Wealth Management
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Second Quarter 2026

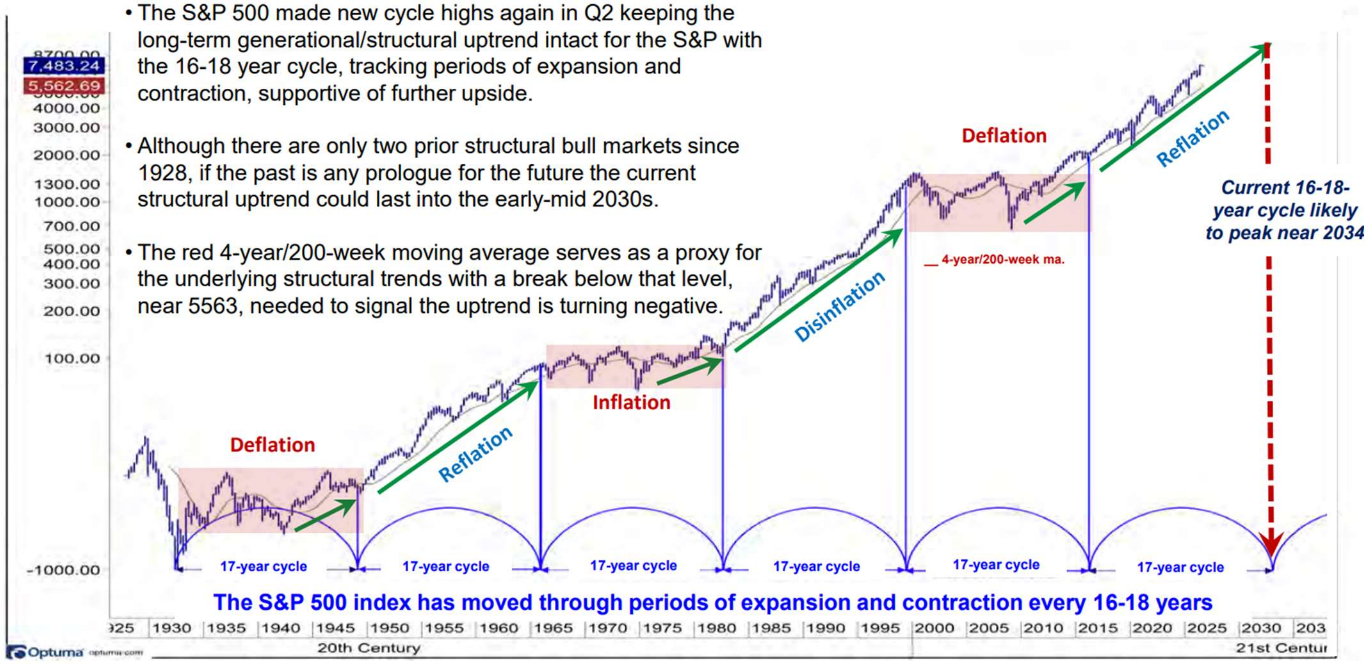
The second quarter was the best for the S&P 500 and NASDAQ since 2020 and more than erased the first quarter's decline. The Artificial Intelligence boom has been driving spectacular gains. On those days when the AI trade falters, the rest of the stock market catches a bid. For example, I've noticed that recently Corning has been fluctuating, sometimes up or down 10% in a day. On days when it is down, the stock market generally may be up. It is as if the AI stocks have been sucking money from the rest of the stock market.

"The AI buildout has prompted a tremendous explosion in capital expenditures as a percentage of gross domestic product that is reminiscent of the 19th-century buildout of the railroad system in the U.S." (Michael Rosen, chief investment officer of Angeles Investments, Dow Jones Newsplus, July 5, 2026).

The comparison of data centers for AI to the railways in the 1860s and perhaps the highways in the 1960s seems apt. They are examples of the construction of important infrastructure. The building of massive infrastructure is inflationary.

RBC DS's Robert Sluymer, CFA, in his regular report The Long View, tracks cycles he says are 16-18 years long. As a history buff, I like seeing long-term charts of financial markets. Sluymer says that the generational uptrend in stock prices we are now enjoying could continue to 2034 and 14,000 on the S&P 500, in line with the average annual return of 7-8%.

