Markets Made Simple

Chan and Brown Wealth Management

Wealth Management
Dominion Securities

SECOND QUARTER REPORT – JUNE 30TH, 2026

HEADWINDS

In a previous newsletter, I wrote about the close encounter my dad and I had with a homicidal rock, launched from somewhere high in the Grand Canyon. This massive, targeted, rolling assassin missed my dad's head by mere inches and could have ended our fun father-son trip by literally rocking his world. We had a long moment of reflecting on our life choices and contemplated whether instead, we should have chosen to sit on a beach in Mexico where the biggest danger is sunburn and getting bitten by a hungry turtle while snorkeling.

Was the chance to admire one of the Seven Natural Wonders of the World worth incurring the enmity of large rocks randomly hurtling down steep embankments at our vulnerable noggins? I wonder if my dad’s comment about not really liking rock music caused the cliff to decide to take revenge.

Not wanting to stick around in case more rocks with better accuracy came down, we quickly finished our hike, scanning every cliff face and listening for the slightest rumble. A few hours later, we were safely back on top of the Grand Canyon. As the sun dipped below the canyon walls, the landscape transformed into something that looked like it belonged in a ‘Visit the Beautiful Grand Canyon’ travel brochure. Like a race between 2 snails, life is sometimes just a game of inches, and we had come out on the winning side that day.

The next stop on our Arizona tour would involve significantly less excitement and a much lower probability of death, we confidently but erroneously believed. Page, Arizona, a sleepy, quiet town where the most dangerous event is ordering the medium spicy salsa without realizing that locals define “medium” heat as taking more than 2 minutes to eat through your stomach lining.

The first day was exactly what we expected, leisurely wandering through Antelope Canyon, standing in awe at Horseshoe Bend, hiking on level ground with nothing looming above us other than fluffy clouds and no risk of falling off the edge of the world. This idyllic journey lulled us into a false sense of security, so we were overly pliant when the suggestion of kayaking on Lake Powell came up. We heard the phrase "peaceful slot canyon paddle" but in our impressionable state, we focused on the word “peaceful” not the implication of “slot canyon”. Visons of the movie *“On Golden Pond”* crossed our minds but little did we know the actual movie will be the 1972 classic *“Deliverance”* with Jon Voight and Burt Reynolds against a raging river.

We rented a tandem kayak and pushed off into water so calm it looked like polished glass. The morning couldn’t have been more perfect. Blue skies stretched endlessly overhead while towering sandstone cliffs rose from the lake. If this were a movie, the ominous music in the background would begin right about now. After paddling for an hour and half we reached the entrance to one of the slot canyons where the rock walls gradually narrowed from hundreds of feet apart to the width of my couch.

We pulled the kayak ashore and spent the next couple of hours wandering through the stunning winding canyons, stopping every few minutes simply because another corner revealed another incredible view. Eventually we started to get hungry, and it was time to head back.

That was when the weather changed …Da Da Da…Dum!!!! The calm lake we paddled across that morning had transformed into a frothing, foaming mess like somebody shook a bottle of Coke and pointed it at us. A relentless wall of headwinds, funnelled directly through the ***slot canyon*** (now we realize the significance) walls with gusts of 40 miles per hour. Wind slammed into us harder than a Mike Tyson (in his prime) punch and we felt like we were contestants in an episode of Survivor: Hurricane Katrina.

You would think that two reasonably fit, outdoorsy type men could handle a bit a weather. Unfortunately, one of us was not really fit. During our boulder encounter, my dad's catlike reflexes may have saved him from getting literally stoned but his contortion reignited a torn rotator cuff in his shoulder. Every paddle stroke sent a sharp stabbing pain through his shoulder which hurt more than after he went to a yoga session with my mom. I took inventory: one kayak, one-armed dad, and one exhausted son vs Mother Nature in her full fury. Our odds on Play-Now.com was -1200 to win and -600 to make it out alive.

