



Wealth Management
Dominion Securities

Pringle Daigneault Investment Partners of RBC Dominion Securities

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Integrity, Trust and Experience
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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.

Geopolitical Developments Impacting the Economy

Geopolitics continue to dominate the narrative for financial markets and major economies. We discuss what's transpired, macro developments, and earnings expectations in more detail below.

Geopolitical Headline Whipsaw

After weeks of trading deadlines and escalating rhetoric, the U.S. and Iran reached a temporary ceasefire contingent on Tehran reopening the Strait of Hormuz (SoH) to commercial shipping. The agreement has reduced the likelihood of worst-case economic outcomes stemming from a severe disruption to energy markets. Markets responded constructively: equities recovered a portion of recent losses, oil prices pulled back, and bond yields declined. Lower energy costs, if sustained, should ease pressure on consumers and businesses, moderating concerns around the inflation backdrop and earnings outlook.

Despite the collective sigh of relief, the prudent interpretation is likely "less bad" rather than "problem resolved." The ceasefire provides time for both sides to find common ground and, ideally, a framework that lets each claim some version of a win. For many economies and businesses, a challenging second quarter may be largely unavoidable. What remains to be determined is whether that headwind gives way to a gradual normalization or renewed disruptions. Should the ceasefire hold and eventually become permanent, we believe the most likely outcome remains a period of slower growth and somewhat elevated inflation before conditions improve later in the year.

Global Economic Resilience Tested

The softening we observed two weeks ago has become more broadly visible. The latest business surveys suggest growth moderated across major economies, with the pressure most evident in consumer-facing areas. Globally, hiring trends have cooled and cost pressures have risen, reflecting the effects of higher energy prices.

In Canada, conditions are mixed. The manufacturing sector stalled and services activity contracted for a fifth consecutive month as consumers delayed spending decisions, but business confidence reached a six-month high on optimism around trade prospects and a potential resolution in the Iran conflict. Overall activity levels remain consistent with continued expansion, albeit at a slower pace than before the war.

In estimates published before the ceasefire, RBC Global Asset Management's forecasts aligned with the direction now visible in the data. They estimated that a sustained energy price shock could lift inflation by roughly one percentage point in North America, and by more in Europe and Japan. Growth impacts vary by region, with Europe and Japan again bearing the brunt of a slowdown, while Canada's position as a net energy exporter could translate into a modest boost to growth.

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Eyes On Corporate Guidance

Despite heightened uncertainty, corporate profit estimates in Canada and the U.S. have continued to move higher. However, upward revisions have been concentrated in the energy and technology sectors. Outside of these companies, revisions have been limited, suggesting analysts have yet to fully incorporate the softer economic backdrop.

Earnings forecasts can lag economic developments, which is why the upcoming corporate reporting season will likely carry more weight than usual.

Management guidance on business conditions and consumer demand will provide valuable signals on whether the current trajectory in earnings is sustainable and whether it can provide fundamental support for equity markets.

Takeaway

The economy and markets remain in a “stress testing” phase, but the ceasefire represents an encouraging step toward stability. A key indicator we are monitoring is the normalization of shipping activity through the SoH, which would signal improving

commodity supply constraints. While periods of rapid news cycles and sharp price swings in both directions can challenge investor confidence, these moments underscore the importance of maintaining a balanced perspective. We believe portfolio allocations should be closely aligned to long-term target weights, while acknowledging that markets may experience renewed bouts of volatility as U.S.-Iran negotiations unfold.

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



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