

INVESTOR STRATEGY

A Year of News in One Month

Authored by



Craig Basinger
Chief Market Strategist



Derek Benedet
Portfolio Manager

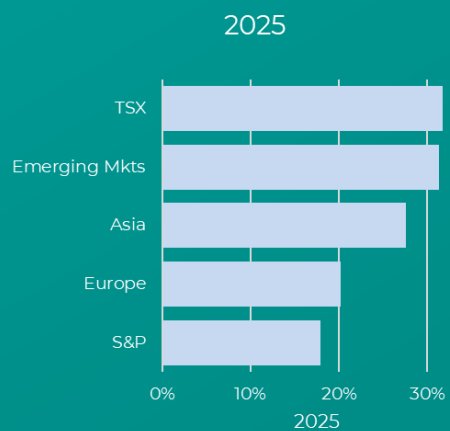


Brett Gustafson
Portfolio analyst

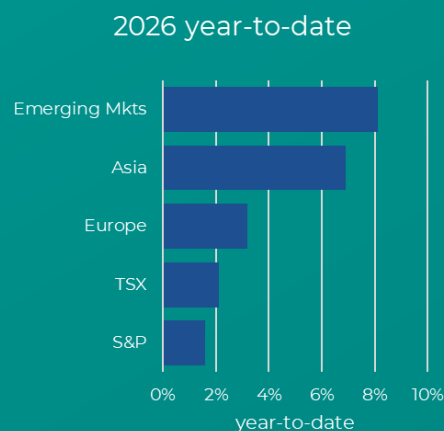
Sometimes when it rains, it pours. This past January was a rainstorm of headline-grabbing events. Here are some of the highlights: a globally inspiring and courageous DAVOS speech by our PM, Iran protests and violent government crackdown, increased US tariff threats towards many from Europe to Canada, a reverse ICE operation in Venezuela (moving a Venezuelan national from their country to America), nationwide protests against ICE action across the US, brief carry trade scare due to rising yields in Japan, naming of a new Fed Chairman, a terrible winter storm and the Patriots are heading back to the Superbowl. It is rather numbing.

Meanwhile, global equities are up

3% with significant divergence. The S&P is up 2%, Europe up 3%, TSX up 4%, Asia up 7%, and Emerging Markets up 8% [as of the morning of Jan 30]. Clearly, this somewhat fearless market does not seem bothered in the last few days by headline news. That will likely change soon, but in the meantime, enjoy a very confident market. January is often a peculiar month for markets, from a performance perspective. There are often large systematic inflows following the calendar year-end, which is a positive. Redeploying tax loss harvesting proceeds back into the market, often helping a rally in lower quality names. Large portfolio rebalancing also occurs.



Source: Bloomberg, Purpose Investments



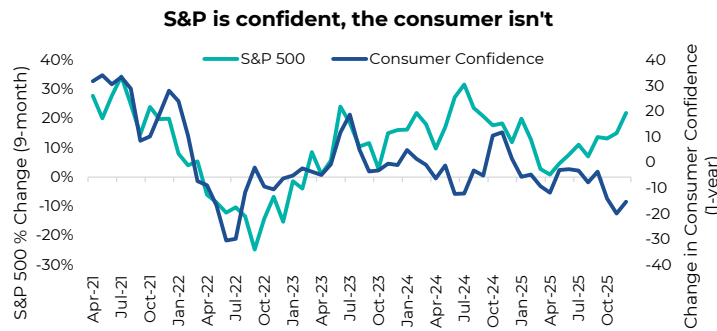
Source: Bloomberg, Purpose Investments (11am Jan 30)

The K Is Getting Wider

The U.S. economy, in aggregate, is doing pretty well. Once the delayed Q4 data is reported, their economy will likely have grown a bit over 2% in real terms for 2025. Forecasts for 2026 have been trending higher to 2.6%. Sure, job growth has slowed to a crawl and housing activity remains dormant. But corporate investment in AI infrastructure, improving PMI manufacturing surveys and a positive fiscal impulse from the big pretty bill all help temper those concerns. Add it up, and you have an economy that is growing with barely a whisper of recession risk.

