



Wealth Management
Dominion Securities

Pringle Daigneault Investment Partners of RBC Dominion Securities

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Integrity, Trust and Experience www.pringleadvisors.com

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Welcome and thank you

A warm welcome to the clients who have recently joined us, and a special thank you to the people who mentioned our name to them. We appreciate your trust and support.

Navigating Higher Rates and Geopolitical Risks

Elevated bond yields and geopolitical tensions have challenged the resilience of markets, but so far neither has been sufficient to durably undermine economic growth and corporate earnings momentum. We discuss the key factors shaping today's risks and opportunities in more detail below.

Macro strength tested

The world economy continues to expand at a reasonable pace despite numerous crosscurrents. In the U.S., a stable labour market and rising household wealth have helped reinforce consumer spending, while AI-related investments have supported business activity. Global economic indicators remain at healthy levels, and data has generally been surprising to the upside, providing a constructive foundation for continued corporate profit growth.

We continue to monitor simmering risks that could weigh on economic momentum and contribute to volatility. Namely, geopolitical developments and the rise in global bond yields. Oil prices remain meaningfully above pre-war levels, and further disruption to commodity flows or energy infrastructure in the Middle East could prolong price pressures. However, we are reasonably encouraged by reports that energy shipments are beginning to normalize, though recent attacks on tankers in the region underscore lingering risks to energy supply.

Higher bond yields: Headwind and opportunities

In our view, higher yields are not necessarily negative in isolation. While

the recent uptrend partly reflects greater inflation and monetary policy uncertainty related to an energy shock, it is also a function of a constructive outlook for global growth.

For fixed income investors, rising yields are initially accompanied by lower prices for existing bonds, which has dampened returns recently. However, with a higher starting point for yields today, the forward-looking return outlook for a diversified fixed income portfolio has become more attractive, allowing investors to collect higher coupon payments while also providing more cushion against further increases in yields.

Economically, persistently higher yields can raise borrowing costs for businesses and consumers. This can soften economic momentum on the margin, but the impact varies across economies. The U.S. economy appears relatively well positioned to absorb higher rates given its lower sensitivity to interest-rate fluctuations compared to other major economies. More broadly, higher rates also increase the income households and businesses earn on cash and other interest-bearing assets, which can partially offset the effects of higher borrowing costs.

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For equity markets, higher yields can create performance variances across sectors. More rate-sensitive sectors—such as utilities, real estate, consumer staples—have recently underperformed the broader market. A stabilization in bond yields would, in our view, help improve the prospects of these market segments. At the same time, with fixed income markets now offering more attractive return potential, this will likely raise the importance of earnings delivery as a driver of equity market returns in the quarters ahead.

Solid earnings fundamentals

While bond yields and interest rates have dominated headlines, we expect market attention to increasingly shift toward the start of Q3 corporate reporting season.

The outlook for earnings growth remains strong. S&P 500 earnings are forecast to increase by more than 20% year-over-year for the third consecutive quarter. While technology

companies are expected to remain an outsized contributor, all eleven S&P 500 sectors are projected to deliver profit growth. If realized, this broadening participation in profit expansion could provide additional support for the ongoing equity market uptrend.

The Canadian corporate sector is showing similar strength, with the S&P/TSX Composite also projected to deliver earnings growth exceeding 20% in the third quarter.

Takeaway

While markets can always be surprised by unforeseen developments, most economic indicators continue to support our baseline view that the economy and corporate fundamentals retain positive momentum. We are nevertheless monitoring several potential speed bumps, including signs that higher borrowing costs are beginning to weigh more meaningfully on growth and any disappointments around AI investment or monetization.

Against this backdrop, we believe portfolios should balance participation in a durable expansion cycle with awareness of market concentration. Maintaining exposure to AI-linked companies remains important given their structural growth potential, but this exposure should be complemented by sectors and regions that are less dependent on the AI investment theme. We remain focused on disciplined portfolio management, with an appropriate mix of growth and defensive exposures aligned with long-term objectives.

Should you have any questions, please feel free to reach out.



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