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Q2 2026 Market Commentary

Benchmark performance as of June 30, 2026

Index	June	3-Month Trailing	2026 YTD Return
S&P/TSX Composite TR	-0.5	7.0%	11.2%
S&P 500 TR	-1.0%	15.2%	10.2%
Nasdaq Composite	-2.8%	21.6%	13.1%
WTI Oil	-23.7%	-32.4%	21.4%
Natural Gas	-2.0%	13.7%	-18.2%
Copper	-2.0%	9.7%	6.7%
Gold	-11.4%	-12.6%	-7.8%
10-Year US Treasury Bond	0.1%	2.8%	6.6%
USD/CAD FX	2.9%	2.0%	3.4%

Source: FactSet

Global markets ended the first half of the year near record highs, supported by a recent easing of Middle East geopolitical tensions and a surge in AI-related equities.

US Equity markets consolidated in June with the S&P 500 retracing 1.0% after gaining more than 16% over the prior two months, the index's strongest quarter in six years, still returning 10.2% for the first half of 2026.

The S&P TSX Composite outperformed the S&P 500 in June with a 0.5% gain and returned 11.2% during the first six months of 2026.

The S&P TSX Composite performance was driven by the positive momentum in the financial sector. The Canadian banks now represent 26% of the index and 80% of the financial sector which has grown to a 36% index weighting.

The material (gold) and energy sectors have experienced waning momentum as the US Dollar has rallied and the US-Iran conflict entered a fragile 60 day cease fire phase.

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The Canadian Banks have been the stellar relative performers in the first half of 2026 and the largest beneficiary of investor fund flows. Strangely, this is at a time when Canadian GDP growth is very weak and there is no immediate tariff relief on the horizon.

One positive catalyst for Canadian banks to rerate higher was the Office of the Superintendent of Financial Institutions' (OFSI) announcement to decrease the domestic stability buffer (DSB) to 3.00% (from 3.50%) thus loosening capital requirements.

While OSFI is not dictating how the additional capital is to be deployed, there is a clear preference for supporting Canada's growth and loan aspirations (particularly in the face of the pending USMCA negotiations).

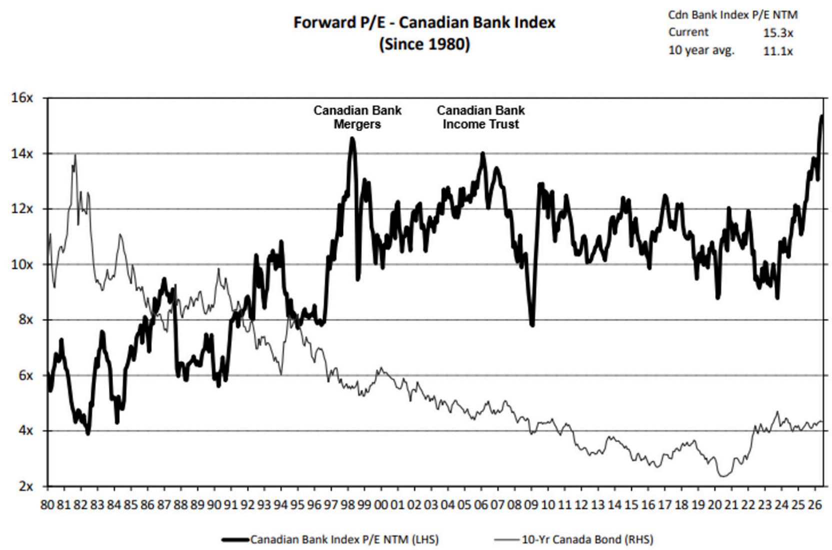
OSFI indicated that many regulated constituents felt capital constrained and there was significant optimism for loan growth on the horizon.

From a valuation perspective, the S&P TSX Canadian Banks now trade at price to earnings (PE) multiples that exceed the proposed bank merger announcements (circa 1998) and the income trust conversion (circa 2006). Both proposals were quickly blocked by the Federal government (See Chart 1).

Explosive growth in Exchange Traded Funds (ETFs) relative to mutual funds has been remarkable over the past decade.

