Royds Report

October 2026

The last newsletter was so long, that we'll keep this one short. We'll just give a little market update, a refresher about how to handle bumpy markets and give some information about how mid-term elections historically affect markets.

What a confusing ride we were on last quarter. Tech was in favour and soaring, and then it fell, and then it soared again to record highs. But even as tech stock prices were getting higher, the stocks were getting cheaper, in terms of price/earnings, because earnings were growing faster than the stock prices. Even when the S&P 500 index was falling, there were more stocks in the index increasing in price than there were falling. Because the heavyweight tech stocks were falling so hard, it masked the increase in price of so many more non-tech stocks. Sometimes the value style was in favour, sometimes growth and only occasionally quality (companies with strong balance sheets and return on invested capital, with solid business models to stay competitive).

To add to the confusion, there was fear about interest rates and tariffs. Lazard Asset Management (Lazard was founded in 1848 and manages close to $300 Billion worldwide) published a report on October 7 that said, "rising debt levels, political uncertainty, and increased defence spending fuel investor concerns over fiscal sustainability. The report warns that these pressures are challenging the perceived safety of developed-market government bonds, with investors increasingly questioning their role as safe-haven assets." And we just saw the US Federal Reserve raise its overnight lending rate (which usually results in commensurate bank lending rates) by .25%, which is the first increase since 2023 and is not expected to be the only one this year. When interest rates go up, the price for existing bonds goes down. So, for people worried about the stock market, the usual alternative, or at least ballast to stabilize a portfolio, namely bonds, don't seem so safe right now. And, depending on your tax rate and time horizon, GICs are often not earning enough after tax to keep up with inflation. Source: Temple, Ronald (2026, Oct 7). Behind the Headlines, Caldwell Investment Management Ltd.

In the face of all this, the majority of clients we spoke to over the last few months were surprised to learn that their portfolios were up nicely year to date. They expected losses. Things are actually looking fairly rosy for the foreseeable future. (Of course, we know from experience that wars or other surprises can change expectations rapidly.) At the beginning of the year, profit growth was expected to grow 15% over last year – nothing to sneeze at. Now the expectation is 30-35% growth. Since stock prices eventually follow earnings, this looks super positive for markets. Source: Bilello, Charlie (2026, Sep 21). The Week in Charts, Bilello Blog.

Many of you will have seen notes on your recent Portfolio Reviews from us, that there are specific funds not performing as expected or not being managed as promised, that we want to reposition to other funds. Those changes have nothing to do with the state of the market. So, what does all this market turbulence that we've just described above mean for adjusting your portfolios? Probably nothing. It's all interesting (at least to us) and hopefully we've explained it enough for you to understand why the market hasn't seemed to make sense recently. But interest rate changes, inflation, tech moving in and out of favour etc don't change the fact that, if you have a long time horizon, funds containing a diversified basket of stocks of quality companies which are growing, but are available at reasonable prices, are our favoured places to get strong long-term growth with tolerable volatility. We ignore short-term noise and market trends which tend to reverse frequently, and we don't try to time the markets, except to buy into the market as much as possible whenever the market crashes and stocks are trading below what their projected future earnings indicate they should be worth depending on an individuals overall circumstances. We don't know when we're near the top of a market, but we certainly do know with certainty when the market is substantially down from a previous high. We find it pays off to shop these sales, and encourage you to call us, if you have cash to put to work, when all you are hearing is doom, gloom and fear about the stock market.

We appreciate that our clients virtually never call us in a panic, wanting to cash out when markets are down, because you understand that markets go up and down, but in the long-term, markets have always recovered and gone on to new highs. The trick to go along with the market is a) to hold quality investments, and b) to stay invested. Selling after a crash usually just locks in losses. As much as people plan to get back into the market to catch the recovery, once people are out of the market, they often don't get buy back in till the worries have subsided. There's a saying that markets climb a wall of worry. This is so true. Markets creep back up while most people are still too scared to buy back in. Investors who didn't sell don't have to worry. Their portfolio will automatically enjoy riding the market back up. However, while we like having our phone be quiet, while some of our peers are telling us how busy they are trying to keep their clients from jumping off the ledge (metaphorically), we do encourage you to call us, if you are nervous about your investments or the market. So often people call us for a non-sensationalized market update, or just for reassurance, that what they hold is quality, and the companies in their funds aren't going bankrupt. A quick call can save a lot of worry, and we are totally available for that.

On a worry-prevention note, and to help manage the effects of market volatility, make sure that when markets are high, like they are today, that you top up your emergency reserve or the funds from which you'll take your next 5 years of income. Short or medium term money should not be 100% in the market without hedging or other alternative strategies to safeguard against a downturn. Those monies should be concentrated in low or low to medium volatility funds, so that they won't drop as much as the market, whenever the next inevitable crash comes. Then the money will still pretty much be there through thick and

thin for when you need it. If you haven't replenished funds, but have been withdrawing, give us a call to make sure that your income stream and/or emergency reserve are adequately preserved. The time to worry about money for those purposes is now, while markets are strong.

People are asking a lot of questions about how the market will react with the upcoming mid-term elections in the US. Let's look at what impact mid-terms have had historically. **The strongest year for US markets in terms of the US presidential cycle is typically the third year of a presidency**, which is right after mid-terms. We are fast approaching the third year of a US presidency now. And **100% of the time since 1950, markets have been up in the 12 months following a mid-term election**. It's not that the economic policies are always better after the mid-terms. It's that the stock market tends to react negatively to uncertainty. There is usually a lot of uncertainty before mid-term, and regardless of the outcome, the uncertainty is resolved once the elections are over. So, the market is calmer and it can get back to focusing on corporate earnings and things which truly impact stock valuations. Sources: Jackson, Jordan (2026, Oct 7). How do markets perform post-midterms?, JP Morgan., Bogdanova, Kelly (2024, Mar 6). Key things to know about U.S. elections, RBC Wealth Management.

Enjoy our late autumn colours stay in touch.

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