pricing and a gradual reopening of exit markets, creating more attractive conditions for multi-year deployment than at the 2021–2022 cyclical peak. We continue to see selective opportunities in areas such as healthcare and technology—including mission-critical software built on proprietary data—where innovation, operational improvement, and accretive M&A drive value beyond simple multiple expansion. Our focus is on backing high-quality sponsors in secondaries, co-investments, and direct control deals, targeting durable cash flows, clear competitive moats, and conservative leverage, while selectively using specialist GPs to access high-growth, early-stage disruptive businesses. Normalizing valuations and gradually improving exit dynamics may provide a more supportive backdrop for private equity returns over time, alongside potential AI-driven efficiency and revenue opportunities.
- **Private credit:** Private credit can offer a meaningful yield premium and, in certain transactions, stronger lender protections than comparable public credit, while the floating-rate nature of the coupon payments is proving helpful with interest rates generally on the rise. Uncertainty in software and pockets of stress pushed credit spreads modestly wider in Q1 2026, but these market concerns have since abated. Defaults remain contained overall, supported by solid earnings and improving borrower profiles in terms of leverage and interest coverage. Well-positioned managers continue to lean on tight documentation, senior security, and conservative structures to manage risk through the cycle. In this context, private credit is expected to remain an important building block in portfolio construction, with the potential to provide resilient income and diversification.
- **Real assets:** Infrastructure remains a key growth engine, underpinned by the energy transition, digitization, and modernization of transportation and logistics networks, with capital concentrating in renewables, grid and storage, digital infrastructure, and essential services as AI further boosts demand for data centres and reliable power. Real estate is showing early signs of recovery in several markets, as valuations and activity appear to have troughed in the second half of 2025. The office sector remains bifurcated, but a pronounced flight to quality is evident: well-located, amenity-rich office assets continue to outperform lower-quality office properties, supported by stronger leasing demand and occupier preference for higher-quality space. Logistics, rental housing (in certain markets), and data-center-linked assets show healthy fundamentals and improving rent growth, creating potentially more favourable long-term opportunities in real assets.

Market outlook

The outlook remains constructive, but the balance of opportunity and risk is more nuanced. Economic growth and corporate earnings continue to support equities, and the AI investment cycle remains a meaningful source of activity across technology, energy and infrastructure. At the same time, rising government borrowing, large corporate financing needs and persistent inflation risks may keep long-term yields elevated and markets more sensitive to disappointing data.

Portfolio view

- **Maintain a modest equity overweight.** Resilient growth, earnings and continued capital investment support measured risk-taking.
- **Retain the U.S. overweight with protection.** Resilient earnings and continued capital investment support maintaining above-benchmark exposure to U.S. equities. At the same time, elevated valuations, concentrated market leadership and sensitivity to inflation and interest-rate surprises increase the risk of a pullback. To help manage this risk, the Multi-Asset Management Team initiated a protective-put strategy in September. The strategy is intended to retain market participation while providing a degree of downside protection if volatility rises.
- **Keep broad regional diversification.** Canada, Japan and emerging Asia have each contributed, but leadership has rotated.
- **Use fixed income selectively.** Higher starting yields improve medium-term return potential, while long-duration assets remain vulnerable to issuance and inflation surprises.
- **Stay selective in credit.** Corporate fundamentals remain supportive, but heavy technology issuance increases the value of active research.
- **Preserve flexibility.** Strategic allocation, tactical positioning and security selection provide complementary portfolio levers.

Risks and opportunities

- **Trade uncertainty:** The direct macro effect may be limited, but affected industries and confidence remain important.
- **Inflation and central banks:** Energy, tariffs and persistent inflation can keep policy restrictive.
- **Bond supply:** Sovereign and corporate financing needs may keep term premiums elevated.
- **AI investment and financing:** Debt-funded spending makes cash flow, funding costs and return on invested capital increasingly important.
- **Market broadening:** International and emerging-market leadership creates opportunities beyond U.S. mega-cap technology.
- **Bond income:** Higher yields improve expected returns and may restore diversification benefits if growth slows.
- **Geopolitics and energy:** Further escalation may lift inflation and yields; de-escalation could ease both pressures.

"The quarter was a useful reminder that uncertainty does not remove opportunity. Earnings remained resilient, market leadership broadened and bond yields became more attractive, but the range of possible outcomes also widened. That is why diversification, valuation discipline and active risk management matter."

- Craig Maddock, VP & Senior Portfolio Manager, Head of Multi-Asset Management

Q4 outlook and positioning

Fixed Income	Positioning	Comments
Overall	−	Higher yields are improving the appeal of bonds but we still favour equities.
Rates		
Canada and U.S.	○	Energy-driven inflation is keeping the BoC and Fed hawkish as markets await a better entry point.
Global	+	UK Gilt yields look elevated relative to fundamentals, offering room for yields to decline.
Credit		
Investment Grade	++	Attractive yield pickup is supported by a favourable macro backdrop.
High Yield	○	Tight spreads leave limited cushion, particularly in lower-quality credit.
Equities	**Positioning**	**Comments**
Overall	++	Resilient growth is supporting sustained corporate earnings momentum.
Region		
Canada	○	Higher oil and gold prices are supporting Canadian equities, with commodity exposure creating both upside and reversal risk.
U.S.	++	Strongest earnings growth, but AI concentration poses risks. Using puts to provide downside protection.
International	+	Corporate reforms are enhancing the appeal of Japanese equities.
Emerging Markets	+	Strong tech earnings help offset the drag from higher energy prices.