I put my head down and dug the paddle into the water as hard as I could. After what seemed like hours but was only 10 minutes, I checked our progress and we had advanced the length of a parking spot, a tiny Superstore sized parking spot. It felt like I was trying to push a Sumo Wrestler out of the ring, I am shoving as hard as I can and he is just standing there yawning and adjusting his mawashi. Like kids at the mall running up the down escalator, effort does not always mean progress.

Consumers know this feeling. It can seem like every time they try to paddle ahead financially; another gust of bad news arrives to push them back.

Inflation. (whoosh).

After reaching multi-decade highs in 2022. While there was brief relief later in the year as prices finally began to cool, that only lasted about as long as the last piece of pizza at the FIFA Watch Party, as inflation re-accelerated from geopolitical tensions, trade disruptions, and tariff pressures. Gas is up roughly 30% over the past year, coffee and beef around 20%, and vegetables up 8%[1]. At this point, groceries are starting to feel like soccer game tickets. Soon they will be going to surge pricing for groceries like they do for Uber rides…. oh you're hungry...bread just went up another 10%.

Then came interest rates. (whoosh…whoosh…)

Central banks responded to inflation the only way they knew how, raising rates aggressively and painfully for anyone with a floating mortgage and a sinking bank account balance. Borrowing costs rose, mortgage payments increased, credit tightened, and refinancing became something people now approach the way they do a colonoscopy: necessary, uncomfortable, and preferably done while heavily sedated. In Canada, mortgage pricing is tied to five-year government bond yields. In the US it is tied to the long end of the Treasury curve, or the 30-year US Treasury bond. Both have surged like SpaceX on its first trading day.

Then jobs disappeared. (whoosh…whoosh…boom!!!)

Hiring slowed. Layoffs increased. Artificial intelligence quietly entered the conversation, then took over the speaking parts. What do you call it when AI takes your job? Tuesday. Sectors such as transportation and warehousing, which employ roughly 10% of the US workforce, are now at risk of being replaced by autonomous vehicles and automated distribution centres. Like the Terminator movies, "AI'll be back!"

Putting it all together, it is not surprising the average Canadian is feeling financially stretched and pessimistic about the future. Consumer insolvencies have swelled to the highest levels since 2009, and close to half of households are $200 away from being insolvent[2], and if they buy Starbucks coffee daily…$20 away from being insolvent. The financial kayak is not just moving slowly; it's caught in a wind tunnel.

With all these challenges, many of us are asking: If consumers are under pressure, why are markets near all-time highs, and why are corporate profits still growing?

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[1] https://www.ctvnews.ca/business/inflation/article/these-common-grocery-items-saw-the-biggest-price-jumps-in-april/

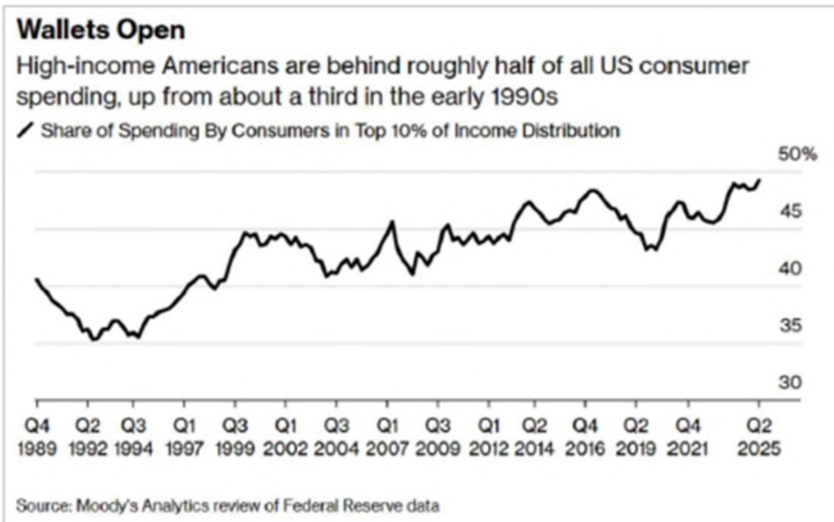
[2] https://mnpdebt.ca/en/resources/mnp-debt-blog/mnp-consumer-debt-index-canadians-bracing-challenging-2026, https://foodbankscanada.ca/hunger-in-canada/hungercount/overall-findings/ https://ca.finance.yahoo.com/news/posthaste-canadians-filing-insolvency-hit-121656985.html.

