Purpose
INVESTMENTS

Purpose WHY Report

Portfolio construction insights - Why we are tilted the way we are

Purpose Macro Investment Team

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13 July 2026

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Credentials

Years of Combined Experience

Deep understanding of asset management, built on decades of market cycles, innovation, and strong investment performance.

Certified Professionals

Led by 2 CFAs and 1 CMT, ensuring top-tier analytical rigor and technical expertise in market analysis and strategy execution.

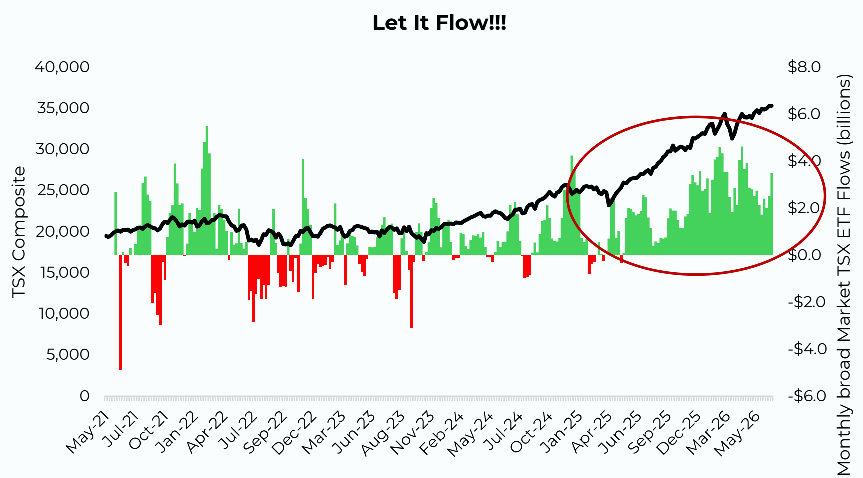
$2 Billion AUM Across Mandates

Managing diverse portfolios to cater to varying risk appetites, from balanced income to growth-focused strategies.

Multi-Asset Managers Since 2015

Long track record in managing complex, multi-asset portfolios, helping clients achieve both short- and long-term financial objectives.

Top of Mind



Source: Bloomberg, Purpose Investments, flows based on 20 largest ETFs tracking broad Canadian market

So why has the TSX done so well this year? Much of it is flows. They are strong, coming both from domestic and international investors. Flows are very strong this year for many markets.

Flows could continue, there is a rebalancing of portfolios globally that could take years. But they could also slow quickly if the market goes a bit risk-off. This is a risk as much of the higher valuations has been driven by flows.

Watch momentum as a signal and for a deeper look, Market Ethos – Rise of the Technician (on the Purpose site under Resources banner -> Market Ethos)

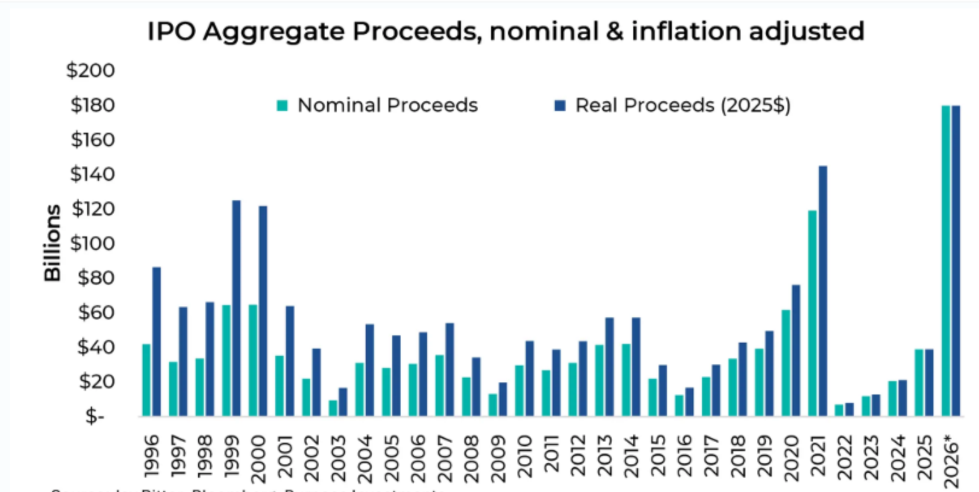
Companies never used to stay private so long and become so large before going public. This is a side effect of increased regulation decades ago and the increased availability of private capital.

But now they are starting to go public for various reasons. Markets are elevated so more receptive, perhaps the private capital is becoming harder to come by.

SpaceX IPO was largest in history. Many indices tweaked inclusion rules to add it sooner. And the unlocking of insider shareholders is very fast, ramping in mid July with just about every share free trading by year end.

This does have the risk of going poorly. But those Elon Musk followers are a loyal group. We will see.

There are other mega IPOs on deck. So much paper for the market to absorb, so many moving parts.



Source: Jay Ritter, Bloomberg, Purpose Investments

Market Cycle

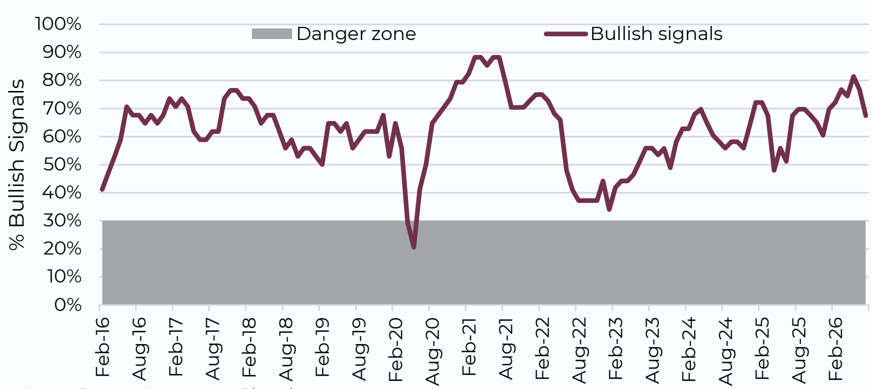
Market cycle indicators

Grouping	Metric	Bull	Bear	Better/ Worse
Rates				**1 / 2**
	Net Cuts		✓	-
	Yield Curve	✓		+
	Yield Curve 3m	✓		-
US Economy				**8 / 12**
	Leading Ind (3m)		✓	-
	Leading Ind (6m)		✓	+
	Phili Fed Coincident	✓		-
	Credit (3m)	✓		-
	Recession Prob (NY Fed)		✓	-
	Recession Prob (Clev Fed)	✓		-
	Citi Eco Surprise	✓		+
	GPD Now (Atlanta Fed)		✓	-
	US Unemployment	✓		+
	Consumer Sentiment (3m)		✓	+
Manufacturing	PMI	✓		-
	PMI New Orders	✓		-
	Energy Demand (YoY)	✓		-
	Truck Demand (YoY)	✓		-
	Rail (YoY)	✓		+
Housing	Starts (1yr)	✓		+
	Months Supply (6m)		✓	-
	Home Sales	✓		+
	New Home Sales		✓	+
	NAHB Mkt Activity		✓	-

Grouping	Metric	Bull	Bear	Better/ Worse
Global Economy				**2 / 6**
	Global PMI	✓		+
	Copper (6m)	✓		-
	DRAM (3m)	✓		+
	Oil (3m)		✓	-
	Commodities (3m)		✓	-
	Baltic Freight (3m)	✓		-
	Kospi (2m)		✓	-
	EM (2m)	✓		-
Fundamentals				**5 / 7**
	US: PE		✓	+
	US: EPS Growth	✓		+
	US: EPS 2FY v 1FY	✓		+
	US: 3m EPS Revision	✓		-
	Canada: PE		✓	-
	Canada: EPS Growth	✓		-
	Canada: EPS 2FY v 1FY	✓		+
	Canada: 3m EPS Revision	✓		-
	International: PE	✓		-
	Int: EPS Growth	✓		-
	Int: EPS 2FY v 1FY	✓		+
	Int: 3m EPS Revision	✓		-

Source: Purpose Investments, Bloomberg

Market cycle indicators - some rolling over



Source: Purpose Investments, Bloomberg

Market cycle indicators remain decent but did dial back down in early July.

On the U.S. side, rate cuts are now off the table. The NY Fed recession probability ticked higher and GDP Now dropped. The GDP Now, a basket of higher frequency data points, did drop mainly due to rising imports (not that bad). Manufacturing remains strong, housing weak.

Globally, a pullback in oil, commodities and the Kospi flipped to negative. The drop in oil is because of some oil getting through Hormuz, not sure that is a negative. And Kospi, which used to be a proxy for global trade, has become an AI play. Might need some revisiting on this signal.

Heading into earnings season. Revisions have been strong, expectations are high too. Plus U.S. and now Canadian valuations are elevated. Will be an interesting one.

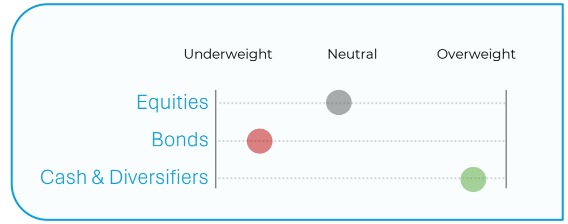
Overall Active Portfolio Tilts

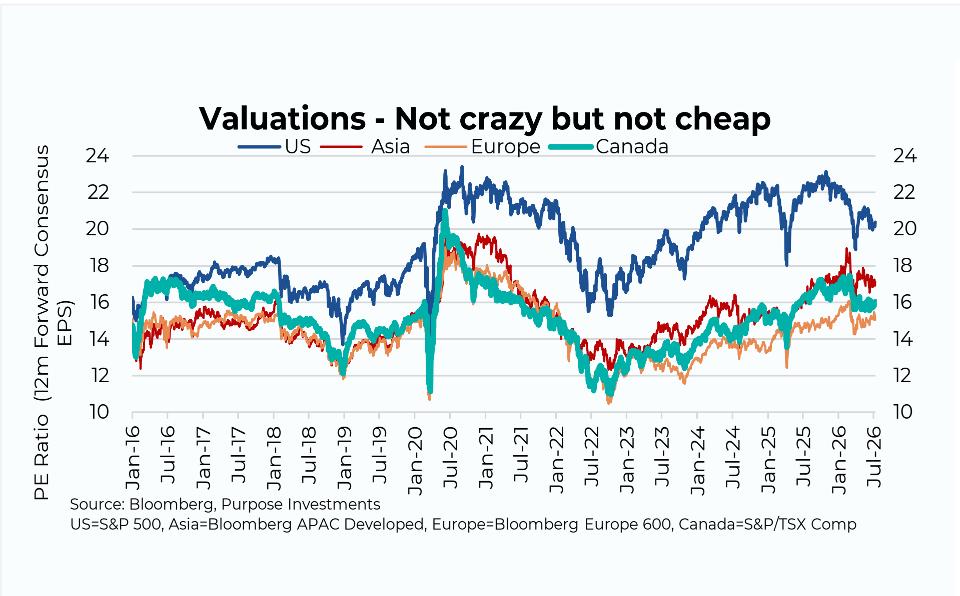
	Underweight --	-	Neutral =	+	Overweight ++	Positioning: Current Weight	Baseline
Overall						Current Weight	Baseline
Equity			●			57%	57%
Bonds		●				28%	36%
Cash				●		7%	2%
Diversifiers				●		6%	5%
Equities							
Canada		●				**29%**	35%
U.S.		●				28%	30%
International					●	**43%**	35%
Emerging Markets				●		**9%**	5%
Style (Value ←→ Growth)		●					
Size (Small Cap ←→Large Cap)				●			
Fixed Income							
Duration (Low ←→ High)			●			4.8yrs	5yrs
Government		●					
Credit			●				
Credit – Investment Grade				●		**89%**	70%
Credit – High Yield		●				7%	30%
Credit – Preferreds	●					0%	0%
Diversifiers							
Volatility Reduction Strategies				●			
Growth Strategies		●					
Structured Product/Yield			●				
Real Assets			●				
Active/Passive	Passive				Active		
Management Approach		●					

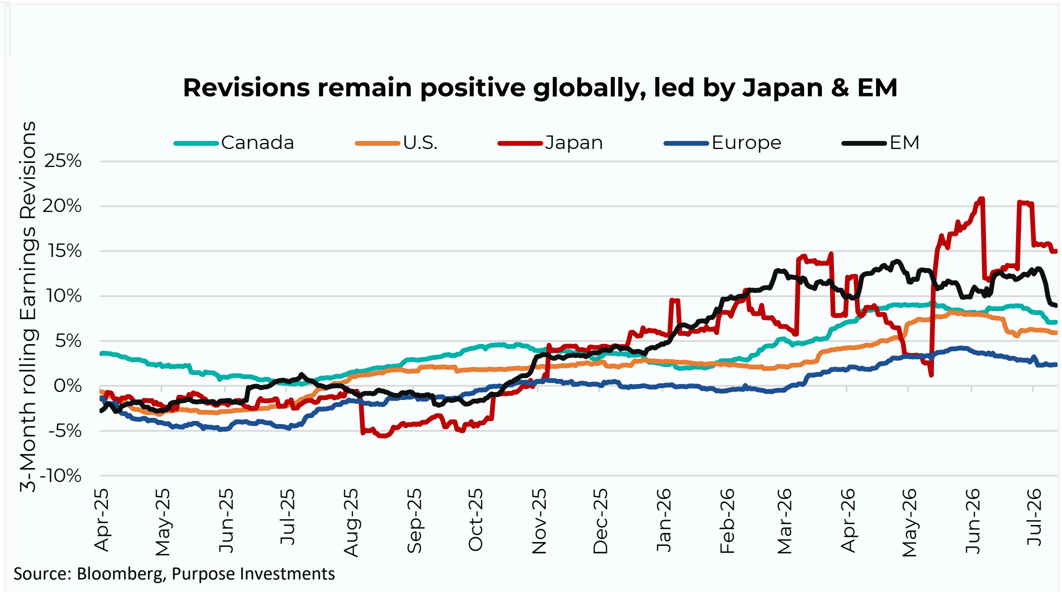
Strategic Tilts

As we believe this is the late cycle stage and after enjoying strong returns for a few years, we are generally a bit more cautious. Lots of good news from the economy and earnings revisions. But price is up and we believe focusing more on holding onto gains vs aggressively chasing is the way to go.

If we do get a pullback, it could be an opportunity. Given we don't see this cycle ending soon. But who knows.







Valuations are not stretched but not cheap either. Justified given strong economic backdrop.

Sill more value internationally but the spread is less than previous years.

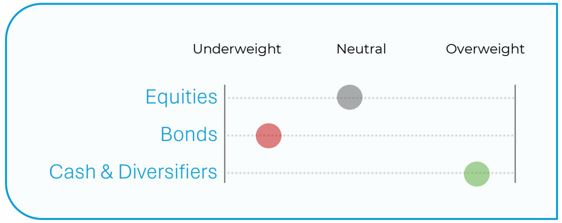
Earnings revisions remain very strong led by Emerging Markets and Japan, two areas leading on a market performance perspective.

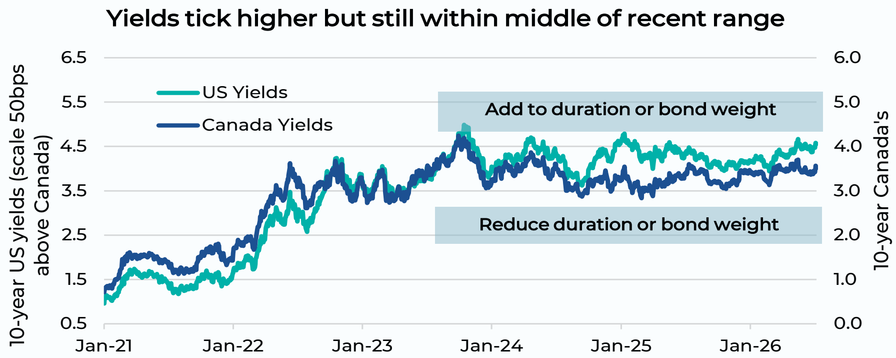
Canada and the U.S. next, with Europe struggling.

Strategic Tilts

We remain underweight bonds but have a reasonable duration in the high 4s. Bond returns remain muted as yields are stuck in a range. We believe this is the new normal range and will persist, unless there is a big inflation spike or a recession. Neither is our base case scenario.

With less bonds we lean on cash and diversifiers for portfolio defense. Plus this does give us optionality should weakness present some opportunities.



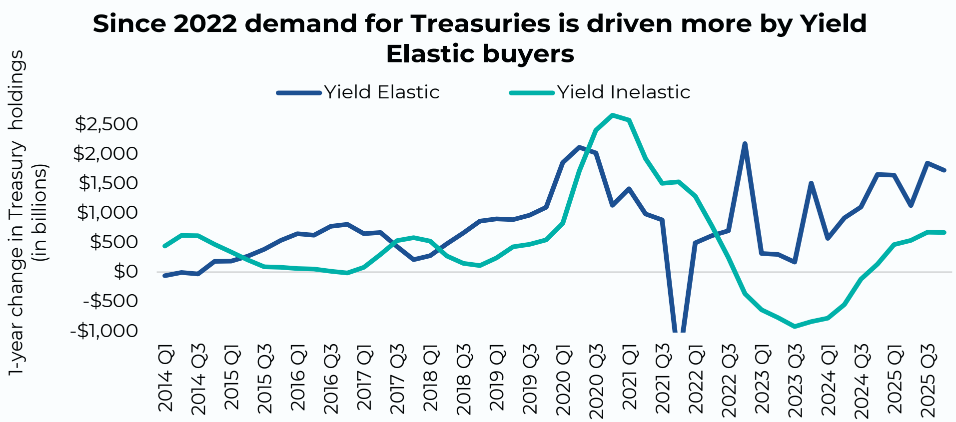


Source: Bloomberg, Purpose Investments

Bond yields have ticked higher on a bit higher inflation, likely to continue as previously high energy prices work their way through the global economy. Relatively tight economies is also putting some upward pressure on inflation.

The real yield on U.S. Treasuries is over 2%, which we view as fair value. Our underweight is more predicated on a smaller performance uptick from longer duration. And the muted defensiveness of bonds given higher equity/bond correlations.

Plus lighter on credit given historically compressed spreads.



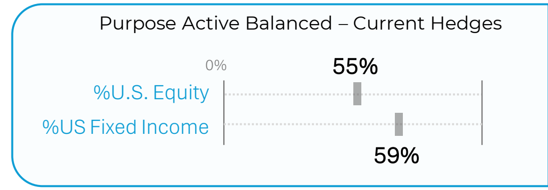
Source: U.S. Treasury, Bloomberg, Purpose Investments
Yield Elastic: Households, Money Market Funds, Mutual Funds/ETFs, Private Foreign capital
Yield Inelastic: Governments, Central Banks, Chartered Banks, Pensions, Insurance

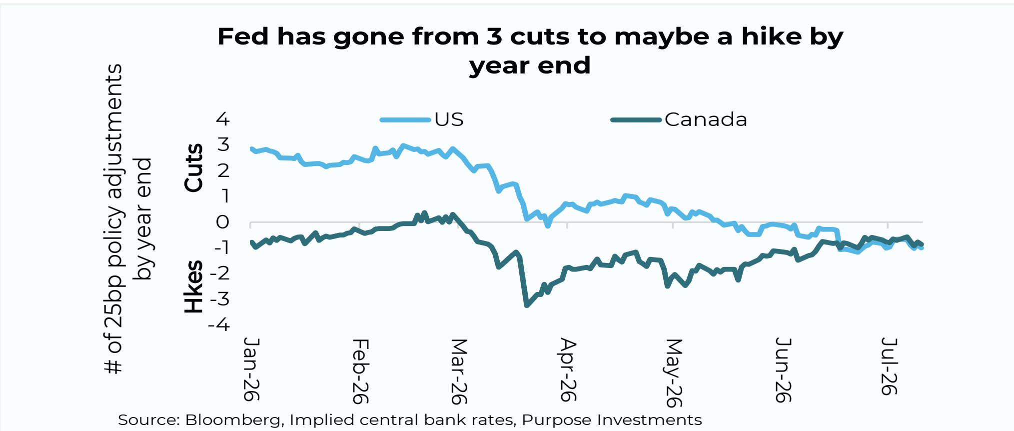
The good news, unless inflation surprises or economic growth decelerates, we see bond yields remaining rangebound. Simple fact is today, more bond buyers are sensitive to yield than before. If yields rise, more buyers come in. If yields fall, fewer buyers. This is keeping yields rangebound at these higher levels.

For now we remain underweight bonds and rely on higher cash and diversifiers for added portfolio defense.

Currency Hedges

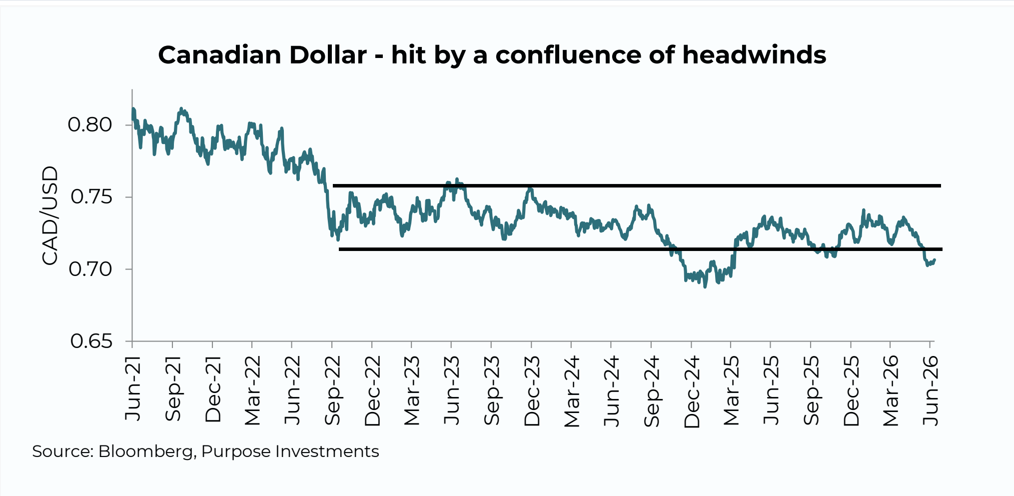
We generally like U.S. dollar exposure (aka unhedged U.S. positions) because of the safe-haven characteristics of the global reserve currency and repatriation flows during times of trouble. BUT, this view has softened because 1) risk deficits/sovereign debt could upset markets, 2) policy flip floppery has eroded global confidence on the margins and 3) it is expensive still. This has us mildly bearish on USD.





Unfortunately, our partial hedge has not been helpful of late. The USD has strengthen against all currencies over the past few months. Primarily as the market gained confidence the new Fed Chair will be data driven vs politically influenced. Time will tell if this holds when economic data softens, but for now that is the case.

This, plus stronger economic and inflation data, has pushed the market from expecting 3 cuts this year to possibly a hike. That is a big swing that lifted the USD.

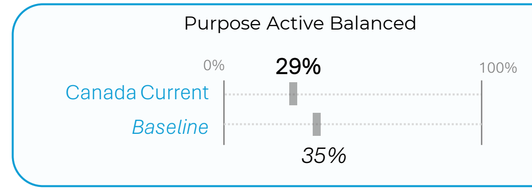


There are additional headwinds for the CAD. Softer economic data in Canada (2 Qs of mildly negative GDP), USMCA risk, oil prices falling with on/off opening of Hormuz, all weigh on CAD.

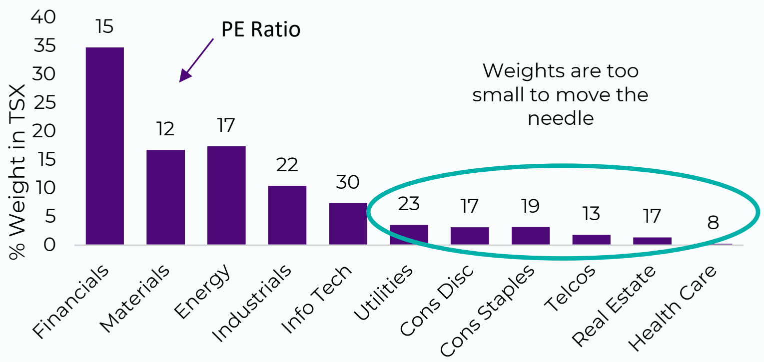
We are contemplating additional hedging at these levels.

Canada Exposure

We are a bit lighter on Canadian equity, after taking some profits late in 2025 (clearly early, whoops). Valuations are a bit stretched especially given most earnings growth is coming from the more cycle parts of the market, namely energy and materials.

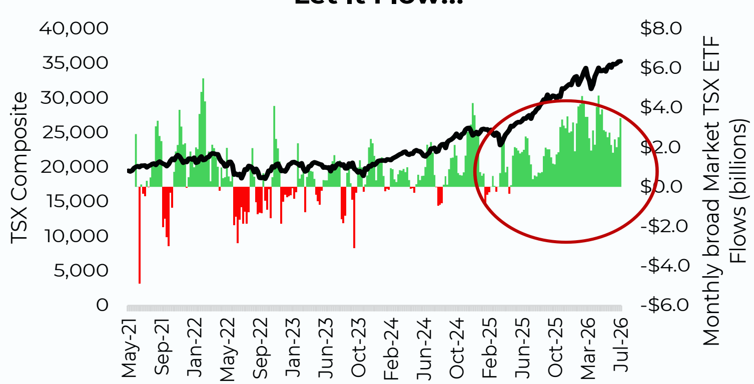


What could keep driving TSX in 2026?



Source: Bloomberg, Purpose Investments

Let It Flow!!!



Source: Bloomberg, Purpose Investments, flows based on 20 largest ETFs tracking broad Canadian market

The TSX is a bit expensive at 16.0x, with the supporting argument strong earnings growth easily justifies the valuation. But the majority of earnings growth comes from Energy & Materials. These are real earnings but we just don't want to pay a high multiple for highly cyclical earnings.

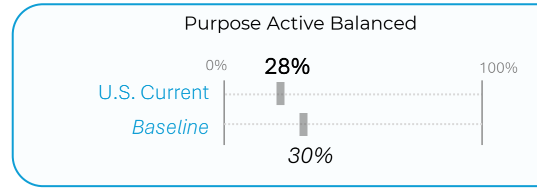
Financials, driven by banks, are making the TSX pricey. Historically valuations for Canadian banks sit 11-13x, now much higher. Higher than U.S. banks in some cases. This has us a bit more cautious on Canadian Banks, preferring insurance and other financials.

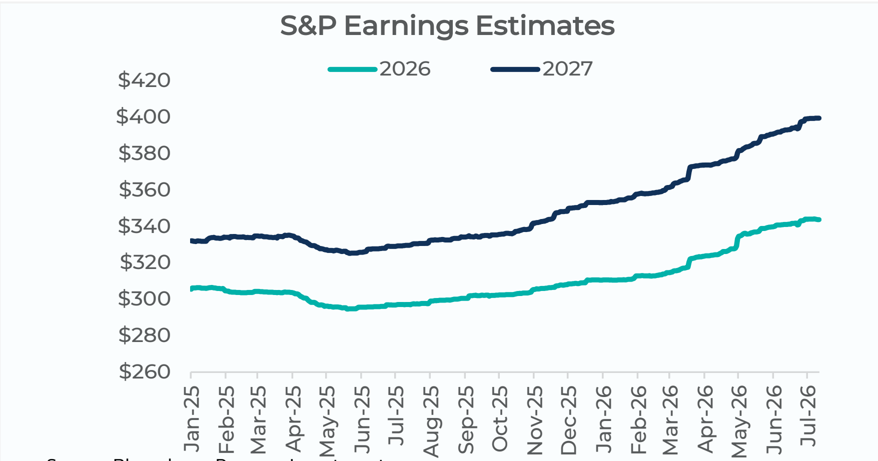
We have no reason to believe the large inflows for Canada will end anytime soon. But we also believe much of the recent gains have come from these flows pushing up the most liquid names. This creates a large risk should those flows slow.

While underweight, at 29% it is still a healthy Canadian equity weight.

U.S. Exposure

We are now a little underweight U.S. after exiting our software tactical trade and leaving proceeds in cash (dry powder bucket). Now with S&P a bit above 7,500 and has been consolidating over the past month or two. Q2 earnings season will likely push the market out of the range, one way or the other. Consensus is at $82, up 22% from Q2 last year. Expectations are high. Any stumble in AI would have broad and material ramifications given weights of the mega-cap tech names. Don't think it is over but we did get a little taste of it in early June.

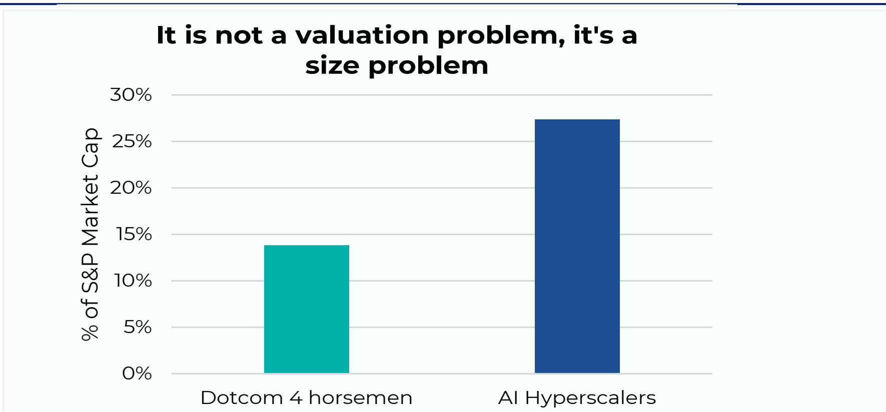




Source: Bloomberg, Purpose Investments

U.S. is trading around 20.3x forward estimates, which is a bit more reasonable. Earnings estimates have also continued to trend higher. We would note 2026 revisions appear to be slowing to a crawl but with earnings season about to jump off, lets wait and see.

At these levels we are not tempted to do any adding.



Source: Bloomberg, Purpose Investments

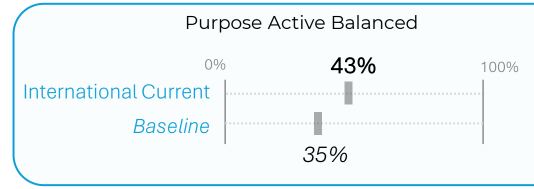
The AI infrastructure build is epic and tech spending is very market friendly. Not just the U.S. but many global markets. That being said, AI is a bubble given its size. The six hyperscalers or most levered to AI (MSFT, GOOGL, META, AMZN, NVDA & SPCX) carry almost a 30% weight in the S&P. Add on the lift in other tech names, industrials, utilities, this is an everywhere bubble.

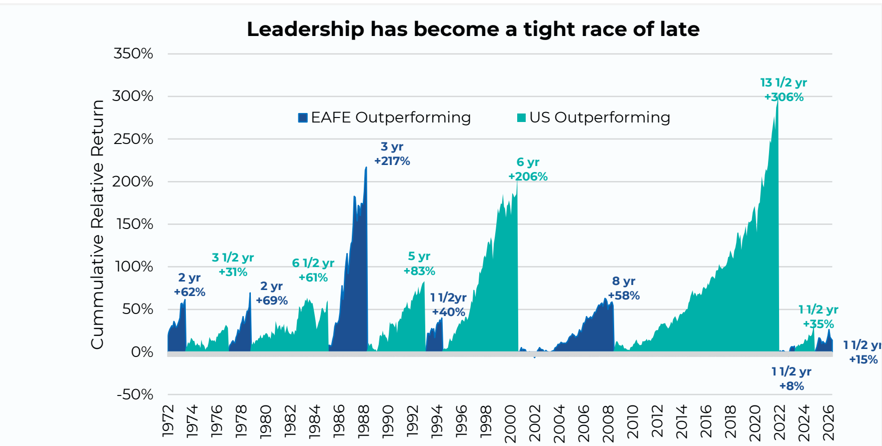
Maybe few pure plays is a good thing. The risk is pretty pervasive if the theme stumbles from a market perspective.

International Exposure

We did see enough weakness on the international side in our view and added to our overweight in March. The world is still overweight America and underweight international.

It has been pretty tight year-to-date. Japan and EM have done well, Europe less so. The U.S. kind of in the middle. We continue to like our international overweight, but would say mildly less enthusiastically than last year.

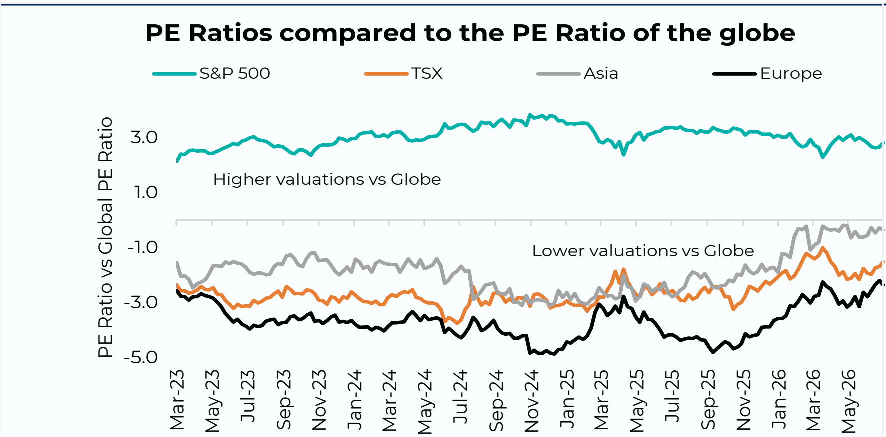




Source: Bloomberg, Purpose Investments, price returns 1970-94, 1994+ total return, USD, 9 June 2026

If leadership has changed, this could go on for a long time if history is any guide. Especially since the US had dominated for such an extended period.

2026 has been a closer race but international is still winning, albeit more volatile given sensitivities to the conflict in Iran. As we believe this is cooling, international should outperform on any movement towards stability.



Source: Bloomberg, Purpose Investments
Asia=Bloomberg APAC Developed, Europe=Bloomberg Europe 600

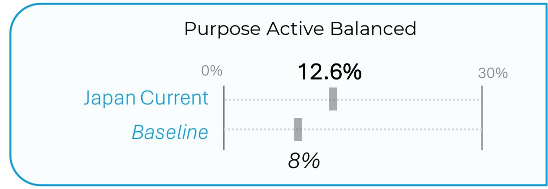
The valuation argument for international is a bit less compelling. S&P valuations have come down a little, Asia has come up a lot. Europe too, just less so. Plus earnings growth for U.S. is forecast at 15-17% in 2027, about same as Japan, but Europe and Canada are much lower.

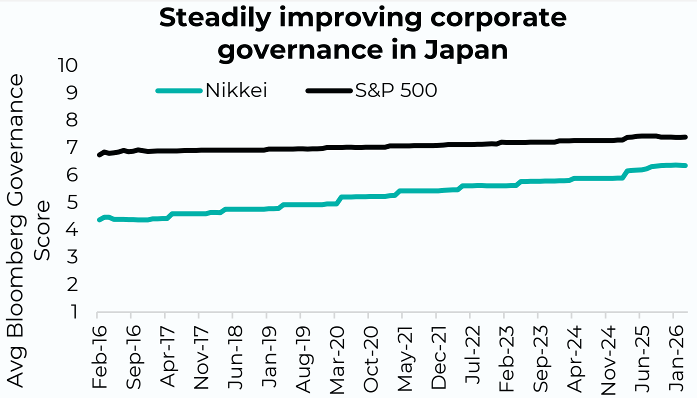
Other factors from less concentration risk, improving policy environments continue to support more international.

Japan Exposure

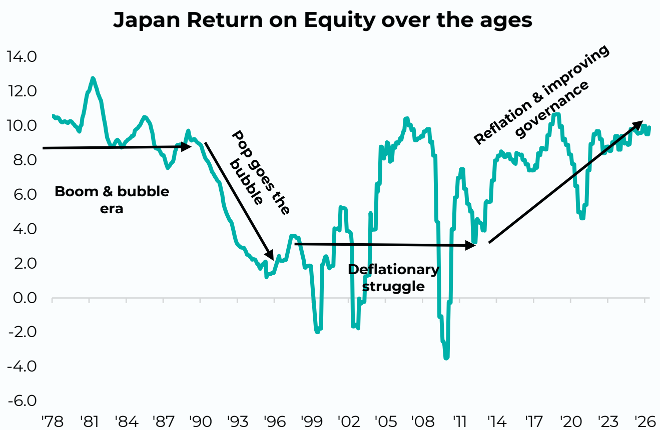
We have more Japan exposure than most peers, and added a bit more in March. Our current positions that have some Japanese equity exposure include ADVE (23%), IEFA (26%), PID (14%) & EWJ (100%) totaling out to 12.6% of our overall equity exposure.

It has worked out well, we constantly revisit our rationales and here is our current thinking below.





Source: Bloomberg, Purpose Investments



Source: Bloomberg, Purpose Investments

To be honest, when we went overweight Japan a cheap yen was one of the reasons, among others. Well, that yen just keeps getting cheaper. Sometimes you win when you were wrong (or early).

1. The yen is still very cheap which is still supportive for owning. While much of earlier gains were on multiple expansion, strong earnings growth is now the main driver.

2. Regulatory change is slow but it is gaining momentum. Companies are gradually improving their governance as it pertains to shareholders. This is also evident in rising dividends as the EWJ has gone from a yield of 1.5% a decade ago to over 4% today.

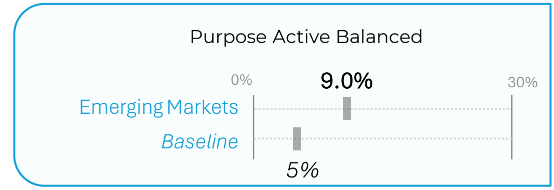
3. We have been seeing steadily improving ROE, which is helping re-rating the market.

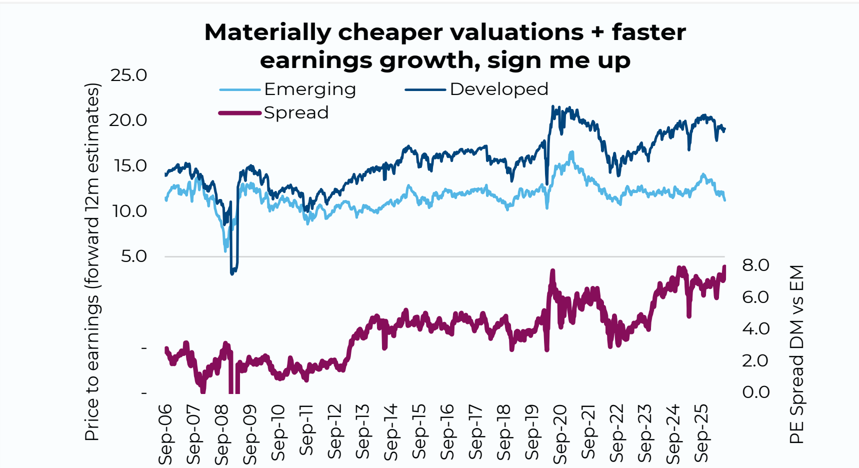
4. Diversifier and under-owned: The Japanese equity market including currency exposure does provide a good diversifier with a much lower correlation than U.S. equities vs the TSX. We also believe most global investors remain light on Japan exposure, making this still a bit of a contrarian play.

We remain positive on this tilt.

Emerging Markets Exposure

This is pretty much our max Emerging Markets weight. Most emerging markets are in recovery mode following the spike in energy prices, while others are main lining the AI trade. Not your fathers emerging markets. We are constructive on both parts but do not have as much AI exposure as the broad EM market based on our manager selection.



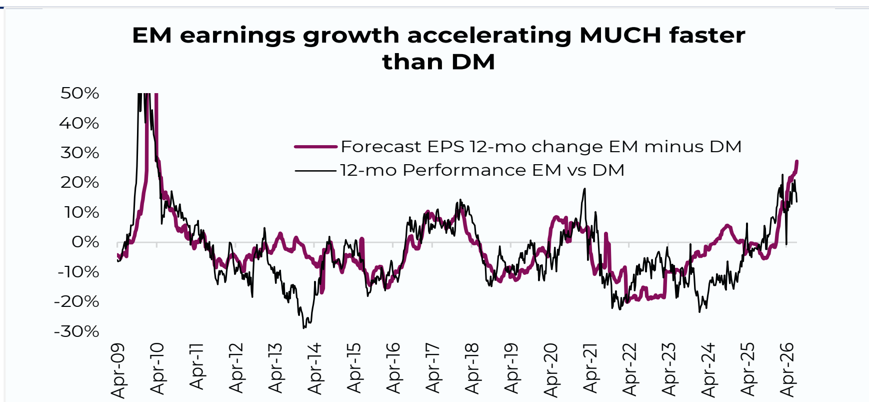


Source: Bloomberg, Purpose Investments

Valuations for Emerging Markets (EM) are pretty much always cheaper than more developed markets (DM). But we are now looking at a spread of 8 which has been the max over many years.

Added positives include global trade accelerated of late, above the key 4% threshold. Historically, when global trade is growing above 4%, EM outperforms DM. When below DM wins.

Technology is the big driver, now carrying a 38% weight. But financials, energy, industrials are also doing well.



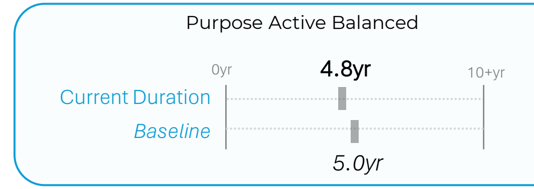
Source: Bloomberg, Purpose Investments

Cheap valuations isn't new but add higher relative earnings growth between EM vs DM, this historically correlates well with relative performance. In fact, look at how well it fits with earnings growth accelerating recently for EM. With recent weakness in EM shares, still with better earnings growth, this is likely a good setup for the balance of 2026.

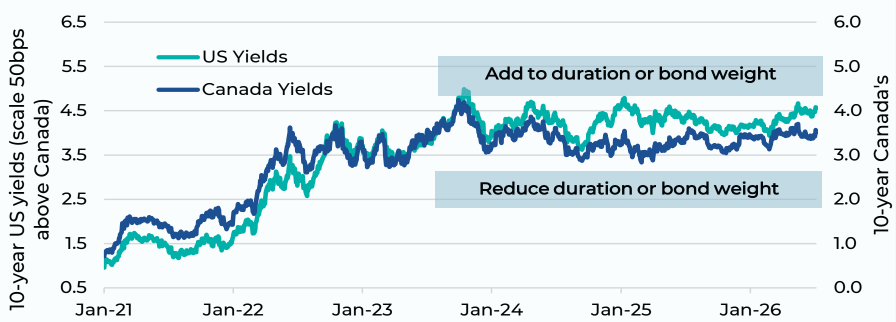
Duration

We believe the current market, with higher inflation and yields than years past, is more challenging for the bond portion of portfolio. While still the cornerstone of defense, a more active duration management is needed.

Given underweight and moderate duration, we feel comfortable.



Yields tick higher but still within middle of recent range



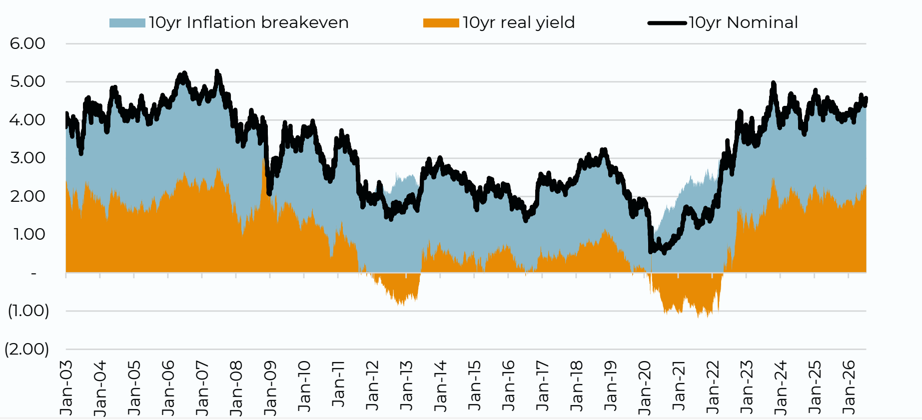
Source: Bloomberg, Purpose Investments

We are underweight bonds and reduced duration last September as bond yields had come down. Now they are starting to rise a bit, nearing the top of the recent multi-year range.

Outside a BIG inflation surprise, or roll over in economic growth, we see yields remaining rangebound. The buyer/seller is now more yield sensitive than years past, which reduces volatility. Credit quality is high, with a good allocation to government and investment grade. Yields have moved higher on the potential inflation impact of elevated oil prices due to the conflict.

Plus, some added concern over deficits. Yields are not high enough for us to lean in at this time.

Real yields of 2% is normal



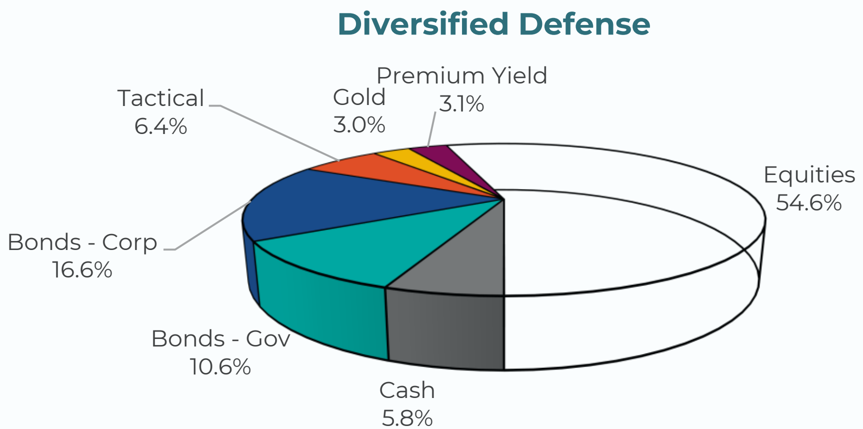
Source: Bloomberg, Purpose Investments

2% real yields is fair, in our view. If they go higher, we would be enticed to add. If lower maybe the opposite. The good news is a real yield of 2% is more normal and constructive.