We highlighted the term ‘in aggregate’ because one of the building imbalances is this K-shaped

economy. The K term denotes how part of the economy, namely corporations, better off consumers and asset owners, are doing very well. That is the upper arm of the K. But the lower arm is not doing well. This is comprised of lower-income consumers, those who don't own assets or feel the wealth effect of an S&P hitting all-time highs. The lower arm of the K also feels the impact of inflation harder, as the cost of living is rising faster than wages. This disparity helps explain why the S&P 500 is making new highs while consumer confidence is going in the other direction. Historically, changes in the market correlate strongly with consumer confidence (+0.5 over the past 25 years). But with the K widening, this is not the case, given that confidence is an equal voting survey, not weighted by wealth. .

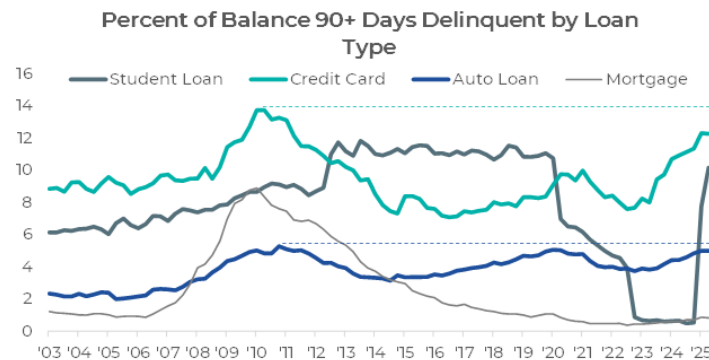


Source: Bloomberg, Purpose Investments

This may not be a big issue today. For starters, the U.S. economy, and most economies for that matter, have always been somewhat K-shaped. That isn't new, but it appears to have become a wider K. The risk is that the lower-income cohort of consumer spending weakens enough to drag down the aggregate. This has not occurred yet, looking at consumer spending. But cracks are increasingly showing up.

Total outstanding credit card debt has remained

flat for two years now. That may sound encouraging, but not adding to credit debt is a sign of weakness for a consumer, especially the U.S. consumer. Aggregate payrolls, which measure total employment times wages, have softened slightly. In normal economic times, this grows at about 5%, but has dipped down to 4.2% over the past few months. This tends to soften heading into recessions. Perhaps the most concerning for the lower-income consumer is delinquency.



Source: Fed, Purpose Investments

It is ok to ignore student loans, as policy has flipped-flopped on this one. But credit card balances over 90 days delinquent are nearing levels not seen since the financial crisis. Auto loans, too. Clearly, the lower-end consumer is having trouble making ends meet. There are some positives as we head into 2026. The Big Beautiful Bill does have a number of provisions for lower-income consumers. And gasoline prices have dipped below \$3/gallon for the first time since 2021.