The Economy

The answer starts with something that has been developing for decades.

In the 1950s, economic growth functioned like a rising tide lifting all classes of income. Today, the tide still rises, but only for some boats.

CEO compensation illustrates the change clearly. In the 1950s, CEOs earned roughly twenty times the average worker. Today, it is closer to four hundred times[3]. As a result, high-income households now account for a much larger share of total consumption, rising from roughly 30% in the early 1990s to nearly half today. The economy, in other words, has become a two-speed machine. A small group is cruising down the highway in Ferrari's, while everyone else is trying to catch up in a Little Tikes Big Wheel.



Most middle-income households build wealth primarily through their homes, assets that are sensitive to interest rates and borrowing costs. Wealthier households, meanwhile, tend to own businesses and stocks, assets that generally benefit when profits and financial markets rise. As markets have risen, so have the wealth of the affluent, while the extra weight of higher borrowing costs and inflation are causing additional pressures for the average consumer. Like paddling with my one-armed dad, these pressures are a real drag.

Households Q1 2025	Totals $ Trillions	Share %
Stocks	**$46.7**	**100.0%**
Top 1%	$23.2	49.8%
90-99%	$17.4	37.3%
50-90%	$5.5	11.8%
Bottom 50%	$0.5	1.0%
Real Estate	**$47.9**	**100.0%**
Top 1%	$6.5	13.5%
90-99%	$14.7	30.6%
50-90%	$22.0	45.8%
Bottom 50%	$4.8	10.1%

Source: Federal Reserve

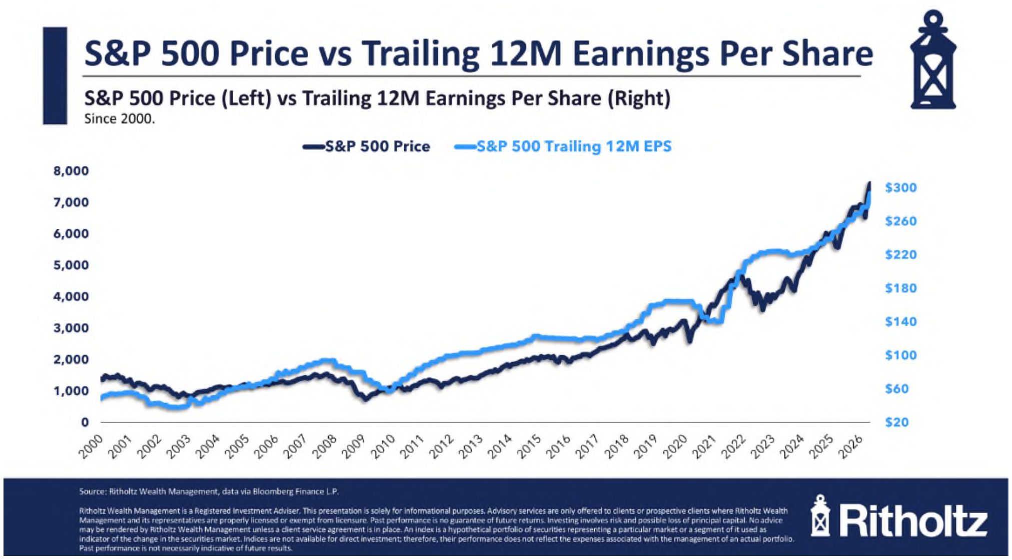
[3] https://www.cnbc.com/2021/09/15/in-2020-top-ceos-earned-351-times-more-than-the-typical-worker.html

My dad wanted to be helpful by paddling with his one good arm but instead was single handedly causing our kayak to spin like a merry-go-round. The kayak had officially entered the “shopping cart with one broken wheel" phase. I was burning even more energy battling both the wind and swift current while struggling to keep us going in one direction and like the average consumer today, any progress we made, was quickly becoming undone by a combination of weather and my dad, ‘Lefty’.