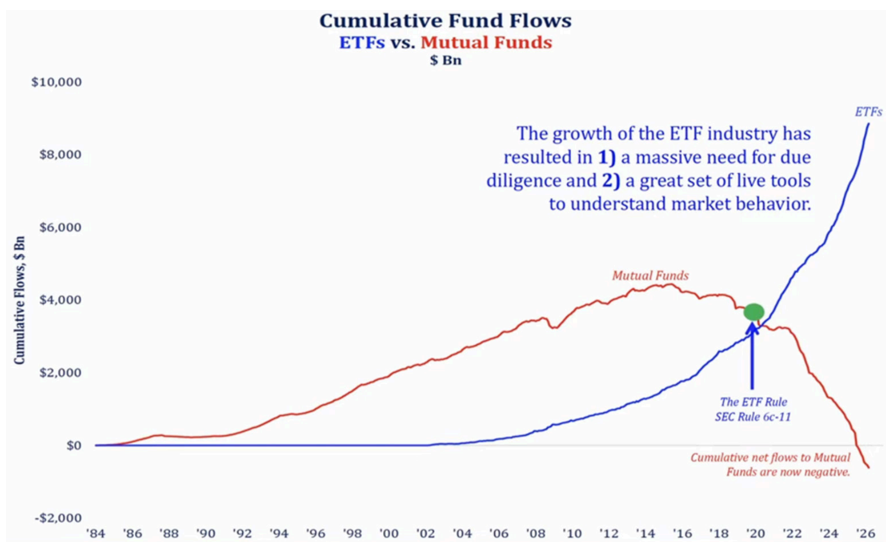
The inflection point when ETFs cumulative fund flows exceeded mutual funds as a preferred investment vehicle coincided with a modernized US Securities and Exchange ruling (SEC). See Chart 2.

Chart 1: Canadian Bank forward P/Es are above the Historical 10-year average.



Source: RBC Capital Markets

Chart 2: ETFs are the Market



Source: Strategas

SEC Rule 6c-11 (the "ETF Rule") allows fully transparent exchange-traded funds (ETFs) to launch and operate without acquiring costly, time-consuming exemptive orders from the SEC. This rule was passed to streamline the ETF marketplace, it standardizes operations, permits flexible "custom baskets," and requires daily website disclosure of portfolio holdings.

A biproduct of the ruling is that ETF transparency has become an extremely helpful portfolio manager tool when seeking out the sectors with the best positive momentum and return potential.

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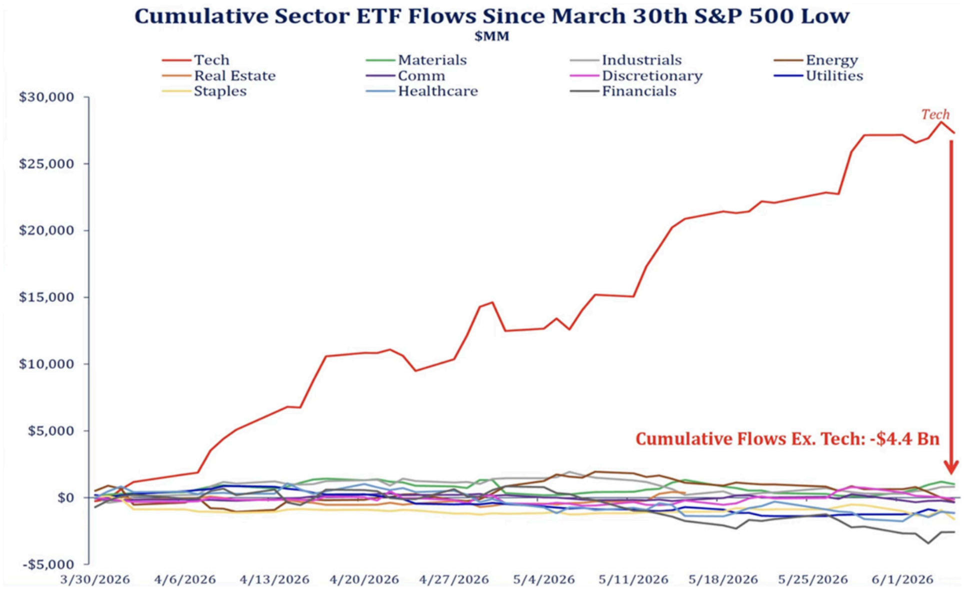
In the United States, there are over 4,400 index-based and actively managed ETFs traded on major exchanges. There are hundreds of two and three times levered index or basket ETFs available in the US and more recently single stock leveraged ETFs have gained popularity with active traders and speculators. Roughly 30% of the daily trading volume in the US equity markets is ETF related, which can certainly add to intraday market volatility.

Since the March 2026 market lows, Information Technology ETFs (such as the Nasdaq 100 'QQQ') have taken in $25 billion while all other industry sector ETFs received $4.4 billion in fund flows. Investor demand for technology exposure (the largest S&P 500 sector weight) is undeniable. See Chart 3.