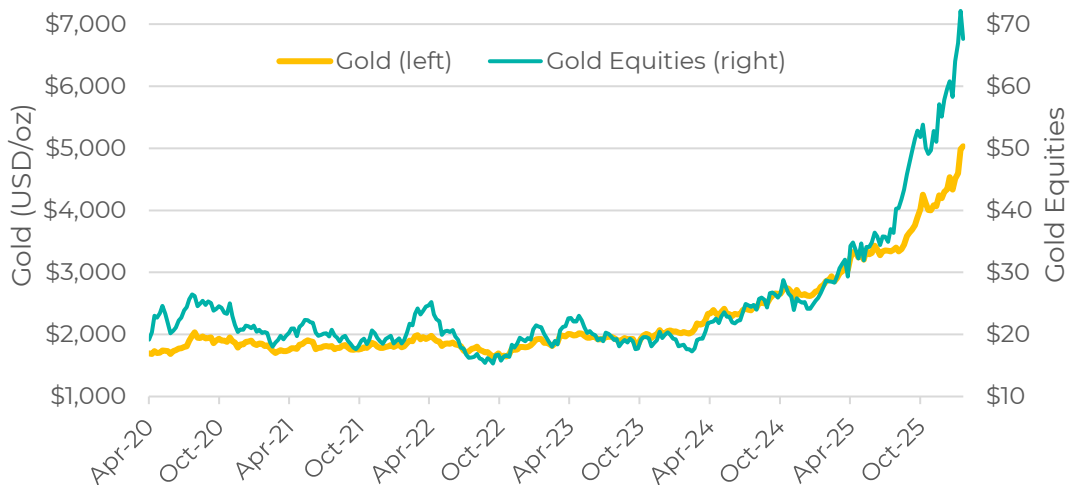
This isn't a crisis today, as the wealthier consumer is still in great shape. But if the K continues to widen, the lower end may start to drag down the

aggregate. And as goes the U.S. consumer, so goes the economy.

Gold: Greedy or Fearful

Who doesn't love gold?? As the yellow metal breached \$5,000/oz, up 160% over the past two years with miners up almost 300%, the only folks who don't love gold are those who don't own any. For those who own some, either bullion or miners, they simply wish they had owned more. But what do you do with an investment that has gone up this much? It does come down to how greedy or fearful you are.

So now what do we do?

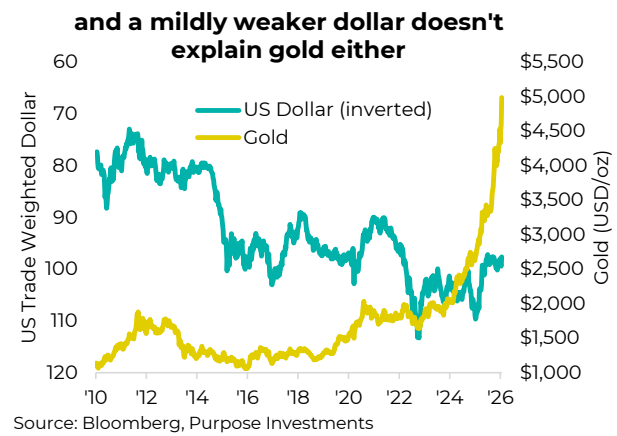
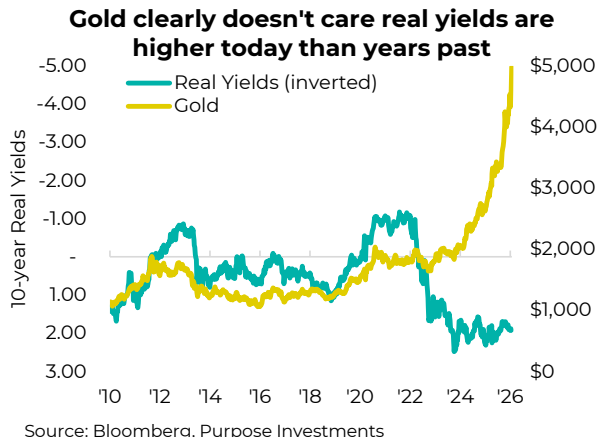


Source: Bloomberg, Purpose Investments, Normalized scaling

The positive gold narrative is widely known and often parroted as a rationale for an allocation. U.S. dollar debasement, central banks allocating more to gold, elevated inflation risk, concern over the sustainability of fiat currencies with rising debt levels, eroding trust in the system given policy uncertainty, etc. All legit reasons, but then there is price and how much are you paying. You can't value gold; there is no discounted cash flow, there is no PE ratio. It is simply $1/T$, where T is trust in the system. Trust has gone down over the past couple of years, so gold goes up.

This is both good news and bad news for gold. It

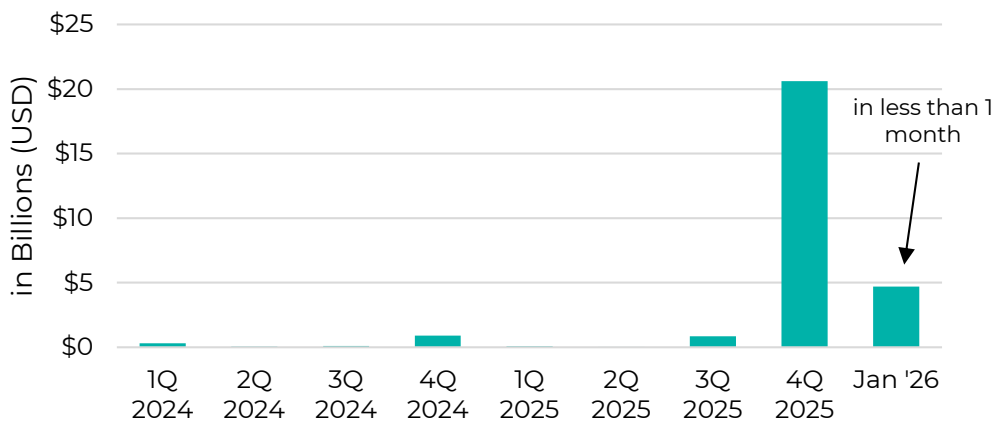
means it can go much higher, and it also can go much lower. Two factors that historically moved inversely with gold are real yields and the U.S. dollar. Lower real yields mean the opportunity cost of holding gold (with no yield) is less. But guess what, real yields are higher today than they have been over the past few decades, which should be negative for gold. A higher U.S. dollar, given gold is a real asset that is quoted in USD, should have a lower gold price, and a weaker USD implies a higher gold price. No argument here, and the USD has softened, but nowhere near enough to translate to \$5k bullion prices.



So where does that leave us? This gold parabolic run is now likely 100% a momentum trade; fundamentals have long been left behind. That doesn't mean it's over, but it does make any gold allocation increasingly volatile (for the record, this was written before gold fell 5% on Jan 30). The enthusiasm has also spread to other metals, from silver to palladium and even to copper. M&A is picking up, too. So far in 2026, less than a month

into the new year, \$4.7 billion of deals have been announced globally. The total for all of 2025 was \$22 billion, which was extremely back-end loaded. Gold companies are generating a lot of free cash flow and have been raising money like crazy. Historically, once flush with cash, gold companies either poke holes in the earth or buy one another. It is their nature.

Gold M&A is ramping up



Source: Bloomberg, Purpose Investments

For us, fear has become larger than our greed. This certainly appears like a good time to right-size positions or even harvest some gains. Additionally, the price action last week, gold up +\$171 on Tuesday, +\$237 on Wednesday, then opening Thursday to rally up \$200 to \$5,596/oz,

then drop down to \$5,100/oz to finish roughly flat at \$5,396, was dizzying. This was followed by a \$350 drop on Friday, down to just over \$5,000/oz (11:15 am Jan 30), and highlights the volatility of a pure momentum-driven market.

Dollar Doldrums

This month, the U.S. dollar broke through a 15-year trendline, the last precipice of support in what has been a record run. After declining 10% last year, the U.S. dollar is off to a rocky start to the year so far. It is becoming clear that the long uptrend has ended. Through a technical lens, the 200-month simple moving average at 92.25 for the DXY Index

is now in play, and the medium-term bias remains lower. Despite higher rates and a stronger economy than most of the world, it is past peak dollar appetite. This move marks a potential sea change for global capital allocators. From DIY stock portfolios to the all-in-one ETFs that are very popular, dollar-denominated assets play an important part in most Canadian portfolios.