Corporate Profits

Despite all these pressures on consumers, corporate earnings have remained resilient. Spending in the economy has been increasingly propped up by higher-income households, while companies have benefited from productivity gains and cost efficiencies, including artificial intelligence.

S&P 500 earnings growth has been unusually strong, with profits up roughly 29% over the past year in the first quarter of 2026[4] and are expected to grow by 20% for the entire year[5]. Which is impressive considering how many narratives suggest the economy is simultaneously: overheating, slowing, collapsing, and one strong sneeze away from a recession.



In our kayak, nothing had changed externally. After an hour on the water, we weren't making much progress. Anyone watching our little blue dot creep across Google Maps would have reasonably assumed we had simply stopped and were taking a nap. I asked my dad to stop helping and was back on my own two arms. Progress was painfully slow, but at least I no longer felt like a dog chasing its’ own tail.

With all these headwinds today, investors are wondering about the future.

Rates

Investors hoping for 5% GICs to make a comeback will likely be disappointed, the financial equivalent of believing in Santa Claus or that the Canucks will make the playoffs this time.

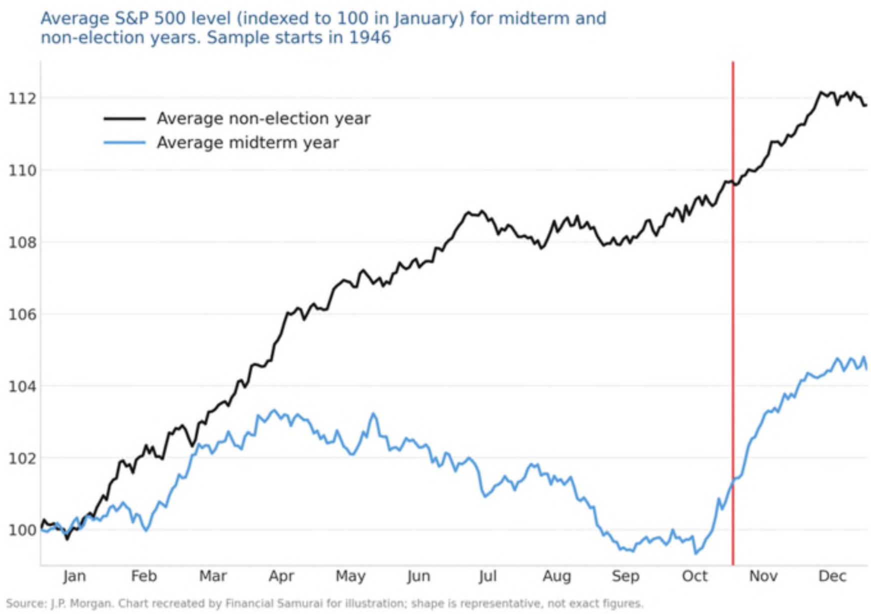
The sharp interest-rate increases we experienced in 2022 are unlikely to be repeated. Today's inflation has less to do with the massive monetary and fiscal stimulus that fuelled the post-pandemic surge, and more to do with several temporary factors that are already beginning to fade. Oil prices, one of the primary contributors to the recent uptick in inflation, have fallen from $118 USD per barrel to $70 USD and lower energy prices will help ease inflationary pressure over the coming months.

[4] https://www.theglobeandmail.com/investing/markets/stocks/MS-N/pressreleases/2620745/the-sp-500-is-up-9-in-2026-wall-street-says-the-stock-market-will-do-this-next/
[5] https://www.goldmansachs.com/insights/articles/s-and-p-500-forecast-to-climb-as-earnings-growth-powers-stocks-higher

At the same time, many consumers are already feeling the strain of higher borrowing costs, which leaves central banks in a difficult position if they were to consider raising rates significantly, a bit like trying to tighten a belt that is already making you look like a muffin top.