Legend: ++ Overweight + Neutral-overweight ○ Neutral − Neutral-underweight −− Underweight

Market performance

Fixed Income						
Bonds	**3-mth**	**6-mth**	**YTD**	**1-yr**	**3-yr CAGR**	**5-yr CAGR**
FTSE Canada Universe Bond C$	-2.96%	-1.01%	-0.78%	-1.10%	4.75%	0.30%
FTSE Canada All Corporate C$	-2.14%	-0.10%	0.05%	0.38%	6.37%	2.00%
ICE BofA Canada High Yield Index C$	-0.04%	2.02%	2.20%	3.35%	8.50%	4.34%
ICE BofA U.S. Corporate U$	-3.75%	-2.37%	-2.79%	-2.04%	5.13%	-0.23%
ICE BofA U.S. High Yield U$	-1.81%	0.60%	0.04%	1.39%	7.94%	3.56%
Bloomberg U.S. Aggregate Bond U$	-3.51%	-2.87%	-2.91%	-1.84%	4.06%	-0.64%
Bloomberg Global Aggregate U$	-2.46%	-1.61%	-2.67%	-2.43%	3.82%	-1.86%
Equities						
Canadian Equities	**3-mth**	**6-mth**	**YTD**	**1-yr**	**3-yr CAGR**	**5-yr CAGR**
S&P/TSX Composite C$	1.62%	8.69%	12.97%	20.03%	25.07%	15.18%
U.S. Equities						
S&P 500 C$	2.38%	19.90%	16.78%	18.10%	24.91%	16.41%
Dow Jones Industrial Avg C$	-2.27%	12.64%	11.02%	13.77%	18.93%	13.13%
Nasdaq C$	2.54%	26.57%	19.70%	20.95%	28.74%	15.81%
Global Equities						
MSCI World C$	1.95%	17.90%	15.75%	17.59%	23.40%	14.47%
MSCI EM Asia C$	-1.02%	30.99%	31.34%	35.26%	28.09%	12.09%
MSCI Japan C$	6.17%	23.31%	27.44%	29.63%	23.86%	12.72%
MSCI Europe C$	-1.91%	8.93%	7.43%	11.89%	16.41%	9.13%
MSCI Emerging Markets C$	-0.30%	25.73%	27.79%	31.85%	26.13%	11.45%

Sources: Bloomberg, Morningstar. All returns as at September 30, 2026.

Multi-Asset Management Team

Craig Maddock
VP & Sr. Portfolio Manager
Head of Multi-Asset Management

Adam Bomers
VP & Portfolio Manager

Yuko Girard
VP & Portfolio Manager

Jenny Wang
Portfolio Manager

Wesley Blight
VP & Portfolio Manager

Ian Taylor
VP & Portfolio Manager

Mark Fairbairn
VP & Portfolio Manager

Richard Schmidt
Portfolio Manager

In collaboration with:
5 Associate Portfolio Managers | 5 Analysts
1 Trader | 2 Portfolio Specialists

As Portfolio Managers for ScotiaFunds and Dynamic Funds managed-asset programs, the Multi-Asset Management Team oversees over **$169 billion*** in multi-asset solutions. The Team is responsible for portfolio construction, asset allocation policy, and investment strategy research and selection. The Team is also involved in the due diligence and day-to-day management of all portfolio solutions.

*As at September 30, 2026

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are notguaranteed or insured by the Canada Deposit Insurance Corporation or any other government deposit insurer, their values change frequently and past performance may not be repeated.

The information provided in this document is not intended to be investment advice. Investors should consult their own professional advisor for specific investment and/or tax advice tailored to their needs when planning to implement an investment strategy to ensure that individual circumstances are considered properly and action is taken based on the latest available information. Information contained in this document, including information relating to interest rates, market conditions, portfolio positioning and other factors, are subject to change without notice. Scotia Global Asset Management is not responsible for updating the information and views expressed. To the extent this document contains information or data obtained from third party sources, it is believed to be accurate and reliable as of the date of publication, but Scotia Global Asset Management does not guarantee its accuracy or reliability. Indices are not managed, and it is not possible to invest directly in an index.

ScotiaFunds® and Dynamic funds® are managed by Scotia Global Asset Management, a limited partnership the general partner of which is wholly owned by The Bank of Nova Scotia. ScotiaFunds and Dynamic funds are available through Scotia Securities Inc. and from other dealers and advisors. Scotia Securities Inc. is wholly owned by The Bank of Nova Scotia and is a member of the Canadian Investment Regulatory Organization. Scotiabank® includes The Bank of Nova Scotia and its subsidiaries and affiliates, including 1832 Asset Management L.P. and Scotia Securities Inc. Scotia Global Asset Management® is a business name used by 1832 Asset Management L.P., a limited partnership, the general partner of which is wholly owned by Scotiabank. ® Registered trademarks of The Bank of Nova Scotia, used under license. © Copyright 2026 The Bank of Nova Scotia. All rights reserved.

PS00080 2026 Q4_SGAM_GlobalAssetAlloc__EN_V3