U.S. Dollar Index has broken through key trendline support



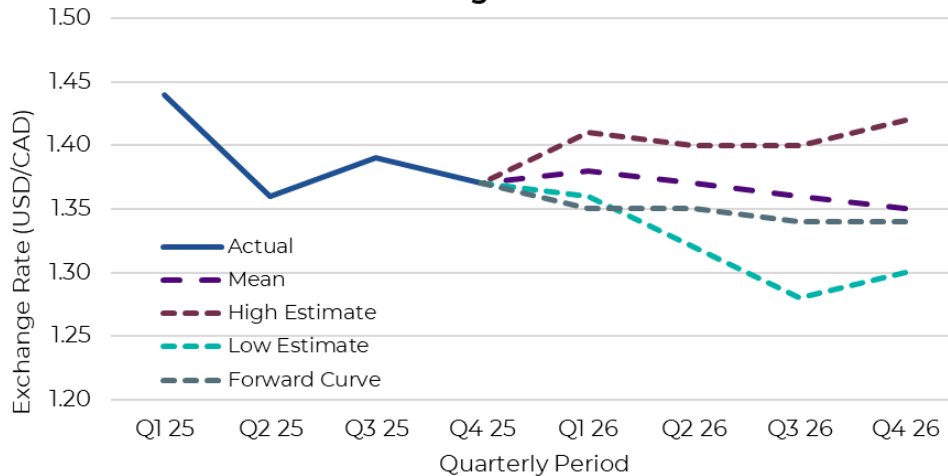
You would think that a government that has long held a strong dollar policy would have some concern. The reaction, at least publicly, is conflicting. President Trump has no issue and thinks the value of the dollar is great. Conversely, Treasury Secretary Scott Bessent attempted to restore some semblance of stability, noting that the U.S. still has a strong dollar policy. Talk, it is just that. We would rather listen to the markets and what they are telling us. At this moment in time of profound uncertainty, especially on the geopolitical front, the market is removing some of the safe-haven status of the U.S. dollar.

Less of a haven - There is an interesting devaluation at play. You have legitimate concerns about Fed independence, and the potential for further easing from a monetary policy standpoint is a surge in precious metals. This reduced safe-haven Treasury demand is an evolving but growing risk. Other forces at play include dollar appetite destruction from foreign investors, increased hedging activity, and a general rotation away from U.S. assets.

Rates - Interest rate differentials are a primary factor for currency valuation. While U.S. rates are still the highest out of most global peers, the anticipated direction is for a narrowing of the interest rate premium for U.S. Treasuries. U.S. rates are likely to come down, making them less attractive compared to other options. The Treasury market remains immensely important given the size and liquidity, but demand at the margin may not be as strong.

Canadian Dollar - The Canadian dollar has strengthened, up over one and a half percent versus the U.S. dollar YTD. The loonie, now at \$0.0.7404 as of January 29, has recovered modestly from November lows of near \$0.7072 CAD/USD. Consensus forecasts anticipated a gradual CAD appreciation over 2026, as shown in the chart below. Interestingly, at current levels, the Canadian dollar is already trading roughly inline with year-end targets. Upside from here is possible but not widely anticipated.

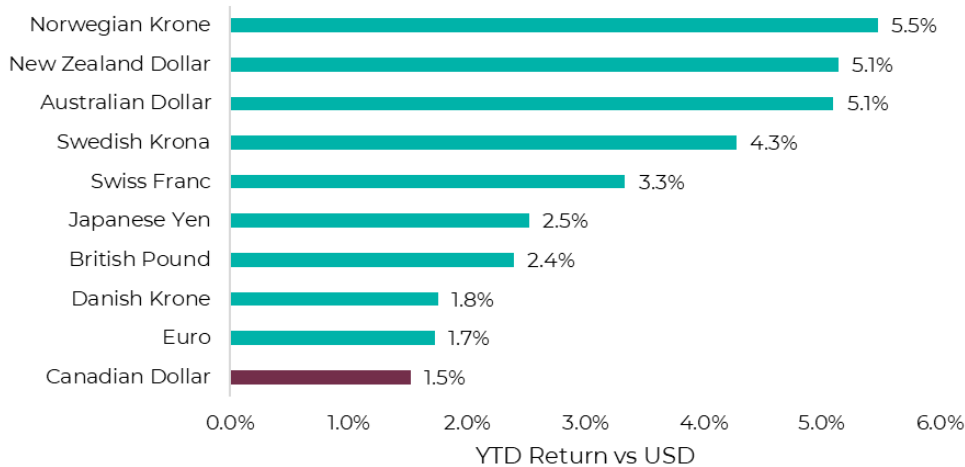
**USD/CAD Exchange Rate Forecast: 2026 Outlook
Based on Bloomberg Economist Consensus**



While strong in isolation this year, compared to the other G10 currencies, the loonie is lagging, reflecting a uniquely Canadian paradox. It is uniquely vulnerable among major currencies, thanks to a number of key risks. Chief among them is the question surrounding the critical

trade relationship with the U.S. and the upcoming USMCA review in July. Canada currently benefits from exemptions on USMCA-compatible exports; there will be difficult months ahead as both sides puff up their chests during negotiations.

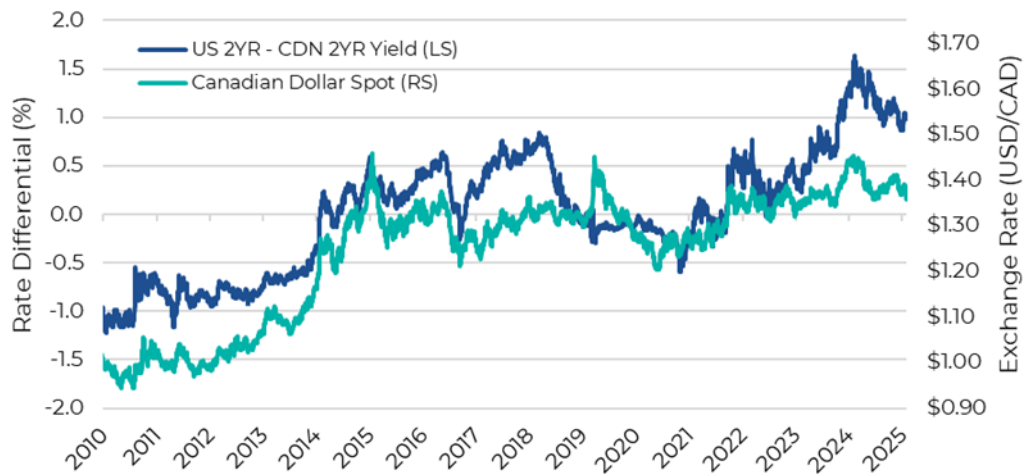
Canadian dollar is at the back of the pack



Besides trade uncertainty, you also have the possibility of a Venezuelan oil resurgence in the coming years that could threaten to at least partially displace Canadian exports to the U.S. Domestically, the Bank of Canada is holding rates steady, noting that US policy uncertainty is making it very difficult to predict the direction and timing of the next change in the policy rate. This uncertainty, coupled with a stable but

limping economy, leaves Canada very much at risk to the whims of U.S. Policy in the near future, despite Carney's recent attempts to diversify and open further trade relationships, which are focused on fiscal stimulus. Rates in Canada are steady, and differentials have fallen from recent peaks but remain historically elevated. U.S. 2-year rates are nearly 1.0% higher than Canada's.

Rate differential has come in, but is still quite wide considering where the Canadian dollar is trading



Source: Bloomberg, Purpose Investments

Portfolio Positioning

Hedges - Within our multi-asset portfolios, we continue to maintain a partially hedged position. Specifically, we're hedging roughly half of our U.S. equity and fixed income exposure. Hedging is expensive, and we anticipate being tactical with our hedges. Even though you do not directly see the roughly 2% annualized cost of hedging U.S. exposure, it is embedded in every single hedged fund or ETF. Should we see a sharp move in the loonie, towards \$0.75, we would reassess our conviction on whether maintaining expensive hedges makes any sense.

Seek outperformance driven by currency

tailwinds - Certain asset classes benefit from a weaker U.S. dollar. We already touched on gold. We continue to believe that maintaining gold

exposure is beneficial; however, volatility has been picking up, and sentiment is somewhat stretched. Another asset class that benefits is emerging markets. The MSCI Emerging Markets index rose 28% in 2025 and is marking the best start for EM equities since 2012, up 9.7% YTD. There are a number of factors behind emerging market strength, and a weaker dollar is one of them.

The path forward will not be a straight line. Policy pivots from the ECB or interventions from Japan will create "switchbacks" in volatility, but the broader trajectory is clear. The dollar is historically expensive, and its dominance is being tested. The dollar's decline won't be a straight line, and the volatility creates both risk and opportunity. Success will belong to those who adapt and don't treat currency as just an afterthought.

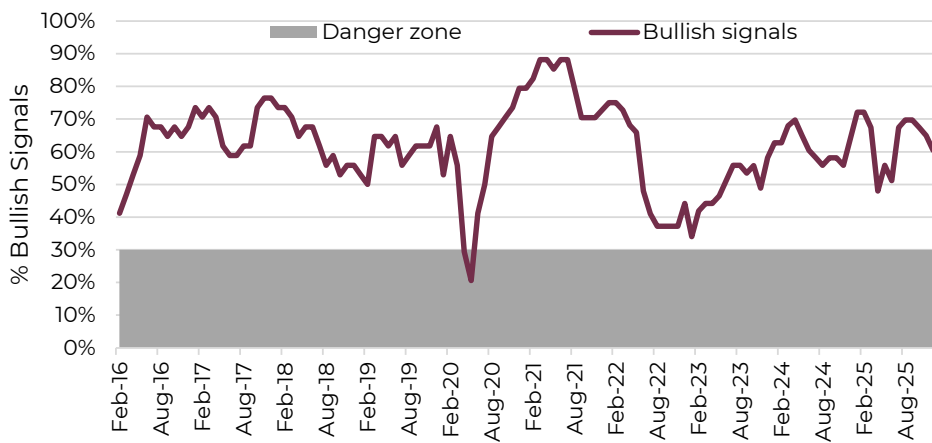
Market Cycle & Portfolio Positioning

The theme so far in 2026 is a continuation of the trends in late 2025. The economic data has continued to improve a bit, inflation remains decent, and markets seem kinda fearless. The foundation remains relatively stable with some improvement on the U.S. economic front. Economist surveys asking if they expect a recession in the next year have continued to see a lower and lower probability across major global

economies.

Market cycle indicators ticked a bit higher over the past month. This was driven by a steepening of the yield curve over the past three months. On the U.S. economic front, Consumer Sentiment moved higher over the past three months, still low but moving in the positive direction. Energy demand improved, a sign that transport demand is improving. Global economic signals were stable, as were fundamentals.