Diversified Defense

Every correction is different, speed, magnitude, duration and the cause. The last 4 have been caused by an exogeneous shock from Covid (2020), Inflation (2022), trade policy (2025) and war (2026). Will the next one be an AI stumble, a growth scare/recession, or earnings failing to match elevated expectations.

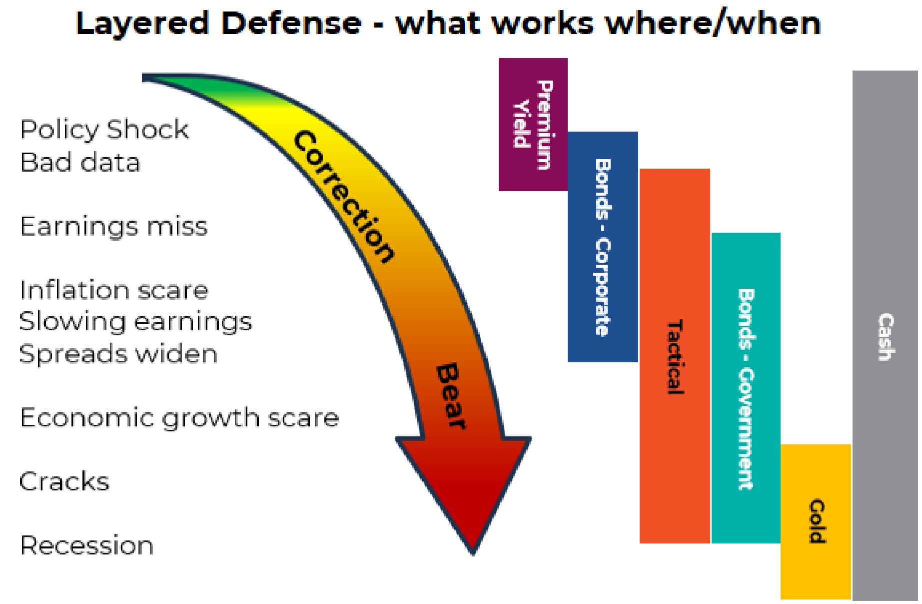
In different types of corrections, different types of portfolio defense work well or not as well. Having a layered defense is increasingly important.



Source: Purpose Investments PABF Allocations 13-Jul-2026

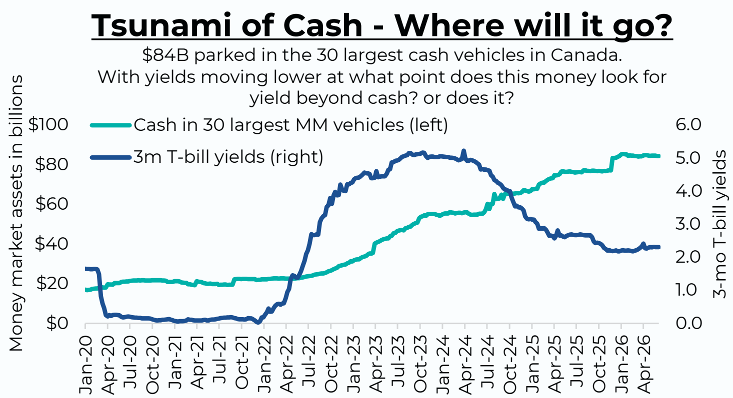
This is our current diversified defense stack. Bonds complemented with cash, gold, tactical (momentum) and option writing.

We think of defense in layers. Depending on the cause of weakness from a shock triggering a correction to an economic growth scare, or worse, to a recession, different pieces of our diversified defense work in various scenarios.



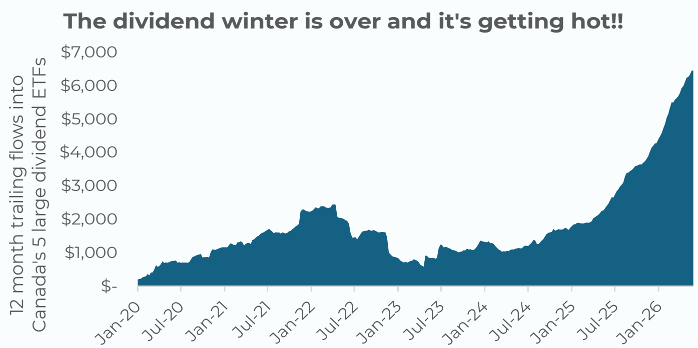
Source: Purpose Investments, illustrative purpose only

Dividend Magic



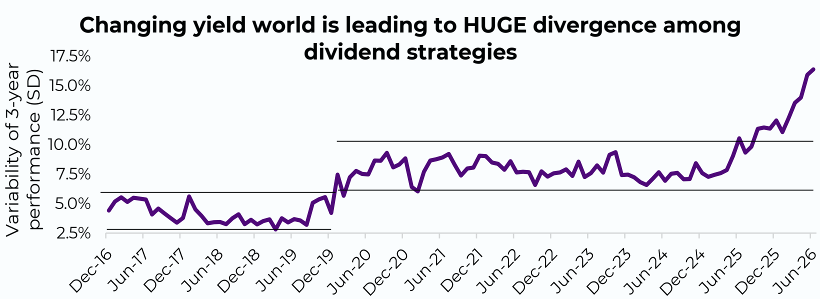
Source: Bloomberg, Purpose Investments, sample of largest 30 money market funds & ETFs & HISAs

Cash vehicles, HISAs, money market funds, hoovered up cash in 2022 and 2023. Now with short yields coming down making cash less attractive, and inflows flatlined. Yet there was just a recent jump higher, perhaps investor defensiveness? We do think cash has become less compelling and dividend factor is likely a beneficiary.



Source: Bloomberg, Purpose Investments, 5 of the larger Canadian dividend ETFs (VDY, XDIV, XEI, XDV, CDZ), constant pricing

This chart is crazy!!! Every month when updating this chart, it just keeps going up. Money is moving into the dividend space.



Source: Bloomberg, Purpose Investments
Index is based on variance of performance among a selecton of 20 of the largest ETF & Funds with a dividend focus

Yields simply went down for much of past 20+ years, this caused most dividend strategies to have closely clustered performance. Now that yields are normal, other factors are increasingly driving performance causing greater disparity in performance among dividend strategies.