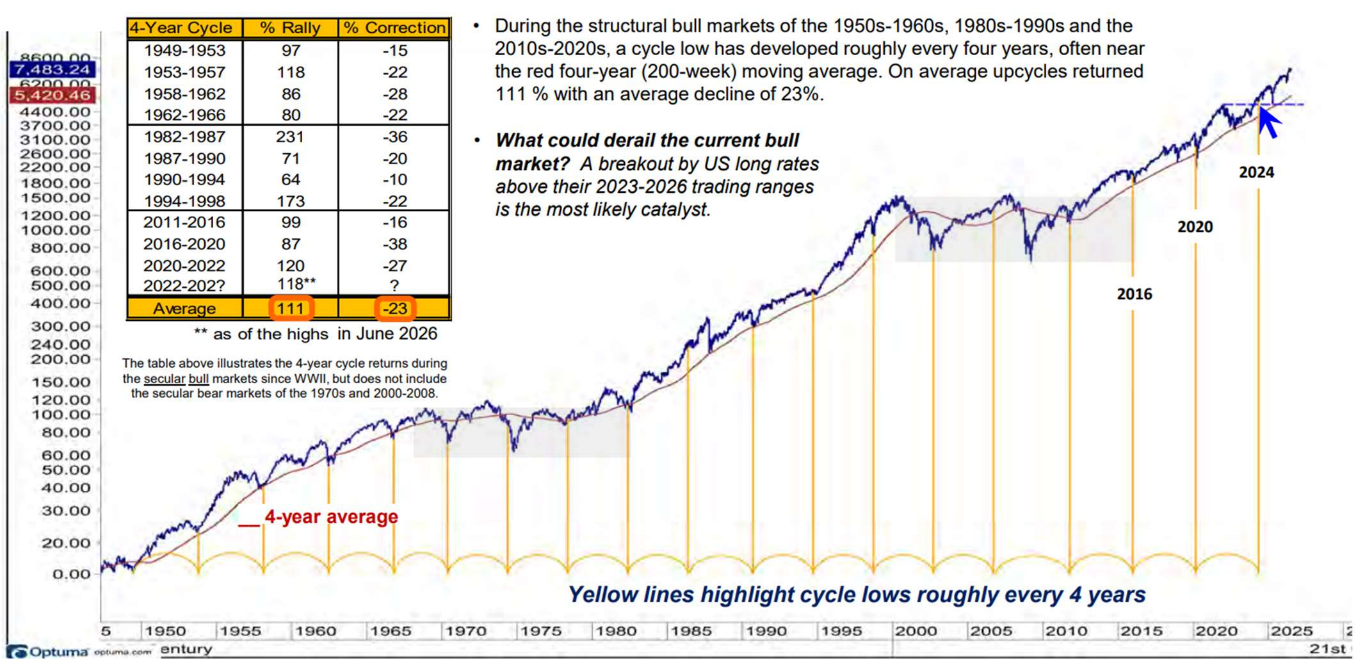
S&P 500 - Generational trends and cycles lasting roughly 16-18 years.



Source: Trend and Cycle, RBC Wealth Management, Bloomberg, Optuma, July 6, 206

There has been a roughly four-year cycle to the stock market, and this bull arguably began in 2022.

S&P 500 - A repetitive 3-4 year cycle driven by central bank **liquidity** and economic **growth**.



Source: Trend and Cycle, RBC Wealth Management, Bloomberg, Optuma, July 6, 206

Sluymer asks the important question – what could derail this bull market? "Should (10-year U.S. bond) rates begin to move above 5% we would view such a move as a signal investors are concerned inflation is returning similar to what developed in the 1970s."

US 10 Year Yield: Cycle peak likely in place but 5% remains a critical technical level.

Source: Trend and Cycle, RBC Wealth Management, Bloomberg, Optuma, July 6, 206

Last week, for the first time in eight years, I put my Shark 24 sailboat on the highway and went to our World Championship, in Belleville, Ontario. The competition was fierce and included some Olympians and professional sailmakers and, no, we didn't place. The winds built throughout the week, and the very long days were exhausting but, somehow, refreshing. I was able to completely ignore all of you for 7 days, because of the sharp crew (Elena and Margarita) that I left in the office. (By the way there are two times a year when it makes sense for me to be on holiday – late December and early July.)

Once more I was reminded how much sailboat racing is like investing. To make compounding work, you need to start well. In racing we want to start with momentum and bow out. We want to sail on a favourable tack which benefits from the wind shifting in a particular direction. In investing we want to invest ahead of long-term social trends, such as a need for clean water. In sailing, we tack on unfavourable wind shifts. In investing we change course and sell a stock when we realize that industry dynamics have changed or were not as we thought.

In sailboat racing it is tempting to take a flyer. A move to the far side of a course can pay off if the speculation of a large wind shift or a large wind velocity change is correct, but the risks are enormous. In investing too speculation can be exciting but generally not worth the risk.

In both sailing and investing the sequence of returns is critical. Both a good start and a good finish are important. Major investment losses just before retirement or early in retirement, when saved capital cannot be easily replaced, can capsize plans. A portfolio that loses 40%, and I have seen the stock market go down 40% several times, must rise about 70% just to get even. That is why as we get older portfolios should generally become more conservative, as there is less time to recover. Close to the end of a sailboat race the prudent sailor will consolidate gains. A prudent investor will moderate risk.

I hope you too have enjoyed some fine summer weather, even if you weren't hanging off the edge of a tossing sailboat.

Sincerely,

George Stedman, CFA
Senior Portfolio Manager
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