

Manager's Commentary

Greg Taylor, CFA

Market Insights

It can become somewhat unsettling when it seems everything is working. We normally live in a world of mean reversion and while winning streaks can be fun, they often are followed by a rough patch. That has to be what many investors are feeling these days. Since the 'Liberation Day' selloff in April, the worst thing to do was hold cash, as most equity indices have rallied by over 35% and are now sitting at or near all-time highs.

This isn't what most would expect if you were just focusing on the headlines. Tariff and trade disputes remain unsettled and are continuing to cause uncertainty. Geo-politics is a mess with active wars around the world and tensions increasing in Asia. The housing market has ground to a halt and stress around the economy seems to be increasing. Yet markets are shrugging off these concerns and climbing the proverbial 'wall of worry'.

At long last the US Federal Open Market Committee (FOMC) joined the rate cutting party with their first rate cut since last December. Since President Trump was elected, he has been very vocal in his request to see interest rates lowered. But the conditions typically required for rate cuts haven't been there and cuts were put on hold until this past month. Signs of weakness in the labour market over the summer, and an admission that we may need to get used to higher inflation, allowed Fed Chair Powell to concede and reduce rates by 25bps, with a signal of more to come. A result cheered on by the market.

Investors have been trained that lower yields are positive for stock prices. And while this rate cut appears much more political than economic, the result was the same, as buyers continued to pour cash into equities.

But how long can this winning streak last? By many measures equity valuations are looking expensive, particularly in the favoured mega cap technology winners. Bullish sentiment is becoming stretched, and investor complacency is high. You could argue many parts of the market are now priced for perfection. That is a dangerous prospect as perfection is seldom long-lasting.

One way to potentially immunize some of this risk is to focus on individual names and to avoid the broader market. It is quickly becoming a stock pickers market. With an increase in M&A and corporate activity we may see a rotation towards the laggards begin to occur, with small caps looking particularly interesting.

Then there is gold. The original safe haven asset is having its best year in decades, gaining nearly 50% YTD. This is not something you would expect to see when risk assets are rallying. Maybe it is telling us that all may not be as good as it seems. The US\$ is off by 10% on the year and those saying that it is at risk of losing its reserve status are no longer laughed out of the room. US debt levels remain historically high and we believe the 'Big Beautiful Bill' isn't going to help.

So where does this leave us? For a year in which many were not looking for strong returns, markets have dramatically exceeded expectations. How long can we keep looking over the valley and

ignoring the red flags? That's the billion-dollar question. The good news is many corporations have been able to grow earnings and we have entered a rate-cutting cycle. But are things getting too easy? After a run like we have recently experienced, the mean reversion could be harsh and come out of nowhere. The fourth quarter is historically the strongest for markets, but in a year in which seasonality hasn't worked out, will it this time? Or maybe it is time to take some profits and look for better opportunities.

Fund Update

The Pender Alternative Select Equity Fund increased by 9.6% for the month, bringing the Fund to 30.3%¹ for the year. We have had a positive view on commodities throughout the year and were rewarded with that this month.

Gold is having one of its best years ever, finishing the month at an all-time high of over \$3,800 /oz and is higher by nearly 50% on the year. We started the year focused on the senior gold producers but through the summer rotated towards the mid tier producers, silver and exploration companies. We have focused on those operating in North America, and for the month saw gains in names such as **Americans Gold and Silver (USA)**, **Snowline Gold (SGD)** and **Sitka Gold (SIG)**.

We are now looking to rotate toward the copper names. The potential merger between Teck and Anglo American highlights the scarcity of world class copper assets. Add to that production problems at many mines and the price outlook for the commodity looks encouraging. **HudBay Minerals (HBM)** and **Lundin (LUN)** have been focus names but recently we have been adding to **Foran Mining (FOM)**.

Uranium has also been a focus for the Fund as it is increasingly being realized that power demand will keep increasing in concert with AI usage. **NexGen Energy (NXE)** remains our largest position and looks in favourable position post its recent financing.

Overall the Fund continues to take profits in technology and financials, this is seasonally the most favourable period of the year for markets but you never know when volatility will hit. We continue to add hedges to the overall portfolio and pair trades within the commodity group to protect against any downside surprises.

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¹ All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes.