THE ELEPHANTS EAR

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The Three Pillars, and What Could Knock Them Down

Lately, I've been getting some version of the same question from clients:
"Darryl, when is this market going to go down?"

Markets have been strong, valuations are elevated, and there is no shortage of headlines giving us reasons to worry. Instead of trying to predict when the market will peak, let's look at what is holding it up.

I see three pillars: interest rates, earnings, and valuations.

Pillar #1: Interest Rates

Interest rates are essentially the price of money.

When rates are low, stocks have less competition. When rates rise, bonds and other relatively safe investments become more attractive, businesses pay more to borrow, consumers have less money to spend, and investors tend to become less willing to pay high prices for future earnings.

That last part matters today.

The Federal Reserve's May 2026 Financial Stability Report noted that equity valuations remained toward the upper end of their historical range and that the additional return investors are receiving for taking stock-market risk remained relatively low. It also identified unexpectedly high long-term interest rates as a potential risk.

Does that mean rising rates automatically cause a correction? No.

If rates are rising because the economy is strong and companies are making more money, the market can potentially handle it. The bigger concern would be rates rising while earnings are slowing.

Which brings us to pillar number two.

Pillar #2: Earnings

At the end of the day, companies have to make money.

We can talk about artificial intelligence, interest rates, elections and geopolitics, but over long periods, stock prices ultimately need earnings underneath them.

And so far, earnings have been strong.

Recent Reuters reporting, citing LSEG IBES data, showed third-quarter S&P 500 earnings tracking more than 32% higher than a year earlier among the companies that had reported at that point.

That helps explain why a market can look expensive and continue climbing. There are really two ways for an expensive market to become cheaper:

Prices can come down, or earnings can catch up.

This is probably the pillar I am watching most closely.

AI is a good example. Companies are spending enormous amounts of money building AI infrastructure. Investors have been willing to reward that spending because they expect significant future profits.

Eventually, however, expectations need to become earnings. If companies keep delivering, today's valuations become easier to justify.

If earnings start disappointing, particularly after investors have paid premium prices based on very high expectations, the market has much less room for error.

Pillar #3: Valuation

This might be the easiest pillar to misunderstand. An expensive market does not automatically mean a falling market. Expensive markets can get more expensive. But valuation tells us something important about how much optimism is already built into prices.

Think of buying a business.

If I pay a reasonable price for it, a few things can go wrong and I may still be okay. If I pay a spectacular price, I had better get spectacular results.

That's essentially the issue facing parts of today's market and the current price earnings ratio.

The Federal Reserve's May 2026 Financial Stability Report characterized asset valuation pressures as elevated and noted that S&P 500 valuation measures remained high relative to history. That doesn't tell us when the market will fall.

It tells us the market may be less forgiving when something goes wrong.

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So what actually causes the correction?

This is where the three pillars come together. I don't think we should be looking for one magic trigger.

The more concerning scenario looks something like this:

Inflation stays stubborn → interest rates rise → earnings expectations weaken → investors decide they are no longer willing to pay premium valuations.

Or perhaps:

AI spending continues → the expected profits don't materialize quickly enough → earnings estimates fall → highly valued companies get repriced.

Notice the common thread.

Rates may provide the trigger. Earnings tell us whether the businesses are delivering. Valuation tells us how much disappointment the market can absorb.

The real danger isn't necessarily one pillar weakening. It's several weakening at the same time.

So, should we be doing anything?

Probably, but not what you might think. I don't believe we should try to guess the exact day the market peaks. Even if we somehow got that decision right, we would immediately have another decision to make:

When do we get back in? Getting both decisions right is extraordinarily difficult.

I'd rather spend our time on things we can control.

- Do we have money invested in the market that we're going to need soon?
- Are we properly diversified?
- Are we taking more risk than our financial plan requires?
- Are there opportunities to re-balance, realize gains or losses, or make smart tax decisions?
- Most importantly, if the market dropped 15% or 20% tomorrow, would our financial plan still work?

If the answer is yes, we don't have to spend every day worrying about whether we've reached "the top."

The Bottom Line

Here are the three things I'm watching:

- Interest rates: Is the cost of money moving materially higher?
- Earnings: Are companies delivering the profits investors are expecting?
- Valuations: How much optimism is already priced into the market?