Drilling down, it has been the semiconductor sub-sector that has been the best performer given the massive AI Data Centre spending spree planned by the hyperscalers (Microsoft, Meta, Amazon, Alphabet, etc.) in 2026. Outsized demand for semiconductors and in particular memory chips of late has created a new contract based business model that has reduced the cyclicality of a sector that was historically plagued by boom and bust cycles. See Chart 4.

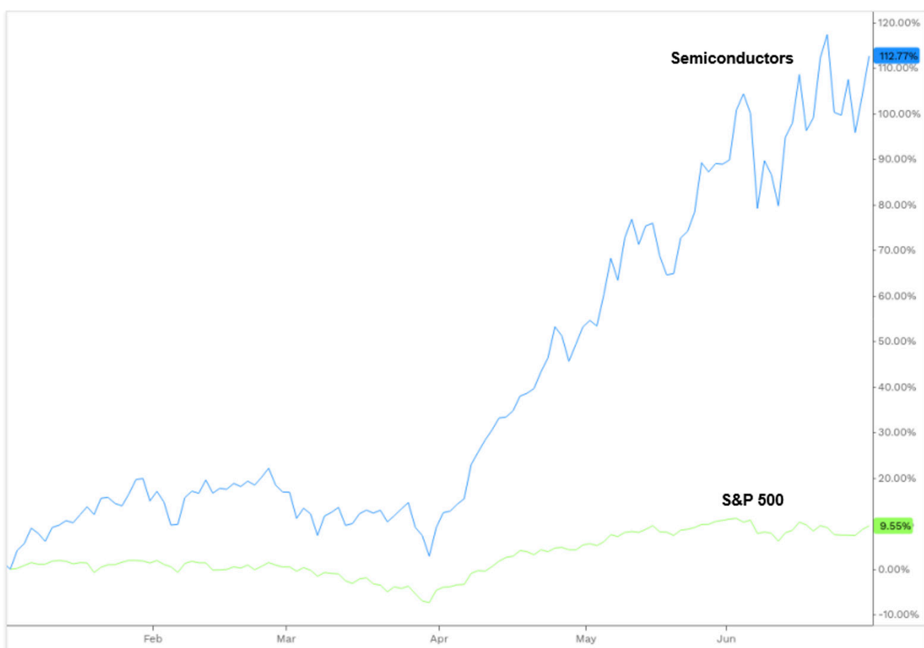
Capital expenditure across major technology giants this year is projected to exceed US$750 billion. Given that this spending is increasingly outpacing cash flow from operations, these firms are relying heavily on mega bond sales. Notable large-scale issuances include Meta's record $30 billion deal and multibillion-dollar issuances from Oracle, Alphabet, and Amazon.

Chart 3: Follow the Money – Technology ETF Flows Dominated YTD 2026



Source: Strategas

Chart 4: Semiconductor Sector (SOXX ETF) versus S&P 500 Performance in 2026



Source: FactSet

Despite the massive supply, hyperscalers boast resilient credit fundamentals, substantial cash reserves, and high ratings. These characteristics have led to strong global demand and oversubscription for their corporate bonds.

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To avoid saturating the U.S. dollar bond market, hyperscalers have been diversifying their offerings globally, issuing debt in alternative currencies like Swiss francs, euros, and British pounds. Deal durations are lengthening, with offerings stretching into 30-year, 40-year, and even 100-year tranches.

This new supply of investment grade corporate debt has been a contributing factor to the back up in US Treasury yields as bond investors now have an alternative fixed income investment option.

The 10-year Treasury yield is also rising due to higher energy prices due to escalating geopolitical tensions between the U.S. and Iran and the resulting fears of reignited inflation and concerns over massive, ongoing U.S. government debt issuance continue to exert upward pressure on longer-term bond yields. See Chart 5.

As we enter the second half of the year, I continue to watch the direction of interest rates and corporate profits as well as other key economic and market indicators.

Equity markets remain well supported by corporate profit growth. Into 2027, provided that the S&P 500 can produce $400 in earnings per share the current forward price earnings (PE) multiple would imply a reasonable 18.75x – much lower than the start of 2026.

Chart 5: 10 Year US Treasury Yields Rising

Source: Trading Economics

The upturn in the ISM Manufacturing Index to 53 (over fifty is expansionary) historically signals accelerating EPS growth,

The US Federal Reserve (Fed) appears to be stuck in neutral due to the opposing forces of strong GDP growth (AI and defense spending are the main contributors) and controlling inflation expectations. Fed Chair Kevin Warsh has appointed a task force to review the Fed's communication strategy, their balance sheet, the data sources used to make rate decisions, productivity, and jobs in an era of technological transformation, and the inflation frameworks considered.

Undoubtably changes to the Fed are coming under Warsh and the markets will have to adjust to the new regime.

Wishing you and your family a great summer. **—RK**

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