Market cycle indicators - foundation is fine



Source: Purpose Investments, Bloomberg

Market cycle indicators

Grouping	Metric	Better/Worse	Grouping	Metric	Better/Worse
Rates		2 / 1	Global Economy		6 / 2
	Net Cuts	✓		Global PMI	✓
	Yield Curve	✓		Copper (6m)	✓
	Yield Curve 3m	✓		DRAM (3m)	✓
US Economy		12 / 8		Oil (3m)	✓
	Leading Ind (3m)	✓		Commodities (3m)	✓
	Leading Ind (6m)	✓		Baltic Freight (3m)	✓
	Phili Fed Coincident	✓		Kospi (2m)	✓
	Credit (3m)	✓		EM (2m)	✓
	Recession Prob (NY Fed)	✓	Fundamentals		7 / 5
	Recession Prob (Clev Fed)	✓		US: PE	✓
	Citi Eco Surprise	✓		US: EPS Growth	✓
	CPD Now (Atlanta Fed)	✓		US: EPS 2FY v 1FY	✓
	US Unemployment	✓		US: 3m EPS Revision	✓
	Consumer Sentiment (3m)	✓		Canada: PE	✓
Manufacturing				Canada: EPS Growth	✓
	PMI	✓		Canada: EPS 2FY v 1FY	✓
	PMI New Orders	✓		Canada: 3m EPS Revision	✓
	Energy Demand (YoY)	✓		International: PE	✓
	Truck Demand (YoY)	✓		Int: EPS Growth	✓
	Rail (YoY)	✓		Int: EPS 2FY v 1FY	✓
Housing				Int: 3m EPS Revision	✓
	Starts (1yr)	✓			
	Months Supply (6m)	✓			
	Home Sales	✓			
	New Home Sales	✓			
	NAHB Mkt Activity	✓			

Source: Purpose Investments, Bloomberg

Active Asset Allocation Strategic Positioning

House View		Underweight	Neutral	Overweight
Overall	Equity		•	
	Bonds		•	
	Cash			•
	Diversifiers			•
Equities	Canada	•		
	U.S.		•	
	International			•
	Emerging Markets			•
	Style Allocation (Value <----> Growth)		•	
	Size (Small <----> Large cap)			•
Fixed Income	Duration (Low <----> High)		•	
	Government			•
	Credit		•	
	Credit - Investment Grade			•
	Credit - High Yield		•	
	Credit - Preferreds	•		
Diversifiers	Volatility Reduction Strategies			•
	Growth Strategies		•	
	Structured Product / Yield		•	
	Real Assets		•	
Act/Pass	Management Approach	Passive	Active	

Source: Purpose Investments

No changes to positioning again, so boring as we have not made a change in a few months now. We have hotly debated and analyzed a number of ideas, but continue to come back to liking our current positioning. Paraphrasing some Jesse Livermore – profit comes from patience, sitting tight with profitable positions rather than constantly trading or overthinking.

Final Note

The drop in gold on Friday, leading to a big drop for the TSX, is certainly a biggie and highlights the risk of a purely momentum-driven market for

gold. Could this rattle the confidence of the markets? Perhaps. More likely, it is a consolidation after such a strong climb. On the positive side, the underlying foundation remains healthy, and if the market pulls back enough, it could create an opportunity. For now, we remain tilted defensively.

— Craig Basinger, Derek Benedet and Brett Gustafson

[Get the latest market insights in your inbox every week.](#)

Sources: Charts are sourced to Bloomberg L. P.

The content of this document is for informational purposes only and is not being provided in the context of an offering of any securities described herein, nor is it a recommendation or solicitation to buy, hold or sell any security. The information is not investment advice, nor is it tailored to the needs or circumstances of any investor. Information contained in this document is not, and under no circumstances is it to be construed as, an offering memorandum, prospectus, advertisement or public offering of securities. No securities commission or similar regulatory authority has reviewed this document, and any representation to the contrary is an offence. Information contained in this document is believed to be accurate and reliable; however, we cannot guarantee that it is complete or current at all times. The information provided is subject to change without notice.



Commissions, trailing commissions, management fees and expenses all may be associated with investment funds. Please read the prospectus before investing. If the securities are purchased or sold on a stock exchange, you may pay more or receive less than the current net asset value. Investment funds are not guaranteed, their values change frequently, and past performance may not be repeated. Certain statements in this document are forward-looking. Forward-looking statements (“FLS”) are statements that are predictive in nature, depend on or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate” or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are, by their nature, based on numerous assumptions. Although the FLS contained in this document are based upon what Purpose Investments and the portfolio manager believe to be reasonable assumptions, Purpose Investments and the portfolio manager cannot assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on the FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed, that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.