The Mid-Terms

Historically, US mid-term election years have been more volatile for stocks as investors grapple with political uncertainty, and August and September have tended to be among the weakest months of the year. With the mid-term elections fast approaching, we're watching markets closely. Opportunities have been harder to find than they were last year, but we stand ready to take advantage of any that increased volatility may bring.



How We Are Positioned Today

As money has flowed back into the markets from low-yielding cash and savings accounts, valuations in certain areas have pushed much higher and have become more stretched than a middle-aged guy doing the Jean Claude Van Damme splits.

Rather than chasing the areas that have become the market's newest darlings, we have been trimming positions that have become expensive and redeploying capital into areas where we continue to see better long-term value. Recently that included exiting Cisco after originally purchasing it for clients at under $20 per share and ultimately selling it at approximately $120 and using some of the funds to increase our exposure to healthcare and international equities.

We also continue to overweight areas of the market that many investors have overlooked, including small and mid-caps, real estate, and select commodities.

Back on Lake Powell, my arms felt like wet pool noodles as I watched the canyon walls slowly creep past. We were moving at roughly the speed of continental drift, with no opportunity to rest. Anytime I stopped paddling, even for a few seconds, the wind laughed and shoved me 20 yards back.

After another three hours, we rounded a bend and came face to face with what looked like a scene from the movie "*The Perfect Storm*". Whitecaps rolled across the lake, the gusts intensified, and the water ahead looked completely impassable. I felt like Frodo the hobbit standing in front of Mount Doom wondering if I will finish my quest or be destroyed by the elements.

Each wave drove us backward. Every muscle burned. Inch by inch, stroke by stroke, the kayak crept forward, watching me struggle was like watching a 2-year-old girl put on her mother's make up…it wasn't pretty.

Then, almost without warning, everything changed. As we paddled past the eye of the storm, the wind eased. The waves flattened and for the first time in hours, the kayak began moving with us instead of against us. I can hear Bette Midler signing “The Wind Beneath My Wings”.

Today's economy is a lot like my adventure down the river. Many households are paddling into relentless headwinds. Inflation, higher borrowing costs, and a softer job market make every step forward a struggle. Meanwhile, more affluent households, whose wealth is tied closer to financial assets rather than debt, are gliding like the beautiful yachts they own, across much calmer water. The Grand Canyon like gap growing between the two groups of households is not just due to a difference in wealth but how each group makes investment decisions and how they look at growing their assets.

Our six hours (seeming like years) in the kayak brings to mind an important lesson from Warren Buffet about investing when facing headwinds: “Be fearful when others are greedy and be greedy when others are fearful.” If my dad and I had panicked and paddled wildly or froze and drifted, I am sure they would be recovering our somewhat emaciated bodies down river in a few days. In 2022, many investors put everything into cash when the environment first got choppy and have been waiting for calmer waters since while watching the markets roar ahead like the raging river. High interest rates, inflation and job insecurity have all brought more economic uncertainty but those who stuck with a disciplined and resilient approach have not only survived but greatly benefited in the past 4 years.

Rather than trying to predict exactly when the headwinds will arrive or when they will end, like trying to guess the start or end of the next Iran ceasefire, our focus remains on owning great businesses, making thoughtful adjustments when opportunities arise, and trusting a disciplined investment process to carry our clients to their financial destination over time.

After paddling longer than it takes to finish the Whitehouse ballroom, we finally sighted the marina. I could almost taste the enormous dinner I planned to inhale when I got ashore since my stomach had been growling in surround sound for the past couple of hours. Then my dad, always full of encouragement, looked around and said, "Hey, I think you paddled past the dock.” I had managed to overshoot the finish line by 300 yards.

It was a fitting end to the day. After spending hours focused entirely on survival, I had not realized how much progress we actually made and my dad was apparently too busy not paddling to notice either. If you are too focused on today's storms, you can lose sight of how far your investments have already taken you. Progress is rarely dramatic. It's built inch by inch, stroke by stroke, until one day you realize you are well past your goal...and you have no feeling in your arms.

-Kind regards,

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