One pillar weakening doesn't necessarily end a bull market. Two deserve our attention. If all three begin deteriorating together, I'll become considerably more cautious.

We don't need to predict the next market correction. We need a plan that can live through it.

If Mark Carney Tells You to Buy Bitcoin, Look Twice

I wanted to share a quick warning about a scam that has been circulating in Canada. Fraudsters have been using AI-generated "deepfake" videos of Prime Minister Mark Carney that appear to show him promoting cryptocurrency investment opportunities. The videos can look and sound remarkably real, but Carney is not endorsing these investment schemes. An Ontario senior lost $900,000 in a crypto scam that used an AI deepfake of Mark Carney

Unfortunately, this isn't hypothetical.

An 86-year-old Ontario woman reportedly lost more than $900,000 after seeing one of these videos on Facebook. It appeared to show Carney promoting a $350 cryptocurrency investment supposedly backed by the Bank of Canada. After the initial investment, the scammers contacted her, showed her fictitious investment gains and gradually convinced her to send substantially more money.

The Bigger Lesson
The important part of this story isn't Bitcoin. It's that seeing is no longer necessarily believing. AI technology can now create extremely convincing videos and voices of politicians, celebrities, business leaders and potentially even people we know.

So here's a simple rule:
If an investment opportunity comes to you through social media, email or an unexpected phone call, don't send money based on what you see or hear. Verify it independently first. And if somebody is promising unusually high returns, pressuring you to act quickly, or telling you the investment is "guaranteed," that's a good reason to stop.

When in doubt, call us before you click, transfer or invest.

I'd much rather have a five-minute conversation about something that turns out to be legitimate than see someone lose money to a scam.

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Your Investment Statement Is Changing, Not Your Fees

A quick reminder about CRM3

Starting in 2027, you may notice some changes to the way investment fees are shown on your statements. These changes are part of CRM3, also known as Total Cost Reporting, new Canadian rules designed to give investors a clearer picture of what their investments cost.

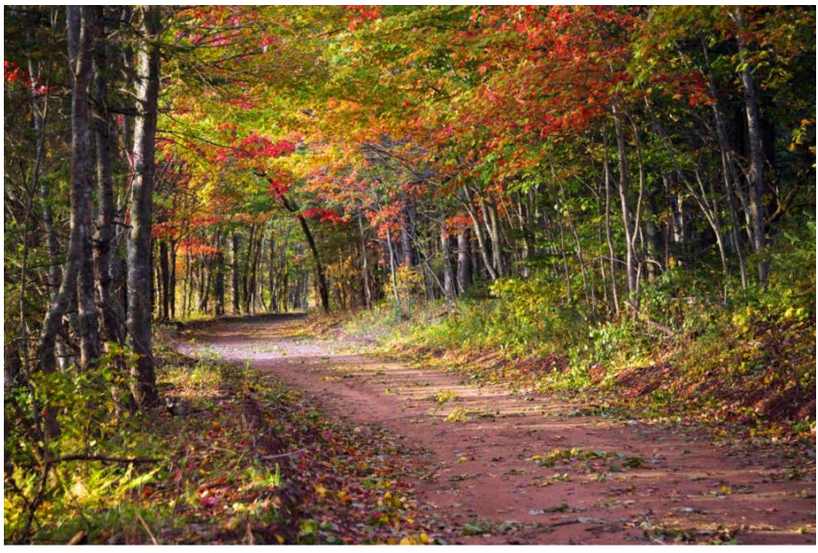
The important thing to remember is that these disclosures do not mean you are suddenly being charged additional fees.

Costs that were previously embedded within mutual funds and ETFs, including management and trading expenses, will now be much more visible and shown in dollar terms. Those costs were already part of the investment and were already reflected in your returns.

So, when your updated reporting arrives, the fee number you see may look different, but that does not mean your actual costs have increased. You're simply being shown more of the costs in one place.

I think more transparency is a good thing. And, as always, if you receive a statement and aren't sure what you're looking at, give us a call. We're happy to walk through it with you.

Q: Why don't long-term investors panic?
A: They've survived enough PEI tourist seasons to know things eventually settle down.



Markets can be unpredictable, but at least they're not trying to grow potatoes in a PEI summer. One week you're hoping for rain, the next week you're hoping it stops.

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